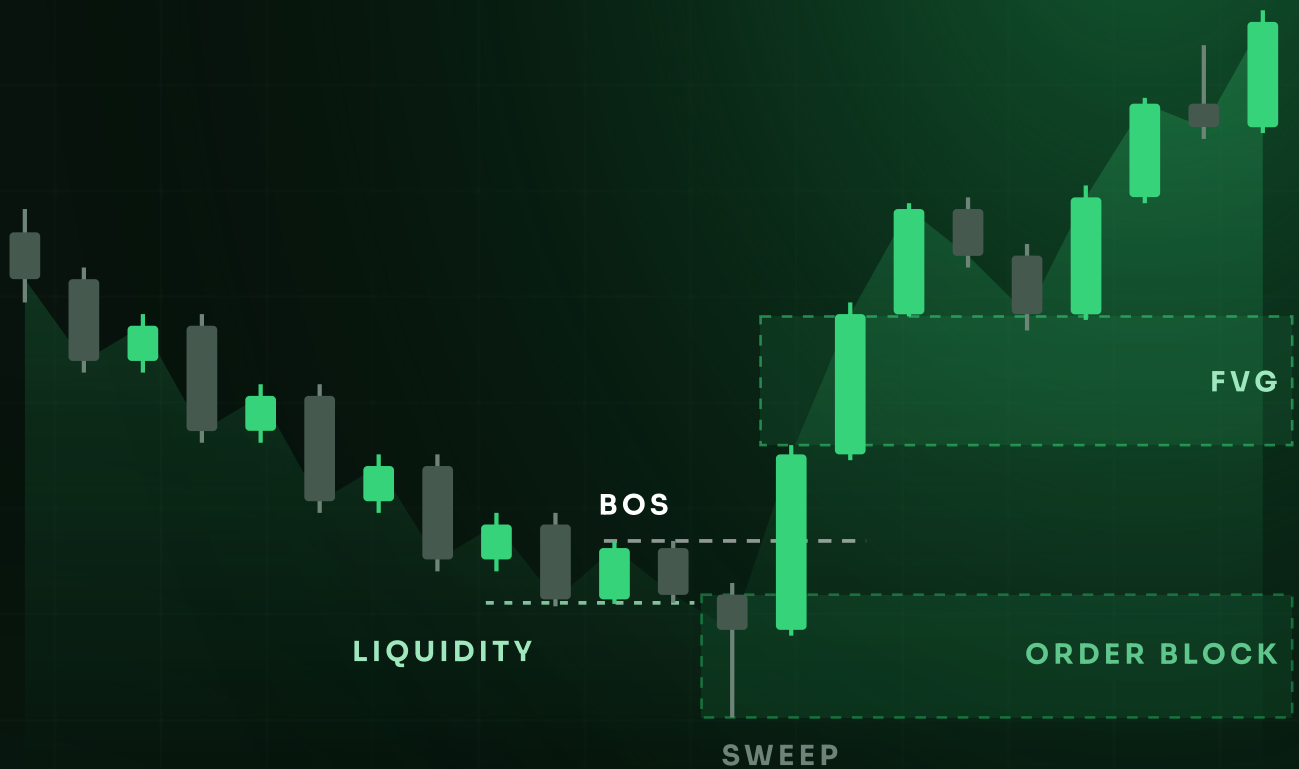




THE FX RECAP

Book

From your first pip to Smart Money Concepts

34 chapters · 172 illustrated diagrams

By the FX Recap editorial team

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Risk warning. Trading forex and CFDs with leverage carries a high risk of losing money quickly, and most retail accounts lose money. This book is education, not financial advice. Practise on a demo account before you risk real money. Diagrams use example prices, not real market data; market statistics are from official sources and dated.

What Is Forex? How the Currency Market Really Works

Forex is the market where one currency is swapped for another, about \$9.6 trillion a day. Here is who trades it, where it happens, what a retail trader is really doing when they click buy, and why the size of the market says little about your odds.

Forex, short for foreign exchange, is the market where currencies are swapped for one another. A company in Germany paying a supplier in Japan needs yen. A fund in Singapore buying US bonds needs dollars. A traveller in Dhaka heading to Kuala Lumpur needs ringgit. Every one of those needs is met in the same global market, and the price at which they swap is the exchange rate you see quoted as EUR/USD, USD/JPY and so on.

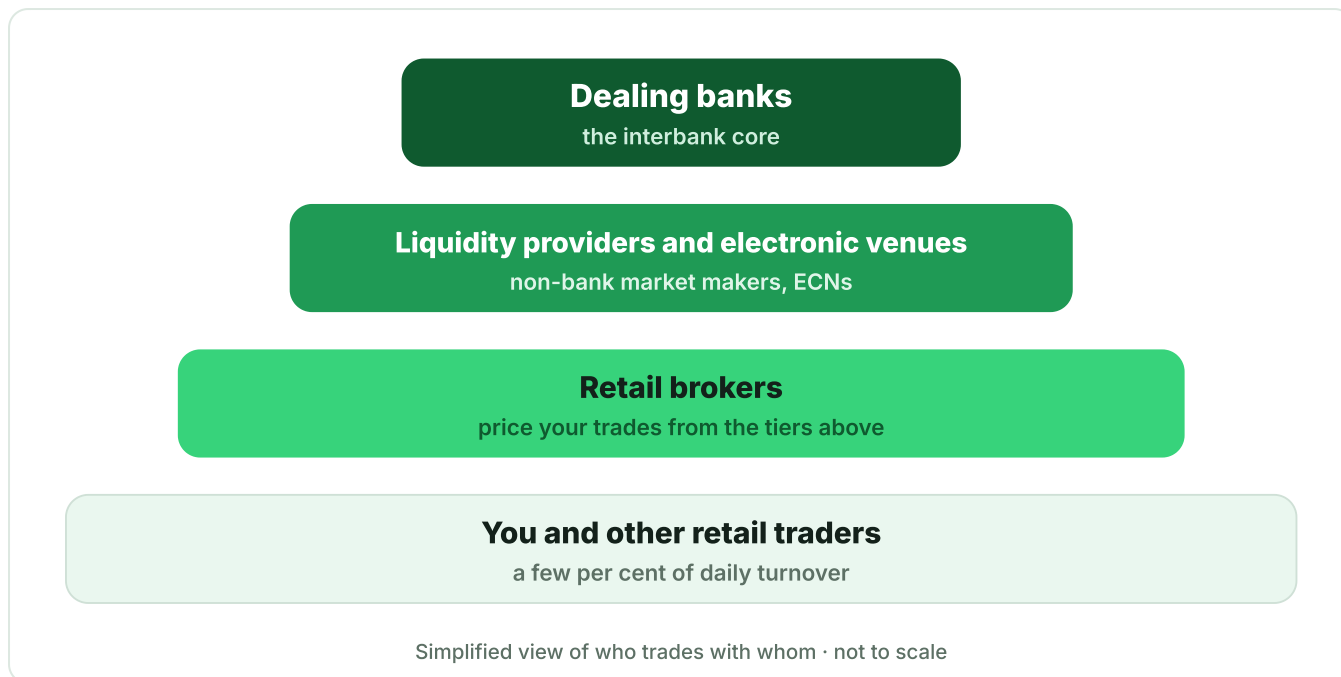
That market is enormous. The Bank for International Settlements, the central banks' own bank, surveys it every three years. Its April 2025 survey found average turnover of \$9.6 trillion a day, up 28% from \$7.5 trillion in 2022. No single exchange holds it. Forex is traded over the counter: banks, funds and brokers deal with each other directly, over electronic networks, around the clock from Monday morning in Asia to Friday evening in New York.

Daily turnover (April 2025)	\$9.6 trillion
Trades with the US dollar on one side	89.2%
Euro / yen / sterling share	28.9% / 16.8% / 10.2%
Where it is traded	UK about 38%, US about 19%, Singapore 11.8%, Hong Kong 7%
Opening hours	24 hours a day, five days a week

Currency shares add up to 200%, not 100%, because every trade involves two currencies and the BIS counts both sides.

Who trades forex, and why

Most of that volume has nothing to do with speculation by individuals. Banks deal with each other to manage their own books. Pension funds and insurers hedge the currency risk on foreign bonds and shares. Exporters lock in exchange rates months ahead so a swing in the yen cannot wipe out their margin. Central banks step in occasionally to steady their currency. Retail traders, people like you trading from a phone or laptop, are a small slice at the edge.

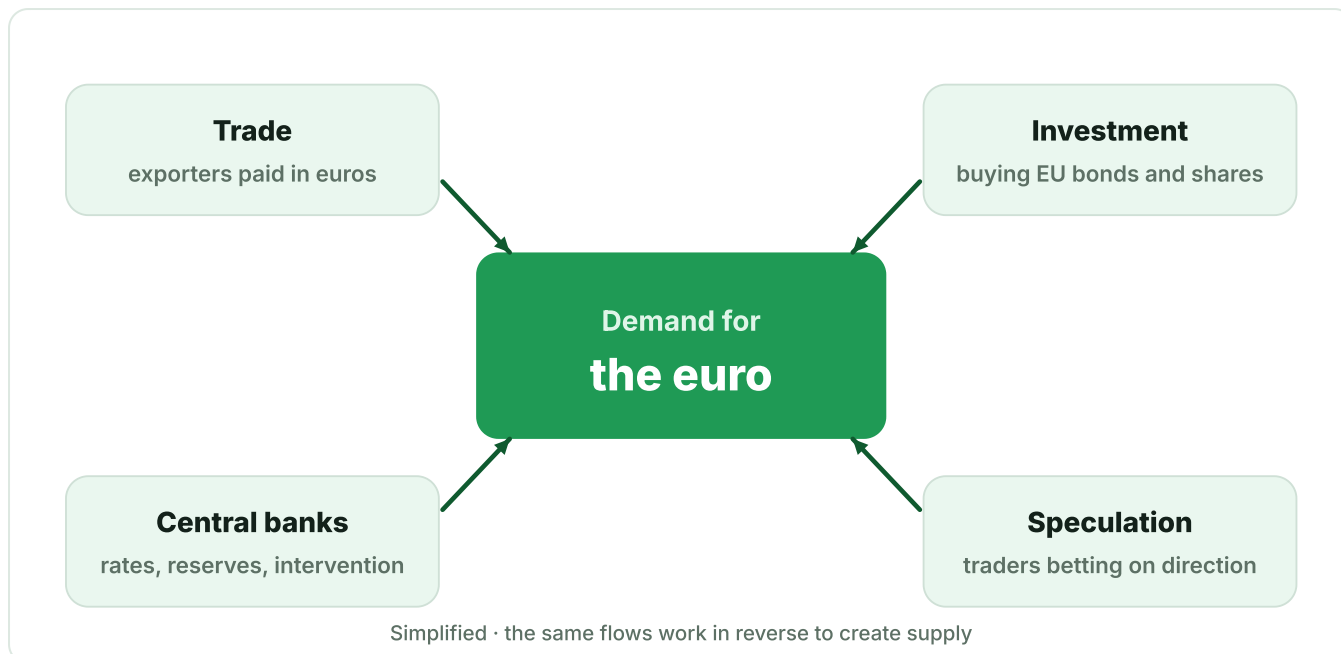


The market works in tiers. Prices start in the interbank core and flow outwards to brokers and their clients.

The BIS breaks turnover down by who is on the other side. Inter-dealer trading, banks dealing with banks, made up 46% in April 2025. Other financial institutions such as hedge funds, smaller banks and asset managers took 50%. Non-financial customers, the companies and governments that need currency for real business, made up just 5%. Retail speculation sits inside those figures through the brokers that hedge client flow with larger dealers.

Why exchange rates move

An exchange rate is a price, and like any price it moves when demand and supply change. Demand for the euro comes from anyone who needs euros: a Chinese firm paying a German supplier, an American fund buying French government bonds, a trader betting that the European Central Bank will raise interest rates. When more people want to buy euros than sell them at today's price, the price rises until the two sides balance.



Trade, investment, central banks and speculation all feed demand for a currency. The same flows in reverse create supply.

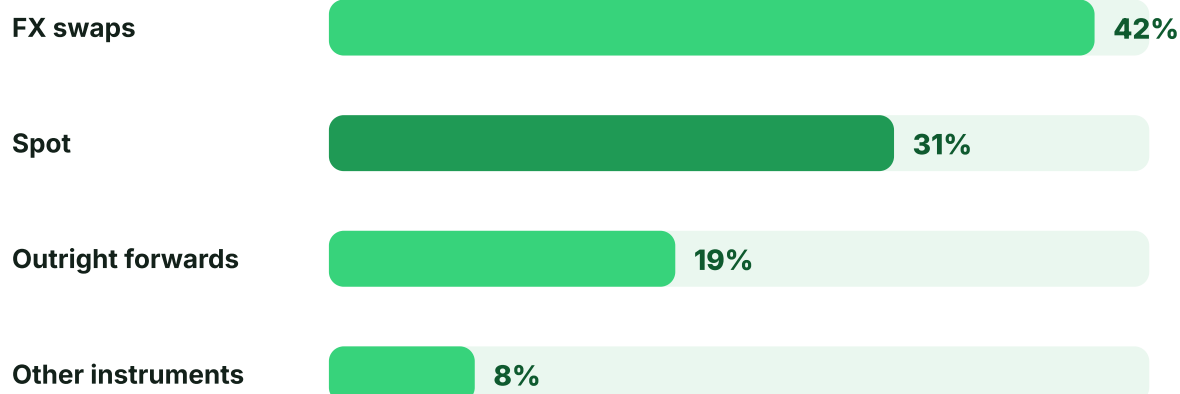
Over months and years, the biggest driver is usually interest rates. Money flows towards currencies that pay a higher return, so a central bank that raises rates while others hold steady tends to support its currency. Over minutes and hours, the driver is surprise: an inflation figure higher than forecast, an unexpected comment from a central banker, a shift in global risk appetite. Part 5 of this book is about those drivers.

History shapes the market too. From the end of the Second World War until the early 1970s, most major currencies were pegged to the US dollar under the Bretton Woods system, and the dollar was linked to gold. That arrangement broke down in 1971–1973, and the major currencies have floated against each other ever since. Today some countries still peg or manage their exchange rates, which is why pairs such as USD/HKD barely move while USD/JPY can swing by several yen in a week.

What gets traded: spot, forwards and swaps

When most people say forex they mean the spot market: an exchange of currencies at today's price, settled two business days later. Spot is only part of the story. Forwards fix a price today for an exchange weeks or months ahead. FX swaps combine a spot trade with a forward trade in the opposite direction, which is how banks borrow and lend currencies to each other. Swaps are the biggest single instrument by far.

Daily FX turnover by instrument, April 2025



Source: BIS Triennial Survey 2025 · total \$9.6 trillion a day

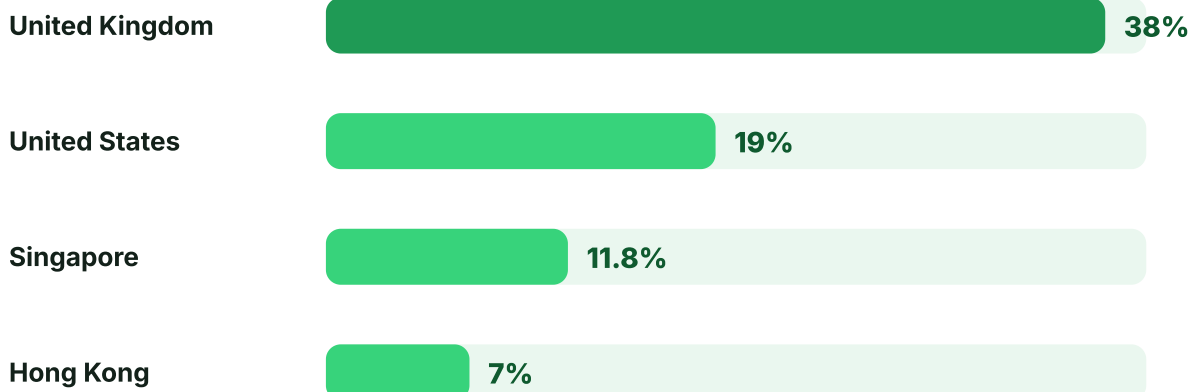
FX swaps, mostly short-term funding between banks, are the biggest instrument. Spot, the market retail traders mirror, is just under a third.

As a retail trader you are almost always trading something that tracks the spot price: a spot forex account or a contract for difference (CFD) on a currency pair. You never hold the euros or yen. Your broker credits or debits your account with the change in price, plus or minus any overnight financing. Chapter 7 of this book explains how brokers handle your orders behind the scenes.

Where the market lives

Forex has no building, but it does have centres. London handles roughly 38% of global turnover, partly because its time zone overlaps with both Asia in the morning and New York in the afternoon. New York follows with about 19%, then Singapore at 11.8% and Hong Kong at 7%. Together those four places account for about three-quarters of all trading.

Where forex is traded: share of daily turnover



Source: BIS Triennial Survey 2025 · about three-quarters in four centres

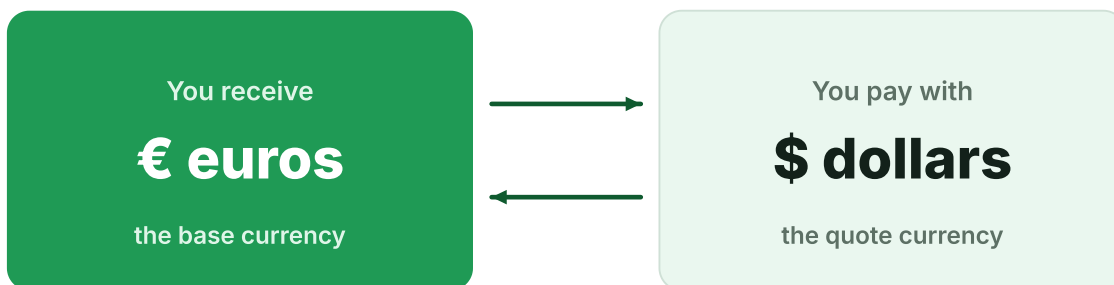
Four financial centres handle about three-quarters of forex turnover. London's time zone is the reason it leads.

That geography is why the market feels different at different hours. When London and New York are both open, prices move faster and spreads are tightest. During the late Asian afternoon, EUR/USD can drift sideways for hours. [Chapter 5 on trading sessions](#) turns that into a practical timetable.

What you are really doing when you click buy

Every forex trade is two trades in one. Buying EUR/USD means buying euros and selling US dollars at the same moment. Selling EUR/USD means the reverse. You profit when the currency you bought gains against the one you sold. That two-sided nature is the first idea every new trader must absorb, because it explains why a pair can move on news from either country.

You click BUY on EUR/USD



Profit if the euro then rises against the dollar

SELL does the opposite: you sell euros and receive dollars

Retail CFD and spot accounts settle this in cash: no real euros are delivered

A buy order on EUR/USD is a bet that the euro will strengthen against the dollar. A sell order bets the opposite.

- You can go short as easily as long: selling a pair is just as normal as buying it.
- Positions are sized in lots, and every price move is measured in pips (Chapter 3).
- Most retail accounts use leverage, which multiplies both gains and losses (Chapter 4).
- Holding a trade past the daily rollover usually costs or earns a small swap fee.

Why the market's size does not help you

Big turnover means deep liquidity: you can open and close a position in a major pair almost instantly, at a price close to the one on screen. That is a genuine advantage over thinly traded markets. It does not mean money is easy to make. Prices in liquid markets react to new information within seconds, and the other side of your trade is often a professional with better data and lower costs.

Regulators in Europe require brokers to publish the share of retail CFD accounts that lose money. On the brokers reviewed on this site the figures run from roughly 70% to over 80%. Treat that number as the starting point of your education, not a reason to quit. The rest of this book is about the habits that put you on the smaller side of that statistic: understanding what you trade, controlling costs, sizing positions, and having a plan.

Anyone promising a fixed daily or monthly return from forex is selling something. Real trading results swing, and losing months are normal even for professionals.

How to use this book

The book runs in six parts. You are reading the first, which covers the mechanics: pairs, pips, lots, leverage, sessions and orders. After that we go inside the market to explain brokers, execution and costs, then teach price action and technical analysis. Smart Money Concepts follow, from market structure to order blocks and fair value gaps. Fundamentals come next, with the central banks and data that move currencies, and the final part ties everything together with risk management, psychology and a written trading plan.

Read the chapters in order the first time. Each one builds on the last, and the diagrams reuse the same example prices so you can follow one idea through. Then open a demo account and repeat each chapter's exercise with virtual money before you risk real money. Our [pip calculator](#) helps with the arithmetic.

Illustrative case: Rafi, 24, Dhaka

Rafi opened a live account after watching a few videos and lost half his \$300 deposit in a week trading gold with oversized positions. He stopped, worked through the basics on a demo for two months, and came back trading 0.01-lot positions with a fixed stop on every trade. His account grew slowly, but more importantly it survived.

*The market does not care how much you study, but studying decides how long you stay in it.
Learn the mechanics until they are boring. That is when you can think about strategy.*

Ranjan Niskrity

Founder, Owner & Forex Trader, FX Recap

Frequently asked

How big is the forex market?

The BIS Triennial Survey measured average turnover of \$9.6 trillion a day in April 2025, up from \$7.5 trillion in 2022.

Is forex traded on an exchange?

No. Forex is an over-the-counter market: banks, funds and brokers trade directly with each other over electronic networks rather than on one central exchange.

Which currency is traded most?

The US dollar, which was on one side of 89.2% of all trades in April 2025, followed by the euro, the yen and sterling.

Can I make money trading forex?

Some traders do, but most retail CFD accounts lose money. Learning the mechanics, controlling risk and keeping costs low improves your chances; nothing guarantees a profit.

Do I own the currency when I trade forex?

Usually not. Retail spot and CFD accounts settle in cash: your account is credited or debited with the price change, and no currency is delivered.

More on this topic, with live tools, on FX Recap: <https://fxrecap.com/learn-forex/education/what-is-forex-trading>

Currency Pairs Explained: Base, Quote, Majors and Exotics

Every forex price is a ratio between two currencies. Learn how to read a quote, which currency is the base and which is the quote, why there are two prices, and how majors, crosses and exotics differ in cost and behaviour.

Currencies are always traded in pairs because you can only value one currency in terms of another. A euro is not worth 1.0850 of anything on its own; it is worth 1.0850 US dollars. That is why every forex quote names two currencies and gives one price. Reading that price correctly is the first practical skill in trading.

Base and quote: reading a price

The first currency in a pair is the base, and the second is the quote. Its price tells you how many units of the quote currency you need to buy one unit of the base. EUR/USD at 1.0850 means one euro costs 1.0850 dollars. USD/JPY at 158.20 means one dollar costs 158.20 yen. GBP/USD at 1.3300 means one pound costs 1.33 dollars.

EUR / USD 1.0850

base currency

quote currency

price

1 euro = 1.0850 US dollars

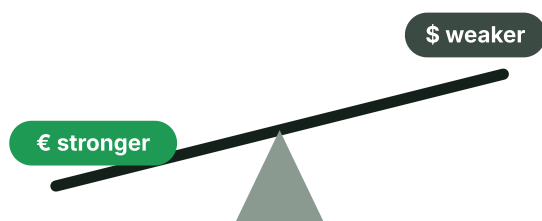
The price is always: how much quote currency buys ONE unit of the base

Example quote

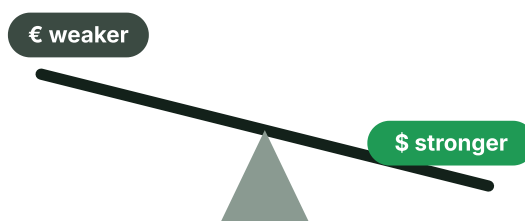
The base currency always counts as one unit. The price is how much of the quote currency that one unit is worth.

When the price rises, the base currency has strengthened, or the quote has weakened, or both. A falling price means the reverse. That is the whole logic of direction: buy a pair if you think the base will gain against the quote, sell it if you think the base will lose.

EUR/USD rises



EUR/USD falls



A pair is a ratio: it moves when EITHER side moves

Strong euro data and weak US data can both lift EUR/USD

Illustration

A pair behaves like a seesaw between two economies. Good news on either side can tip it.

Bid, ask and the spread

Your platform shows two prices for each pair. The bid is the price at which you can sell; the ask, sometimes called the offer, is the price at which you can buy. Of the two, the ask is always higher, and the gap between them is the spread. It is how a market maker gets paid for standing ready to trade with you, and it is the most basic cost you pay.

SELL at the BID

1.08500

1.2 pips

BUY at the ASK

1.08512

The ask is always higher than the bid

So every new trade starts slightly negative by the spread

Illustration · example prices, not real market data

You sell at the bid and buy at the ask. Because you buy high and sell low, a new position starts at a small loss equal to the spread.

Charts on most platforms are drawn from bid prices. That catches beginners out: a buy order fills at the ask, which is above the line on the chart, and a sell order's stop loss is triggered by the ask, so a

short position can be stopped out even when the chart's candles never touched the stop. When spreads widen around news, the gap matters more.

Add the ask line to your chart (most platforms have a setting for it) before you trade around news. You will see exactly where buy orders fill and short stops trigger.

Reading a pair the other way round

Some pairs put the dollar first and some put it second, and that flips how you read them. When EUR/USD rises, the dollar is weakening; when USD/JPY rises, the dollar is strengthening. You can always turn a quote upside down by dividing one by it: EUR/USD at 1.0850 means one dollar buys $1 \div 1.0850 = 0.9217$ euros. Nobody trades USD/EUR, but doing that sum once makes the logic stick.

The order of the two currencies is a market convention, not a choice by your broker. Roughly, the euro comes first whenever it appears, then sterling, then the Australian and New Zealand dollars, then the US dollar, then the Canadian dollar, Swiss franc and yen. So you will see EUR/GBP and GBP/JPY, never GBP/EUR or JPY/GBP. Knowing the order means you can read any quote without stopping to think which way round it is.

Majors, crosses and exotics

Pairs fall into three broad groups. Majors pair the US dollar with another large, freely traded currency: EUR/USD, USD/JPY, GBP/USD, AUD/USD, USD/CHF, USD/CAD and NZD/USD. They carry the most volume and usually the tightest spreads. Crosses, or minors, leave the dollar out, such as EUR/GBP or GBP/JPY. Exotics pair a major currency with one from an emerging or smaller economy, such as USD/TRY or USD/ZAR.

Majors

USD + a big currency

EUR/USD
USD/JPY
GBP/USD
AUD/USD
USD/CHF
USD/CAD
NZD/USD

Crosses (minors)

no US dollar

EUR/GBP
EUR/JPY
GBP/JPY
AUD/JPY
EUR/CHF
AUD/NZD

Exotics

major + emerging currency

USD/TRY
USD/ZAR
USD/MXN
EUR/TRY
USD/THB
USD/SGD

Spreads widen from left to right: majors are the cheapest to trade

The further you move from the majors, the wider the spreads and the bigger the jumps.

GROUP	EXAMPLES	TYPICAL SPREAD	BEHAVIOUR
Majors	EUR/USD, USD/JPY, GBP/USD	Lowest	Deep liquidity, smoother moves
Crosses	EUR/GBP, EUR/JPY, GBP/JPY	Low to moderate	Driven by two non-dollar economies
Exotics	USD/TRY, USD/ZAR, USD/MXN	Wide	Bigger gaps, high swap costs, political risk

All ten of the most traded pairs in the BIS 2025 survey involve the US dollar. That is why the dollar's direction often shows up across several pairs at once: when US inflation surprises higher, EUR/USD, GBP/USD and AUD/USD can all fall together while USD/JPY rises.

Cross rates: how two dollar pairs make a third

Crosses are priced from the dollar pairs behind them. EUR/JPY, for example, is EUR/USD multiplied by USD/JPY: the dollars cancel out and you are left with yen per euro. That is why a cross moves when either of its dollar legs moves, and why a cross can trend strongly on a day when the dollar itself goes nowhere.

EUR/USD
1.0850

×

USD/JPY
158.20

=

EUR/JPY
171.65

The dollars cancel out: (USD per EUR) × (JPY per USD) = JPY per EUR

So EUR/JPY moves when EUR/USD or USD/JPY moves

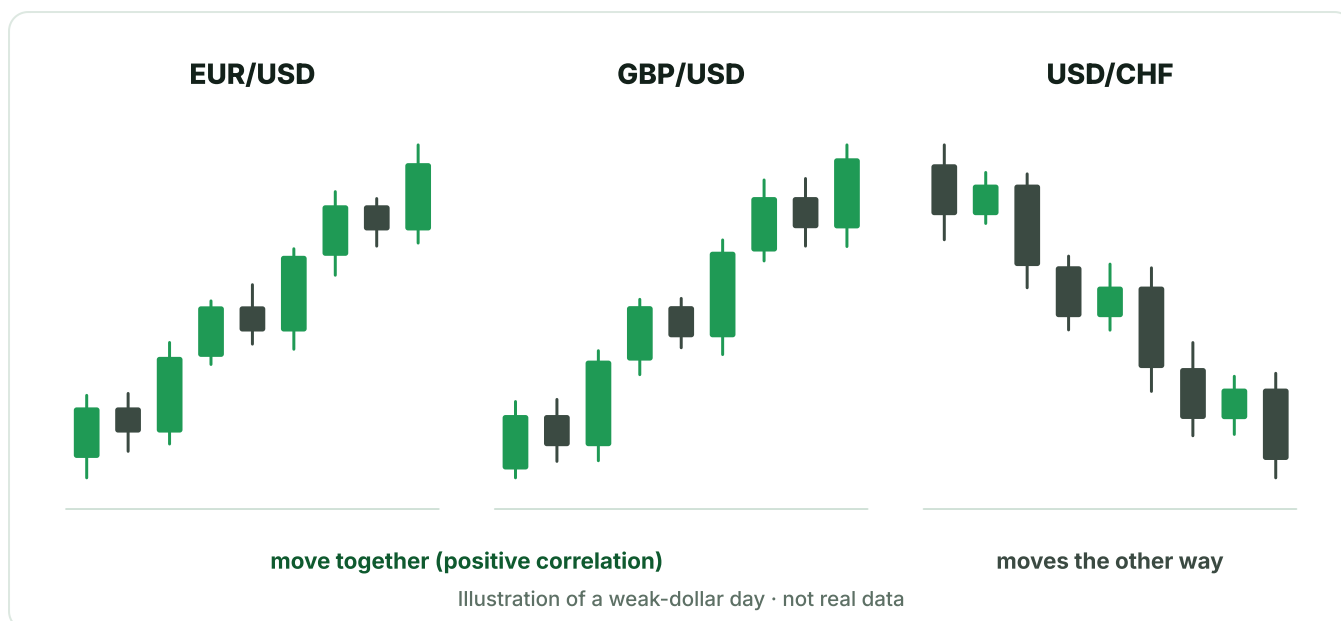
Example rates

Multiply the two dollar pairs and the dollar cancels out, leaving the cross rate.

Cross rates matter for two practical reasons. Spreads on crosses are usually wider than on the majors, because the market maker is effectively pricing two pairs at once. And a cross lets you express a view on two economies without the dollar in the way: if you expect the European Central Bank to stay hawkish while the Bank of Japan stays cautious, EUR/JPY isolates that idea.

Correlation: when several pairs are one trade

Pairs that share a currency often move together. When the dollar weakens broadly, EUR/USD and GBP/USD tend to rise while USD/CHF and USD/JPY tend to fall. Traders call this correlation. It is not fixed, and it can break down when news hits one economy alone, but it is strong enough that holding several dollar pairs can quietly multiply your risk.



On a broad dollar move, EUR/USD and GBP/USD rise together and USD/CHF falls. Three positions can be one bet.

YOU HOLD	WHAT IT REALLY IS	RISK CHECK
Buy EUR/USD + buy GBP/USD	Two bets against the dollar	Treat as one larger position
Buy EUR/USD + sell USD/CHF	Two bets against the dollar	Same direction, doubled
Buy EUR/USD + buy USD/CHF	Largely offsetting	Little net exposure, double the costs

Before opening a second position, ask whether it shares a currency with the first. If it does, size both so that their combined loss at the stops fits your risk limit.

Gold, oil and indices on a forex account

Most forex brokers also offer gold (XAU/USD), silver (XAG/USD), oil, stock indices and crypto, priced as CFDs. Gold is quoted like a currency pair, in dollars per ounce, which is why it sits in forex watchlists. Treat these as separate markets with their own contract sizes and pip values. A 0.01 lot of gold is not the same exposure as 0.01 lot of EUR/USD, and new traders often learn that the expensive way.

Check the contract specification of every instrument before your first trade. On many platforms one lot of gold is 100 ounces, so a \$10 move in gold is \$1,000 on one lot.

Choosing which pairs to trade

- Start with one or two majors. EUR/USD and USD/JPY are liquid, cheap and well covered by news.
- Trade pairs whose sessions match your free hours. A trader in Asia sees more movement in yen and Australian dollar pairs during the day.

- Avoid exotics until you understand swaps and gaps: their overnight costs can exceed the profit of a short trade.
- Watch for correlation. Buying EUR/USD and GBP/USD together is close to one larger dollar trade.

Illustrative case: Mina, 31, Manila

Mina traded six pairs at once and kept losing on days when the dollar jumped, because every one of her positions was really the same bet against the dollar. She cut her list to EUR/USD and USD/JPY, learned what moves each one, and her results became far easier to understand.

Know which side of the pair you are really betting on. Half the questions I get from new traders are solved once they see that a pair is a ratio between two economies.

Tanbir Habib Riyad

Forex & Crypto Analyst, FX Recap

Next, **Chapter 3** turns these prices into money: how pips, lots and spreads decide what each move is worth to you.

Frequently asked

What is the base currency?

The first currency in a pair. Its price shows how much of the second, quote currency buys one unit of the base.

Why are there two prices?

The bid is where you can sell and the ask is where you can buy. Because the ask is higher, the gap between them, the spread, is a trading cost.

What are the major currency pairs?

EUR/USD, USD/JPY, GBP/USD, AUD/USD, USD/CHF, USD/CAD and NZD/USD: the US dollar against other large, freely traded currencies.

What is an exotic pair?

A major currency paired with one from a smaller or emerging economy, such as USD/TRY or USD/ZAR. Spreads, swaps and price gaps are usually larger.

Is gold a currency pair?

Gold (XAU/USD) is quoted like one, in dollars per ounce, but it is a commodity CFD with its own contract size. Check its specification before trading.

More on this topic, with live tools, on FX Recap: <https://fxrecap.com/learn-forex/education/major-currency-pairs>

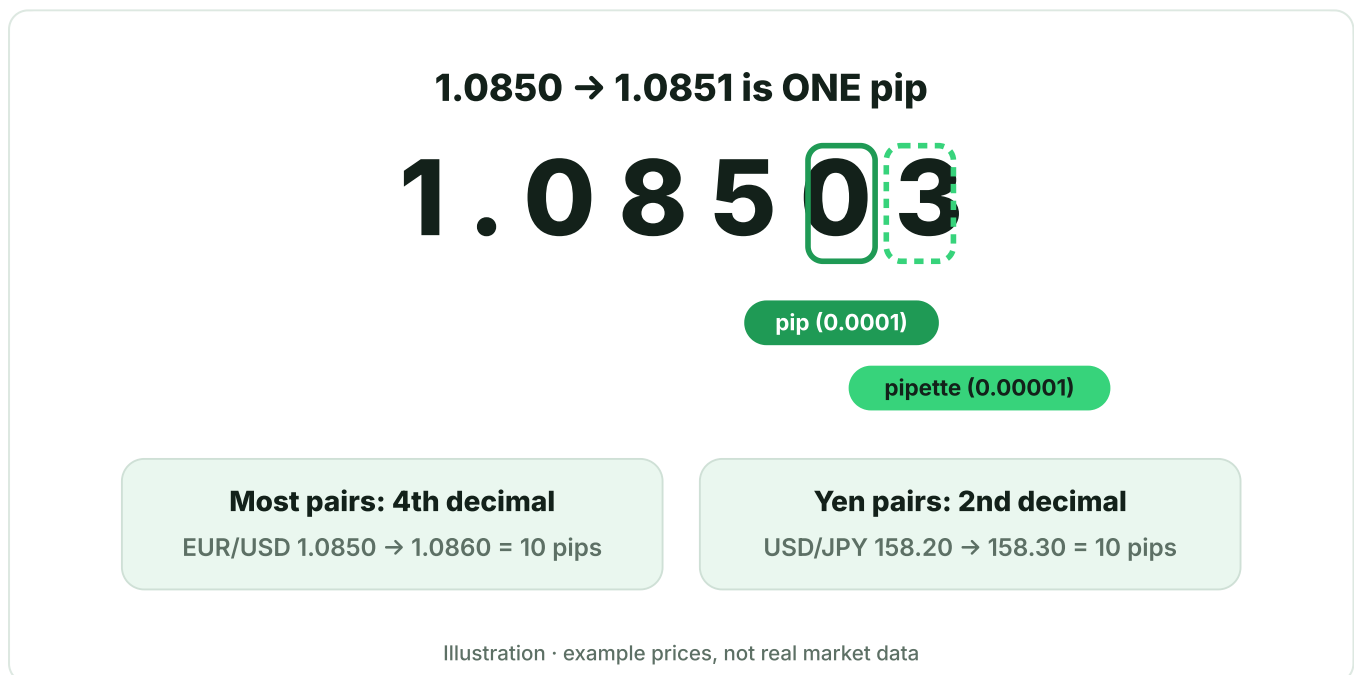
Pips, Lots and Spreads: How Forex Prices Turn Into Money

A pip is the unit forex prices move in, a lot is the size of your trade, and the spread is what you pay to enter. Put the three together and you can work out exactly what any trade will make, lose or cost.

Before you can manage risk, you need to know what a price move is worth in money. Three terms do that job. A pip measures how far the price moved. A lot measures how big your position is. The spread, plus any commission, is what the trade costs you. This chapter walks through each one with the arithmetic shown, so you never have to guess.

What a pip is

For most currency pairs a pip is the fourth decimal place: 0.0001. If EUR/USD moves from 1.0850 to 1.0851, it has moved one pip. A move from 1.0850 to 1.0900 is 50 pips. Pairs that include the Japanese yen are the exception: their pip is the second decimal, 0.01, because the yen's unit value is much smaller. USD/JPY moving from 158.20 to 158.30 is ten pips.

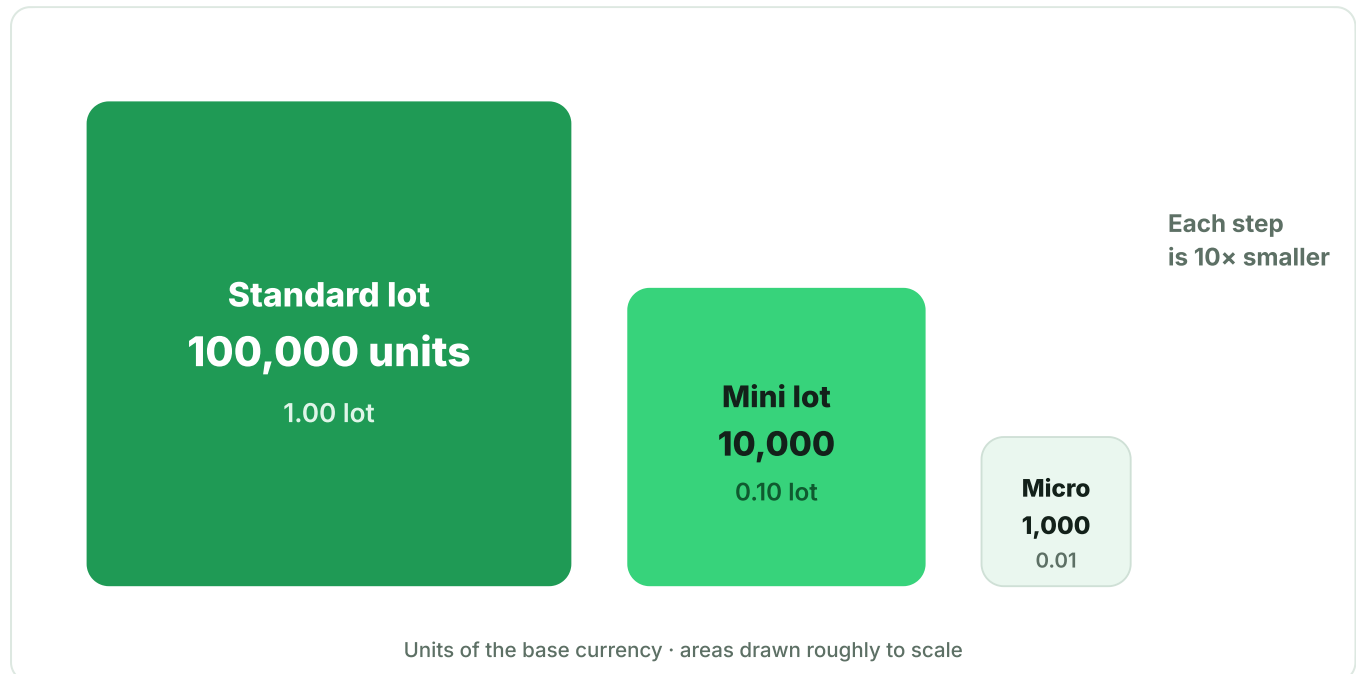


The pip is the fourth decimal on most pairs and the second on yen pairs. Brokers often show one extra digit, the pipette.

Most platforms quote one extra digit, the fifth decimal on EUR/USD or the third on USD/JPY. That digit is a pipette, a tenth of a pip. It lets prices move in finer steps, but when traders talk about distances and stops they mean pips, not pipettes. If your platform shows a 15-point spread, check whether it means 15 pipettes (1.5 pips) or 15 pips; the difference is tenfold.

What a lot is

A lot is a standard trade size. One standard lot is 100,000 units of the base currency, so one lot of EUR/USD controls 100,000 euros. A mini lot is 10,000 units (0.10 lot) and a micro lot is 1,000 units (0.01 lot). Most retail platforms let you trade down to 0.01 lot, which is the size every beginner should start with.



Each lot size is ten times smaller than the one before. Start at 0.01 while you learn.

LOT SIZE	UNITS OF BASE CURRENCY	PLATFORM ENTRY
Standard	100,000	1.00
Mini	10,000	0.10
Micro	1,000	0.01

What a pip is worth

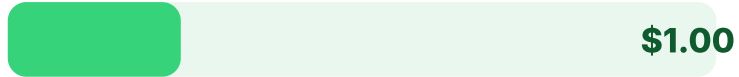
Pip value connects the two. For any pair quoted in US dollars, such as EUR/USD or GBP/USD, one pip on one standard lot is worth \$10: $100,000 \text{ units} \times 0.0001 = \$10$. On a mini lot it is \$1 and on a micro lot it is 10 cents. If your account is in dollars, that is the end of the calculation.

What one pip is worth on EUR/USD

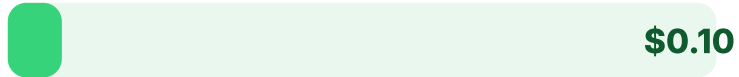
Standard (1.00)



Mini (0.10)



Micro (0.01)



Pip value = lot size × 0.0001 (in the quote currency, here US dollars)

Arithmetic for pairs quoted in US dollars

On EUR/USD, one pip is worth \$10, \$1 or 10 cents depending on the lot size.

Pairs quoted in another currency need one conversion. On USD/JPY a pip on one lot is $100,000 \times 0.01 = 1,000$ yen. To turn that into dollars, divide by the exchange rate: at 158.00, $1,000 \div 158$ is about \$6.33 per pip. On EUR/GBP the pip is worth £10 per lot, which you convert into dollars at the GBP/USD rate. Platforms do this for you, and our pip calculator shows the figure for any pair and account currency.

Before every trade, ask one question: "If this goes against me to my stop, how many dollars do I lose?" Pips × pip value × lots gives the answer. The [pip calculator](#) and [position size calculator](#) do it in seconds.

Pip values on other pairs

The \$10-a-pip rule only holds when the quote currency is the US dollar and your account is in dollars. On every other pair the pip value moves with the exchange rate. The figure below shows four common pairs on one standard lot for a dollar account, using example rates. Notice that USD/JPY pips are worth less than EUR/USD pips at today's yen level, and USD/CHF pips worth more, so a 20-pip stop does not carry the same risk on every pair.

One pip on 1 lot, in US dollars

EUR/USD		\$10.00
	quoted in USD	
GBP/USD		\$10.00
	quoted in USD	
USD/JPY at 158.00		≈ \$6.33
	1,000 yen ÷ 158	
USD/CHF at 0.8000		\$12.50
	10 francs ÷ 0.80	

Example exchange rates · the platform recalculates these as prices move

Pip values change from pair to pair. Size each trade from its own pip value, not from a habit formed on EUR/USD.

Gold, indices and crypto use points

Gold, oil, indices and crypto are quoted in dollars or points, not pips. On most platforms one lot of gold is 100 ounces, so every \$1 move in the gold price is \$100 per lot, \$10 per 0.10 lot and \$1 per 0.01 lot. Gold routinely moves \$20–\$50 in a day, which means a 0.10-lot gold trade can swing as much as a full lot of EUR/USD on a normal day.

EUR/USD, 0.01 lot

1 pip = \$0.10

a 50-pip day ≈ \$5

1,000 units of euros

Gold, 0.01 lot

\$1 move = \$1

a \$40 day ≈ \$40

1 ounce on a 100-oz contract

Typical contract sizes · check your broker's contract specification

The same 0.01 lot carries very different risk on EUR/USD and on gold. Always check the contract size.

Contract sizes differ between brokers and platforms. Open the symbol's specification window in MT4 or MT5 and read the contract size, tick size and tick value before your first trade.

Spread and commission

The spread is the gap between the bid and the ask, measured in pips. On a spread-only account it is the whole cost of the trade: if EUR/USD shows a 1.2-pip spread, one standard lot costs \$12 to open and close. Raw-spread or ECN accounts show a much smaller spread, often near zero, and charge a commission per lot instead. Neither model is free, so compare the total.

The price of one round trip on 1 lot of EUR/USD

Spread-only account

$$1.2 \text{ pips} \times \$10$$

\$12

cost is inside the price

Raw-spread account

$$0.1 \text{ pip} \times \$10 = \$1$$

+ \$7 commission

\$8

cost shown separately

Example figures · real spreads and commissions vary by broker and time of day

Add spread and commission together to compare accounts. Here the raw-spread account is cheaper per lot.

Spreads move. They are tightest when liquidity is deep, during the London and New York sessions, and widen at the daily rollover, around major news and on Monday's open. A 0.2-pip spread on a quiet Tuesday afternoon can briefly become 3 pips when US jobs data is released. Scalpers who trade many small moves feel that most; a swing trader holding for days barely notices.

When your account is not in dollars

Your profit and loss is booked in your account currency, so the platform converts each pip value at the current rate. On a euro account, a \$10 pip on one lot of EUR/USD is worth about €9.22 when EUR/USD is 1.0850, because $\$10 \div 1.0850 = €9.22$. A sterling account converts the same pip at $\$10 \div \text{GBP/USD}$. The effect is small day to day, but it means the same trade can be slightly more or less valuable as exchange rates drift.

A quick pre-trade checklist

- What is one pip (or one point) worth at this size, in my account currency?
- How many pips away is my stop, and what does that cost in money?
- What is the spread right now, and is it wider than usual?
- Is there commission, and have I included both sides?
- Does the total loss at my stop fit my risk per trade?

Five questions, a minute's work, and you will never again be surprised by the size of a loss. The [next chapter](#) adds the one remaining number: how much margin the trade ties up.

Putting it together: one trade, start to finish

Say you buy 0.10 lot of EUR/USD at 1.0850 with a 1-pip spread, a stop loss at 1.0820 and a take profit at 1.0910. Each pip is worth \$1 at that size. The spread costs \$1 the moment you enter. If the stop is hit, you lose 30 pips, \$30. Hit the target and you gain 60 pips, \$60. Your reward is twice your risk, and you knew every number before you clicked buy.

ITEM	CALCULATION	RESULT
Pip value at 0.10 lot	$10,000 \times 0.0001$	\$1 per pip
Spread cost	$1 \text{ pip} \times \$1$	\$1
Loss if stopped at 1.0820	$30 \text{ pips} \times \$1$	-\$30
Gain if target 1.0910 is hit	$60 \text{ pips} \times \$1$	+\$60

A trade that looks small in pips can still be large in money. Ten pips on 1 lot of EUR/USD is \$100, and a fast news spike can move fifty pips in a minute.

Illustrative case: Sana, 27, Karachi

Sana kept placing stops of 20 pips on 0.5 lots without working out the money: every stop cost her \$100 on a \$1,000 account. Once she worked backwards from a \$10 risk per trade, the same 20-pip stop meant 0.05 lots, and a losing week stopped being a disaster.

Pips are how the market speaks; dollars are how your account feels it. Translate every trade into dollars before you place it.

Jannatul Ferdaush

Fact-Checker & Risk Analyst, FX Recap

With pips, lots and spreads in hand, [Chapter 4](#) explains leverage and margin: why a small deposit can control a large position, and how quickly that works against you.

Frequently asked

What is a pip in forex?

The standard unit of price movement: 0.0001 on most pairs and 0.01 on pairs that include the Japanese yen.

How much is one pip worth?

On EUR/USD and other pairs quoted in US dollars, \$10 per standard lot, \$1 per mini lot and \$0.10 per micro lot.

What is a lot in forex?

A standard trade size. One lot is 100,000 units of the base currency, a mini lot 10,000 and a micro lot 1,000.

What is a pipette?

A tenth of a pip, the extra decimal most platforms show: the fifth decimal on EUR/USD or the third on USD/JPY.

Is a raw-spread account cheaper?

Often for active traders, but compare spread plus commission. A 0.1-pip spread with \$7 commission costs \$8 per lot; a 1.2-pip spread with no commission costs \$12.

More on this topic, with live tools, on FX Recap: <https://fxrecap.com/learn-forex/education/what-is-a-pip-in-forex>

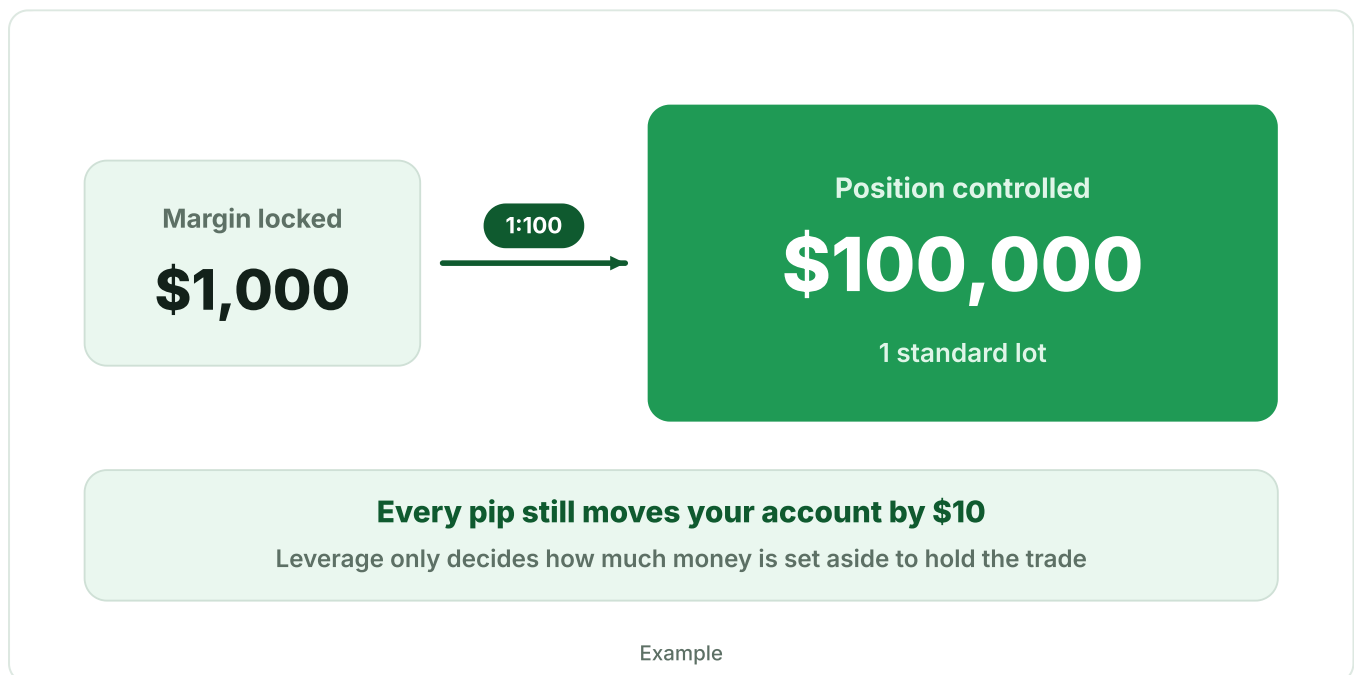
Leverage and Margin Explained: Margin Calls, Stop-Outs and Real Risk

Leverage lets a small deposit hold a large position; margin is the deposit your broker sets aside to do it. Learn how margin level, margin calls and stop-outs work, and why position size, not leverage, decides how much you can lose.

Leverage is the feature that draws most people to forex, and the one that ends most accounts. It lets you control a position far larger than your deposit. With 1:100 leverage, \$1,000 can hold a \$100,000 position. That sounds like extra buying power, and in a narrow sense it is. What it does not change is how much each pip is worth. Understanding that one point will save you more money than any strategy.

Two sides of the same idea

Margin is the amount your broker locks from your account to keep a position open. Leverage is the ratio between the position and that margin. At 1:100 the margin is 1% of the position value; at 1:500 it is 0.2%; at 1:30, the cap for retail clients on major pairs in the UK and EU, it is about 3.33%.



Leverage decides how much is locked as margin. The value of each pip depends only on the position size.

LEVERAGE	MARGIN AS % OF POSITION	MARGIN FOR 1 LOT OF EUR/USD AT 1.0850
1:30	3.33%	about \$3,617
1:100	1%	\$1,085
1:200	0.5%	\$542.50
1:500	0.2%	\$217
1:1000	0.1%	\$108.50

One lot of EUR/USD at 1.0850 is worth \$108,500, which is why the margin figures above are slightly more than round numbers. Notice what the table does not show: profit or loss. A 50-pip move on that one lot is \$500 whether you used 1:30 or 1:1000. Higher leverage only lets you open the same position with less money set aside, or a bigger position with the same money.

Equity, free margin and margin level

- **Balance:** your deposits plus closed profits, minus closed losses.
- **Equity:** balance plus or minus the profit or loss on open trades. This is what your account is really worth right now.
- **Used margin:** the total locked to hold your open positions.
- **Free margin:** equity minus used margin; what is left to absorb losses or open new trades.
- **Margin level:** equity ÷ used margin × 100%. The number brokers watch.

Free margin is the cushion between where you are and a margin call. It shrinks as losses grow, while used margin stays the same until you close or add positions. Watching free margin, not just profit and loss, tells you how close you are to the broker stepping in.

Where your \$1,000 of equity sits

Used margin \$300

Free margin \$700

Margin level = $1,000 \div 300 \times 100\% \approx 333\%$

A \$400 loss → equity \$600, free margin \$300, margin level 200%

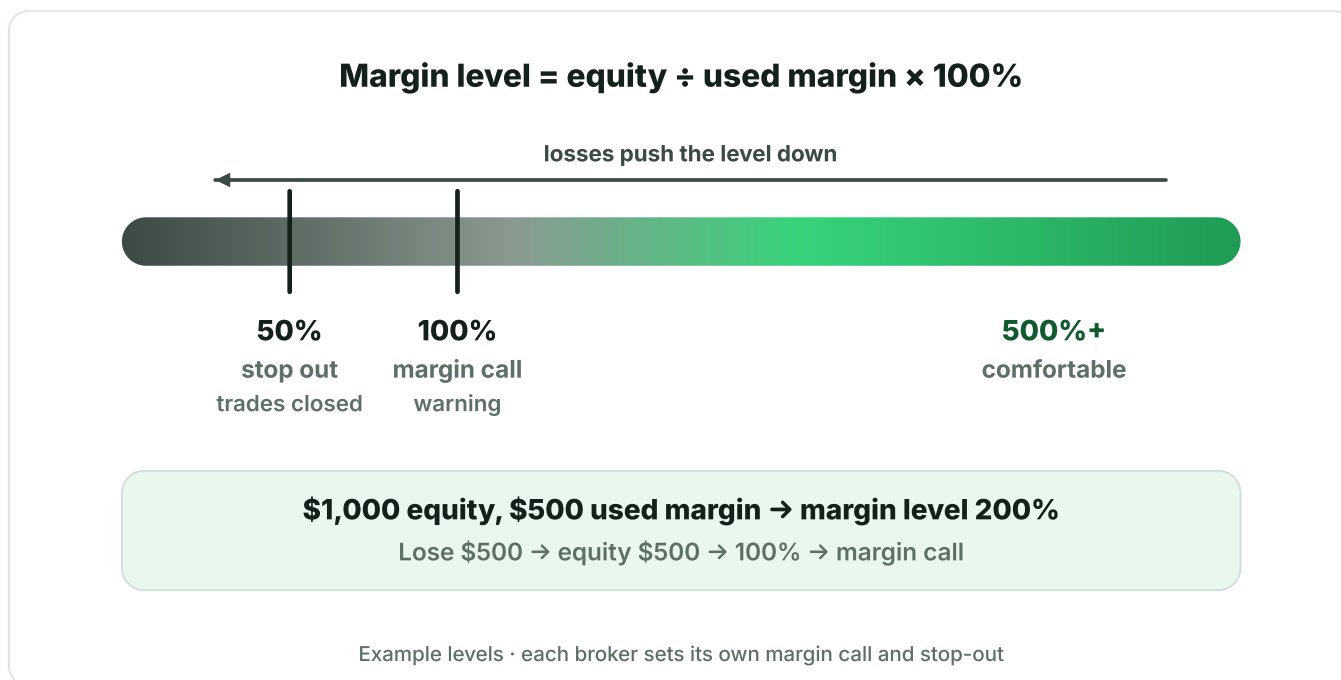
Used margin stays the same; the cushion shrinks

Example

Used margin is fixed while the trade is open; losses come out of free margin until the cushion is gone.

Margin call and stop-out

As losses grow, equity falls and so does your margin level. Every broker sets two thresholds. At the margin call level you get a warning and usually cannot open new trades. Once the stop-out level is reached, the platform starts closing your positions automatically, biggest loser first, to stop your balance going negative. A common pairing is a margin call at 100% and a stop-out at 50%, but levels vary from broker to broker and account to account.



Margin level falls as losses mount. Below the stop-out level the broker closes trades for you.

Here is the sequence in numbers. You have \$1,000 and open a position that needs \$500 margin: margin level 200%. The trade loses \$500, equity drops to \$500, and margin level hits 100%: margin call. Another \$250 of loss takes equity to \$250, margin level to 50%, and the platform starts closing positions. A stop-out is not a safety net; it is the broker protecting itself after you have already lost most of the account.

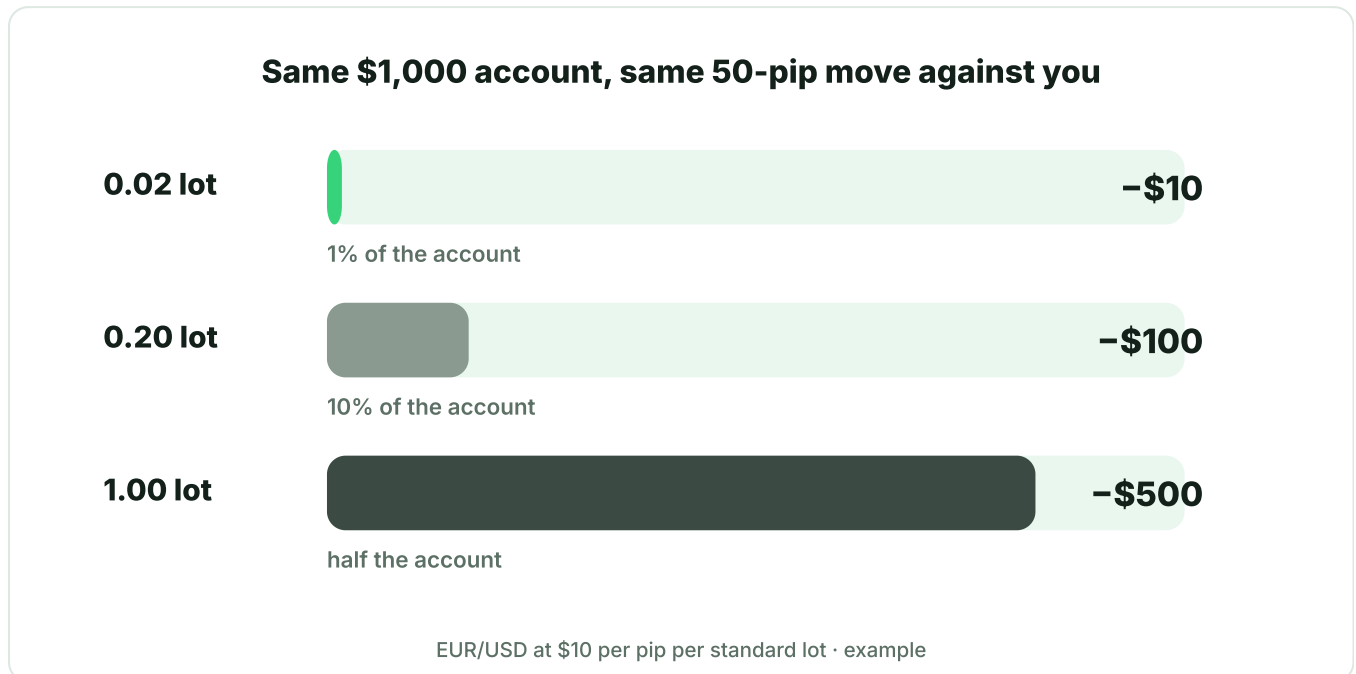
In a fast market prices can jump past the stop-out level. Retail clients of most regulated brokers have negative balance protection, so you cannot owe more than you deposited, but the account can still empty in seconds.

What happens when you add more trades

Every new position adds to used margin. Open a second lot of EUR/USD at 1:100 and used margin doubles from about \$1,085 to \$2,170; free margin falls by the same amount, and so does the distance to a margin call. Traders who keep adding to a losing position, hoping to improve their average price, burn through free margin twice as fast: once from the new margin and again from the growing loss. Margin rules differ for hedged positions, where some brokers charge margin on only one side, so read your broker's terms before relying on it.

Why leverage hurts beginners

Leverage itself does not lose money; oversized positions do. The trouble is that high leverage lets you open them. A trader with \$1,000 at 1:500 can open nearly five lots of EUR/USD. At \$50 a pip, a 20-pip move, which can happen in minutes, wipes out the account. The same trader at 1:30 could not open more than about a quarter of a lot, and that limit would have saved them.



The same 50-pip move on the same account: the loss depends entirely on lot size.

Professional traders think in risk per trade, not leverage. They decide they will lose at most 1% of the account if their stop is hit, work out the position size that matches their stop distance, and only then check that enough margin is free. Leverage becomes something they barely notice. Part 6 of this book covers position sizing step by step.

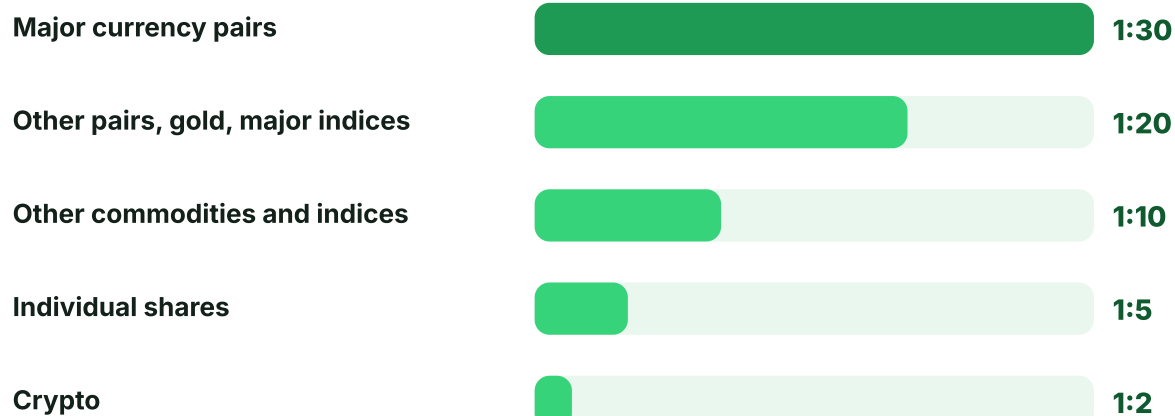
1. Decide the most you will lose on this trade, for example 1% of a \$1,000 account = \$10.
2. Set your stop where the trade idea is proven wrong, for example 25 pips away.
3. Divide: $\$10 \div 25 \text{ pips} = \$0.40 \text{ per pip}$, which is 0.04 lot on EUR/USD.
4. Check that the margin for 0.04 lot leaves plenty of free margin. At almost any leverage it will.

The [margin calculator](#) shows the deposit any trade needs, and the [position size calculator](#) does steps 1–3 for you.

Leverage limits around the world

Regulators in the UK and the European Union cap the leverage that brokers may offer retail clients on CFDs. The caps depend on the market: 1:30 on major currency pairs, 1:20 on other pairs, gold and major stock indices, 1:10 on other commodities and indices, 1:5 on individual shares and 1:2 on crypto. Australia applies the same levels. Those caps are why the same broker can offer 1:30 to a client in London and 1:500 or more to a client in Asia through its offshore company.

Retail leverage caps, UK (FCA) and EU (ESMA rules)



Offshore companies of the same broker groups often offer far higher leverage

Retail leverage caps under UK and EU rules. They are a ceiling, not a recommendation.

The caps exist because regulators found that most retail accounts using high leverage lost money. They come with another protection worth knowing: negative balance protection, which means a retail client cannot lose more than the money in the account. Many offshore companies offer it too, but check your own client agreement rather than assuming.

Choosing a leverage setting

Many brokers let you choose your account leverage. A lower setting does not make each trade safer, but it does stop you opening positions far too large for your balance in a moment of excitement. For most beginners a setting between 1:30 and 1:100 is plenty. Higher settings only make sense if you already size every trade from a fixed risk and want margin left free for several positions at once.

Leverage limits depend on where you live and which broker company holds your account. Retail clients in the UK and EU are capped at 1:30 on major pairs; offshore companies offer much more.

Illustrative case: Arif, 29, Chattogram

Arif traded at 1:1000 because his broker allowed it, opening two lots on a \$500 account. A 15-pip spike on US inflation data triggered his stop-out before his stop loss. He reset his account to 1:100 and now risks \$5 per trade; he trades smaller, but he is still trading a year later.

Leverage is a margin setting, not a feature to shop for. If a broker's main selling point is the leverage number, ask why.

Ranjan Niskrity

Founder, Owner & Forex Trader, FX Recap

Chapter 5 turns to timing: when the forex market is open, which session suits each pair, and when to stay away.

Frequently asked

What is leverage in forex?

The ratio between the size of a position and the margin needed to hold it. At 1:100, \$1,000 of margin holds a \$100,000 position.

Does higher leverage mean bigger profits?

No. Profit and loss per pip depend on position size. Higher leverage only reduces the margin needed, which makes it easier to open positions that are too large.

What is a margin call?

A warning when your margin level falls to the broker's threshold, often 100%. You usually cannot open new trades until it recovers.

What is a stop-out level?

The margin level at which the broker starts closing your positions automatically, often around 50% but different at each broker.

What leverage should a beginner use?

Something modest such as 1:30 to 1:100, with every trade sized from a fixed risk of 1–2% of the account.

More on this topic, with live tools, on FX Recap: <https://fxrecap.com/learn-forex/education/what-is-forex-leverage>

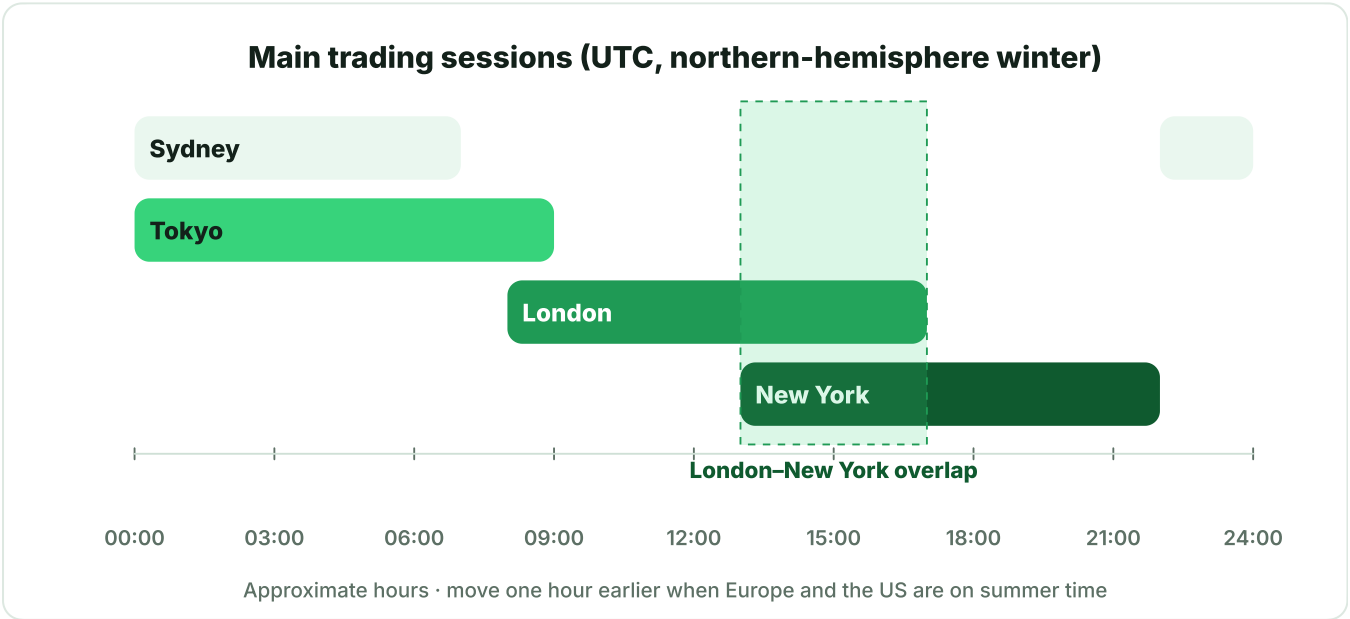
Forex Trading Sessions: When the Market Moves and When to Trade

Forex trades 24 hours a day, but not with the same energy. Learn the Sydney, Tokyo, London and New York sessions, why the London–New York overlap matters, and how to match your trading hours to the pairs you trade.

The forex market opens on Monday morning in Wellington and Sydney and closes on Friday afternoon in New York. Between those points it never stops. That does not mean every hour is the same. Liquidity follows the sun: as each financial centre opens, banks and funds in that region start trading, spreads tighten and prices move. When a centre closes, activity fades. Knowing that rhythm tells you when your pairs are likely to move and when they are likely to drift.

Four main sessions

Traders usually talk about four sessions, named after the cities that dominate them. The hours below are approximate and given in UTC for the northern-hemisphere winter. When Europe and the United States move their clocks forward for summer, the London and New York sessions start an hour earlier in UTC terms; Tokyo does not change.

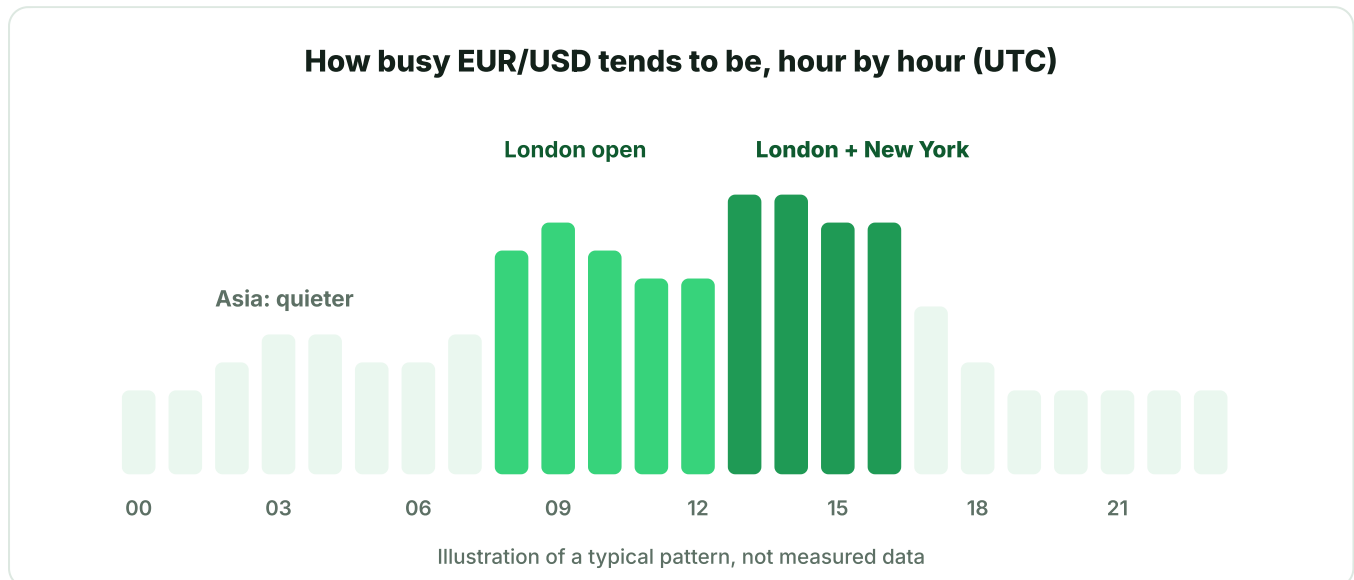


Approximate session hours in UTC. The shaded band is the London–New York overlap, the busiest four hours of the day.

SESSION	APPROX. UTC (WINTER)	MOST ACTIVE PAIRS	CHARACTER
Sydney	22:00–07:00	AUD/USD, NZD/USD	Quiet start to the week, thin liquidity
Tokyo	00:00–09:00	USD/JPY, AUD/JPY, EUR/JPY	Steadier moves, yen and Aussie news
London	08:00–17:00	EUR/USD, GBP/USD, EUR/GBP	Largest share of turnover, strong trends
New York	13:00–22:00	EUR/USD, USD/JPY, USD/CAD	US data at 12:30–14:00 UTC, big moves

Why the overlap matters

From about 13:00 to 17:00 UTC both London and New York are open. Those four hours combine the two largest trading centres, which together handle more than half of global turnover according to the BIS. Spreads are tightest, liquidity is deepest and major US data releases land inside the window. For EUR/USD and GBP/USD, this is when most of the day's range is made.



A typical day in EUR/USD: quiet in Asia, waking up at the London open and busiest when London and New York overlap.

The overlap is not automatically good for you. Faster markets reward a clear plan and punish improvisation. Many beginners do better trading the calmer first hours of London, after the opening spike settles, or simply avoiding the minutes around scheduled news.

Session behaviour you can use

- **Asian range:** EUR/USD and GBP/USD often move sideways during Tokyo hours, leaving a range that London later breaks.
- **London open:** the first hour can produce a sharp move, sometimes a false break of the Asian range before the real direction appears.
- **US data:** releases such as jobs and inflation figures usually come out at 12:30 or 13:30 UTC (8:30 New York time) and can move majors 30–100 pips in minutes.
- **London close:** around 16:00–17:00 UTC positions are squared and moves can stall or reverse.
- **Late New York:** liquidity thins, spreads widen into the 21:00–22:00 UTC rollover.

Smart Money Concepts traders turn several of these into specific "kill zones", hours when they expect institutional activity. [Part 4](#) explains that idea, and why it is a tendency, not a rule.

The Asian range and the London breakout

On many days EUR/USD and GBP/USD trade in a narrow band through the Tokyo session, then break out when London opens. Sometimes the first move is a false break that pushes just beyond one side of

the range, triggers stops sitting there, and reverses. Smart Money Concepts traders call that a liquidity sweep, and it is one of the most common patterns at the London open.



Illustration · example prices, not real market data

A quiet Asian range, a false break below it at the London open, then the real move higher. A common pattern, not a rule.

What news does to the market

Scheduled data releases compress hours of movement into seconds. Just before a big release, liquidity providers pull their prices, spreads widen, and the first candle after the number can cover 30 to 100 pips. Prices often swing back part of the way within minutes as the market digests the details.

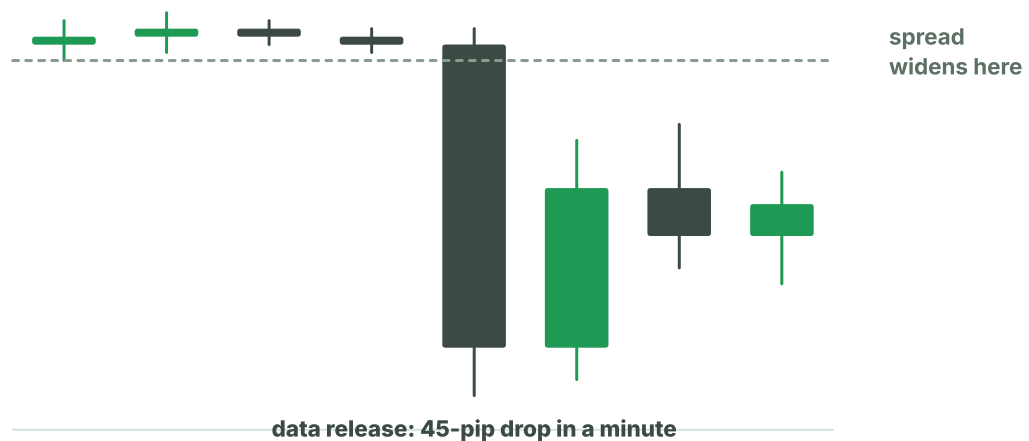


Illustration of a news candle · not real data

A quiet market, then a single-minute candle on a data release. Spreads widen exactly when the move happens.

If you hold a position through news, your stop can fill well beyond its level, and a pending order can fill at a much worse price. Either close before the release, widen the stop and reduce the size, or simply stay flat for the first five to fifteen minutes.

Matching sessions to where you live

Your best session is the one where your free time meets your pair's active hours. A trader in Bangladesh (UTC+6) sees the London open at about 14:00 local time and the overlap from about 19:00 to 23:00, which suits evening trading of EUR/USD and gold. A trader in the Philippines (UTC+8) has the Tokyo session during the working day, which suits USD/JPY and AUD/USD, and London in the evening.

YOUR TIME ZONE	LONDON OPEN (LOCAL)	LONDON-NY OVERLAP (LOCAL)
Bangladesh, UTC+6	about 14:00	about 19:00–23:00
India, UTC+5:30	about 13:30	about 18:30–22:30
Pakistan, UTC+5	about 13:00	about 18:00–22:00
Philippines / Malaysia, UTC+8	about 16:00	about 21:00–01:00
Nigeria, UTC+1	about 09:00	about 14:00–18:00

Times use the northern-hemisphere winter. In summer, London and New York sessions start one hour earlier in your local time, since most of these countries do not change their clocks.

Weekends, holidays and clock changes

Forex closes from Friday evening in New York until Monday morning in Asia, about two days, while the world keeps going. News that breaks over the weekend, an election result or a central bank statement, shows up as a gap at Monday's open: the first price can be well away from Friday's close, and any stop in between fills at that first price. Holding positions over the weekend is a decision, not a default.

Public holidays thin the market too. When London or New York is shut, for example on Christmas Day or US Thanksgiving, volume drops sharply in the pairs those centres dominate, spreads widen and a single large order can move the price more than usual. Many experienced traders simply take those days off. A useful habit is to glance at the holiday list for the coming week every Sunday, alongside the economic calendar, so a quiet market never takes you by surprise.

Clock changes are the third trap. The United States moves its clocks forward on the second Sunday in March and back on the first Sunday in November; the UK and the EU change on the last Sundays of March and October. For two or three weeks each spring and autumn, the gap between London and New York is four hours instead of five, so the overlap and the US data releases shift by an hour against London time. If your routine is built around a fixed local time, check the calendar in March and October.

Countries that do not change their clocks, including Bangladesh, India, Pakistan, the Philippines and Nigeria, see every European and US session shift by an hour twice a year.

When to stay out

- The daily rollover around 21:00–22:00 UTC, when spreads can widen sharply.
- The first minutes after major scheduled news unless news trading is your tested strategy.
- Friday afternoon in New York, when liquidity thins before the weekend.
- Major bank holidays in the UK or US, when volume drops and moves can be erratic.
- The Monday open, when prices can gap from Friday's close.

Check the [economic calendar](#) every morning before you trade. Knowing that US inflation data lands at 12:30 UTC changes how you set your stops.

Illustrative case: Imran, 33, Lahore

Imran traded EUR/USD at midnight local time after work and wondered why nothing moved. Switching to the hours after the London open, around 13:00 to 16:00 in Pakistan, gave him the movement his strategy needed, with tighter spreads than he had been paying late at night.

Pick one session and learn its personality. You will understand one session well long before you understand all four.

Jowel Rana

Co-Founder & Forex Trader, FX Recap

[Chapter 6](#) completes the foundations with the orders that put all this into practice: market, limit and stop orders, stop losses, take profits and trailing stops.

Frequently asked

Is the forex market open 24 hours?

Yes, from Monday morning in Asia to Friday evening in New York, but activity rises and falls as each financial centre opens and closes.

What is the best time to trade forex?

For EUR/USD and GBP/USD the London session and the London–New York overlap, roughly 13:00–17:00 UTC in winter, offer the tightest spreads and most movement.

What time does the London session open?

Around 08:00 UTC in the northern-hemisphere winter and 07:00 UTC in summer.

Why does the market move less in the Asian session?

European and American banks are closed, so fewer large orders hit the major non-Asian pairs. Yen and Australian dollar pairs are more active.

Should I trade during news?

Only if you have tested a news strategy. Spreads widen and prices can jump, so stops may fill at worse prices than expected.

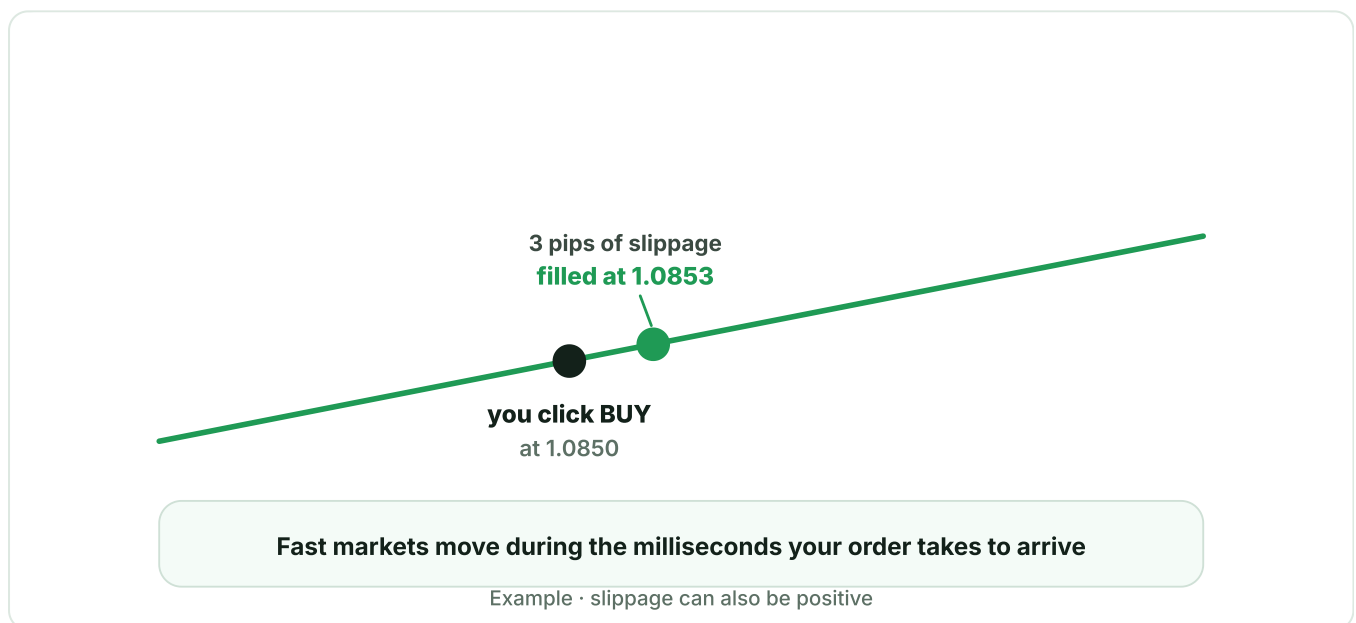
Forex Order Types: Market, Limit, Stop, Stop Loss and Take Profit

Orders are how a plan becomes a trade. Learn market orders, buy and sell limits, buy and sell stops, stop losses, take profits and trailing stops, with diagrams showing where each one sits and when it fills.

Every trading idea ends in an order. Choosing the right one decides the price you get, whether you get filled at all, and how much you lose when you are wrong. There are only a handful of order types, and once you see where each sits relative to the current price, they stop being confusing.

Market orders

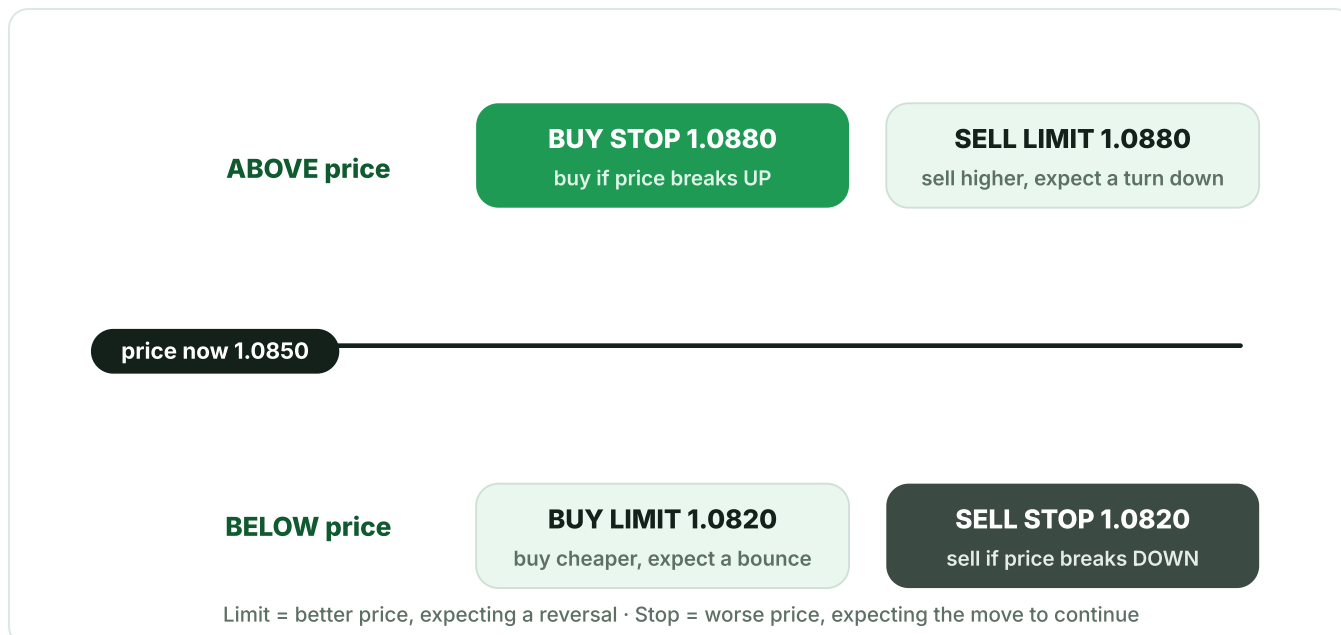
A market order says: fill me now at the best price available. A market buy fills at the ask and a market sell at the bid. It is the simplest order and the one that guarantees you get in, but not the exact price. In quiet conditions the fill is within a fraction of a pip of the screen; during news the difference, called slippage, can be several pips.



Slippage: the market moved during the time it took your order to arrive. In calm markets it is tiny; around news it can be several pips.

Pending orders: limits and stops

A pending order waits for the price to reach a level you choose. There are four, and they are easiest to remember by where they sit and what you expect to happen there. A limit order asks for a better price than now and expects the market to turn at that level. A stop order accepts a worse price and expects the move to continue once that level breaks.



Limits sit where you expect a turn; stops sit where you expect a breakout to carry on.

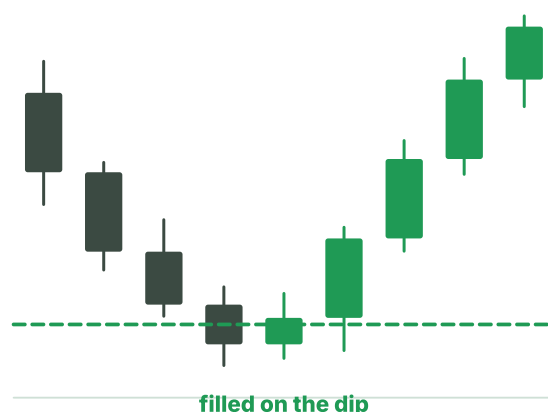
ORDER	PLACED	YOU EXPECT	TYPICAL USE
Buy limit	Below current price	Price to dip and bounce up	Buying a pullback to support
Sell limit	Above current price	Price to rise and turn down	Selling into resistance
Buy stop	Above current price	A break higher to continue	Buying a breakout
Sell stop	Below current price	A break lower to continue	Selling a breakdown

A limit order fills at your price or better. A stop order becomes a market order once triggered, so it can slip in fast markets. Some platforms also offer stop-limit orders, which trigger like a stop but fill only within a limit, trading certainty of price for the risk of no fill at all.

Limit or stop: two ways to enter the same idea

Say you like EUR/USD higher. A buy limit at support gets a better price if the market dips first, but you miss the trade entirely if it never pulls back. A buy stop above resistance waits for proof that buyers are in control, at the cost of a worse price. Neither is better; they suit different setups. Pullback traders use limits, breakout traders use stops.

BUY LIMIT at support



BUY STOP above resistance

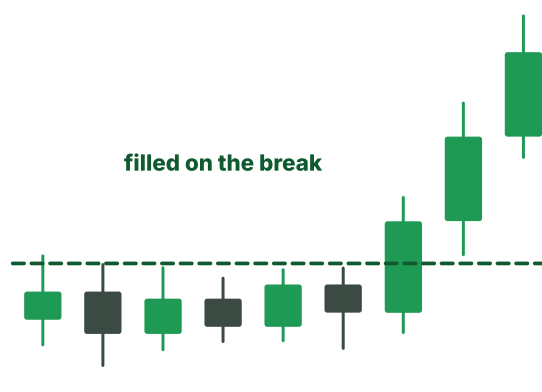


Illustration · example prices, not real market data

The same bullish view, two entries: the buy limit catches the dip, the buy stop catches the breakout.

Stop loss and take profit

A stop loss closes your trade automatically if the price moves against you to a set level. A take profit closes it automatically at a target. Both are orders attached to the position, so they work even when you are asleep or your internet drops. Placing a stop loss on every trade is the single most important habit in this book.

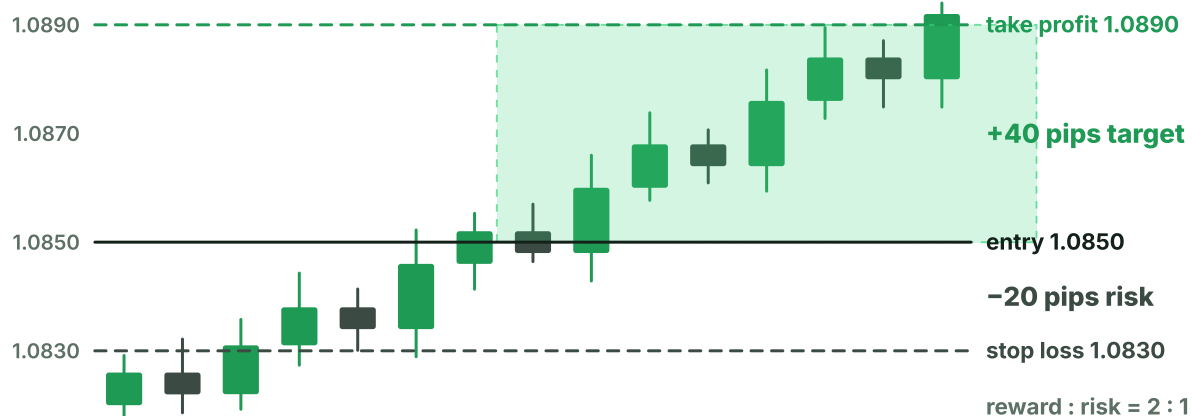


Illustration · example prices, not real market data

Entry, stop and target set before the trade: 20 pips of risk for 40 pips of potential reward.

Put the stop where your trade idea is proven wrong, not at a round number of pips you can afford. If you buy because price bounced off support, the stop belongs just below that support. Then size the position so that distance equals the money you are willing to lose, as shown in Chapter 4. Targets work the same way: at the next level where price is likely to react, such as prior highs or resistance.

Never move a stop loss further away to avoid being stopped out. That turns a small planned loss into a large unplanned one, and it is how most blown accounts begin.

Trailing stops

A trailing stop follows the price at a set distance as the trade moves in your favour, and stays put when the price moves against you. On a buy, it ratchets up but never down. It lets a winning trade run while locking in part of the gain. The catch is that a fixed distance can be too tight in volatile markets, closing good trades on normal pullbacks.

The dashed stop steps UP behind the price and never moves back down

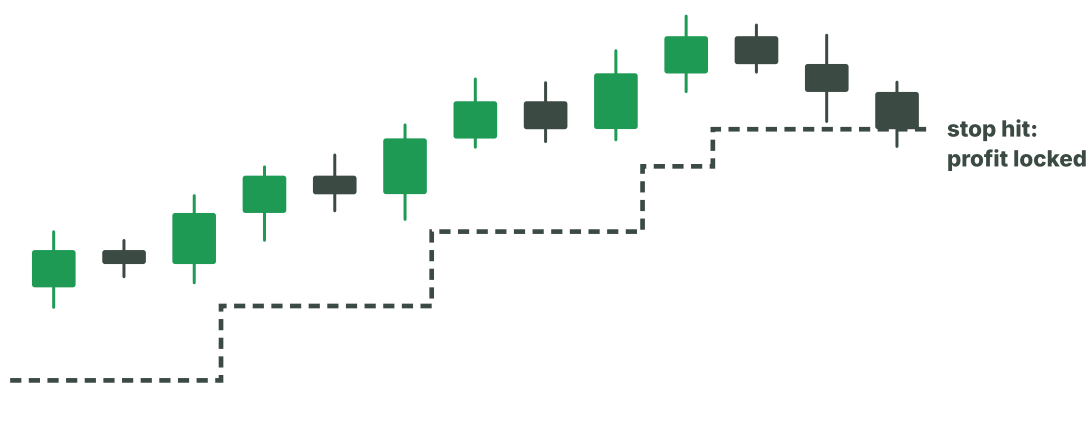


Illustration · example prices, not real market data

The trailing stop steps up behind the rising price and closes the trade on the pullback with profit kept.

Many traders trail manually instead: they move the stop below each new swing low on a buy, or above each swing high on a sell. That follows market structure rather than an arbitrary pip distance.

One-cancels-the-other and bracket orders

Some platforms let you link orders. A one-cancels-the-other (OCO) pair places, for example, a buy stop above a range and a sell stop below it; when one fills, the other is deleted, so you catch the breakout in whichever direction it comes. A bracket order attaches a stop loss and take profit to an entry order in one go, so the protection is in place the moment you are filled.

MetaTrader 4 and 5 do not offer OCO orders natively, though add-on tools and other platforms such as cTrader do. If yours does not, remember to delete the opposite pending order yourself once one side fills.

Order expiry and execution details

- **Good till cancelled (GTC):** the pending order stays until it fills or you delete it.
- **Good till date or day:** it expires at a time you set.
- **Slippage:** the difference between the price you asked for and the fill. It can be negative or positive.
- **Gaps:** if the market opens beyond your stop after a weekend, the stop fills at the first available price, which may be worse.
- **Minimum distance:** some accounts require pending orders and stops to sit a few points away from the current price.

Common order mistakes

- **Buy limit above the price:** the platform rejects it or, on some systems, fills it at once as a market order. Limits to buy go below the price.
- **Stops too close:** a stop inside the normal spread or a few pips of noise gets hit by ordinary movement. Place it beyond a level that matters.
- **Forgetting the spread on sells:** a short position closes at the ask, so a take profit on a sell needs the ask to reach it, not just the chart's bid line.
- **Old pending orders:** a forgotten buy stop from last week can fill on today's news when you no longer want the trade. Review open orders every day.
- **Wrong lot size:** typing 1.0 instead of 0.10 multiplies the risk by ten. Double-check the volume before you confirm.
- **No stop on a market order:** opening first and planning to add the stop later invites a fast move before you do. Attach the stop in the same ticket.

A complete order plan

1. Mark the level where you want to enter and choose a limit (expecting a turn) or a stop (expecting a breakout).
2. Set the stop loss where the idea is wrong.
3. Put the take profit at the next logical level, ideally at least as far away as the stop.
4. Work out the position size from your risk per trade.
5. Place all three together, then leave them alone unless your plan says otherwise.

Illustrative case: Lina, 25, Hanoi

Lina used to watch charts and click market orders when a move started, buying near the top of every spike. She switched to placing buy limits at support levels she had marked in advance, with stops below them. The result was fewer trades, better entry prices and an end to chasing.

Write the stop and the target before you write the entry. If you cannot say where you are wrong, you do not have a trade yet.

Abir Khan

Writer, FX Recap

That completes Part 1. [Part 2](#) goes inside the market: how brokers fill your orders, what spreads and swaps really cost, and why slippage happens.

Frequently asked

What is the difference between a limit and a stop order?

A limit order waits for a better price and expects a reversal there. A stop order waits for a worse price and expects the move to continue once the level breaks.

What is a buy limit?

A pending order to buy below the current price, used when you expect price to dip to a level and bounce.

What is a buy stop?

A pending order to buy above the current price, used to join a breakout once price clears a level.

Does a stop loss guarantee my exit price?

No. A standard stop becomes a market order when triggered, so in fast markets or gaps it can fill at a worse price. Some brokers offer guaranteed stops for a fee.

What is a trailing stop?

A stop that moves in your favour as the price moves, at a set distance, and never moves back. It locks in profit while letting a trend run.

More on this topic, with live tools, on FX Recap: <https://fxrecap.com/learn-forex/education/forex-order-types>

How Forex Brokers Fill Your Orders: A-Book, B-Book, STP and ECN

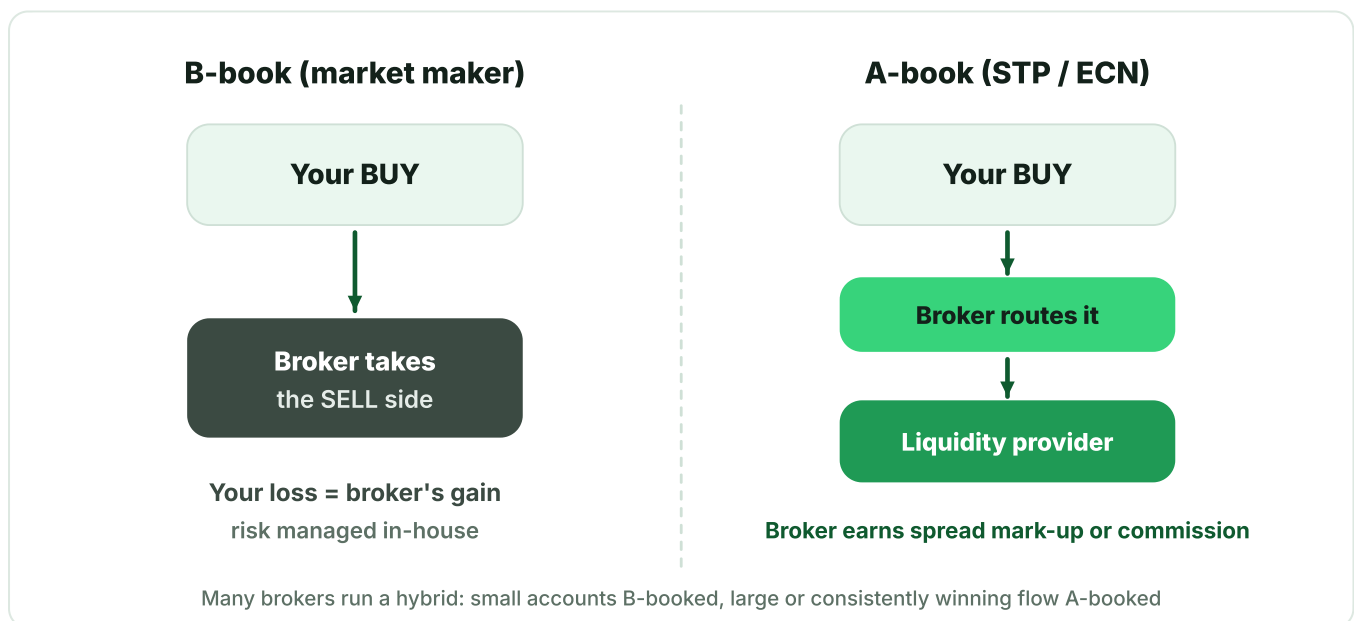
When you click buy, someone has to sell to you. Learn who that is, how market makers, STP and ECN brokers differ, what happens to your order in the milliseconds after you click, and how to judge a broker's execution without trusting its marketing.

Every trade needs two sides. When you buy EUR/USD on your phone, somebody sells it to you at that instant. For a retail trader that somebody is almost never another retail trader across town. It is your broker, or a bank or market-making firm your broker connects to. Which of those it is shapes your costs, the quality of your fills and, in a few cases, how the broker feels about you winning.

Brokers describe their models with a cloud of labels: market maker, dealing desk, no dealing desk, STP, ECN, A-book, B-book, hybrid. Underneath, there are only two things a broker can do with your order. It can take the other side itself, or it can pass the order on to someone else. Everything else is a variation on those two.

B-book: the broker takes the other side

In the B-book model the broker is the counterparty to your trade. You buy, it sells. The broker sets its own prices, usually based closely on the wider market, and earns from the spread. Because it holds the opposite position, your loss on a trade is its gain and your profit is its cost. That sounds alarming, and it is the source of most suspicion about brokers, but it is also how most retail CFD trading has worked for decades.

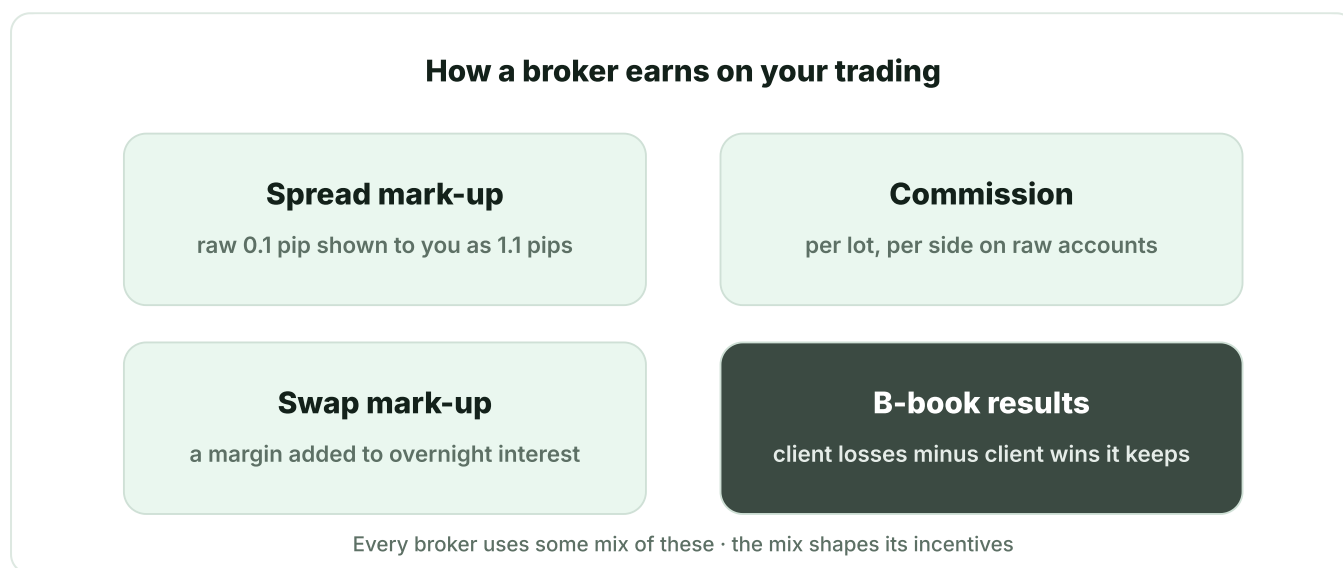


B-book: the broker is your counterparty. A-book: it passes your order to a liquidity provider and earns a mark-up or commission.

A B-book broker does not need clients to lose to make money. It earns the spread on every trade, and across thousands of clients the wins and losses largely offset each other. Larger brokers hedge their net exposure when it grows too big. Regulators require them to manage that conflict of interest and to treat clients fairly, which is why a broker's order execution policy is a document worth reading. Pepperstone's policy for its Bahamas company, for example, states plainly that it acts as principal to client trades and is the only execution venue for them.

How a broker makes its money

Whatever its model, a broker earns in a few ways: a mark-up on the spread, a commission per lot, a margin added to the overnight swap and, for the part of its flow it keeps in-house, the net result of client trades. Most brokers mix several of these. Seeing the mix explains a lot about a broker's behaviour, from why some ban scalpers to why others happily advertise raw spreads.

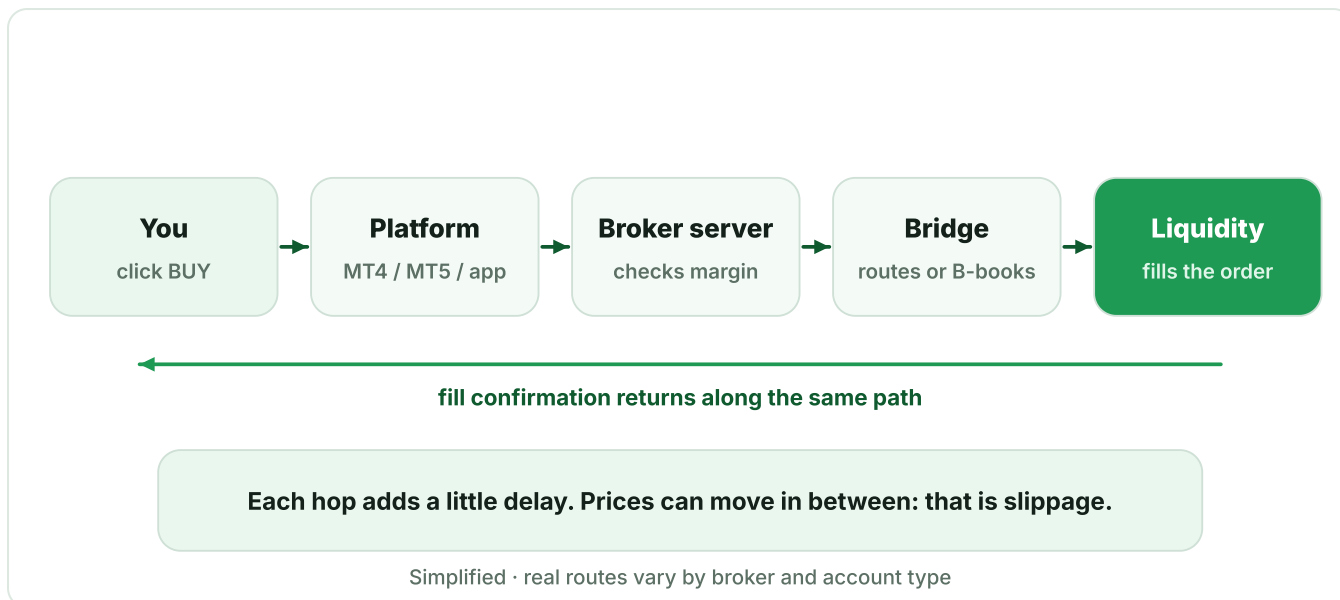


Four income sources. The balance between them shapes how a broker treats different kinds of traders.

Regulation puts limits on all of this. Brokers supervised by bodies such as the FCA, ASIC or CySEC must take reasonable steps to get clients the best possible result, publish how they do it, and manage conflicts of interest. Offshore regulators usually ask for less, which is one more reason to read the execution policy of the exact company that holds your account.

A-book: STP and ECN

In the A-book model the broker passes your order to an outside liquidity provider: a bank, a non-bank market maker or an electronic trading venue. Straight-through processing (STP) means the order is routed automatically without a dealer stepping in. An ECN, or electronic communication network, is a venue where many participants post prices and your order matches against the best available. In both cases the broker earns from a mark-up on the spread, a commission, or both, rather than from your losses.



From your click to the fill: platform, broker server, bridge and liquidity provider, and back again.

A-book execution removes the direct conflict of interest, but it is not automatically better for you. You pay a commission or a wider spread for the routing, fills can slip when liquidity providers move their prices, and in fast markets a provider may decline to fill at the quoted price. Many brokers with an ECN-style raw account still B-book part of their flow. The honest label for most of the industry is hybrid.

How aggregation sets the price you see

A broker connected to several liquidity providers collects their quotes and shows you the best bid and the best ask among them. That is why a raw-spread account can show EUR/USD at 0.0 or 0.1 pips: the best bid might come from one bank and the best ask from another. The deeper the pool of providers, the tighter and steadier the spread tends to be, especially in the quiet hours.

Prices from three liquidity providers		
	Bid	Ask
Provider A	1.08500	1.08510
Provider B	1.08502	1.08513
Provider C	1.08497	1.08508
You see: 1.08502 / 1.08508 · spread 0.6 pips		

Illustration · example prices, not real market data

Best bid from one provider, best ask from another: aggregation narrows the spread you see.

What decides your fills

FACTOR	WHAT IT MEANS FOR YOU
Execution model	B-book fills are instant at the broker's price; A-book fills depend on the provider
Market or instant execution	Market execution fills at the next available price; instant execution can requote
Liquidity at that moment	Deep at the London open, thin at the rollover and around news
Server location and latency	Matters for scalpers and expert advisors, less for swing traders
Order size	Large orders can fill across several price levels

Slippage, requotes and gaps get their own chapter. [Chapter 10](#) shows what happens when the price moves between your click and the fill, and why a stop loss is not always filled at its exact price.

How to judge a broker's execution

You cannot see inside a broker's dealing system, but you can check a lot from outside. Start with the company and regulator on your client agreement, because a strictly supervised firm has to publish an order execution policy and handle conflicts of interest under written rules. Read that policy. A good one explains how prices are formed, when slippage can occur and whether positive slippage is passed on. A vague one is a warning sign.

Five checks on any broker's execution

- 1 Which company and regulator hold my account?
- 2 What execution model does it state (STP, ECN, market maker, hybrid)?
- 3 Does its order execution policy explain slippage and requotes?
- 4 Are scalping, EAs and news trading allowed in the terms?
- 5 What do fills and slippage look like on my own small live trades?

No model is good or bad in itself; transparency and regulation matter most

Five questions that tell you more about a broker's execution than its advertising does.

- Check whether scalping, hedging, news trading and expert advisors are allowed. Brokers that ban them are often B-bookings without the risk tools to handle fast traders.
- Watch your own fills on small live trades for a few weeks. Do you ever get a better price than you asked for? If slippage only ever goes against you, ask why.
- Compare the broker's quotes with an independent price source during busy hours. Small differences are normal; large, repeated gaps are not.

- Be wary of withdrawal trouble after a run of profits. That pattern, not the execution model itself, is the real red flag.

A broker advertising "no dealing desk" or "true ECN" is making a marketing claim. Trust the regulator, the published execution policy and your own experience over the label.

Does the model matter for a beginner?

Less than the marketing suggests. For a trader placing a few trades a day in major pairs, the differences between a well-regulated market maker and an STP broker are small: a fraction of a pip here, occasional slippage there. Regulation, total cost, withdrawal reliability and a platform you are comfortable with matter far more. The model becomes important once you trade frequently, use automated strategies or trade around news.

1. Choose a broker with a licence you can verify on the regulator's own register.
2. Read its order execution policy and its rules on trading styles.
3. Open a small live account and test deposits, a few trades and a withdrawal.
4. Only then compare costs, using [the next chapter](#) as a checklist.

Illustrative case: Tariq, 35, Dubai

Tariq kept losing a pip or two on every news trade and blamed his broker. Reading its execution policy, he found that his account used market execution, so orders around data releases filled at the next available price. He stopped trading the first minute after releases, and the slippage problem largely disappeared.

The execution model is less important than whether the broker is honest about it. A clear execution policy and smooth withdrawals tell you more than any acronym.

Jannatul Ferdaush

Fact-Checker & Risk Analyst, FX Recap

Our [broker licence check](#) walks through verifying a broker on the regulator's own register, step by step.

Frequently asked

What is a B-book broker?

A broker that takes the other side of client trades itself instead of passing them to the market. It earns from the spread and manages its overall risk in-house.

What is the difference between STP and ECN?

STP routes your order automatically to one or more liquidity providers; an ECN is a venue where many participants post prices and your order matches the best one. In practice brokers use the terms loosely.

Do market makers want me to lose?

A B-book broker profits when clients lose, which is a conflict of interest, but it earns mainly from spreads across many clients. Regulated brokers must manage that conflict under written rules.

Is an ECN account better?

It usually offers tighter spreads plus a commission, which suits frequent traders. That does not guarantee better fills, and the total cost depends on spread plus commission.

How can I check a broker's execution?

Verify its licence, read its order execution policy, check which trading styles it allows, and watch fills and slippage on small live trades.

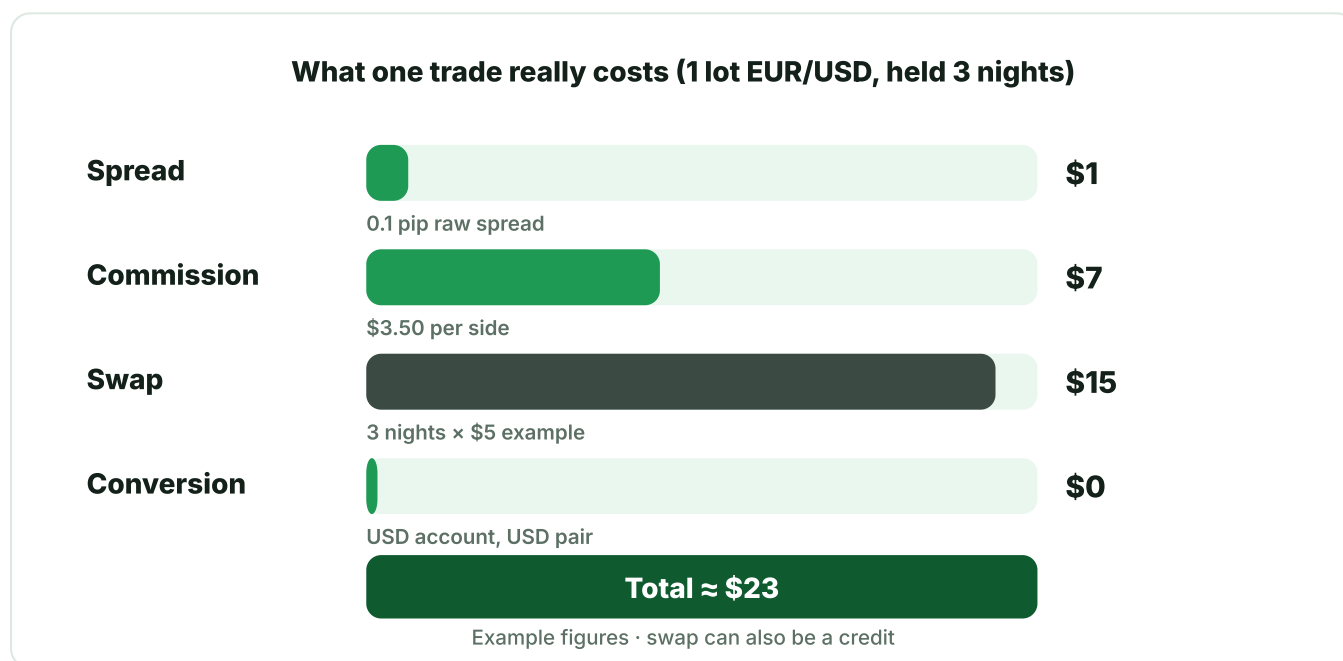
The Full Cost of a Forex Trade: Spreads, Commission, Swaps and Hidden Fees

Every trade has a price tag beyond the spread. Learn the four costs of trading, the account fees that sit around them, why costs hurt scalpers far more than swing traders, and how to compare two brokers on a like-for-like basis.

Trading costs are the one part of forex you can control completely. You cannot decide where EUR/USD goes tomorrow, but you can decide how much you pay every time you trade it. Over hundreds of trades, the difference between a cheap setup and an expensive one can be larger than the difference between a good strategy and a mediocre one.

Most beginners look only at the spread. That is a start, but a trade can carry up to four direct costs, and a trading account can carry several more around them. This chapter adds them all up.

The four costs of every trade



Spread, commission, swap and conversion stack up into the true cost of one trade.

COST	WHEN YOU PAY IT	HOW IT IS SHOWN
Spread	Every trade, on entry	Gap between bid and ask, in pips
Commission	Raw or ECN accounts, on entry and exit	Dollars per lot per side
Swap	Each night a position stays open	Points or dollars per lot, credited or charged
Currency conversion	When profit or loss is in a different currency from your account	Built into the conversion rate

The spread and commission were covered in [Chapter 3](#): on EUR/USD a 1.2-pip spread costs \$12 per standard lot, while a raw account with a 0.1-pip spread and \$3.50 per side costs \$1 plus \$7, or \$8. Swaps, the cost of holding overnight, have their own chapter next. Conversion is the quiet one: trade USD/JPY on a euro account and every profit and loss is converted, usually at a small mark-up.

Why costs matter more to some traders

The same cost hurts different strategies differently. A scalper aiming for 10 pips pays the spread on every trade, so a 1.2-pip spread takes 12% of the target before the market has moved. A swing trader aiming for 100 pips pays the same 1.2 pips, about 1% of the target, but pays swaps for every night the trade is open. Neither escapes costs; they just feel them in different places.

Same cost, different trading styles (1 lot, \$12 spread)

Scalp: 10-pip target

12%

of the target

\$12 cost vs \$100 target

Swing: 100-pip target

1.2%

of the target

\$12 cost vs \$1,000 target

Example · costs matter most to traders who aim for small moves

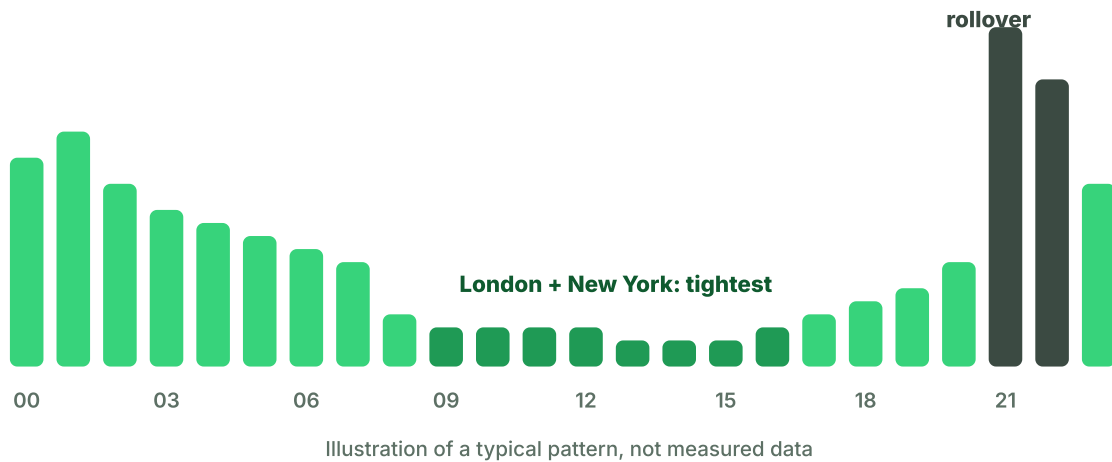
The same \$12 cost is a big slice of a small target and a thin slice of a large one.

- **Scalpers and day traders:** the spread and commission dominate. Raw-spread accounts and the busiest hours matter most.
- **Swing traders:** swaps and occasional gaps matter more than a tenth of a pip of spread.
- **Position traders:** swaps can decide whether a long-held trade is worth keeping at all.

Spreads change during the day

Most retail accounts have variable spreads. They are tightest when the big centres are open and liquidity is deep, and they widen in the quiet late-Asian hours, at the daily rollover and around important data. A spread that averages 0.2 pips can briefly show 2 or 3 pips at the rollover. If your strategy trades at those times, the advertised "from" spread tells you little.

Typical EUR/USD raw spread through the day (UTC)



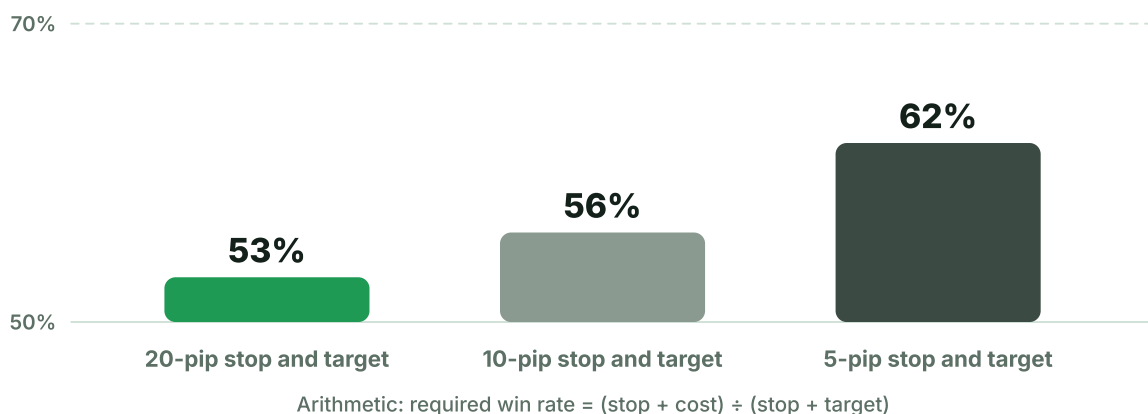
A typical shape for a major pair's raw spread through the day: tightest in the overlap, widest at the rollover.

Note the spread you really pay for a week: write down the spread at each entry. That number, not the advertised minimum, is the one to compare between brokers.

How costs raise the win rate you need

Costs do not only shrink your profits; they change the maths of your strategy. Take a simple system that risks 20 pips to make 20 pips. Without costs, winning half the time breaks even. Add a 1.2-pip spread and each win nets 18.8 pips while each loss costs 21.2, so you now need to win 53% of the time just to stand still. Shrink the stop and target to 5 pips with the same cost and the break-even rate jumps to 62%.

Win rate needed just to break even (stop = target, 1.2-pip cost)



The smaller your stop and target, the more a fixed cost raises the win rate you need just to break even.

That is why short-term strategies live or die by their costs. A setup that wins 58% of the time is excellent with a 20-pip target and a loser with a 5-pip one. Before you trade any strategy live, put your real spread and commission into its numbers and check the break-even win rate.

Cutting costs without changing your strategy

- Trade the hours when your pair's spread is tightest, usually the London and New York sessions.
- Use a raw-spread account if you trade more than a few lots a month.
- Avoid holding positions with expensive swaps longer than the setup needs.
- Fund and withdraw in your account currency to avoid conversion on every transfer.
- Take fewer, better trades: each skipped low-quality trade saves a full spread.

A worked month

Imagine a trader who places 60 trades a month at 0.5 lot on EUR/USD, holding about a third of them for two nights. On a spread-only account at 1.2 pips, spreads cost $60 \times \$6 = \$360$. Twenty trades held two nights at an example swap of $-\$3$ per night on 0.5 lot add \$120, and a monthly card withdrawal fee adds a few dollars more. That is close to \$500 a month, which on a \$5,000 account is 10% of the balance gone before the strategy has made a cent. Moving to a raw account and skipping the weakest third of those trades could cut the bill roughly in half. None of that requires a better strategy, only a closer look at the bill.

Account fees around the trade

FEE	WHAT TO LOOK FOR
Inactivity fee	Charged after months without trading at some brokers, often monthly
Deposit and withdrawal fees	Usually free for e-wallets and cards; international wires often cost
Currency conversion on deposits	Depositing in a different currency from the account loses a little
Swap-free admin fees	Islamic accounts may replace swaps with a fixed fee after a few nights
Platform or data fees	Rare for forex; some charge for premium tools or VPS

None of these appears on a trade ticket, so they are easy to overlook. A \$10 monthly inactivity fee on a \$200 account you forgot about is 60% of the balance in six months. Read the fee page of any broker before you deposit, and close or empty accounts you no longer use.

Comparing two brokers fairly

1. Pick the pairs and times you really trade.
2. Add spread plus commission for one standard lot, round trip, on each account.
3. Check the swap on the side you usually hold, if you hold overnight.
4. Add any fees you will really pay: deposit, withdrawal, conversion, inactivity.
5. Multiply by your typical monthly number of trades.

40 round trips of 1 lot a month

Spread-only (1.2 pips)

\$480

40 × \$12

Raw (0.1 pip + \$7)

\$320

40 × \$8

Example spreads and commission · compare your own broker's figures

Forty round trips a month: the cheaper account saves \$160, which is real money on a small account.

Our [trading cost calculator](#) runs that sum for you. On the broker reviews on this site, the cost tables use each broker's own published spreads and commissions, labelled as minimum, average or typical so you can see what you are comparing.

A broker advertising "zero spreads" or "no commission" is telling you half the story. The cost is always somewhere: in the commission, the spread, the swap or the fees.

Costs you cannot see on the statement

Two costs never show as a line item. Slippage is the difference between the price you wanted and the price you got, and it adds up for traders who use market orders around news. Overtrading is the other: every extra trade pays the spread again. Cutting five unnecessary trades a week can save more than switching broker.

Illustrative case: Kemi, 28, Lagos

Kemi scalped EUR/USD on a spread-only account, aiming for 8 pips per trade at a 1.4-pip average spread. Her strategy looked profitable on paper but lost money live. Moving to a raw account and trading only during the London–New York overlap roughly halved her cost per trade, and the same strategy began to break even.

Measure your real cost per trade for a month. Most traders are shocked, and most can cut it without changing their strategy at all.

Tanbir Habib Riyad

Forex & Crypto Analyst, FX Recap

Frequently asked

What are the costs of trading forex?

The spread, commission on raw or ECN accounts, swaps on positions held overnight, and currency conversion. Accounts can also carry deposit, withdrawal and inactivity fees.

Is a raw-spread account cheaper?

Often, for active traders. Compare spread plus commission per round trip: a 0.1-pip spread with \$7 commission costs \$8 per lot against \$12 for a 1.2-pip spread with no commission.

When are forex spreads widest?

At the daily rollover around 21:00–22:00 UTC, during quiet late-Asian hours, at the Monday open and around major economic data.

Do I pay costs if I lose a trade?

Yes. Spread, commission and swaps are paid whether the trade wins or loses.

How do I compare broker costs?

Add spread plus commission for one round-trip lot on the pairs and hours you trade, include swaps and fees you will really pay, and multiply by your monthly number of trades.

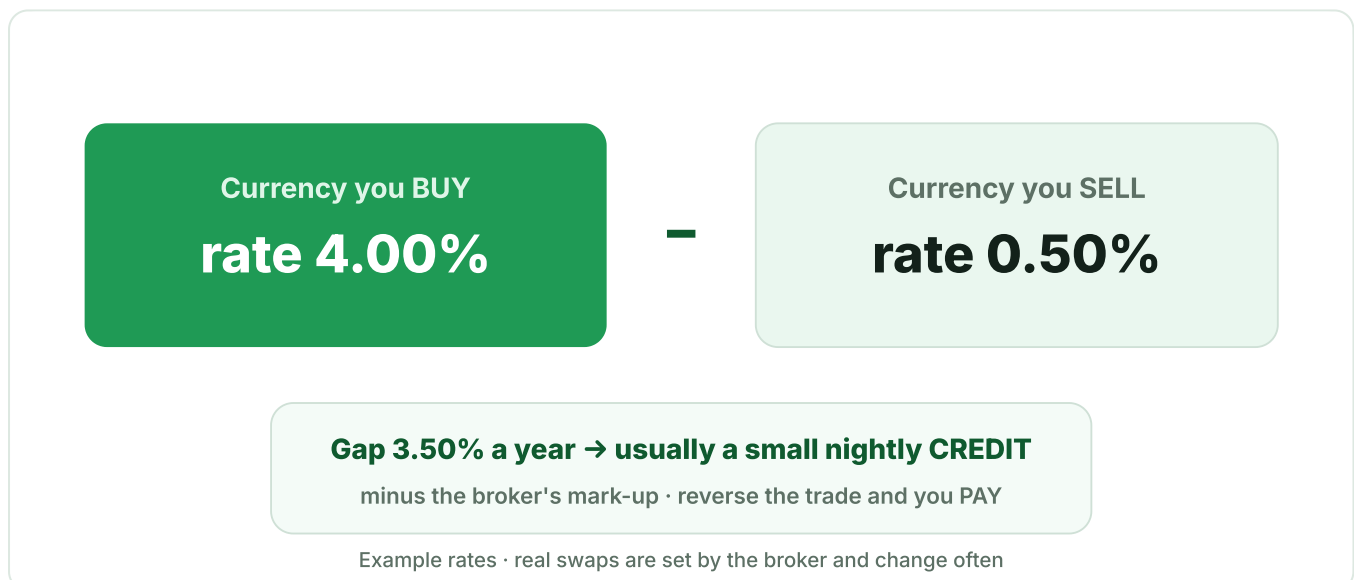
Forex Swaps and Rollover Explained: Overnight Fees, Triple Wednesday and Carry Trades

Hold a forex position past the daily rollover and you pay or earn a swap. Learn where swaps come from, when they are charged, why Wednesday costs three times as much, how carry trades work and how swap-free accounts handle it.

Close a trade before the end of the trading day and you never meet the swap. Hold it overnight, even by a minute past the rollover, and your account is credited or charged a small amount for every night the position stays open. For day traders the swap is a footnote. Anyone who holds positions for days or weeks will find it can be the difference between a profitable trade and a losing one.

Where swaps come from

A forex position is two positions in one: you hold one currency and owe the other. Each currency carries its own interest rate, set by its central bank. If you hold the currency with the higher rate and owe the one with the lower rate, you are in effect earning the difference; reverse it and you are paying it. The swap is that interest-rate difference, worked out for one day on the size of your position, with the broker's own mark-up taken off.



The swap mirrors the interest-rate gap between the two currencies, minus the broker's mark-up.

That is why swaps change when central banks move rates. When the US Federal Reserve raises its rate while Japan's stays near zero, holding dollars against yen earns more each night, and holding yen against dollars costs more. [Chapter 26](#) covers the central banks behind those rates.

When swaps are charged

The forex day ends at about 5pm New York time, which is around 21:00 or 22:00 UTC depending on the season. Positions still open at that moment are rolled over to the next value date, and the swap is applied. Spot forex trades settle two business days after they are made, so the rollover from Wednesday to Thursday pushes settlement over the weekend. To cover those two extra days, most brokers charge or credit three days of swap on Wednesday night.

When swaps are charged (forex and metals)

Mon	Tue	Wed	Thu	Fri
× 1	× 1	× 3	× 1	× 1
swap	swap	swap	swap	swap

Charged at the rollover, around 5pm New York (about 21:00–22:00 UTC)

Close before it and no swap is charged that night

Indices and shares often take the weekend charge on Friday instead · check your broker

One swap a night, three on Wednesday for most forex pairs and metals.

Some instruments differ. Index and share CFDs often apply the weekend charge on Friday instead, and bank holidays can shift the triple day. Your platform's symbol specification shows the swap and the triple-swap day for each instrument.

Reading your broker's swap table

Platforms show two numbers for each symbol: swap long, for buy positions, and swap short, for sell positions. They can be quoted in points, in money per lot or as an annual percentage. A positive number is a credit and a negative number a charge. Because the broker takes a mark-up on both sides, it is common for both numbers to be negative on pairs whose interest rates are close together.

Example swaps per lot per night

	Swap long	Swap short
High-yield vs low-yield	+\$4.10	-\$9.80
Low-yield vs high-yield	-\$11.20	+\$3.40
Two similar rates	-\$1.90	-\$2.30

Both sides are often negative when rates are close: the mark-up wins

Illustrative numbers · read live swaps in your platform's symbol specification

Example swap table: one side can earn, the other costs more, and close rates can make both sides negative.

Before you hold a trade overnight, open the symbol's specification in MT4 or MT5 (right-click the symbol, then Specification) and read swap long and swap short. It takes ten seconds.

Working out the cost of holding

Say the swap on your position is $-\$6$ per lot per night and you hold 0.5 lot for five nights, including a Wednesday. That is seven swap days (one each for Monday, Tuesday, Thursday and Friday, three for Wednesday), so the cost is $7 \times \$6 \times 0.5 = \$21$. If your target was 40 pips, worth \$200 at that size, the swap takes about a tenth of it. For a trade held three weeks, it could take half.

NIGHTS HELD	SWAP DAYS (WITH ONE WEDNESDAY)	COST AT $-\$6$ PER LOT, 0.5 LOT
1 (not Wednesday)	1	\$3
3 (Mon to Thu)	5	\$15
5 (Mon to Mon)	7	\$21
15 (three weeks)	21	\$63

Estimating a swap yourself

You can sanity-check a swap with a rough formula: position size times the interest-rate gap between the two currencies, divided by 365. One standard lot is a \$100,000 position; with a 3.5% gap that comes to about \$9.59 a night before costs. The swap your platform shows will be lower on the side that earns and higher on the side that pays. That difference is the broker's mark-up, and it is worth comparing between brokers if you hold trades for weeks.

A rough swap estimate before the broker's mark-up

$$\begin{array}{|c|} \hline \text{Position} \\ \hline \$100,000 \\ \hline \end{array} \times \begin{array}{|c|} \hline \text{Rate gap} \\ \hline 3.5\% \\ \hline \end{array} \div \begin{array}{|c|} \hline \text{Days} \\ \hline 365 \\ \hline \end{array} = \begin{array}{|c|} \hline \text{per night} \\ \hline \approx \$9.59 \\ \hline \end{array}$$

Your platform shows less on the earning side and more on the paying side:
that difference is the broker's mark-up

Example · real swaps use the market's tom-next rates and change daily

Size × rate gap ÷ 365 gives a rough nightly figure; the platform's number includes the broker's mark-up.

Real swaps are worked out from tom-next rates in the interbank market, which move every day with funding conditions, so treat the formula as a check rather than a forecast. If the platform's figure is far from your estimate on the paying side, the mark-up is large.

When central banks change rates

Because swaps follow interest rates, they change whenever a central bank moves. A rate rise in one country makes holding its currency more rewarding and borrowing it more expensive, and brokers update their swap tables within days. If you hold long-term positions, put the dates of the relevant central bank meetings in your calendar and recheck your swaps after each one. A carry trade that paid well last month can start costing money after a single surprise decision, so treat every rate meeting as a reason to look again.

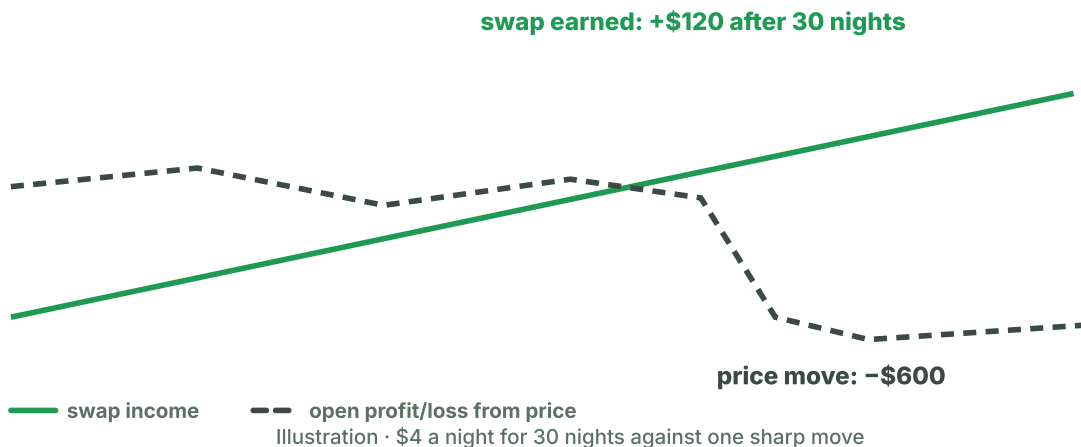
Swaps on gold, indices and crypto

Other CFDs carry overnight financing too, calculated differently. Gold and silver are usually treated like currency pairs. Index and share CFDs are typically financed at a benchmark interest rate plus a broker charge, with the long side paying and the short side sometimes receiving. Crypto CFDs often carry a daily percentage charge on both sides that can be large over a few weeks. Always check the specification before holding these overnight.

Carry trades: earning the swap

A carry trade does the reverse on purpose: buy a high-interest currency against a low-interest one and collect the positive swap every night. When markets are calm and rate gaps are wide, carry trades can earn steadily for months. The catch is that high-yield currencies often fall hardest when markets panic, and a single bad week in the price can wipe out a long run of swap income.

Carry trade: slow income, fast risk



Swap income builds slowly; a sharp move in the price can erase it in days.

Never treat a positive swap as free money. The price risk is real, and brokers can change swap rates at short notice.

Swap-free (Islamic) accounts

Traders who cannot pay or receive interest for religious reasons can ask many brokers for a swap-free, or Islamic, account. No swap is charged or credited. In exchange, brokers usually do one of three things: widen the spread, charge a fixed administration fee after a set number of nights, or limit how long positions can stay open. Fusion Markets, for example, publishes a fixed admin fee per lot for every seven days a position is held on its swap-free account.

- Read the admin fee schedule before you open the account; on some pairs it is higher than the swap would have been.
- Check the grace period: some brokers charge nothing for the first few nights.
- Brokers may convert an account back if it appears to be used to avoid swaps on carry trades.

Swaps checklist

1. Know the rollover time in your own time zone.
2. Check swap long and short before holding overnight.
3. Remember the triple swap, usually on Wednesday.
4. Include swaps when you calculate a swing trade's reward-to-risk.
5. Recheck swaps after any central bank rate decision.

Illustrative case: Hassan, 30, Karachi

Hassan held a short position in a high-yield pair for six weeks waiting for a big move. The trade ended 30 pips in profit, but the negative swap had cost more than the gain. He now checks the swap before every multi-day trade and prefers the side that pays, or at least costs little.

Swaps are interest, nothing more mysterious. If you plan to hold a trade for weeks, the swap belongs in your plan just like the stop and the target.

Ranjan Niskrity

Founder, Owner & Forex Trader, FX Recap

Frequently asked

What is a swap in forex?

The interest paid or earned for holding a position past the daily rollover, based on the interest-rate difference between the two currencies, minus the broker's mark-up.

When is the forex swap charged?

At the daily rollover, around 5pm New York time (about 21:00–22:00 UTC). Positions closed before then pay no swap that day.

Why is Wednesday's swap triple?

Spot forex settles two business days after the trade, so Wednesday's rollover carries settlement over the weekend and three days of swap are applied.

Can a swap be positive?

Yes. Holding the higher-yielding currency against a lower-yielding one can earn a small nightly credit, although broker mark-ups often reduce or remove it.

How do Islamic accounts handle swaps?

They charge or pay no swap. Brokers usually compensate with a wider spread, a fixed admin fee after a few nights, or limits on holding time.

Slippage, Gaps and Requotes: Why You Don't Always Get Your Price

Sometimes your order fills at a different price from the one you clicked, or your stop loss fills well beyond its level. Learn why slippage, requotes and weekend gaps happen, when they are most likely, and the practical ways to limit the damage.

You click buy at 1.0850 and the platform reports a fill at 1.0853. Your stop loss sits at 1.0830, but after the weekend the position closes at 1.0802. Both feel like the broker cheating, and both are usually the normal mechanics of a market that moves while your order travels. Understanding them will not make them disappear, but it will stop them surprising you.

What slippage is

Slippage is the difference between the price you expected and the price you got. It happens because prices change in the time between your click and the fill, and because the amount available at each price is limited. In calm, liquid markets slippage on a small order is usually zero or a fraction of a pip. Fast markets, news and thin hours can stretch it to several pips.

You request a BUY at 1.0850

Negative slippage 1.0853 3 pips worse	Positive slippage 1.0848 2 pips better
--	---

A fair broker passes on both; check that you sometimes see the good kind

Illustration · example prices, not real market data

Slippage cuts both ways: a fair broker gives you the better price when the market moves in your favour.

Slippage can be positive. If the price moves in your favour during those milliseconds, you may be filled at a better price than you asked for. A broker that passes on negative slippage but never positive slippage is treating you unfairly, and in strictly regulated markets that is not allowed. Watching your own fills over a few weeks is the easiest way to tell.

Why big orders slip more

At any moment there is only so much volume offered at each price. A small order fills entirely at the best price. A large order in a thin market uses up the volume at the first level and continues to the next,

slightly worse, levels until it is filled. The average price ends up worse than the first quote. Retail-sized orders rarely do this in major pairs, but they can in exotics or at the rollover.



A large order fills level by level; the average price is worse than the first quote.

Requotes and execution types

Some accounts use instant execution: you ask for a specific price and the broker either fills you at that price or offers a new one, a requote, which you can accept or refuse. Most modern accounts use market execution instead, which fills you at the next available price without asking. Market execution removes requotes but accepts slippage; instant execution avoids slippage but can leave you without a fill in fast markets.

EXECUTION TYPE	WHAT HAPPENS WHEN PRICE MOVES	GOOD FOR
Market execution	Fills at the next available price (may slip)	Getting in or out for certain
Instant execution	Fills at your price or offers a requote	Controlling the exact price
Limit order	Fills only at your price or better	Entries where price matters more than certainty

Many platforms let you set a maximum deviation, the most slippage you will accept on a market order. Set it to a few pips if you want protection, accepting that the order may not fill.

Gaps

A gap is a jump in price with no trading in between. The most common is the weekend gap: the market closes on Friday at one price, news arrives over the weekend, and Monday opens somewhere else. Gaps also happen around major surprise announcements, when liquidity providers pull their prices for a moment and the first new price lands far from the last one.

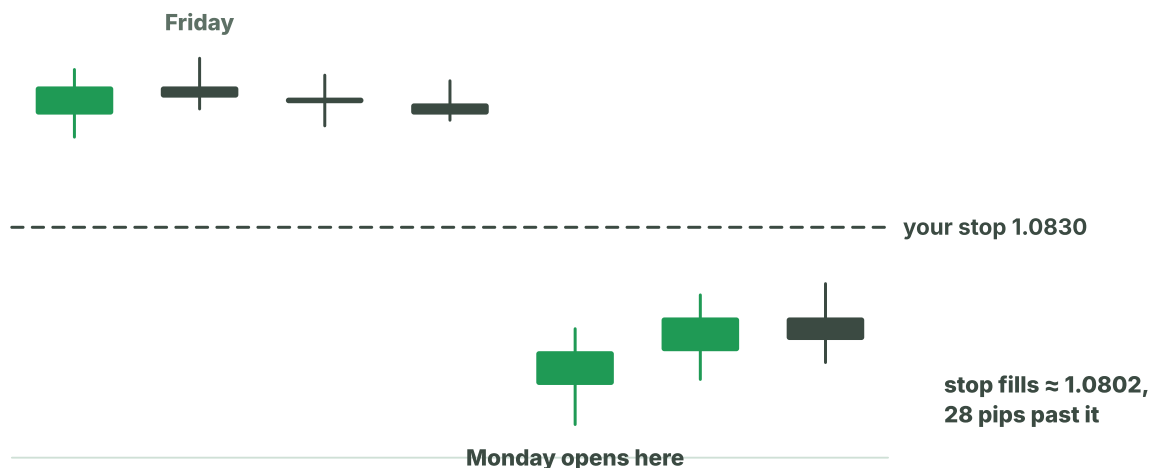


Illustration · example prices, not real market data

A weekend gap: the stop sits in the empty space, so it fills at Monday's first price, well past its level.

A normal stop loss is an instruction to close at the next available price once the level is touched. If the market gaps straight past the stop, the next available price is on the other side of the gap, and that is where you are filled. The stop still did its job, closing the position, but the loss is larger than planned.

Guaranteed stops

Some brokers offer guaranteed stop-loss orders, which close your trade at exactly your level even if the market gaps past it. Because the broker takes the gap risk, it usually charges a premium when the stop is triggered, or a slightly wider spread, and may limit how close to the price you can place one. They are not available everywhere, and most offshore accounts do not offer them.

Normal stop	Guaranteed stop
free	small premium if triggered
fills at the next price can slip in gaps and news	fills exactly at its level offered by some brokers only
stop 1.0830 → fill 1.0802	stop 1.0830 → fill 1.0830

Example prices · availability and fees vary by broker and account

A normal stop is free but can slip; a guaranteed stop fills at its level for a fee.

Which orders can slip

ORDER	CAN IT FILL AT A WORSE PRICE?
Market order	Yes, at the next available price
Buy or sell limit	No: only at your price or better (but may not fill)
Buy or sell stop	Yes: it becomes a market order when triggered
Stop loss	Yes, the same as any stop order
Take profit (limit)	No: at your price or better

The pattern is simple once you see it. Limit orders protect the price and risk not filling; stop and market orders guarantee action and risk the price. That is why experienced traders enter with limits where they can, and accept that their stop losses, which must always be able to close the trade, will occasionally slip.

A cautious routine around a scheduled data release



Check the economic calendar each morning so the release never surprises you

A habit many traders use, not a rule · news traders follow a tested plan instead

A simple routine around scheduled news avoids most slippage without needing to predict anything.

Measuring your own slippage

Gaps are not only a weekend problem. Share and index CFDs can gap at every daily open, because the underlying exchange closes overnight, and company results or economic news released outside trading hours show up as a jump when it reopens. Gold and oil can gap after geopolitical events. The rule is the same everywhere: any position open while the market is closed can reopen at a very different price.

Latency adds a smaller, steadier form of slippage. The physical distance between your computer and the broker's server adds milliseconds to every order. For a swing trader it makes no difference; for a scalper or an expert advisor firing many orders a day, a virtual private server (VPS) located near the broker's server can noticeably reduce slippage. Several brokers offer one free to active traders who reach a monthly volume, so check the conditions before paying for one yourself. For everyone else, a stable home connection and a broker server in a nearby region are enough.

You do not have to take anyone's word on slippage. Add two columns to your trading journal: the price you intended and the price you got. After 30 or 40 trades you will know your typical slippage, when it happens and whether it ever goes in your favour. If it is consistently negative even in calm markets, raise it with your broker and consider an account or broker with better execution.

Ways to limit slippage and gap risk

- Trade the busiest hours for your pair, when liquidity is deepest.
- Avoid placing market orders in the first minutes after major data releases.
- Use limit orders for entries when the exact price matters more than getting filled.
- Reduce position size or close trades before weekends and big scheduled events.
- Size every trade so that even a stop filled 20–30 pips late would not seriously hurt the account.
- Use guaranteed stops where offered if you must hold through a known risk.

A stop loss limits risk in normal conditions; it does not cap it absolutely. Position size is your real protection against gaps.

Illustrative case: Joy, 26, Cebu

Joy held a large GBP/USD position over a weekend when an unexpected political announcement broke. Monday opened 70 pips lower, far past her 25-pip stop. Her loss was nearly three times what she had planned. She now halves her size on any trade she holds over a weekend.

Slippage is the market's toll for speed. Pay it when you must, avoid it when you can, and never size a trade as if your stop is a guarantee.

Jowel Rana

Co-Founder & Forex Trader, FX Recap

Chapter 11 closes Part 2 by explaining the order flow behind all of this: liquidity, the order book, and why price is drawn towards the levels where orders cluster.

Frequently asked

What is slippage in forex?

The difference between the price you expected and the price at which your order filled, caused by price moving between your click and the fill or by limited volume at each price.

Can slippage be positive?

Yes. If the price moves in your favour, you can be filled at a better price. Fair brokers pass on both positive and negative slippage.

Why did my stop loss fill beyond its level?

A normal stop becomes a market order when triggered. If the price gapped past it or moved very fast, it filled at the next available price.

What is a requote?

On instant-execution accounts, a new price offered when the market moved before your order could fill at the price you requested.

What is a guaranteed stop loss?

A stop that closes your trade exactly at its level even through a gap, offered by some brokers for a premium or wider spread.

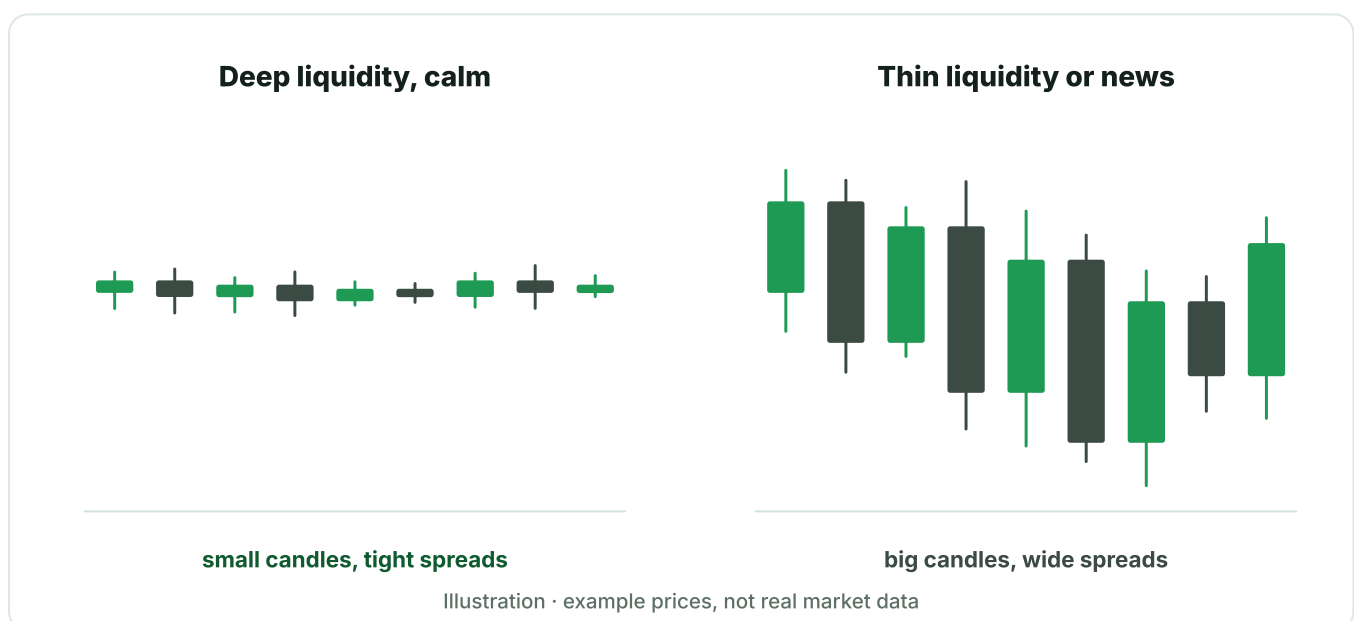
Liquidity and How Forex Prices Move: Order Flow, Volatility and Stop Clusters

Prices move because orders meet. Learn what liquidity is, how market and limit orders push and absorb price, why stops cluster around obvious highs and lows, and how this order-flow view sets up the Smart Money Concepts later in the book.

Charts make price look like a line that wanders on its own. Behind every tick is something simpler: buyers and sellers meeting. A price changes only when someone is willing to trade at a new level. Understanding that mechanism, which traders call order flow, turns a chart from a random squiggle into a record of decisions. It is also the foundation of the Smart Money Concepts that Part 4 of this book teaches.

What liquidity means

Liquidity is how easily you can trade a meaningful size without moving the price. A liquid market has many buyers and sellers ready at prices close to the current one, so trades fill quickly and spreads stay tight. EUR/USD during the London session is one of the most liquid markets in the world. An exotic pair at 3am, or any pair in the minute after a shock announcement, is not.

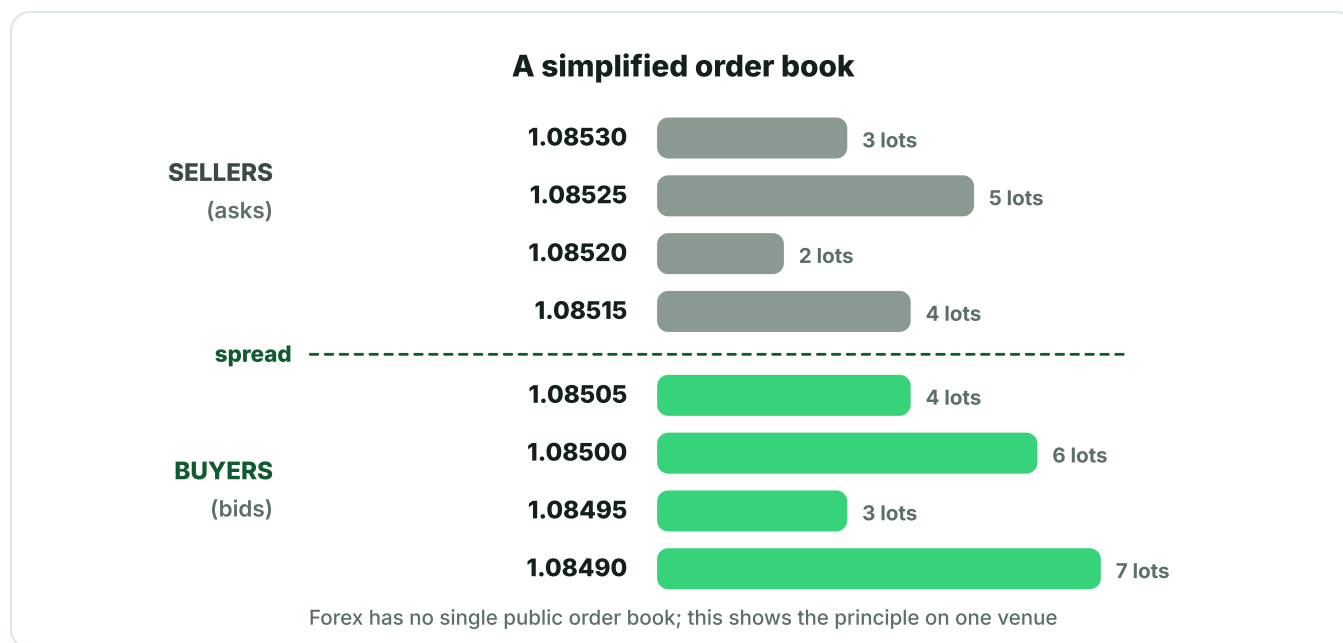


The same scale, two markets: deep liquidity gives small candles and tight spreads; thin liquidity gives big candles and wide spreads.

The order book

On any trading venue, resting orders sit in an order book. Below the current price are bids, people waiting to buy; above it are asks, people waiting to sell. The gap between the highest bid and the lowest ask is the spread. Forex has no single public order book, because trading is spread across

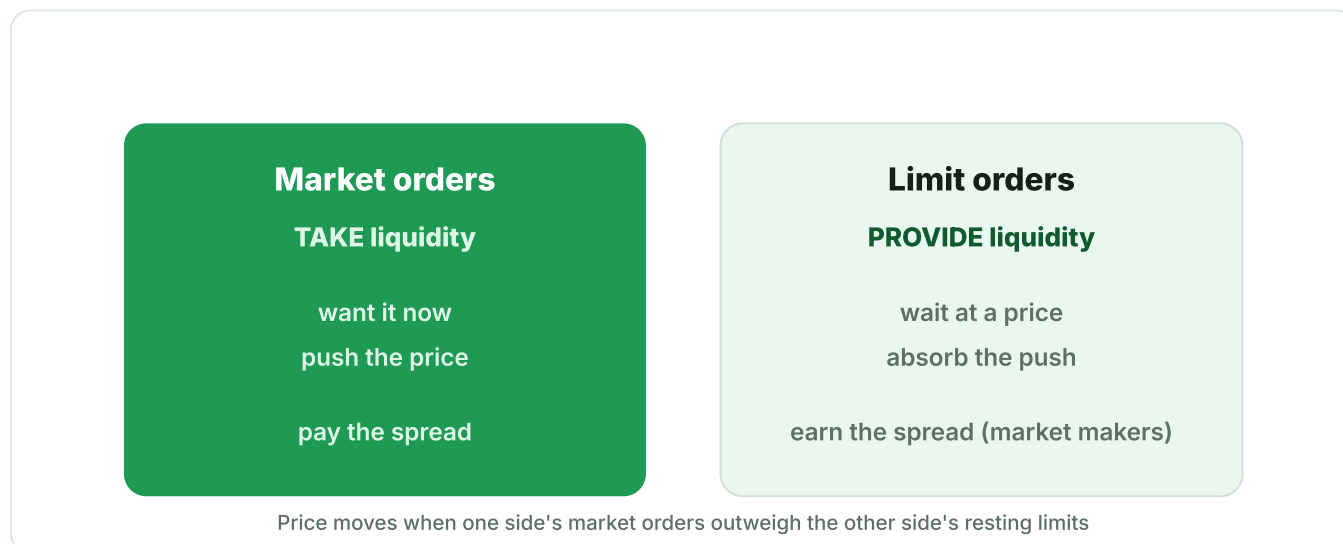
many banks and venues, but each venue works on this principle, and the overall market behaves as if one existed.



Bids wait below the price, asks wait above it. Price moves when one side is used up.

Market orders take liquidity; limit orders provide it

A limit order adds liquidity: it waits in the book until someone trades against it. A market order removes liquidity: it trades immediately against whatever is waiting. When buyers send more market orders than there are sell limits at the current ask, the ask is used up and the price ticks up to the next level. That is the whole mechanism of a price move, repeated millions of times a day.

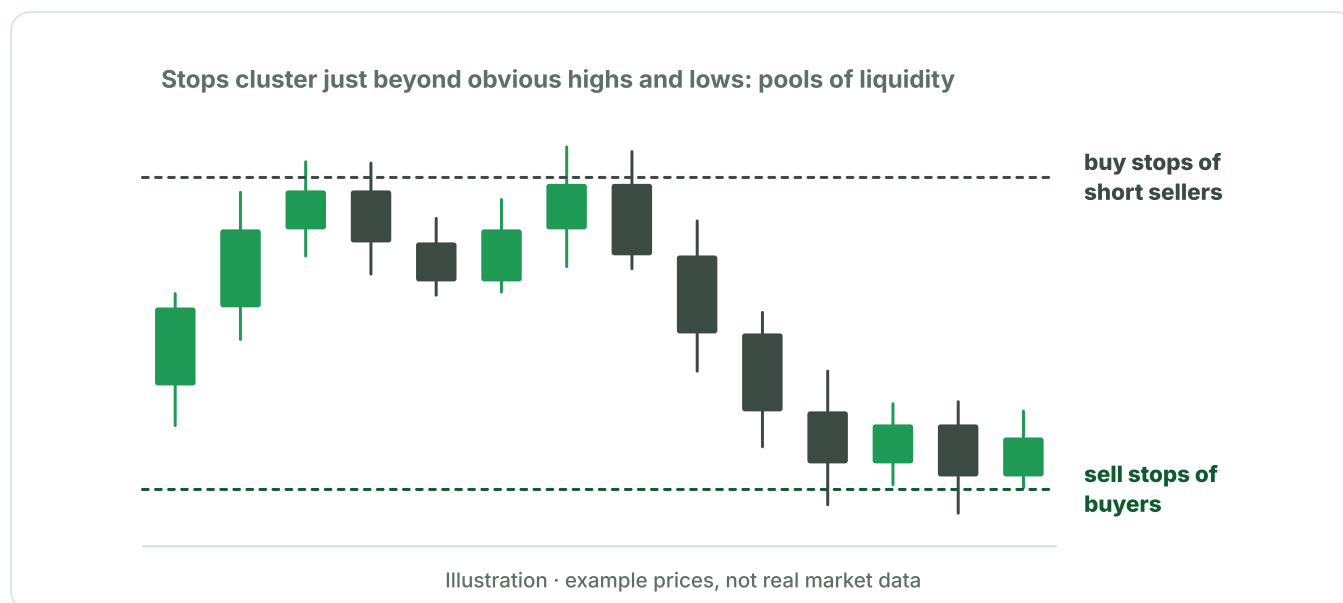


Market orders are the push, limit orders are the wall. Price moves when the push beats the wall.

Why price is drawn to obvious levels

Traders are not random about where they put their orders. Stop losses on buy trades tend to sit just below recent lows, and stops on sell trades just above recent highs, because those are the obvious

places where a trade idea is proven wrong. Breakout traders also place buy stops above highs and sell stops below lows. The result is clusters of orders just beyond the levels everyone can see.



Obvious highs and lows collect stop orders on the other side. Those clusters are pools of liquidity.

Those clusters matter to large traders. A bank or fund that needs to buy a big amount of euros needs sellers, and a pool of sell stops below a recent low is exactly that: a large block of sell orders waiting to be triggered. Price often runs briefly through such a level, triggers the stops, and then reverses once the large order has been filled. Smart Money Concepts call this a liquidity sweep or stop hunt.

Nobody needs to be "hunting" individual traders for this to happen. It is the simple result of many orders sitting at the same obvious places. [Chapter 21](#) turns it into a practical trading framework.

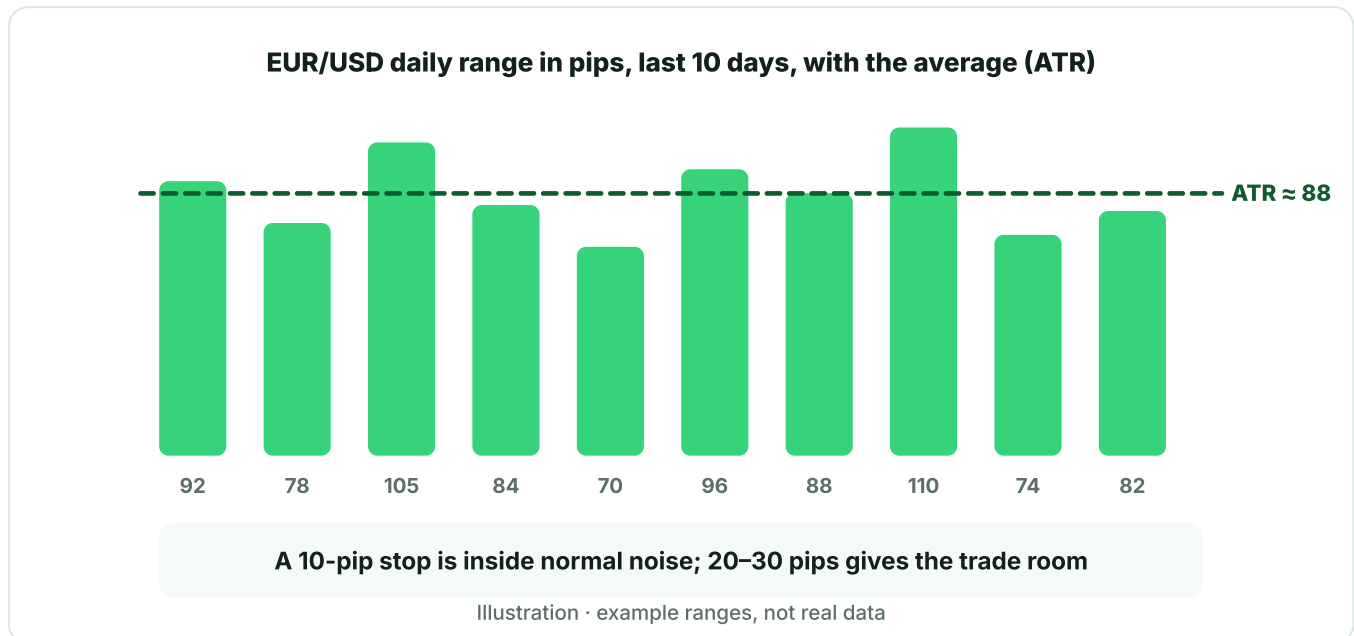
Volatility: how far price moves

Volatility measures how much price moves in a given time. It rises when new information arrives and when liquidity is thin, and falls in quiet, deep markets. Traders measure it with tools such as the average true range (ATR), the average size of recent candles. Knowing a pair's normal daily range helps you set sensible stops and targets: a 15-pip stop on a pair that moves 120 pips a day is inside ordinary noise.

CONDITION	LIQUIDITY	VOLATILITY	WHAT TO EXPECT
London–New York overlap	Deep	Moderate to high	Steady trends, tight spreads
Late Asian session	Thin for EUR and GBP pairs	Low	Ranges, wider spreads
Major data release	Briefly very thin	Very high	Spikes, slippage, wide spreads
Bank holiday	Thin	Unpredictable	Erratic moves on small volume

Using average range to set stops

A practical use of volatility is sizing stops. If EUR/USD's average daily range over the past two weeks is about 88 pips, a 10-pip stop on an intraday trade sits well inside normal noise and will be hit by ordinary wiggles. Many traders set stops as a fraction of the average true range, for example a quarter to half of it for day trades, then size the position so that the stop still equals their fixed risk.



Ten days of ranges and their average. Stops placed inside the normal range get hit by noise.

That approach also adapts by itself. When markets get wild and the range widens, the stop widens and the position shrinks; when they calm down, the stop tightens and the position grows. Your risk in money stays the same throughout.

Reading volatility before you trade

A quick way to judge the day ahead is to compare the current session's range with the recent average. If EUR/USD has already moved 90 pips by midday and its average is 88, much of the day's typical movement may already be done, and chasing a further breakout is riskier. A pair that has moved only 20 pips by the London open probably has more to come. Neither reading tells you the direction, but both help you set realistic targets and decide whether a breakout still has room to run. Write the day's range so far next to the average in your journal before each trade; after a few weeks the habit becomes automatic, and you will stop chasing moves that are already exhausted.

Liquidity through the week

Liquidity also has a weekly rhythm. Monday mornings in Asia can be thin as the market reopens, with occasional gaps. Tuesday to Thursday usually carry the most activity and many of the big scheduled events. Friday afternoon in New York thins out as traders close positions before the weekend. These are tendencies, not rules, but knowing them helps you pick the days your strategy works best and the days to trade smaller or not at all.

Holiday weeks, such as the week between Christmas and New Year, break these patterns: volume is low all week and moves can be erratic.

Putting order flow to work

1. Mark the obvious recent highs and lows on your chart: those are where orders cluster.
2. Avoid placing your own stop exactly where everyone else does; give it room beyond the level.
3. Expect fast moves when price reaches those levels, in either direction.
4. Be wary of breakouts that reverse quickly back inside the range: they are often sweeps.
5. Trade when liquidity is deep for your pair, so the market can absorb your orders cleanly.

Order-flow ideas describe tendencies, not certainties. Price can sweep a level and keep going, and a level can hold without any sweep at all.

This completes Part 2. You now know who is on the other side of your trades, what each trade costs, what happens overnight, why fills differ from clicks and why price moves at all. Part 3 turns to reading the chart itself: candlesticks, support and resistance, trends and the patterns traders watch.

Illustrative case: Dev, 32, Kathmandu

Dev kept getting stopped out by a few pips before price turned his way, always with his stop just below an obvious double bottom. He started placing stops a little further beyond such levels and sizing smaller to keep the same risk. Those brief sweeps stopped him out far less often.

Once you see a chart as a map of where orders sit, a lot of "random" moves stop looking random. That is the bridge from basics to Smart Money Concepts.

Abir Khan

Writer, FX Recap

Frequently asked

What is liquidity in forex?

How easily you can trade a meaningful size without moving the price. Liquid markets have many buyers and sellers near the current price, so spreads are tight and fills are quick.

What makes forex prices move?

Market orders using up the resting limit orders on one side of the order book. When buying pressure exceeds the sell orders available, the price rises to the next level.

What is a stop hunt or liquidity sweep?

A brief move through an obvious high or low that triggers clustered stop orders, often followed by a reversal once large orders have been filled.

Is there an order book in forex?

Not one public book for the whole market. Each venue and liquidity provider keeps its own, and the market as a whole behaves as if one existed.

What is volatility?

How far price moves in a given time. It rises with news and thin liquidity and is often measured with the average true range (ATR).

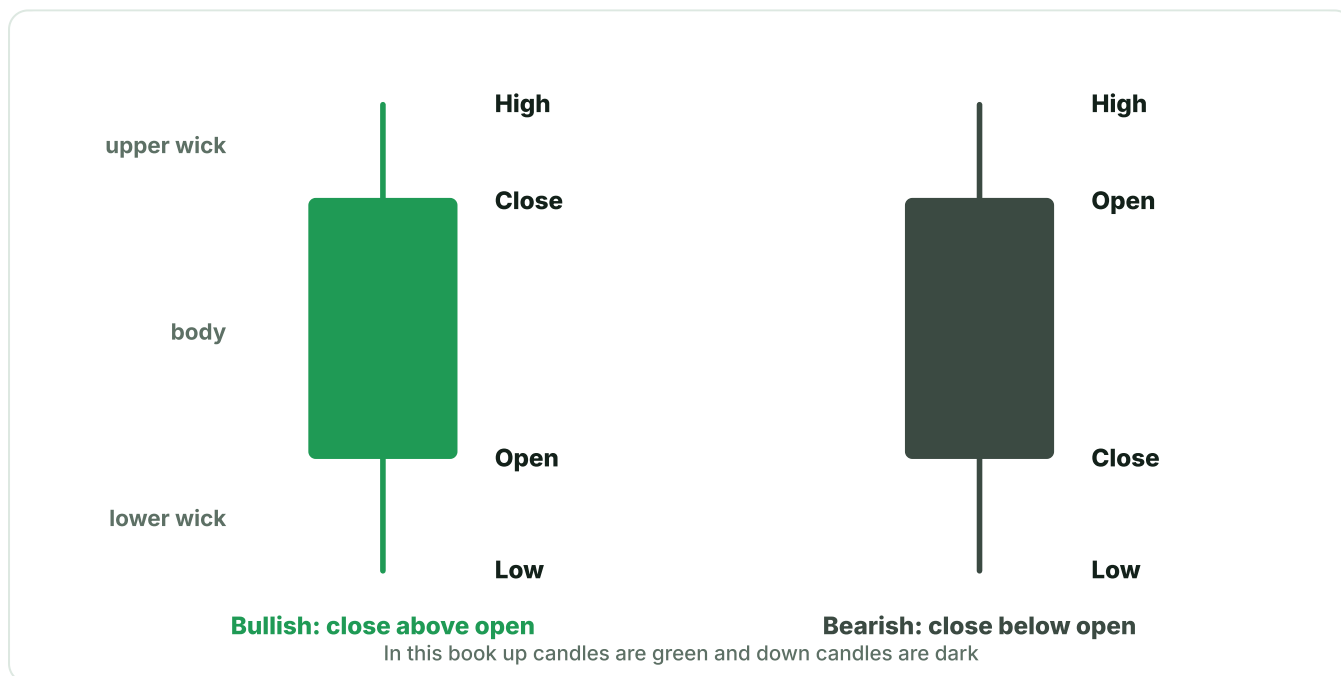
How to Read Candlestick Charts: Bodies, Wicks and the Patterns That Matter

A candlestick packs four prices and a small story about buyers and sellers into one shape. Learn to read bodies and wicks, the single and multi-candle patterns traders watch, why context matters more than the pattern, and how candles on different timeframes fit together.

Open any trading platform and the default chart is almost always a candlestick chart. Each candle covers a fixed slice of time, a minute, an hour or a day, and shows four prices for that slice: where it opened, where it closed, the highest point and the lowest point. Candlestick charts began with Japanese rice traders centuries ago and became standard in Western markets in the early 1990s. They are popular for a simple reason: one glance tells you who won the period, buyers or sellers, and by how much.

Anatomy of a candle

The thick part of a candle is the body. It runs from the open to the close. If the price closed higher than it opened, the candle is bullish, and in this book it is green. A lower close makes the candle bearish, drawn dark. The thin lines above and below the body are the wicks, also called shadows. At the top of the upper wick sits the period's high; at the bottom of the lower wick, its low.



Body from open to close, wicks to the high and low. Colour shows which way the period closed.

Reading a candle is reading a short contest. A long body with small wicks means one side controlled the whole period. A long wick means price travelled somewhere and was pushed back: a long lower wick shows sellers drove price down and buyers rejected it; a long upper wick shows the opposite. A small body with wicks on both sides means neither side won.

WHAT YOU SEE	WHAT IT SUGGESTS
Long green body, small wicks	Buyers in control from open to close
Long dark body, small wicks	Sellers in control from open to close
Long lower wick	Price was pushed down and buyers rejected the lows
Long upper wick	Price was pushed up and sellers rejected the highs
Tiny body, wicks both sides	Indecision; the two sides were balanced

Single-candle shapes

A handful of single-candle shapes have names. You do not need to memorise dozens; these five cover most of what matters, because they describe the main ways a period can end.



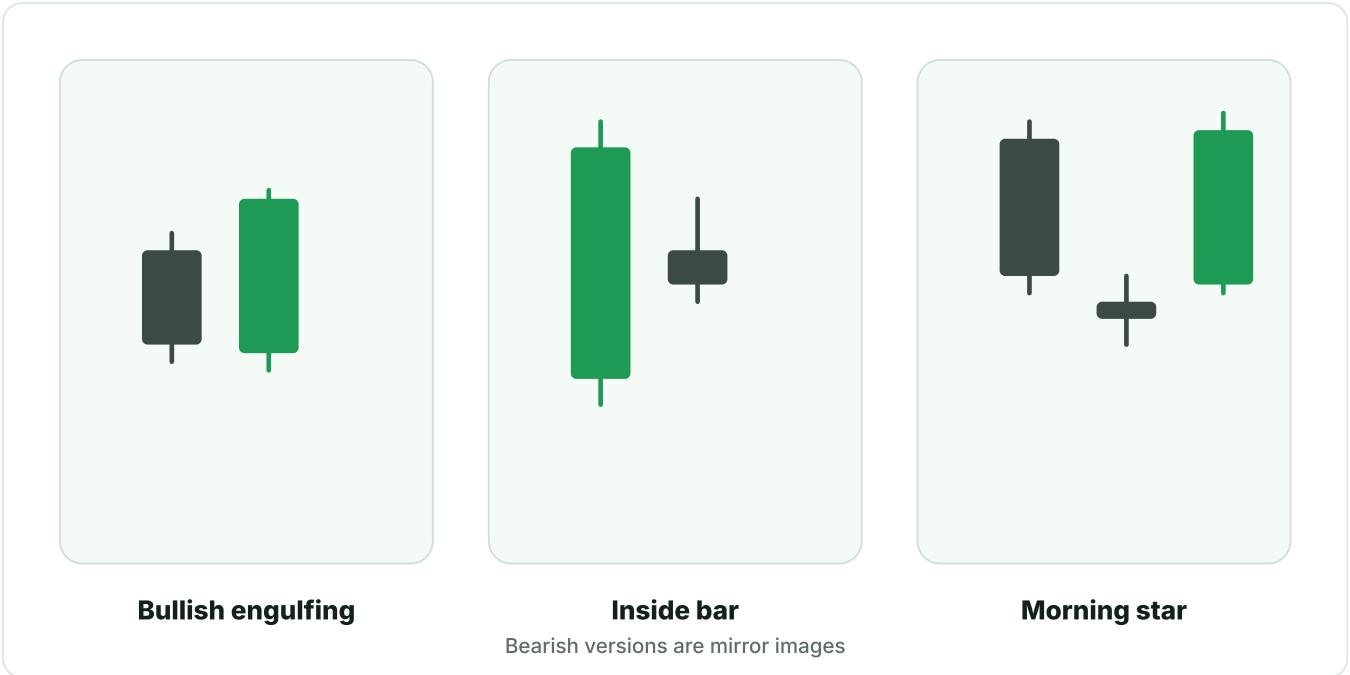
Five shapes that summarise how a period ended: strong push, indecision, rejection of lows, rejection of highs, balance.

- **Marubozu**: a full body with almost no wicks. One side dominated.
- **Doji**: open and close almost equal. The market could not decide.
- **Hammer**: a small body near the top and a long lower wick, at least twice the body. Sellers pushed down and failed.
- **Shooting star**: a small body near the bottom and a long upper wick. Buyers pushed up and failed.
- **Spinning top**: a small body with wicks both sides. Balance, often a pause.

Two- and three-candle patterns

Some of the most useful signals need two or three candles, because they show a change in who is winning. A bullish engulfing pattern is a down candle followed by an up candle whose body completely covers the first one: sellers were in charge, then buyers took back everything and more. An inside bar

is a candle whose whole range sits within the previous candle's range, a sign the market is coiling. A morning star is a down candle, a small candle that hesitates, then a strong up candle, a three-step turn from selling to buying.

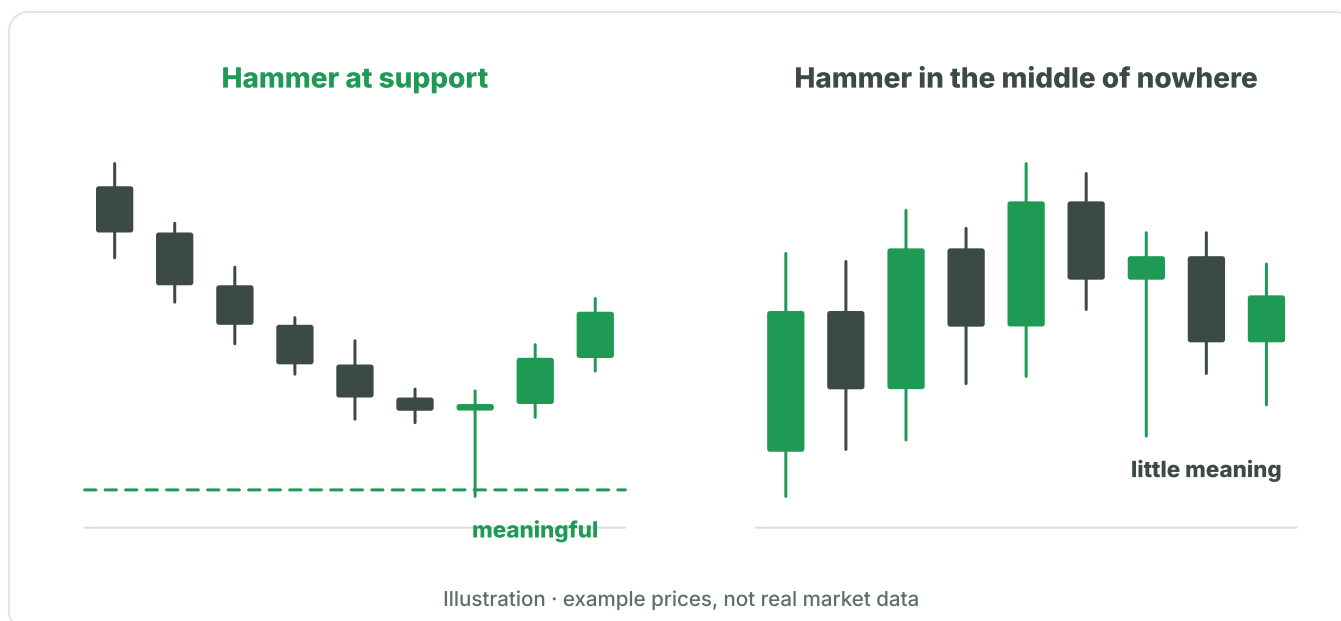


Bullish engulfing, inside bar and morning star. Each has a bearish mirror image: bearish engulfing and evening star.

PATTERN	BULLISH VERSION	BEARISH VERSION
Engulfing	Up body swallows previous down body	Down body swallows previous up body
Star (three candles)	Morning star	Evening star
Rejection candle	Hammer	Shooting star
Inside bar	Breaks out upward	Breaks out downward

Context is everything

A pattern on its own means little. A hammer after a long fall, sitting on a well-tested support level, tells a real story: sellers tried one more push at an important price and buyers absorbed it. The same hammer in the middle of a choppy, directionless range is just noise. Most of the disappointment traders feel with candlestick patterns comes from trading them without context.



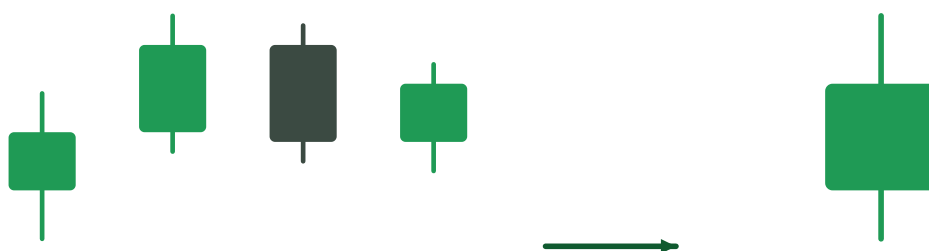
The same hammer, two places: meaningful at support after a fall, close to meaningless in the middle of a range.

- Where is the candle? At a support or resistance level, at the edge of a range, or in the middle of nowhere?
- What came before it? A rejection candle after a long move means more than one after a few small candles.
- Which timeframe? A daily hammer carries more weight than a one-minute hammer.
- Does the next candle confirm it? Many traders wait for the following candle to move in the signalled direction.

Combine candles with the levels in [Chapter 13](#) and the trend in [Chapter 14](#). A candle signal at a level, in the direction of the trend, is the classic price-action setup.

Candles on different timeframes

Every candle is made of smaller candles. A one-hour candle is four fifteen-minute candles combined: its open is the first one's open, its close is the last one's close, and its high and low are the extremes of all four. That means a calm-looking hourly candle can hide a sharp fall and recovery, and a single daily hammer can contain an entire intraday drama.



four 15-minute candles

one 1-hour candle

Higher-timeframe candles hide the path; lower ones show it

Four 15-minute candles merge into one hourly candle. The bigger candle shows the result; the smaller ones show the path.

Higher timeframes filter out noise and carry more weight; lower timeframes show detail and timing.

[Chapter 18](#) explains how traders use both together.

Reading a sequence of candles

Single candles and named patterns are only part of the skill. Experienced traders read candles as a sequence, the way you read a sentence rather than individual letters. Are the bodies getting larger in the direction of the move, a sign of growing conviction, or smaller, a sign it is tiring? Do wicks appear on one side, showing growing rejection? Is each candle closing near its high, or giving back more and more of its gains?

A rally of five strong green candles that each close near the high tells a different story from a rally whose last three candles have long upper wicks and small bodies. Both reached the same price; only the first still has buyers pressing. You will not find a name for that difference in a pattern book, but you will see it on every chart once you look for it.

WHAT THE SEQUENCE SHOWS	LIKELY MEANING
Bodies growing in the trend direction	Momentum building
Bodies shrinking, wicks lengthening	Momentum fading
Closes near the extremes	One side firmly in control
Closes in the middle, overlapping candles	Balance or a range forming

When you spot a pattern, look at the five to ten candles before it. They tell you whether the pattern is the end of a fight or just another candle in a quiet market.

Common mistakes with candlesticks

- Trading every pattern you see. Most patterns in the middle of a chart lead nowhere.
- Judging a candle before it closes. A hammer can turn into a plain down candle in the last minute.
- Ignoring the size of the candle. A tiny engulfing pattern on a quiet chart is not the same as a large one.
- Forgetting the stop. A pattern only gives an entry; the stop goes beyond the candle's wick.

No candlestick pattern predicts the next move on its own. Treat patterns as evidence that adds to a plan, not as signals to trade blind.

Illustrative case: Nadia, 27, Dhaka

Nadia traded every engulfing candle she spotted on the 5-minute chart and lost on most of them. She narrowed her rule to engulfing candles on the 1-hour chart that formed at a level she had marked in advance, in the direction of the daily trend. Her trade count fell to about a fifth, and far more of those trades worked.

Read candles as a conversation between buyers and sellers, not as a vocabulary test. Where the conversation happens matters more than the words.

Tanbir Habib Riyad

Forex & Crypto Analyst, FX Recap

Frequently asked

How do you read a candlestick chart?

Each candle shows the open, high, low and close for one time period. The body runs from open to close and the wicks show the high and low. A green body closed higher than it opened; a dark body closed lower.

What does a long wick mean?

Price moved there during the period and was pushed back. A long lower wick shows rejection of lower prices; a long upper wick shows rejection of higher prices.

What is a doji?

A candle whose open and close are almost the same, showing indecision between buyers and sellers.

Are candlestick patterns reliable?

Only in context. A pattern at a key level, in the direction of the trend, on a higher timeframe, carries far more weight than the same pattern in the middle of a range.

What is a bullish engulfing pattern?

A down candle followed by an up candle whose body completely covers the previous body, showing buyers taking control.

More on this topic, with live tools, on FX Recap: <https://fxrecap.com/learn-forex/education/candlestick-chart-in-forex>

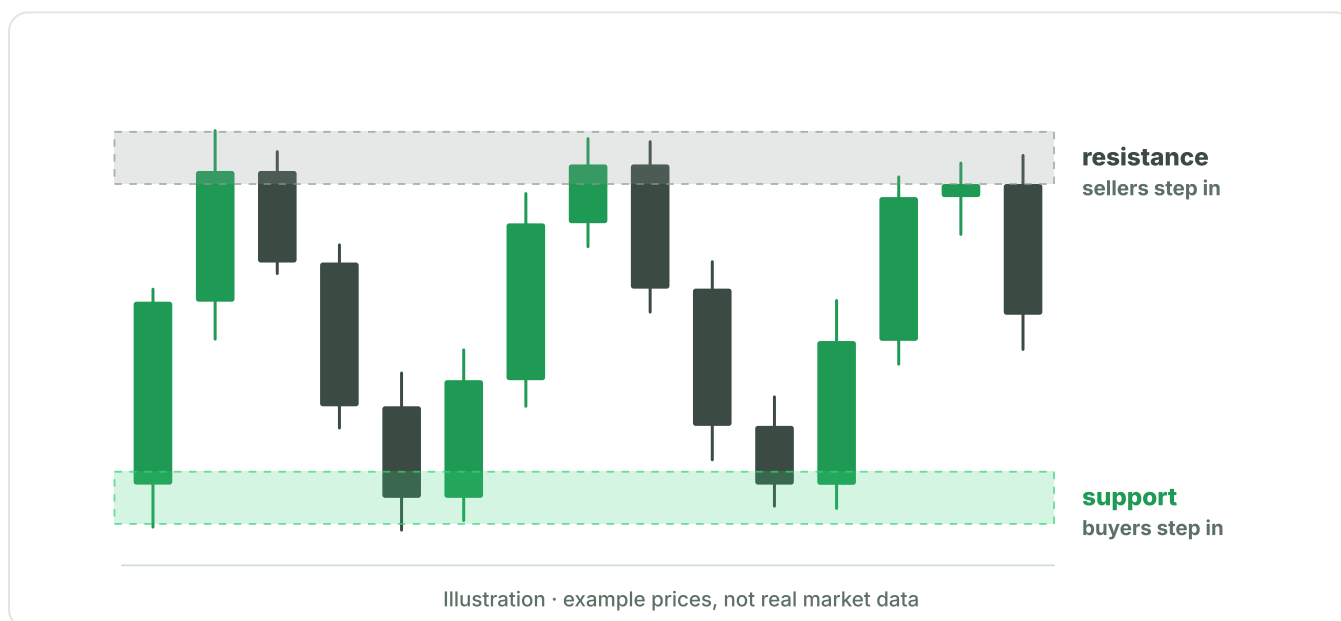
Support and Resistance in Forex: How to Find, Draw and Trade Key Levels

Support is where falling prices tend to stop; resistance is where rising prices tend to stall. Learn why these levels form, why they are zones rather than lines, how broken resistance becomes support, why round numbers matter, and a simple method for drawing levels that hold.

If candlesticks are the words of a chart, support and resistance are its landmarks. They are the prices where the market has turned before and is likely to react again. Almost every trading method, from simple price action to Smart Money Concepts, starts by marking them, because they tell you where decisions are likely to happen and where your stop and target belong.

What support and resistance are

Support is a price area where buying has been strong enough to stop a fall. Resistance is an area where selling has been strong enough to stop a rise. They form because traders remember prices. Buyers who missed a bounce at 1.0838 are waiting to buy there again; sellers who were caught short above 1.0890 are glad to close near their entry. Each reaction adds more orders at the same place, which is why a level that has worked often keeps working.



Price bounces between a floor and a ceiling: buyers defend support, sellers defend resistance.

In order-flow terms from [Chapter 11](#), support is an area with more resting buy orders than the market can quickly absorb, and resistance is the same for sell orders. When enough market orders arrive to use them up, the level breaks.

Broken resistance becomes support

When a resistance level breaks, something useful usually happens: it later acts as support. Traders who sold at the old ceiling are now losing and want to buy back near their entry; traders who missed the breakout want to buy the first pullback. Both groups place buy orders at the old level. The same works in reverse for broken support, which often becomes resistance.

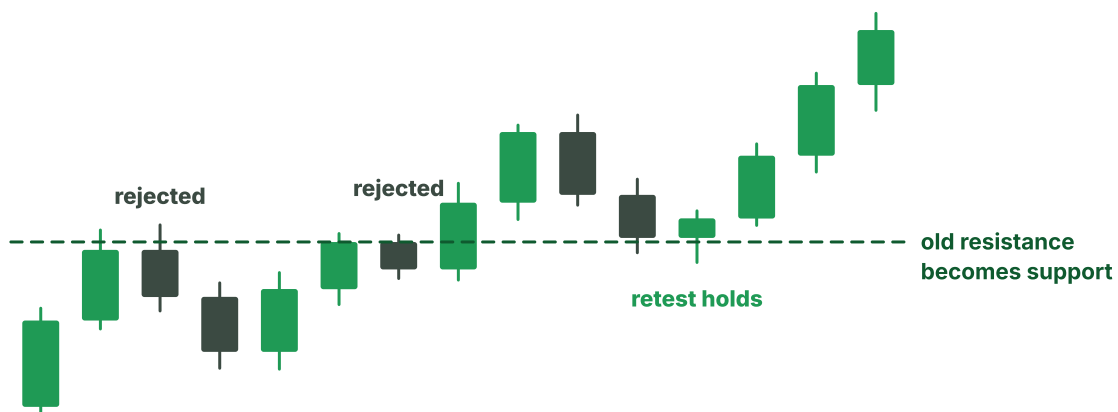


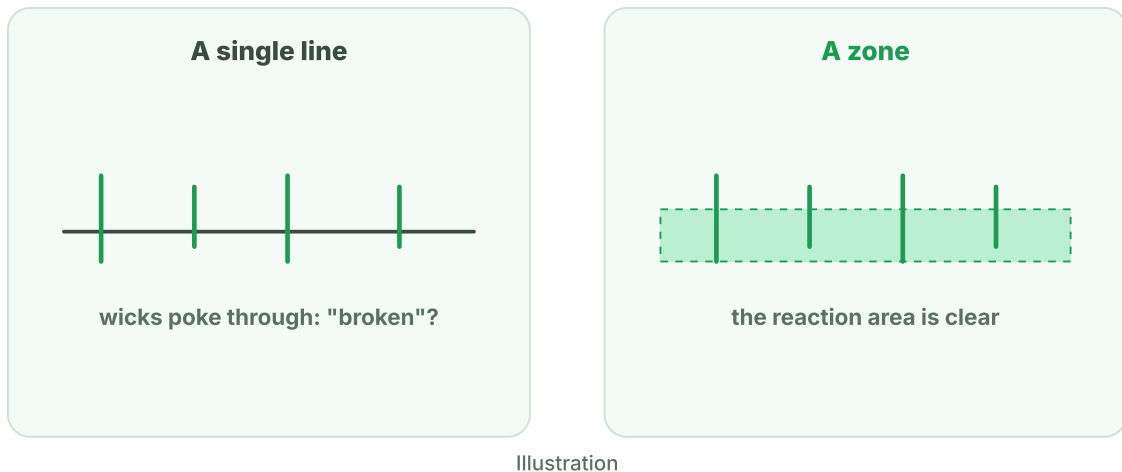
Illustration · example prices, not real market data

Rejected twice as resistance, broken, then retested and held as support.

The retest of a broken level is one of the cleanest entries in price action: the level is proven, the direction is clear and the stop goes just beyond it.

Zones, not lines

Beginners draw support and resistance as thin lines and then wonder why price "breaks" them by a few pips and turns anyway. Markets do not turn at an exact price, because orders are spread over a small range and spreads move. Treat levels as zones a few pips deep, drawn through the area where bodies and wicks cluster. A wick poking slightly through a zone is normal; a candle closing well beyond it is a real break.



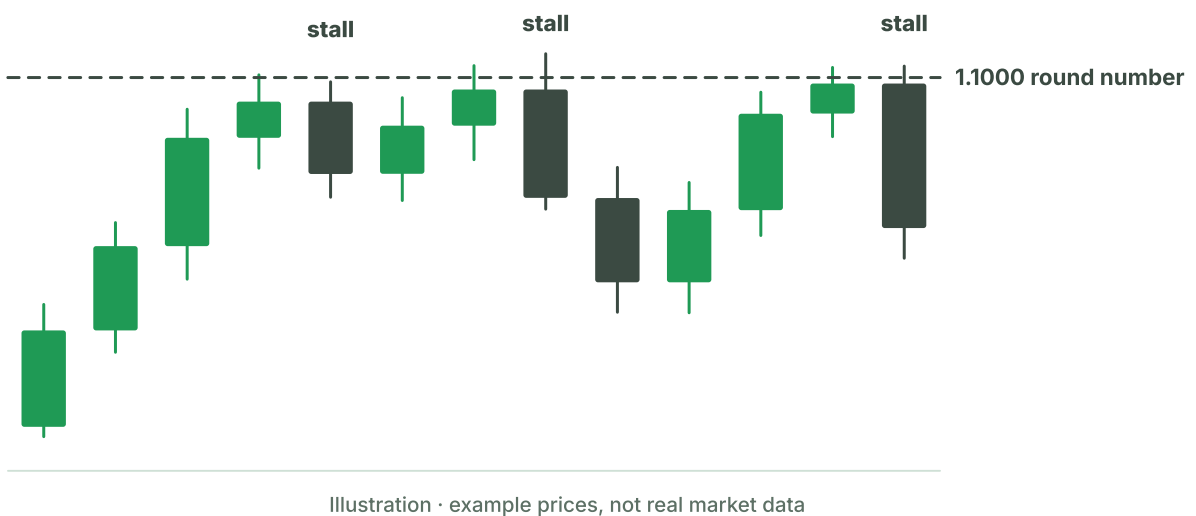
A thin line looks broken every time a wick pokes through; a zone shows where the market truly reacts.

How deep should a zone be?

It depends on the pair and timeframe. On the EUR/USD 1-hour chart, a zone of 5 to 10 pips is typical; on the daily chart, 15 to 30 pips. A useful guide is roughly a tenth to a fifth of the pair's average daily range. Zones that are too thin are broken by noise; zones that are too wide stop being useful for placing stops.

Round numbers

Prices ending in 00 or 50, such as 1.1000 or 1.0850, attract attention for no deeper reason than that people like round numbers. Traders place targets, stops and pending orders there, options often have strike prices there, and news headlines quote them. The result is that round numbers often behave like support and resistance even when no chart history explains it.



Three stalls just under 1.1000: a round number acting as resistance.

How to draw levels that matter

Drawing a level in four steps

- 1 Start on a higher timeframe (H4 or daily)
- 2 Find two or more clear turns at a similar price
- 3 Draw a zone covering the bodies and most wicks
- 4 Rank it: more touches and sharper reactions = stronger

Fewer, stronger levels beat a chart covered in lines

Four steps for drawing levels, from the higher timeframe down.

1. Start on a higher timeframe, such as the 4-hour or daily chart. Levels there carry the most weight.
2. Look for prices where the market turned clearly at least twice, with a visible move away each time.
3. Draw a zone through the bodies and most of the wicks at that price, not through every extreme wick.
4. Rank levels by the number of touches, the size of the reactions and how recent they are.
5. Keep only the few nearest levels above and below the current price. A chart covered in lines helps nobody.

FEATURE	STRONGER LEVEL	WEAKER LEVEL
Timeframe	Daily or weekly	5-minute
Touches	Three or more clear reactions	One
Reaction size	Sharp moves away	Small drifts
Age	Recent and still respected	Years old and ignored lately
Confluence	Matches a round number or Fibonacci level	Stands alone

When a level is likely to break

Levels do not last forever. Each time price tests a support zone, buyers there use up some of their orders. A level that is hit again and again in quick succession is often weakening rather than strengthening, especially if each bounce is smaller than the last. Watch for that sign: price returning to the same support faster and bouncing less each time often comes before a break.

- **Repeated tests** in a short period, with weaker bounces each time.

- **Higher lows pressing into resistance**, as in an ascending triangle, show buyers getting more aggressive.
- **Closes near the level** instead of strong rejections suggest the defenders are tiring.
- **A higher-timeframe trend** pointing through the level makes a break more likely.

Confirming a real break

A wick through a zone is not a break. Most traders wait for a candle to close beyond the zone on the timeframe they trade, and many wait for a retest from the other side. A strong close well beyond the zone, followed by a retest that holds, is the textbook confirmation. A quick poke through followed by a close back inside is more likely a false break, and often the start of a move the other way.

Levels from different timeframes

A level drawn on the weekly chart outranks one drawn on the 15-minute chart. More traders see it, more orders sit there, and it has survived more tests. When a small intraday level sits just in front of a big daily one, expect the daily level to do the heavy lifting. Price often slices through minor levels on its way to the major zone, then reacts sharply once it gets there. Labelling each line with the timeframe it came from, a habit that takes seconds, keeps you from treating every line on the chart as equally important.

Write down, before price arrives, what would count as the level holding and what would count as it breaking. Deciding in advance stops you inventing a reason in the moment.

Trading support and resistance

There are two basic ways to trade a level. Bounce traders buy at support and sell at resistance, expecting the level to hold; they need a candle signal at the level and a stop just beyond it. Breakout traders wait for a level to break and trade in the direction of the break, ideally on a retest. Neither works every time. A level can hold five times and break on the sixth, and a breakout can fail and reverse.

- **Bounce:** enter at the zone with a rejection candle, stop just beyond the zone, target the opposite level.
- **Breakout:** wait for a clear close beyond the zone, enter on the retest, stop back inside the old zone.
- **Avoid:** buying just under resistance or selling just above support, where the reward is small and the risk is not.

The more obvious a level is, the more stop orders sit just beyond it. Expect price to probe past obvious levels occasionally before turning; Part 4 explains why.

Illustrative case: Kevin, 34, Nairobi

Kevin drew more than twenty lines on his chart and found that price always seemed to be near one. He deleted all but the three strongest daily levels above and below price. With fewer levels, the ones left became clear places to plan trades instead of reasons to doubt every move.

Draw fewer levels, on higher timeframes, as zones. The market respects the levels many traders can see, not the ones only you have found.

Jowel Rana

Co-Founder & Forex Trader, FX Recap

Frequently asked

What is support in forex?

A price area where buying has been strong enough to stop a fall before, so the price may bounce there again.

What is resistance in forex?

A price area where selling has stopped a rise before, so the price may stall or turn there again.

Why does broken resistance become support?

Traders who sold at the old level want to buy back near their entry, and traders who missed the breakout buy the pullback, so buy orders gather at the old ceiling.

Should support and resistance be lines or zones?

Zones. Orders are spread across a small range, so markets react within an area a few pips deep rather than at an exact price.

Do round numbers matter in forex?

Often. Prices like 1.1000 attract orders, targets and option strikes, so they frequently act as support or resistance.

More on this topic, with live tools, on FX Recap: <https://fxrecap.com/learn-forex/education/support-and-resistance>

Trends and Market Structure: Higher Highs, Lower Lows and When a Trend Ends

Market structure is the sequence of swing highs and lows that tells you whether a pair is trending up, down or sideways. Learn to label structure, draw trendlines and channels, recognise a range, and spot the moment a trend breaks: the foundation of Smart Money Concepts.

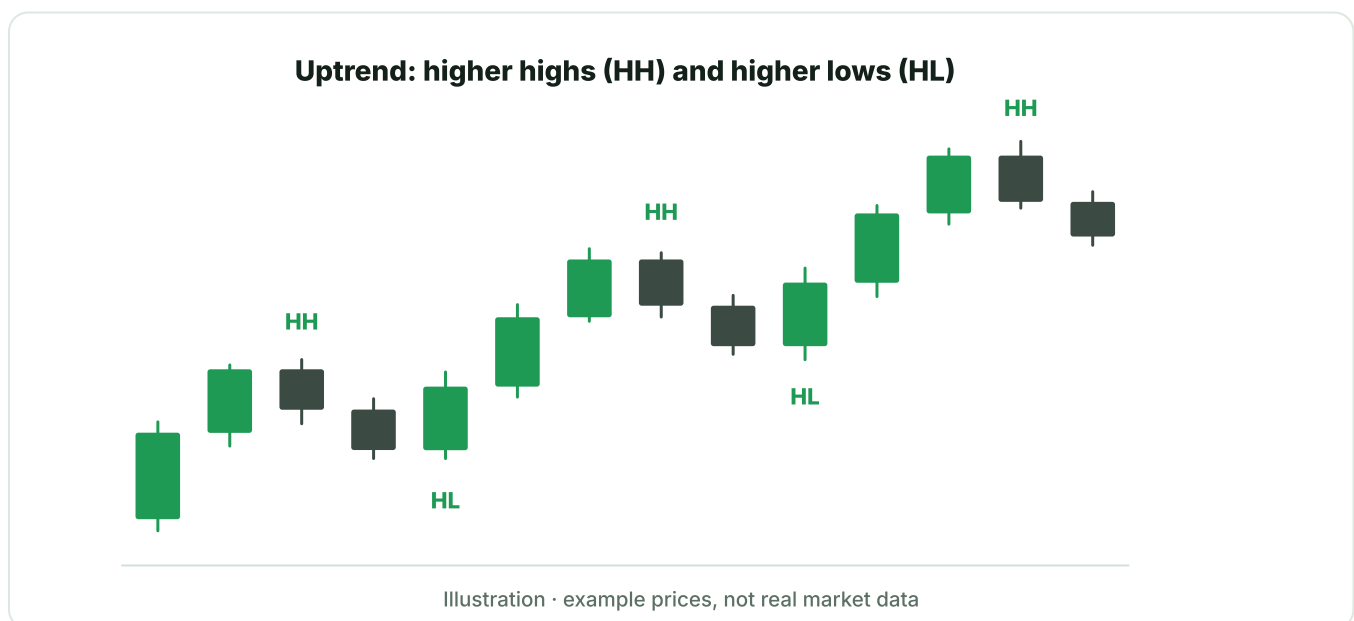
"The trend is your friend" is one of the oldest lines in trading, and one of the least useful until you can say exactly what a trend is. Market structure gives the answer. By marking the swing highs and swing lows on a chart, you can say whether a pair is trending up, trending down or ranging, and, just as important, when that changes. This chapter is the bridge between classic technical analysis and the Smart Money Concepts in Part 4, which build directly on it.

Swing highs and swing lows

A swing high is a peak with lower prices on both sides; a swing low is a trough with higher prices on both sides. Price never moves in a straight line. It travels in waves, and each wave leaves a swing point behind. Structure is simply the comparison of each swing with the one before it.

Uptrend: higher highs and higher lows

In an uptrend, each rally pushes to a new high above the previous one (a higher high, HH), and each pullback stops above the previous low (a higher low, HL). Buyers are in control: they are willing to pay more on each wave and step in sooner on each dip. As long as that sequence continues, the uptrend is intact.



Each high is higher than the last and each low is higher than the last: the definition of an uptrend.

Downtrend: lower highs and lower lows

A downtrend is the mirror image. Each fall makes a new low below the last one (a lower low, LL), and each bounce fails below the previous high (a lower high, LH). Sellers are in control, and buyers who step in are overwhelmed sooner on each wave.

Downtrend: lower highs (LH) and lower lows (LL)

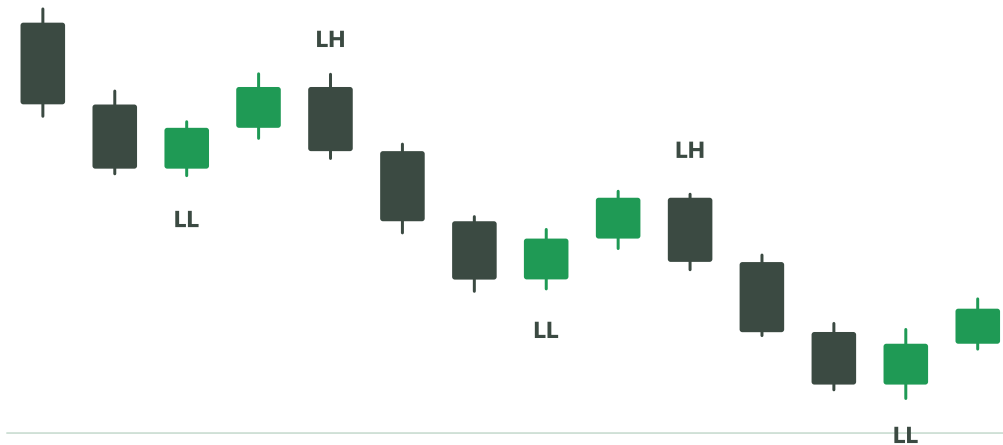


Illustration · example prices, not real market data

Lower highs and lower lows: sellers keep the upper hand on every wave.

Ranges

When highs stall at roughly the same level and lows hold at roughly the same level, the market is ranging. Neither side is winning. Ranges are common, especially in the quieter hours, and they behave differently from trends: buying the bottom of a range and selling the top can work, while trend-following methods get chopped up.

Range: equal highs and equal lows

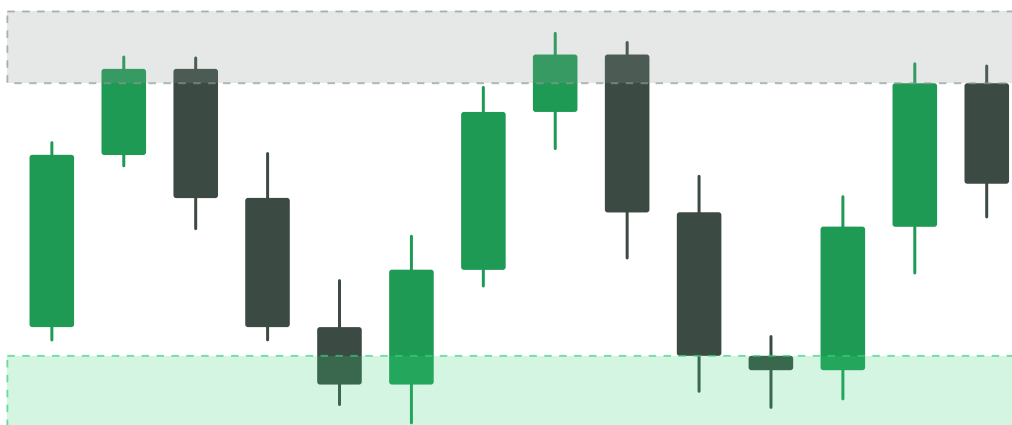


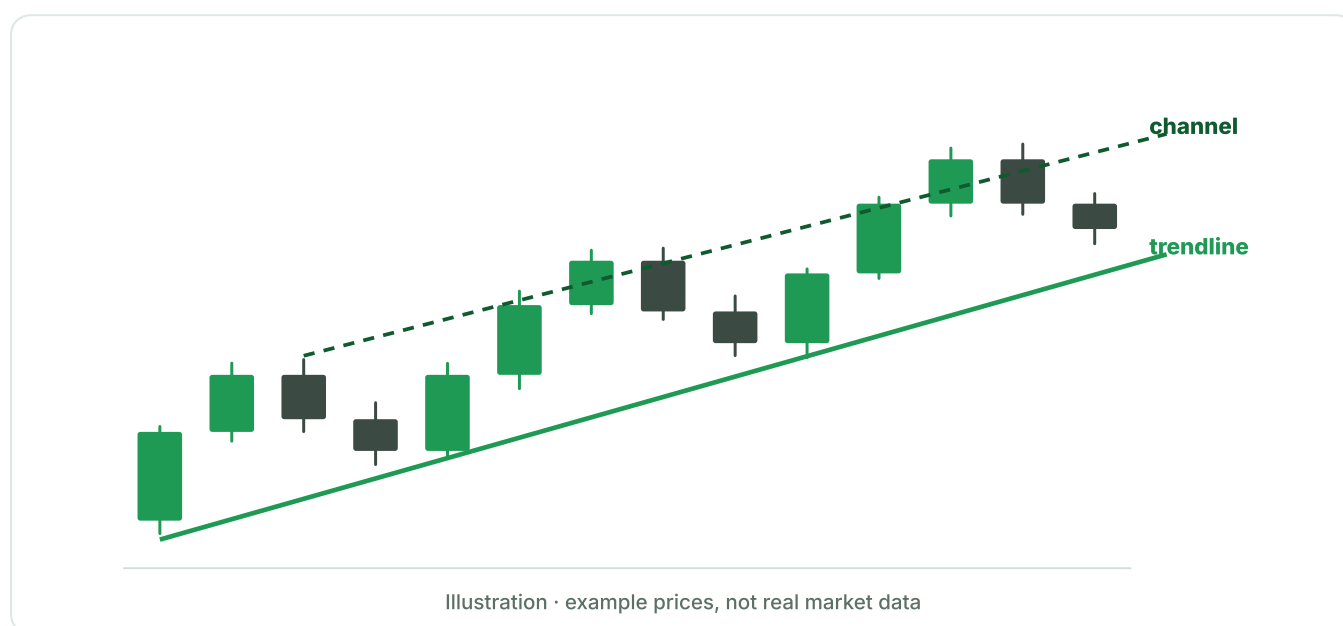
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Equal highs and equal lows: a range, with support and resistance zones at the edges.

MARKET STATE	HIGHS	LOWS	APPROACH THAT TENDS TO SUIT
Uptrend	Higher	Higher	Buy pullbacks to support
Downtrend	Lower	Lower	Sell rallies to resistance
Range	Equal	Equal	Trade the edges, or wait for a breakout

Trendlines and channels

A trendline joins the higher lows of an uptrend or the lower highs of a downtrend. It gives a visual guide to where the next pullback might stop. Draw a parallel line through the highs (or lows) and you have a channel, a band in which price has been travelling. Trendlines need at least two touches to draw and a third to confirm.



A rising trendline under the higher lows and a parallel channel line over the highs.

Trendlines are subjective: two traders can draw them through different points. Swing structure (higher highs and lows) is more objective, which is why many traders treat the trendline as a guide and the swings as the rule.

When a trend ends

A trend does not end when price falls for a few candles; pullbacks are part of every trend. In structure terms, an uptrend is in doubt when price fails to make a new higher high, and it is broken when price closes below the most recent higher low. That break means the pattern of higher lows has failed. The mirror rule applies to downtrends.

When structure breaks: a lower high, then a close below the last higher low

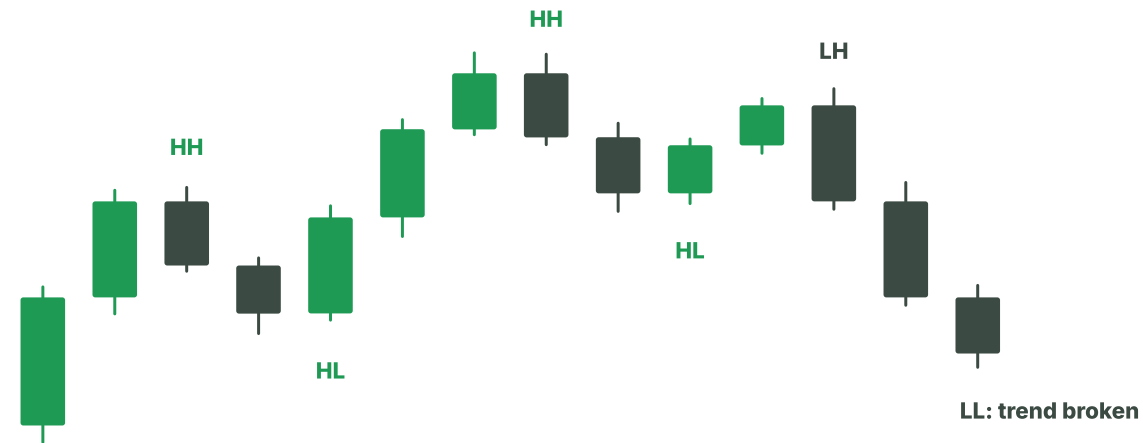


Illustration · example prices, not real market data

A lower high, then a close below the last higher low: the uptrend's structure is broken.

1. Uptrend intact: higher highs and higher lows keep forming.
2. Warning: price fails to make a new high and forms a lower high.
3. Break: price closes below the last higher low.
4. Confirmation: a lower low forms and the next rally fails below the previous high.

Smart Money Concepts give these moments names. A move that continues the trend by breaking the last swing is a break of structure (BOS). The first break against the trend is a change of character (CHoCH). [Chapter 20](#) uses exactly the swings you have learned here.

Measuring trend strength

Not all trends are equal. A strong trend makes big impulse moves and shallow pullbacks: price runs 80 pips, pulls back 20, runs another 80. A weak trend makes small advances and deep pullbacks: up 40, back 35, up 40. Both are technically making higher highs and higher lows, but the second is close to turning into a range, and buying its pullbacks carries far less edge.

SIGN	STRONG TREND	WEAK OR AGEING TREND
Impulse moves	Large and fast	Small and slow
Pullbacks	Shallow, often to 38.2%	Deep, often to 61.8% or beyond
New highs	Clear breaks above the last high	Barely above, with long wicks
Candles in the trend direction	Large bodies, small wicks	Small bodies, wicks against the trend

As a trend matures, those signs tend to shift from the left column to the right. Spotting the shift early helps you move from looking for entries in the trend to protecting profits and waiting for structure to confirm a change.

Internal and external structure

Zoom in on any pullback in an uptrend and you will see its own small structure: lower highs and lower lows inside the larger pullback. Traders call the big swings external structure and the small swings inside them internal structure. When the small downtrend inside a pullback breaks back upward, it is often the first sign that the larger uptrend is resuming. Smart Money Concepts lean heavily on this idea, and it is the main reason multi-timeframe reading matters.

A worked example

Suppose EUR/USD on the 4-hour chart has made higher highs at 1.0820, 1.0865 and 1.0910, with higher lows at 1.0780, 1.0830 and 1.0875. The trend is up, and the last higher low at 1.0875 is the level that matters. While price stays above it, pullbacks are buying opportunities. A 4-hour close below 1.0875 would be the first lower low, and a trader following structure would stop looking for buys and wait to see whether a lower high forms next.

Notice the distances as well. The first advance covered 40 pips from low to high, the second 35, the third 35, and the pullbacks were 35, 35 and 35 pips deep. Advances and pullbacks of almost equal size mean this trend is no longer strong, even though the structure is still technically bullish. That combination calls for smaller positions and quicker profit-taking.

Trading with structure

- Trade in the direction of the higher-timeframe structure; counter-trend trades need much stronger reasons.
- In an uptrend, look to buy near higher lows, at support or a trendline, with a stop below the last swing low.
- In a downtrend, look to sell near lower highs, with a stop above the last swing high.
- When structure breaks, stop trading the old trend and wait for the new structure to form.
- In a range, either trade the edges with tight stops or step aside until a breakout picks a direction.

Label swings on your chart with HH, HL, LH and LL for a week. It feels slow at first, but it trains your eye to see structure instantly, which every later chapter depends on.

Lower timeframes produce many small swings that contradict the bigger trend. Always know the structure of the timeframe above the one you trade.

Illustrative case: Omar, 29, Amman

Omar kept selling EUR/USD on the 15-minute chart every time it dipped, convinced each dip was a reversal. Labelling the daily swings showed a clean series of higher highs and higher lows. He switched to buying 15-minute pullbacks within that daily uptrend, and stopped fighting the daily trend.

Structure is the one thing on a chart that is not opinion. Higher highs and higher lows either happened or they did not. Build everything else on that.

Ranjan Niskrity

Founder, Owner & Forex Trader, FX Recap

Frequently asked

What is market structure?

The sequence of swing highs and swing lows on a chart. Higher highs and higher lows mean an uptrend, lower highs and lower lows a downtrend, and equal highs and lows a range.

How do I know if a trend has ended?

An uptrend is broken when price fails to make a new high and then closes below the most recent higher low. The mirror rule applies to downtrends.

What is a higher low?

A pullback low that stays above the previous swing low, showing buyers stepping in earlier. It is the building block of an uptrend.

Are trendlines reliable?

They are useful guides but subjective, since traders draw them differently. Swing structure is more objective.

How does structure relate to Smart Money Concepts?

SMC builds on it directly: a break of structure continues a trend and a change of character signals a possible reversal, both defined by swing highs and lows.

Forex Chart Patterns: Double Tops, Head and Shoulders, Triangles and Flags

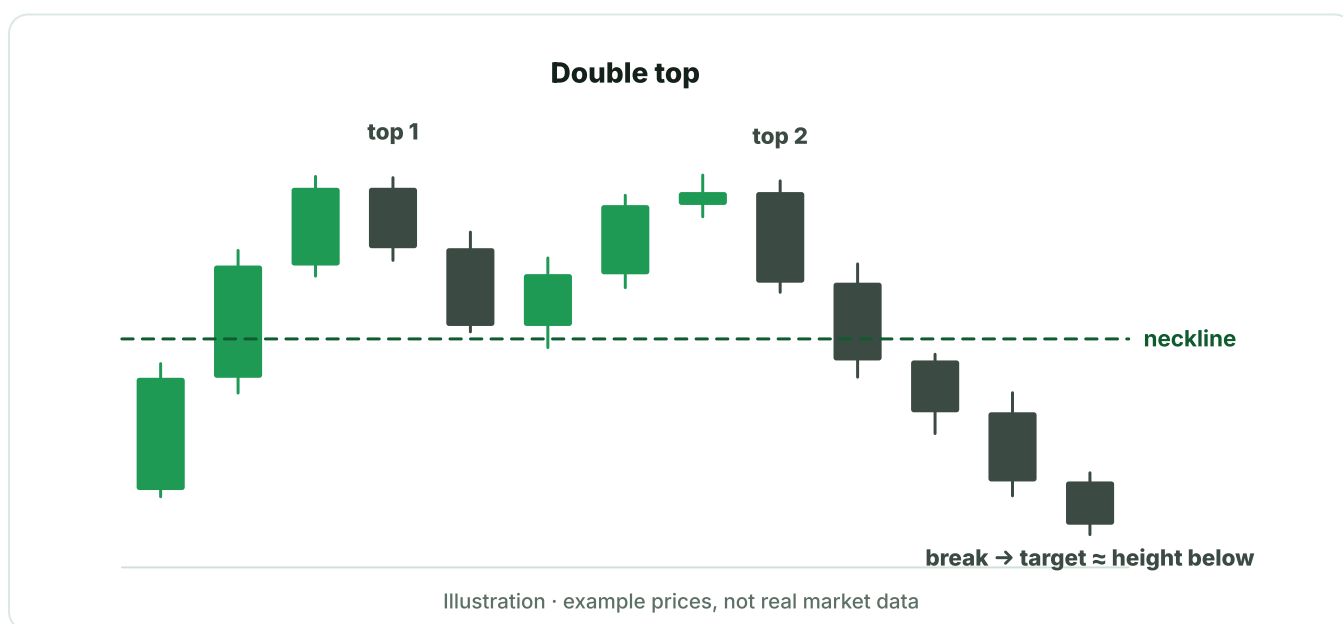
Chart patterns are recurring shapes that show a trend pausing, continuing or turning. Learn the reversal and continuation patterns traders watch, how to measure a pattern's target, where the stop goes, and why failed patterns can be as useful as successful ones.

Chart patterns are the shapes that support, resistance and market structure make when you step back from the chart. A trend that runs out of energy leaves a different shape from one that is only resting. Traders have catalogued these shapes for a century, and while none of them works every time, they turn a messy chart into a few clear questions: is this trend pausing or ending, where is the line that decides it, and how far might the next move go?

Patterns fall into two families. Reversal patterns suggest the trend is ending: double tops and bottoms, head and shoulders. Continuation patterns suggest it is only pausing: flags, pennants and many triangles. In both cases the pattern is not complete until price breaks a defined level, and that level is where the trade decision happens.

Double top and double bottom

A double top forms when price rallies to a high, pulls back, rallies to roughly the same high and fails again. The low between the two peaks is the neckline. Only a close below that neckline completes the pattern; until then it is just a range. A double bottom is the same shape upside down, at the end of a downtrend.



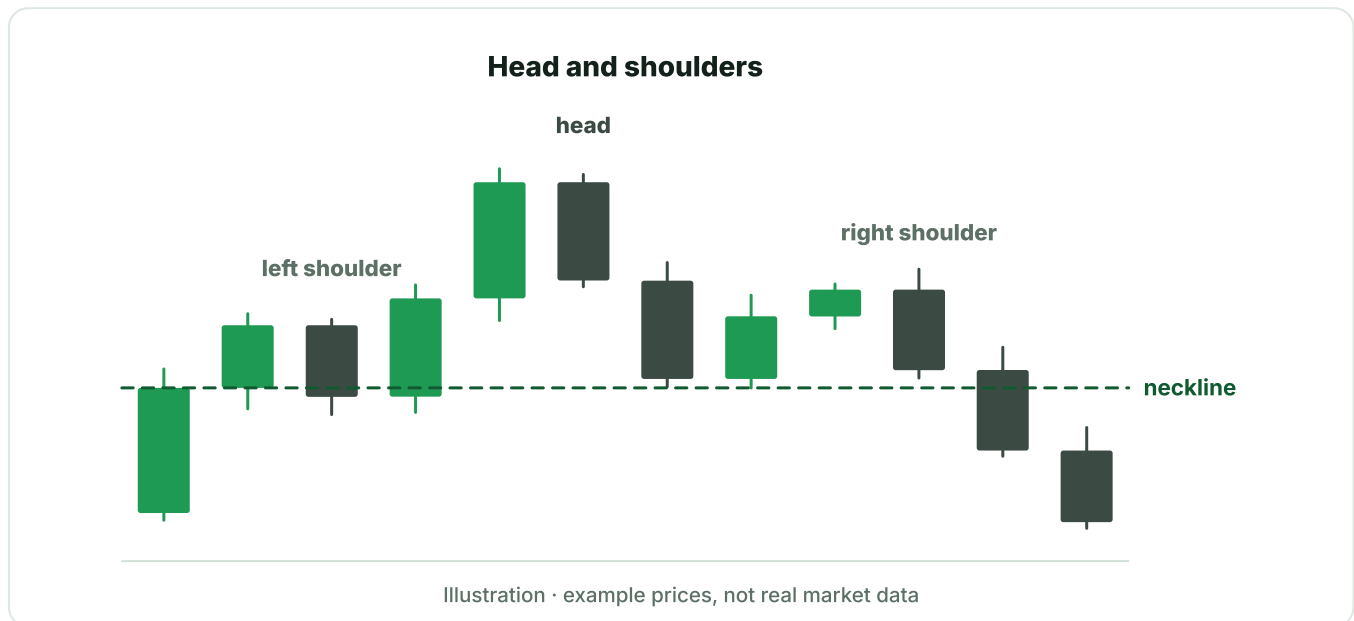
Two failed pushes at the same high, then a close below the neckline completes the double top.

The measured-move target is the pattern's height projected from the neckline. If the tops are at 1.0890 and the neckline at 1.0855, the height is 35 pips, so the first target is about 1.0820. The stop usually

goes above the second top, or above the neckline retest for a tighter entry.

Head and shoulders

The head and shoulders is a reversal pattern with three peaks: a high (left shoulder), a higher high (head) and then a lower high (right shoulder). A neckline joins the lows between them. In structure terms it is an uptrend making one last higher high, then failing to make another and breaking the last higher low. The inverse head and shoulders marks the end of a downtrend.



Left shoulder, head, right shoulder and the neckline. The break below the neckline completes it.

Notice that the head and shoulders is the structure break from [Chapter 14](#) with names attached: the right shoulder is the lower high, the neckline break is the close below the last higher low.

Triangles

Triangles show price squeezing into a narrower range. An ascending triangle has a flat top and rising lows: buyers are paying more on each dip while sellers defend one price, and the break is usually upward. A descending triangle is the opposite, flat bottom and falling highs, usually breaking down. A symmetrical triangle has both lines converging and can break either way, often in the direction of the trend before it.

Ascending triangle

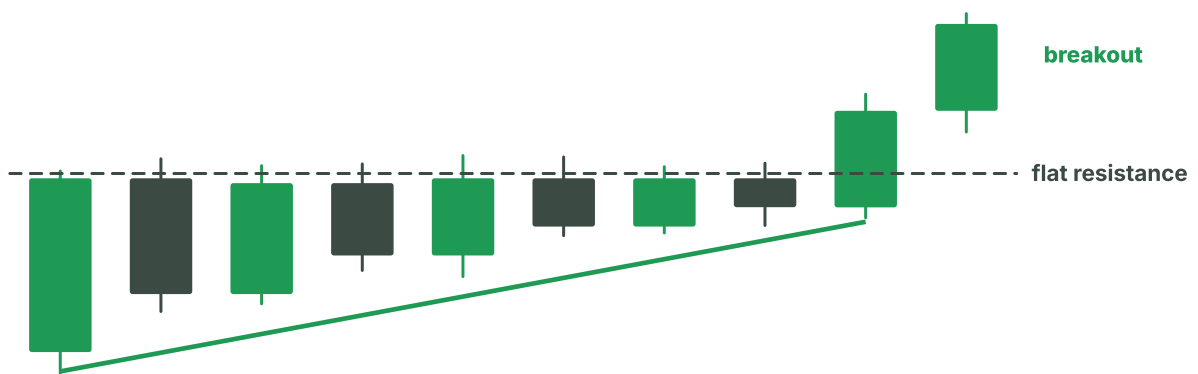


Illustration · example prices, not real market data

Rising lows press against flat resistance until buyers win: the ascending triangle.

TRIANGLE	SHAPE	USUAL BREAK
Ascending	Flat top, rising lows	Upward
Descending	Flat bottom, falling highs	Downward
Symmetrical	Converging highs and lows	Often with the prior trend

Flags and pennants

A flag is a short pause after a sharp move. Price makes a fast run (the pole), then drifts back slightly in a small, tidy channel (the flag), then continues in the original direction. A pennant is the same idea with a small symmetrical triangle instead of a channel. They are among the most reliable continuation shapes because they reflect a trend taking a breath rather than reversing.

Bull flag

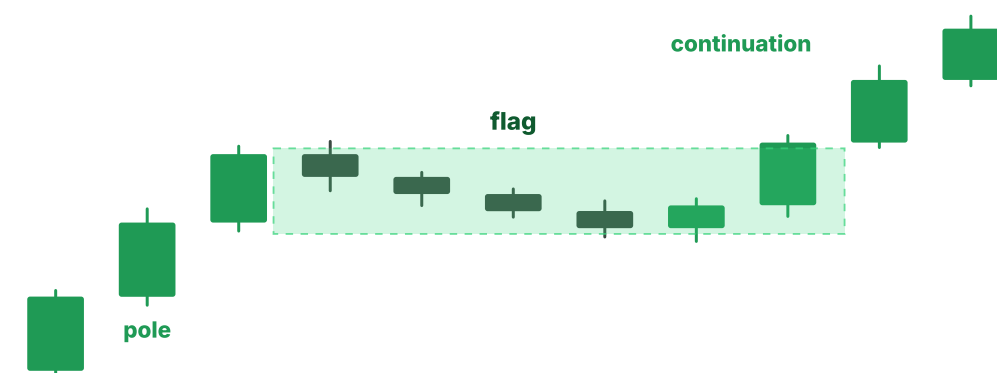


Illustration · example prices, not real market data

A sharp pole, a small drifting flag, then continuation. The target is often the pole's length added from the breakout.

Volume, time and context

Pattern books written for stock markets lean heavily on volume, because stock exchanges publish it. Spot forex has no central volume figure; the tick volume on your platform counts price changes, not traded size, though it often rises and falls with real activity. Forex traders therefore lean more on time and context: where the pattern forms, how long it took, and which way the higher-timeframe trend points.

- **Location:** a double top at a major daily resistance is worth more than one in the middle of a range.
- **Duration:** patterns that take days to form on the 4-hour chart are more meaningful than ones that form in an hour on the 5-minute chart.
- **Trend:** continuation patterns with the higher trend succeed more often than reversal patterns against it.
- **Clean shape:** textbook-looking patterns attract more traders, and therefore more orders at the break.

Measured moves, worked through

Take an ascending triangle whose flat top is at 1.0857 and whose first low was at 1.0816. The height is 41 pips. A close above 1.0857 projects a first target near 1.0898. If a daily resistance zone sits at 1.0890, many traders would take most of the profit there, a little short of the full measured move, rather than hold for the last few pips into a wall of sellers.

For a bull flag, the measured move is usually the length of the pole added to the breakout point. A pole of 76 pips with a breakout at 1.0858 gives an estimate near 1.0934. Treat these as rough guides: markets do not know about measured moves, but enough traders use them that they often mark where profit-taking starts.

Where to place the stop

Each pattern also suggests where the idea is proven wrong. For a double top, the stop usually sits above the higher of the two peaks. With a head and shoulders, it goes above the right shoulder, which keeps it tighter than a stop above the head. Ascending triangle breakouts are invalidated by a close back below the last rising low, and a bull flag fails if price falls back through the bottom of the flag. Compare that stop distance with the measured target: if the target is not at least one and a half times the risk, the pattern may be real but the trade is not worth taking.

Failed patterns

Patterns fail often, and the failures are useful. A breakout above resistance that cannot hold and falls back inside traps the buyers who bought the break; their stop losses add selling fuel. Experienced traders watch for exactly this: when a well-known pattern fails quickly, the move in the opposite direction can be fast.

A failed breakout

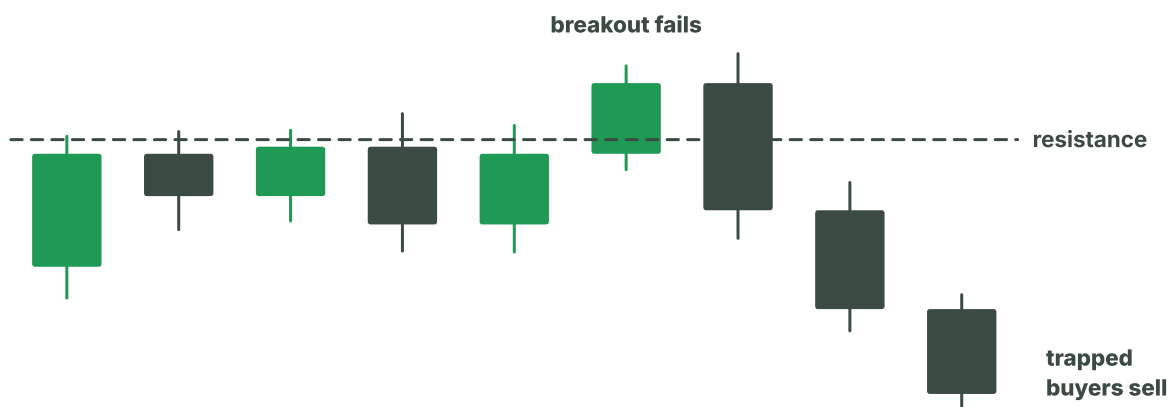


Illustration · example prices, not real market data

A breakout that fails: buyers who chased it become sellers as they exit, pushing price lower.

This is the same mechanism as the liquidity sweep in [Chapter 11](#): obvious levels collect orders, and price often probes them before choosing a direction.

Trading patterns sensibly

1. Identify the pattern only after it is clear; half-formed patterns are guesses.
 2. Mark the decision level: the neckline, the triangle edge or the flag boundary.
 3. Wait for a candle to close beyond that level, or for a retest of it.
 4. Place the stop where the pattern would be wrong, such as beyond the last swing of the pattern.
 5. Use the measured move as a first target, and check it against the next support or resistance.
- Patterns on higher timeframes carry more weight and give bigger targets.
 - A pattern that agrees with the higher-timeframe trend is more likely to work.
 - Measured-move targets are estimates, not promises; take partial profits at nearer levels.

Pattern recognition is easy in hindsight. In real time, many shapes look like a pattern forming and then become something else. Trade only completed patterns with a defined stop.

Illustrative case: Mai, 31, Hanoi

Mai kept entering double tops before the neckline broke and was stopped out repeatedly as price rallied to new highs. She changed one rule: no entry until a 4-hour candle closed below the neckline. Fewer of her entries came at the very peak, but every top she traded had already shown its hand.

A chart pattern is a story about who gave up. Wait for the chapter where they really give up, the break, before you trade the ending.

Abir Khan

Writer, FX Recap

Frequently asked

What is a double top?

A reversal pattern where price fails twice at about the same high. It is complete when price closes below the neckline, the low between the two peaks.

How do you find a chart pattern's target?

Most patterns use a measured move: the height of the pattern, projected from the breakout level in the direction of the break.

What is a bull flag?

A continuation pattern: a sharp rise, a short drift lower in a small channel, then a breakout higher in the original direction.

Do chart patterns work in forex?

They describe how buyers and sellers behave at key levels, so they appear in forex as in other markets. None works every time, which is why stops and confirmation matter.

What is a failed breakout?

A move beyond a level that quickly reverses back inside, trapping traders who chased it. Their exits can drive a fast move the other way.

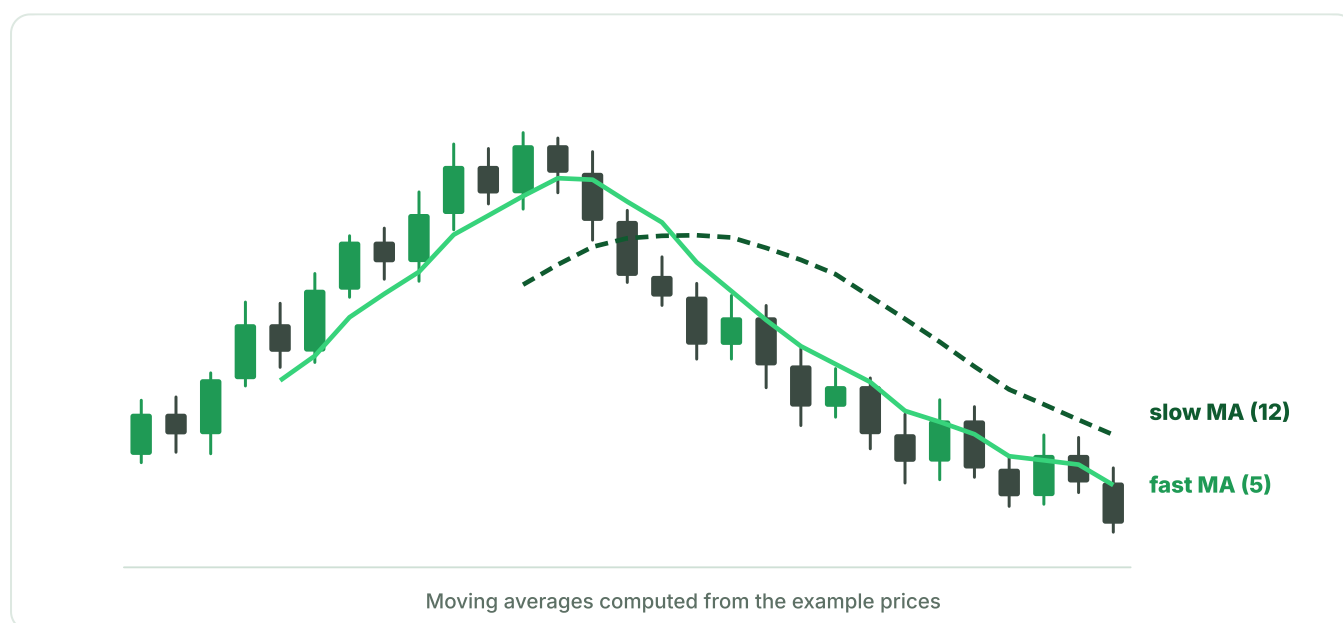
Forex Indicators Explained: Moving Averages, RSI and MACD

Indicators turn price into lines that are easier to read. Learn how moving averages show trend, how RSI and MACD measure momentum, what divergence is, why every indicator lags, and how to use a few indicators well instead of many badly.

An indicator is a calculation applied to price, drawn as a line or histogram on or below the chart. Every indicator is made from the same open, high, low and close data you already see in the candles, so none of them knows anything the price does not. What they offer is a different view: a smoothed trend, a measure of momentum, a warning that a move is tiring. Used sparingly, they help. Stacked five deep, they mostly disagree with each other.

Moving averages

A moving average (MA) is the average closing price over a set number of candles, recalculated every candle. A 20-period simple moving average on the 1-hour chart is the average of the last 20 hourly closes. Plotted on the chart, it smooths out noise and shows the trend's direction: price above a rising average suggests an uptrend, price below a falling one a downtrend.



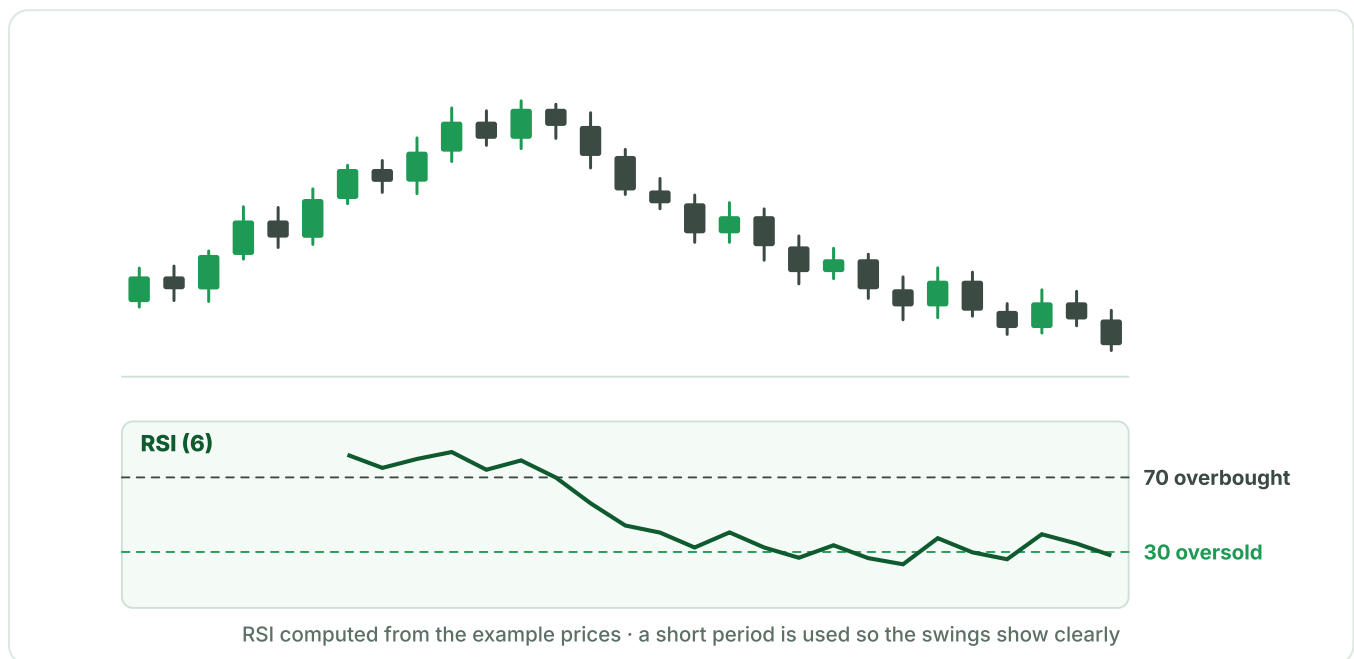
A fast and a slow moving average. When the fast one crosses below the slow one, the trend has turned.

TYPE	HOW IT WORKS	COMMON USE
Simple (SMA)	Equal weight to every candle in the period	Smooth trend filter, e.g. 50 or 200 on the daily
Exponential (EMA)	More weight to recent candles	Faster signals, e.g. 9, 21 or 50
Crossover	Fast average crossing a slow one	Trend-change signals

Traders use moving averages in three main ways: as a trend filter (only buy when price is above the 200-period average), as dynamic support and resistance (pullbacks often pause at the 20 or 50-period average in a strong trend), and as crossover signals (a fast average crossing a slow one). Crossovers are the least reliable of the three in ranging markets, where averages tangle and give constant false signals.

RSI: measuring momentum

The Relative Strength Index, published by J. Welles Wilder in 1978, compares the size of recent up moves with recent down moves and turns the result into a number between 0 and 100. The standard setting is 14 periods. Readings above 70 are traditionally called overbought and below 30 oversold.

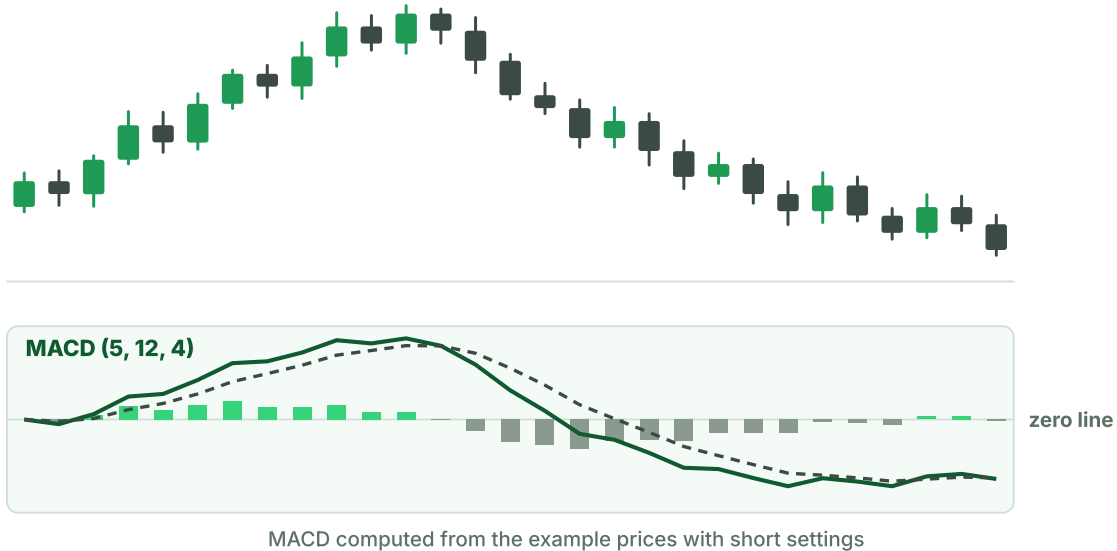


RSI rises above 70 during the rally and sinks towards 30 in the decline.

"Overbought" does not mean "about to fall". In a strong uptrend RSI can stay above 70 for a long time while price keeps climbing. Many traders use RSI the other way round: in an uptrend, a dip of RSI towards 40 or 50 marks a pullback worth buying, and readings above 70 confirm strength rather than signal a sale.

MACD

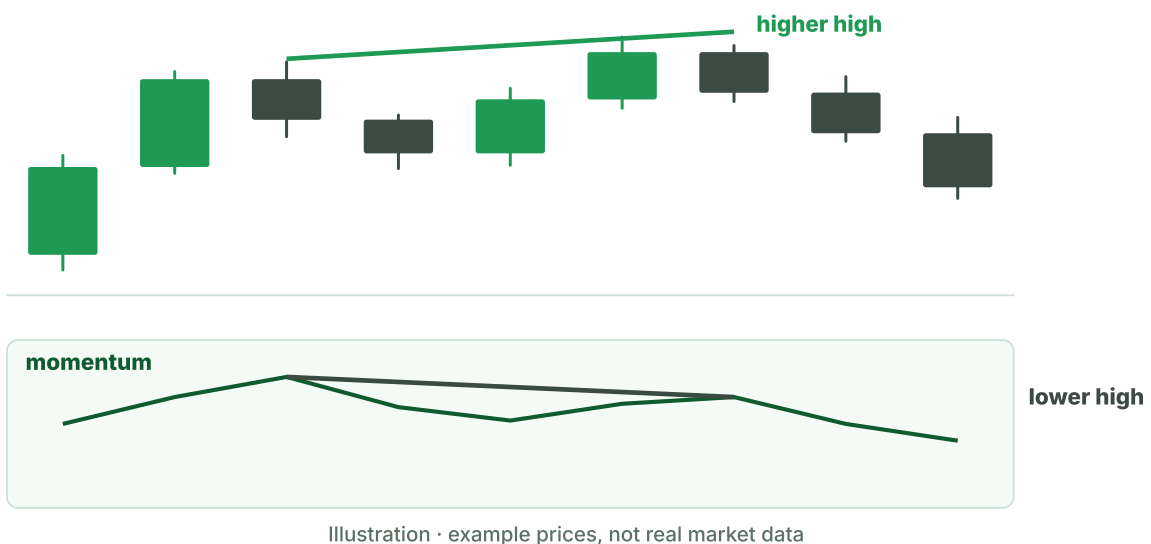
MACD (moving average convergence divergence), developed by Gerald Appel, is the difference between a fast and a slow exponential moving average, usually 12 and 26 periods, plotted with a 9-period signal line and a histogram of the gap between them. When MACD is above its signal line and rising, momentum is up; when it crosses below, momentum is fading.



MACD line, signal line and histogram. MACD turns below its signal as the rally loses steam.

Divergence

Divergence is when price and momentum disagree. Bearish divergence is a higher high in price with a lower high in RSI or MACD: price pushed further, but with less force behind it. Bullish divergence is a lower low in price with a higher low in the indicator. Divergence is a warning, not a signal on its own; trends can show divergence several times before they turn.



Price makes a higher high while momentum makes a lower high: bearish divergence.

Divergence works best at a level. A bearish divergence at a major resistance zone, followed by a structure break, is far stronger than divergence in the middle of a trend.

Other indicators you will meet

INDICATOR	WHAT IT MEASURES	TYPICAL USE
Bollinger Bands	Volatility: bands two standard deviations around an average	Spotting squeezes before breakouts and stretched moves
ATR (average true range)	Average candle range	Setting stops and position size
Stochastic	Where the close sits within the recent range	Momentum in ranging markets
Volume (tick volume)	Number of price changes	Rough gauge of activity
Ichimoku	Trend, momentum and levels in one system	Trend following on higher timeframes

Each of these answers one question about price. Bollinger Bands tell you whether volatility is compressed or stretched; ATR tells you how far price typically moves; Stochastic tells you where the close sits in the recent range. None tells you what happens next. Most charting platforms include all of them free. Choosing an indicator should start with the question you need answered, not with the indicator that looks most impressive.

ATR in practice

ATR deserves special mention because it helps with risk rather than direction. If EUR/USD has a 14-day ATR of 70 pips, a 10-pip stop on a daily trade sits well inside ordinary noise and will be hit often. Many traders set stops at a fraction or multiple of ATR, such as 1.5 times the 1-hour ATR for an intraday trade, so the stop widens in volatile markets and tightens in calm ones. Position size then adjusts to keep the money at risk constant, which Part 6 explains in detail.

Bollinger Bands are useful in a similar way. When the bands squeeze tightly together, volatility is unusually low, and low volatility rarely lasts. The squeeze does not say which way the breakout will go, but it warns that a larger move is likely soon, so it is a poor moment to place a tight stop or a far-off limit order and walk away. Traders who expect the breakout often wait for the first candle to close outside the bands before acting.

Every indicator lags

Because indicators are calculated from past prices, they react after price has moved. A slow moving average turns down several candles after the top, and a crossover confirms a trend change after part of the move is already gone. That is the trade-off: smoother indicators give fewer false signals but later ones; faster indicators react sooner but whipsaw more.

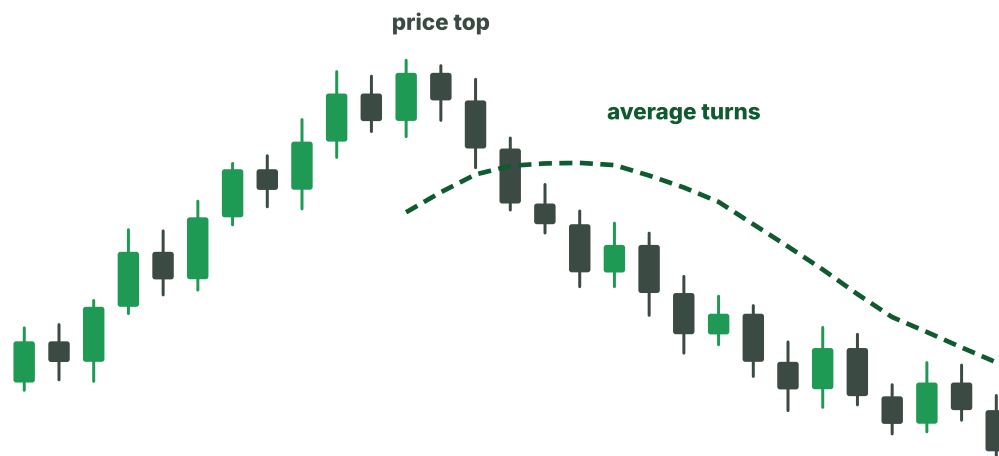


Illustration · example prices, not real market data

Price tops first; the slow average only turns several candles later.

Indicators and market state

Indicators behave very differently in trends and in ranges, and much indicator frustration comes from using the wrong one for the market in front of you. Trend tools such as moving averages and MACD crossovers shine in trends and whipsaw in ranges. Oscillators such as RSI and Stochastic give useful overbought and oversold readings in ranges and stay pinned at extremes in strong trends.

MARKET STATE	TOOLS THAT TEND TO HELP	TOOLS THAT TEND TO MISLEAD
Strong trend	Moving averages, MACD	RSI "overbought" sell signals
Range	RSI, Stochastic at the edges	Moving-average crossovers
Quiet before news	Bollinger squeeze, ATR	Any signal taken just before the release

Decide whether the market is trending or ranging from structure first (Chapter 14). Then choose the indicator that suits that state, not the other way round.

Using indicators well

- Pick one trend tool and one momentum tool, for example a 50-period EMA and RSI. More rarely helps.
- Use indicators to confirm what price and structure already suggest, not to replace them.
- Keep the standard settings until you have a tested reason to change them.
- Know which market state each indicator suits: moving averages for trends, RSI extremes for ranges.
- Test any indicator rule on past charts before trading it with real money.

Indicator settings that look perfect on past charts are often fitted to that past. If a tiny change in the setting ruins the results, the rule was never robust.

Illustrative case: Raj, 30, Pune

Raj had seven indicators on his chart and rarely took a trade because they never all agreed. He kept only the 50-period EMA and RSI: buy pullbacks above a rising EMA when RSI dipped near 40. His chart became readable, and his decisions became consistent.

Indicators are price wearing a different coat. Learn to read price first; then add one or two indicators that answer a question price alone cannot.

Tanbir Habib Riyad

Forex & Crypto Analyst, FX Recap

Frequently asked

What is the best indicator for forex?

There is no single best one. A trend tool such as a moving average plus a momentum tool such as RSI covers most needs; reading price and structure matters more.

What does RSI above 70 mean?

Recent gains have been large compared with losses. It is called overbought, but in strong trends RSI can stay above 70 while price keeps rising.

What is MACD?

The difference between a fast and a slow exponential moving average, usually 12 and 26 periods, with a 9-period signal line. It shows the direction and strength of momentum.

What is divergence?

When price and an indicator disagree, such as a higher high in price with a lower high in RSI. It warns that momentum is fading.

Why do indicators lag?

They are calculated from past prices, so they react after price moves. Smoother settings lag more but give fewer false signals.

More on this topic, with live tools, on FX Recap: <https://fxrecap.com/learn-forex/education/what-are-forex-indicators>

Fibonacci Retracements in Forex: Levels, Extensions and How to Draw Them

Fibonacci retracements mark where a pullback might end within a trend; extensions project where the next move might reach. Learn the key ratios, how to draw them correctly, why the 50–61.8% zone gets so much attention, and how to combine Fibonacci with levels and structure.

Fibonacci tools are on every trading platform, and almost every trader has tried them. They take a completed price swing and divide it by a set of ratios derived from the Fibonacci sequence, the number series made famous by Leonardo of Pisa's book *Liber Abaci* in 1202. The resulting horizontal lines show where a pullback might pause and where an extension might reach. There is no law of nature behind them in markets; they work, when they work, because so many traders watch the same levels.

The key levels

LEVEL	WHAT TRADERS EXPECT
23.6%	A shallow pullback in a strong trend
38.2%	A normal pullback in a healthy trend
50%	Not a Fibonacci ratio, but watched as the half-way point
61.8%	The "golden ratio"; a deep but common pullback
78.6%	A very deep pullback; the trend is in question

In an uptrend, a retracement measures how far price falls back from the swing high towards the swing low that started the move. A pullback that stops near 38.2% shows strong buyers; one that reaches 61.8% is deeper but still within a normal trend. Beyond 78.6%, the move that created the swing is largely undone.

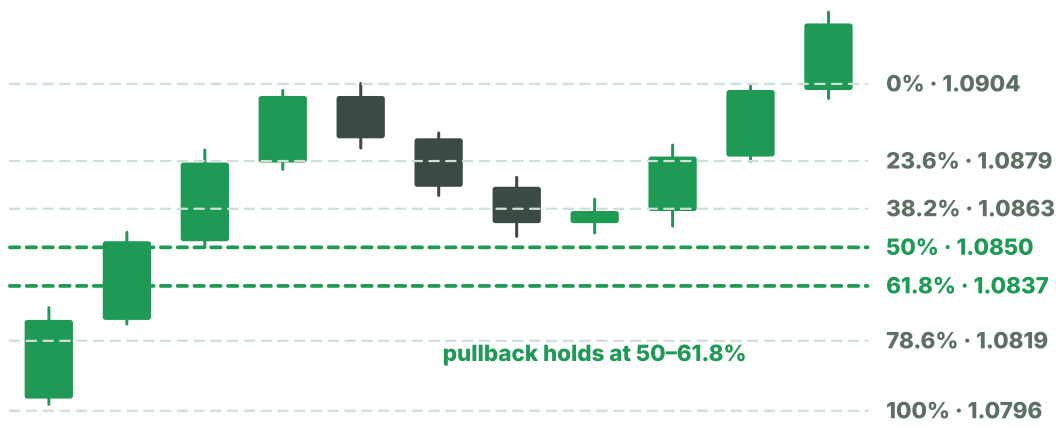


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Fibonacci drawn from swing low to swing high. The pullback holds between 50% and 61.8% before the trend resumes.

Fibonacci in a downtrend

In a downtrend the tool is drawn the other way: from the swing high down to the swing low. The levels then show how far a bounce might rally before sellers return. A rally that stalls near 38.2% shows sellers firmly in control; one that reaches 61.8% before failing is deeper but still consistent with the downtrend. A close above 78.6% suggests the fall may be over, and short sellers usually step aside until a new lower high forms.

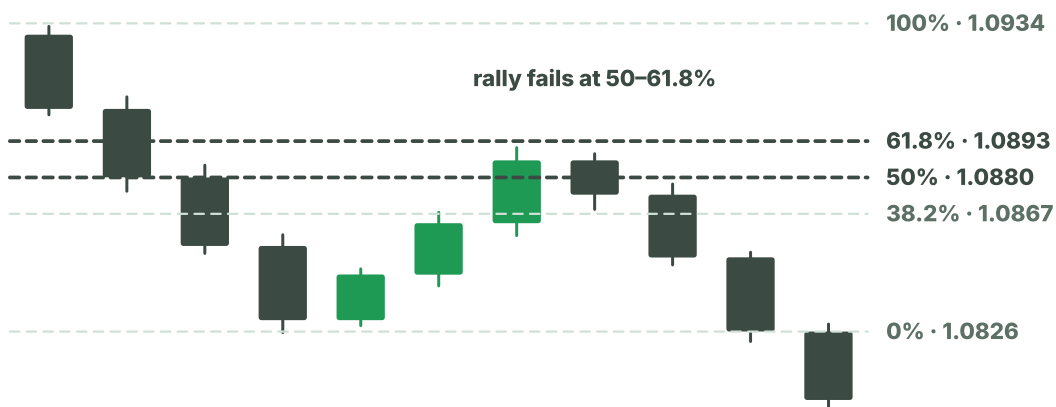


Illustration · example prices, not real market data

Drawn from swing high to swing low, the levels show where a bounce might fail. Here the rally stalls in the 50-61.8% band.

How to draw Fibonacci correctly

Most Fibonacci mistakes come from choosing the wrong swing. The swing must be complete and clear on the timeframe you trade. In an uptrend, click the swing low first and drag to the swing high; in

a downtrend, click the swing high and drag to the swing low. Use the wick extremes or the bodies consistently; either works if you stick to one.

Drawing Fibonacci retracements

- 1 Pick a clear, completed swing on the timeframe you trade
- 2 Uptrend: click the swing low, drag to the swing high
- 3 Downtrend: click the swing high, drag to the swing low
- 4 Watch 38.2%, 50% and 61.8% for a reaction, not a guarantee
- 5 Wait for a candle signal or structure shift before entering

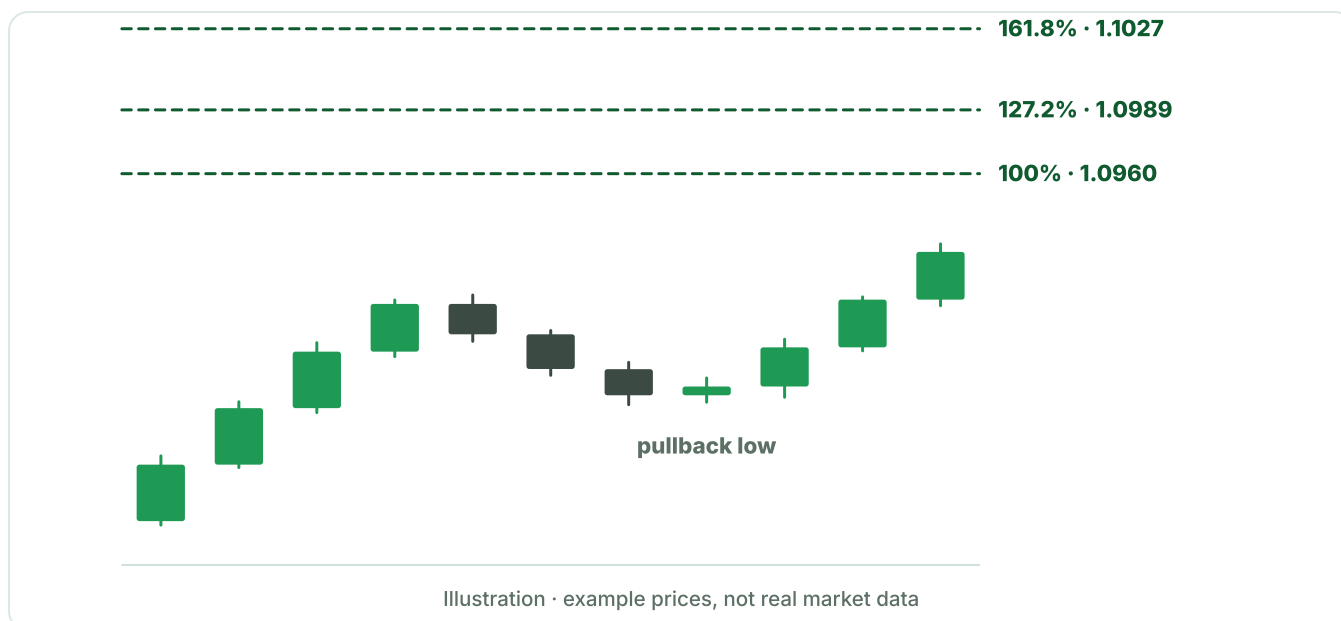
Fibonacci levels are a framework; they work best alongside structure and levels

Five steps to drawing retracements that mean something.

- Use swings that are obvious at a glance, not small wiggles.
- Redraw only when a new swing high or low forms, not every candle.
- Use the same anchoring method on every chart so your levels are comparable.

Extensions: projecting targets

Fibonacci extensions project where the next leg of a trend might go. After a swing up and a pullback, traders project 100%, 127.2% and 161.8% of the first swing from the pullback low. If the first leg was 108 pips and the pullback ended at 1.0852, the 100% target is 1.0960 and the 161.8% target about 1.1027. These are reference points for taking profit, not predictions.



Extensions project the first swing's size from the pullback low to suggest targets.

Why the ratios are what they are

In the Fibonacci sequence, 0, 1, 1, 2, 3, 5, 8, 13, 21, 34, 55 and so on, each number is the sum of the two before it. Divide any number by the next one and the result approaches 0.618; divide by the number two places on and it approaches 0.382. Those ratios appear in nature, art and architecture, which is part of their appeal. In markets, though, their usefulness comes from self-fulfilment: millions of traders watch them, so orders cluster there.

That is also why 50% sits alongside the true Fibonacci ratios. It has nothing to do with the sequence, but half-way is a natural place for traders to think a pullback has gone far enough, and plenty of orders gather there for that reason alone.

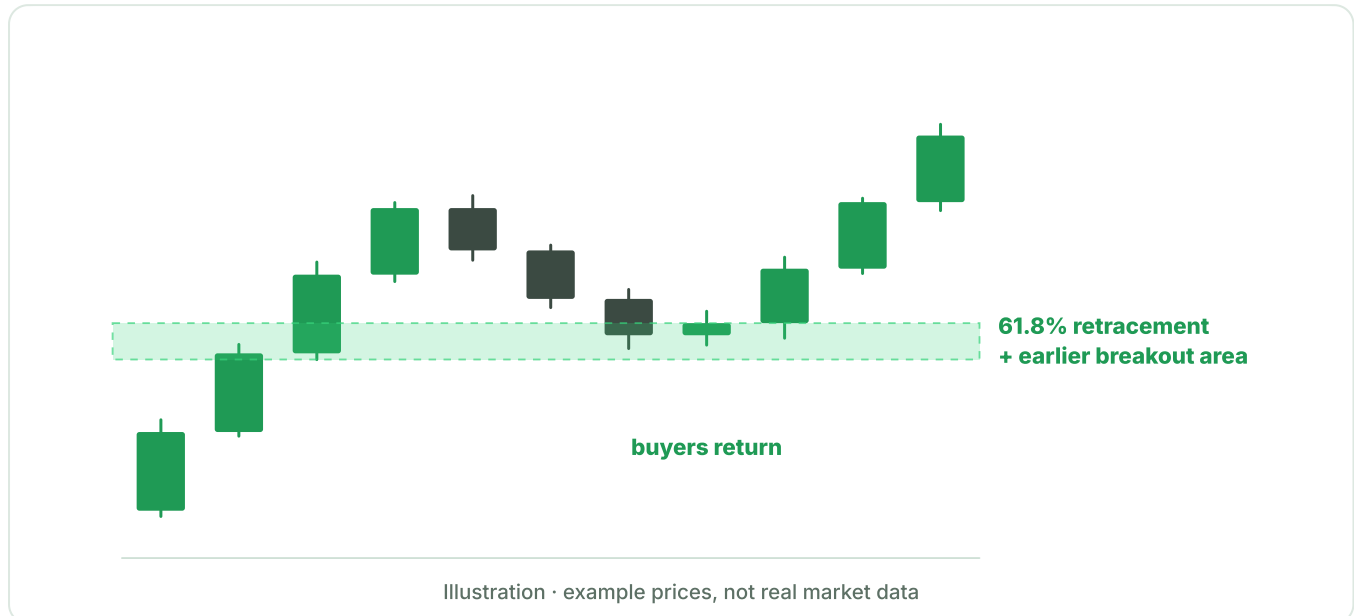
How deep should a pullback be?

RETRACEMENT DEPTH	WHAT IT USUALLY SUGGESTS
Shallow (23.6–38.2%)	Strong trend; buyers impatient to get in
Normal (38.2–61.8%)	Healthy trend taking a breath
Deep (61.8–78.6%)	Trend weakening; wait for clear confirmation
Beyond 78.6%	The swing is mostly undone; the trend may be over

Depth tells you as much as the level itself. A run of shallow pullbacks followed by a sudden deep one is often the first sign a trend is ageing, which links Fibonacci back to the trend-strength ideas in Chapter 14.

Confluence: where Fibonacci works best

A Fibonacci level on its own is one line among many. Its value rises sharply when it lines up with something else: a support or resistance zone, a round number, a trendline or an earlier breakout area. That overlap is called confluence. A 61.8% retracement that lands exactly on an old resistance level that should now act as support is far more interesting than a 61.8% level in empty space.



The 61.8% level lines up with an earlier breakout area: two reasons for buyers to act at one price.

Smart Money Concepts use the same idea under different names. The 50% level divides a swing into premium and discount, and the zone between about 62% and 79% is called the optimal trade entry (OTE). [Chapter 24](#) builds on this chapter directly.

Common Fibonacci mistakes

- Drawing on an unfinished swing, then redrawing every time price moves.
- Anchoring on random wiggles instead of clear swing highs and lows.
- Treating every level as a trade, instead of waiting for the one that lines up with structure.
- Placing stops exactly on the next Fibonacci level, where everyone else's stops sit.
- Using Fibonacci against the higher-timeframe trend without any other reason.

A worked trade

GBP/USD rallies from 1.2600 to 1.2760 on the 4-hour chart, a 160-pip swing. Drawn from low to high, the 61.8% retracement sits near 1.2661 and the 50% level near 1.2680. The old breakout level, former resistance at 1.2670, sits between them. A trader marks 1.2660 to 1.2680 as the buy zone, waits for a bullish 1-hour candle there, and places the stop below the 78.6% level near 1.2634. The first target is the old high at 1.2760, and the 127.2% extension near 1.2803 is the second. Risk is about 40 pips for a first target roughly 85 pips away.

None of those numbers came from Fibonacci alone. The swing came from structure, the zone gained weight from the old resistance, and the entry waited for a candle signal. Fibonacci simply turned a

vague idea of buying the pullback into specific prices, which is where the tool earns its place on the chart.

Fibonacci time zones and other time-based Fibonacci tools exist on most platforms. They are far less widely followed than retracements, and this book does not rely on them.

A Fibonacci trade, step by step

1. Confirm the trend on the higher timeframe: higher highs and higher lows for a buy.
2. Draw the retracement on the latest completed swing.
3. Mark where 50–61.8% overlaps with support or another level.
4. Wait for price to reach the zone and show a rejection candle or a small structure shift.
5. Enter with a stop beyond the 78.6% level or the swing low; target the previous high or an extension.

Price does not stop at Fibonacci levels because of the numbers. Treat them as areas to watch for a reaction, and never as standalone reasons to trade.

Illustrative case: Farah, 26, Kuala Lumpur

Farah drew Fibonacci on every small swing and found levels everywhere, which made them useless. She restricted herself to the most recent clear 4-hour swing in the direction of the daily trend, and only traded the 50–61.8% zone when it matched a support level. Her charts had one Fibonacci drawing instead of six.

Fibonacci levels are a shared map, not a secret code. They work best where they agree with the other landmarks on your chart.

Jannatul Ferdaush

Fact-Checker & Risk Analyst, FX Recap

Frequently asked

What are Fibonacci retracement levels?

Horizontal levels at 23.6%, 38.2%, 50%, 61.8% and 78.6% of a completed swing, showing where a pullback might pause.

Which Fibonacci level is most important?

Traders watch 38.2%, 50% and 61.8% most closely, with the 50–61.8% zone the most popular for pullback entries.

How do you draw Fibonacci in an uptrend?

Click the swing low and drag to the swing high of a completed move. In a downtrend, draw from the swing high to the swing low.

What are Fibonacci extensions?

Levels such as 127.2% and 161.8% that project the size of a previous swing beyond its end, used as profit targets.

Does Fibonacci work in forex?

As a framework for where to watch for reactions, especially when levels overlap with support, resistance or round numbers. It does not predict turns by itself.

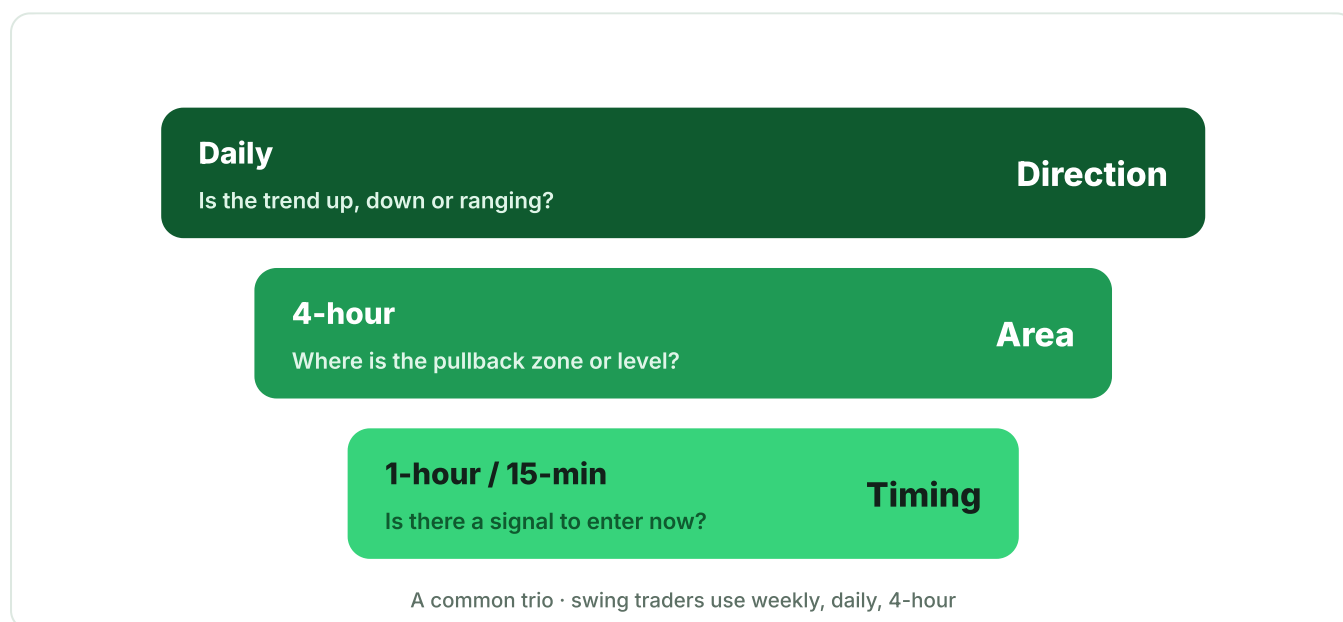
Multi-Timeframe Analysis: How to Combine Daily, 4-Hour and 1-Hour Charts

One timeframe never tells the whole story. Learn top-down analysis, which three timeframes to pair, how a higher-timeframe candle hides lower-timeframe structure, how to judge alignment between timeframes, and a routine that ties Part 3 together.

The same pair can be in an uptrend, a downtrend and a range all at once, depending on which chart you open. On the daily chart there may be a steady climb, on the hourly a sharp pullback, and the 5-minute a tight range. None of them is wrong. Multi-timeframe analysis is the habit of reading them in the right order so they help each other instead of confusing you.

Top-down analysis

Top-down analysis means starting with the highest timeframe you care about and working down. Each timeframe answers one question. The higher one sets the direction, the middle one finds the area to trade from, and the lower one times the entry. A common trio for day traders is daily, 4-hour and 1-hour (or 15-minute); swing traders often use weekly, daily and 4-hour.



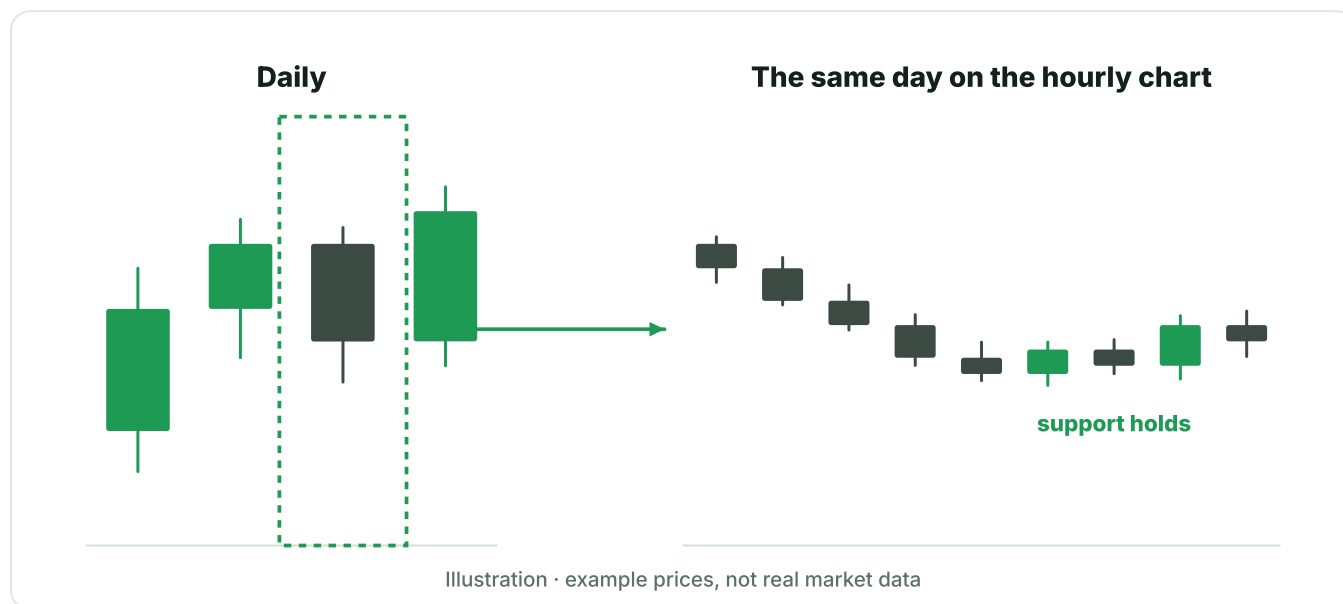
Three timeframes, three questions: direction, area, timing.

TRADING STYLE	DIRECTION	AREA	TIMING
Swing trader	Weekly	Daily	4-hour
Day trader	Daily	4-hour	1-hour or 15-minute
Scalper	4-hour	1-hour	5-minute or 1-minute

A useful rule of thumb is a factor of about four to six between timeframes. Daily to 4-hour is six; 4-hour to 1-hour is four. Bigger jumps leave gaps in the story; smaller ones show nearly the same thing twice.

What a higher-timeframe candle hides

As [Chapter 12](#) showed, every candle is made of smaller candles. A daily candle that looks like a simple down day can contain a pullback into support and the start of a rally on the hourly chart. Reading only the daily chart, you would see weakness; reading the hourly, you would see the turn already beginning.



One daily down candle, seen on the hourly chart: a pullback that found support and started to turn.

Alignment

The strongest trades are the ones where the timeframes agree: the daily trend is up, the 4-hour chart has pulled back into a support zone, and the 1-hour chart shows a bullish signal at that zone. When they disagree, either trade smaller or wait. Trading against the higher-timeframe trend is possible, but it is a different strategy with lower odds and needs a clear reason.

When timeframes agree, and when they don't

Daily up · 4H pullback to support · 1H bullish signal

Aligned: take it

Daily up · 4H at resistance · 1H bullish signal

Mixed: smaller size or wait

Daily down · 4H rally · 1H bullish signal

Against the trend: skip

A rule of thumb, not a law

Three scenarios: aligned, mixed and against the trend.

- **Aligned:** higher trend, middle-timeframe level and lower-timeframe signal agree. Full planned size.
- **Mixed:** the setup is valid but the middle timeframe is at an awkward level. Smaller size or wait.
- **Against:** the lower timeframe signals against the higher trend. Usually skip, or treat as a short-term counter-trend trade with a tight target.

Turning daily levels into hourly trades

The practical payoff of multi-timeframe reading is entries with small stops and large targets. A support zone drawn on the daily chart might be 20 pips deep. Waiting inside it for a 1-hour signal, such as a bullish engulfing candle or a small structure break upward, lets you place the stop just below the zone, perhaps 25 pips away, while targeting the next daily resistance 60 or 70 pips above. The daily chart gives the reason; the hourly chart gives the precision, and the two together decide the size of the trade.

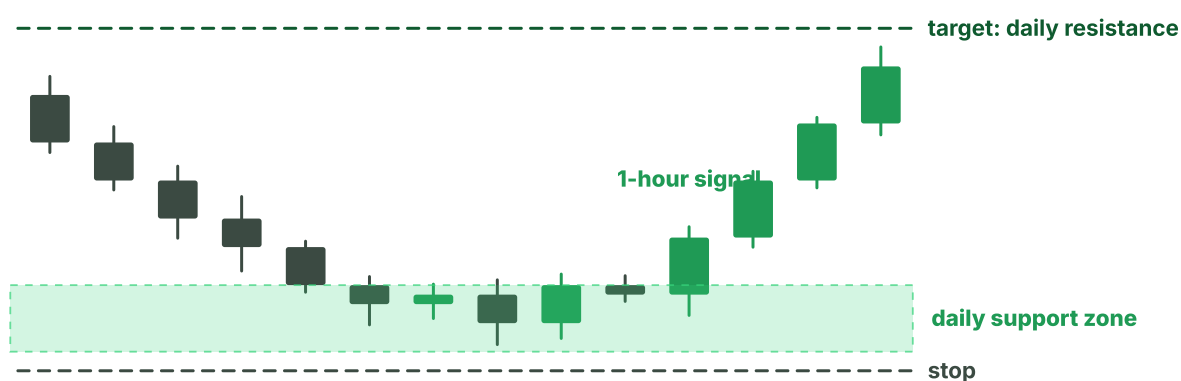


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A daily zone traded on the 1-hour chart: the signal at the zone, the stop below it and the target at the next daily level.

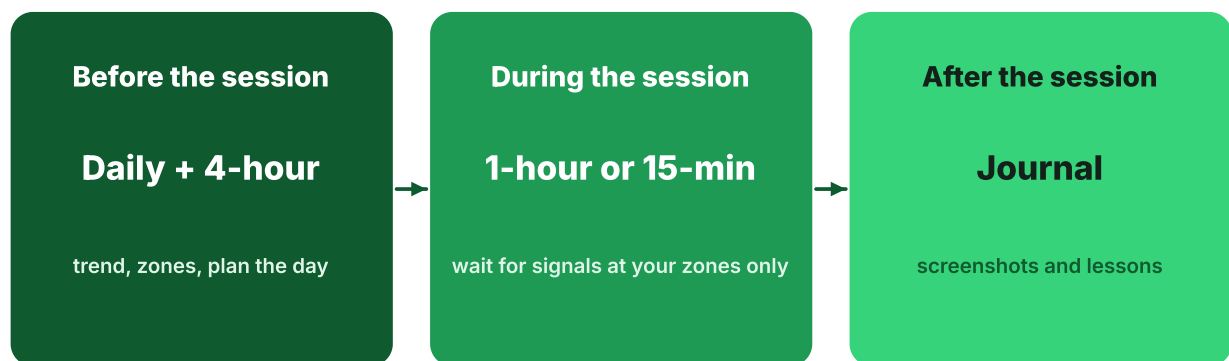
Without the daily chart, the hourly signal is just one of dozens of engulfing candles that day. On its own, the daily zone gives no precise entry, and the stop would need to be much wider. Together they give a trade with a clear reason, a defined risk and a sensible target.

A routine that ties Part 3 together

1. Daily chart: label the swings (Chapter 14). Is the structure up, down or ranging?
2. Daily chart: mark the two or three strongest support and resistance zones above and below price (Chapter 13).
3. 4-hour chart: find where price is relative to those zones. Is a pullback reaching one? Does a Fibonacci level agree (Chapter 17)?
4. 1-hour chart: wait at the zone for a candle signal (Chapter 12), a small pattern (Chapter 15) or a momentum shift (Chapter 16).
5. Plan the trade: entry, stop beyond the zone or swing, target at the next opposing level, size from your risk.

Do the daily and 4-hour steps once a day, ideally before your session starts. Then you only need the lower timeframe during the session, and you will not be tempted to trade every wiggle.

A daily multi-timeframe routine



About 15 minutes before and after the session

Plan on the higher timeframes before the session, act on the lower one during it, and review afterwards.

Matching the stop to the timeframe

Your stop and target should come from the same timeframe as your entry logic. If the trade idea is a daily support zone, the stop belongs below that zone, even if you entered on a 15-minute signal. A 5-pip stop based on the 15-minute chart inside a daily trade gets hit by ordinary hourly noise long before the daily idea is proven wrong. The position size then shrinks to fit the wider stop, keeping the money at risk the same.

When timeframes disagree

Often the daily chart points up while the 1-hour chart is falling hard. That is normal: the hourly decline may simply be the pullback within the daily trend. The question is whether it is still a pullback or the start of a reversal. Watch the level that defines the daily trend, the last daily higher low. While price holds above it, the hourly fall is a pullback and a chance to buy lower. A daily close beneath it changes the higher-timeframe story, and every lower-timeframe buy idea should be dropped until structure settles.

Some traders avoid this conflict by waiting for full alignment, with daily, 4-hour and 1-hour all pointing the same way. That filter removes many losing trades but also many winners, because by the time all three agree, part of the move has already happened. There is no single right answer; choose one approach, write it in your plan and test it, as Part 6 shows.

Whichever rule you pick, apply it every time. Switching between them depending on mood is how traders end up taking the hourly sell signal one day and ignoring the same signal the next, which makes their results impossible to judge. Consistency is what lets your trading journal tell you which approach suits you.

TRADE IDEA FROM	STOP BASED ON	TYPICAL STOP ON EUR/USD
Daily level	Beyond the daily zone	30–60 pips
4-hour level	Beyond the 4-hour swing	15–35 pips
1-hour level	Beyond the 1-hour swing	8–20 pips

These distances are examples for a calm market; in volatile conditions every row widens. Use the pair's average range (Chapter 11) to adjust.

Common mistakes

- Flicking between many timeframes until one agrees with the trade you already wanted.
- Using timeframes too close together, such as 1-hour and 30-minute, which show almost the same thing.
- Letting a lower timeframe override the higher trend without a structure break on the higher chart.
- Placing stops based on the lower timeframe but targets based on the higher one, which mismatches risk and reward.

More timeframes do not mean more certainty. Three are enough; beyond that, contradictions multiply and decisions stall.

That completes Part 3. [Part 4](#) takes the structure, levels and order-flow ideas you now know and turns them into the Smart Money Concepts framework: break of structure, liquidity sweeps, order blocks and fair value gaps.

Illustrative case: Lina, 28, Cairo

Lina traded the 15-minute chart alone and kept buying breakouts straight into daily resistance. She added a two-minute daily check before each session, marking the main zones and the trend. Her 15-minute entries stayed the same, but she stopped taking the ones that ran into a wall on the bigger chart.

Decide the direction on the big chart, the place on the middle one and the moment on the small one. Mixing those jobs up is where most confusion starts.

Jowel Rana

Co-Founder & Forex Trader, FX Recap

Frequently asked

What is multi-timeframe analysis?

Reading the same pair on several timeframes, from highest to lowest, so the higher one sets direction, the middle finds the area and the lower times the entry.

Which timeframes should I use together?

Three timeframes about four to six times apart, such as daily, 4-hour and 1-hour for day trading, or weekly, daily and 4-hour for swing trading.

What if timeframes disagree?

Follow the higher timeframe for direction. If the lower timeframe signals against it, trade smaller, wait, or treat it as a short-term counter-trend trade.

What is top-down analysis?

Starting with the highest timeframe and working down, so each lower chart is read in the context of the one above it.

How many timeframes are too many?

More than three usually adds contradictions rather than clarity.

More on this topic, with live tools, on FX Recap: <https://fxrecap.com/learn-forex/education/multi-timeframe-analysis-in-forex>

What Smart Money Concepts Are: Liquidity, Structure and Institutional Footprints

Smart Money Concepts (SMC) read the chart as a record of where large orders were filled. Learn the core idea, the vocabulary, how the pieces fit into one sequence, when SMC traders like to trade, and what the framework can and cannot promise.

Smart Money Concepts, usually shortened to SMC, is a way of reading price charts that has spread quickly through retail trading communities over the past decade. Much of its vocabulary comes from material shared online under the name ICT (Inner Circle Trader), and many educators have since added their own versions. The terms can sound mysterious, but the core idea is simple and builds directly on everything in Part 3.

The idea is this: banks, funds and other large participants trade sizes that cannot be filled at a single price without moving the market against themselves. To buy a large position they need a lot of willing sellers, and to sell they need a lot of willing buyers. The places where those opposite orders gather in large numbers are predictable: just beyond obvious highs and lows, where other traders have placed stop losses and breakout orders. SMC traders try to read the chart as a map of those order pools and of the moves that use them.

Smart money and retail traders

In SMC language, smart money means the large, well-informed participants, and retail means individual traders. The framework assumes retail traders tend to act on obvious signals: they buy breakouts above clear resistance, sell below clear support and place their stops just beyond the latest swing. Each of those habits creates a cluster of orders at a predictable price.

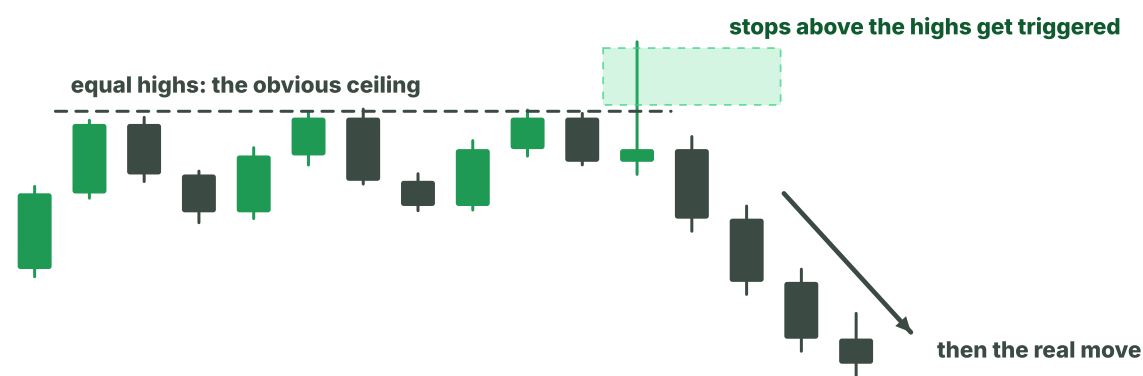


Illustration · example prices, not real market data

Equal highs attract stop orders above them. A spike through the highs fills those orders, which gives large sellers the buyers they need, and the real move follows.

When price runs through such a cluster, stops are triggered and become market orders. For a large participant who wants to sell, a flood of buy orders from triggered short stops and breakout buyers is the liquidity that lets them sell without chasing the price lower. That is why SMC traders treat a quick spike through an obvious level, followed by a reversal, as a meaningful event rather than random noise.

Nobody can see who is behind any single candle in the spot forex market, which has no central exchange. SMC is a model that explains common chart behaviour in terms of order flow. Treat it as a useful lens, not as proof of what any bank is doing.

The building blocks

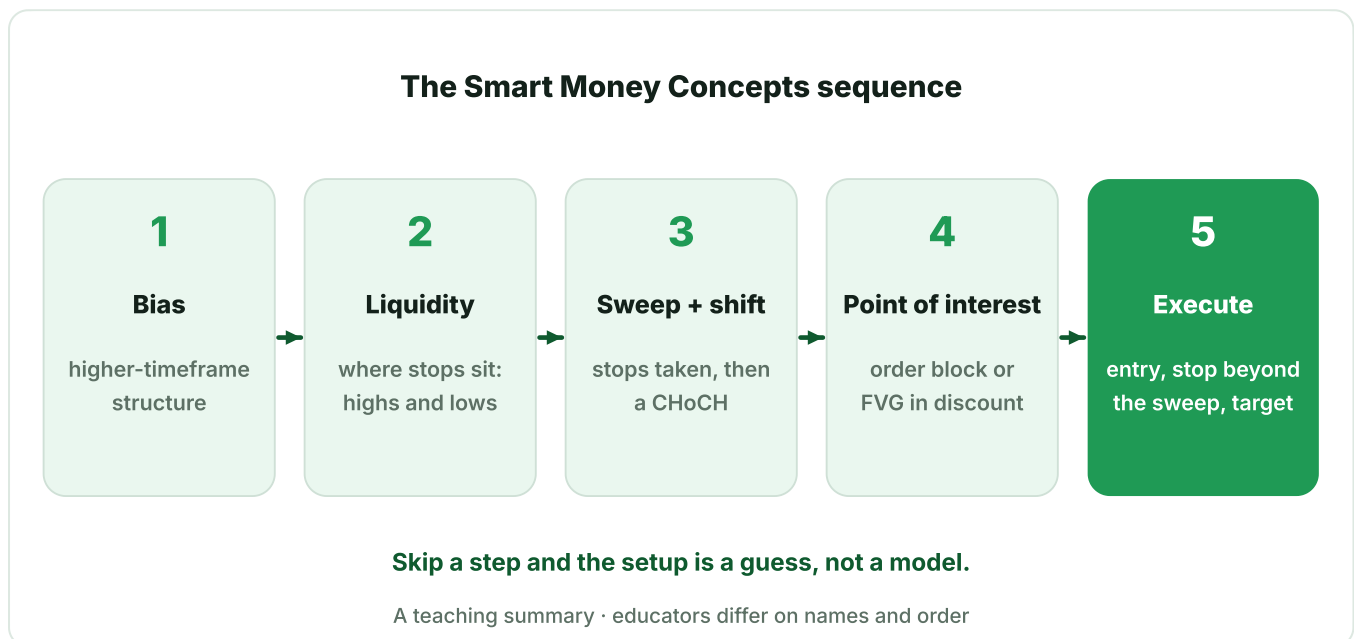
SMC adds a set of named tools to the price action you already know. Each one gets its own chapter in this part of the book.

TERM	WHAT IT MEANS	CHAPTER
Break of structure (BOS)	A close beyond the last swing in the trend's direction	20
Change of character (CHoCH)	The first close against the trend's structure	20
Liquidity	Clusters of stop and pending orders beyond highs and lows	21
Order block (OB)	The last opposite candle before a strong move	22
Fair value gap (FVG)	A three-candle gap where price moved one way only	23
Premium and discount	The upper and lower halves of a dealing range	24

Most of these are new names for familiar ideas. A break of structure is the higher high from [Chapter 14](#). Liquidity pools sit at the support and resistance levels of [Chapter 13](#). What SMC adds is a precise vocabulary and a fixed order in which to use the pieces.

One sequence, five steps

Used properly, SMC is not a pile of separate signals but a sequence. First the higher-timeframe structure gives a bias. Then the trader locates the liquidity price is likely to seek. The setup appears when price takes that liquidity and shows a change of character. Entries come from a point of interest, usually an order block or a fair value gap, and the trade is managed with a stop beyond the sweep and a target at the next pool of liquidity.



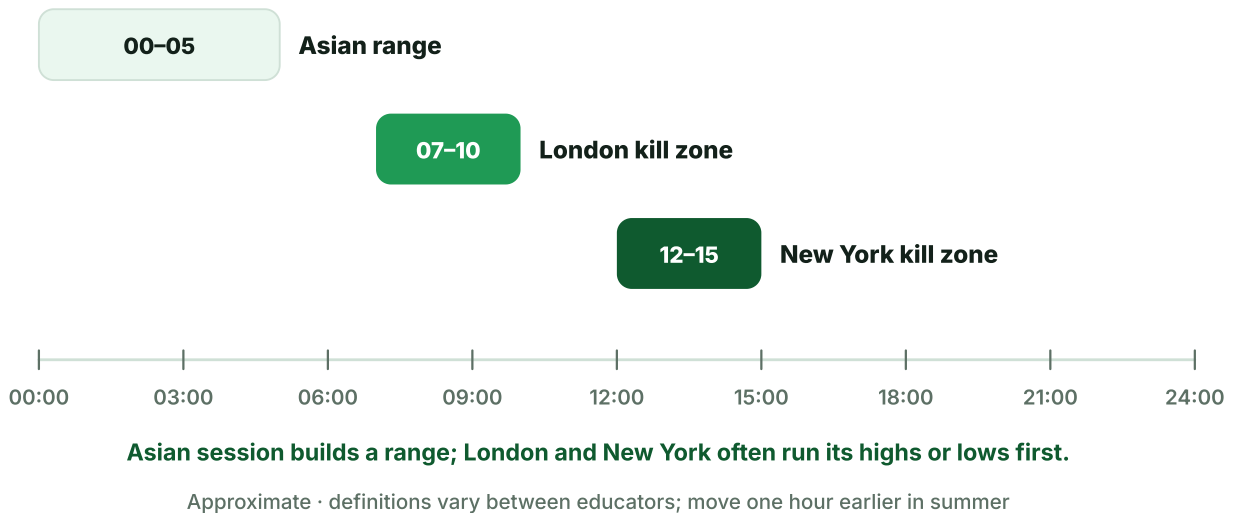
The SMC sequence in five steps: bias, liquidity, sweep and shift, point of interest, execution.

Each step filters the one after it. An order block that appears against the higher-timeframe bias is usually skipped. A change of character with no liquidity taken first is treated with suspicion. Traders who skip steps end up seeing order blocks and gaps everywhere, which is the most common complaint about SMC: on any chart, with enough hindsight, something always fits.

Timing: the kill zones

Because SMC focuses on liquidity, it pays close attention to when liquidity arrives. [Chapter 5](#) showed that forex is quiet in Asian hours and busiest when London and New York overlap. SMC traders call the most active windows kill zones and many restrict their entries to them.

Session windows many SMC traders watch (UTC, winter)



Approximate session windows many SMC traders watch, in UTC during northern-hemisphere winter. Definitions vary, and the times move an hour earlier in summer.

A common pattern in these windows is a raid on the Asian range. The Asian session often builds a narrow range, and London or New York traders frequently push through one side of it first, taking the stops there, before the main move of the day. Chapter 21 looks at that pattern, often called the Judas swing, in detail.

How SMC differs from classic technical analysis

Classic technical analysis asks where support and resistance are and expects price to respect them. SMC asks where the stops behind those levels are and expects price to run them first. The two readings often point to the same area but suggest different timing. A classic trader buys the first touch of support; an SMC trader waits for the spike below it, the close back above and a change of character, and buys afterwards with a stop beyond the spike. Neither is always right, but the SMC version avoids one familiar frustration: being stopped out by a spike just before price turns in your favour.

What SMC can and cannot do

SMC gives traders a clear story for why price turns where it does, precise places to put stops and, often, very favourable reward-to-risk ratios, because entries at order blocks and gaps allow tight stops. Those are real strengths. The weaknesses are just as real.

- **Hindsight bias:** every finished chart is full of perfect order blocks. In real time, many candidates fail.
- **Little independent evidence:** published, independent testing of SMC rules is scarce. Most claims of success come from educators and social media.
- **Vague definitions:** educators disagree on which candle is the order block or which swing counts, so two traders can draw different levels on the same chart.

- **Low win rates:** tight stops are hit often. The method depends on winners being two or three times larger than losers.

Be wary of anyone selling SMC courses or signals with promises of high win rates or quick funded accounts. No method removes risk, and most retail CFD accounts lose money. Test any rule on a demo account and in a journal before trusting it with real money.

The honest way to use this part of the book is as a set of hypotheses to test. Write down exact rules, apply them to past charts and a demo account, and keep the numbers. [Chapter 34](#) shows how. If your version of SMC shows a positive expectancy over a large sample, keep it; if not, the vocabulary is still useful for describing what price did.

Illustrative case: Daniel, 28, Lagos

Daniel watched SMC videos for months and marked order blocks on every chart, taking a trade at most of them. His results were poor. He rebuilt his approach around the five-step sequence and only traded when the 4-hour bias, a liquidity sweep and a 15-minute change of character all lined up during the London session. Trading volume fell to about two setups a week, and for the first time his journal showed winners large enough to cover the losers.

SMC is best treated as a language for reading price, not a promise. The traders who do well with it are the ones who keep a strict checklist and accept that most candles on the chart mean nothing.

Jowel Rana

Co-Founder & Forex Trader, FX Recap

Frequently asked

What are Smart Money Concepts in forex?

A way of reading charts that focuses on where large orders are likely to be filled: liquidity beyond highs and lows, breaks of market structure, order blocks and fair value gaps.

Is SMC better than normal price action?

It is largely price action with a different vocabulary and a stricter sequence. Whether it works better depends on the rules you use and your testing, not on the name.

Do banks really hunt retail stop losses?

Large orders need liquidity, and stop clusters provide it, so price often runs through obvious levels. Nobody can see who placed a given order in spot forex, so treat the idea as a model rather than a proven fact.

What are SMC kill zones?

The busiest session windows, roughly the London open and the New York morning, when liquidity is highest and many SMC traders prefer to enter.

More on this topic, with live tools, on FX Recap: <https://fxrecap.com/learn-forex/education/smart-money-concepts>

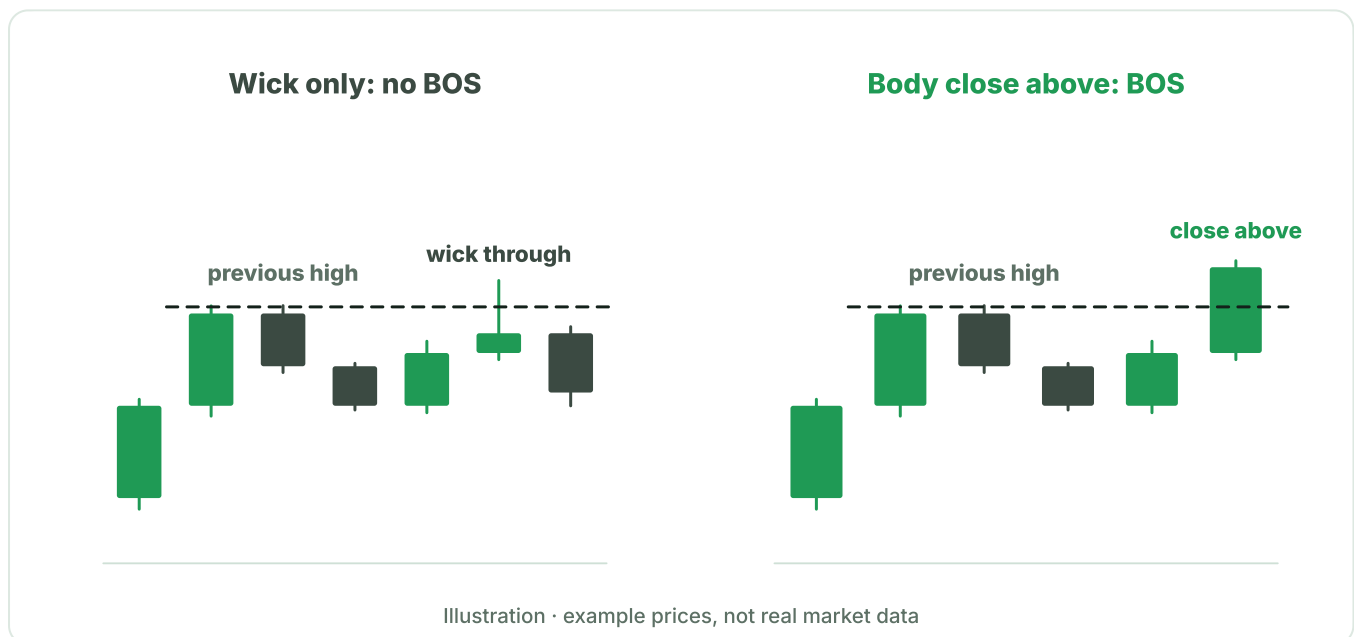
Break of Structure and Change of Character: Reading Market Structure the SMC Way

A break of structure (BOS) confirms a trend; a change of character (CHoCH) is the first sign it may be turning. Learn what counts as a valid break, internal and external structure, inducement, and where stops belong.

Market structure is the backbone of Smart Money Concepts. Everything else, from order blocks to fair value gaps, is judged by whether it agrees with structure. [Chapter 14](#) introduced higher highs and higher lows; this chapter adds the two SMC labels traders use to describe what structure is doing: the break of structure, BOS, and the change of character, CHoCH.

What counts as a valid break

A break of structure happens when price closes beyond the most recent swing point in the direction of the trend. The key word is closes. A wick that pokes above the previous high and then falls back has taken the stops above it but has not broken structure. Most SMC traders require a candle body to close beyond the level on the timeframe they are reading.

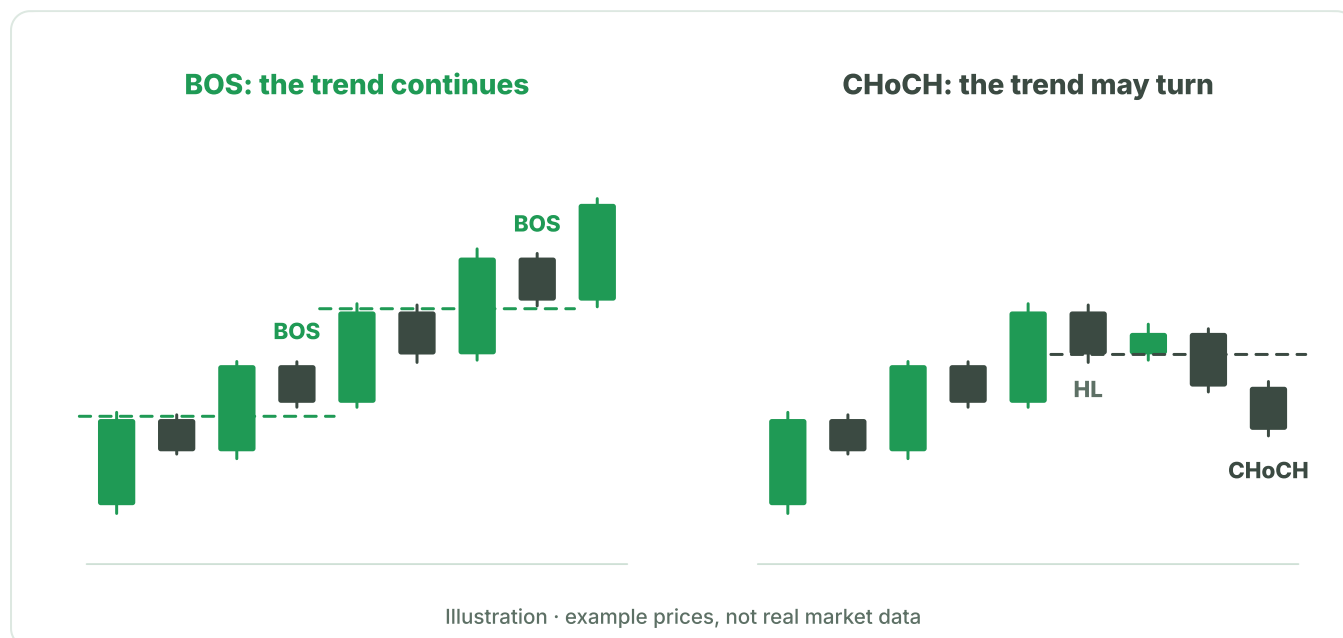


A wick above the previous high is not a break. A candle body closing above it is.

The distinction matters because wicks through a level are often liquidity sweeps, the opposite of a break: price grabs the orders beyond the level and reverses. Treating every wick as a break leads to buying the exact moment a move is ending. Chapter 21 covers sweeps in detail.

BOS and CHoCH

In an uptrend, each close above the previous high is a BOS. It confirms the trend is intact, and the higher low that produced it becomes the level that defines the trend. A CHoCH is different: it is the first close against the trend's structure, such as the first close below the last higher low in an uptrend. It does not prove the trend has reversed, but it is the first warning that the character of the market has changed.



BOS confirms the trend; CHoCH is the first close against it.

SIGNAL	MEANING	TYPICAL RESPONSE
BOS with the trend	Trend confirmed	Look for entries on the next pullback
CHoCH against the trend	Trend may be ending	Stop looking for continuation trades; watch for confirmation
BOS after a CHoCH	New trend confirmed	Look for entries in the new direction

Some educators also use market structure shift, MSS, for a CHoCH that comes with a strong, impulsive candle. The labels vary; the logic is the same. Learn to see the swing that matters, and the names follow.

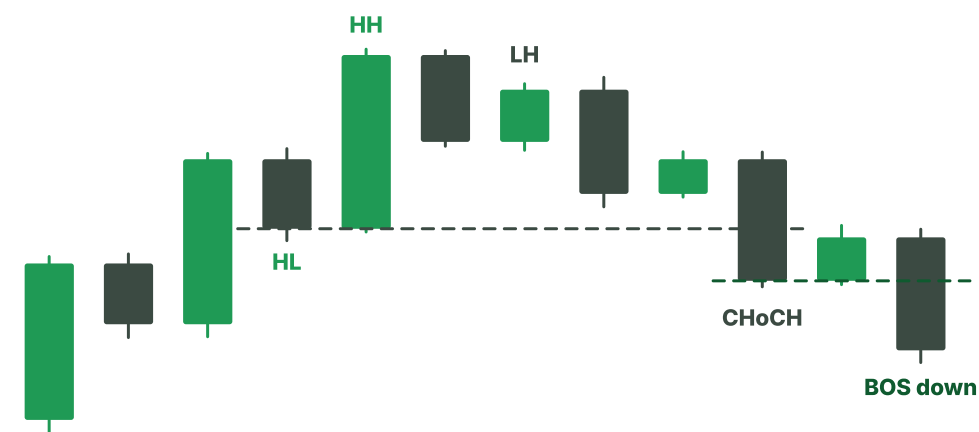


Illustration · example prices, not real market data

A bearish change of character: a lower high, then a close below the last higher low, then a break lower that confirms the new downtrend.

Internal and external structure

Structure exists on every scale. The large swings that define the trend are external structure. Inside each pullback there is a smaller structure of its own, called internal structure. During a pullback in an uptrend, internal structure is bearish: small lower highs and lower lows. When that small downtrend breaks back upward with an internal BOS, it is often the first sign the larger uptrend is resuming.

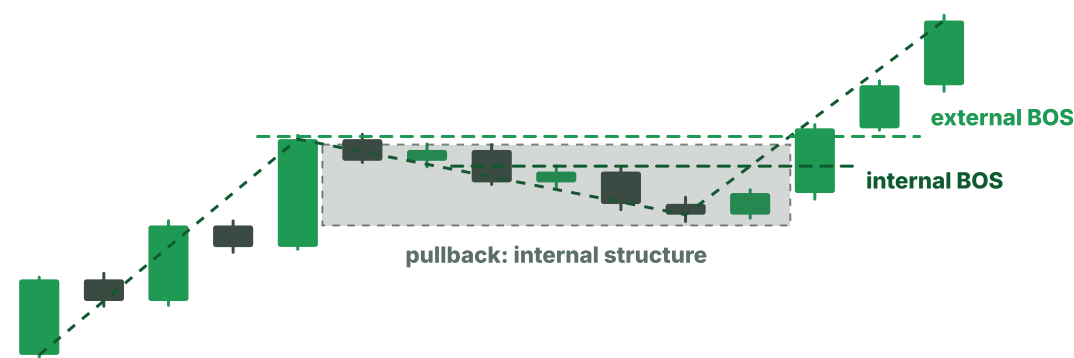


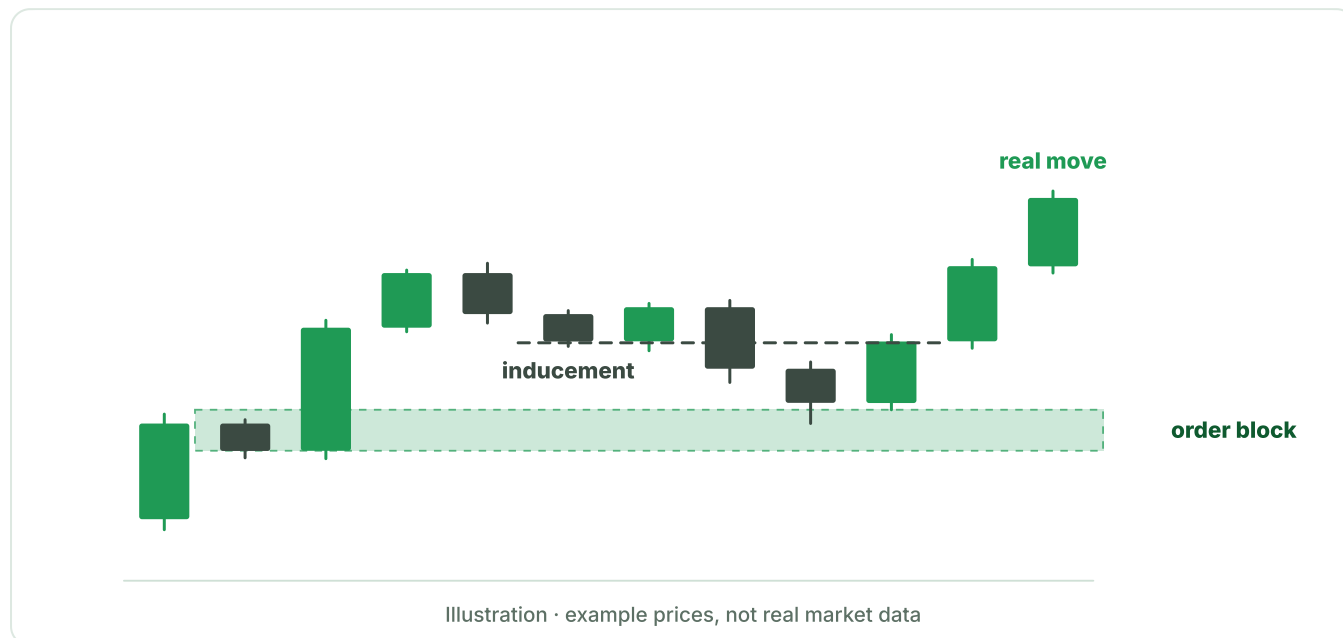
Illustration · example prices, not real market data

External structure is the big swing; internal structure is the small trend inside the pullback. An internal break upward often signals that the larger trend is resuming.

This is the same idea as multi-timeframe analysis in [Chapter 18](#): the internal structure of the 4-hour chart is the external structure of the 15-minute chart. SMC traders often read bias from external structure and time entries from internal breaks.

Inducement: why some breaks fail

Inducement is a small, obvious swing that tempts traders in too early. After a BOS, the first minor pullback low looks like a good place to buy. Many traders buy there and put stops just below it. Price then drops through that minor low, triggers the stops and only then reaches the true point of interest, often an order block, before rallying.



Inducement: a minor low above the order block attracts early buyers. Their stops are run before the real move begins.

Recognising inducement changes where you wait. Instead of buying the first pullback, you ask where the obvious early entries and their stops are, and expect price to clear them first. A setup where the inducement has already been swept is usually stronger than one where it is still sitting there.

Which swings count?

The hardest part of reading structure is deciding which swings matter. On a 5-minute chart there are dozens of tiny highs and lows every hour, and treating each one as structure makes every candle a break. Most traders use a simple rule: a swing high only counts once price has moved away from it by a meaningful amount, often a full pullback that itself breaks a smaller structure. Others use a fixed number of candles on each side, such as a high with two lower highs to its left and right.

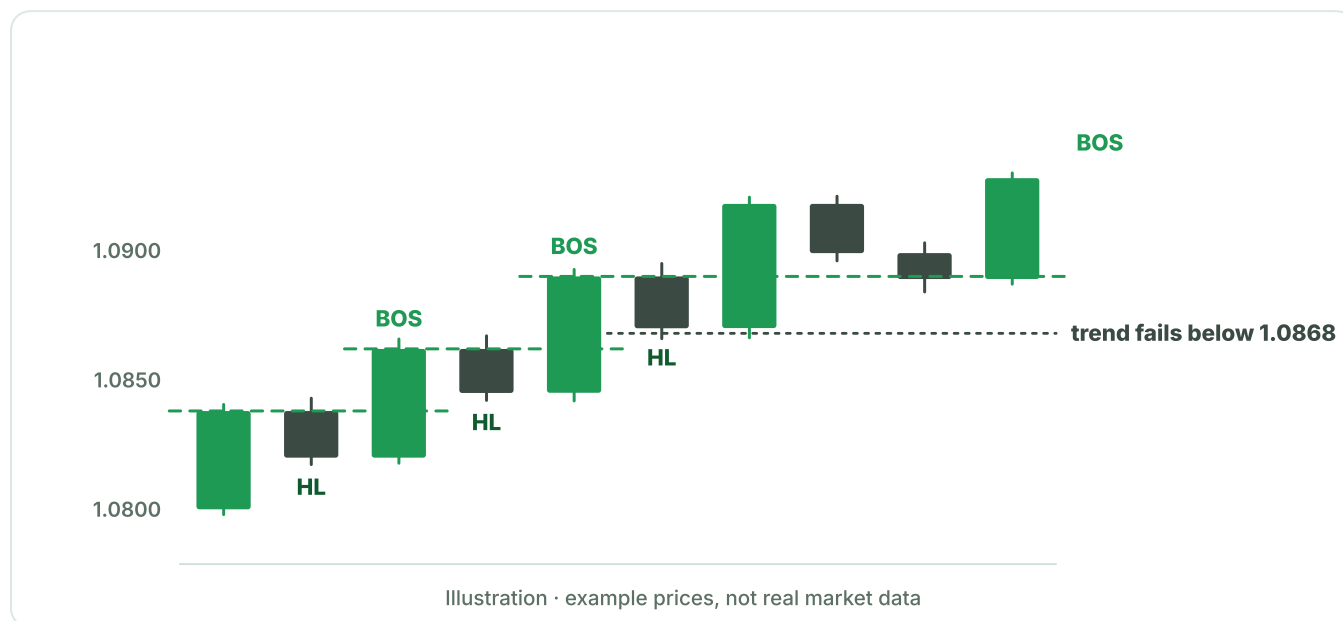
APPROACH	HOW A SWING IS CONFIRMED	EFFECT
Visual	A clear peak or trough you would point to without zooming in	Simple, but varies between traders
Fractal	A high with two lower highs on each side	Consistent, but late by two candles
Pullback-based	Price retraces a set share of the last leg	Filters noise on fast charts

Whichever rule you pick, apply it the same way every time, on every pair and every timeframe you trade. Most disagreements about whether a break was real come from two traders using different

definitions of a swing, not from different readings of the same swing. Agree the definition with yourself first, and the arguments with the chart become much shorter and calmer.

A worked example

On a 4-hour EUR/USD chart, price makes highs at 1.0838, 1.0862 and 1.0890, each broken by a candle close, with higher lows at 1.0820, 1.0845 and 1.0870. Every close above a high is a BOS. While price stays above 1.0870, the structure is bullish and the trader looks for buys on pullbacks. A 4-hour close below about 1.0868 would be a CHoCH, and the trader would stop buying until a new structure forms.



Three breaks of structure and three intact higher lows. A close below the last higher low would be the first change of character.

Structure across timeframes

A CHoCH on the 15-minute chart can sit inside a perfectly healthy daily uptrend. That is not a contradiction: the lower timeframe is simply showing a pullback. The rule most SMC traders follow is to trade lower-timeframe CHoCHs only when they point back in the direction of the higher-timeframe trend. A bearish 15-minute CHoCH inside a bullish daily trend is a warning to stay out, not a signal to sell, unless price has also reached a premium area with liquidity taken.

Stops around structure

Structure tells you where an idea is wrong. If you buy after a bullish BOS, the trade is invalidated if price breaks the higher low that produced the break. Placing the stop below that low gives the trade room to breathe; placing it just under the entry candle puts it inside ordinary noise, where it will be hit often even when the idea is right.

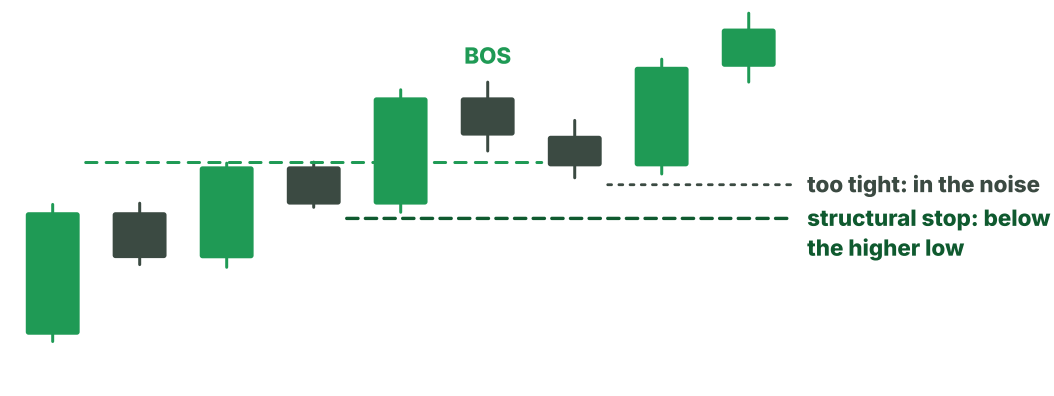


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A structural stop sits below the higher low that created the break, not inside the noise under the entry candle.

Wider structural stops mean smaller positions for the same risk. [Chapter 30](#) shows the arithmetic: fix the money you are willing to lose, then let the stop distance decide the lot size.

Filtering weak signals

Five checks before trusting a CHoCH

- ✓ **Body close** beyond the swing, not just a wick
- ✓ **After a sweep** liquidity was taken first
- ✓ **Displacement** a strong candle that leaves an FVG
- ✓ **At a higher-timeframe level** an order block, zone or key high/low
- ✓ **Room to the target** at least twice the risk

Fewer ticks, smaller size or no trade

Five checks before trusting a change of character.

A CHoCH that ticks all five boxes is far more meaningful than one that does not. A body close after a sweep, with a strong displacement candle that leaves a fair value gap at a higher-timeframe level, is the setup SMC traders wait for. A small close below a minor low in the middle of a range is usually noise.

Illustrative case: Priya, 33, Singapore

Priya kept selling every CHoCH she saw on the 5-minute chart, often against a strong daily uptrend, and most of those trades failed. She added two filters: the CHoCH had to follow a sweep of a clear high, and it had to agree with the 4-hour structure. Her number of trades fell by more than half, and the trades she kept were in the direction the bigger chart already favoured.

Structure is the referee in SMC. When your order block or gap disagrees with structure, structure wins. A clean close beyond a swing tells you more than any single candle pattern.

Tanbir Habib Riyad

Forex & Crypto Analyst, FX Recap

Frequently asked

What is a BOS in trading?

A break of structure: a candle closing beyond the last swing high in an uptrend, or the last swing low in a downtrend, confirming the trend.

What is the difference between BOS and CHoCH?

A BOS breaks structure in the trend's direction and confirms it. A CHoCH is the first break against the trend and warns that it may be turning.

Does a wick count as a break of structure?

Most SMC traders say no. A wick beyond a level that closes back inside is more often a liquidity sweep than a break.

What is inducement in SMC?

A minor, obvious swing that tempts traders to enter early. Price often runs the stops behind it before reaching the real point of interest.

More on this topic, with live tools, on FX Recap: <https://fxrecap.com/learn-forex/education/change-of-character-choch>

Liquidity in Forex: Buy-Side and Sell-Side Pools, Sweeps and the Judas Swing

Liquidity is where orders wait: stop losses and pending orders beyond obvious highs and lows. Learn where it collects, how to tell a sweep from a real break, how to trade a sweep and why the London open so often runs the Asian range.

In [Chapter 11](#), liquidity meant how easily a market can absorb orders without moving much. Smart Money Concepts use the word more narrowly: liquidity is a cluster of resting orders at a specific price, usually stop losses and pending entries just beyond an obvious high or low. Those clusters matter because they are where large traders can fill size, and price is often drawn towards them.

Where liquidity collects

Think about where traders put their stops. Buyers in a range place their stops below the range lows; sellers place theirs above the highs. Breakout traders place buy stop orders above resistance and sell stop orders below support. All of these orders sit just beyond the most visible highs and lows on the chart.



Buy-side liquidity rests above equal highs; sell-side liquidity rests below equal lows.

POOL	WHERE	ORDERS RESTING THERE
Buy-side liquidity (BSL)	Above highs, especially equal highs	Short sellers' stops, breakout buy orders
Sell-side liquidity (SSL)	Below lows, especially equal lows	Buyers' stops, breakdown sell orders
Session highs and lows	Previous day, week, Asian range	Stops from traders who used them as reference
Trendline liquidity	Along a clean trendline	Stops of traders who bought each touch

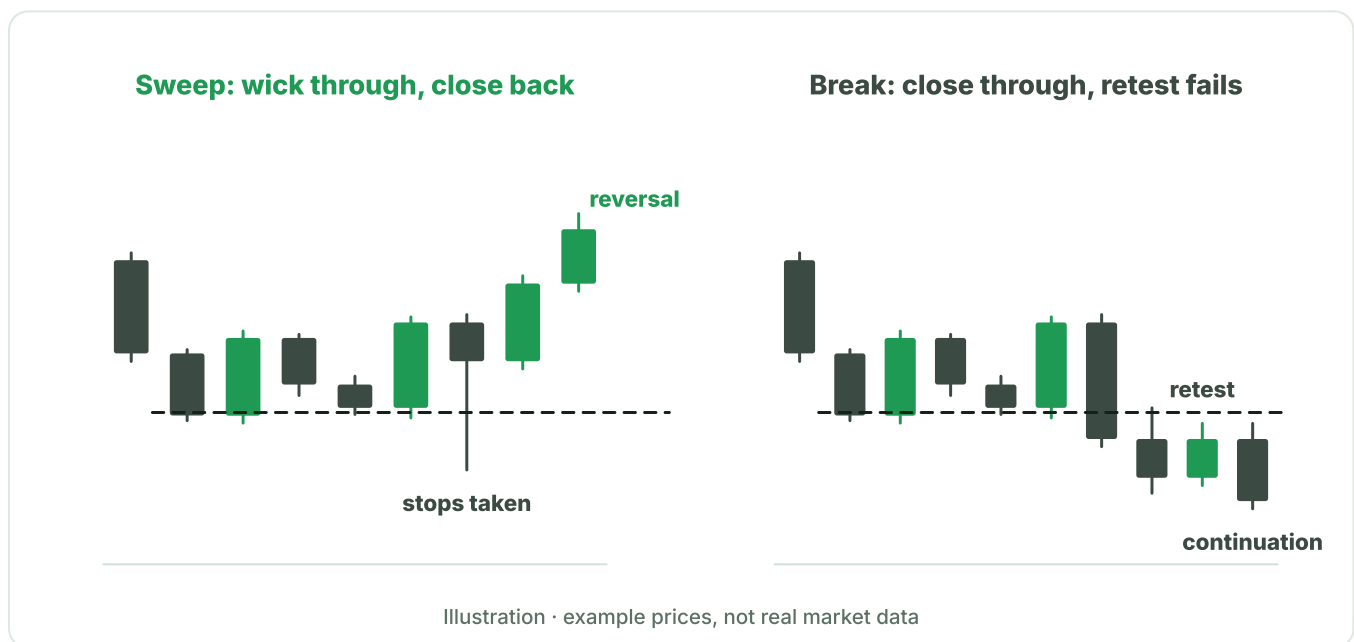
Equal highs and equal lows are the clearest pools. Two or three touches of the same price look like strong resistance or support to most traders, so stops gather densely behind them. To an SMC trader the same pattern looks like a target: the more obvious the level, the more orders sit beyond it.

Why equal highs and lows matter most

A single swing high attracts some stops. Two or three highs at the same price attract many more, because every trader who sold at each touch put a stop just above the shared level, and breakout traders see a textbook resistance line. That density is why SMC traders treat equal highs and lows, sometimes called relative equal highs or lows when they are close but not identical, as the strongest magnets on the chart. Previous day and previous week highs and lows work the same way, since many traders use them as reference points and place their stops just beyond them.

A sweep or a real break?

When price reaches a pool it does one of two things. In a sweep, sometimes called a liquidity grab or stop hunt, price trades through the level, triggers the orders and then closes back on the original side. A real break is different: price closes beyond the level, often retests it from the other side and continues. The difference shows on the closing price, not the wick.



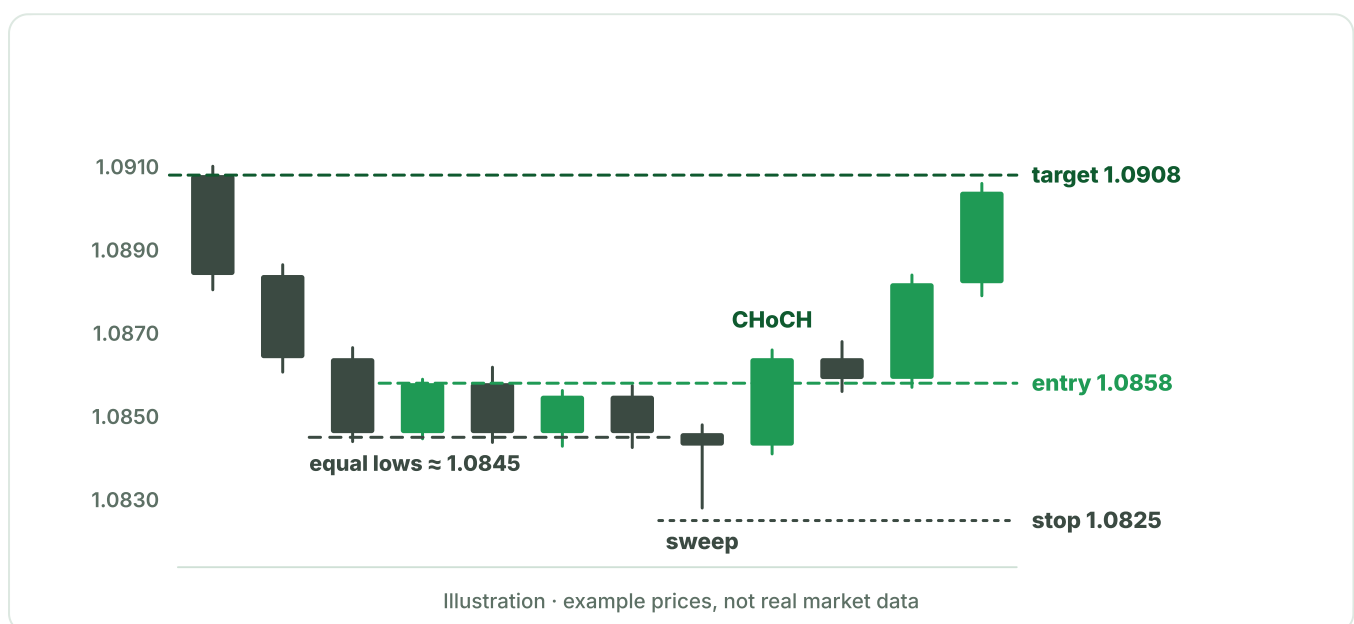
A sweep wicks through and closes back; a real break closes through and the retest fails.

- **Sweep**: long wick beyond the level, close back inside, often followed by a strong candle the other way.
- **Break**: candle body closes beyond the level, then a retest from the other side holds.
- **Unclear**: a close just beyond the level with no follow-through. Wait for the next candle or two.

Trading a sweep

A sweep on its own is not a trade. The SMC approach waits for confirmation that the sweep has turned the market: a change of character on a lower timeframe, ideally with a displacement candle that leaves a fair value gap. Entry then comes on a return into that gap or the order block that started the move, with the stop beyond the sweep's extreme.

1. Mark the obvious liquidity pool on the higher timeframe: equal lows, a previous day's low or the Asian range low.
2. Wait for price to trade through it and close back above.
3. Drop to a lower timeframe and wait for a CHoCH upward.
4. Enter on the pullback into the fair value gap or order block created by the CHoCH.
5. Place the stop a few pips beyond the sweep low; target the next pool of buy-side liquidity.



A worked sweep on EUR/USD: equal lows near 1.0845 are swept to 1.0828, a CHoCH follows, and the trade risks about 33 pips for 50.

In the example, the equal lows near 1.0845 attract sellers' stops. Price spikes to 1.0828, closes back above the lows and then closes above the last lower high at 1.0858. A buy at 1.0858 with a stop at 1.0825 risks 33 pips. The prior high at 1.0908 holds buy-side liquidity and makes a natural target, 50 pips away, for a reward-to-risk of about 1.5 to 1. Many SMC traders would wait for a pullback into the gap left by the breakout candle to improve that ratio.

The Judas swing

The Judas swing is the name SMC traders give to a false move at the start of a busy session. During Asian hours, major pairs often trade in a narrow range. When London opens, price frequently pushes through one side of that range, takes the stops beyond it and then reverses sharply for the real move of the day. The name refers to the betrayal: the first move looks like the trend and is not.

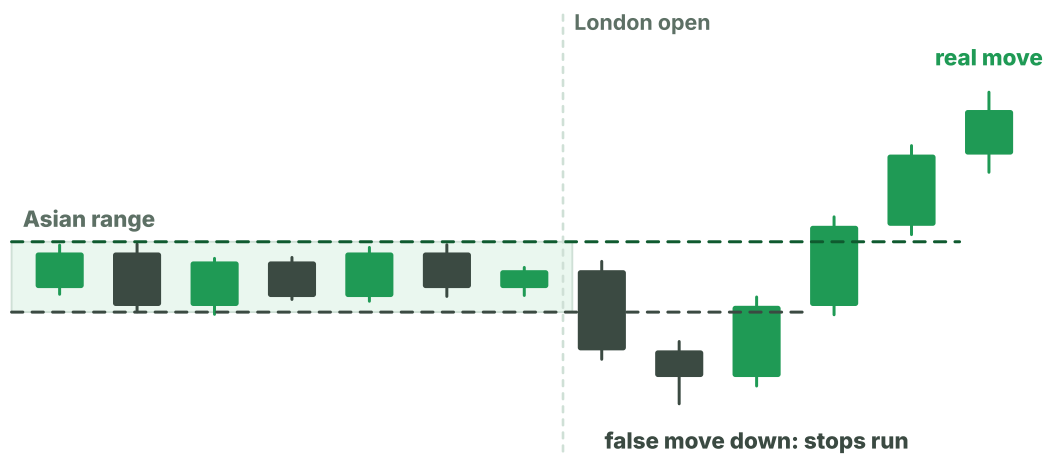


Illustration · example prices, not real market data

The Judas swing: a quiet Asian range, a false drop at the London open that runs the stops below it, then the real move higher.

Traders using this pattern mark the Asian range high and low before London opens, watch which side is taken first and look for a CHoCH back the other way. It does not happen every day, and on strong trend days the first move is the real one. The higher-timeframe bias decides which side of the range is the likelier false move.

When sweeps do not reverse

Some sweeps keep going. If price runs a pool of sell-side liquidity in a strong higher-timeframe downtrend, the stops it triggers may simply add fuel to a move that was already planned. That is why the CHoCH confirmation step matters: a sweep with no change of character is just a breakdown in progress. A useful habit is to ask what the higher timeframe wants before you act on any sweep. Sweeps against the higher-timeframe trend reverse more often; sweeps in its direction often continue. Checking the 4-hour structure before every sweep trade takes only a few seconds and filters out many of the worst entries you would otherwise take.

- Sweep against the higher-timeframe trend, then CHoCH: the classic reversal setup.
- Sweep in the direction of the higher-timeframe trend: often continuation, not reversal.
- Sweep with no CHoCH within a few candles: treat it as a break until proven otherwise.

Sizing for a wider stop

Stops beyond a sweep are often wider than traders expect, because they have to clear the spike that just ran the stops. That is fine as long as the position size shrinks to match. If a trader risks \$100 on a trade with a 33-pip stop on EUR/USD, the position is about 0.30 lots; with a 15-pip stop it would be about 0.67 lots. The money at risk stays the same. [Chapter 30](#) has the full method.

Put your stop beyond the sweep, not at it. The extreme of a sweep is itself a fresh, obvious level, and a few extra pips of room avoid being caught by a second probe.

Illustrative case: Kofi, 35, Accra

Kofi kept placing stops just under equal lows on GBP/USD and was stopped out by spikes that then reversed in his favour. After learning about sell-side liquidity, he stopped placing stops at obvious levels and began waiting for those levels to be swept before entering. His stops became wider and his positions smaller, but far fewer of his trades were closed by a spike that reversed minutes later.

If a level is obvious to you, it is obvious to everyone, and their orders are sitting there. Plan for that level to be tested before you trust it.

Jannatul Ferdaush

Fact-Checker & Risk Analyst, FX Recap

Frequently asked

What is liquidity in SMC?

Clusters of resting orders, mainly stop losses and pending entries, just beyond obvious highs and lows. Buy-side liquidity sits above highs and sell-side liquidity sits below lows.

What is a liquidity sweep?

A move that trades through a liquidity pool, triggers the orders there and then closes back on the original side, often before a reversal.

How do you tell a sweep from a breakout?

Watch the close. A sweep wicks through and closes back inside; a breakout closes beyond the level and usually holds it on a retest.

What is the Judas swing?

A false move at the start of a session, usually the London open, that runs the stops on one side of the Asian range before price reverses for the main move of the day.

More on this topic, with live tools, on FX Recap: <https://fxrecap.com/learn-forex/education/liquidity-sweep-strategy>

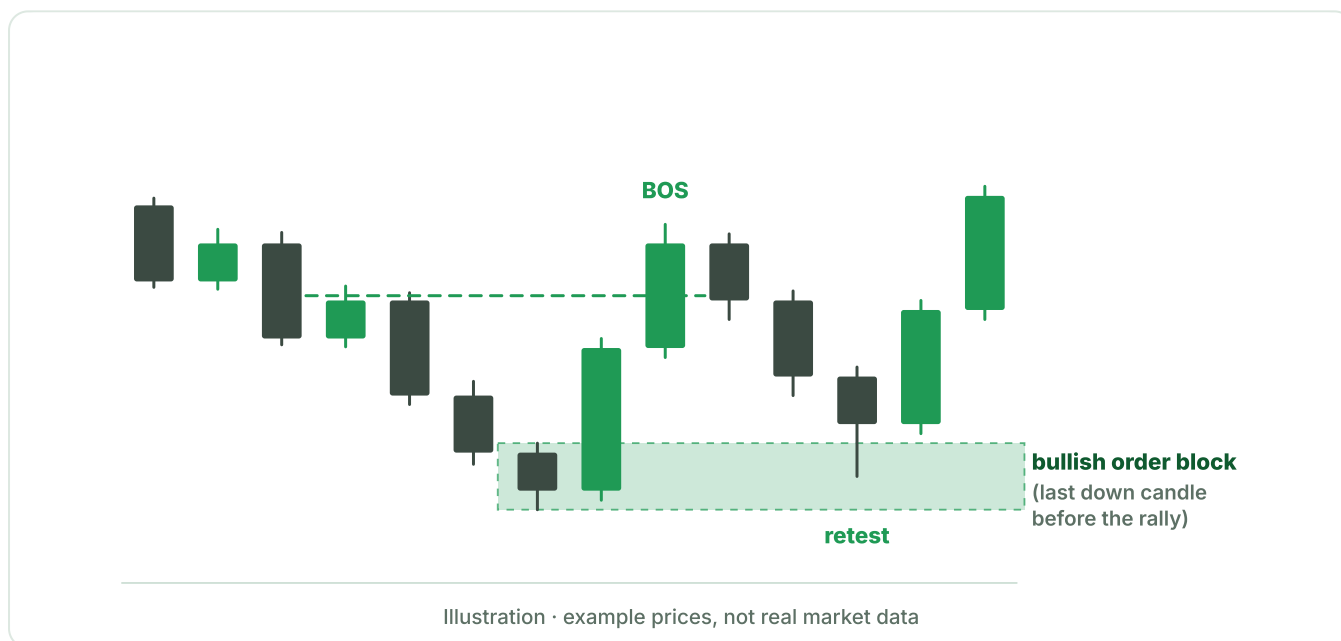
Order Blocks in Forex: How to Find, Validate and Trade Them

An order block is the last opposite candle before a strong move that breaks structure. Learn bullish and bearish blocks, the checks that separate real ones from ordinary candles, refined entries, breaker blocks and how order blocks relate to supply and demand zones.

Order blocks are the most famous tool in Smart Money Concepts and the most misused. The idea is that a strong, one-sided move often starts from an area where a large participant built a position. If price returns to that area later, the same participant may defend it, or add to the position, so price reacts again. On the chart, SMC traders mark that area using the last candle before the move.

Bullish and bearish order blocks

A bullish order block is the last down candle before a strong rally that breaks structure upward. A bearish order block is the last up candle before a sharp drop that breaks structure downward. The block covers that candle's range, and a later return into it is the potential entry.



A bullish order block: the last down candle before the rally that broke structure. The later retest holds.

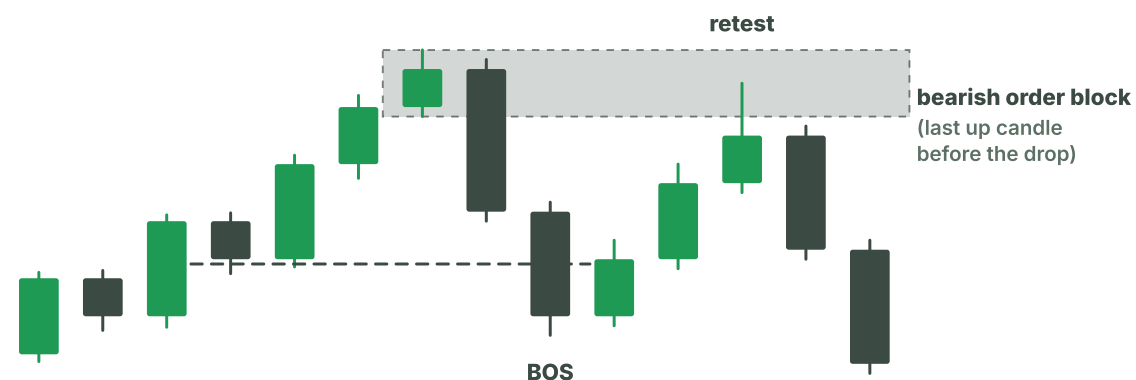


Illustration · example prices, not real market data

A bearish order block: the last up candle before the drop that broke structure. The later rally into it fails.

Why the last opposite candle? Large buyers often accumulate while price is still drifting lower, absorbing the selling. The final down candle is where that absorption finished and the buying overwhelmed the sellers. It is a rough marker, not a precise footprint, which is why validation matters so much.

Which timeframe to mark them on

Order blocks exist on every timeframe, and their weight grows with the timeframe. A daily order block reflects a move that took days and involved far more volume than a 5-minute block. Most SMC traders mark blocks on the 1-hour or 4-hour chart and use lower timeframes only to time the entry. Blocks on the 1-minute and 5-minute charts appear constantly and are usually too small to matter unless they sit inside a higher-timeframe block. When a small block does sit inside a large one, the overlap is often the most precise entry on the chart.

Is it a valid order block?

Almost every move on a chart starts after some down candle, so the definition alone would turn every candle into an order block. Traders narrow it down with a set of checks.

Is it a valid order block?



Caused a break of structure

no BOS, no order block



Displacement

price left the candle fast



Left a fair value gap

proof of one-sided orders



Unmitigated

price has not returned to it yet



Right side of the range

bullish blocks in discount, bearish in premium

Most candles before a move are not order blocks

Five checks for a valid order block.

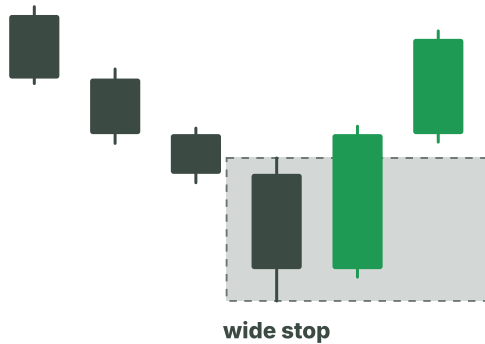
- **It caused a break of structure.** A block whose move did not break anything is just a candle.
- **Displacement.** Price left the block with large, fast candles, showing urgency.
- **It left a fair value gap.** A gap in the move away is evidence of one-sided order flow (Chapter 23).
- **Unmitigated.** Price has not yet returned to it. Once a block has been revisited, the orders there are assumed to be used up.
- **Right side of the range.** Bullish blocks are preferred in discount, bearish blocks in premium (Chapter 24).

Refined and unrefined blocks

Marking the whole candle, wick to wick, gives a wide zone and a wide stop. Many traders refine it: they use only the candle's body, or the 50% level of the block, often called the mean threshold, as the entry, or they drop to a lower timeframe and find a smaller order block inside the larger one.

Refinement improves the reward-to-risk ratio but means some trades are missed when price reacts from the edge of the block without reaching the refined level.

Unrefined: whole candle



Refined: body + 50% line

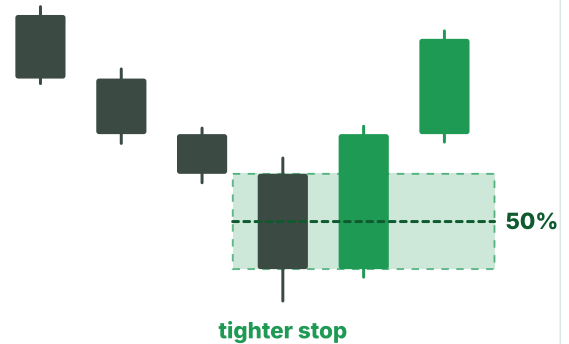


Illustration · example prices, not real market data

Unrefined: the whole candle and a wide stop. Refined: the body, with its 50% line as the entry, and a tighter stop.

APPROACH	ENTRY	STOP	TRADE-OFF
Unrefined	Top of the block	Below the block's low	More fills, wider stop
Mean threshold	50% of the block	Below the block's low	Balanced
Lower-timeframe refined	Smaller block inside it	Below that smaller block	Tight stop, more missed trades

When order blocks fail: breakers

Order blocks fail often. When price closes straight through a bullish order block, the buyers who defended it are now trapped in a losing position. On the next rally back up into the old block, many of them exit at breakeven, adding selling pressure. The failed block becomes resistance, and SMC traders call it a breaker block.

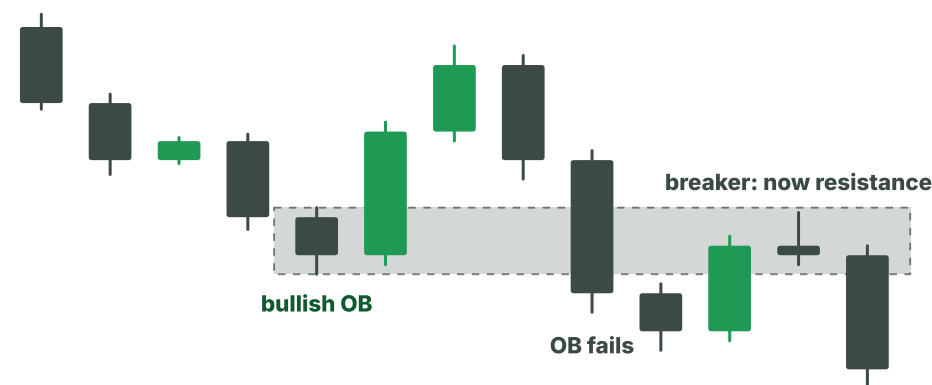


Illustration · example prices, not real market data

A breaker block: a bullish order block fails, and the old block becomes resistance on the next rally.

The logic is the same role reversal you met in [Chapter 13](#), where broken support becomes resistance. A related term, mitigation block, is used for a failed block that formed without a liquidity sweep; traders treat it similarly, as a level where trapped positions are closed.

How price reacts at a valid block

Even a good order block rarely produces a clean bounce from its exact edge. More often price enters the block, trades around inside it for a few candles, sometimes sweeps a small low within it, and then turns. That is why lower-timeframe confirmation is so useful: it tells you the reaction has started instead of guessing which part of the block will hold. When price slices through a block in one large candle with no pause at all, treat the block as failed and watch for a breaker instead.

Set an alert at the edge of the block instead of watching the chart for hours. When it triggers, open the lower timeframe and look for the change of character.

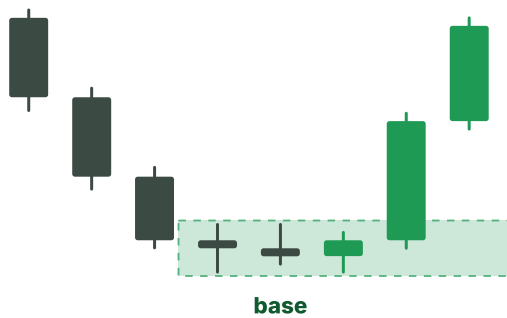
Order blocks and the session clock

Blocks are more likely to hold when price reaches them during active hours. A return to a 1-hour bullish block during the London morning, with volume behind the reaction, is a better setup than the same return at 22:00 UTC in thin trading. Many SMC traders write a simple rule into their plan: only take order block entries inside the London or New York kill zones. Outside those hours, they set alerts and let the block prove itself first with a clear reaction.

Order blocks and supply and demand

Before SMC, many traders used supply and demand zones, and the two ideas overlap heavily. A demand zone forms where price drops, pauses in a small base and rallies hard; a supply zone is the mirror image. The zone usually covers all the base candles.

Demand: drop-base-rally



Supply: rally-base-drop

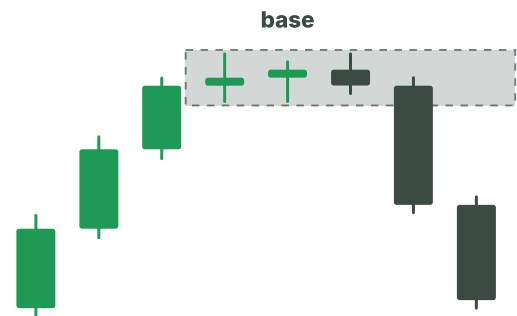


Illustration · example prices, not real market data

Demand: drop-base-rally. Supply: rally-base-drop. The zone covers the base.

Both schools agree that zones weaken each time they are tested. The first return to a fresh zone has the most unfilled orders waiting; by the third, most of them have been used, and the zone often breaks.

1st test: strong

2nd: weaker

demand zone

3rd: breaks

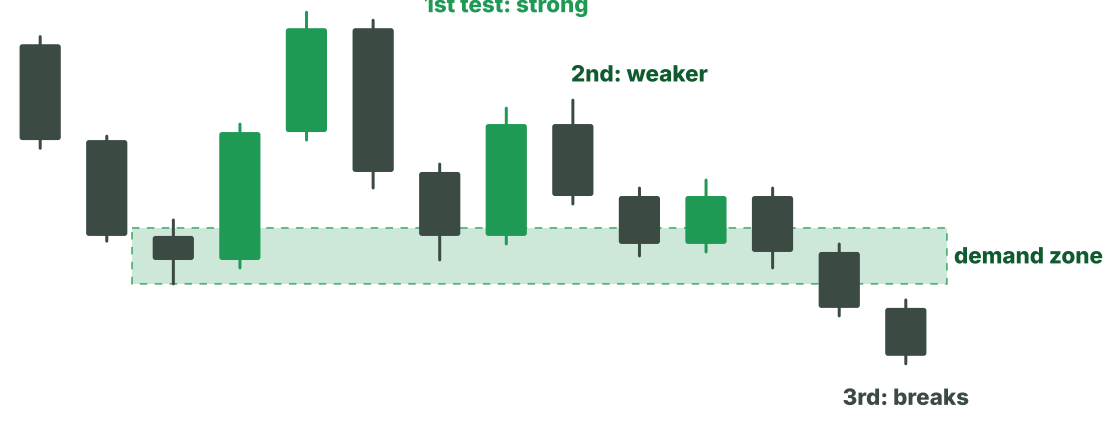


Illustration · example prices, not real market data

A zone weakens with each test: a strong first reaction, a weaker second, and a break on the third.

The main difference is precision. A supply and demand trader marks the whole base; an order block trader narrows it to the single last opposite candle. Neither is right in every case. The narrower block gives a tighter stop and a better ratio; the wider zone catches reactions the block would miss.

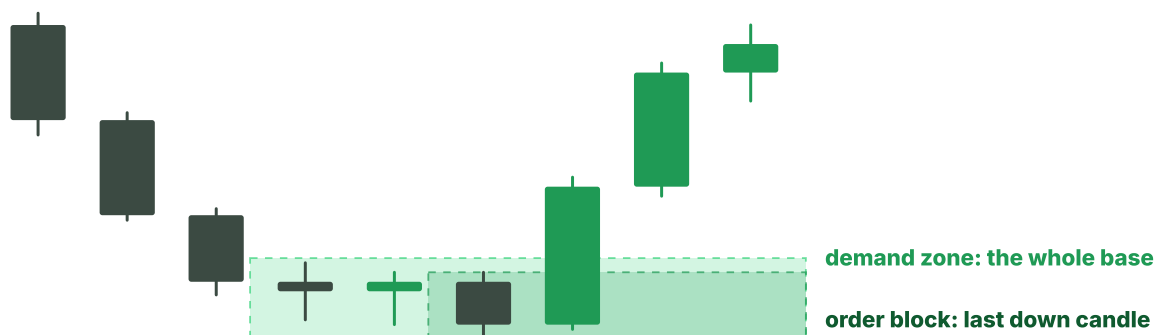


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The same base read two ways: the whole base as a demand zone, or the last down candle as the order block.

A simple order block routine

1. On the 4-hour chart, confirm the structure and the bias.
2. Find a block that caused a BOS with displacement and left a fair value gap.
3. Check it is unmitigated and in discount for a buy, or premium for a sell.
4. Set an alert at the block's edge rather than a blind limit order.
5. On arrival, wait for a lower-timeframe CHoCH, then enter with the stop beyond the block.

Do not place limit orders at every order block you find. Without the checks above, most of them fail. Waiting for a lower-timeframe reaction costs a little price and saves many losing trades.

Illustrative case: Mehedi, 27, Dhaka

Mehedi marked dozens of order blocks each week and placed limit orders at all of them. Most of those trades lost. He kept only blocks that had broken structure with displacement and left a fair value gap, and only in the direction of the daily trend. That left two or three a week instead of thirty, and he started waiting for a 15-minute CHoCH at the block before entering.

An order block is a question, not an answer. The question is whether the buyers who started that move are still there. Let price answer it with a reaction before you risk money.

Ranjan Niskrity

Founder, Owner & Forex Trader, FX Recap

Frequently asked

What is an order block in forex?

The last opposite candle before a strong move that breaks structure: the last down candle before a rally, or the last up candle before a drop.

How do you know if an order block is valid?

It should have caused a break of structure, been left with displacement, left a fair value gap, be unmitigated, and sit in discount for buys or premium for sells.

What is a breaker block?

An order block that failed. When price closes through it, the old block often flips role, so a failed bullish block becomes resistance.

Are order blocks the same as supply and demand zones?

They overlap. A supply or demand zone usually covers the whole base; an order block narrows it to the last opposite candle.

More on this topic, with live tools, on FX Recap: <https://fxrecap.com/learn-forex/education/order-block-trading-strategy>

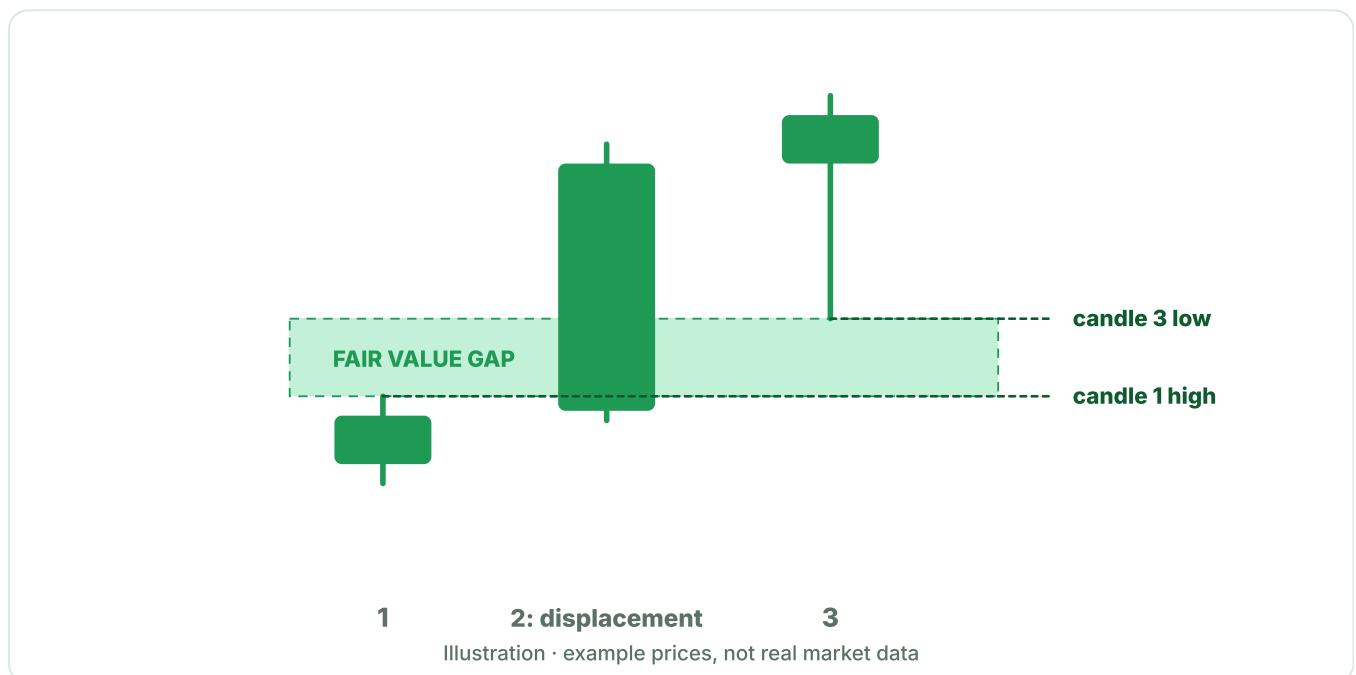
Fair Value Gaps (FVG) in Forex: Imbalance, Fills and Inverse Gaps

A fair value gap is a three-candle imbalance left by a fast move. Learn how to spot bullish and bearish gaps, full and partial fills, inverse fair value gaps, and a step-by-step way to trade them with a defined stop and target.

When price moves very fast, it skips over prices without trading much at them. On a candlestick chart, that shows up as a gap between candles that would normally overlap. Smart Money Concepts call it a fair value gap, or FVG, and treat it as an imbalance: a zone where one side overwhelmed the other, and which price often revisits before continuing.

Anatomy of a fair value gap

An FVG is a three-candle pattern. In a bullish FVG, the middle candle is a large up candle, and the high of the first candle sits below the low of the third. The space between those two prices was crossed by the middle candle alone. A bearish FVG is the mirror: a large down candle in the middle, with the low of the first candle above the high of the third.



A bullish fair value gap: the space between candle one's high and candle three's low, crossed by the displacement candle alone.

Bullish FVG: often support

Bearish FVG: often resistance

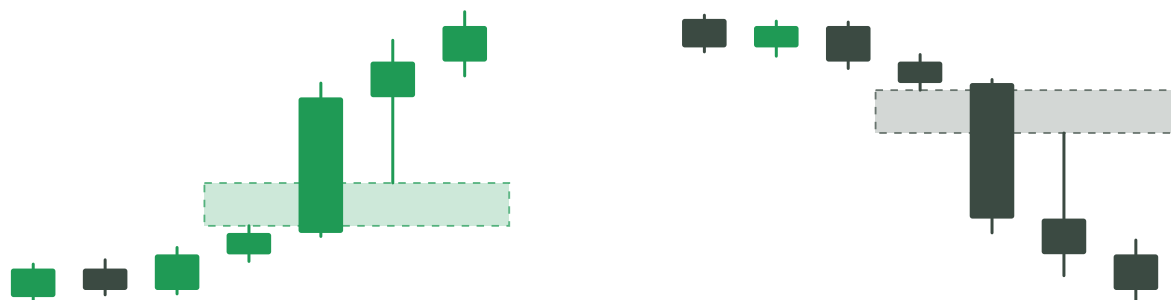


Illustration · example prices, not real market data

Bullish gaps often act as support on a return; bearish gaps often act as resistance.

The middle candle is the important one. SMC traders call it displacement: a candle that is clearly larger than the ones around it, closing near its extreme. Displacement is evidence of urgency, often after a liquidity sweep or at the start of a break of structure ([Chapter 20](#)).

Why gaps form and why price returns

A gap forms when orders arrive on one side much faster than the other side can absorb them, often on news or when a large order hits a thin book. Price jumps through the prices where few trades happened. Afterwards, the market often drifts back into that zone. One explanation is that traders who missed the move place orders there, and the large participant who caused the move may add more at better prices. Another is simpler: after a fast move, a pullback is normal, and the gap is the nearest obvious area.

Not every gap is filled, and not quickly. Strong trends can leave gaps unfilled for a long time. Treat a gap as a likely reaction zone, not a promise that price will come back.

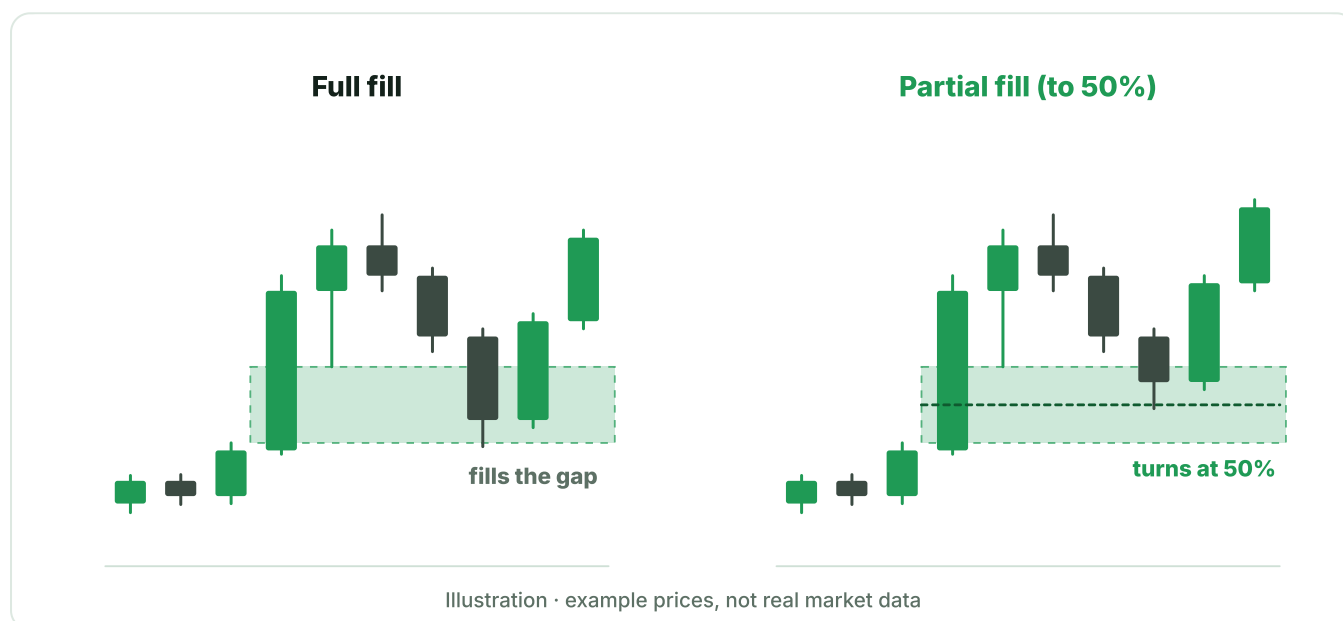
Size and timeframe

Gaps come in every size. A 2-pip gap on the 1-minute chart forms dozens of times an hour and means little. A 30-pip gap on the 4-hour chart left by a central bank decision can shape trading for days. As with order blocks, give more weight to gaps on higher timeframes, and to gaps whose middle candle broke a meaningful swing. A practical filter is to ignore gaps smaller than a few pips on major pairs, because the spread alone can cover them, and to prefer gaps that formed during the London or New York sessions.

GAP	TYPICAL USE
Daily or 4-hour gap	Bias and major reaction zones
1-hour gap	Point of interest for entries
15-minute or 5-minute gap	Precise entry inside a higher-timeframe zone
1-minute gap	Usually noise unless inside a larger POI

Full fills and partial fills

When price returns, it may fill the whole gap, reaching the far edge, or only part of it. Many traders watch the 50% level of the gap, called consequent encroachment, as the most likely turning point. A trend that only reaches the gap's midpoint before continuing is showing strength; one that fills it completely and keeps going is showing the gap has lost its force.



A full fill reaches the bottom of the gap; a partial fill turns at the 50% level.

RETURN INTO THE GAP	READING
Touches the near edge and turns	Strong; the imbalance is still being defended
Reaches the 50% level and turns	Normal; a common entry level
Fills it completely, then turns	Weaker; the gap's orders are mostly used
Closes through the far edge	The gap has failed; watch for an inverse FVG

Inverse fair value gaps

When price closes all the way through a gap, the gap has failed. Like a breaker block, the failed gap often swaps roles: a bearish gap that price closes above can act as support when retested from above. SMC traders call this an inverse fair value gap, IFVG.

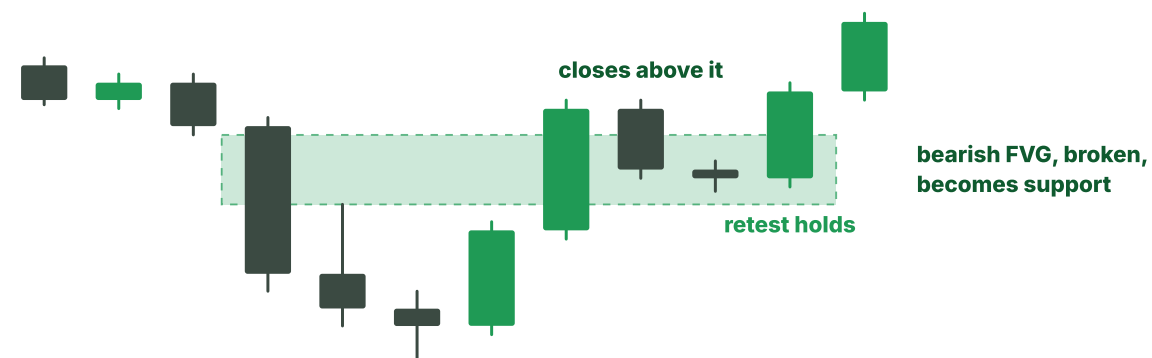


Illustration · example prices, not real market data

An inverse FVG: a bearish gap is broken by a close above it, and the retest from above holds as support.

Gaps and liquidity voids

A liquidity void is a larger version of the same idea: a long stretch of one-way price, often several large candles in a row, where the market traded very little in between. Voids appear on big news releases (Chapter 28). They behave like large gaps, with the same tendency to be partly revisited, but because they are so wide they rarely make precise entries. Traders usually look for a normal three-candle FVG inside the void instead.

Gaps on news releases

Scheduled data such as US payrolls or inflation often leaves very large gaps, because liquidity thins just before the release and orders then hit at once. These gaps are real imbalances, but trading them in the first minutes is dangerous: spreads are wide and slippage is common. Most SMC traders wait for the first hour after the release, let the spread return to normal, and only then treat the gap like any other zone.

A news gap also tells you something about the wider trend. If the data surprised strongly in one direction and the gap holds on the first return, the market has accepted the new information, and the gap often becomes a base for the next leg. When price fills the gap completely within the same session, the reaction was mostly positioning, and the move tends to fade. Watching which of the two happens is a quick way to judge whether a release changed the trend or only shook it.

Weekend gaps, where Monday opens away from Friday's close, are a different thing. They are gaps in time, not imbalances within a move, and are covered in Chapter 10.

Trading a fair value gap

1. Confirm the higher-timeframe bias and that the move which created the gap broke structure in that direction.
2. Mark the gap: from candle one's high to candle three's low for a bullish FVG.
3. Wait for price to return. Enter at the near edge, the 50% level, or after a lower-timeframe CHoCH inside the gap.
4. Place the stop beyond the gap, or beyond candle one's extreme for a safer stop.
5. Target the next liquidity: the prior high for a long, the prior low for a short.

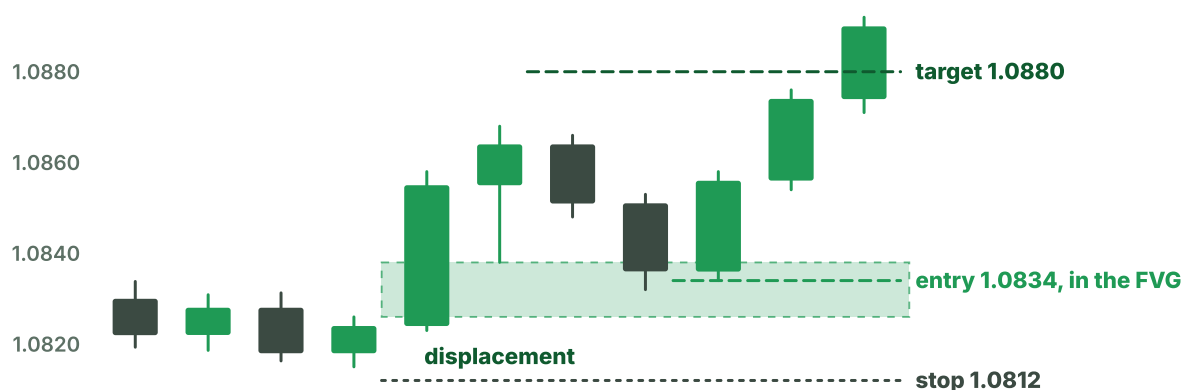


Illustration · example prices, not real market data

An FVG trade on EUR/USD: the gap at 1.0826–1.0838, entry at 1.0834, stop at 1.0812 and target at 1.0880.

In the example, a displacement candle leaves a gap between 1.0826 and 1.0838. Price returns into it and the trader buys at 1.0834. The stop at 1.0812 sits below the first candle's low, 22 pips away, and the target at the 1.0880 resistance is 46 pips away. That is a reward-to-risk of about 2.1 to 1, so the trade only needs to work about one time in three to break even before costs.

Gaps that line up with an order block are the strongest. When the last down candle before a rally sits directly below a bullish gap, the combined zone is a high-quality point of interest (Chapter 24).

Illustrative case: Sara, 29, Dubai

Sara traded every fair value gap she saw on the 5-minute chart, including small ones in quiet Asian hours, and her results were random. She restricted herself to gaps left by displacement candles that broke 1-hour structure during the London or New York sessions. Her trade count fell to about a third, and her journal showed that gaps meeting those conditions reacted far more cleanly.

A fair value gap is the chart's record of urgency. Small gaps in quiet markets are everywhere and mean little; the gap left by a candle that broke structure is the one worth waiting for.

Abir Khan

Writer, FX Recap

Frequently asked

What is a fair value gap?

A three-candle imbalance where the first candle's high and the third candle's low do not overlap (bullish), or the first candle's low and third candle's high do not overlap (bearish).

Does every fair value gap get filled?

No. Many are revisited, often only partly, but strong trends can leave gaps open for a long time.

What is consequent encroachment?

The 50% level of a fair value gap, which many SMC traders use as the main entry or reaction level.

What is an inverse fair value gap?

A gap that price has closed through. It often flips role, so a broken bearish gap can act as support on a retest.

More on this topic, with live tools, on FX Recap: <https://fxrecap.com/learn-forex/education/fair-value-gap>

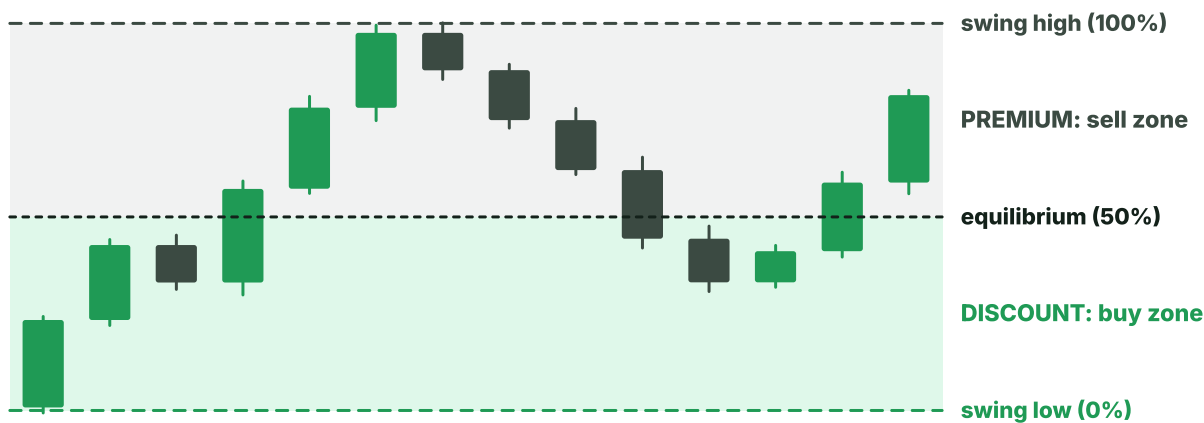
Premium, Discount and the Optimal Trade Entry (OTE) in SMC

Premium and discount split every dealing range at its 50% level: buy low, sell high, in structured form. Learn how to draw the range, why SMC traders buy only in discount and sell only in premium, the optimal trade entry band, and how to stack confluence into one point of interest.

Every trader has heard the advice to buy low and sell high. Premium and discount turn that into a rule you can draw on the chart. Take the range from a swing low to a swing high, split it in half, and you have two zones: the upper half, premium, where price is relatively expensive, and the lower half, discount, where it is relatively cheap. SMC traders look to buy in discount and sell in premium, never the other way round.

Drawing the dealing range

The dealing range is the most recent significant swing on the timeframe you use for bias: the swing low that started the current leg and the swing high it reached, or the reverse in a downtrend. Halfway between them sits the 50% level, called equilibrium. You can draw it with the Fibonacci tool from [Chapter 17](#), using the 0.5 level.



A dealing range from swing low to swing high. Above the 50% equilibrium is premium; below it is discount.

- In an uptrend, wait for pullbacks into discount before buying.
- In a downtrend, wait for rallies into premium before selling.
- Price near equilibrium is in the middle of nowhere; most SMC traders stand aside.
- When a new swing forms, redraw the range. It moves with the market.

The rule removes one of the most common mistakes: buying after a long rally because the trend looks strong, at exactly the point where risk is highest and the reward smallest. Waiting for discount means waiting for a pullback, which improves both.

A worked dealing range

Suppose EUR/USD rallies on the 4-hour chart from a swing low at 1.0780 to a swing high at 1.0900, a 120-pip leg. Equilibrium is halfway, at 1.0840. Everything above 1.0840 is premium and everything below is discount, so the upper 60 pips of the leg are off limits for buyers. A trader following the trend waits for a pullback below 1.0840 before looking for a buy, even if the rally looks strong. If price only pulls back to 1.0860 and rallies again, the trader misses that leg, and accepts the miss as the cost of never buying near the top.

The same numbers give the optimal trade entry. At 62%, the retracement of a 120-pip leg is about 74 pips below the high, near 1.0826; the 79% retracement is about 95 pips below it, near 1.0805. A bullish order block or fair value gap between 1.0805 and 1.0826 would sit in the preferred zone, with a stop below the 1.0780 low. From an entry at 1.0815 with a stop at 1.0775, the 40 pips of risk would be repaid more than twice over by a return to the 1.0900 high.

LEVEL	CALCULATION	PRICE
Swing high (0%)	Top of the leg	1.0900
Equilibrium (50%)	1.0900 – 60 pips	1.0840
OTE top (62%)	1.0900 – 74 pips	≈ 1.0826
OTE bottom (79%)	1.0900 – 95 pips	≈ 1.0805
Swing low (100%)	Start of the leg	1.0780

The optimal trade entry

Within discount, many SMC traders focus on a narrower band between roughly the 62% and 79% retracement levels of the swing, called the optimal trade entry, or OTE. Traders often use the 70.5% level in the middle as the reference price. The band overlaps the deeper Fibonacci levels from Chapter 17, which is part of why it attracts orders.

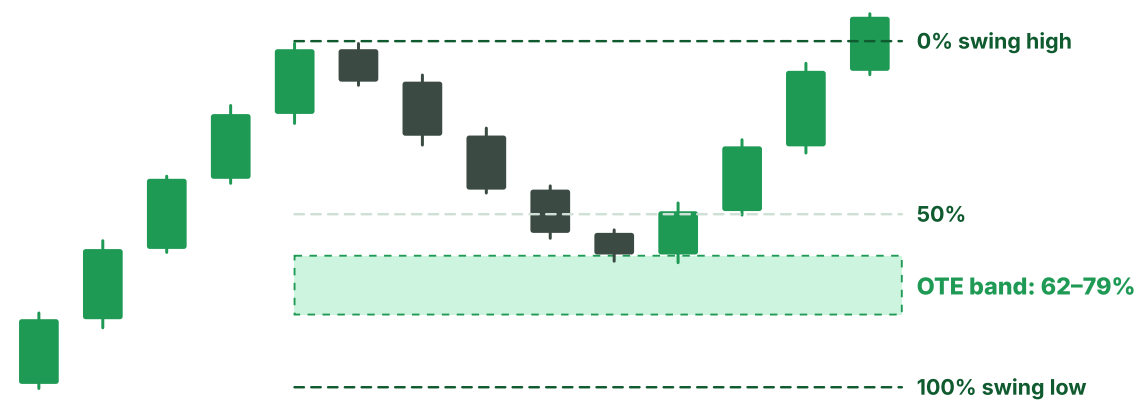


Illustration · example prices, not real market data

The optimal trade entry band between the 62% and 79% retracement. Price pulls back into it, holds and makes a new high.

OTE is not a separate signal. It is a filter on location: an order block or a fair value gap inside the OTE band is preferred to one at 40% or 50%, because the entry is cheaper and the stop below the swing low is closer. The trade-off is that strong trends often pull back only to 38% or 50%, so an OTE-only trader misses some of the best moves.

RETRACEMENT DEPTH	ZONE	HOW SMC TRADERS READ IT
0–50%	Premium (in an uptrend)	Too expensive to buy
50%	Equilibrium	Neutral; usually no trade
50–62%	Discount	Acceptable with strong confluence
62–79%	OTE band	Preferred buy zone
Beyond 79%	Deep discount	The swing may be failing; wait for structure

When premium and discount mislead

The rule assumes the range is the right one. Choose the wrong swing and the halves move. Two common errors are drawing the range on an unfinished swing, so it keeps changing, and drawing it on too small a timeframe, so a pullback that is in discount on the 15-minute chart is still deep in premium on the 4-hour chart. Use the swing that produced the most recent break of structure on your bias timeframe, and redraw only when a new break occurs. Mark the date you drew it on the chart, so you can see at a glance whether the range is still current or belongs to an older leg of the trend.

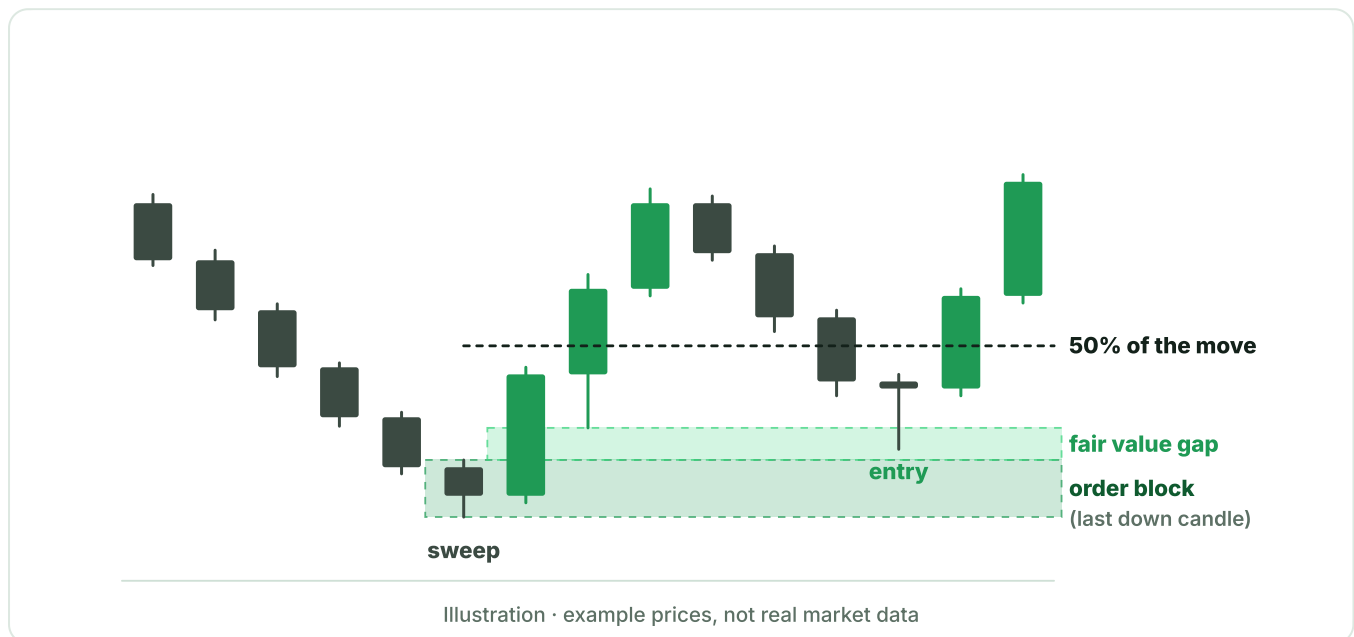
- Range too small: discount on a fast chart can be premium on the bias chart.
- Range not finished: the high keeps moving, and so does equilibrium.
- Range against the trend: in a downtrend, discount is where you take profit on shorts, not where you buy.

In a strong trend, price can stay in premium for a long time without offering a discount entry. Many traders accept that and wait; others drop to a smaller range inside the trend. Whatever you choose,

write it into your plan so you do not change the rule after the fact. Changing the range after a loss to make the entry look correct is one of the quietest ways traders fool themselves.

Stacking confluence: the point of interest

A point of interest, POI, is the place a trader chooses to wait for an entry. The best POIs combine several reasons in one spot: an unmitigated order block, a fair value gap, the discount or OTE zone, and ideally a liquidity sweep just before price reached it. Each extra reason makes the area more meaningful and the reaction more likely.



Confluence: the order block and the fair value gap sit together below the 50% level of the move, in discount.

1. Draw the dealing range on the bias timeframe and mark equilibrium.
2. In the correct half, look for unmitigated order blocks and fair value gaps.
3. Prefer the one inside the OTE band, or the one where a block and a gap overlap.
4. Note the liquidity below it: a sweep into the POI strengthens it.
5. Wait for price to arrive, then for a lower-timeframe CHoCH before entering.

Premium and discount on more than one timeframe

Ranges nest inside each other. A pullback that is in discount on the 1-hour chart might still be in premium on the daily chart. Most traders give the higher timeframe priority: if the daily range says premium, they avoid buying even when the 1-hour range says discount. This is the top-down logic of [Chapter 18](#) applied to location.

Equilibrium also works as a quick check on targets. In a range, the first target for a trade from discount is often equilibrium itself, with the opposite extreme as the second target.

Illustrative case: Lucas, 32, Manila

Lucas often bought EUR/USD on strong green candles near the top of a rally, and his stops kept getting hit on the pullback. He began drawing the 4-hour dealing range and only buying in its lower half. In the first month he took fewer trades, but his entries were consistently closer to his stops and further from his targets.

Premium and discount are the simplest part of SMC and probably the most useful. Even if you never mark an order block, refusing to buy in the top half of a range will improve most traders' entries.

Jowel Rana

Co-Founder & Forex Trader, FX Recap

Frequently asked

What are premium and discount zones?

The upper and lower halves of a dealing range, split at the 50% equilibrium. SMC traders sell in premium and buy in discount.

What is equilibrium in SMC?

The 50% level of the current dealing range, between the swing low and swing high.

What is the OTE zone?

The optimal trade entry: roughly the 62% to 79% retracement of a swing, with 70.5% as a common reference level.

What is a point of interest?

An area where a trader plans to look for an entry, usually an order block or fair value gap with extra confluence such as discount, OTE or a nearby liquidity sweep.

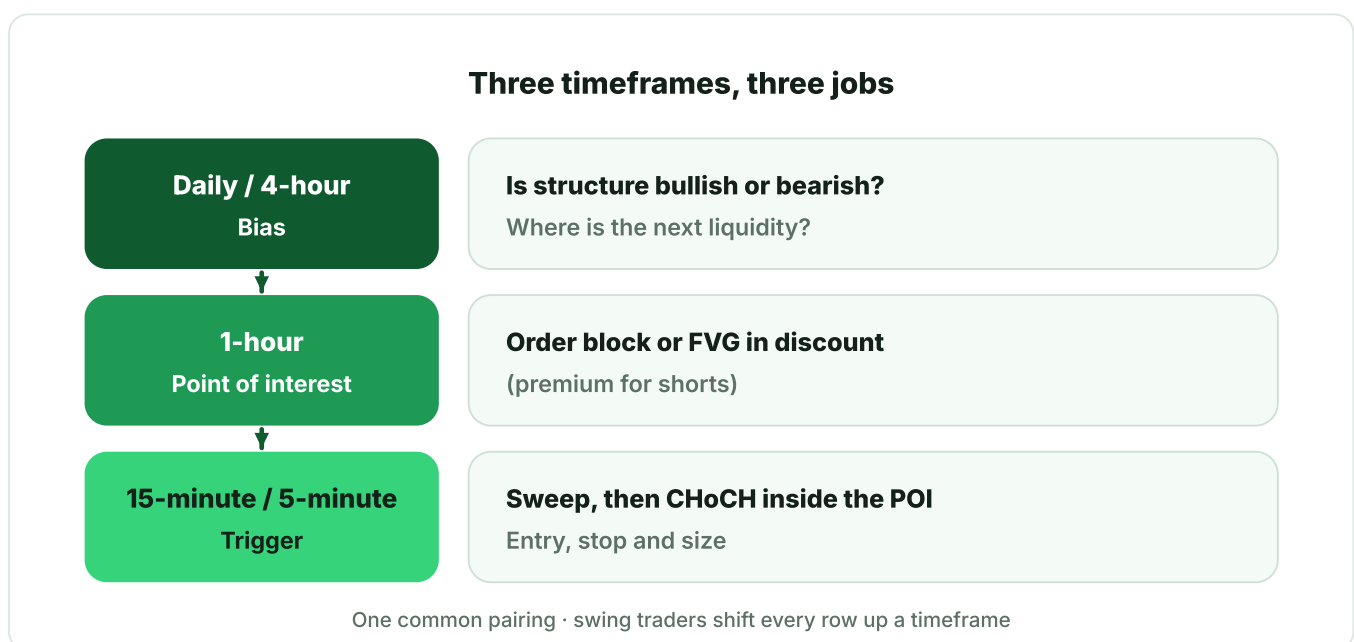
An SMC Trade From Start to Finish: A Complete Smart Money Concepts Model

Put Part 4 together into one repeatable process: higher-timeframe bias, liquidity, the sweep and change of character, the point of interest, the entry, the stop, the target and the journal. Includes the risk arithmetic that makes the method work.

The chapters in this part each described one tool. On their own, each tool produces too many signals: there is always an order block, always a gap, always a high that might be swept. The value of Smart Money Concepts comes from requiring several tools to agree, in order. This chapter assembles them into one model you can write down, test and follow.

Three timeframes, three jobs

A practical SMC routine uses three timeframes, each with a single job. The higher one sets direction, the middle one finds the place, and the lower one decides the moment. Swing traders move every row up a level; scalpers move every row down.

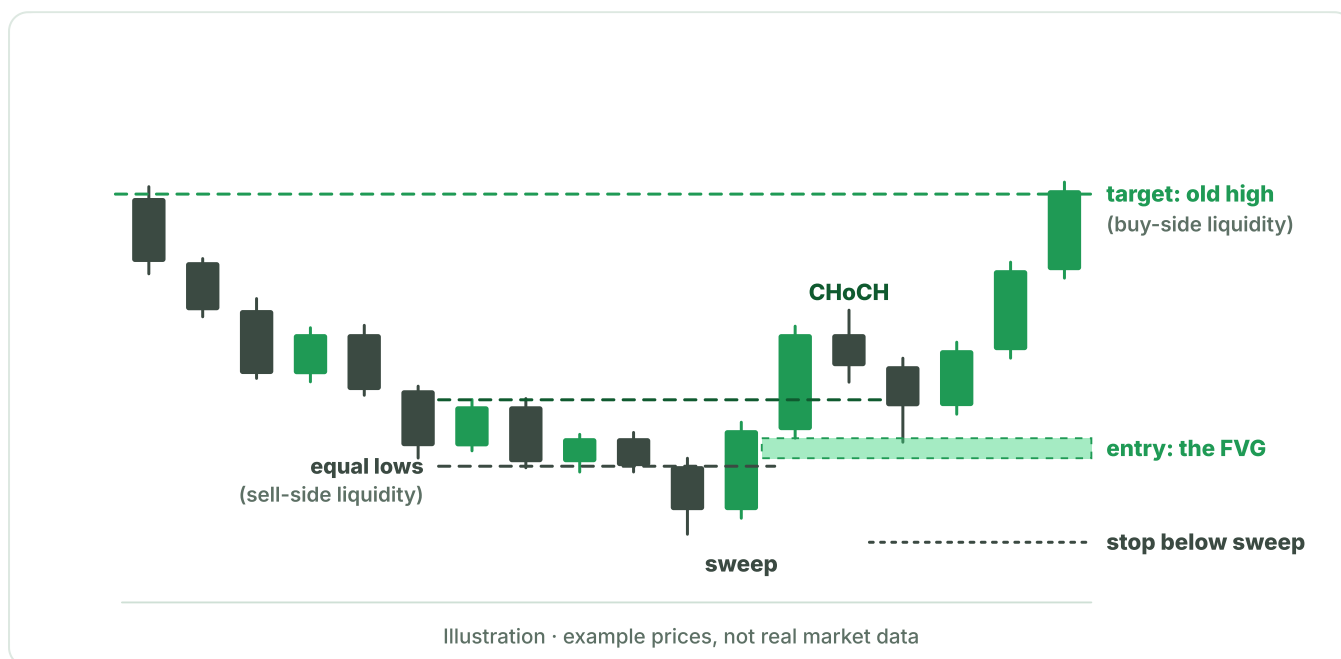


A top-down routine: bias on the daily or 4-hour chart, the point of interest on the 1-hour chart, and the trigger on the 15-minute or 5-minute chart.

The model, step by step

1. **Bias.** On the 4-hour chart, is the last break of structure bullish or bearish? Trade only in that direction.
2. **Draw on liquidity.** Where is the obvious liquidity price is likely to seek next? For a long, the target is buy-side liquidity above a recent high.
3. **Location.** Draw the dealing range. For a long, wait for price in discount.

4. **Point of interest.** In discount, mark the best unmitigated order block or fair value gap, ideally inside the OTE band.
5. **Sweep.** Ideally, price takes sell-side liquidity, such as equal lows or the Asian range low, as it reaches the POI.
6. **Trigger.** On the 15-minute chart, wait for a CHoCH upward with displacement.
7. **Entry.** Enter on the return into the fair value gap or order block created by that CHoCH.
8. **Stop.** Place it a few pips beyond the sweep low.
9. **Target.** Take profit at the buy-side liquidity from step 2. Many traders take part at the first opposing level and move the stop to breakeven.



The full model: equal lows are swept, a CHoCH leaves a fair value gap, the entry is the return into the gap in discount, the stop goes below the sweep and the target is the old high.

A worked trade

Suppose the 4-hour chart of GBP/USD made a bullish break of structure, and the last high at 1.2760 has equal highs beneath it, an obvious pool of buy-side liquidity. The current dealing range runs from 1.2600 to 1.2760, so equilibrium is 1.2680. A bullish 1-hour order block sits at 1.2632–1.2645, inside the OTE band, with equal 1-hour lows at 1.2638 just above its lower edge.

During the London session, price drops to 1.2628, sweeping the equal lows, and the 15-minute chart closes above its last lower high with a strong candle that leaves a fair value gap between 1.2641 and 1.2648. The trader buys at 1.2645 on the return into the gap. A stop at 1.2622, below the sweep low, puts the risk at 23 pips. For the target, the trader uses 1.2755, just below the 1.2760 equal highs and 110 pips away: a reward-to-risk of about 4.8 to 1.

ITEM	PRICE	WHY
Bias	Bullish 4-hour BOS	Trade longs only
Liquidity target	Equal highs near 1.2760	Buy-side liquidity
Point of interest	1-hour OB 1.2632–1.2645	Unmitigated, in OTE
Sweep	Low of 1.2628	Equal lows taken
Entry	1.2645	Return into the 15-minute FVG
Stop	1.2622	Below the sweep low (23 pips)
Target	1.2755	Before the equal highs (110 pips)

Every price in this example is invented to show the method. Real setups rarely line up this neatly, and many valid setups still lose.

Managing the open trade

Once the trade is on, the model still guides decisions. A common approach is to take part of the position off at the first opposing level, such as a bearish order block or equilibrium of a higher-timeframe range, and move the stop to breakeven. The rest runs to the liquidity target. If price forms a CHoCH against the trade on the entry timeframe before reaching the target, many traders close the remainder rather than wait for the stop.

1. At about 1R in profit, consider taking a third off.
2. After a new break of structure in your direction, move the stop below the higher low that produced it.
3. Close the rest at the liquidity target or on a CHoCH against you.

Rules like these should be tested, not borrowed. Taking partial profits raises the win rate but lowers the average winner, and for some traders the net effect is negative. Your journal will show which version suits your entries, as long as each version is tested on enough trades.

The risk arithmetic

Tight stops mean SMC traders are stopped out often; win rates of 30% to 45% are common for disciplined versions of the method. That is survivable only because the winners are large. The table shows how win rate and reward-to-risk combine.

Why SMC traders aim for 2R or more

Reward : risk	Break-even win rate	In 20 trades
1 : 1	50%	10 wins, 10 losses = 0
2 : 1	33%	7 wins (+14R), 13 losses (-13R) = +1R
3 : 1	25%	5 wins (+15R), 15 losses (-15R) = 0

Before costs. Spread and commission raise every break-even figure a little.

R = the amount risked on one trade

Break-even win rates by reward-to-risk. At 2 to 1, a trader needs to win only about a third of trades to break even before costs.

The lesson is that you must hold winners to their targets. A trader who uses 20-pip stops but takes profit after 15 pips because a trade feels uncomfortable has turned a 3-to-1 method into a losing one. [Chapter 31](#) develops this into expectancy, the single number that tells you whether a method makes money over time.

Position size for the worked trade

With a \$5,000 account risking 1% per trade, the trader can lose \$50. On GBP/USD a standard lot is worth about \$10 per pip, so a 23-pip stop means $\$50 \div (23 \times \$10) \approx 0.22$ lots. If the target is hit, the profit is about $110 \times 0.22 \times \$10 \approx \$242$, or 4.8 times the risk. [Chapter 30](#) covers sizing for other pairs and account currencies.

When to skip a trade

Knowing when not to trade is part of the model. Skip setups that appear just before high-impact news, because the release can sweep both sides. Avoid them too when the spread is unusually wide, when price is near equilibrium of the higher-timeframe range, or when the target is less than twice the risk. And sit out after a run of losses that has left you frustrated: the model only works if you follow it calmly.

Count skipped setups in your journal as a success when the rule was the reason. Discipline is a skill you can measure.

Journal every setup

Because SMC definitions are flexible, the only way to know whether your version works is to record it. For each setup, including the ones you skip, note the bias, the POI type, whether liquidity was swept, the trigger, the entry, the stop, the target, the result in R and a screenshot. After fifty or more trades,

patterns appear: maybe your fair value gap entries outperform your order block entries, or your Asian-session trades lose.

- Record skipped setups too; they show whether your filters help.
- Measure results in R, multiples of risk, so different stop sizes compare fairly.
- Review weekly, and change only one rule at a time.

Run the model on a demo account or in a backtest for at least a few months before trading it live. [Chapter 34](#) explains how to test without fooling yourself with hindsight.

Illustrative case: Hana, 34, Karachi

Hana had learned every SMC term but traded each one separately, so she had no consistent process. She wrote the nine steps of this model on a card and took only setups that met all of them, logging each one in R. Over three months on a demo account she took 31 trades, won 12 and lost 19. Because her average winner was about 2.4R, her total was roughly +10R, and she moved to a small live account with the same rules.

The model matters more than any single concept in it. Write the steps down, follow them every time, and let the journal tell you which parts earn their place.

Ranjan Niskrity

Founder, Owner & Forex Trader, FX Recap

Frequently asked

What is the SMC trading model?

A sequence that combines higher-timeframe bias, a liquidity target, a point of interest in discount or premium, a liquidity sweep, a lower-timeframe change of character, and a defined entry, stop and target.

What win rate does SMC need?

It depends on reward-to-risk. At 2 to 1 a trader breaks even at about a 33% win rate before costs; at 3 to 1, about 25%.

Which timeframes are best for SMC?

A common pairing is the 4-hour chart for bias, the 1-hour for the point of interest and the 15-minute or 5-minute for the entry trigger.

How should I test an SMC strategy?

Write exact rules, apply them to past charts and a demo account, record every setup in R, and judge the method on at least fifty trades.

Interest Rates and Central Banks: What Really Drives Currency Trends

Interest rates are the single biggest driver of currencies over months and years. Learn how central banks set them, why the change versus expectations matters more than the decision, how to read hawkish and dovish language, the dot plot, and the carry trade.

Charts show what price is doing; fundamentals explain why. Of all the fundamental forces in forex, interest rates matter most. A currency is a claim on money held in that country's banking system, and the interest that money earns decides how attractive it is to hold. When one country's rates rise relative to another's, its currency usually becomes more attractive, and over weeks and months the exchange rate tends to follow.

Interest rates are set by central banks. Parts 1 to 4 of this book taught you to read the chart; this part explains the forces behind the biggest trends on it, starting with the institutions that move them most.

What central banks do

A central bank manages a country's money. Its main tool is a short-term policy rate, the rate at which banks borrow and lend overnight, which then feeds through to mortgage rates, savings rates and bond yields. Most major central banks have a mandate centred on stable prices, usually defined as inflation close to 2% a year. The US Federal Reserve has a dual mandate set by Congress: maximum employment and stable prices.

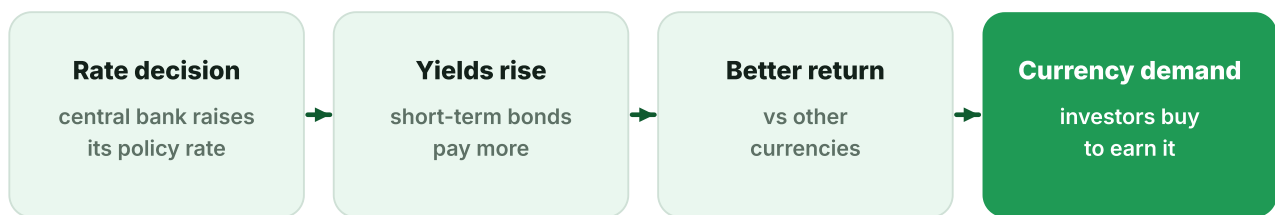
CENTRAL BANK	CURRENCY	DECISION BODY	PUBLISHED INFLATION GOAL
Federal Reserve	USD	Federal Open Market Committee (FOMC)	2% (PCE prices)
European Central Bank	EUR	Governing Council	2% over the medium term
Bank of England	GBP	Monetary Policy Committee	2% (CPI)
Bank of Japan	JPY	Policy Board	2%
Reserve Bank of Australia	AUD	Monetary Policy Board	2–3%
Bank of Canada	CAD	Governing Council	2%, within a 1–3% range

When inflation runs above target, central banks raise rates to cool demand. If the economy weakens and inflation falls, they cut. Beyond the policy rate they also use balance-sheet tools: buying bonds to push long-term yields down, known as quantitative easing, or letting bonds run off to do the opposite, quantitative tightening.

How a rate decision reaches the currency

Higher rates raise the yield on short-term government bonds and bank deposits. Global investors compare those yields across countries. If US two-year bonds pay more than equivalent German bonds, money tends to flow towards dollars, and EUR/USD tends to fall. The chain is not mechanical, because growth, risk appetite and trade flows all matter too, but over months it is one of the most reliable forces in the market.

Why a rate rise tends to lift a currency



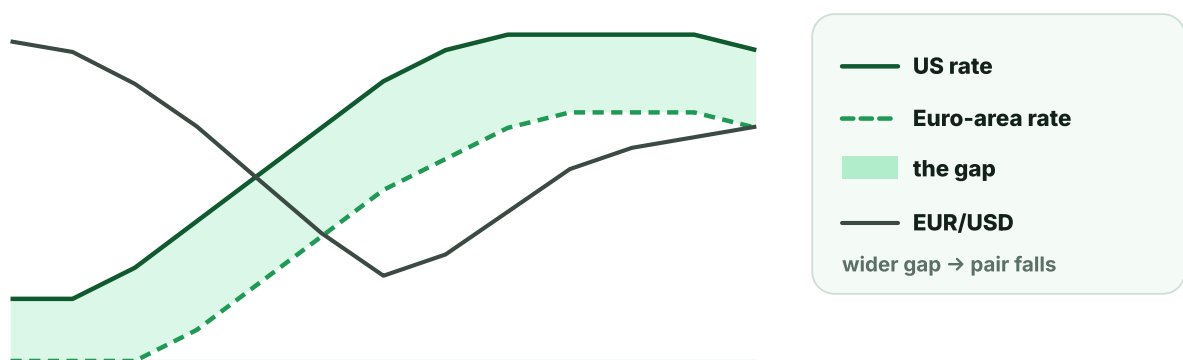
What matters is the change versus expectations, not the level itself.

A simplified chain · other forces can outweigh it

A rate rise lifts short-term yields, makes the currency a better place to hold money and tends to draw buyers.

What matters is the gap between two countries' rates, and above all the expected gap in the future. A currency can fall even while its central bank is raising rates, if the other side of the pair is expected to raise faster.

Rate gap and EUR/USD (illustrative)



Invented series for teaching · real relationships are looser

When the rate gap between the US and the euro area widens, EUR/USD tends to fall; when it narrows, the pair recovers.
Invented lines show the relationship.

Priced in: why expectations matter most

Markets trade on expectations. Before a decision, interest-rate futures and short-term bond yields already reflect what traders think the central bank will do. If everyone expects a 0.25-point hike, that hike is mostly priced in, and delivering it changes little. The currency moves on the difference between what happened and what was expected, including the message about future decisions.

Markets expect a 0.25-point hike. What happens next?

Outcome	Versus expectations	Typical currency reaction
Hike 0.50	More hawkish	Rises sharply
Hike 0.25, hawkish tone	Slightly hawkish	Rises modestly
Hike 0.25, dovish tone	Slightly dovish	Can fall, despite the hike
No change	Dovish surprise	Falls sharply

Example scenarios · the surprise drives the move, not the decision

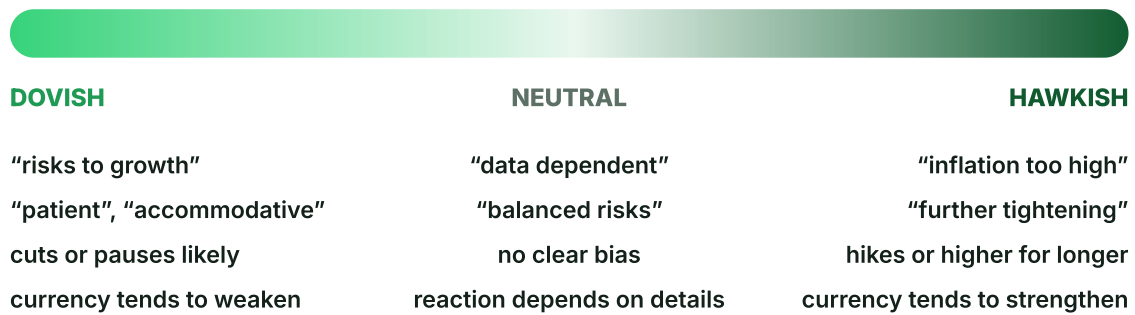
With a 0.25-point hike expected, the reaction depends on the surprise: a bigger hike lifts the currency, a dovish hike can sink it, a pause sinks it sharply.

This is why traders sometimes see a currency fall on a rate hike and rise on a cut. In each case the decision was less hawkish, or less dovish, than the market had assumed. Before any central bank meeting, find out what is expected: financial news usually reports the market-implied probability of each outcome.

Hawks, doves and forward guidance

Central bankers know markets hang on every word, so they choose their language carefully. Hawkish language emphasises inflation risks and the need for tight policy; dovish language emphasises risks to growth and patience. A shift of a single phrase in a statement can move a currency more than the rate decision itself, because it changes expectations for the next several meetings.

The hawk–dove scale



Typical phrases · tone is judged against what markets expected

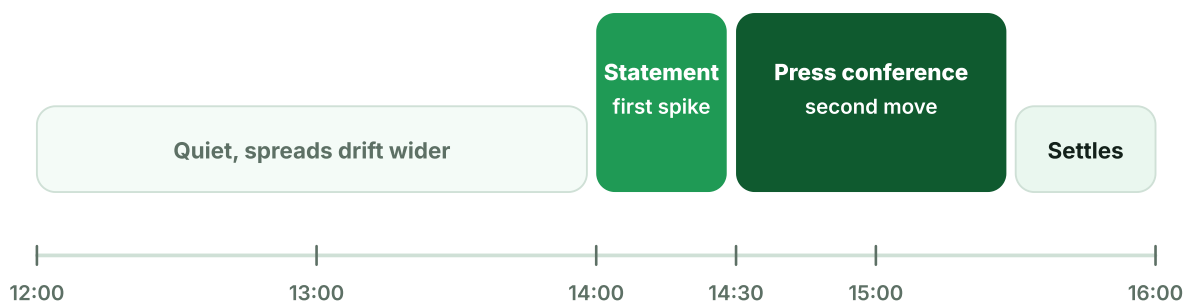
The hawk–dove scale with typical phrases. Tone is always judged against what markets expected.

Forward guidance is the central bank's description of its likely future path. Phrases such as "further tightening may be appropriate" or "rates will stay at current levels for some time" are guidance. Traders compare each new statement with the previous one line by line, looking for added or removed words.

The Federal Reserve's decision day

The FOMC has eight scheduled meetings a year. Its statement is published at 2:00 p.m. US Eastern Time, and the Chair's press conference begins at 2:30 p.m. At four of the eight meetings, in March, June, September and December, the Fed also publishes its Summary of Economic Projections, including the dot plot.

An FOMC decision day (US Eastern Time)



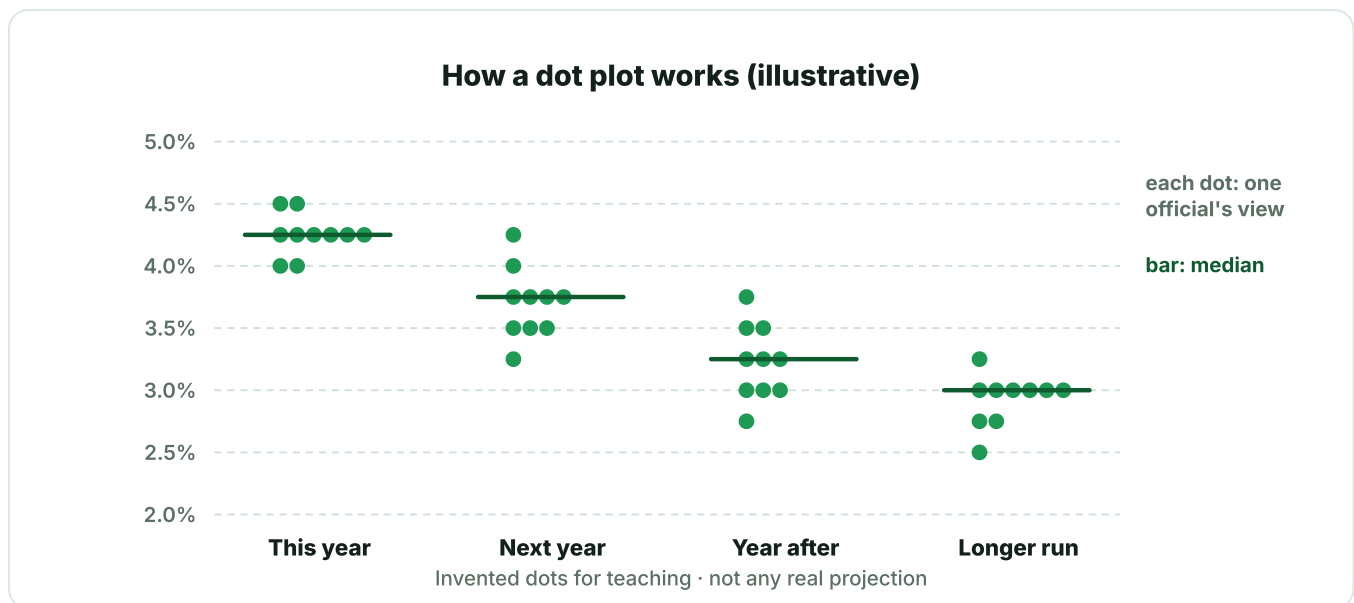
Four meetings a year also bring new projections, including the dot plot, at 14:00.

Times as published by the Federal Reserve · market behaviour is typical, not guaranteed

FOMC day: a quiet build-up, the statement and first spike at 2:00 p.m., the press conference and often a second move from 2:30 p.m., then the market settles.

The dot plot shows where each participant thinks the policy rate should be at the end of each of the next few years and in the longer run. Markets focus on the median dot. If the median for next year

moves lower than at the previous meeting, the message is dovish, even if the decision itself was a hold.



How a dot plot works: each dot is one official's view of the appropriate rate, and the median is the figure markets watch. These dots are invented.

Other central banks follow similar patterns: a statement, a press conference and, at some meetings, new forecasts. The Bank of England's Monetary Policy Committee and the ECB's Governing Council each hold eight scheduled policy meetings a year. Check the times in your [own time zone](#) on an economic calendar.

Intervention

Sometimes governments act directly in the currency market, buying or selling their own currency to slow a sharp move. In Japan, for example, the Ministry of Finance decides on intervention and the Bank of Japan carries it out. Intervention can move a pair by several hundred pips in minutes, which is why traders holding positions against a currency that officials have warned about often reduce their size.

Reading a statement in five minutes

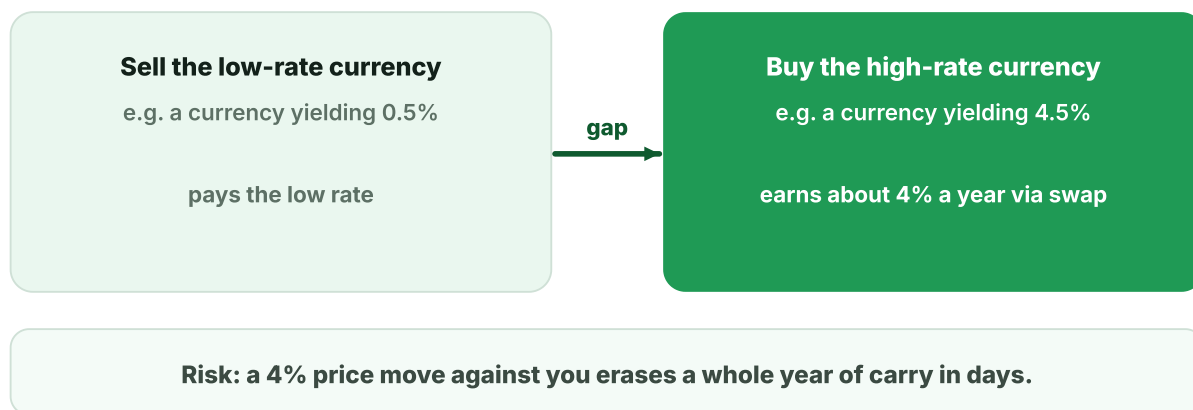
1. Open the previous statement next to the new one.
2. Find the paragraph on inflation. Is the description warmer or cooler than last time?
3. Find the sentence about future policy. Was any word added, removed or softened?
4. Check the vote. Did any members dissent, and in which direction?
5. Compare the overall tone with what the market expected before the meeting.

Many central banks also publish meeting minutes a few weeks later. Minutes can move a currency when they show the committee was more divided than the statement suggested, so check the calendar for them as well. Speeches by committee members between meetings matter too, especially from the chair or governor, because they often prepare markets for the next decision.

The carry trade

When rate gaps are wide, some traders hold the higher-yielding currency against the lower-yielding one simply to earn the difference through the daily swap, as explained in [Chapter 9](#). This is the carry trade. It pays a small, steady income while markets are calm. When fear rises, carry trades are unwound together, and the high-yielding currencies can fall very fast.

The carry trade in one picture



Example rates · real swap rates are set by each broker

The carry trade earns the rate gap through swap, but a sharp move against the position can erase a year of income in days.

Never treat swap income as free money. A 4% annual rate gap is roughly 400 pips a year on a pair priced near 1.00; a single bad week can cost more than that.

Illustrative case: Arif, 36, Chittagong

Arif bought GBP/USD ahead of a Bank of England meeting because he expected a hike, and the bank did raise rates. The pound still fell, and he could not understand why. Reading the statement afterwards, he saw that the committee had signalled the hike might be the last. Since then he checks the market's expectations before each meeting and trades the tone and the guidance, not the headline decision.

The rate decision is usually the least surprising part of a central bank meeting. Statements, projections and press conferences tell you about the next six months, and that is what the currency trades.

Tanbir Habib Riyad

Forex & Crypto Analyst, FX Recap

Frequently asked

Why do higher interest rates strengthen a currency?

Higher rates raise the return on holding that currency in bonds and deposits, so international investors tend to buy it. The effect depends on the rate gap with other countries and on expectations.

Why did a currency fall after a rate hike?

Usually because the hike was already expected and the message about future rates was less hawkish than markets had assumed.

What is a dot plot?

A chart published by the Federal Reserve at four meetings a year, showing each official's view of the appropriate policy rate for the coming years. Markets watch the median.

When is the FOMC statement released?

At 2:00 p.m. US Eastern Time on the final day of each of the eight scheduled meetings, with the press conference at 2:30 p.m.

Inflation, Jobs and GDP Data: The Economic Releases That Move Forex

Central banks decide rates by watching data, so traders watch the same numbers. Learn which releases matter most, how to read actual, forecast and previous, headline and core inflation, the US jobs report and its revisions, and how a surprise spreads across markets.

Chapter 26 showed that currencies follow interest-rate expectations. Those expectations, in turn, follow economic data. Every inflation figure, jobs report and growth estimate nudges the market's view of what central banks will do next. That is why a single release can move a major pair by 50 to 100 pips in minutes.

The releases that matter most

Not all data is equal. The releases that move currencies most are the ones central banks themselves say they watch: inflation and the labour market. Growth data and business surveys come next. The ranking shifts with the economic cycle: when inflation is the main worry, inflation data dominates; when recession fears rise, jobs and growth data take over.

Which releases move currencies most

Typical impact	Releases	Why
Highest	Rate decisions, CPI, US payrolls	Directly change rate expectations
High	GDP, retail sales, PMIs, wages	Shape growth and inflation views
Medium	Trade balance, housing, sentiment	Matter when they surprise strongly
Low	Minor regional and secondary data	Rarely move major pairs alone

Typical ranking · the market's focus shifts with the economic cycle

Typical impact of the main releases. The focus shifts with the economic cycle.

RELEASE	WHAT IT MEASURES	WHO PUBLISHES IT (US)
Consumer Price Index (CPI)	Change in consumer prices	Bureau of Labor Statistics
Employment Situation (payrolls)	Jobs, unemployment, wages	Bureau of Labor Statistics
PCE price index	The Fed's preferred inflation gauge	Bureau of Economic Analysis
Gross domestic product (GDP)	Total output of the economy	Bureau of Economic Analysis
Retail sales	Spending in shops and online	Census Bureau
Purchasing managers' indexes	Business activity surveys	Private survey firms

Every major economy has its own versions: euro-area flash inflation from Eurostat, UK inflation and jobs data from the Office for National Statistics, Japanese inflation and wage data, Australian and Canadian employment reports. For any pair you trade, know the two or three releases that matter most on each side.

Actual, forecast, previous

An economic calendar lists each release with three numbers. The forecast, or consensus, is the median estimate of economists surveyed before the release. Next to it sits the previous figure, last period's result, sometimes revised. Finally comes the actual, what was published. Markets react mainly to the surprise: actual minus forecast.

Reading a calendar line

Time	Currency	Event	Actual	Forecast	Previous
08:30	USD	CPI m/m	0.5%	0.3%	0.2%

Surprise = actual – forecast

0.5% – 0.3% = +0.2 points

hotter than expected

Likely first reaction

US yields up, USD up
gold and EUR/USD down

Example numbers · always check revisions to the previous figure too

A calendar line and the surprise it produces. Here inflation comes in 0.2 points above forecast, which usually lifts the dollar at first.

A result can be strong in absolute terms and still weaken the currency if it falls short of the forecast. Watch the previous figure as well: a big revision to last month can outweigh the new number.

How big is a surprise?

A surprise only matters relative to how much that number usually moves. Payrolls regularly miss forecasts by tens of thousands of jobs, so a 20,000 miss is noise; monthly core inflation rarely misses

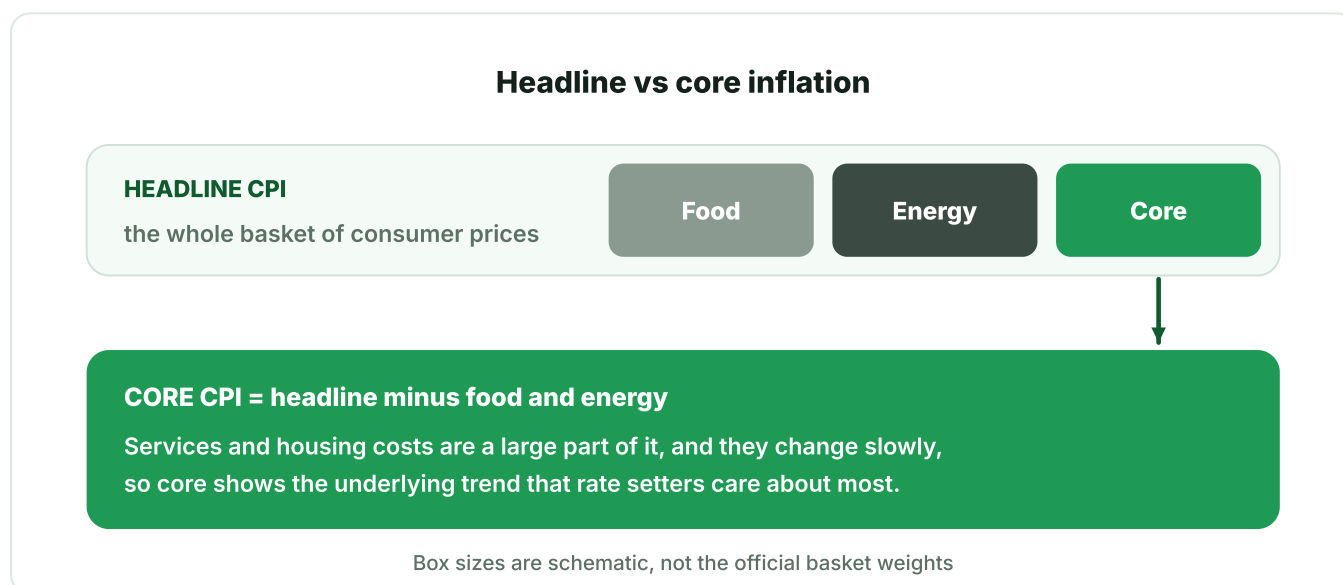
by more than 0.1 point, so a 0.2-point miss is large. Experienced traders learn the normal range of surprises for each release and react only when a number lands well outside it.

RELEASE	SMALL SURPRISE	LARGE SURPRISE
US monthly core CPI	0.1 point	0.2 points or more
US non-farm payrolls	Under about 50,000 jobs	Over about 100,000 jobs
Unemployment rate	0.1 point	0.2 points or more
PMI surveys	Under 1 point	2 points or more

These ranges are rough rules of thumb for teaching, not official thresholds. Check how a release has surprised over the past year before relying on them.

Inflation: headline and core

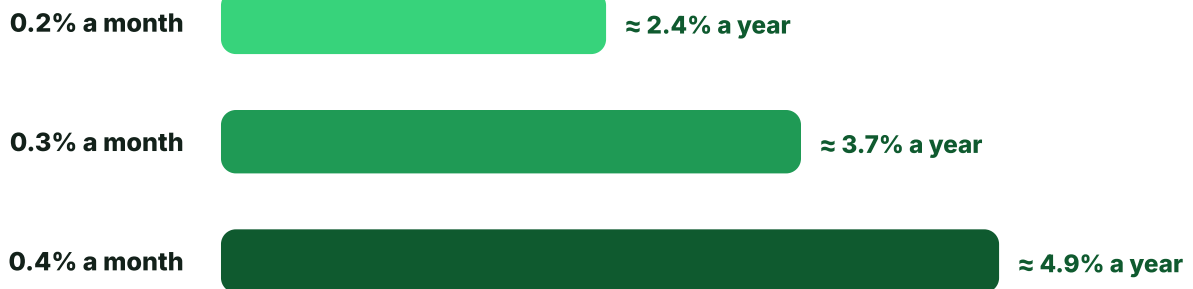
Consumer price inflation measures how fast the prices of a basket of goods and services are rising. Headline inflation includes everything. Core inflation removes food and energy, whose prices jump around with harvests and oil markets. Central banks watch core closely because it shows the underlying trend that interest rates can influence.



Headline inflation is the whole basket; core removes food and energy to show the underlying trend.

Inflation is reported both month on month and year on year. The monthly figure is the fresh information; the annual figure includes eleven months the market already knew. Small monthly numbers compound into large annual ones, which is why traders care so much about a 0.1-point difference.

Monthly inflation, annualised



Annualised = $(1 + \text{monthly rate})^{12} - 1$. A central bank target of 2% is about 0.17% a month.
Arithmetic example

0.2% a month is about 2.4% a year; 0.4% a month is almost 5%.

A central bank aiming for 2% a year wants monthly core readings of roughly 0.15% to 0.2%. A run of 0.3% or 0.4% readings tells the market that rates may have to stay high or rise, and the currency usually strengthens.

A US CPI surprise: typical first reactions

CPI vs forecast	US yields	US dollar	Gold	EUR/USD
Hotter	Up	Up	Down	Down
In line	Small move	Small move	Small move	Small move
Cooler	Down	Down	Up	Up

Typical first reaction only · the core figure often matters more than the headline.
Tendencies, not rules

Typical first reactions to a US CPI surprise across yields, the dollar, gold and EUR/USD.

The US jobs report

The US Employment Situation report, released by the Bureau of Labor Statistics usually on the first Friday of the month at 8:30 a.m. Eastern Time, is one of the most traded events in forex. Traders call it NFP, after its headline figure, the change in non-farm payrolls. It contains several numbers that can point in different directions.

Inside the US jobs report

Non-farm payrolls

jobs added or lost
the headline number

Unemployment rate

from a separate
household survey

Average hourly earnings

wage growth:
an inflation signal

Revisions

to the prior
two months

Released by the US Bureau of Labor Statistics, usually on the first Friday of the month at 8:30 a.m. ET.

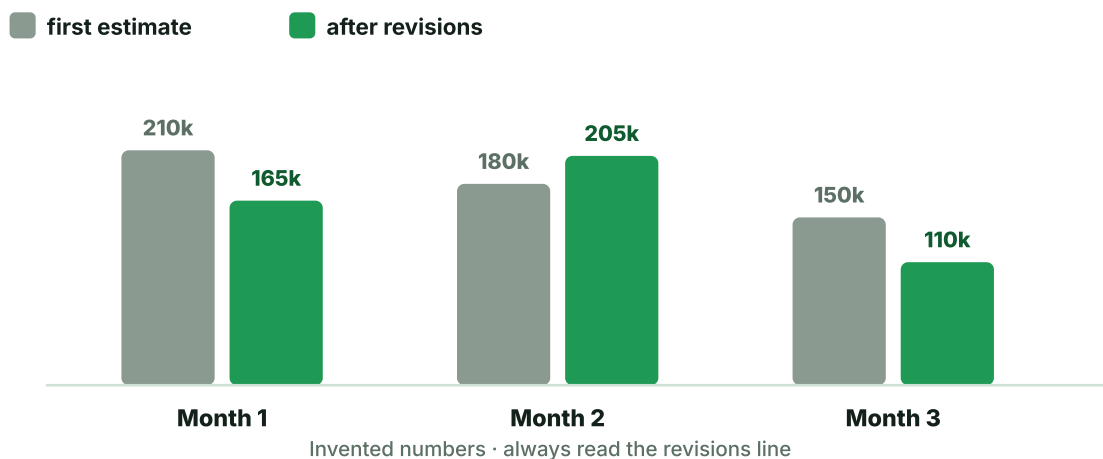
Strong jobs with weak wages, or the reverse, can produce a confused first reaction

The four parts of the US jobs report that traders read first.

- **Payrolls:** jobs added or lost, from a survey of employers.
- **Unemployment rate:** from a separate survey of households, so it can disagree with payrolls.
- **Average hourly earnings:** wage growth, watched as a source of future inflation.
- **Revisions:** changes to the two previous months, which can be large.

Payroll figures are revised as more employers respond. A headline that beats the forecast can be offset by downward revisions that subtract more jobs from earlier months. Read the revisions line before deciding the report was strong.

First estimate vs revised figure (illustrative)



First estimates and revised figures for three months. Invented numbers show how revisions can change the story.

When the parts disagree

The jobs report often sends mixed signals: strong payrolls with weak wages, or weak payrolls with a falling unemployment rate. Early trading usually follows the headline, then the market reweighs the parts. When inflation is the main concern, wages tend to matter most; when recession is the worry, payrolls and unemployment take over. Wait for the parts to be digested before deciding which way the

report really cut. Fifteen minutes is usually enough for the market to settle on a reading, and the direction it chooses then is far more reliable than the first spike.

Data for other major currencies

CURRENCY	RELEASES TRADERS WATCH CLOSELY
EUR	Flash inflation (HICP), PMI surveys, German data
GBP	CPI, labour market report, monthly GDP
JPY	Tokyo CPI, national CPI, wage negotiations
AUD	Quarterly and monthly CPI, employment report
CAD	Employment report, CPI, oil prices

Each of these is published by the country's own statistics office or central bank, and the economic calendar lists them with forecasts just like the US releases. For pairs that do not include the dollar, both sides matter equally. EUR/GBP, for example, reacts to euro-area and UK inflation in roughly equal measure, and the US calendar matters mainly through its effect on global risk mood.

Growth data and surveys

GDP measures the total output of an economy. It is the broadest measure but comes out slowly: the first US estimate of a quarter arrives about a month after the quarter ends. Faster indicators fill the gap. Purchasing managers' indexes survey businesses each month; a reading above 50 suggests expansion and below 50 contraction. Retail sales show whether consumers are still spending.

Markets care about data mainly through its effect on interest-rate expectations. Strong growth data matters when it suggests inflation will stay high; weak data matters when it suggests rate cuts are coming.

Building a data routine

1. Each Sunday, list the high-impact releases for the currencies you trade that week.
2. Note the forecast for each and what the central bank last said about that indicator.
3. Decide in advance how you will handle open trades at each release.
4. After the release, note the surprise and the reaction. Over time you will learn which numbers your pairs respond to.

Illustrative case: Thandi, 29, Johannesburg

Thandi bought USD/ZAR before a US jobs report that beat the forecast by 60,000 jobs, expecting a stronger dollar. The pair fell instead. Buried in the report, the previous two months had been revised down by 90,000 jobs and wage growth slowing. She now reads the revisions and earnings lines before acting on any headline.

A headline number is the start of the story, not the end. Check the forecast, the revisions and the core figure before you decide whether the data was really strong or weak.

Jannatul Ferdaush

Fact-Checker & Risk Analyst, FX Recap

Frequently asked

Which economic releases move forex the most?

Central bank decisions, inflation data such as CPI, and US jobs data. Growth figures, retail sales and business surveys are next.

What is the difference between headline and core CPI?

Headline CPI includes all items. Core CPI excludes food and energy, whose prices are volatile, to show the underlying inflation trend.

When is the US jobs report released?

Usually on the first Friday of the month at 8:30 a.m. US Eastern Time, published by the Bureau of Labor Statistics.

Why does the market react to the forecast, not the number?

Expected results are already priced in. Only the surprise, the difference between the actual and the forecast, is new information.

More on this topic, with live tools, on FX Recap: <https://fxrecap.com/learn-forex/education/economic-calendars-guide>

Trading the News in Forex: Spikes, Spreads and the Second Move

Big releases create the fastest moves in forex and the worst trading conditions. Learn what happens in the minutes around a release, the three ways to approach it, why straddles often disappoint, how to trade the second move, and how to protect trades you already hold.

Chapter 27 explained which releases matter and why. This chapter is about the mechanics of trading around them. News produces the biggest, fastest moves of the week, which makes it tempting. It also produces wide spreads, slippage and violent reversals, which make it one of the easiest places to lose money quickly. The goal is to understand exactly what happens in those minutes and choose an approach you can survive.

What happens around a release

In the minutes before a high-impact number, many liquidity providers pull their quotes or widen them, because nobody wants to be caught on the wrong side of a surprise. Spreads widen, sometimes to several times their normal size, and the market goes quiet. When the number hits, orders arrive all at once. Price often jumps one way, snaps back, then sets off in the direction the data justifies. Chapter 10 described the slippage this causes.

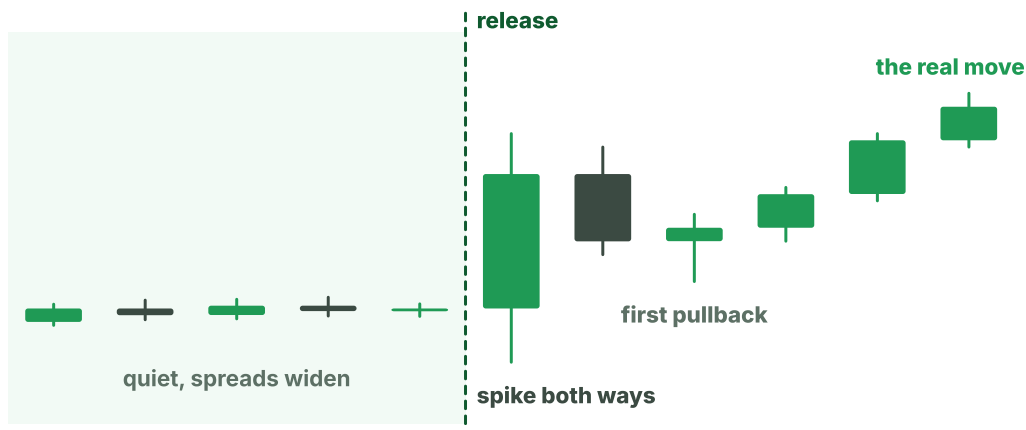


Illustration · example data, not real market data

A typical release on a 1-minute chart: quiet and wide spreads before, a spike both ways at the release, a pullback, then the real move.

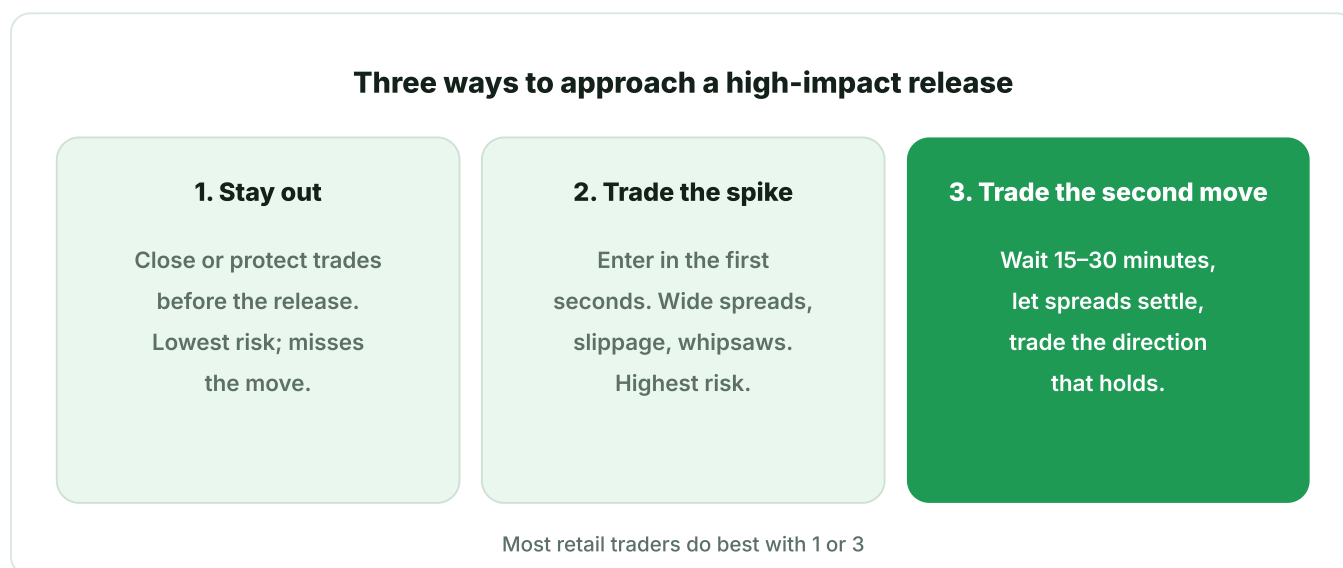
PHASE	TYPICAL TIMING	CONDITIONS
Build-up	15 to 2 minutes before	Thin trading, spreads begin to widen
Release	First seconds to a minute	Widest spreads, gaps, slippage, spikes both ways
Digestion	First 5 to 15 minutes	Pullbacks as early orders are absorbed
Second move	15 to 60 minutes after	Spreads normal again, direction usually clearer

Why the first move often reverses

Several things push the first spike too far. Stop orders resting near the pre-release range are triggered and add to the move. Algorithms that read the headline in milliseconds trade before humans can digest the details. Then the details arrive: revisions, the core figure, wages. If they disagree with the headline, the early buyers or sellers rush to exit, and the spike reverses. That pattern is so common that many professionals treat the first minute as noise.

Three ways to approach a release

Every trader needs a rule for big releases, decided in advance. There are only three basic choices.

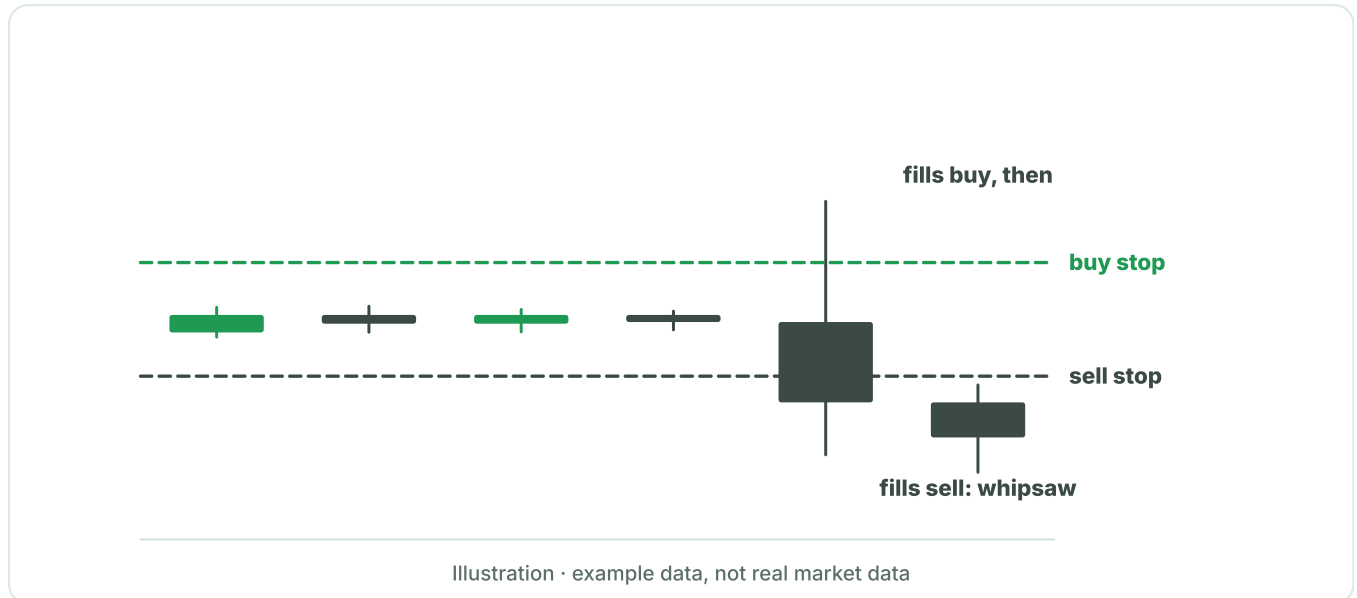


Stay out, trade the spike, or trade the second move. Most retail traders do best with the first or the third.

- **Stay out.** Close or protect open trades before the release and wait. You miss some moves, but you also miss the worst conditions of the day.
- **Trade the spike.** Enter in the first seconds. Spreads are at their widest, orders can fill far from the price you clicked, and the first move often reverses. This is the hardest approach for retail traders.
- **Trade the second move.** Wait 15 to 30 minutes, let spreads return to normal and look for the direction that holds. Entries are less dramatic but far more controlled.

Why straddles often disappoint

A popular idea is the news straddle: place a buy stop above the pre-release range and a sell stop below it, so whichever way price breaks, one order catches the move. In calm conditions it sounds sensible. Real release spikes, though, often go both ways, triggering one order, then the other, and both fill with slippage.



A straddle in a whipsaw: the buy stop fills on the first spike, the sell stop fills on the reversal, and both lose.

Stop orders fill at the next available price, not the price you set, so in a fast spike a straddle can be triggered several pips beyond its level. Add the wide spread at the moment of release and the trade starts well behind. Many brokers also restrict or delay orders around major releases. Straddles are not banned or impossible, but their real cost is higher than it looks on a calm chart.

Trading the second move

The second move is the trend that develops once the market has absorbed the number. A simple way to trade it is to let the first spike happen, wait for the pullback that usually follows, and enter in the direction of the spike once that pullback stops, with the stop beyond the pullback's extreme.

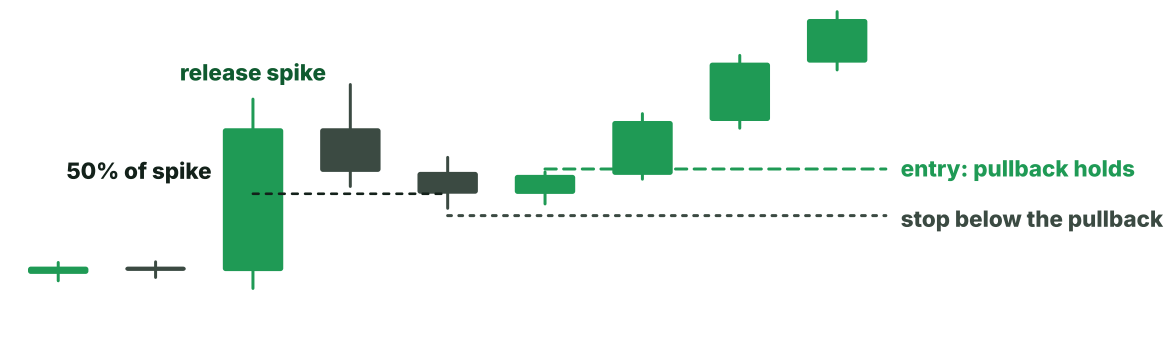


Illustration · example data, not real market data

After the spike, wait for the pullback to hold near half of the spike, then enter with a stop beyond the pullback.

1. Note the surprise: was the data clearly above or below the forecast?
2. Let the first 5 to 15 minutes pass and watch the spread return to normal.
3. Mark the spike's range and its 50% level.
4. If the pullback holds above the 50% level (for a bullish spike), enter as price turns back up.
5. Stop below the pullback low; target the next level on the higher timeframe.

The method works best when the surprise is large and agrees with the wider trend from [Chapter 26](#). A small surprise that goes against the trend often fades within the hour.

A worked second-move trade

Suppose US inflation comes in hotter than forecast and EUR/USD drops from 1.0850 to 1.0790 in the first two minutes, a 60-pip spike. Spreads are wide, so the trader waits. Over the next ten minutes the pair bounces to 1.0815, which is just under the spike's 50% level of 1.0820, and stalls. When a 5-minute candle closes back below 1.0810, the trader sells at 1.0808 with a stop at 1.0828, above the bounce high, risking 20 pips. The target is the spike low at 1.0790 first, then the next daily support at 1.0760, 48 pips away.

Not every second move works. If the bounce had carried through 1.0820 and held, the market would be saying the surprise was not as important as the first reaction suggested, and the trader would stand aside.

Before the release

Before a big release



Time and forecast

in your time zone, with the consensus



Open positions

close, reduce or accept the gap risk



Margin

enough free margin for a spike



Plan written

stay out, spike or second move



Size

smaller than normal if you trade it

Decide before the number, not after

A five-point checklist to work through before every high-impact release.

Margin deserves special attention. If spreads widen sharply while you hold positions, your floating loss grows even if the mid price barely moves, and accounts with little free margin can hit a margin call on spread alone. Make sure there is room before the number.

Brokers and news

Check your broker's policy on news trading before you try it. Some brokers widen spreads more than others, some delay order execution in fast markets, and some prop firms ban opening trades in a window around major releases. Read the execution and order policies on the broker's own website, and test your platform on a demo account during a release to see the real spread and slippage.

Trades you already hold

The hardest decision is what to do with a trade that is already open. There is no single right answer; it depends on how far in profit the trade is, how long you planned to hold it and how much slippage you can accept.

Already in a trade before the release?

Choice	When it suits	Watch out for
Close it	Small profit or no clear edge	Missing a move in your favour
Take partial profit	In profit, idea still valid	Remainder can still slip
Stop to break-even	Well in profit	Spike can stop you, then reverse
Hold with a wide stop	Long-term position, small size	Stops can fill past their level

A guaranteed stop, where offered, removes slippage for a fee

Four choices for an open trade before a release, when each suits and what to watch for.

Remember that a stop loss is not a guarantee. In a fast spike it becomes a market order at the first available price, which can be several pips or more beyond the level you set. Some brokers offer guaranteed stops for a fee; where available, they remove that risk for the trades that need it most.

Never increase position size to trade news. If anything, cut it. The same amount of money at risk needs a wider stop on news days, which means a smaller position.

Central bank days are different

Rate decisions bring two or three waves rather than one: the decision and statement, then the press conference, and sometimes new forecasts. The first spike often reverses when the press conference begins. Many traders wait until the press conference has ended before acting on a central bank meeting.

Illustrative case: Wei, 33, Kuala Lumpur

Wei used to place straddles before every US jobs report. Over three months, both orders filled on most releases and his slippage averaged several pips per order. He switched to the second-move method: no orders in the first 15 minutes, then an entry on the pullback in the direction of the surprise. Fewer reports met his rules, but his losses on news days became the same size as on normal days.

The first minute after a release belongs to machines and the biggest banks. A retail trader's edge is patience: let them fight over the first move, then trade the direction that survives.

Jowel Rana

Co-Founder & Forex Trader, FX Recap

Frequently asked

Is it a good idea to trade forex news?

It can be, but conditions at the release are the worst of the day: wide spreads, slippage and reversals. Most retail traders do better staying out or waiting for the second move.

Why do spreads widen before news?

Liquidity providers pull or widen their quotes to avoid being caught by a surprise, so fewer prices are available and the gap between bid and ask grows.

What is a news straddle?

Placing a buy stop above and a sell stop below the pre-release range. In whipsaws both orders can fill with slippage, so it often costs more than expected.

Can my stop loss slip during news?

Yes. A normal stop becomes a market order when triggered and fills at the next available price, which can be beyond your level in a fast move.

More on this topic, with live tools, on FX Recap: <https://fxrecap.com/learn-forex/education/forex-news-trading-strategies>

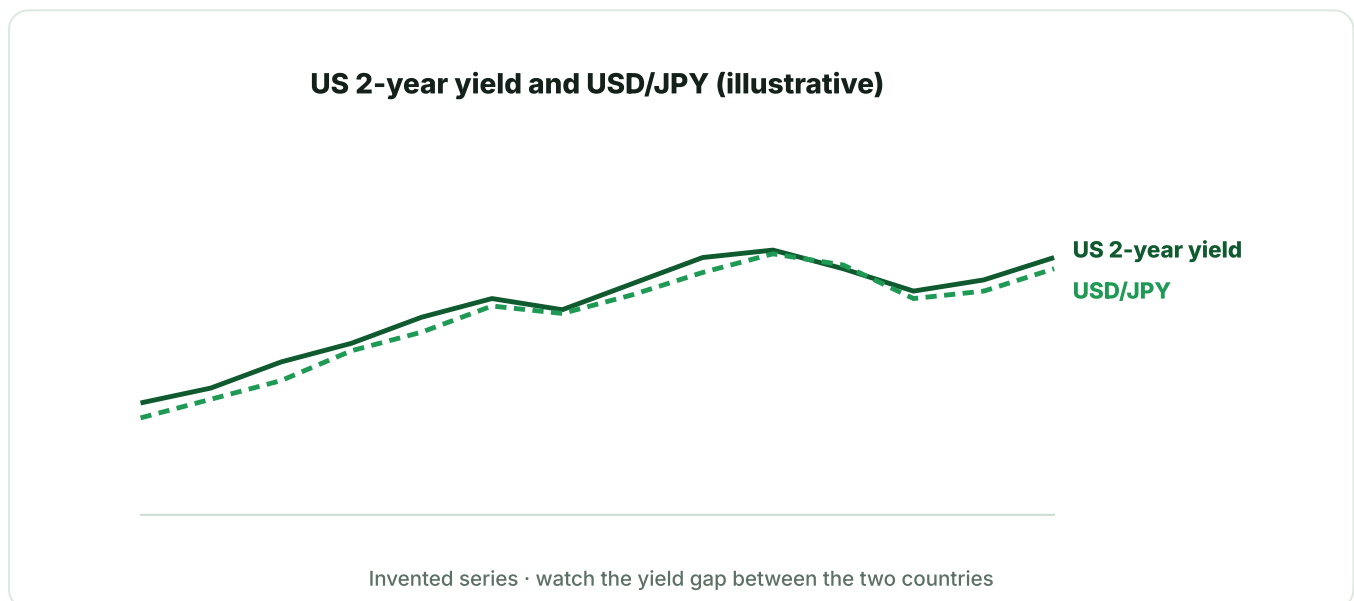
The Dollar, Gold, Yields and Risk: How Markets Move Together

Currencies do not move alone. Learn how bond yields lead currencies, why gold and the dollar usually move in opposite directions, what risk-on and risk-off mean for each currency, and how to use correlations without doubling your risk by accident.

Forex is connected to every other market. Bond yields reflect interest-rate expectations, which drive currencies. Gold is priced in dollars. Stock markets reflect risk appetite, which decides whether investors buy higher-yielding currencies or run to safe havens. Watching these links gives you context for every chart and warns you when your trades are really the same bet several times over.

Bond yields lead currencies

Short-term government bond yields, such as the two-year yield, reflect what markets expect central banks to do over the next couple of years. Because currencies follow rate expectations ([Chapter 26](#)), they often move with yields. USD/JPY is the classic example: when US two-year yields rise relative to Japanese yields, the pair tends to rise.



The US two-year yield and USD/JPY often rise and fall together. The lines are invented to show the relationship.

For any pair, the yield gap between the two countries is a useful background indicator. If the gap is widening in favour of one currency while price is moving the other way, the price move may be temporary. Many traders keep a chart of the relevant two-year yields beside their currency chart.

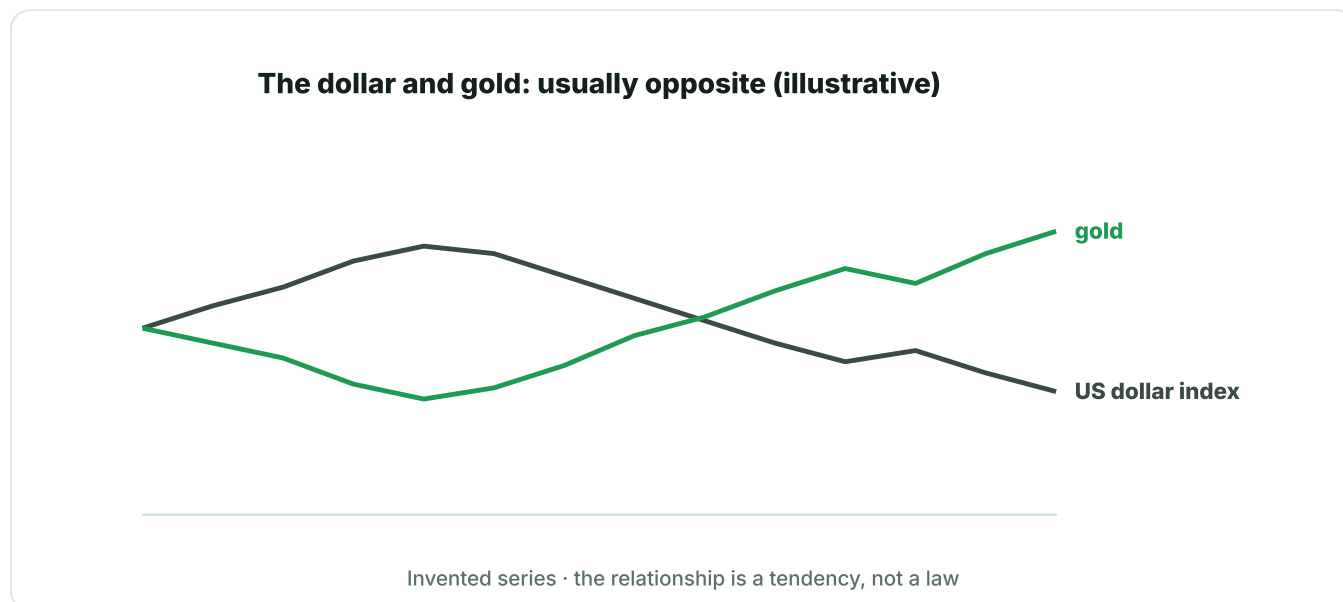
Real yields

Investors care about the return after inflation, called the real yield. A bond paying 4% when inflation is 3% gives a real yield of about 1%. Rising real yields tend to support a currency and weigh on gold, because gold pays nothing and looks less attractive next to a bond that beats inflation. In the United

States, the yields on inflation-protected Treasury bonds give a market measure of real yields that many gold traders watch.

Gold and the dollar

Gold is priced in US dollars worldwide. When the dollar strengthens, gold becomes more expensive for buyers using other currencies, and its dollar price tends to fall; when the dollar weakens, gold tends to rise. Gold also pays no interest, so rising real yields make it less attractive to hold.



The dollar and gold usually move in opposite directions. The lines are invented; in crises the link can break and both can rise.

The relationship is strong but not fixed. In a sudden crisis, investors sometimes buy both the dollar and gold as safe havens, and for a while they rise together. Central bank gold buying and geopolitical events can also lift gold regardless of the dollar. Treat the inverse link as a strong tendency and check it against recent price action.

Risk-on and risk-off

When investors feel confident, they buy shares and higher-yielding assets, including currencies such as the Australian and New Zealand dollars. Once fear rises, they sell those and buy safe havens: the Japanese yen, the Swiss franc, often the US dollar, and gold. Traders call these moods risk-on and risk-off.

Risk-on vs risk-off: typical winners

RISK-ON

Stocks rising, calm news
AUD, NZD, CAD tend to gain
JPY, CHF tend to weaken
carry trades popular

RISK-OFF

Stocks falling, shock news
JPY, CHF, often USD gain
AUD, NZD tend to weaken
gold often bid, carry unwinds

Typical tendencies - the dollar's role varies with the source of the shock

Typical winners in risk-on and risk-off moods. The dollar's role depends on where the shock comes from.

CURRENCY	USUAL ROLE	WHY
AUD, NZD	Risk-sensitive	Commodity exports, higher yields, linked to Asian growth
CAD	Partly risk-sensitive	Oil exports
JPY	Safe haven	Large overseas investments that return home in a crisis
CHF	Safe haven	Stable economy, strong current account
USD	Often a haven	World reserve currency, deep markets; less so when the shock starts in the US

Stock indexes are a quick gauge of risk mood. If global shares are falling sharply, expect AUD/JPY to struggle and safe havens to gain, whatever the economic calendar says. Big risk-off days can overwhelm even strong data.

Commodities and commodity currencies

Some currencies are tied to what their countries export. The Canadian dollar often moves with oil, the Australian dollar with iron ore and broader Chinese demand, and the Norwegian krone with oil and gas. When those prices rise, export earnings rise and the currencies tend to strengthen. The links are loose and change over time, but a sharp move in oil is worth noticing before you trade USD/CAD.

CURRENCY	COMMODITY OFTEN WATCHED
CAD	Crude oil
AUD	Iron ore, metals, Chinese demand
NZD	Dairy prices
NOK	Oil and gas

Correlations between pairs

Many pairs share a currency, so they move together or in opposite directions. EUR/USD and GBP/USD both have the dollar as their quote currency and usually move in the same direction. With the dollar on opposite sides, EUR/USD and USD/CHF usually move in opposite directions. [Chapter 2](#) introduced the idea; here it matters for risk.

Typical relationships to know

Pair or market	Usually moves...	Because
EUR/USD and GBP/USD	together	both are priced against the dollar
EUR/USD and USD/CHF	opposite	the dollar is on opposite sides
USD/JPY and US yields	together	rate gap with Japan
AUD/USD and stocks	together	risk appetite and commodities
Gold and the dollar	opposite	gold is priced in dollars

Correlations change over time · check recent data before relying on one

Five relationships every forex trader should know, and why they usually hold.

The danger is hidden double risk. Buying EUR/USD, buying GBP/USD and selling USD/CHF at the same time is, for the most part, one big bet against the dollar. If each trade risks 1% of the account, a broad dollar rally can cost close to 3% at once. Count correlated positions as a single position when you set your risk.

Before opening a new trade, list the currencies in every open position. If the same currency appears on the same side three times, you are not diversified; you are concentrated.

Correlations change

Relationships between markets drift over time. A pair that tracked oil closely for a year may stop doing so when the central bank changes course. Check correlations over recent months, not years, and recheck them after major events. Many charting platforms and FX Recap's own correlation tool show current values.

A practical exposure check

Write each open trade as two currency positions. Long EUR/USD becomes long EUR and short USD. Gold bought in dollars works, for this purpose, roughly like a short USD position as well. Add them up. If USD appears as short three times, your account has one large dollar bet; size it as one trade, not three.

- Long EUR/USD: +EUR, -USD
- Long GBP/USD: +GBP, -USD
- Long gold (XAU/USD): +gold, -USD
- Total: -USD three times; one big dollar bet

Keep a simple exposure table in your journal and update it every time you open or close a trade. It takes a minute and prevents the most common way traders take three times their intended risk.

The same check works for risk mood. Long AUD/JPY, long NZD/USD and short USD/CAD all tend to profit when global markets are calm and lose together in a scare. Grouping trades by the theme they depend on, such as dollar weakness, risk appetite or oil, is one of the simplest habits that separates disciplined traders from busy ones.

A sensible rule is to cap the total risk on any one theme at the amount you would risk on a single normal trade, or a little more. If three dollar-short ideas all look good, take the best one at full size, or split that one size across all three. Either way, a single strong dollar day then costs you one normal loss instead of three.

Putting the pieces together

1. Start the week with the wider context: are yields rising or falling, and is risk mood calm or fearful?
2. Check that your trade idea agrees with it. A long AUD/JPY idea in a risk-off week needs a very good reason.
3. Check correlations across your open trades and size them as a group.
4. Watch for divergences: when a pair moves against its usual drivers, either the pair or the driver is likely to catch up.

Illustrative case: Rohan, 41, Mumbai

Rohan had three long trades open: EUR/USD, GBP/USD and gold. He thought he was diversified across three markets. A strong US inflation report lifted the dollar, and all three fell together, costing him almost three times his usual loss in one afternoon. He now groups trades by the currency they depend on and limits his total exposure to the dollar to one normal-sized risk.

Every chart sits inside a bigger story told by yields, gold and the stock market. You do not need to trade those markets, but you should glance at them before you trust a currency chart.

Abir Khan

Writer, FX Recap

Frequently asked

Why do gold and the US dollar move in opposite directions?

Gold is priced in dollars, so a stronger dollar makes it more expensive for other buyers and tends to lower its price. The link usually holds but can break in crises.

What does risk-off mean in forex?

A mood of fear in which investors sell riskier assets and buy safe havens such as the Japanese yen, the Swiss franc, often the US dollar, and gold.

Which currency pairs are correlated?

Pairs sharing a currency often are: EUR/USD and GBP/USD usually move together, while EUR/USD and USD/CHF usually move in opposite directions.

How do bond yields affect currencies?

Short-term yields reflect expected interest rates. When one country's yields rise relative to another's, its currency tends to strengthen.

Position Sizing and Risk Per Trade: How Much to Trade on Every Position

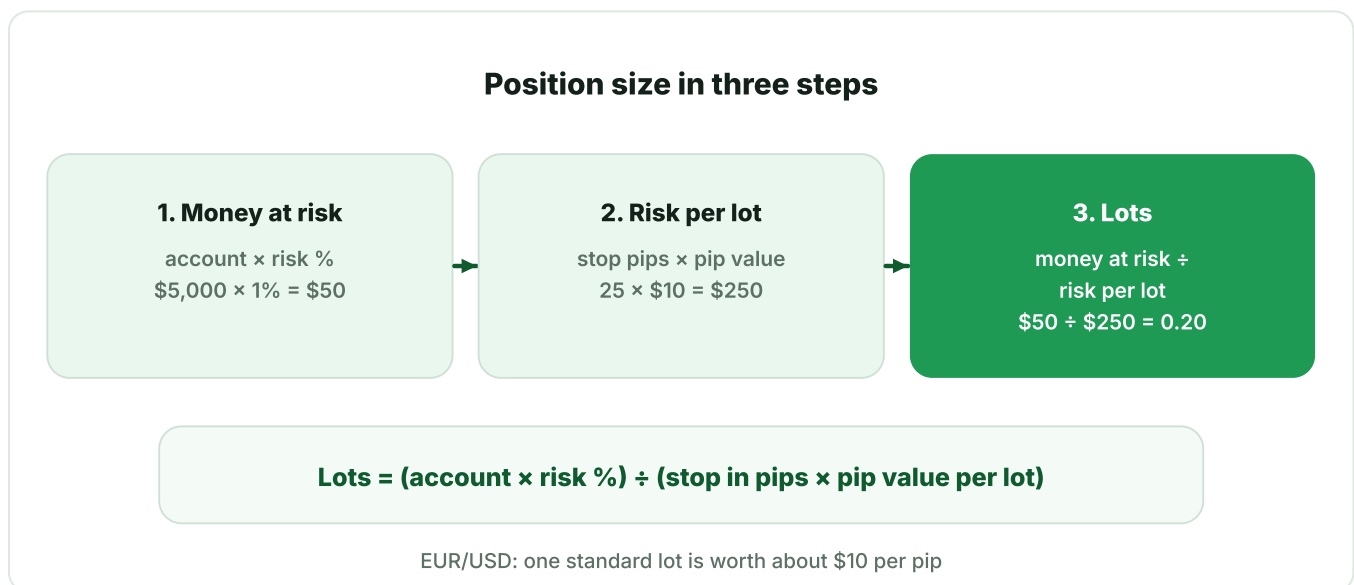
Position sizing decides whether a losing streak is an inconvenience or the end of your account. Learn the formula, how pip value changes by pair, why the stop sets the size, how much to risk per trade, and the arithmetic of drawdowns.

Every chapter so far has been about finding good trades. This part of the book is about surviving the bad ones, and position sizing is where survival starts. Two traders can take exactly the same trades, with the same entries and stops, and end the year in completely different places because one risked 1% per trade and the other risked 10%. The method was identical; only the size changed.

Position sizing answers one question: how many lots should this trade be? The answer comes from three numbers you already know before you click: your account balance, the percentage you are willing to lose on this trade, and the distance to your stop.

The formula

Start from the money you are prepared to lose if the stop is hit. Divide it by what one lot would lose over the stop distance. The result is your size in lots.



Position size in three steps: money at risk, risk per lot, then lots. A \$5,000 account risking 1% with a 25-pip stop on EUR/USD trades 0.20 lots.

With a \$5,000 account and 1% risk, you can lose \$50. A 25-pip stop on EUR/USD costs \$10 per pip per standard lot, so one lot would lose \$250. \$50 divided by \$250 is 0.20 lots. If the stop is hit, you lose \$50, exactly as planned. [Chapter 3](#) explained lots and pip values; this is where they come together.

Rounding and minimum sizes

Most brokers let you trade in steps of 0.01 lots, a micro lot. Always round the calculated size down, never up, so the loss at the stop is at or slightly below your plan. Small accounts hit a practical limit here. With \$200 and 1% risk, you can lose \$2; a 20-pip stop on EUR/USD needs exactly 0.01 lots, the minimum. A 40-pip stop would need 0.005 lots, which most standard accounts cannot open.

When the formula gives a size below the minimum, you have three honest choices: skip the trade, find a setup with a tighter logical stop, or use a cent or nano account designed for small balances. Raising your risk percentage to make the trade fit is not one of them.

Small accounts also feel costs more. A 1-pip spread on a 0.01-lot trade is only 10 cents, but on a \$2 risk it is 5% of the whole trade before price moves at all. Choosing setups with enough room to the target, and an account type with low costs, matters more for small balances than for large ones, and growing the balance slowly matters more than any single trade.

Pip value changes by pair

The \$10 figure only applies when the US dollar is the quote currency and your account is in dollars. For other pairs, the pip value has to be converted. Most platforms show it, but you should know where it comes from so you can check it.

Pip value per standard lot, by pair type

Pair type	Example	Pip value per lot	Worked example
USD is the quote	EUR/USD	\$10	always \$10
USD is the base	USD/JPY at 150.00	$¥1,000 \div 150$	$\approx \$6.67$
USD is the base	USD/CAD at 1.3600	$C\$10 \div 1.36$	$\approx \$7.35$
Cross pair	EUR/GBP, GBP/USD 1.2700	$£10 \times 1.27$	$= \$12.70$

Example rates · your platform shows the live pip value

Pip value per standard lot by pair type, with worked examples at sample rates.

EXAMPLE	CALCULATION	SIZE
\$2,000 account, 1%, USD/JPY at 150, 30-pip stop	$\$20 \div (30 \times \$6.67)$	≈ 0.10 lots
\$5,000 account, 1%, EUR/GBP with GBP/USD at 1.27, 20-pip stop	$\$50 \div (20 \times \$12.70)$	≈ 0.20 lots
\$5,000 account, 1%, gold, \$5 stop (100 oz per lot)	$\$50 \div (\$5 \times 100)$	0.10 lots

Gold and indices use different contract sizes from currencies, and brokers differ. Always check the contract specification on your broker's site before sizing a trade in a new instrument. [Chapter 3](#) showed how gold's point value works.

The stop sets the size

Beginners often decide the lot size first, then place the stop wherever that size can afford. That is backwards. The stop belongs where the trade idea is proven wrong, at the level the chart gives you. Position size then shrinks or grows to fit that distance, so the money at risk stays the same.

Same \$50 risk, different stops (EUR/USD)

10-pip stop



0.50 lots = \$50 risk

25-pip stop



0.20 lots = \$50 risk

50-pip stop



0.10 lots = \$50 risk

Wider stop, smaller position. The loss if the stop is hit stays \$50.

\$10 per pip per standard lot

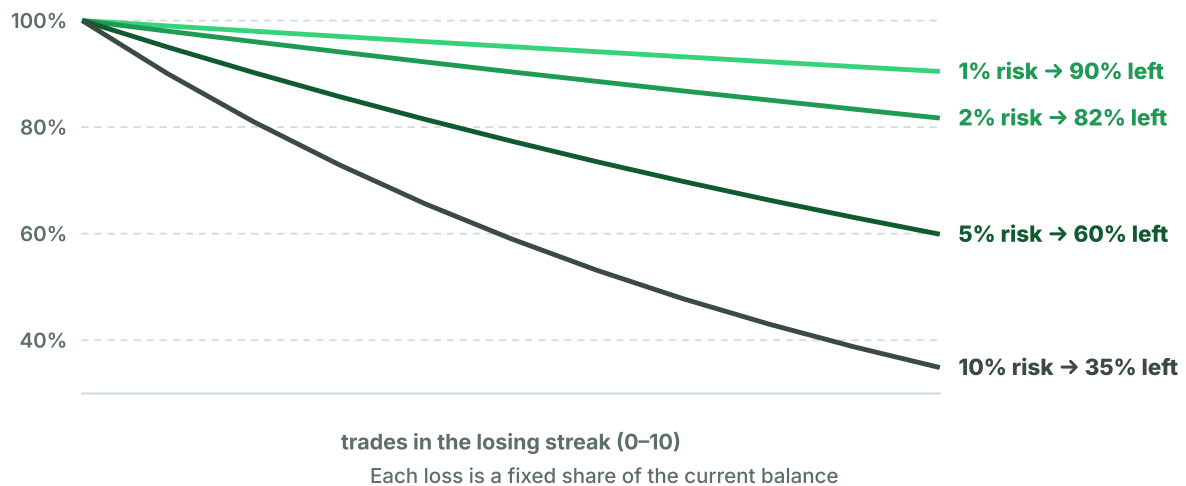
With \$50 at risk, a 10-pip stop allows 0.50 lots, a 25-pip stop 0.20 lots and a 50-pip stop 0.10 lots.

This is also how you adjust for volatility. When a pair is moving twice as much as usual, its stops need to be wider, so the position is smaller. [Chapter 8](#) and the ATR discussion in [Chapter 16](#) showed how to measure that volatility.

How much to risk per trade

Most professional guidance for retail traders lands between 0.5% and 2% of the account per trade, with 1% a common default. The reason is losing streaks. Every method has them, and they are longer than most people expect. What matters is how much of the account is left after one.

Ten losses in a row at different risk levels



After ten losses in a row, 1% risk leaves about 90% of the account, 2% leaves about 82%, 5% about 60% and 10% about 35%.

A trader risking 1% can lose ten trades in a row and still have 90% of the account, a setback but a recoverable one. A trader risking 10% has lost almost two-thirds of the account after the same streak. Nothing about the method changed; only the size.

Fixed lots vs fixed percentage

Trading the same lot size every time feels simple, but it means your risk changes with every stop distance and every change in balance. Risking a fixed percentage of the current balance does the opposite: the money at risk grows as the account grows and shrinks automatically during a drawdown, which slows losses exactly when you need it.

ACCOUNT BALANCE	1% RISK	SIZE WITH A 25-PIP EUR/USD STOP
\$4,000	\$40	0.16 lots
\$5,000	\$50	0.20 lots
\$6,000	\$60	0.24 lots

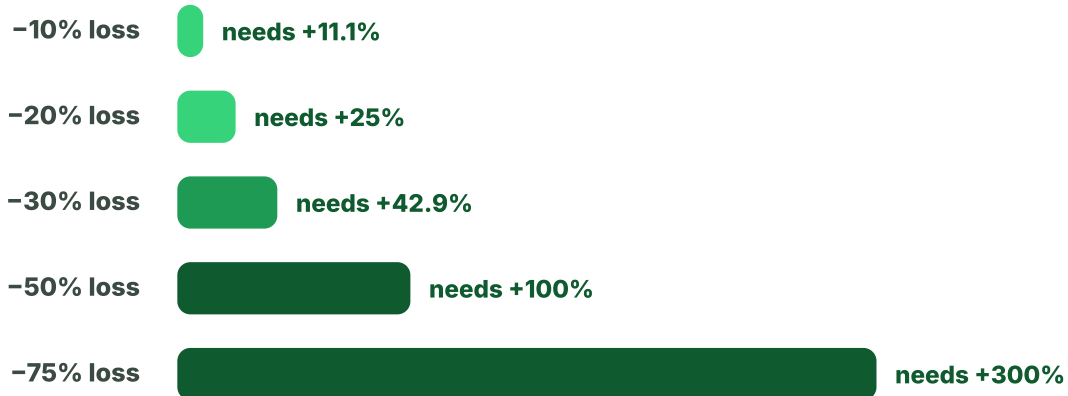
Recalculate your 1% from the current balance at a fixed interval, written into your plan, such as each morning or each week, rather than after every trade. That keeps the arithmetic simple and avoids the temptation to round up after a good day. It also means a run of losses quietly reduces your size, so the next loss costs a little less than the one before.

Keep a position size calculator open while you trade. FX Recap's position size and pip calculators do the conversion for any pair, so the only numbers you choose are your risk and your stop.

The arithmetic of drawdowns

Losses and gains are not symmetrical. After losing 50% of an account, you need to double what is left just to get back to where you started. That is why protecting capital matters more than chasing returns.

Gain needed to recover from a drawdown



$$\text{Gain needed} = \text{loss} \div (1 - \text{loss})$$

The gain needed to recover from a loss: 10% needs 11.1%, 50% needs 100% and 75% needs 300%.

- A 10% drawdown needs an 11.1% gain to recover: manageable.
- A 30% drawdown needs 42.9%: a hard year's work.
- A 50% drawdown needs 100%: few traders ever recover from it.

Maximum open risk

Risk per trade is not the whole story. If you open five trades at 1% each, you have 5% at risk at once, and if they are correlated, as [Chapter 29](#) warned, they may all lose together. Set a cap on total open risk, such as 3% to 4%, and count correlated positions as one.

Leverage does not change your risk; position size does. A broker offering 1:500 leverage lets you open larger positions, but the right size is still set by your stop and your risk percentage. Use leverage only to make that size possible, never as a target.

Illustrative case: Musa, 31, Abuja

Musa traded 1 lot on every EUR/USD trade, whatever the stop, because it was a round number. On a \$3,000 account, a 40-pip stop meant risking \$400, more than 13% of his balance. Two losses took more than a quarter of his account. He switched to fixing his risk at 1%, \$30, and letting the stop set the size. His positions became much smaller, and his next losing streak cost him 6% instead of half the account.

Position sizing is the only part of trading you control completely. You cannot control whether a trade wins, but you can always control how much it costs you when it does not.

Ranjan Niskrity

Founder, Owner & Forex Trader, FX Recap

Frequently asked

How do I calculate position size in forex?

Divide the money you are willing to risk by the stop distance in pips times the pip value per lot. For \$50 at risk and a 25-pip stop on EUR/USD, that is $\$50 \div (25 \times \$10) = 0.20$ lots.

How much should I risk per trade?

Most guidance for retail traders suggests 0.5% to 2% of the account per trade, with 1% a common choice, so a normal losing streak does not do serious damage.

Why is pip value different for USD/JPY?

Because the dollar is the base currency, the pip is worth ¥1,000 per standard lot, which converts to dollars at the current rate, about \$6.67 at 150.00.

Should the stop or the lot size come first?

The stop. Place it where the trade idea is wrong, then size the position so the loss at the stop equals your planned risk.

More on this topic, with live tools, on FX Recap: <https://fxrecap.com/learn-forex/education/position-sizing-for-forex-trader>

Win Rate, Reward-to-Risk and Expectancy: How to Know if a Strategy Makes Money

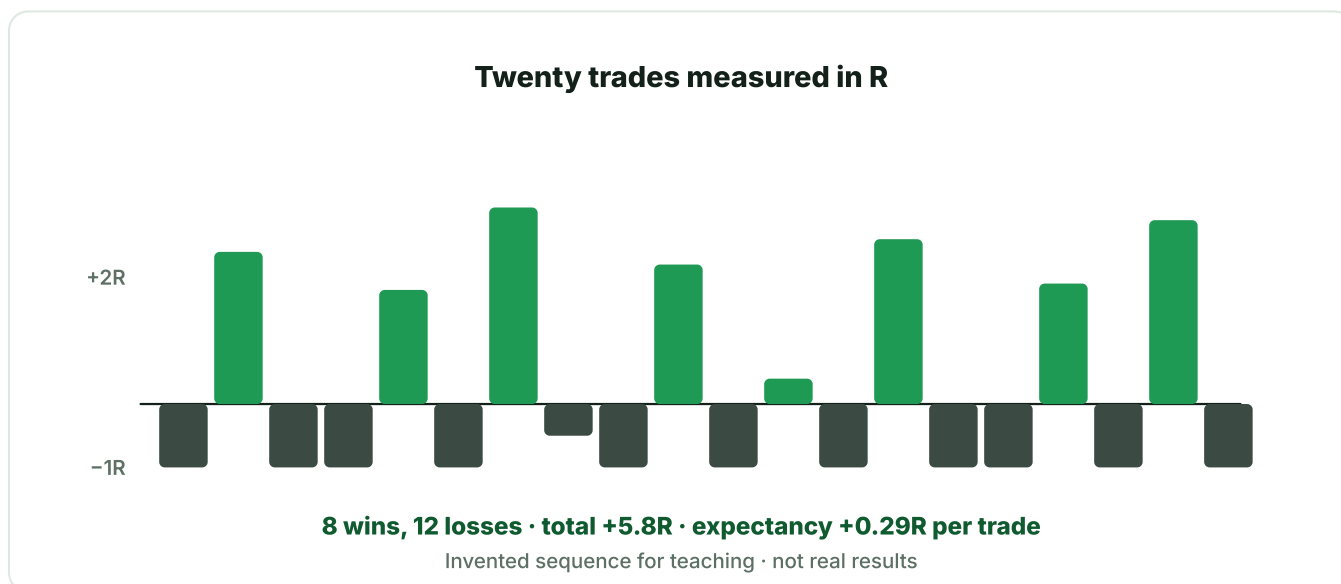
A high win rate does not mean a profitable strategy, and a low one does not mean a losing strategy. Learn how win rate and reward-to-risk combine into expectancy, how to measure results in R, how costs change the numbers and how long losing streaks really get.

Ask most new traders how good a strategy is and they will quote its win rate. A method that wins 70% of the time sounds better than one that wins 35%. It may not be. If the 70% method makes \$20 on each win and loses \$60 on each loss, it loses money; if the 35% method makes \$90 on each win and loses \$30 on each loss, it makes money. Win rate alone tells you almost nothing.

The number that matters is expectancy: how much the strategy makes or loses on an average trade. It combines how often you win with how much you win and lose, and it is the single best answer to the question of whether a method is worth trading.

Measuring trades in R

Before calculating expectancy, measure every trade in R, where 1R is the amount you risked. A trade that risked \$50 and made \$100 is +2R; one that hit its stop is -1R; one closed early for \$25 is +0.5R. Because [Chapter 30](#) fixes risk as a percentage, R lets you compare trades with different stops and different account sizes.



Twenty invented trades recorded in R. Eight wins and twelve losses still total +5.8R, an expectancy of +0.29R per trade.

The expectancy formula

Expectancy is the win rate times the average win, minus the loss rate times the average loss. In R terms the average loss is usually about 1R, because losses are stopped at the planned level.

Expectancy: what one trade is worth on average

$$\text{Expectancy} = (\text{win \%} \times \text{average win}) - (\text{loss \%} \times \text{average loss})$$

Example

40% wins at +2R
60% losses at -1R
 $(0.4 \times 2) - (0.6 \times 1) = +0.2R$

Over 100 trades

$+0.2R \times 100 = +20R$
risking \$50 a trade:
about +\$1,000 before costs

R = the amount risked on one trade

Winning 40% of trades at +2R and losing 60% at -1R gives +0.2R per trade, about +\$1,000 over 100 trades risking \$50 each.

WIN RATE	AVERAGE WIN	AVERAGE LOSS	EXPECTANCY PER TRADE
70%	+0.4R	-1R	$(0.7 \times 0.4) - (0.3 \times 1) = -0.02R$
50%	+1.5R	-1R	$(0.5 \times 1.5) - (0.5 \times 1) = +0.25R$
40%	+2R	-1R	$(0.4 \times 2) - (0.6 \times 1) = +0.20R$
30%	+3R	-1R	$(0.3 \times 3) - (0.7 \times 1) = +0.20R$

The first row is the trap many traders fall into: a high win rate built on taking small profits quickly and letting losses run to the stop. It feels successful because most days are green, and it slowly loses money.

Calculating it from your journal

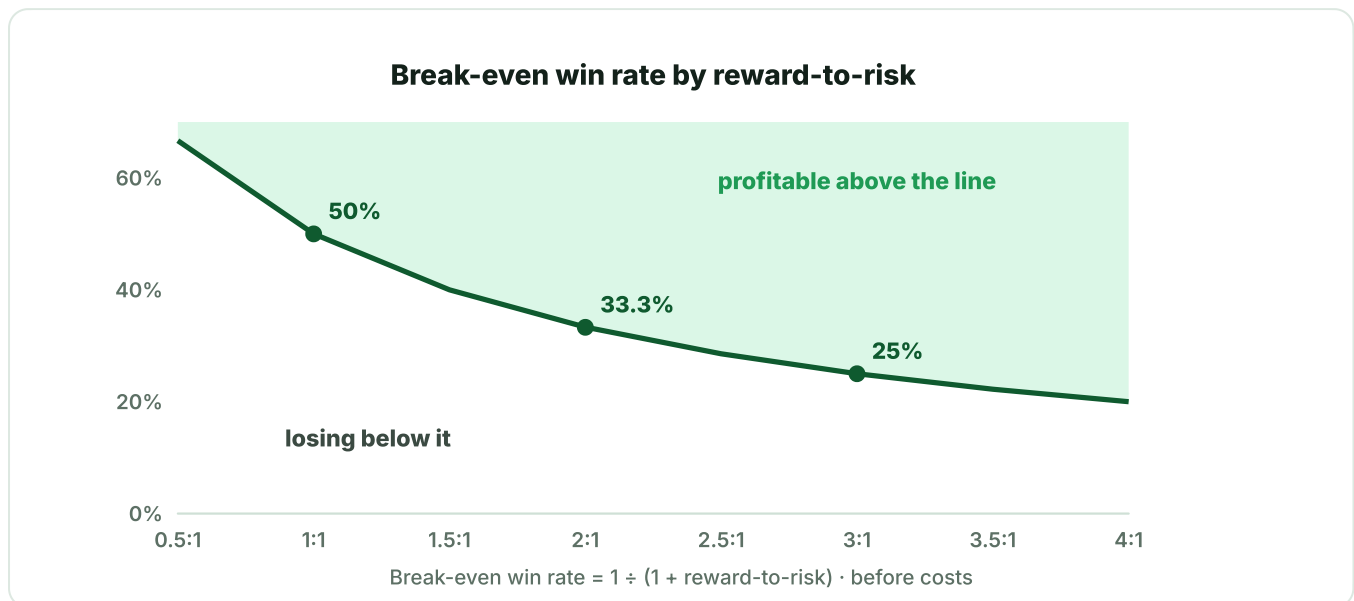
1. Count your wins and losses over the sample.
2. Add up the R of all winners and divide by the number of wins: the average win.
3. Do the same for the losers: the average loss.
4. Expectancy = (wins $\times$ average win - losses $\times$ average loss) $\div$ total trades.

Suppose 60 trades produced 25 wins averaging +1.8R and 35 losses averaging -0.9R. The winners made 45R and the losers lost 31.5R, a net of 13.5R. Divided by 60 trades, the expectancy is +0.225R per trade, even though the win rate was under 42%.

Notice that the average loss here was less than a full 1R, because some trades were closed early under the plan's rules. That is fine as long as the early exits follow a written rule, such as closing when a change of character forms against the trade. Closing losers early on a feeling, and winners early on relief, is how expectancy quietly turns negative while the win rate looks healthy.

Break-even win rates

For any reward-to-risk ratio there is a win rate at which you neither make nor lose money. It is 1 divided by 1 plus the ratio. At 1 to 1 you need 50%; at 2 to 1, about 33%; at 3 to 1, 25%. Above that line the method is profitable before costs; below it, it loses.



Break-even win rate by reward-to-risk ratio. Results above the curve are profitable before costs.

Costs change everything

Spreads, commissions and swaps are paid on every trade, win or lose, so they come straight off expectancy. Express them in R. If your stop is 20 pips and the round-trip cost is 1 pip, each trade costs 0.05R. A method with a gross expectancy of +0.2R keeps +0.15R after costs. With a 10-pip stop the same 1-pip cost is 0.1R, and the edge is halved. [Chapter 8](#) showed how costs grow with trade frequency.

Tight stops make the reward-to-risk look better on paper but make costs a larger share of each trade. Always calculate expectancy after costs.

Expectancy in money

To turn expectancy into money, multiply it by the amount you risk per trade. A trader risking \$50 with an after-cost expectancy of +0.15R makes about \$7.50 per trade on average. Twenty trades a month gives about \$150, or 3% of a \$5,000 account. Those are realistic numbers for a sound method, and they show why patience and consistency matter more than any single big win.

Four ways to improve expectancy

LEVER	HOW	RISK OF OVERDOING IT
Raise the win rate	Add filters, skip weaker setups	Too few trades to measure
Raise the average win	Hold to planned targets	Giving back profits
Cut the average loss	Never widen stops	Stops placed inside noise
Cut costs	Cheaper account, fewer trades	Missing good trades

Change one lever at a time and measure the effect over a full sample of at least 50 trades. Raising the win rate by adding filters often lowers the number of trades so much that total profit falls, even though each trade is better.

Expectancy and frequency together

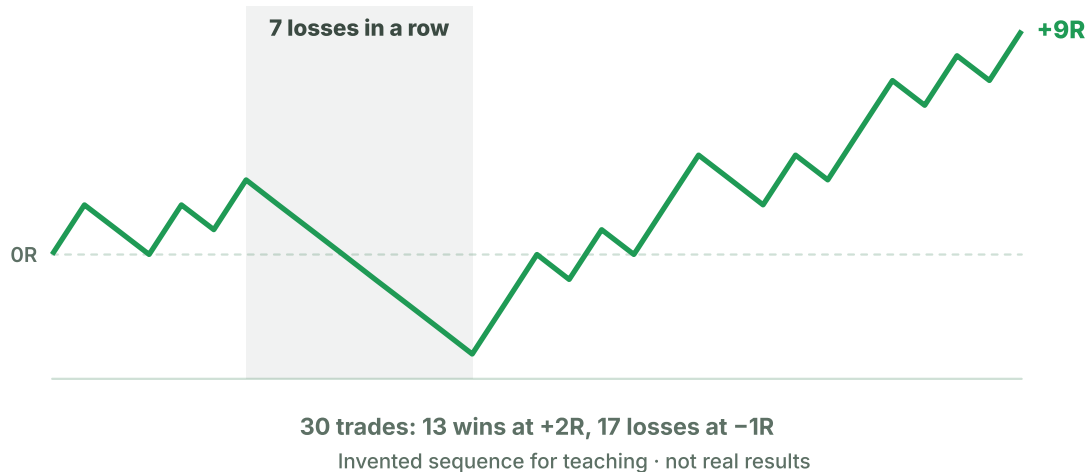
Total profit is expectancy multiplied by the number of trades. A method with $+0.4R$ per trade that finds two setups a month makes $0.8R$; one with $+0.15R$ that finds twenty makes $3R$. The second looks weaker trade by trade and is far better overall, as long as costs are counted and you can follow it without fatigue. When comparing methods, compare expectancy times frequency over the same period, not either number alone.

The same logic warns against overtrading. Adding marginal setups to raise frequency usually drags expectancy towards zero, and each extra trade adds costs and decisions. More trades only help when each one still carries a real edge.

Losing streaks are normal

Even a profitable method loses several times in a row, often. A rough rule for the longest losing run you should expect in a sample of trades: with a 50% win rate, five or six losses in a row is ordinary over 100 trades; with a 40% win rate, seven or eight; with a 30% win rate, nine or ten. These are typical figures, not limits; longer streaks happen.

A profitable method still has losing streaks



An invented 30-trade sequence that wins 43% of the time at 2 to 1. It contains seven losses in a row and still ends at +9R.

Knowing this in advance protects you from the most expensive mistake in trading: abandoning a sound method during a normal losing streak, then starting a new method just before it hits its own streak. Judge a method on at least 50 to 100 trades, never on the last five.

How many trades do you need?

Small samples lie. Ten trades can make a poor method look brilliant or a good method look hopeless. As a rough guide, treat results from fewer than 30 trades as anecdotes, 50 to 100 as a first indication and several hundred as real evidence. [Chapter 34](#) shows how to build that sample without risking money.

Illustrative case: Nimal, 34, Colombo

Nimal's journal showed a 68% win rate, and he could not understand why his account kept shrinking. When he converted every trade to R, his average win was +0.5R and his average loss -1.2R: an expectancy of about -0.04R per trade. He stopped closing winners at the first sign of profit and let them run to targets of at least 1.5R. His win rate fell to 48%, and his account began to grow.

Win rate is what traders talk about; expectancy is what pays them. Keep your results in R and you will know within a hundred trades whether you have an edge or just a feeling.

Tanbir Habib Riyad

Forex & Crypto Analyst, FX Recap

Frequently asked

What is expectancy in trading?

The average amount a strategy makes or loses per trade: win rate times average win minus loss rate times average loss, usually measured in R.

Is a high win rate good?

Only if winners are large enough compared with losers. A 70% win rate with small wins and full-size losses can still lose money.

What win rate do I need at 2 to 1?

About 33% to break even before costs, because $1 \div (1 + 2)$ is one third.

How long can a losing streak be?

Longer than most traders expect. With a 40% win rate, seven or eight losses in a row is common over 100 trades.

Trading Psychology: Loss Aversion, Revenge Trading and the Discipline That Works

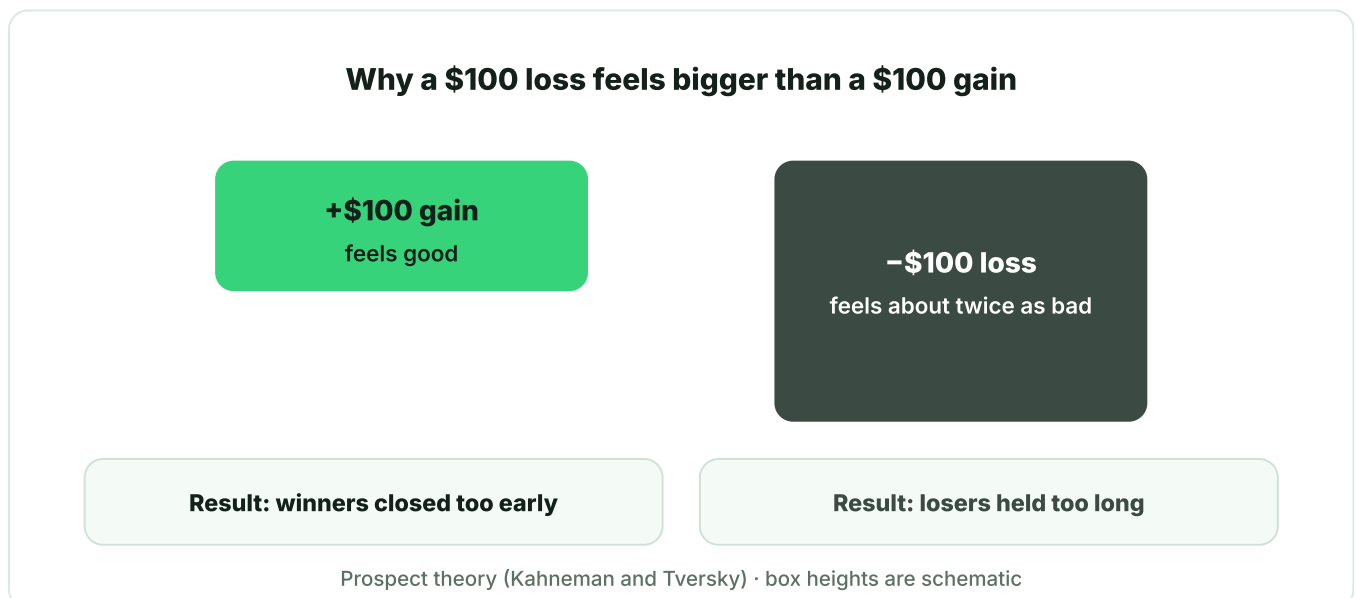
Most trading mistakes are not about analysis; they are about behaviour. Learn why losses hurt more than gains feel good, how revenge trading and overconfidence take over, and the routines and rules that keep emotions from running your account.

Most traders who fail do not fail for lack of knowledge. They know they should use a stop, size their positions and follow their plan. Failure comes because, in the moment, a loss feels unbearable, a missed move feels like an injustice, or a winning streak feels like proof of skill. Trading psychology is the study of those moments and how to stop them deciding what you do.

Retail CFD providers in the EU and UK are required to tell clients what share of their retail accounts lose money, and the figures they publish are consistently high. Some of that comes from poor strategies and costs. Much of it comes from good intentions abandoned under pressure.

Loss aversion

In 1979, the psychologists Daniel Kahneman and Amos Tversky published prospect theory, which showed that people feel losses much more strongly than equal gains; later studies put the effect at roughly twice as strong. For traders, this has two damaging consequences. Losing trades are held too long, because closing them makes the loss real. Winning trades are closed too early, to lock in the pleasant feeling before it disappears.

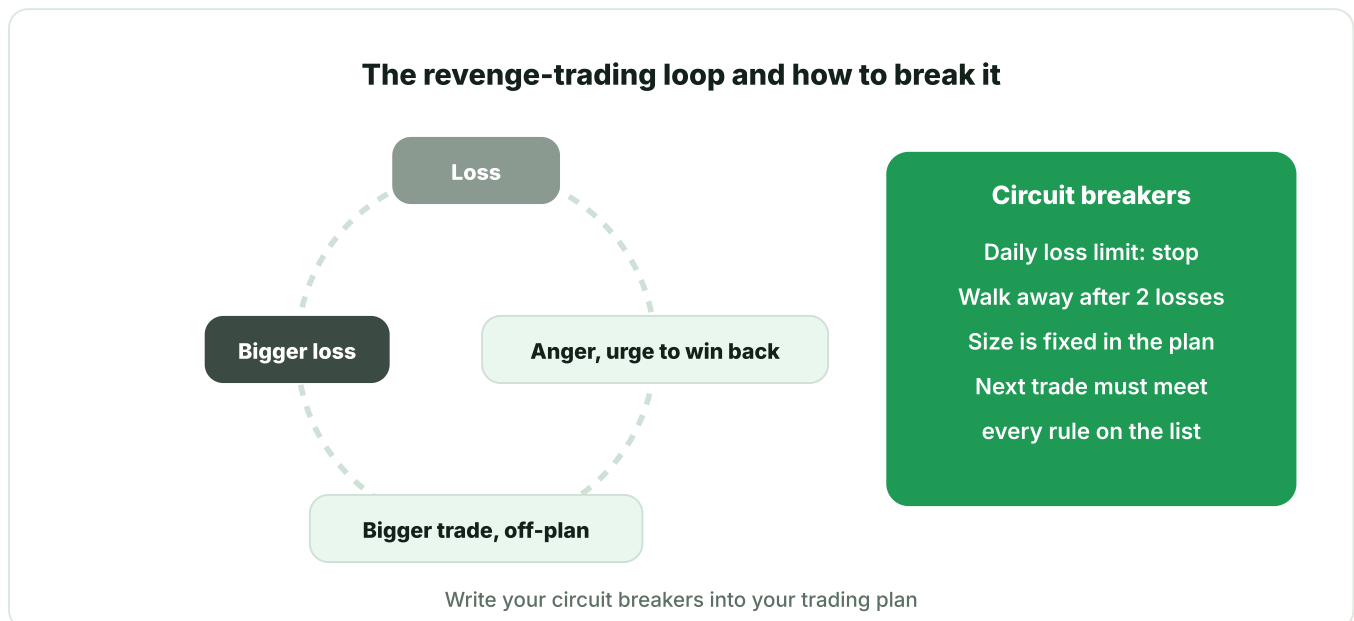


A loss feels roughly twice as strong as a gain of the same size, which leads traders to close winners early and hold losers too long.

Put those two habits together and you get exactly the pattern from [Chapter 31](#): a high win rate with small wins and large losses, and a slowly shrinking account. The cure is mechanical: stops placed before entry and never widened, and targets set by the chart, not by how you feel.

Revenge trading

After a painful loss, many traders feel an urge to win the money back immediately. They take the next setup that looks roughly right, often larger than normal, often outside their plan. If it loses, the urge gets stronger. This loop has emptied more accounts than any bad strategy.



The revenge-trading loop and the circuit breakers that stop it.

- **Daily loss limit:** after a set loss, such as 2% or two losing trades, you stop for the day. No exceptions.
- **A pause after a loss:** step away from the screen for at least fifteen minutes before the next trade.
- **Fixed size:** position size comes from the formula, never from how much you want to recover.

Overconfidence after wins

A winning streak is dangerous in a quieter way. After five or six wins, traders start to believe they have cracked it. They raise their size, loosen their rules and take setups they would normally skip. The next ordinary losing streak then arrives at double or triple size. Here the fix matches revenge trading: size is set by rules, and rules change only after a scheduled review, never in the middle of a streak.

Fear of missing out

A pair runs 80 pips without you, and every candle feels like money left on the table. Fear of missing out pushes traders to chase moves late, after the planned entry is gone, with a stop that is now far away or placed somewhere arbitrary. Such trades usually enter near the end of the move. The antidote is a plain fact: the market offers new setups every week; missing one costs nothing, while chasing one costs real money.

Hesitation after losses

The opposite problem appears after a losing streak. Valid setups come, and the trader freezes, afraid of another loss. Often the skipped trades are the winners that would have ended the streak. If your

plan says a setup qualifies, take it at your normal size. Where that feels impossible, reduce size for the next few trades rather than skipping them, so you keep following the method while confidence returns. Confidence comes back from evidence, and the only way to collect evidence is to keep taking the trades your plan says are valid. Reading your own journal from a good month can help as well: it reminds you that the method has worked before, under your own hands, and that this streak is part of the same pattern.

Emotions and the rules that counter them

Emotions, the mistakes they cause, and a rule for each		
Feeling	Typical mistake	Counter-rule
Fear of missing out	Chasing a move late	No entry without my setup
Anger after a loss	Revenge trade, bigger size	Stop after two losses
Overconfidence	Doubling size after wins	Size changes only monthly
Hope	Moving the stop further away	Stops only move to reduce risk
Fear after losses	Skipping valid setups	Take every setup that qualifies
Pick the two that apply to you and write them into your plan		

Five common feelings, the mistakes they cause and a counter-rule for each.

Choose the two feelings that cause you the most trouble, and write their counter-rules into your trading plan in plain words. When the feeling arrives, you do not need willpower; you need to read your own rule and follow it.

A routine before every trade

Routines remove decisions from the moment of highest pressure. Pilots use checklists not because they forget how to fly, but because checklists work when stress is high. A short pre-trade checklist does the same for a trader.

Five checks before every trade

- ✓ **State of mind** calm, rested, not chasing a loss
- ✓ **Setup** meets every rule in the plan
- ✓ **Calendar** no big release in the next hour
- ✓ **Size** calculated from the stop, not felt
- ✓ **Journal** reason written before the click

If any box is empty, there is no trade

Five checks before every trade. If any box is empty, there is no trade.

Process goals, not profit goals

Daily profit targets create pressure to trade when there is nothing worth trading, and they tempt you to raise size late in the day. Process goals measure what you control.

OUTCOME GOAL (AVOID)	PROCESS GOAL (USE)
Make \$100 today	Take only setups that meet every rule
Win back last week's loss	Stop after two losses, as planned
Double the account this year	Follow the plan on 95% of trades
Never lose a trade	Journal every trade the same day

Profit is the result of good process repeated over many trades, in every kind of market. Traders who measure the process find that profit follows; traders who chase profit tend to abandon the process.

Write three process goals for the coming month, keep them next to your trading plan, and score yourself on them every Friday afternoon after the markets close. The score is private and honest, and over time it becomes a better predictor of your results than any single week of profit or loss.

Thinking in samples

The most useful mental shift is to stop judging single trades. A good trade can lose and a bad trade can win; what matters is whether you followed the plan. Over 100 trades, a sound method with discipline will show its edge, and no single trade can change that. A trader who thinks this way finds losses less painful and wins less intoxicating, which is exactly the emotional balance trading needs.

After each trade, grade it on whether you followed your plan, not on whether it made money. A rule-following loss is a good trade; a rule-breaking win is a bad one.

Looking after the trader

Fatigue, stress and screen time all make discipline harder. Set fixed trading hours, take breaks, and do not trade when you are tired, ill or upset about something outside the market. Trading with money you cannot afford to lose is the strongest emotional pressure of all; it turns every trade into a test of your finances and almost guarantees mistakes.

If trading is causing you financial or emotional harm, stop and step away. Many countries have free support services for gambling-like behaviour, and trading losses that you hide or chase are a warning sign worth taking seriously.

Illustrative case: Aisha, 30, Lahore

Aisha followed her plan well until a loss, then took three or four quick trades to recover it, usually losing more. She added two rules: stop for the day after two losses, and wait fifteen minutes after any loss before looking at a chart. In the first month she hit the daily limit four times and was frustrated each time. By the third month her worst days were half as bad, and her overall results had turned positive.

Discipline is not a personality trait you either have or lack. It is a set of rules written down before the pressure arrives, and the humility to follow them when you would rather not.

Jannatul Ferdaush

Fact-Checker & Risk Analyst, FX Recap

Frequently asked

Why do I close winning trades too early?

Loss aversion: losses feel roughly twice as strong as gains, so people lock in gains quickly and avoid realising losses. Fixed targets and stops counter it.

What is revenge trading?

Taking rushed, often larger trades to win back a recent loss. Daily loss limits, pauses after losses and fixed position sizes break the habit.

How do I stop emotional trading?

Write rules for the situations that trigger you, use a pre-trade checklist, judge trades on whether you followed the plan, and set loss limits that end the day.

Should I increase size after a winning streak?

Not in the middle of the streak. Change size only at scheduled reviews, based on a large sample of results.

More on this topic, with live tools, on FX Recap: <https://fxrecap.com/learn-forex/education/trading-psychology>

Your Trading Plan and Journal: The Two Documents Every Trader Needs

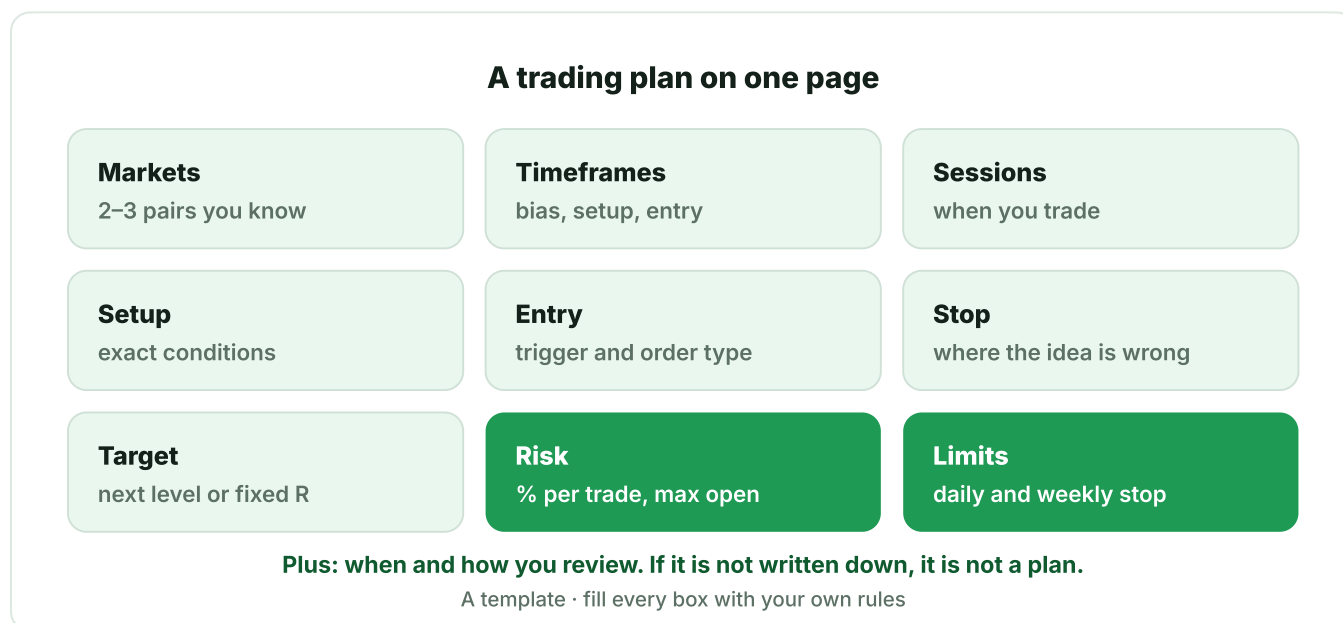
A trading plan turns everything in this book into rules you follow every day, and a journal tells you whether those rules work. Learn what goes in a one-page plan, how to set loss limits, what to record for each trade and how to review without fooling yourself.

By this point in the book you know how the market works, how to read a chart, how Smart Money Concepts and fundamentals fit in, how to size a trade and how emotions interfere. None of it helps unless it becomes a set of decisions you make the same way every time. That is what a trading plan is: your own rules, written down, specific enough that another person could follow them and take the same trades.

A journal is the plan's partner. The plan says what you intend to do; the journal records what you did and what happened. Together they turn trading from a series of guesses into a process you can measure and improve.

A plan on one page

A useful plan fits on one page. Long documents are not read in the moment; a single page you can keep beside the screen is. Every box should contain a rule you could check yes or no.



The nine parts of a one-page trading plan, plus your review schedule.

SECTION	VAGUE (NOT USEFUL)	SPECIFIC (USEFUL)
Markets	Major pairs	EUR/USD and GBP/USD only
Sessions	When I have time	07:00–11:00 UTC, Monday to Thursday
Setup	Buy at support	4-hour uptrend, pullback into demand in discount, 15-minute CHoCH
Stop	Below support	5 pips beyond the sweep low
Risk	Small	1% per trade, 3% maximum open

Notice how the specific setup in the table borrows from several chapters: structure from [Chapter 14](#), discount from [Chapter 24](#) and the change of character from [Chapter 20](#). Your plan is where the book's ideas become your method.

An example plan

- **Markets:** EUR/USD and GBP/USD.
- **Sessions:** 07:00–11:00 UTC, Monday to Thursday; no trading 30 minutes either side of high-impact US or UK data.
- **Bias:** 4-hour structure; trade only in its direction.
- **Setup:** pullback into discount, sweep of a 1-hour low, 15-minute change of character.
- **Entry:** limit order in the fair value gap created by the change of character.
- **Stop:** 3 pips beyond the sweep low. **Target:** next 1-hour high, minimum 2R.
- **Risk:** 1% per trade, 2% maximum open, one trade per pair at a time.
- **Limits:** stop after two losses or –2% in a day; –5% in a week.
- **Review:** journal daily, weekly reread on Saturday, monthly statistics.

Yours will differ, and it should, because it has to suit your schedule, your account size and the setups you understand best. The point is that every line can be checked: a trade either meets the rule or it does not.

Print the plan, or keep it open beside your platform, and read it slowly before each session. It takes a minute, and it puts the rules in front of you at the moment you are most likely to bend them. Many experienced traders also write a short pre-session note of two or three lines: which pairs look interesting, which news is due, and how they feel. That note becomes part of the journal and helps explain good and bad days later. Over months, the notes often reveal patterns no statistic shows, such as poor results on days you traded tired or after a stressful morning.

Loss limits

Some of the most important rules in the plan are about when to stop. [Chapter 32](#) showed how losses lead to worse decisions; loss limits end the day or the week before that spiral can start.

Loss limits: when to stop trading

Daily

-2% or 2 losing trades
stop until tomorrow

Weekly

-5%
stop until next week

Drawdown

-10% from the peak
halve risk and review the plan

Example limits · set your own and write them in your plan

Example daily, weekly and drawdown limits, and what happens when each is hit.

- **Daily:** for example, stop after losing 2% or two trades.
- **Weekly:** for example, stop after losing 5% until the next week.
- **Drawdown:** for example, after a 10% fall from the account's peak, halve your risk per trade and review the plan before returning to normal size.

The journal

A journal entry takes two minutes and is worth more than any indicator. Record each trade as soon as it is opened and complete it when it closes. A spreadsheet works perfectly; so do dedicated journal apps. What matters is that every trade goes in, including the ones you are embarrassed about.

One journal entry

Field	Example
Date, pair, session	14 Oct · EUR/USD · London
Setup and reason	Pullback to 4-hour demand after BOS
Entry / stop / target	1.0852 / 1.0832 / 1.0892
Size and risk	0.25 lots · \$50 · 1R
Result	+2.0R
Plan followed?	Yes · screenshot saved · felt calm

Example entry · the 'plan followed?' field matters most

One journal entry: date and pair, setup, entry, stop and target, size, result in R, and whether the plan was followed.

The most valuable column is the one that asks whether you followed the plan. Over a month, split your results into trades where you did and trades where you did not. For most traders the difference is striking: the rule-following trades are profitable and the others are not. That single comparison does more for discipline than any amount of willpower.

Save a screenshot of the chart at entry and at exit. Months later, the pictures show patterns in your mistakes that numbers alone hide.

Numbers to track each month

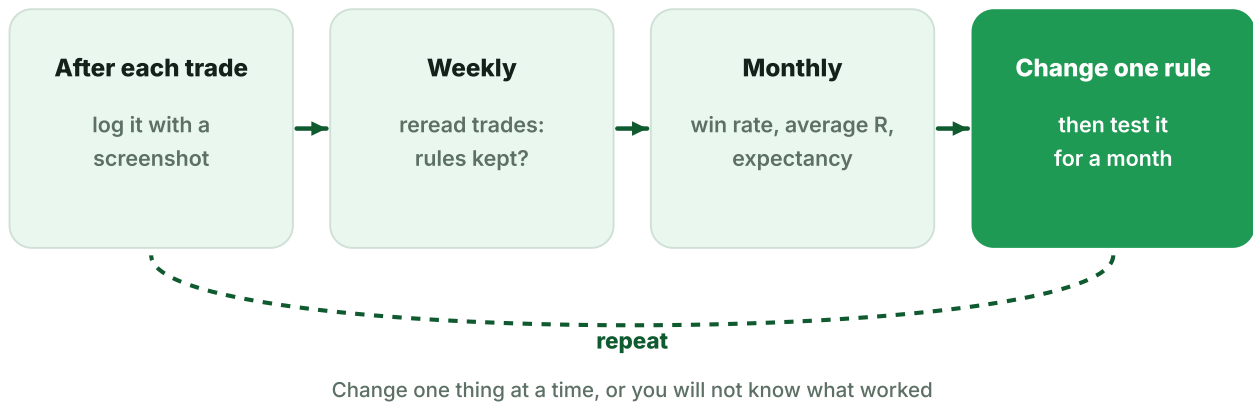
METRIC	WHY IT MATTERS
Number of trades	Is the sample big enough to judge?
Win rate	Context for the average win and loss
Average win and loss in R	Are winners held and losers cut?
Expectancy after costs	Does the method make money?
Largest drawdown	Could you live with it at real size?
Plan adherence (%)	Are you trading the plan or improvising?

Break the same numbers down by setup, pair, session and day of the week once you have enough trades. The breakdown often shows that one part of your trading produces most of the profit and another most of the losses, which tells you exactly what to change first. A simple spreadsheet with one row per trade and a separate column for each journal field is enough to produce every number in the table.

Reviewing without fooling yourself

A plan improves through regular review. The danger is changing rules too often, usually after a few losses, so that no rule is ever tested properly. A fixed review rhythm prevents that.

Plan, trade, record, review



Log every trade, review weekly, measure monthly, and change only one rule at a time.

1. After each trade: complete the journal entry and save the screenshots.
2. Each week: reread the week's trades. Were the rules followed? Any repeated mistake?
3. Each month: calculate win rate, average win and loss in R, and expectancy.
4. Change at most one rule per month, then give the new version at least a month of trades.

The monthly numbers come straight from [Chapter 31](#). If expectancy is positive and the rules were followed, change nothing. When it is negative over a large sample, look for the single biggest leak, such as a setup type, a session or a pair, and fix that first.

Plans evolve

Your first plan will not be your last. As you gain experience, you will narrow your markets, refine your setups and learn which sessions suit you. That is healthy, as long as each change is deliberate, recorded and tested, not a reaction to last week's frustration.

Keep old versions of your plan with the date each change was made. When results change, you will know which version produced them.

Illustrative case: Joseph, 38, Nairobi

Joseph's plan was a list of ideas: trade with the trend, use good risk management, avoid news. His results swung wildly. He rewrote it on one page with exact rules: two pairs, London session only, one setup, 1% risk, stop after two losses. His journal showed that in the first month he followed the plan on 70% of trades; those trades made money, and the other 30% lost almost all of it. By the third month he was following the plan on nearly every trade.

If your plan cannot be checked yes or no, it is a wish, not a plan. Write rules a stranger could follow, then let your journal tell you the truth about them.

Jowel Rana

Co-Founder & Forex Trader, FX Recap

Frequently asked

What should a trading plan include?

The markets and sessions you trade, your exact setup, entry, stop and target rules, risk per trade and maximum open risk, daily and weekly loss limits, and your review schedule.

What should I write in a trading journal?

Date, pair and session, setup and reason, entry, stop and target, size and risk, result in R, whether you followed the plan, screenshots and a short note on how you felt.

How often should I change my trading plan?

Rarely. Review monthly and change at most one rule at a time, then test the change over at least a month of trades.

What is a daily loss limit?

A rule that ends your trading day after a set loss, such as 2% of the account or two losing trades, to stop one bad day becoming a disaster.

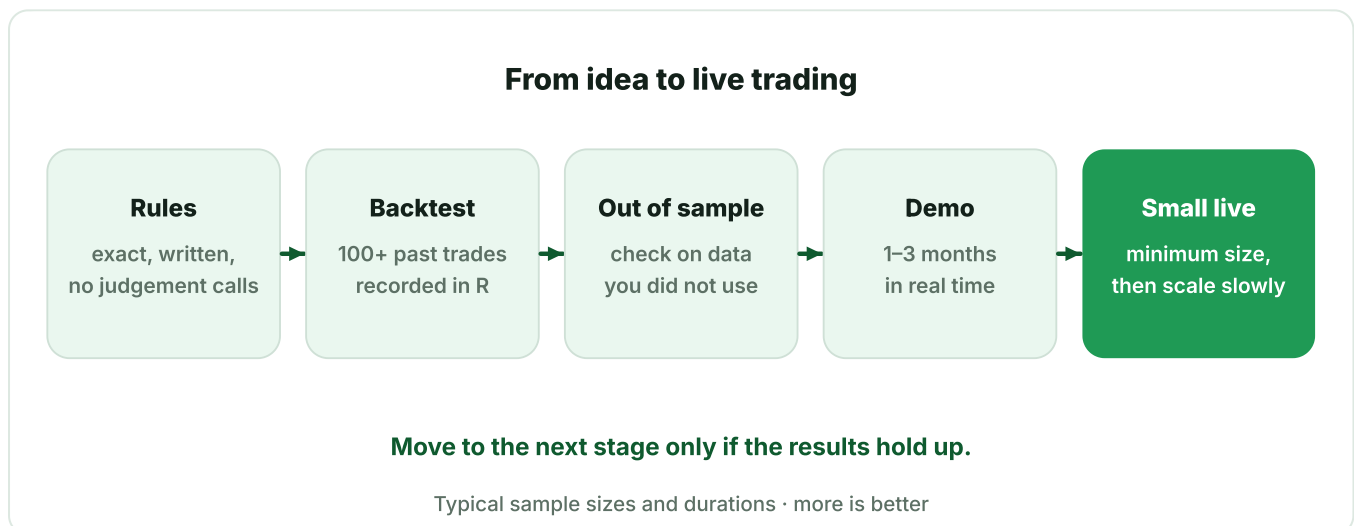
Backtesting a Forex Strategy and Moving From Demo to Live

Before trusting a method with real money, test it. Learn how to backtest manually and automatically, avoid the biases that make results look better than they are, forward-test on a demo account and step up to live trading in stages.

Every chapter of this book has ended with some version of the same advice: test it first. This final chapter shows how. Backtesting means applying your exact rules to past price data and recording what would have happened. Done honestly, it tells you whether a method has an edge before you risk money, and it builds the confidence to follow the rules through a losing streak.

From idea to live trading

Testing happens in stages, and you only move to the next stage if the results hold up. Each stage removes a little more uncertainty.



Five stages from idea to live trading: exact rules, a backtest, an out-of-sample check, a demo account, then small live trades.

Write rules a computer could follow

A backtest is only as good as its rules. "Buy at strong support" cannot be tested, because you will decide what counts as strong after seeing what happened. A rule like "buy when price closes back above a swing low swept within the last ten candles, with the 4-hour trend up" can be. If two people applying your rules to the same chart would take different trades, the rules need tightening.

Manual and automated testing

METHOD	HOW IT WORKS	GOOD FOR	WATCH OUT FOR
Manual chart replay	Scroll back, reveal candles one at a time and record trades	Discretionary methods such as SMC	Slow; easy to peek ahead
Spreadsheet study	List every setup on past charts and record outcomes	Simple rule sets	Selection bias in choosing setups
Automated tester	Code the rules and run them on historical data	Fully mechanical rules	Overfitting, poor data, missing costs

MetaTrader includes a Strategy Tester for automated rules, and many charting platforms offer a replay mode that hides future candles so you can practise manual testing. Whichever you use, record every trade in R with the same journal fields you will use live.

A manual backtest, step by step

1. Choose the pair and timeframe you plan to trade live, and a start date at least a year back.
2. Hide future candles using your charting platform's replay mode, or scroll so the right edge is the current candle.
3. Move forward one candle at a time. When your rules are met, record entry, stop and target in the spreadsheet before revealing more.
4. Move forward until the stop or target is hit, and record the result in R, minus a realistic cost.
5. Repeat until you have at least 100 trades, then calculate win rate, average win and loss, expectancy and the largest drawdown.

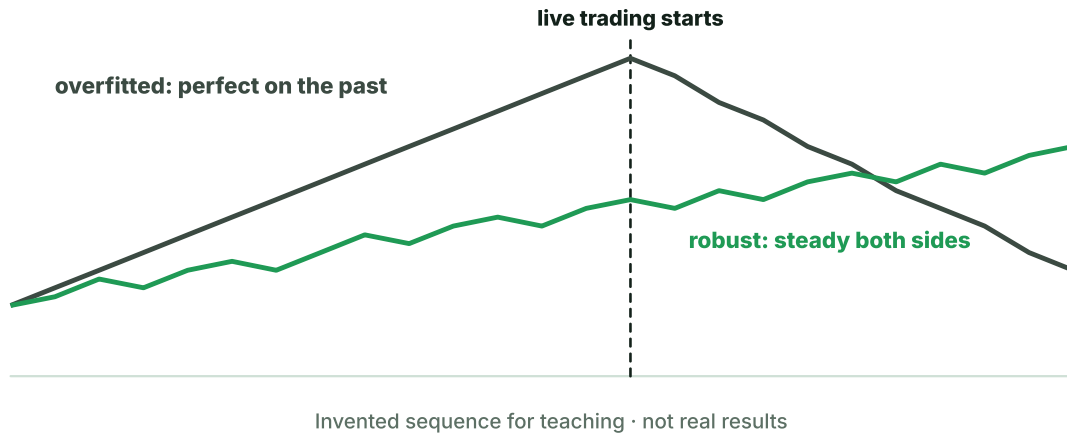
It is slow, roughly an hour for every 15 to 25 trades at first, though it gets faster with practice, but it is the most honest way to test a discretionary method, and it trains your eye to spot the setup in real time.

The biases that flatter results

- **Look-ahead bias:** using information you could not have had at the time, such as a swing high that was only clear several candles later.
- **Selection bias:** testing only the clean-looking examples and skipping the messy ones you would have taken live.
- **Ignoring costs:** leaving out spreads, commissions and slippage, especially on short-term methods.
- **Overfitting:** adjusting rules until they fit the past perfectly.

Overfitting deserves special attention. With enough rules and settings, any method can be made to look perfect on past data. Those extra rules usually describe noise in the history rather than a real pattern, and they fail as soon as the market moves on.

Overfitted vs robust rules (illustrative)

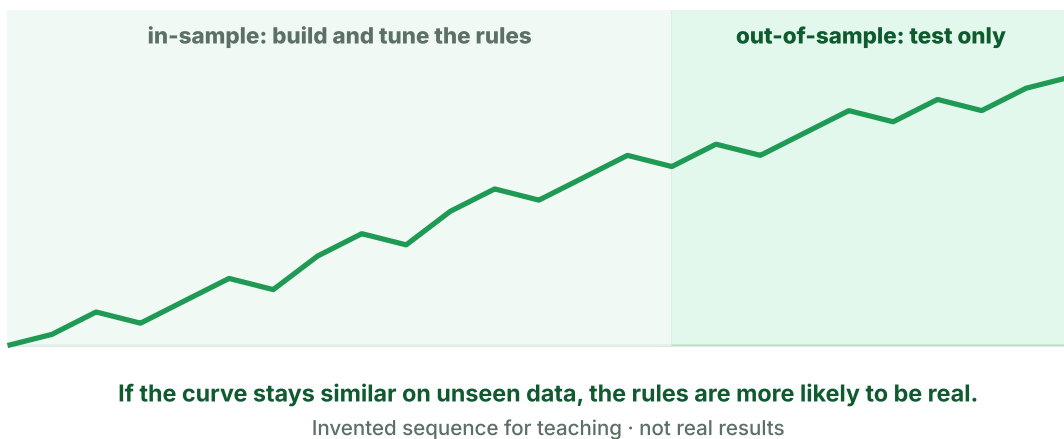


An overfitted method looks perfect on past data and collapses live; a simpler, robust method performs similarly on both sides.

Out-of-sample testing

The defence against overfitting is to keep some data aside. Build and adjust your rules on one period, then test them once, without changes, on a later period you have not looked at. If the results are broadly similar, the rules are more likely to capture something real.

In-sample and out-of-sample testing



Build rules on the in-sample period, then test them unchanged on the out-of-sample period.

How many trades?

As [Chapter 31](#) explained, small samples mislead. Aim for at least 100 backtested trades before judging a method, ideally across different market conditions: trending and ranging periods, quiet and volatile ones. A method that only works in one kind of market needs a rule for recognising that market.

Reading the results

QUESTION	WHAT YOU WANT TO SEE
Is expectancy positive after costs?	Yes, ideally +0.1R per trade or more
How deep was the worst drawdown?	A level you could sit through with real money
How long was the worst losing streak?	Close to what Chapter 31 suggests for the win rate
Did it work in different periods?	Positive in most quarters, not just one lucky run

If expectancy is positive only because of two or three unusually large winners, test further before trusting it. A robust method makes its money from many ordinary trades, not a handful of exceptions. Remove the best two trades and recalculate: if the method still shows a positive expectancy, it is far more trustworthy. Repeat the check on a different pair or timeframe as well; a real edge usually shows up, perhaps weaker, beyond the one market it was built on.

Backtest results are almost always better than live results, because the past is cleaner than the present and you know how the story ended. Expect live performance to be somewhat weaker and plan your risk around that.

Forward testing on demo

A backtest uses the past; a forward test uses the present, in real time, on a demo account. It answers questions a backtest cannot: can you spot the setups as they form, does the method survive real spreads and fills, and will you follow it when the outcome is unknown? One to three months of demo trading, with every trade journaled, is a sensible minimum.

Demo vs live: what changes

Area	Demo	Live
Fills	Usually instant and exact	Slippage, especially on news
Spreads	Often the same as live	Widen at rollover and news
Emotions	Calm, easy to follow rules	Fear and greed test every rule
Size	Large balances feel normal	Real money: start small

Conditions vary by broker · test on a small live account

Fills, spreads, emotions and size: what changes between demo and live trading.

Moving to live, in steps

Ready for a live account?

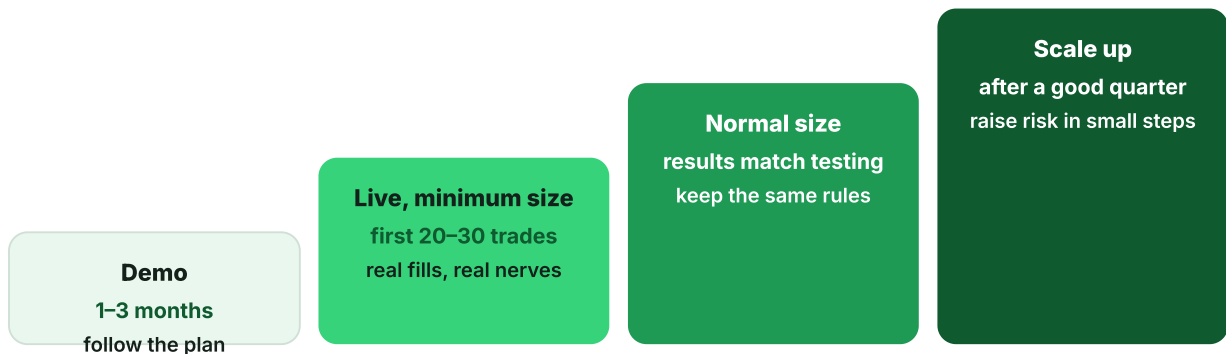
- ✓ **Sample** 50–100 trades on demo or backtest
- ✓ **Expectancy** positive after spreads and costs
- ✓ **Drawdown** one you could live with in real money
- ✓ **Discipline** plan followed on almost every trade
- ✓ **Money** only funds you can afford to lose

Missing one? Stay on demo a little longer

Five conditions to meet before opening a live account.

When the demo results hold up, go live at the smallest size your broker allows. The aim of the first live trades is not profit; it is to find out how you behave when the money is real. Increase size only when live results stay within the range your testing predicted, and step back down if they fall well short.

Demo to live: step up slowly



Typical durations · drop back a step if live results fall well short of testing

Demo, minimum live size, normal size, then gradual scaling, each step earned by results.

Never fund a live account with money you need for living costs or cannot afford to lose. Leveraged trading carries a high risk of losing money quickly, and most retail CFD accounts lose money.

Where to go from here

You now have the whole framework: the market's mechanics, how brokers fill orders, price action, Smart Money Concepts, fundamentals, sizing, expectancy, psychology, a plan and a way to test it. Pick one method, write it on one page, test it honestly and keep a journal. Revisit the chapters as questions come up, and use FX Recap's tools, such as the position size and pip calculators and the economic calendar, to apply them each day.

Illustrative case: Minh, 26, Ho Chi Minh City

Minh tested a liquidity-sweep method by replaying 18 months of EUR/USD 15-minute charts and recorded 140 trades: a 41% win rate and an average win of 2.1R, an expectancy of about +0.27R before costs and +0.2R after. He then traded it on demo for two months, where results were a little worse but still positive, and opened a small live account at minimum size. After 40 live trades his numbers were close to the demo results, and he moved up to his normal 1% risk.

A backtest is a conversation with the past, and the past will tell you what you want to hear if you let it. Write the rules first, test them once on data you have not seen, and believe the numbers over your hopes.

Abir Khan

Writer, FX Recap

Frequently asked

How do I backtest a forex strategy?

Write exact rules, apply them to past charts manually or with a strategy tester, record every trade in R including costs, and check the results on a later period you did not use to build the rules.

How many trades should a backtest include?

At least 100 if possible, across trending and ranging markets. Fewer than 30 trades says very little about a method.

What is overfitting?

Adjusting a strategy's rules until they fit past data perfectly. Overfitted rules usually fail on new data because they describe noise rather than a real pattern.

How long should I trade on demo before going live?

A common guide is one to three months and 50 to 100 trades, with positive expectancy after costs and the plan followed on almost every trade.