LEARNWITHKRISU

28 LESSONS

PAIRS · PIPS · PRICE ACTION · RISK

Forex Complete Guide

The Complete Beginner-to-Pro Guide

Beginner to Pro · Worked examples · Common mistakes · Self-tests
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How to use this book

This guide takes you from the very basics of forex to professional-level risk management. Lessons build on each other, so read them in order the first time.

Each lesson has: a plain-language explanation, a worked example, a deeper section with real mechanics and calculations, common mistakes, key points and a short self-test with answers.

Examples use made-up numbers to explain ideas. They are not real prices, results or recommendations.

A suggested path

- Read one or two lessons a day and redo the calculations by hand.
- Answer the self-test before reading the answer.
- Practise on paper or a demo before using real money.
- Keep a journal of what you learn and what you get wrong.

Important notice

This ebook is for education only. It is not investment, tax or legal advice, and it is not a recommendation to buy or sell anything. Trading and investing involve risk, including loss of capital. Tax and regulation change often, so verify current rules with official sources and a qualified professional. LearnwithKrisu does not guarantee any result.

Contents

Module 1: Forex foundations · Beginner

1. What is forex and how does the market work?
2. Currency pairs: majors, minors, exotics, base and quote
3. Pips, lots, leverage, margin and spread

4. Forex brokers and how to choose one safely
5. Forex trading rules for Indian residents (FEMA and RBI)
6. Placing orders: market, limit, stop, stop-loss and take-profit
7. Trading sessions and the best times to trade
8. What moves currencies: rates, data and events
9. Practising on a demo account

Module 2: Analysing the forex market · Intermediate

10. Central banks, interest rate differentials and carry trade
11. Technical analysis for forex: candles, trends, levels, indicators
12. Price action patterns: pin bars, engulfing and inside bars
13. Multi-timeframe analysis and trade planning
14. Pip value and position-size calculation

Module 3: Strategies and advanced concepts · Advanced

15. Core forex strategies: trend, breakout, range, news, scalping and swing
16. Market structure and supply and demand zones
17. Currency correlation and the dollar index
18. COT report and market sentiment
19. Costs in forex: spread, slippage, swap and commissions
20. Hedging and managing currency exposure

Module 4: Risk, psychology and professional practice · Pro

21. Risk management and money management
22. Psychology of forex trading
23. The trading plan and the trading journal
24. Prop firms and funded accounts: a careful look
25. Expert advisors, algorithms and backtesting
26. Forex scams and red flags
27. Taxation of currency trading in India
28. Your roadmap from beginner to professional trader

LEVEL 1 · BEGINNER

Module 1: Forex foundations

Forex means foreign exchange: trading one currency against another. These lessons explain how the market works and, importantly, what the legal position is for Indian residents before you place any trade.

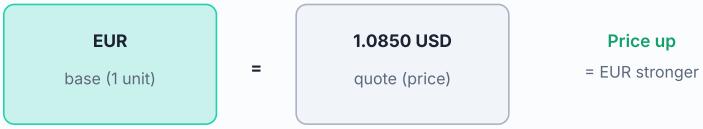
LESSON 1 OF 28

What is forex and how does the market work?

Forex (FX) is the market where currencies are exchanged. Every time a traveller converts rupees to dollars, an importer pays a foreign supplier or a company hedges currency risk, that is the forex market. It is the largest financial market in the world, with trillions of dollars changing hands daily.

There is no single central exchange. Trading happens electronically between banks, brokers, companies, funds and individuals, which is why it is called an **over-the-counter (OTC)** market. It runs 24 hours a day from Monday to Friday, passing from one financial centre to the next.

Currencies are always traded in **pairs**, because you are buying one and selling another. If you think the euro will strengthen against the dollar, you buy EUR/USD; if you think it will weaken, you sell it. Prices move because of interest rates, economic data, central bank decisions, trade flows and sentiment. Participants include central banks, commercial banks, corporations, hedge funds and retail traders, and retail is a very small share of the volume.



EUR/USD rising from 1.0800 to 1.0900 means the euro strengthened.

A pair shows how much of the quote currency buys one unit of the base currency.

WORKED EXAMPLE

A company in India must pay 10,000 US dollars to a supplier in three months. If the dollar becomes more expensive against the rupee by then, the payment costs more rupees. The company can lock in today's rate using a forward contract. That is hedging, a large real reason for the forex market's existence, completely separate from speculation.

Go deeper

The market. Forex (FX) is the global market for exchanging currencies, with daily turnover reported in the trillions of dollars (BIS surveys put it above 7 trillion). It is **decentralised**: trading happens over the counter between banks, institutions, brokers and retail traders, 24 hours a day from Monday to Friday.

Who trades. Central banks, commercial banks, corporates hedging import-export exposure, hedge funds, travellers, and retail speculators. Retail is a small fraction; prices are driven by large flows.

Quote example. EUR/USD = 1.0850 means 1 euro costs 1.0850 US dollars. You buy EUR/USD if you expect the euro to strengthen against the dollar. You always trade one currency against another.

Why people trade it. High liquidity, long hours, leverage and the ability to profit from falls. The same leverage causes many retail traders to lose; brokers often disclose that a majority of retail accounts lose money.

India angle. Indian residents have restrictions on forex trading; read the legal lesson carefully before doing anything.

COMMON MISTAKES

- Assuming 24-hour trading means you must always trade.
- Ignoring that leverage works against you too.
- Using unregulated foreign platforms without checking Indian rules.

KEY POINTS

- Forex is the global market for exchanging currencies, open 24 hours on weekdays.
- It is decentralised (OTC), not a single exchange.
- Currencies trade in pairs: you buy one and sell the other.
- Retail traders are a tiny share. Big institutions dominate.

TEST YOURSELF

Q. EUR/USD rises from 1.0800 to 1.0900. What happened to the euro?
A. It strengthened against the dollar (one euro now buys more dollars).

Q. Who are the biggest participants by volume?

A. Banks and institutions, not retail traders.

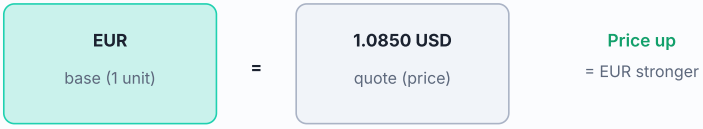
LESSON 2 OF 28

Currency pairs: majors, minors, exotics, base and quote

A pair is written as BASE/QUOTE, for example EUR/USD = 1.1000. The **base currency** (first) is the one you are buying or selling, and the **quote currency** (second) is the currency in which its price is shown. EUR/USD at 1.1000 means one euro costs 1.10 US dollars. If you buy EUR/USD you buy euros and sell dollars; if the pair rises, you profit.

Major pairs all include the US dollar and are the most traded and liquid: EUR/USD, GBP/USD, USD/JPY, USD/CHF, AUD/USD, USD/CAD and NZD/USD. **Minor (cross) pairs** do not include the dollar, such as EUR/GBP or EUR/JPY. **Exotic pairs** combine a major currency with an emerging-market currency, such as USD/INR, USD/TRY or USD/ZAR; they have wider spreads and bigger jumps.

Each pair has a personality. USD/JPY is sensitive to interest-rate gaps, AUD/USD to commodity demand and China, USD/CAD to oil. Start with one or two major pairs and learn how they behave before adding more.



EUR/USD rising from 1.0800 to 1.0900 means the euro strengthened.

A pair shows how much of the quote currency buys one unit of the base currency.

WORKED EXAMPLE

USD/INR = 83.50 means one US dollar costs 83.50 rupees. If it rises to 84.00, the dollar has strengthened and the rupee has weakened. In EUR/USD at 1.1000, a rise to 1.1100 means the euro became stronger against the dollar by about 0.9 percent.

Go deeper

Base and quote. In EUR/USD, EUR is the **base** and USD the **quote**. The price tells how much quote currency buys one unit of base.

Categories. Majors include USD against EUR, GBP, JPY, CHF, AUD, CAD, NZD. **Minors/crosses** exclude USD (EUR/GBP, EUR/JPY). **Exotics** pair a major with an emerging currency (USD/INR, USD/TRY, USD/ZAR): wider spreads and higher risk.

Cross rate example. If EUR/USD = 1.10 and GBP/USD = 1.25, then EUR/GBP = 1.10/1.25 = **0.88**.

Nicknames. Cable (GBP/USD), Fiber (EUR/USD), Loonie (USD/CAD), Aussie (AUD/USD), Kiwi (NZD/USD). Currencies are tied to economies: AUD and CAD to commodities, JPY and CHF as traditional safe havens.

Choosing. Begin with one or two liquid majors to learn their behaviour, typical daily range and session patterns.

Quoting conventions. Most pairs have 4 decimals, JPY pairs 2; a fractional pip (pipette) is the extra digit.

COMMON MISTAKES

- Trading exotics with big spreads as a beginner.
- Confusing base and quote when computing profit.
- Treating different pairs as unrelated while holding several USD pairs.

KEY POINTS

- Pair = base/quote. The price shows how much quote currency buys one base unit.
- Majors are the most liquid, with tight spreads. Exotics are costly and jumpy.
- If the pair rises, the base is strengthening against the quote.
- Start with one or two majors.

TEST YOURSELF

Q. EUR/USD 1.20, USD/JPY 150. What is EUR/JPY?
A. 1.20 × 150 = **180**.

Q. In GBP/USD, which is the base currency?
A. GBP.

LESSON 3 OF 28

Pips, lots, leverage, margin and spread

A **pip** is the standard unit of price movement: usually the fourth decimal place (0.0001) for most pairs and the second decimal (0.01) for yen pairs. A **lot** is the trade size: a standard lot is 100,000 units of the base currency, a mini lot 10,000 and a micro lot 1,000. The value of a pip depends on lot size: for a standard lot on a USD-quoted pair, one pip is about 10 US dollars.

Leverage lets you control a large position with a small deposit called **margin**. With 1:50 leverage, 1,000 dollars controls 50,000. Leverage magnifies profits and losses equally, and it is the main reason most retail forex traders lose money. **Margin level** shows how safe your account is; if losses reduce your equity below the required level, you get a **margin call** and positions may be closed automatically (a **stop-out**).

The **spread** is the difference between the buy (ask) and sell (bid) price, and is the broker's main charge. Some brokers also charge a commission, and holding overnight can incur a **swap** (rollover interest) fee or credit.

1 pip

0.0001

1.0850 → 1.0851

Lot	Units	Pip value
Standard	1,00,000	$10
Mini	10,000	$1
Micro	1,000	$0.10

A pip is the smallest standard price step. Lot size decides how much each pip is worth.

Margin

1,000

Position

1,00,000

leverage 1:100

1% move

= 1,000

whole margin

Effective leverage = position ÷ equity. Keep it low.

Leverage lets a small deposit control a large position, so small moves cause big swings in your account.

WORKED EXAMPLE

You buy 1 mini lot (10,000 units) of EUR/USD at 1.1000 and it rises to 1.1050, which is 50 pips. A mini lot pip is about 1 dollar, so you gain about 50 dollars. If it had fallen 50 pips, you would lose about 50 dollars. With 1:30 leverage you need roughly 367 dollars of margin for that position, but your risk is the 50-dollar move, not the margin.

Go deeper

Pip. The standard smallest price move: 0.0001 for most pairs, 0.01 for JPY pairs. EUR/USD moving from 1.0850 to 1.0870 is 20 pips.

Lots. A **standard lot** is 100,000 units of base currency, **mini** 10,000, **micro** 1,000. For EUR/USD, one pip on a standard lot is 10 dollars, on a mini lot 1 dollar, on a micro lot 0.10 dollar.

P&L example. Buy 0.5 lot (50,000 units) EUR/USD at 1.0850, exit 1.0890: 40 pips x 5 dollars per pip = 200 dollars.

Leverage and margin. Leverage 1:50 means 1,000 dollars controls 50,000 dollars. Margin required = position value/leverage. A 100,000 position at 1:50 needs 2,000 margin. If equity falls to the stop-out level (often 20 to 50 percent of margin) the broker closes positions.

The risk. A 1 percent adverse move on a 1:50 position is a 50 percent loss of margin. Leverage does not change expected value, only the speed of ruin.

Rule. Choose position size from risk (stop distance), not from the maximum leverage allowed.

COMMON MISTAKES

- Using maximum leverage on every trade.
- Mixing up lot sizes and risking far more than intended.
- Ignoring stop-out levels.

KEY POINTS

- Pip = smallest standard price move. Lot = trade size.
- Leverage magnifies both gains and losses. Use it sparingly.
- Spread, commission and swap are your costs.
- Margin call and stop-out can close positions automatically.

TEST YOURSELF

Q. Buy 1 mini lot EUR/USD at 1.1000, exit 1.1025. Profit?
A. 25 pips x 1 dollar = **25 dollars**.

Q. Margin needed for 1,00,000 units at 1:100 leverage?
A. 1,00,000/100 = **1,000 units of account currency**.

LESSON 4 OF 28

Forex brokers and how to choose one safely

Retail traders trade through brokers. A **dealing desk (market maker)** broker takes the other side of your trade, which creates a potential conflict of interest. An **ECN or STP** broker passes orders to liquidity providers and usually earns from spread or commission. What matters most is not the label but **regulation, honesty and execution**.

A good broker is regulated by a strong, reputable authority in its jurisdiction, keeps client funds in segregated accounts, shows transparent pricing and has a clean history of withdrawals. Check the regulator's own register for the licence number; do not rely on a logo on the broker's website. Compare spreads, commissions, slippage, platform stability (MetaTrader 4 and 5 are common) and support.

For residents of India, the position is special: legal forex trading is limited to approved Indian exchanges (see the next lessons). Many overseas and online "forex" platforms that target Indian users are not authorised. Never deposit with a broker only because it is regulated somewhere else without checking whether it is legal for you, and never trust a platform that promises guaranteed profits, bonuses that lock your funds or "account managers" who trade for you.

WORKED EXAMPLE

A website shows a licence logo and promises 5 percent monthly returns with a free account manager. You check the regulator's site and find no licence under that name. Two warning signs at once: no verifiable licence and promised returns. A safe step is to walk away and report the site if it targets Indian users.

Go deeper

Broker models. Market makers (dealing desk) may take the other side of your trades; **STP/ECN brokers** pass orders to liquidity providers, charging a commission or wider spread. Neither model is automatically good or bad; transparency and regulation matter.

Regulation. Look for top-tier regulators (FCA UK, ASIC Australia, CySEC EU, NFA/CFTC US, MAS Singapore). Check the licence number on the regulator's own site. Offshore licences (small island jurisdictions) offer much weaker protection.

Safety features. Segregated client funds, negative balance protection, investor compensation schemes (varies by country), transparent order execution policy.

Cost checklist. Typical spread on EUR/USD, commission per lot, swap rates, deposit and withdrawal fees, inactivity fees.

Withdrawal test. Before depositing a large sum, deposit a small amount, trade and withdraw to test reliability.

Indian residents. Brokers regulated abroad are generally not authorised for Indian residents to trade foreign pairs; see the legal lesson. Do not rely on a broker's claim that it is "legal in India".

COMMON MISTAKES

- Trusting a licence number without verifying it on the regulator's site.
- Choosing a broker because of a large bonus.
- Depositing large sums before testing withdrawals.

KEY POINTS

- Regulation, segregated funds and clean withdrawal history matter most.
- Verify licences on the regulator's own register.
- Compare spread, commission, slippage and platform reliability.
- Indian residents must check legality first. Promised returns mean scam.

TEST YOURSELF

Q. What is negative balance protection?

A. A guarantee that you cannot lose more than your account balance.

Q. How to verify a broker's licence?

A. Search the licence number on the regulator's official website.

LESSON 5 OF 28

Forex trading rules for Indian residents (FEMA and RBI)

This is the most important lesson for readers in India. Under the **Foreign Exchange Management Act (FEMA)** and RBI rules, Indian residents are generally **not allowed to do margin forex trading on overseas or unauthorised platforms**. The permitted route for retail residents is trading **currency derivatives on recognised Indian stock exchanges** (NSE and BSE), mainly in contracts such as USD/INR, EUR/INR, GBP/INR and JPY/INR, and exchanges also offer a few cross-currency contracts. These are regulated by SEBI and the exchange, and you trade through a SEBI-registered broker.

The RBI publishes an **Alert List** of unauthorised forex trading platforms. Remitting money abroad under the **Liberalised Remittance Scheme (LRS)** for margin trading in forex is not permitted. People who trade on unauthorised platforms risk legal action, losing their money with no recourse, and tax problems. Platforms advertising "forex trading in India" on social media, often with celebrity or influencer promotion, are a common source of fraud.

This lesson is educational and is not legal advice. Rules can change, so verify the current position on the RBI and SEBI websites or consult a lawyer, and use the exchange-traded route if you want to trade currencies from India.

WORKED EXAMPLE

Meera sees an Instagram ad for a platform that lets her trade EUR/USD with 1:500 leverage by sending money abroad. She checks the RBI alert list and the SEBI broker register and finds that the platform is not authorised for Indian residents. She decides to learn on a demo account, and later trades only USD/INR futures through a SEBI-registered broker on NSE.

Go deeper

Current framework (verify with RBI/FEMA notices). Under FEMA and RBI circulars, resident Indians are permitted to trade currency derivatives **only on recognised Indian exchanges** (NSE, BSE, MSE) and only in contracts involving the **Indian rupee**: USD/INR, EUR/INR, GBP/INR, JPY/INR, plus cross-currency pairs like EUR/USD, GBP/USD and USD/JPY that exchanges list under current rules. Trading on **unauthorised foreign platforms**, including remitting funds abroad through LRS for margin trading in forex, is not permitted, and the RBI maintains an **Alert List** of unauthorised entities.

Consequences. Violations can attract penalties under FEMA, frozen accounts and no legal recourse against the platform. Many "forex" advertisements on social media involve unauthorised platforms.

Safe route. Use a SEBI-registered broker offering currency segment on NSE, with SEBI-regulated lot sizes and margins. Check the RBI Alert List before using any platform.

Taxation. Currency derivative profits are typically treated as business income; see the forex tax lesson.

Caution. Rules change. This is education, not legal advice; consult a qualified professional.

COMMON MISTAKES

- Believing "popular means legal" for foreign platforms.
- Sending money abroad under LRS for forex margin trading.
- Not checking the RBI Alert List.

KEY POINTS

- Margin forex trading on overseas or unauthorised platforms is not permitted for residents.
- The legal route is currency derivatives on NSE or BSE through a SEBI-registered broker.
- Check the RBI Alert List before dealing with any platform.
- Educational information only. Verify the current rules and take legal advice.

TEST YOURSELF

Q. Where can residents legally trade currency derivatives?
A. On recognised Indian exchanges through SEBI-registered brokers, within the permitted contracts.

Q. What is the RBI Alert List?
A. A list of entities flagged as unauthorised to offer forex trading to Indian residents.

LESSON 6 OF 28

Placing orders: market, limit, stop, stop-loss and take-profit

The concepts here apply both to exchange-traded currency contracts and to the order tickets you will see on demo platforms.

A **market order** executes at the current price. A **limit order** buys below or sells above the current price when it reaches your level. A **stop order** becomes a market order when price reaches a level beyond the current price, used for breakouts or to exit a losing trade. A **stop-loss (SL)** closes your position at a set loss. A **take-profit (TP)** closes at a set gain. Together, they define your trade before you enter: where you are wrong and where you will take profit.

Slippage happens when your order fills at a different price than expected, especially during news or thin markets. **Gaps** can occur over weekends. **Trailing stops** follow the price as it moves in your favour, locking in profit.

Always place the stop-loss as part of the trade, at the point where your idea is proved wrong, then calculate the position size from that distance, never the other way round.

WORKED EXAMPLE

EUR/USD is at 1.1000. You expect support at 1.0950 to hold. You place a buy limit at 1.0955, stop-loss at 1.0925 (30 pips away) and take-profit at 1.1045 (90 pips away). If the trade works, you make three times what you risk. If price falls to 1.0925, you lose only 30 pips.

Go deeper

Order types. Market (immediate at current price), **limit** (buy below or sell above the current price), **stop** (buy above or sell below, triggers a market order), **stop-loss** and **take-profit** attached to positions, **trailing stop** that follows price.

Example. EUR/USD at 1.0850. Buy limit at 1.0820 (waiting for a pullback), stop-loss 1.0790, take-profit 1.0910: risk 30 pips, reward 60 pips, reward-to-risk 2.

Slippage. In fast news markets, orders execute at worse prices than requested. Stop orders can slip significantly; guaranteed stops (some brokers) cost extra.

Spread effect. You buy at the ask and sell at the bid, so a trade starts slightly negative. With a 1-pip spread and a 10-pip stop, 10 percent of the stop is cost.

Execution routine. Check spread, set stop and target before entering, calculate lot size from risk, avoid entering seconds before major news.

One-cancels-other (OCO) orders pair a stop and a target so the other cancels when one fills.

COMMON MISTAKES

- Entering without a stop-loss.
- Trading during news spikes with wide spreads.
- Moving the stop further away after entry.

KEY POINTS

- Market = now. Limit = better price later. Stop = trigger beyond price.
- Define stop-loss and take-profit before entry.
- Slippage and gaps can make fills worse than planned.
- Size the position from the stop distance.

TEST YOURSELF

Q. Buy limit at 1.2000, stop at 1.1960, target 1.2080. Reward-to-risk?

A. Risk 40 pips, reward 80 pips, so **1:2**.

Q. Difference between a limit and a stop entry?

A. Limit waits for a better price; stop waits for price to move beyond a level then triggers.

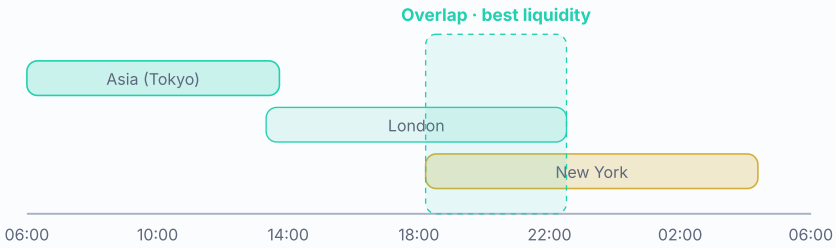
LESSON 7 OF 28

Trading sessions and the best times to trade

The forex market follows the sun. The **Sydney** session starts the week, followed by **Tokyo** (Asian session), then **London**, and finally **New York**. Each session has its own character. The Asian session is usually quieter, with yen and Australian dollar pairs most active. The **London** session is the busiest, with large volume and trends in euro and pound pairs. The **New York** session brings US data releases and dollar volatility.

The most active period is the **overlap between London and New York**, usually in the late afternoon and evening in India, when volume and volatility are highest and spreads are tight. Low-activity times, like the late New York close or Friday evening, can bring wide spreads and erratic moves.

Match the pair to the session: trade EUR/USD or GBP/USD during London and New York, USD/JPY during Tokyo and New York overlaps, and avoid trading illiquid pairs in dead hours. Remember that session times shift with daylight saving in different countries.



Approx. Indian time (IST); daylight saving shifts it an hour

The London and New York overlap has the most volume and the tightest spreads.

WORKED EXAMPLE

In India, the London session opens in the early afternoon and the New York session begins around the evening. A trader who wants to catch EUR/USD momentum plans to be at the screen during the London to New York overlap and avoids placing trades late at night when spreads widen and few participants are active.

Go deeper

Sessions (approximate, in IST). Sydney/Tokyo (Asian) roughly 5:30 am to 2:30 pm; **London** about 1:30 pm to 10:30 pm; **New York** about 6:30 pm to 3:30 am. Daylight-saving changes shift these by an hour for part of the year.

Behaviour. Asian session is generally quieter and range-bound for most pairs except JPY and AUD pairs. London open brings the largest volume and often sets the day's direction. The **London-New York overlap** (about 6:30 to 10:30 pm IST) has the highest liquidity and

tightest spreads. Late New York and rollover have thin liquidity and wider spreads.

Daily range. EUR/USD might average 60 to 90 pips per day, GBP/JPY 120 plus; use the average daily range (ADR) to set realistic targets.

Example. A trader targeting 100 pips on a pair whose ADR is 60 is expecting more than a typical day delivers.

Time-of-day habits. Many strategies trade only the London open or the overlap; fewer hours, better focus.

Fridays and rollover. Liquidity fades on Friday, and swaps are triple on a specific day (usually Wednesday).

COMMON MISTAKES

- Trading all day without a session plan.
- Setting targets beyond the pair's average daily range.
- Trading during rollover when spreads widen.

KEY POINTS

- Four sessions: Sydney, Tokyo, London, New York.
- London and New York overlap is the most active period.
- Match the pair to the session in which it moves most.
- Avoid thin markets and Friday late-session surprises.

TEST YOURSELF

Q. Which period usually has the highest liquidity?
A. The London-New York overlap.

Q. Why use average daily range?

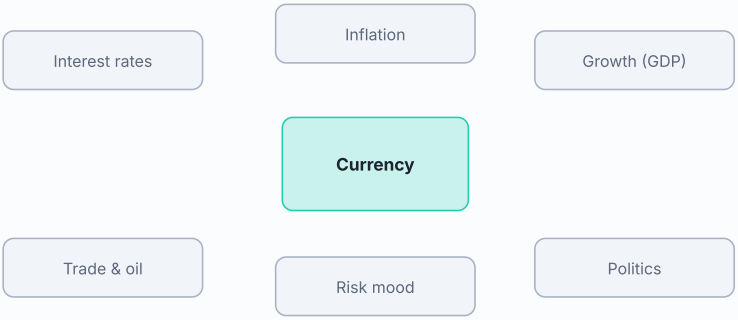
A. To set realistic targets and stops based on how far the pair typically moves.

What moves currencies: rates, data and events

A currency's value reflects the strength of its economy, the level of its interest rates and the confidence of investors. The big drivers:

Interest rates set by a central bank are the most powerful. Higher rates attract foreign money seeking returns and tend to strengthen the currency; lower rates tend to weaken it. What matters is not only the level but expectations of change. **Inflation** pushes central banks to raise rates. **Economic data** such as GDP, employment (like the US non-farm payrolls report), retail sales and manufacturing indices shape expectations. **Central bank statements** and press conferences can move prices sharply with a single phrase. **Trade balance and capital flows**, **political events and elections**, **geopolitical risk** and **commodity prices** (oil for CAD, metals for AUD) also matter. In times of fear, money often moves into **safe-haven** currencies such as the US dollar, the Japanese yen and the Swiss franc.

The **economic calendar** lists scheduled releases with forecast, previous and actual values. The market reacts to the **surprise**: the difference between actual and forecast, not to the number alone.



Currencies move on interest rates, growth, inflation, trade, risk mood and surprises versus expectations.

WORKED EXAMPLE

The market expects US job growth of 180,000 and the actual figure is 280,000. This is a strong surprise, so traders expect the US central bank to keep rates high for longer. The US dollar jumps within seconds against most currencies. If the actual figure had been 180,000, there would have been little reaction since it was already priced in.

Go deeper

Fundamental drivers. Interest rate differentials (higher rates attract capital and support a currency), **inflation**, **economic growth (GDP)**, **employment data** (such as US Non-Farm Payrolls), **trade balance**, **political stability**, **commodity prices** (oil for CAD, gold and iron ore for AUD), and **risk sentiment** (risk-off favours USD, JPY, CHF).

News example. US NFP comes in at 250,000 vs 180,000 expected: the dollar jumps as markets expect rates to stay higher. It is the **surprise**

versus expectation that moves price, not the number alone. "Buy the rumour, sell the fact" often occurs.

Economic calendar. Impact levels (low, medium, high). Check it daily; avoid or reduce positions before high-impact releases.

Rates matter most. The expected path of central bank rates is the dominant medium-term driver; interest rate futures show market expectations.

Intermarket links. Stocks, bonds and commodities influence FX; for example, rising US yields commonly lift the dollar against JPY.

Use. Fundamentals tell you direction bias; technicals help timing.

COMMON MISTAKES

- Trading the headline number rather than the surprise.
- Holding large positions through high-impact news without a plan.
- Ignoring interest-rate expectations.

KEY POINTS

- Interest rates and rate expectations are the biggest driver.
- Prices react to surprises versus forecasts, not to the number alone.
- Safe-haven currencies strengthen in times of fear.
- Use an economic calendar and avoid holding full risk through major events.

TEST YOURSELF

Q. NFP expected 180k, actual 120k. Likely USD reaction?

A. Often weaker, since data was below expectations and may reduce expectations for rate rises.

Q. Which currencies are traditional safe havens?

A. USD, JPY and CHF.

LESSON 9 OF 28

Practising on a demo account

A **demo account** lets you trade with virtual money in real market conditions. It is the safest place to learn the platform, test order types and try your strategy without losing money. Use a demo account for at least a few months before risking real capital.

To make it useful, treat it like real money. Set the demo balance to the amount you will actually trade. Follow your written rules, risk the same percentage per trade and keep a journal. Do not use unrealistic size just because the money is not real; that only teaches bad habits.

Know the limits: demo accounts do not show real emotions, and execution may be smoother than real life, with less slippage. After demo, start live with the smallest possible size to learn how fear and greed change your decisions. For Indian residents, practise on a demo that reflects what you can legally trade, or use paper trading on the exchange-traded currency contracts.

> **WORKED EXAMPLE**
>
> Rohan sets a demo balance of 50,000 rupees equivalent because that is what he plans to trade. He writes a simple plan, risks 1 percent per trade and records every trade. After three months he reviews: he sees that he breaks his stop-loss on Fridays. Fixing that on demo costs him nothing.

Go deeper

Purpose. A demo uses virtual money to practise execution and test a strategy with no financial risk. Use it to learn the platform (orders,

stops, lot sizing), measure a strategy over at least 50 to 100 trades, and build routine.

Limits. Demo fills are cleaner than live: no emotional pressure, often tighter spreads and less slippage. Do not assume demo results transfer one-to-one.

How to use well. Trade a small virtual balance like your real planned capital (for example 1,00,000 not 1 crore), risk 1 percent per trade, keep the journal, treat it like real money.

Transition. After consistent demo results, go live with very small size, such as risking 0.25 percent per trade for the first month. Compare live and demo stats: win rate, average R, slippage.

Indian context. Use demo accounts on legitimate platforms only; check that practising on a platform does not imply you may trade live on it legally.

Time frame. Two to three months of demo is a reasonable minimum before live trading.

COMMON MISTAKES

- Using an unrealistically large demo balance.
- Skipping the journal because "it's only demo".
- Going live after a handful of lucky trades.

KEY POINTS

- Use demo to learn the platform and test strategy without risk.
- Treat demo money like real money, in size and rules.
- Demo does not test emotions. Start small when going live.
- Only trade live in ways that are legal for you.

TEST YOURSELF

Q. Why risk the same percentage on demo as you plan to use live?

A. So your results reflect realistic position sizing and drawdowns.

Q. Name one reason demo results may not match live results.

A. Slippage, spreads and emotions differ in live conditions.

LEVEL 2 · INTERMEDIATE

Module 2: Analysing the forex market

Two ways to analyse: fundamentals (why a currency should move) and technicals (what price is doing). Most traders combine both.

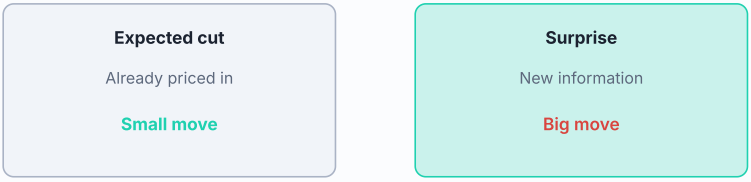
LESSON 10 OF 28

Central banks, interest rate differentials and carry trade

Each major currency has a central bank: the US Federal Reserve, the European Central Bank (ECB), the Bank of England, the Bank of Japan and the Reserve Bank of India. They set interest rates and manage inflation. Their meetings, minutes and speeches are the biggest scheduled events for currencies.

A central bank is **hawkish** when it leans towards raising rates (positive for the currency) and **dovish** when it leans towards cutting (negative for the currency). Traders compare the **interest rate differential** between two countries. If the US pays higher interest than Japan, money tends to flow into dollars. The **carry trade** exploits this: borrow in a low-rate currency and invest in a high-rate one to collect the difference. It can work for long periods, but carries crash risk: when risk sentiment turns suddenly, carry trades unwind quickly and the high-yielding currency can drop sharply.

Follow not only the current rate but what central banks signal about the future path. Markets move on **forward guidance** and on any change versus expectations.



Hawkish = tighter policy · Dovish = easier policy

Markets trade expectations. A surprise moves a currency far more than an expected decision.

WORKED EXAMPLE

Country A has an interest rate of 5 percent and Country B has 0.5 percent. A trader buys Country A's currency against Country B's and earns a positive swap of the 4.5 percent difference (roughly) while holding. But if Country A's central bank unexpectedly signals rate cuts, the currency can fall far more than the interest income, wiping out months of carry in a day.

Go deeper

Major central banks. Federal Reserve (USD), ECB (EUR), Bank of England (GBP), Bank of Japan (JPY), RBA, BoC, SNB, and RBI for INR. Their main tool is the **policy interest rate**; others include **quantitative easing/tightening**, forward guidance and sometimes currency intervention.

Hawkish vs dovish. Hawkish means leaning toward higher rates or tighter policy (supports the currency); dovish means leaning toward

cuts or easing (weighs on it). Markets react to the **statement, press conference and forecasts (dot plot)** as much as the rate decision.

Example. The Fed holds rates but signals fewer cuts than expected: the dollar rises because the market had priced more easing. A rate cut that was fully expected may cause little movement.

Carry trade. Borrow in a low-rate currency (like JPY) and invest in a high-rate one (like AUD) to earn the differential. It works until risk-off episodes cause sharp unwinds.

Calendar. Learn meeting dates (Fed about 8 times per year), minutes releases and key speeches.

Interest-rate parity. Forward prices reflect rate differences, which is why swaps exist.

COMMON MISTAKES

- Assuming a rate cut always weakens a currency.
- Ignoring guidance and the market's expectations.
- Carrying large carry-trade positions without risk limits.

KEY POINTS

- Hawkish = favouring higher rates, dovish = favouring lower rates.
- Rate differentials drive capital flows between currencies.
- Carry trades earn interest but risk sharp reversals.
- Follow central bank guidance, not only the current rate.

TEST YOURSELF

Q. What does hawkish mean?

A. Favouring tighter policy or higher interest rates.

Q. Why can an expected rate cut cause little movement?
A. The market had already priced it in, so no new information arrived.

LESSON 11 OF 28

Technical analysis for forex: candles, trends, levels, indicators

Forex charts use the same tools as other markets, and technical analysis is especially popular because the market is so liquid and runs for long hours. Learn **candlesticks** (open, high, low, close), **support and resistance** zones, **trendlines** and **trend structure** (higher highs and lows in uptrends). Add a few indicators that measure different things: **moving averages** (trend), **RSI** and **MACD** (momentum), **Bollinger Bands** and **ATR** (volatility).

Forex specifics: ranges are measured in pips, so use ATR in pips to set stops. Many traders watch **round numbers** (1.1000, 150.00) and **previous day and week highs and lows** because orders cluster there. **Pivot points** give daily levels. Use **higher timeframes** (daily, 4-hour) for direction and lower ones (1-hour, 15-minute) for entries.

Keep the chart clean. A price chart with two or three simple tools and clear levels beats a screen full of overlapping indicators.

> **WORKED EXAMPLE**
>
> EUR/USD daily chart shows a rising 50-day average and higher lows. Price pulls back to a round number 1.0900 that was resistance before and now acts as support. The ATR is 70 pips, so you place a stop 1 times ATR below the entry, at about 70 pips, and size the position so that 70 pips equals 1 percent of the account.

Go deeper

What changes versus stocks. Forex has no central volume figure (tick volume is a proxy), no gaps except weekend gaps, and trends often run

cleanly on higher timeframes. Technical analysis is widely used, so levels respected by many traders matter.

Core toolkit. Support and resistance zones, trendlines, 20/50/200 EMAs, RSI and MACD for momentum, ATR for volatility, and round numbers (1.0500, 1.1000), which often act as psychological levels.

Trend vs range detection. Use the 50 EMA slope and price structure: higher highs and lows (uptrend), lower highs and lows (downtrend), or sideways. Use trend strategies in trends and mean-reversion in ranges.

Example. EUR/USD trading above a rising 50 EMA with higher lows. A pullback to the 50 EMA near the 1.0800 round number with a bullish candle offers a buy with a stop under the recent low.

Pitfall. Overlaying too many indicators. Two or three that do different jobs are enough.

Testing. Verify any pattern on your chosen pair across at least a couple of years.

COMMON MISTAKES

- Trading trend strategies in clearly sideways markets.
- Ignoring round numbers as likely reaction zones.
- Adding indicators until signals conflict.

KEY POINTS

- The same chart tools apply: candles, levels, trends, a few indicators.
- Use ATR in pips for stops and sizing.
- Round numbers and previous highs and lows attract orders.
- Keep the chart simple.

TEST YOURSELF

Q. What is tick volume in forex?
A. The number of price changes in a period, used as a proxy since no single central volume exists.

Q. Which tool measures typical price movement for stop placement?
A. ATR (average true range).

LESSON 12 OF 28

Price action patterns: pin bars, engulfing and inside bars

Price action traders read candles at key levels with few indicators. Three patterns are widely used.

A **pin bar** has a small body and a long wick pointing against the trend into a level. A bullish pin bar at support, with a long lower wick, shows that sellers pushed down but buyers rejected the move. An **engulfing candle** has a body that fully covers the previous candle's body in the opposite direction and can show a shift in control. An **inside bar** is a candle contained within the previous candle's range, showing a pause or compression; a break of the mother candle's high or low can start a move.

Patterns work only when they appear at a meaningful place: support or resistance, a trend pullback, a round number. A pin bar in the middle of nowhere means little. Combine the pattern with trend direction and a clear stop beyond the pattern. Wait for the candle to close before acting.

WORKED EXAMPLE

GBP/USD is in an uptrend and falls to a support area at 1.2500. A bullish pin bar forms with a lower wick of 40 pips and closes at 1.2535. You place a buy order above the pin bar's high at 1.2540 with a stop under its low at 1.2495 (45 pips) and a target of 1.2630 (90 pips), a 1:2 ratio.

Go deeper

Key elements. Support/resistance, trendlines, candlestick rejections (pin bars), engulfing candles, inside bars, and break-and-retest. Price action means reading the chart without relying on lagging indicators.

Pin bar setup. At a key support in an uptrend, a candle with a long lower wick and close near its high shows rejection. Entry above the high, stop below the wick low. Example: wick low 1.0780, high 1.0830: buy stop 1.0832, stop 1.0775 (risk 57 pips), target 1.0945 (2R).

Break and retest. Price breaks resistance, returns to test it as support, and holds: enter on a bullish rejection candle at that level with a stop below.

Inside bar. A candle completely inside the previous candle's range signals consolidation; trade the breakout of the "mother bar" in the trend direction.

Context. Higher-timeframe location, trend direction, and session matter more than the candle shape.

Journal. Screenshot every setup with annotations; review winners and losers to identify which pattern and location produce your edge.

COMMON MISTAKES

- Trading pin bars in the middle of nowhere.
- Skipping the higher-timeframe context.
- Placing stops inside the wick instead of beyond it.

KEY POINTS

- Pin bars, engulfing and inside bars show rejection, shift and compression.
- Location matters more than the pattern's name.
- Wait for the candle to close.
- Put the stop beyond the pattern and check the reward-to-risk ratio.

TEST YOURSELF

Q. Buy stop at 1.2050, stop-loss at 1.2000, target 1.2150. Reward-to-risk?
A. Risk 50 pips, reward 100 pips, so **1:2**.

Q. Why does location matter for candlestick signals?
A. Signals at meaningful levels attract real orders; the same candle in empty space has little significance.

LESSON 13 OF 28

Multi-timeframe analysis and trade planning

Forex traders often use a **top-down approach**. First, the **weekly and daily charts** show the main trend and major support and resistance. Second, the **4-hour or 1-hour chart** shows the current swing and a setup, such as a pullback to a level. Third, the **15-minute or 1-hour chart** helps with an entry trigger, a pin bar or engulfing candle for example. Each step should confirm the previous one.

A written trade plan before every trade makes it systematic: **bias** (which direction and why), **level** (where you will act), **trigger** (the exact signal), **stop-loss**, **take-profit**, **position size** and **what invalidates the idea**. If you cannot fill every box, skip the trade.

Avoid a common trap: finding a pattern on a lower timeframe against a strong higher-timeframe trend or right at a major higher-timeframe level. The higher timeframe is usually stronger.



Stop from the small chart, target from the big one → better reward-to-risk

Use three timeframes: direction on the higher one, setup in the middle, trigger on the lower one.

WORKED EXAMPLE

Weekly: USD/JPY in a long uptrend. Daily: pullback toward the rising 50-day average and a previous resistance level now support. 1-hour: bullish engulfing at that level. Plan: buy, stop under the engulfing low, target previous high with a 1:2 ratio. The three charts agree, which gives the setup more weight than a single chart signal.

Go deeper

Three-screen method. Use a trend timeframe (daily or 4-hour), a setup timeframe (1-hour) and an entry timeframe (15-minute). Trade only in the direction of the higher timeframe unless you have a specific counter-trend plan.

Procedure. Step 1: on the daily chart mark trend and major zones. Step 2: wait for price to reach a zone on the 1-hour chart. Step 3: on the 15-minute chart wait for a confirmation (engulfing, break of minor structure) and enter with a stop beyond the setup swing.

Why it helps. The stop is smaller (taken from the lower timeframe) while the target is larger (taken from the higher timeframe), improving reward-to-risk. Example: stop 15 pips with target 60 pips (4R).

Conflicts. When timeframes disagree, either skip the trade or reduce size.

Avoid analysis paralysis. Define your timeframes in the plan and stick to them. Different timeframes suit different personalities and time availability.

Time budget. A swing approach needs one daily check; an intraday approach needs focused hours during sessions.

COMMON MISTAKES

- Entering against the daily trend with full size.
- Changing timeframe constantly to find a signal.
- Ignoring higher timeframe levels near your target.

KEY POINTS

- Use top-down: bias on high timeframes, trigger on lower ones.
- Fill in every box of the trade plan or skip the trade.
- Do not fight a strong higher-timeframe trend.
- Define what would prove the idea wrong.

TEST YOURSELF

Q. Stop 15 pips, target 60 pips. R-multiple of the target?
A. **4R**.

Q. What should you do when timeframes conflict?
A. Skip the trade or reduce size.

LESSON 14 OF 28

Pip value and position-size calculation

Position sizing in forex has a clear formula. First decide the **risk in money**, for example 1 percent of account. Second find the **stop-loss distance in pips**. Third use the **pip value per lot** for your pair and account currency. Then:

Lot size = risk amount / (stop-loss in pips x pip value per lot)

Pip value changes by pair and lot size. For a pair quoted in US dollars, one pip on a standard lot is about 10 dollars, on a mini lot about 1 dollar and on a micro lot about 10 cents. For other pairs, convert into your account currency. Most platforms and broker websites have a calculator, but learn the formula so you understand it.

Because the stop distance depends on volatility and the setup, position size changes from trade to trade. A wider stop means a smaller lot size for the same risk. Never choose the lot size first and then fit the stop around it.



Wider stop → smaller size. Same rupee risk.

Size the position from the money you accept to lose, not from how confident you feel.

WORKED EXAMPLE

Account 5,000 dollars (equivalent), risk 1 percent = 50 dollars. EUR/USD stop-loss 25 pips. Pip value per standard lot is 10 dollars. Lot size = 50 / (25 × 10) = 0.2 lots (two mini lots). If the stop was 50 pips, lot size would be 0.1. In both cases you lose about 50 dollars if the stop hits.

Go deeper

Pip value. For a pair where USD is the quote (EUR/USD), pip value per unit = 0.0001 dollars. For 1 lot (100,000), pip = 10 dollars. For USD/JPY, pip = 0.01 yen per unit; 1 lot = 1,000 yen per pip, converted to USD by dividing by the USD/JPY rate (1,000/150 = 6.67 dollars).

Position size formula. Lot size = (Account x risk%) / (stop in pips x pip value per lot).

Example. Account 5,000 dollars, risk 1 percent = 50 dollars, EUR/USD stop 25 pips, pip value 10 dollars per lot. Lots = 50 / (25 × 10) = **0.2 lots** (2 mini lots).

INR traders. For USD/INR contracts on NSE each contract is 1,000 dollars and 1 paisa tick = 10 rupees per lot; check current contract specifications before computing.

Adjust for volatile pairs. GBP/JPY with a 60-pip stop gets a much smaller lot than EUR/USD with a 20-pip stop for the same risk.

Use a calculator and double-check; a wrong decimal can mean 10x risk.

COMMON MISTAKES

- Using the same lot size on every trade regardless of stop.
- Forgetting to convert pip value for non-USD quote pairs.
- Misplacing a decimal in lot size.

KEY POINTS

- Lot size = risk amount / (stop pips x pip value per lot).
- Decide the stop from the chart first, then compute the size.
- Wider stop means a smaller position for the same risk.
- Learn the formula even if you use a calculator.

TEST YOURSELF

Q. Account 10,000 dollars, risk 0.5 percent, stop 20 pips on EUR/USD. Lots?

A. Risk 50 dollars; 20 pips x 10 = 200 per lot; lots = **0.25**.

Q. What happens to the lot size if the stop doubles?

A. It halves, for the same rupee or dollar risk.

LEVEL 3 · ADVANCED

Module 3: Strategies and advanced concepts

Now you build a method. Pick one approach, define it clearly and test it before trading it live.

LESSON 15 OF 28

Core forex strategies: trend, breakout, range, news, scalping and swing

Trend following trades in the direction of the established trend using pullbacks to a moving average or a level, with a stop beyond the last swing and a trailing stop. **Breakout** trading enters when price moves beyond a consolidation or a key level with momentum, often around the London open; the risk is false breakouts, which is why many traders wait for a close or a retest. **Range trading** buys support and sells resistance when the market moves sideways, and needs a plan for a range break. **News trading** tries to profit from data releases; spreads widen, slippage is large and price can whip both ways within seconds, so it is for experienced traders only.

Scalping takes small gains in minutes; it demands low spreads, fast execution and discipline, and costs eat most of the profits for beginners. **Day trading** closes everything by the end of the day. **Swing trading** holds for days to weeks and suits people with other jobs, though you must accept overnight swap costs and gap risk.

Pick the style that fits your time, temperament and capital, and become an expert in one method first.



Around major news, spreads widen and stops can slip. Know the calendar before you trade.

WORKED EXAMPLE

Swing example: USD/CAD is in a daily downtrend and rallies into a falling 50-day average and a resistance zone at 1.3600. A bearish engulfing candle forms. You sell with a stop above the swing high at 1.3680 (80 pips) and a target of 1.3440 (160 pips), a 1:2 ratio, and trail the stop down as price falls.

Go deeper

Trend pullback. Daily trend up, price retraces to the 50 EMA or a prior support, a bullish trigger on the lower timeframe. Win rate often 40 to 50 percent with 2R targets.

Breakout. Trade the break of the Asian range at the London open. Example: Asian range 1.0820 to 1.0850 (30 pips). Buy a close above 1.0850 with stop at mid-range 1.0835 (15 pips risk), target 1.0895 (3R). False breakouts are common, so many traders wait for a retest.

Range reversion. Buy support and sell resistance in a clear range with a stop outside; exit if the range breaks.

News trading. Very risky: spreads widen and slippage is severe. Many professionals avoid it; others trade the aftermath (second move) once spreads normalise.

Carry and swing. Hold positive-swap positions in trending pairs for days to weeks; watch risk-off unwinds.

Choosing. Pick one strategy that fits your time and temperament and test it on at least 100 trades before risking real money.

Measure. Track expectancy, drawdown and costs; discard what does not hold up.

COMMON MISTAKES

- Switching strategies every week.
- Trading news candles with full size.
- Ignoring that swing positions pay or pay swap daily.

KEY POINTS

- Trend following, breakout and range are the three foundations.
- News trading and scalping are hard and cost-sensitive.
- Match the style to your time and temperament.
- Master one method before adding another.

TEST YOURSELF

Q. Entry 1.0850, stop 1.0835, target 1.0895. R-multiple?
A. Risk 15 pips, reward 45 pips: **3R**.

Q. Why wait for a retest after a breakout?
A. It filters false breakouts and often offers a tighter stop.

Market structure and supply and demand zones

Market structure in forex follows the same logic as other markets: sequences of swing highs and lows reveal trend and trend change. A break of the last higher low in an uptrend warns of weakness. Many traders also mark **supply and demand zones**, areas where price moved away sharply, suggesting that large orders were placed there and some may still be unfilled. A **demand zone** is a base before a strong rally, and a **supply zone** is a base before a sharp fall.

When price returns to such a zone, traders watch for a reaction. Zones that caused a strong, fast move, that have not been revisited many times, and that line up with a higher-timeframe level are usually stronger. Each revisit tends to weaken a zone. Treat zones as areas, not exact lines, and put the stop beyond the zone.

As with any method, nothing works every time. Combine zones with trend and a clear trigger, and measure results in your journal before trusting them with real size.

> **WORKED EXAMPLE**
>
> EUR/USD rallied 150 pips from a small consolidation at 1.0800 to 1.0950. Weeks later price falls back to 1.0810. You mark 1.0795 to 1.0815 as demand and wait for a bullish candle at the zone before buying, with a stop below 1.0790. If the zone fails and price closes below, you accept the small loss.

Go deeper

Zones. A **demand zone** is where price rose sharply from a base (buyers overwhelmed sellers); a **supply zone** is where price fell sharply. Unfilled orders at those areas may react again when price returns.

Drawing. Mark the base candles before the impulsive move: the zone spans from the base's low to its high (or body range). Fresh (untested) zones are stronger; each retest weakens them.

Entry and stop. Enter at the zone edge or on a lower-timeframe confirmation, with a stop just beyond the zone. Example: demand zone 1.0780 to 1.0795; buy at 1.0796 on confirmation, stop 1.0775, target the next supply at 1.0880 (about 4R).

Higher-timeframe alignment. A demand zone within a daily uptrend is better than one against it.

Honest view. This framework overlaps with ideas called order blocks and SMC; names differ but the logic is about locating where large orders sat. Zones often fail: use stops.

Mark few zones. Only the clearest on the daily and 4-hour charts.

COMMON MISTAKES

- Drawing zones on every small move.
- Trading zones repeatedly tested.
- Ignoring the higher-timeframe trend.

KEY POINTS

- Structure shows trend. A broken last higher low warns of weakness.
- Strong, fresh zones aligned with higher-timeframe levels are best.
- Each revisit tends to weaken a zone.
- Use zones as areas and confirm with a trigger.

TEST YOURSELF

Q. Entry 1.0796, stop 1.0775, target 1.0880. R-multiple?
A. Risk 21 pips, reward 84 pips: **4R**.

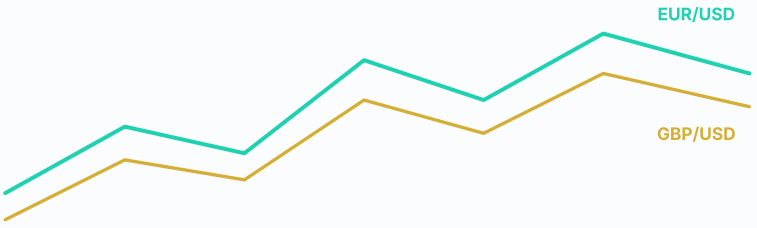
Q. Why are untested zones preferred?
A. Orders there are largely unfilled; each retest consumes them.

Currency correlation and the dollar index

Currency pairs do not move independently. **Correlation** measures how two pairs move together, from +1 (move together perfectly) to minus 1 (move opposite). EUR/USD and GBP/USD are often positively correlated since both are driven by the dollar; EUR/USD and USD/CHF are often negatively correlated. Commodity currencies like AUD and CAD may follow commodity prices.

The **US Dollar Index (DXY)** tracks the dollar against a basket of major currencies, mostly the euro. Watching DXY tells you whether a move is about the dollar or about the other currency. If you buy EUR/USD and GBP/USD at the same time, you are really taking nearly the same dollar bet twice, doubling your risk.

Use correlation for risk: avoid stacking highly correlated trades, or count them as one position when sizing. Correlations change over time, so check them with a current correlation table instead of trusting old assumptions.



Both depend on the US dollar view

Pairs that move together stack your risk. Two 1% trades on correlated pairs are close to one 2% bet.

WORKED EXAMPLE

You go long both EUR/USD and GBP/USD, risking 1 percent on each. A sudden dollar rally pushes both pairs down and both stops hit, costing 2 percent, not 1. Because the pairs were correlated, you effectively took 2 percent risk on one idea.

Go deeper

Correlation. Ranges from +1 (move together) to -1 (move opposite). EUR/USD and GBP/USD have often been strongly positively correlated; EUR/USD and USD/CHF strongly negative. Correlations change over time; check a current correlation matrix.

DXY. The US Dollar Index measures USD against a basket (about 57 percent EUR, then JPY, GBP, CAD, SEK, CHF). A rising DXY usually pushes EUR/USD and GBP/USD down. Use DXY for context before trading USD pairs.

Hidden double risk. Buying EUR/USD and GBP/USD together at 1 percent risk each is nearly 2 percent risk on a single dollar view. Selling

USD/CHF and buying EUR/USD stacks the same idea again.

Using correlation. To reduce exposure, trade only the cleaner of two correlated pairs; to hedge partially, take offsetting positions in negatively correlated pairs.

Commodity links. CAD with oil, AUD with metals and China demand, JPY with US yields.

Check. Before each trade ask: what is my net exposure to USD (or JPY) across open trades?

COMMON MISTAKES

- Opening several pairs that all express the same view with full risk each.
- Assuming correlations stay constant.
- Ignoring DXY when trading USD pairs.

KEY POINTS

- Correlation shows how pairs move together or opposite.
- DXY shows the dollar's overall strength.
- Correlated trades stack risk. Treat them as one bet.
- Correlations change, so check them regularly.

TEST YOURSELF

Q. You are long EUR/USD and long GBP/USD, each risking 1 percent. What is the real exposure?
A. Close to a 2 percent risk on a single weaker-dollar view because the pairs are positively correlated.

Q. What does a rising DXY generally mean for EUR/USD?

A. Often downward pressure on EUR/USD.

COT report and market sentiment

The **Commitments of Traders (COT)** report is published weekly by the US regulator CFTC and shows the positions of large traders in currency futures. It separates groups, such as commercial hedgers, large speculators (funds) and small traders. Traders use it to see whether funds are heavily net long or short a currency. Extreme positioning can warn of crowded trades that may reverse.

Sentiment is the overall mood: fear or greed. Some brokers publish the percentage of their clients who are long or short; contrarian traders note that retail traders are often on the wrong side at extremes. A **risk-on** market favours growth and higher-yielding currencies like AUD and NZD; a **risk-off** market favours safe havens like USD, JPY and CHF.

The COT report is delayed (data is from Tuesday and published Friday) so it is a slow, big-picture tool, not a short-term trigger. Use it as context and always combine it with price action.

WORKED EXAMPLE

The COT report shows large speculators holding a record net long position in a currency, while price has stalled at a major resistance. This crowded positioning means few new buyers are left and any bad news could trigger a rush for the exit. A trader would watch for a bearish price signal there instead of buying the breakout.

Go deeper

COT report. The US CFTC publishes the **Commitments of Traders** weekly (data as of Tuesday, released Friday). It shows positions of

commercials (hedgers), **non-commercials** (large speculators) and non-reportables (small traders) in currency futures.

Reading it. When large speculators are at record net long in a currency, the trade is crowded and vulnerable to reversal; a swing from net short toward net long may confirm a trend. Compare current positioning with its multi-year range (percentile).

Example. Net non-commercial long in EUR futures rises from 20,000 to 90,000 contracts over 3 months while price trends up: the trend has institutional backing. At 150,000, historically the extreme, risk of a reversal increases.

Retail sentiment. Some brokers publish the percentage of retail traders long or short; a contrarian reading suggests that when 80 percent are long, price often falls, but this is a weak, noisy signal.

Limits. COT is delayed and covers futures only. Use it as a medium-term backdrop, not an entry trigger.

COMMON MISTAKES

- Using weekly COT data for day-trade entries.
- Treating extreme positioning as an instant reversal signal.
- Ignoring price structure.

KEY POINTS

- COT shows positions of large traders in currency futures, with a delay.
- Extreme positioning can mark crowded trades.
- Risk-on favours AUD and NZD. Risk-off favours USD, JPY and CHF.
- Use sentiment as context, never alone.

TEST YOURSELF

Q. Why can record-high speculative net long be a warning?
A. The trade is crowded; there are few buyers left and any reversal could cause a rush to exit.

Q. How often is COT data published?
A. Weekly.

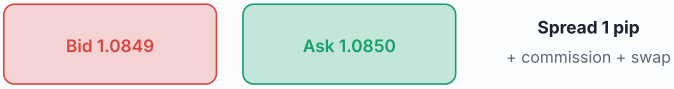
LESSON 19 OF 28

Costs in forex: spread, slippage, swap and commissions

Costs decide whether a strategy is profitable. The **spread** is paid on every trade; on EUR/USD it may be one pip, on exotic pairs ten or more. Some brokers charge a **commission** in addition. **Slippage** adds cost during fast markets. **Swap or rollover** is interest charged or paid for positions held overnight, depending on the rate difference between the two currencies and the direction of your trade; Wednesday rollover is often tripled to account for the weekend.

For short-term trading, costs matter hugely. A scalper aiming for 5 pips with a spread of 1.5 pips gives away 30 percent of the target before the trade begins. Always compute your break-even distance.

Beyond trading costs, watch for hidden costs: **withdrawal and deposit fees**, **currency conversion** charges and **overnight financing** for leveraged positions. Check your platform's cost statement and compare with advertised costs.



20 trades × 1.7 pips × $10 = $340 / month in costs

Your strategy must beat costs first

You buy at the ask and sell at the bid, so every trade starts slightly negative. Costs add up.

WORKED EXAMPLE

You scalp EUR/USD with a 6-pip target and 6-pip stop. The spread is 1.2 pips. Your effective win is 4.8 pips and your effective loss is 7.2 pips. You need a win rate of 60 percent just to break even, even though the setup looked like 1:1.

Go deeper

Spread. Difference between ask and bid. EUR/USD might be 0.1 to 1.0 pip depending on broker and time. A 1.5-pip spread on a 10-pip stop is a 15 percent cost.

Commission. ECN accounts charge per lot, for example 7 dollars per round-turn lot. Convert to pips: 7 dollars / 10 per pip = 0.7 pip.

Swap (rollover). Positions held past the daily rollover pay or earn interest based on the rate difference between the two currencies. Example: long a high-rate currency against a low-rate one may earn a positive swap; the opposite side pays. Wednesday often includes triple swap for the weekend.

Total cost example. 20 trades per month on 1 lot with a 1-pip spread plus 0.7-pip commission is 1.7 pips x 10 dollars x 20 = **340 dollars** monthly in costs, which a strategy has to beat before profit.

Other costs. Slippage, platform fees, deposit and withdrawal charges, currency conversion.

Reducing costs. Trade liquid pairs, avoid news spikes and rollover hours, and reduce the number of low-quality trades.

COMMON MISTAKES

- Ignoring costs when backtesting scalping strategies.
- Holding negative-swap positions for weeks without noticing.
- Trading during rollover with wide spreads.

KEY POINTS

- Spread and commission are paid on every trade.
- Costs are a big share of a short-term target.
- Swap applies to positions held overnight.
- Compute break-even including costs.

TEST YOURSELF

Q. Spread 1 pip, commission 0.5 pip, lot value 10 per pip. Round-trip cost per lot?
A. 1.5 pips x 10 = **15 dollars**.

Q. What is a swap?
A. Interest paid or earned for holding a position overnight, based on the interest-rate difference.

LESSON 20 OF 28

Hedging and managing currency exposure

Hedging reduces the risk of unwanted currency moves. A business that will receive or pay foreign currency can use **forward contracts** or **currency futures and options** to lock in a rate. An individual who earns in rupees but will pay overseas tuition fees in dollars can consider spreading purchases over time or using suitable instruments.

For traders, hedging can mean opening an offsetting position to protect against a move, but it also stops further profit on the hedged part and adds costs. A common mistake is opening a **hedge instead of closing a losing trade**, which locks the loss and doubles the complexity. Hedging works best as a deliberate, defined plan, not as a reaction to fear.

In India, authorised dealer banks offer forward contracts to businesses with genuine exposure, and exchanges offer currency futures and options. Rules limit who can hedge what and how, so check the current guidelines or ask your bank or a professional.

WORKED EXAMPLE

An Indian exporter will receive 50,000 US dollars in three months. Worried that the dollar may fall against the rupee, they sell dollars forward at today's forward rate. If the dollar falls, they still receive the locked rate. If it rises, they miss the extra gain, but they have certainty on revenue, which is the purpose of hedging.

Go deeper

Business hedging. An importer who must pay 1,00,000 dollars in 3 months fears the rupee weakening. Buying dollars forward at a fixed

rate locks the cost. Banks offer **forwards**; exchanges offer currency futures and options for eligible participants.

Example. Importer expects to pay 1,00,000 dollars at today's forward rate 84.50 = 84,50,000 rupees. If the spot rises to 87 on payment day, an unhedged importer pays 87,00,000 (2,50,000 more); the hedged importer still pays 84,50,000. If the rupee strengthened to 82, the hedged importer pays more than spot but accepted that for certainty.

Option hedge. Buying a call on USD/INR sets a ceiling on cost while keeping benefit if the rupee strengthens; the cost is the premium.

Trader hedging. Opening an opposite position on the same pair simply cancels exposure and still pays spread and swap; some brokers disallow it. Partial hedges via correlated pairs are imperfect.

Principles. Hedge to remove unwanted risk, not to speculate. Match amount and date to the exposure.

Rules. Check RBI/FEMA norms for who may hedge what.

COMMON MISTAKES

- Calling a trade a hedge while taking extra risk.
- Hedging a different amount or date than the exposure.
- Forgetting the cost of the hedge in decisions.

KEY POINTS

- Hedging locks in a rate and trades away upside for certainty.
- Forwards, futures and options are the usual tools.
- Do not hedge just to avoid closing a losing trade.
- Follow Indian rules on who may hedge and how.

TEST YOURSELF

Q. Importer owes 50,000 dollars; forward rate 85. Locked cost?
A. 50,000 × 85 = **42,50,000 rupees**.

Q. What is the trade-off of hedging?
A. You give up potential gains from favourable moves in exchange for certainty.

LEVEL 4 · PRO

Module 4: Risk, psychology and professional practice

Currency trading with leverage is unforgiving. Risk control, a clear plan and honest records separate those who last from those who do not.

LESSON 21 OF 28

Risk management and money management

Most retail forex accounts fail because of **oversized positions and excess leverage**, not because of bad analysis. Risk management is the first thing to learn.

Risk **0.5 to 1 percent** of the account per trade, set from the stop-loss distance, and keep total open risk limited (for example 3 to 5 percent), watching correlated pairs. Use a **risk-reward ratio** of at least 1:1.5 or 1:2 on average, and measure results in **R multiples**. Set **daily and weekly loss limits** and stop trading when they are reached. Limit **leverage**: use a small fraction of what the broker offers, so that you are never near a margin call. Do not move your stop-loss further away once the trade is on, and do not add to losers.

Plan for events: reduce size or stay out around major data and central bank decisions. Keep your trading money separate from living money, and never trade with borrowed funds. Remember that a 50 percent loss needs a 100 percent gain to recover, so protecting capital is more important than chasing profit.



Effective leverage = position ÷ equity. Keep it low.

Leverage lets a small deposit control a large position, so small moves cause big swings in your account.



Wider stop → smaller size. Same rupee risk.

Size the position from the money you accept to lose, not from how confident you feel.

WORKED EXAMPLE

Account 1,00,000 rupees equivalent. Risk per trade 1 percent = 1,000. Daily loss limit = 2 percent = 2,000. After two stop-outs the day's limit is reached, so you close the platform. Over a month of average results of 1:2 with a 40 percent win rate, the expectancy is positive, and a bad day never costs more than 2 percent.

Go deeper

Per-trade risk. Risk 0.5 to 1 percent of the account. With 1 percent, ten consecutive losses cost about 9.6 percent, which is survivable.

Leverage control. Calculate **effective leverage** = total notional/equity. Many professionals keep this below 5 to 10x even when brokers allow 100x or more. Example: equity 5,000 dollars; total open notional 50,000 dollars is 10x effective leverage.

Portfolio limits. Maximum open risk 3 to 5 percent; limit correlated positions; avoid holding large positions over high-impact news and weekends.

Daily and weekly loss limits. Stop trading after losing 2 to 3 percent in a day or 5 to 6 percent in a week; review before resuming.

Stop discipline. Place stops at technical invalidation, not at an amount you "can afford", and never widen them after entry.

Gap and slippage risk. Weekend gaps and central bank surprises (for example the Swiss franc shock in 2015) can blow through stops.

Account protection. Keep most capital outside the trading account; withdraw profits regularly.

COMMON MISTAKES

- Widening the stop after the trade goes against you.
- Holding large leveraged positions through central bank decisions.

KEY POINTS

- Risk 0.5 to 1 percent per trade and cap total open risk.
- Use only a small share of available leverage.
- Set daily and weekly loss limits and obey them.
- Never move a stop further away or add to a loser.

TEST YOURSELF

Q. Equity 4,000 dollars; open notional 40,000 dollars. Effective leverage?
A. **10x**.

Q. Why withdraw profits regularly?
A. It protects gains from future drawdowns and the broker's counterparty risk.

Psychology of forex trading

Forex is fast and runs all day, so emotional errors compound quickly. Common traps: **overtrading** (taking trades out of boredom), **revenge trading** after a loss, **moving or removing stop-losses**, **closing winners too early** out of fear and **letting losers run** out of hope, **overconfidence** after a winning streak and **FOMO** when a pair is moving without you.

Leverage amplifies emotions: a position that is too large makes every tick feel painful, which causes bad decisions. The cure is smaller size. If a trade makes you anxious, the size is too big.

Build habits: trade only during your planned hours, use a **pre-trade checklist**, take a break after consecutive losses, limit the number of trades per day and keep a **journal with emotion notes**. Sleep, exercise and a life outside the charts improve your trading more than another indicator. Judge yourself by whether you followed your plan, not on a single trade's result.



Emotions peak at the wrong time: euphoria near the top, panic near the bottom. Rules protect you from both.

WORKED EXAMPLE

After two losing trades, a trader doubles size on a third "sure" setup that does not meet his rules. It loses too, and the day's loss reaches 6 percent. After adding rules (maximum three trades a day, stop after two losses, no size increases after a loss), his worst days drop to 2 percent.

Go deeper

Forex-specific pressures. Leverage amplifies emotions: small price moves cause big P&L swings; 24-hour access encourages overtrading; news spikes trigger panic; and quick wins breed overconfidence.

Patterns to watch. Moving stops, closing winners too early and holding losers, **revenge trading**, overtrading in boring markets, risking more after a win streak, and fear of pulling the trigger after losses.

Practical systems. Trade fixed hours; use a pre-trade checklist; limit to a maximum number of trades per day (for example 3); take a break after two losses; use alerts instead of screen-watching; track mood in the journal.

Example. After a 2 percent loss a trader doubles lot size to recover and is stopped out for 4 percent. A rule "reduce size after a loss streak" would have prevented it.

Health. Sleep, exercise and hobbies outside markets are part of the edge. If trading harms mood, relationships or finances, take a break and seek support.

Mindset shift. Think in terms of series of 100 trades, not the current trade.

COMMON MISTAKES

- Increasing size after losses.
- Trading when tired or upset.
- Measuring success by daily P&L.

KEY POINTS

- Common traps: overtrading, revenge, moving stops, early exits, FOMO.
- If a trade makes you anxious, reduce the size.
- Use checklists, trade limits and journals.
- Follow the plan. Judge process, not single outcomes.

TEST YOURSELF

Q. Why cap the number of trades per day?
A. It limits overtrading and impulsive decisions when no good setup exists.

Q. What is a sensible response after two consecutive losses?
A. Pause, review whether rules were followed, and return with normal or reduced size.

LESSON 23 OF 28

The trading plan and the trading journal

A **trading plan** is a written set of rules made when you are calm. Include: your **goal and realistic expectations**, the **pairs** and **sessions** you trade, **timeframes**, **setup rules** (what must be true to enter), **entry, stop and target** rules, **position sizing** and risk limits, **conditions to stay out** (major news, low liquidity, being tired), and a **review schedule**. Keep it to a page or two and make each rule checkable as yes or no.

A **journal** records every trade: date and time, pair, direction, setup, entry, stop, target, size, result in R, a screenshot and notes on your emotions and whether you followed the plan. Review weekly for patterns: Which session performs best? Which setups lose? Where do you break rules? Monthly, compute win rate, average win and loss, expectancy and maximum drawdown.

Over time, the journal shows what you should do more of and what to stop. It converts experience into evidence and replaces opinions about your trading with data.

WORKED EXAMPLE

After 60 trades, a trader's journal shows setup A made +0.5R per trade on average, setup B made minus 0.4R, and trades taken in the last hour before the US close lost money. He drops setup B and stops trading late in the session. His next month's results improve without any new indicators.

Go deeper

Plan structure. Pairs and sessions, timeframes, setups with exact entry, stop and target rules, risk per trade, daily and weekly loss limits, news rules, and review schedule.

Journal fields. Date and time, pair, direction, setup name, entry, stop, target, lot size, risk in dollars/rupees, result in R, screenshot, session, emotional state, mistake tag (none, early exit, moved stop, over-risk).

Weekly review. Compute win rate, average R, expectancy, best and worst setups, number of rule breaks. Example: 20 trades, 8 winners at +2R and 12 losers at -1R: expectancy = (8×2 minus 12)/20 = **+0.2R**.

Monthly decision. Continue, tweak one rule, or pause. Change one variable at a time to learn what helped.

Compare with plan. The most important number is **rule-following percentage**: if you follow rules on 95 percent of trades, results reflect the strategy; if 60 percent, results reflect indiscipline.

Tools. Spreadsheet, Notion template or journaling software with automatic imports.

COMMON MISTAKES

- Changing multiple rules at once.
- Journaling only winning trades.
- Not recording the emotional state.

KEY POINTS

- Write the plan when calm. Make each rule checkable.
- Journal every trade with a screenshot and emotion notes.
- Review weekly and compute expectancy monthly.
- Use the data to cut what loses and repeat what works.

TEST YOURSELF

Q. 10 trades: 4 winners at +3R, 6 losers at -1R. Expectancy?

A. (12 minus 6)/10 = **+0.6R** per trade.

Q. Why track rule-following percentage?

A. It separates strategy performance from discipline problems.

LESSON 24 OF 28

Prop firms and funded accounts: a careful look

Many online companies offer "funded accounts": you pay an evaluation fee, trade a simulated account under rules (profit target, daily and maximum drawdown limits) and, if you pass, you may share profits. They can be attractive because you risk only the fee, but you need to look carefully.

Points to understand: the evaluation fee is a **cost that most candidates never recover**, since most do not pass. The rules (tight drawdown limits, consistency rules) can be hard to meet. Payout terms and conditions vary and some firms have a poor record of paying out. Many accounts are **simulated** and the firm may earn mainly from fees. Some firms are not regulated.

For Indian residents, there is an additional legal question: paying a fee abroad and trading forex through such programmes may conflict with FEMA and RBI rules on forex trading, and the position is unclear and risky. Get legal and tax advice before paying. Whatever you choose, treat the fee as a cost of a lottery-like venture, never use money you need, and read the terms thoroughly.

WORKED EXAMPLE

A trader pays 8,000 rupees for an evaluation with a 10 percent profit target and a 5 percent daily loss limit. He passes only if he reaches the target without ever breaching limits. After three attempts, he has spent 24,000 rupees in fees, and learns that his strategy needs tighter risk. The fees, not trading losses, were his actual loss.

Go deeper

How they work. Prop firms offer funded accounts after you pass an **evaluation**: for example a 10 percent profit target with a 5 percent daily and 10 percent maximum drawdown limit over a time window. You pay a one-time or recurring fee; if funded, you keep a profit split (often 70 to 90 percent).

Economics. The fee is the main revenue for many firms, and most traders fail evaluations. Example: fee 100 dollars for a 10,000 account; if the pass rate is 10 percent, expected cost to get one funded account is about 1,000 dollars before any payout.

Rules to read. Drawdown type (static or trailing), news restrictions, consistency rules, banned strategies (martingale, latency arbitrage), weekend holding, payout conditions and timelines.

Due diligence. Check years in operation, payout proofs from verified sources, company registration and independent reviews. Many firms have closed suddenly.

India caution. Paying a foreign prop firm and trading forex contracts on foreign platforms may conflict with FEMA rules for residents; take legal advice before participating.

Risk of ruin. Evaluations push traders to take excessive risk. Keep your normal risk percentage.

COMMON MISTAKES

- Taking oversized risk to pass quickly.
- Not reading drawdown and consistency rules.
- Assuming any firm will pay out.

KEY POINTS

- Most evaluation candidates fail, and the fee is a real cost.
- Read the payout rules and the firm's record carefully.
- The legal position for Indian residents is unclear. Take legal advice.
- Never spend money you need on evaluation fees.

TEST YOURSELF

Q. Fee 150 dollars, pass rate 15 percent. Expected fee cost per pass?
A. 150/0.15 = **1,000 dollars**.

Q. Why does prop-firm evaluation encourage bad risk-taking?
A. Time pressure and profit targets tempt traders to oversize trades.

LESSON 25 OF 28

Expert advisors, algorithms and backtesting

An **Expert Advisor (EA)** or trading robot is a program that places trades automatically on platforms like MetaTrader. Automation brings discipline and speed and removes emotion, but it brings risks: bugs, overfitting, poor execution, and strategies that work only in one market condition.

The safe process: write precise rules, **backtest** on quality historical data with realistic spreads and slippage, use **out-of-sample** and **walk-forward** testing, check **maximum drawdown** and consecutive losses, and then run on a **demo** and finally with **very small live size**. Be careful with **martingale** and **grid** systems that double the size after losses: they show beautiful equity curves for a long time and then one trend wipes out the account. Avoid buying EAs that promise monthly returns; many are fake or curve-fitted, and results in screenshots can be faked.

Remember again the legal point: automated trading on unauthorised overseas platforms is not made legal by automation. Use only permitted channels in India.

WORKED EXAMPLE

A seller shows an EA with a smooth upward equity line for three years and a monthly return of 15 percent. The strategy doubles lot sizes after every loss. You check and find the backtest used zero spread and the equity curve hides a 70 percent drawdown. Smooth curves from martingale hide tail risk until it hits all at once.

Go deeper

Quality data. Use tick or minute data with realistic spreads and swaps. Poor data hides slippage and creates fantasy results, particularly for scalpers. Model commission, variable spread, and execution delay.

Process. Define rules, test in-sample, then out-of-sample, then walk-forward; run a Monte Carlo shuffle of trades to see the drawdown range; check parameter sensitivity; run a demo forward test for at least a month.

Avoid overfitting. An EA with 12 optimised parameters and 30 trades is almost surely curve-fit. Prefer few parameters, many trades and stability across years.

Dangerous styles. Martingale and grid strategies show beautiful equity curves until one extended trend wipes the account; always examine the maximum adverse excursion and worst-case drawdown.

Live monitoring. Set a maximum drawdown at which the system is turned off (for example 1.5 times the backtest max), log trades, and compare live and test stats regularly.

VPS and execution. Run on a stable VPS, use a broker with consistent execution and watch latency.

Metrics. Profit factor above 1.3, Sharpe above 1, drawdown tolerable, at least 200 trades.

COMMON MISTAKES

- Trusting a martingale equity curve.
- Optimising many parameters on a short sample.
- Running without a kill switch.

KEY POINTS

- EAs automate rules but do not create an edge.
- Test with real costs, out-of-sample data and then demo.
- Avoid martingale and grid systems that hide tail risk.
- Promised monthly returns are a red flag.

TEST YOURSELF

Q. Why is a martingale backtest misleading?
A. It wins often with small gains but one long adverse move can cause a loss larger than all previous wins.

Q. What is walk-forward testing?
A. Repeatedly optimising on one period and testing on the following unseen period to check stability.

LESSON 26 OF 28

Forex scams and red flags

Forex attracts more fraud than almost any market, especially online, and in India especially through social media. Know the patterns:

Guaranteed or very high returns (such as 10 percent a month); **account managers or "signal providers"** who ask for your funds or login; **unregistered platforms** that look professional but are not authorised, often listed on the RBI Alert List; **fake profit screenshots** and fake trading dashboards; **bonuses** that lock your money in; **recovery scams** targeting earlier victims; **"academy" and mentorship** schemes that sell expensive courses and push you to a specific broker for referral income; **influencers** who show luxury lifestyles and claim to teach secret systems; **Ponzi and MLM** schemes dressed as "forex funds"; and **impersonation** of known brokers.

Defences: never give anyone control of your trading account; do not send money to individuals; check the RBI Alert List and regulator registers; remember that no one can guarantee profit in currency markets; and if withdrawals are blocked or you are asked to pay a fee to withdraw, treat it as a scam. Report to the cyber crime helpline 1930 and cybercrime.gov.in quickly.



No one can guarantee returns. Verify, slow down, never share keys.

Most scams follow the same script. Spot the pattern and walk away.

WORKED EXAMPLE

A "mentor" on a social platform shows daily profit screenshots and offers to manage your account for 30 percent of profits if you deposit 1 lakh rupees on a particular site. Each element is a red flag: unverified screenshots, managing your money, a named platform you cannot verify and a profit-share lure. A real professional would not ask for control of your funds.

Go deeper

Common scams. Signal sellers promising fixed monthly returns, fake "managed accounts" or PAMM schemes, copy-trading with fabricated results, unregistered brokers, "AI bots" with guaranteed profits, fake recovery services, and romance-investment scams that move you to a fake platform.

Warning signs. Guaranteed returns, screenshots as proof (they are easy to fake), pressure to deposit through crypto or personal accounts, bonuses that lock you into huge trading volume before withdrawal, and refusal to show a verifiable regulator licence.

Verification. Check the licence on the regulator's own website, check the RBI Alert List for Indian residents, search the company name with "complaints" and "scam", and ask for a withdrawal test.

Myfxbook-style verified tracking. Verified track records with long history are better than screenshots, but still check risk and drawdown.

If scammed. Stop depositing, preserve evidence, inform your bank, and report at the cybercrime helpline 1930 or portal; avoid any recovery agent charging upfront fees.

Reminder. No one can guarantee returns in forex.

COMMON MISTAKES

- Trusting profit screenshots.
- Accepting large deposit bonuses with volume conditions.
- Paying fees to "recover" lost funds.

KEY POINTS

- Guaranteed returns, managed accounts and bonuses that lock funds are classic scam signs.
- Check the RBI Alert List and regulator registers.
- Never give anyone control of your account or send money to individuals.
- Report quickly to 1930 and cybercrime.gov.in.

TEST YOURSELF

Q. Why are profit screenshots not proof?

A. They are easily edited or taken from demo accounts.

Q. Where can residents check unauthorised forex platforms?

A. The RBI Alert List.

Taxation of currency trading in India

Tax treatment depends on whether the trading is legal and on how it is classified. This is educational information only; rules change, so confirm with a chartered accountant.

For **currency derivatives traded on recognised Indian exchanges** (such as USD/INR futures and options), profits and losses are generally treated as **non-speculative business income** and taxed at your normal income slab rate, not as capital gains. You can claim legitimate expenses, must maintain books, and may need a **tax audit** depending on turnover and profit levels. You usually file the ITR-3 form. Business losses can be carried forward for up to eight years if you file on time. Keep your contract notes, ledgers and broker P&L statements.

Income earned from unauthorised overseas forex trading can carry both tax and legal consequences, because the underlying activity may breach FEMA. Taxability does not make an illegal activity legal. If you have already traded on such platforms, speak to a qualified lawyer or chartered accountant about the correct course.

WORKED EXAMPLE

A trader makes a net profit of 2,00,000 rupees from USD/INR futures on NSE in a year. The profit is added to his other income and taxed at his slab rate, after allowable expenses. If he made a loss of 50,000 instead, he could carry it forward to set off against future business income, provided his return was filed on time.

Go deeper

Framework (verify current law). Profits from currency derivatives traded on recognised Indian exchanges are generally treated as **non-speculative business income** and taxed at slab rates, with expenses (brokerage, internet, software) deductible. Losses can be carried forward for up to 8 years if the return is filed on time. Rules and rates change; confirm with a CA.

Turnover and audit. For currency derivatives, turnover is computed by the prescribed method (sum of absolute profit and loss for each trade, not the notional value). Tax audit may apply depending on turnover and profit thresholds; check the current limits.

Illustration. Trades with profit of 80,000, loss of 30,000: net business income 50,000, taxed under slab rates after expenses. If net loss is 40,000, carry it forward by filing ITR-3 on time.

Records. Contract notes, broker P&L statement, bank statements, and expense records.

Foreign platforms. Income from unauthorised foreign platforms creates both tax and FEMA issues; do not assume tax payment makes it legal.

Advance tax. Business income may require advance tax payments.

COMMON MISTAKES

- Not filing ITR-3 and losing the right to carry forward losses.
- Using notional contract value as turnover.
- Believing paying tax legalises an unauthorised platform.

KEY POINTS

- Exchange-traded currency derivatives are generally non-speculative business income.
- Maintain books and check the tax audit rules.
- Losses can be carried forward if the return is filed on time.
- Unauthorised overseas trading has legal as well as tax risks. Take professional advice.

TEST YOURSELF

Q. For how long can non-speculative business losses be carried forward?

A. Up to 8 assessment years, provided the return is filed on time.

Q. Name two records to keep for tax.

A. Broker contract notes and the broker's P&L statement.

LESSON 28 OF 28

Your roadmap from beginner to professional trader

Professional means process and survival. A realistic, legal path for someone in India:

Stage 1 learn the basics: pairs, pips, lots, sessions and especially the Indian legal position. **Stage 2** learn fundamentals (rates, data, central banks) and technicals (levels, trends, price action) and choose one or two pairs. **Stage 3** write a one-page trading plan and practise on a demo for several months. **Stage 4** if you want to trade live in India, open an account with a SEBI-registered broker for exchange-traded currency derivatives such as USD/INR, start with the minimum size and keep a journal. **Stage 5** review monthly; focus on expectancy, drawdown and rule adherence; scale up only after a meaningful record of following your plan. **Stage 6** keep records and taxes in order, and keep learning.

Throughout: keep trading money separate from living money, never borrow, never hand your account to anyone and treat every promise of easy profits as a warning. The professional edge is patience, risk control and honesty with yourself.

WORKED EXAMPLE

Vikram studies for three months, practises two pairs on a demo for four months with a journal and a one-page plan, then opens an account with a SEBI-registered broker for USD/INR futures. He trades the minimum size with 0.5 percent risk for six months, reviews his journal monthly and increases size only after a positive, rule-following record.

Go deeper

Stages. (1) **Learn** (0 to 3 months): basics, legal route in India, platform skills, demo. (2) **Practise** (3 to 9 months): one strategy, journal, 100 demo trades, strict risk. (3) **Prove** (9 to 24 months): small live size on a legal, regulated route, positive expectancy after costs, drawdown within limits. (4) **Professional**: scale slowly, diversify strategies and pairs, formal tax and compliance, possibly institutional or prop pathways in jurisdictions where permitted.

Measures of readiness. 100+ journaled trades, expectancy above +0.2R after costs, maximum drawdown under your plan limit, and rule-following above 90 percent.

Skill stack. Macro and central bank understanding, technical and price action, risk management, psychology, and execution. Add coding (Python, MQL5) if you want to automate.

Career alternatives. Corporate treasury, FX analyst, risk management, quantitative research, fintech roles.

Honest outlook. Retail forex is among the hardest trading arenas; many lose. Treat initial years as education, keep other income and avoid illegal shortcuts.

COMMON MISTAKES

- Going live before a proven demo edge.
- Using unauthorised foreign platforms for convenience.
- Scaling after a short lucky streak.

KEY POINTS

- Learn the legal position first, then the market.
- Demo, then smallest live size, then scale slowly with proof.
- Keep money separate, never borrow and never hand over your account.
- The edge is patience, risk control and honest records.

TEST YOURSELF

Q. Give two readiness checks before scaling capital.
A. For example 100+ journaled trades with positive expectancy after costs and drawdown within your plan.

Q. Why keep other income while learning?
A. It prevents financial pressure from forcing bad trades.

Final notes

You have reached the end of this guide. Knowledge only helps when it becomes habit: keep risk small, keep records and keep learning.

Next steps: take the quiz for this market and use the glossary on learnwithkrisu.com when a term is unclear. Revisit lessons whenever a topic feels weak.

Education only. Not investment advice. Past examples do not predict future results.