TRADING INTRODUCTION

A LEARNING GUIDE FOR A BETTER UNDERSTANDING OF TRADING AND ITS DERIVATIVES, DESIGNED FOR BEGINNERS.

INDEX

INTRODUCTION TO TRAIDING

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The following material is intended for novice or inexperienced traders. The following pages will cover the basic vocabulary, the most used terms and the different methods of market analysis.

It should be noted that we will go into details that are very important for anyone who wants to start trading. Trading can be a profitable activity as long as we understand all the tools we have at our disposal and know how to use them to have greater control of our stock investment.

After each concept and explanation that is provided from here on, we will include an explanatory example and we recommend applying what we have learned from our BKFX Demo account in order to have a clearer understanding of how the trading platform works.

It is important that we know how to apply the knowledge that we acquire in order to correctly manage the risk derived from this type of investment, minimize possible losses and enhance possible profits.

It is about knowing how to value our exposure in each operation to avoid incurring unwanted risks.

INVESTMENT INSTRUMENTS

In this section we will talk about the different instruments with which we can operate, we will comment on the peculiarities of each of them and we will give examples of the most operated worldwide.

Knowing the product allows us to operate in a more informed and intelligent way, so it is important to understand each of these instruments individually, as well as understand the effect that each one can have on the other.

Later in the manual we will see the different types of analysis and we will see why it is important to have read and understood this section.

- FOREX:

  Forex refers to Foreign Exchange, that is, the foreign exchange market. In trading, the Forex market is one of the best known and operated since it is a tangible instrument that we can relate to our day to day.

  The currencies or currencies of each country have a 3-letter symbol that identifies them in the stock market. Next, we share a table with some of the most common.

Currency	**Symbol**	**Currency**	**Symbol**
American dollar	USD	New Zealand Dollar	NZD
Euro	EUR	Mexican peso	MXN
japanese yen	JPY	Singapore dollar	SGD
Pound sterling	GBP	Hong Kong dollar	HKD
Australian dollar	AUD	The Norwegian crown	NOK
Canadian dollar	CAD	south korean won	KRW
Swiss franc	CHF	Turkish Lira	TRY
Chinese yuan	CNY	Russian ruble	RUB
swedish krona	SEK	Indian rupee	INR
New Zealand Dollar	NZD	Brazilian real	BRL
Mexican peso	MXN	South African Rand	CZAR
Singapore dollar	SGD		

Now that we know how to distinguish our currencies, we are going to see how they are represented when operating with them .

We will always see the currencies represented in pairs or pairs, which is how it is defined in Trading, where the first currency is called the Base Currency and the second Quote Currency.

Example:

In this example we are talking about the currency pair, EuroDolar, where the Euro is the Base currency, and the Dollar is the Quote currency. Let's put an assumption in which the EUR/USD is at $1.12, in this case:

1€ = 1.12$

Si un lote equivale a 100,000 unidades:

1 Lote de EUR/USD cotiza a 112,000$

En una operativa mínima de 0.01 Lotes:

Nuestra inversión (sin apalancamiento) será de 1,120$

Con un apalancamiento de1:100 nuestra inversión será de 11´20$

In the following sections we will give more data about lots and leverage so that we better understand this initial example.

- Raw Materials/ Commodities:

Commodities are any asset that we get out of the ground and that have a value for the economy of a country, region or continent. Trading commodities is very interesting for novice and experienced investors as they are assets with which we easily identify.

There are two types of raw materials with which we can operate, Soft Raw Materials (of vegetable or livestock origin) and Hard Raw Materials (of mining or extraction origin).

In this table we can see some of the most common Commodities when trading in the stock market:

<table>
<tr><td rowspan="7">HARD RAW MATRIX</td><td rowspan="4">METALS</td><td>PRAYED</td></tr>
<tr><td>SILVER</td></tr>
<tr><td>BRONZE</td></tr>
<tr><td>PLATINUM</td></tr>
<tr><td rowspan="3">ENERGY</td><td>PETROLEUM</td></tr>
<tr><td>GASOLINE</td></tr>
<tr><td>NATURAL GAS</td></tr>
<tr><td rowspan="4">SOFT RAW MATERIALS</td><td colspan="2">COFFEE</td></tr>
<tr><td colspan="2">SUGAR</td></tr>
<tr><td colspan="2">WHEAT</td></tr>
<tr><td colspan="2">SOY</td></tr>
</table>

In the next sections we will talk about how to account for contract sizes when trading commodities and the importance of fundamental analysis for these assets.

- Cryptocurrencies / Cryptocurrencies:

More and more we hear about the new cryptocurrencies and their impact on the world economy, however, they remain a great unknown to many who, although they have heard them mentioned, are still not clear about what they are, how they work or why they are revolutionizing so much to the market.

Next, we will answer some of these questions:

- *What are cryptocurrencies?*

  Cryptocurrencies are digital assets that use cryptographic encryption to guarantee their ownership and ensure the integrity of transactions.

  These coins do not exist physically: they are stored in digital wallets.

- *How do cryptocurrencies work?*

  Cryptocurrencies differ from other currencies for the following reasons:

  1. They are not regulated or controlled by any institution
  2. They do not require intermediaries in the transactions.

  They are controlled through a decentralized database called a blockchain or shared ledger.

- *How is its market value determined?*

  The digital nature of this type of currency makes them an asset valued exclusively based on their supply and demand, since their availability is limited.

  In Trading, its value is represented as a currency pair quoted as the base currency against the dollar or the euro.

- Actions:

All listed companies have a total value that is divided into small holdings, each of these holdings are called shares.

Therefore, we can define a share as a percentage of the total value of a company listed on the stock market.

- Indexes:

Stock indices are instruments that measure the collective value of a group of companies listed on a country's market.

They are powerful indicators of the economic liquidity of the country to which they belong and require extensive knowledge of the functioning of the markets to be able to operate with them.

The major US stock indices are:

  - **Dow Jones:** It is made up of 30 American companies.
  - **S&P 500:** It is an index composed of 500 of the largest companies on both the New York Stock Exchange (NYSE) and the Nasdaq.
  - **Nasdaq 100:** It is the stock index made up of the 100 largest non-financial companies on the Nasdaq, mainly technology stocks.

Among the main European stock indices are:

  - **Eurostoxx 50:** Main European stock market index. It covers the 50 largest companies in the eurozone by capitalization and trading volume.
  - **DAX 30:** Main German index with the 30 most important companies on the Frankfurt Stock Exchange.
  - **FTSE 100:** Index of the London Stock Exchange with its 100 most important companies.
  - **CAC 40:** Index with the 40 main companies on the French stock market.
  - **IBEX 35:** The main Spanish stock market index with the 35 companies with the highest capitalization and liquidity.

It should be noted that these are assets that require higher investment capital due to their size and, although their potential to generate profits is much greater than with other assets, the risk exposure involved in working with them is also much greater.

BASIC CONCEPTS

CFDs

CFDs, Contracts for Difference or Contracts for difference are leveraged operations by which an investor generates profits through the movement of the price in the market.

This type of trading allows the investor to speculate upwards and downwards on the change in the market price of the different assets listed on the stock market.

Leverage

Leverage, which represents the investment ratio margin, allows investors to borrow a certain amount of money which in turn allows them to open positions of greater value.

Leverage is understood as a multiplier of our purchasing power during trading, thus improving our position in the market. It should be noted that leverage is a tool that we must use with caution, since it also increases our exposure to risk.

- REPRESENTATION:

  Leverage is represented as a ratio. That is, it is presented as our multiplier for each unit invested.

  In this way, if I operate with a leverage of 1:50, for every dollar of investment in a stock transaction, I will be entering it with a purchasing power of $50.

- EXAMPLE:

  Price of a share of a company 'X' is $1000, we have a leverage of 1:100.

  To open a position worth 10 shares without leverage we would need a balance of $10,000 ($1000 * 10)

  With a leverage of 1:100 we would only need a balance of $100 (($1000 * 10) /100)

As can be seen, thanks to leverage, we choose to operate on a larger scale with a lower investment than would be necessary without having this tool within our reach.

Likewise, it gives us greater management power to be able to open more simultaneous operations and be more active in the stock market with a lower initial investment.

It is important that we always keep in mind the importance of risk management, our exposure to the market increases to the same extent as our potential profits increase, so we must analyze and assess our risk tolerance before deciding what our desired leverage is. to operate.

LOTS / CONTRACT SIZES

When we trade it is important that we determine the size of our trade or the amount in lots that we are going to trade.

All bid and ask prices depicted on the market charts are equal to one lot, so the entry investment will be based on the total size of the trade.

The value of a Lot will depend on the type of instrument with which we are going to operate, so below we will detail the representative size of a lot according to the type of instrument.

- Actions:

  When we trade stocks, we are dealing with small portions of a publicly traded company or conglomerate of companies.

  In this case, 1 lot represents a total of 100 shares of that company. It should be noted that an investor does not always have to invest in a full lot, being able to operate from 0.01 lot, that is, the equivalent of one share.

- FOREX:

  With Forex investments, we can talk about micro, mini and whole lots. Next, we will expand what each one represents and we will put some examples to be able to appreciate each definition separately.

  Let us remember that Forex operations are the most used and well-known. That is why it is of great importance to understand their real value when we operate with them.

  Let's see the correlation between Lot, Micro Lot and Mini Lot:

  - Lot = 100,000 units of the base currency
  - Mini Lot = 10,000 units of the base currency
  - Micro Lot = 1,000 units of the base currency

- Raw Materials :

  Operations with raw materials, unlike other instruments, we talk about contract size, since, depending on the product with which we are going to operate, we will use one unit of measurement or another.

In this way, if we operate with Gold we will speak of Ounces, if we refer to Oil we will speak of barrels and in the case of Sugar or Coffee we will speak of pounds.

- Cryptocurrencies:

Trading with cryptocurrencies or cryptocurrencies is operated based on its value with respect to another conventional currency. Example: BTC/USD.

As we explained in the previous section, the value of cryptocurrencies is determined by their supply and demand and, due to this, they are volatile products in the stock market.

STOP LOSS/TAKE PROFIT

There are several tools that are made available to investors to enhance their experience when trading in the stock market.

Two of the most common and used tools due to their efficiency and convenience are Stop Loss and Take Profit. To better understand them, we will explain each of them below:

- STOP LOSS:

  The Stop Loss, or Stop Losses, is a tool by which an investor has the ability to limit his risk in the market.

  Setting a Stop Loss, orders the trading platform to close any operation that is going against us as an investor, limiting losses to a certain amount.

- TAKE PROFIT:

  The Take Profit tool, or Take Profit, allows us to close an operation that we have opened, is generating income and reaches an amount of profit with which we are satisfied.

  It becomes interesting for cases in which we fear that the market may rebound against us once the price of the asset reaches a certain point.

It should be noted, and it is important to mention, that these tools are only accurate under normal market conditions, and their effectiveness cannot be extrapolated in cases of collapse or uncontrolled growth of prices on the stock market.

PIPs

The term PIP stands for percentage point and is a standard unit for measuring how much an asset's price has changed. We must know how to calculate it and differentiate its value depending on whether we are talking about FOREX, INDICES or RAW MATERIALS.

A PIP in Forex is a move to the fourth decimal place, in most currency pairs. For example:

If a currency pair has risen by 55 pips, this would mean that it has risen by 0.0055.

It should be noted that in currency pairs involving the JPY a PIP is a move to the second decimal rather than the fourth.

The Indices PIP is also called an Index Point and unlike the Forex PIP, the Indices PIP does not refer to a decimal but to a unit of the index.

When we talk about Commodities, the quotation step corresponds to the third digit after the decimal point.

- Calculation of a PIP in FOREX:

  1 PIP = (Number of Lots x Value per Lot) x 0.0001

  Let's imagine that we want to buy 2 lots in EUR/USD:

  One lot equals 100,000 euros.
  A pip is 0.0001 for EUR/USD.

  So the value of one Forex pip for one lot is (2 x 100,000) x 0.0001 = 20 dollars

  In the case of currency pairs with JPY the calculation will be:

  1 PIP = (Number of Lots x Value per Lot) x 0.01

- Calculation of a PIP in Indices:

  Pip in indices = Pip value per contract x contract size

- Calculation of a PIP for Commodities:

  1 PIP = (Number of Lots x Value per Lot) x 0.001

It is important that we also understand the relationship between the PIP and the SPREAD. In the Forex market, the spread is the difference between the purchase price and the sale price, just like in the traditional stock market. The difference between the purchase price and the sale price is measured in PIPs and is applied to all underlying assets.

Market analysis.

In trading as in any other investment, it is important that we know how to analyze the elements that affect our investment.

When we trade in the stock market, there are three types of analysis: Technical, Fundamental and Sentimental. As a whole, they help us make more accurate and accurate investment decisions.

Technical analysis

The Technical Analysis refers to the historical analysis of the price of the assets through the observation and study of the graphs. Through this type of analysis we can identify behavior patterns in the price movements of the different assets, the support and resistance points, and understand the indicators that allow us to interpret the market and its trend for the instrument with which we go. to operate.

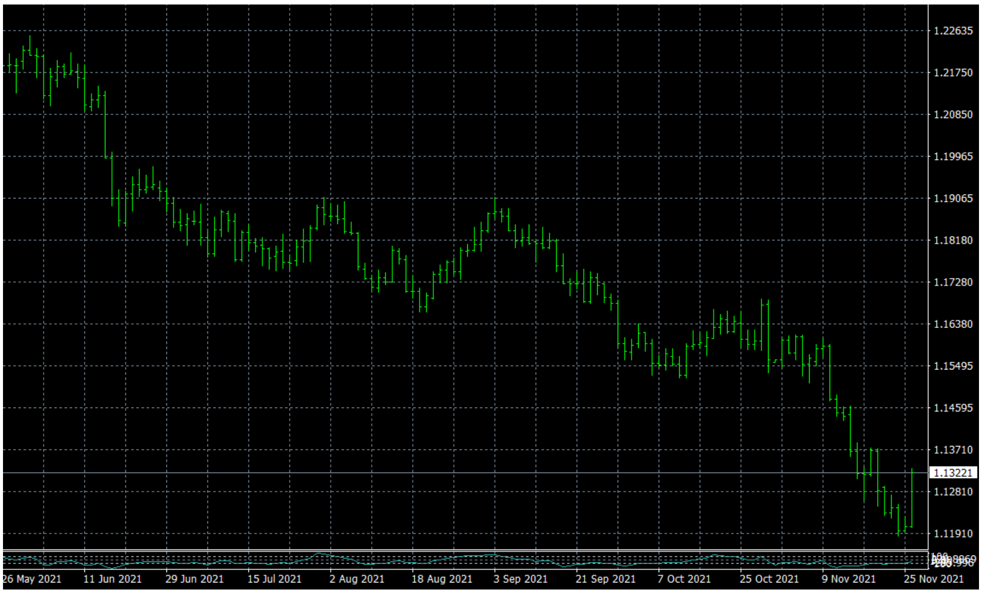
- **Chart Types:**

In technical analysis there are three types of charts that are the most common and that we will see below:

1. Line Charts:

This type of chart shows the union by lines between a closing price to the next closing price.

2. Bar Charts :



The bar graphs, in addition to showing us the closing prices, indicate the opening price (horizontal lines) and the maximum and minimum prices (vertical lines).

3. Candlestick Charts:

The same information that we will find in the bar charts, we will find in the candle charts, differing only in that it is the latter that falls and rises in price are differentiated by the filling of the bars. In the example shown above, we see that on falling prices the candle is filled and on rising movements it shows gaps. In this way, the trends are differentiated more clearly, which is why this type of graph is the most used.

- **Trends :**

Now that we have seen the types of charts that we can work with, we need to understand and identify the different types of trends that we will come across when reading and studying such charts. Knowing how to identify one trend from another allows us to speculate with a greater information base.

TYPES OF TRENDS:

1. Uptrend:

   We speak of an uptrend when the price of an asset increases.

2. Side Trend:

   The lateral trend is one in which the price fluctuates in a stable way between two nearby prices during a certain period of time.

3. Downtrend:

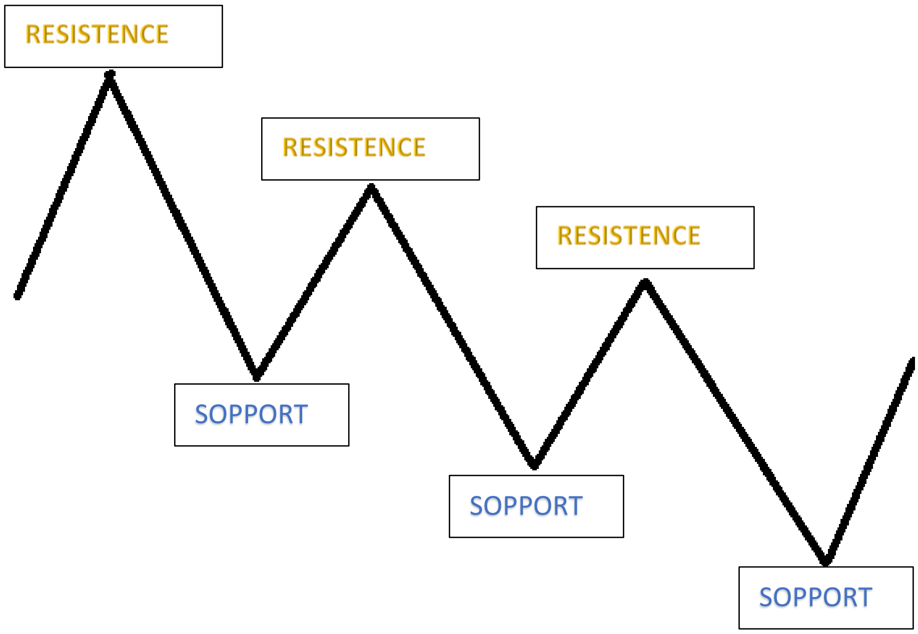
   We speak of a downtrend when the price of an asset decreases.

IDENTIFICATION OF TRENDS IN A CANDLE CHART:

SUPPORTS AND RESISTANCES:

Support and resistance are points on the chart that determine the beginning and end of a trend.

When the price of an asset reaches a maximum not previously exceeded, we say that it has reached its resistance. On the contrary, when the price reaches the minimum reached up to that moment, we say that it has reached the Support.



It should be noted, at this point, that when a resistance or support is broken, a new bullish or bearish trend respectively begins. In these cases, in an uptrend, the broken resistance becomes the new support, and in downtrends, the broken support becomes the new resistance.

A new resistance or support can only be established when the price trend changes.

INDICATORS:

Technical indicators are stock market analysis tools that allow us to study the future evolution of the prices of a financial asset. In this way, they help us interpret whether the prices of an asset are overbought or oversold and thus be able to make more accurate and informed investment decisions.

Most of the technical indicators are included in trading and investment platforms such as MT4 and, although we will give some examples of the most used indicators below, we will not delve into their formulations, concentrating on their functionality within technical analysis.

1. Volume Indicators:

Volume indicators measure the number of titles or lots that are trading in the market, that is, how many titles or contracts are being traded in the market.

In this way, they allow us to determine areas or price levels where an investment opportunity may arise.

2. Support and resistance indicators:

In asset analysis, it is important to determine the most prominent price levels, whether they are resistance or support.

These indicators allow us to identify these levels and thus evaluate possible trends that may favor our investments.

3. Volatility Indicators:

The volatility of an asset is determined by the frequency and volume in which its price varies in a given period of time.

Using volatility indicators we can determine which strategy is most suitable for which assets and thus manage our risk when entering the market.

Examples of the most used indicators:

- Fibonacci retracement levels.
- Bollinger bands.
- Accumulation distribution.
- Arms Index (TRIN).
- McClellan oscillation.
- Momentum indicator.

Fundamental Analysis

Fundamental Analysis focuses on the study of external factors that affect stock prices and therefore the assets listed on them.

There are many investors who base all their positions in the market on fundamental analysis, as it is simple to understand and its effectiveness is considerable. However, it is important to note that good risk management entails activity based on all types of analysis and that fundamental analysis is only one pillar that alone may not support full trading activity.

Having clarified this, let's see what tools are found within fundamental analysis:

- POLITICAL EVENTS:

  Events of a political nature, such as presidential elections in a country, armed conflicts or the approval or repeal of laws in a State, directly affect the market.
  If there is uncertainty due to political changes or instability in a country, the markets may experience greater volatility, more pronounced upward or downward trends and even crashes.
  On the contrary, a situation of stability or a state announcement of improvement in employment or imports from a country can lead to lateral or upward trends in the assets directly linked to the affected country.

- CLIMATE EVENTS:

  Weather elements are not always predictable and their effect on markets cannot always be anticipated. However, it should be noted that assets such as commodities or currency pairs are very sensitive to weather events, especially if they are extreme and do not occur unexpectedly.
  As we have already mentioned, the price of our assets is, almost entirely, determined by the law of supply and demand, so when a climatic event affects crops, real estate or the production capacity of a country, the value of its currency and its exports will be affected causing movements in the stock market.

- SOCIAL EVENTS and SOCIOECONOMIC NEWS:

  Later we will talk about the Sentimental Analysis and we will verify that the mental state of the investor is also an important factor to take into account. In the same way, the state of mind of the population, its availability for consumption, as well as the socioeconomic news that reaches said population are a factor, in many cases determining the behavior of the markets.

  The news, although not economic, that can be disseminated regarding business owners, politicians or public figures have proven to be great factors of volatility for the stock market and its assets.

Sentimental Analysis

There is an important factor, and not always studied, that we must not ignore if we want to invest with all our tools, Sentimental Analysis.

What do we believe as investors is going to happen? Regardless of all the technical and fundamental analysis that we have been able to carry out, the market will never be one hundred percent predictable, so we must speculate based not only on the data collected, but also on our instinct as investors.

Example:

We know that the shares of Company “X” have just entered an upward trend and we have read that recently, the director of Company “X” has published sales results higher than those obtained last quarter.

Based on the technical and fundamental data, we could determine that opening a position higher is the most successful.

However, we have been seeing this upward trend for some time and positive results in the sale of Company “X” and as investors we know that everything that goes up ends up falling. This is where Sentimental Analysis comes in.

Do we follow the logic of the empirical data we have? Or do we listen to our instinct and open a bearish position?

As we can see in this example, we must at all times pay attention to all types of analysis, since they all provide data and factors that we must take into account when opening our investments.

Trading Strategies.

Every investor considers what is the best trading strategy to follow. It is important that we know that no strategy is infallible and that each investor is different and therefore will have their own preferred strategy or combination of strategies depending on their trading objectives.

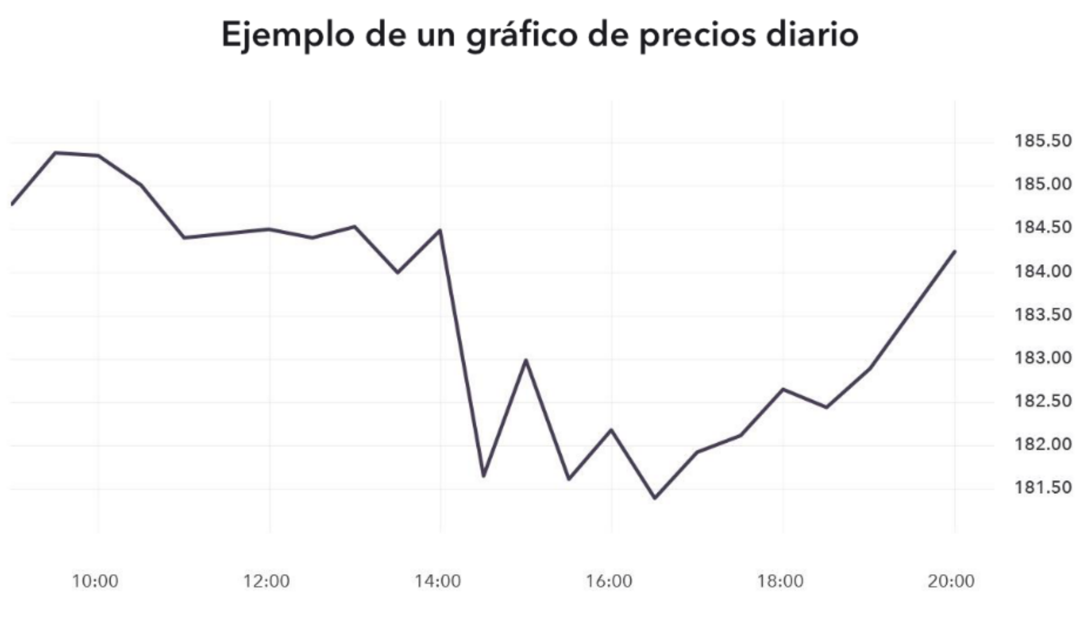
Next, we will talk about the different strategies and explain the characteristics that characterize them.

Intraday Trading

As its name suggests, Intraday Trading consists of opening and closing trades during the opening hours of the market, on the same day. It is a strategy that minimizes the risks and additional expenses that can sustain long-term investments.

It should be noted that this strategy leads traders to open multiple operations of little or medium value throughout the day, so it is very important to have made a thorough study of the market in advance and to be up to date with all the events that may cause movements. in prices.

With intraday trading, investors seek to make quick profits and with little capital, so this type of strategy is recommended for investors with time and availability to be attentive to all the factors that may affect the market, since intraday positions They are quick opening and closing.



position trading

Position trading is a long-term strategy that will provide profit after weeks, months, or even years. It is the complete opposite of Day Trading and requires the trader to keep the position open until it achieves the desired results.

Investors who opt for this type of strategy are not concerned with long-term market fluctuations, as they are pricing profits based on a trend that they expect the asset price to follow over time.

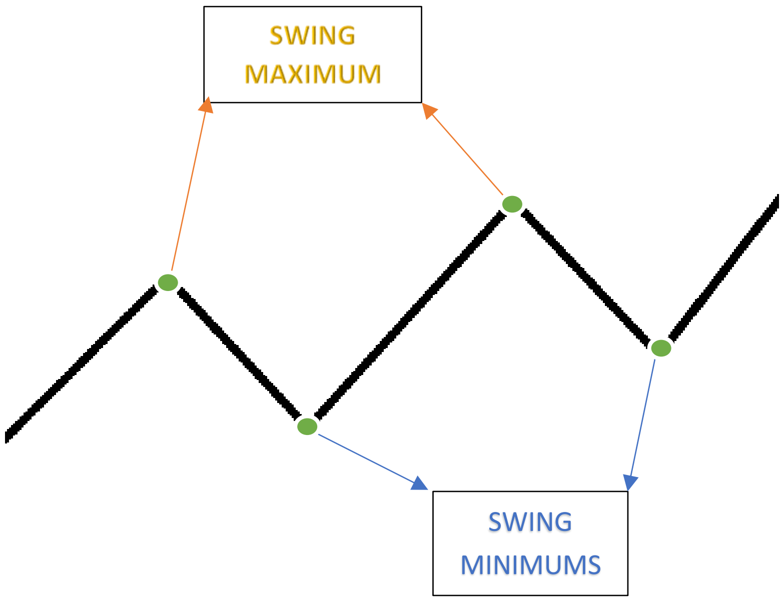
These types of traders will open fewer trades, but the ones they do open will be of higher value and have higher long-term profit potential. It is important to note that as your earning potential increases, so will the risk inherent in these types of activities.

Within position trading, there are various techniques such as range, pullback and breakout strategies. Investors who opt for this type of strategy will rely primarily on technical and fundamental analysis, using Indicators such as Fibonacci retracements, to identify periods of support and resistance.

swing trading

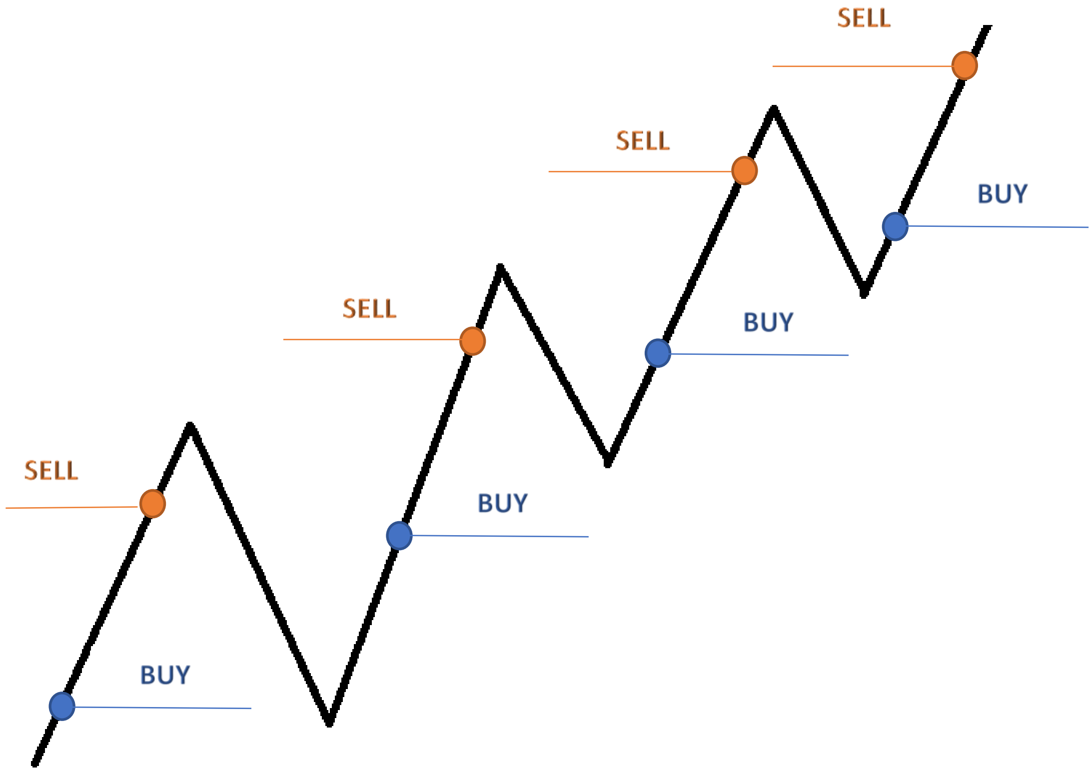
Unlike other strategies, swing trading can be carried out quickly, on the same day, or in the medium term, being able to leave certain positions open for two or three days.

Traders who opt for this option rely mainly on technical and fundamental analysis and take advantage of small "Swings" or rebounds in the market to open their positions, thus identifying a trend and taking advantage of swing lows in periods of purchase and of the maximums in those of sale.



scalping

Scalping is another type of short-term strategy where the investor enters a position and closes it in a matter of minutes or even seconds. Their benefits per operation are limited, so this type of trader always enters the market with high volatility, but predictable and in assets with high liquidity .



Traders who practice scalping must be very attentive to their closing points in each position, since, as can be seen in the graph above, their time frame to generate profits is very limited and losses can be much higher. to possible earnings.

The biggest advantage of this strategy is that the trader who follows it only holds a position for a short period of time and therefore their exposure to risk is lower than with other strategies.

On the other hand, short-term market moves are more common than large ones, thus increasing the chances of profit when following this type of strategy.

TRADING WITH CFDs: ADVANTAGES AND DISADVANTAGES

In previous sections we briefly defined CFDs or contracts for difference. Next, we will expand this concept and we will see why investors choose this type of product, what aspects we must take into account to minimize risks and we will see some examples of how to open and close operations when we work with them.

It is important to note that, as we explained earlier, CFDs are derivative investment products that allow you to trade on price movements without owning the underlying asset. Likewise, it is important to remember that they are leveraged products, therefore, operations with CFDs allow you to open operations without having to have the full capital, but they are also riskier in case the market acts against us.

<table>
<tr><td rowspan="4">ADVANTAGES OF TRADING CFDs</td><td>Investing in rising and falling markets</td><td>Investments with CFDs allow you to open up and down positions, thus being able to benefit from increases in the price of assets, but also from decreases in value.</td></tr>
<tr><td>Positions without default expiration</td><td>Positions can be open short and long, at the client's discretion. It should be noted that there are additional charges for keeping a position open during market closing hours, however these charges are limited and can be profitable on certain occasions.</td></tr>
<tr><td>Choosing short-term and long-term strategies</td><td>Unlike Binary Options trading, the durability of trades is not predetermined, giving the client greater control over the profit and risk they wish to take.</td></tr>
<tr><td>Market entry with leverage</td><td>Thanks to leverage, we have access to a much larger market with less investment capital than is normally required. For more information regarding leverage and its advantages, you can return to the section dedicated to this tool on page 7 of this manual.</td></tr>
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DISADVANTAGES OF TRADING CFDs	high risk	CFDs are speculative derivative products that are considered high risk, so working with a trusted broker is essential for any trader.
	Dedication	The volatility of the market means that clients must dedicate time to learning, investing and mastering the tools that are within their reach for greater control of the risk derived from the activity.
	You don't get the assets	CFD trading does not allow the investor to acquire the asset in which he invests. It merely provides you with a platform where you can speculate on the market price movement of said asset and benefit from the rise and/or fall of the market value.