CHAPTER 1

Introduction

This Book Will Make You a Better Trader

Throughout my career, I have been disappointed with the shortage of quality currency trading books authored by real market professionals. The foreign exchange category is mostly crowded with two types of books:

1. Theoretical textbooks on international finance, the mechanics of the foreign exchange market, and/or the principles of long-term currency valuation.
2. How-to books written by nonprofessionals, usually with the word "forex" in the title. These books tend to rely on a one-dimensional overemphasis of simple, short-term technical patterns while ignoring fundamentals, psychology, positioning, and proper risk management.

I have written this book to fill the void, so you can learn FX trading from a real professional. *The Art of Currency Trading* is a synthesis of everything I have learned in more than twenty years as a professional trader and interbank market maker in FX. This book will give you:

- An insider's deep understanding of what drives currency price movements
- A clear explanation of how to use a fusion of technical analysis, macro fundamentals, behavioral finance, and expert risk management to trade FX successfully
- Specific techniques and setups I use to make money trading foreign exchange
- Specific steps you can take to become a better trader

Trading, like baseball, poker, golf, or any other highly skilled pursuit, can be a game not of inches but of millimeters. Small improvements in your decision-making process can yield large improvements in profitability. This book will give you the insights you need to break through and achieve a higher level of success. Currency trading is like playing the piano. The mechanics are very simple (just press a few keys!) but mastery takes a lifetime.

The book builds in intensity and depth one topic at a time with the goal of enlightening and educating the most experienced, expert FX trader without leaving beginners in the dust. If you are early in your FX trading career, you should find all the building blocks for success here. If you are already an experienced FX trader, you should find a ton of new ideas and inspiration to take your game to the next level.

Most trading books tend to focus on one school of trading thought, whether it's technical analysis, macro fundamentals, behavioral finance, psychology, or risk management. That approach is too one-dimensional. To succeed in FX, you need to master the fusion approach and use multiple types of analysis to reach stronger conclusions and then understand your own psychology and risk management to trade with higher confidence. When every branch of analysis points in the same direction, you have found an extremely high-probability setup: a Five-Star trade.

I have experience trading interest rates, equities, and commodities, so this book will frequently refer to these products. Experienced traders from outside the world of FX will learn a great deal from this book because entire sections (e.g., risk management, trading psychology, the Seven Deadly Setups) apply to trading in any asset class. Please note, however, that my main objective is to increase your expertise specifically in the foreign exchange market.

This book will present a variety of unique approaches and specific trading techniques that I hope will open some new doors in your mind. Every trading book and every hour spent behind the screens is part of an overall trading education. I don't claim to have the holy grail or a simple, foolproof strategy for guaranteed profits in forex. There is no such thing. Trading is a lifelong pursuit and this book should be one step in your ongoing education. Absorb what resonates with you and ignore what does not. Develop your own style. Learn as much as you can from this book, but do not copy my approach or anyone else's. Be an independent thinker.

Why I Wrote This Book

When I was in my 20s, I used to greet most trading books with cynicism. I would think something like: "If you're such a great trader, why would you write a book about it? Aren't you giving away all your secrets? And anyway, what do you need money from writing a book for? Shouldn't you be rich already from your superhuman trading skills?"

Let me answer.

First of all, there are no secrets to trading, only knowledge, skill, experience, and psychology. And even if I share all my knowledge, skill, and experience, the psychology bit is by far the hardest part. You can master all the skills, tactics, and strategies and you will still fail if you cannot control yourself. And besides, currency markets are huge. Five trillion dollars a day transact in FX. There is always room for a few more skilled traders. I do not mind sharing what I know at this point. There is no downside for me.

And about the money: You don't get rich writing nonfiction books. The reason I wrote this book is simply because I love to write. And because I love trading. And I think that after more than 20 years of trading, I have something interesting to say about trading generally and currency markets specifically.

I hope you agree.

This book will show you how to come up with intelligent trade ideas using macro fundamental and technical analysis, market psychology, positioning, sentiment, and cross-market correlation. You will learn exactly how to trade the news and economic events. And you will understand the importance of rigorous and systematic risk management.

The book starts with the basics of currency trading and quickly builds to more advanced concepts. While the book works for beginners and quickly brings them up to speed before introducing more advanced topics, my intention is that *The Art of Currency Trading* will appeal to and educate even the most expert and experienced FX trader.

Remember, anyone can learn the rules. Very few can stick to them. Even after more than two decades of trading, I still struggle to stay disciplined and unemotional each day. It is easy to make stupid mistakes, show poor self-control, and go on tilt, no matter how experienced you are.

Each day you walk in to trade the currency market, you battle not just countless algorithms, Ivy league–educated hedge fund professionals, machine learning bots, highly experienced interbank traders, central banks, veteran corporate and real money hedgers, and skilled retail traders. You battle yourself. And even when you win the internal battle and show great self-discipline, every victory is temporary. You must constantly adapt to an ever-changing and highly efficient market.

This book will make you a better currency trader. It will help you understand what moves currency markets, show you how to generate profitable trade ideas, and teach you expert execution methods. This book will help you master foreign exchange trading and achieve sustainable long-term trading success. This book will help you make more money. This book will teach you the art of currency trading.

Thanks for reading.

Good luck ↕ Be nimble.

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New York City
8:15PM

The cavernous trading floor is mostly empty, but the foreign exchange sales and trading rows are fully staffed. The trader sits in front of six monitors in the center of the G10 currency trading desk. His pupils flick from various Bloomberg and Reuters headlines to CNN, then to CNBC and foxnews.com. His eyes scan the EURUSD and USDJPY price feeds, and then flick back to CNN. Early presidential election results trickle in. Markets are in a holding pattern still, so he picks at the last few pieces of take-out sashimi.

He is rooting for Hillary Clinton, not for political reasons but because he is positioned for a stronger dollar and the market sees a Clinton win as dollar positive. In contrast, the consensus views a Trump win as bad news for the greenback. For the trader, the event is not about politics, it is about macroeconomic outcomes. He has a big long position in the dollar and he wants a rally.

Just a few weeks ago, a *Washington Post* headline declared, “Trump’s path to an electoral college victory isn’t narrow. It’s nonexistent.” And the trader agrees wholeheartedly. It just does not seem possible for Donald Trump to win the US presidential election. The math does not work.

The trader is relaxed and calm as a few Clinton-positive headlines roll by. His heart rate is steady around 85 bpm.

Sweet. Maybe I can get out of here by 10PM and get some sleep.

Live bloggers post compelling anecdotes that point to a possible Hillary Clinton landslide. Early returns look good for the Democrats. The dollar and the trader's profits tick slowly higher. Tick, tick, tick. And then, boom. Everything changes in an instant.

There is a quick, unexplained drop in the dollar. The trader's pulse quickens. His face becomes hot and flushed.

"What's going on?" a sales guy yells over.

"Dude, I have no clue!" the trader hollers back.

A series of headlines scrolls in quick succession. Trump takes the lead in Florida. GOP has a chance in Pennsylvania. Toss-up states lean red. Impossible. Unbelievable.

Over the next twenty minutes, more states lean Republican. Ohio. Wisconsin. Michigan!? The dollar gaps lower as the realization hits the market. Trump has a chance. A good chance. In an instant, gambling odds go from Clinton as a huge favorite to even odds. Nate Silver tweets a nervous mea culpa. Now Trump is the favorite.

Should the trader sell his dollars and get out? Or wait for a turnaround? Frenzied clients sell dollars. Salesmen yell. Markets careen lower. Someone spills water on a keyboard. There is no time to think. The dollar lurches lower. Then lower again. The trader feels like he is trapped in a falling elevator. Profits evaporate and losses build.

At 10:53PM, Trump takes Florida and it's pretty much over. Everyone hangs out a few more hours but the result is inevitable. Finally, when Trump takes North Carolina at 1:30AM, election night is over. The dollar has collapsed and everyone on the trading floor is spent. Total exhaustion. Disbelief. The trader has lost more than a million dollars in less than four hours.

The stock market is halted, limit down. Currency markets are pricing in the worst. Fears of trade wars and the end of globalization and … the end of the world? The trader has dumped all his dollars and now he just sits there numb, staring at flickering numbers on a screen.

Finally, he drags himself out of the chair. It has been a marathon 19-hour trading session and he needs sleep, badly. He steps outside into light rain and walks a few blocks, still shell-shocked. He checks into a nearby hotel and falls asleep for a few hours. A quick dream of falling in an elevator. Then, he's awake again. It's 6:00AM. He quickly dresses and heads back out into the dark New York City morning. Back to work.

By 6:30AM, the trader is at his desk and everything has changed. The dollar is exploding off the lows. From a low of 101.19 in USDJPY, the market now trades 103.20. Before he can put down his Starbucks and log in, the phone board lights up. A flurry of customer calls. Something huge is going on. A 180-degree turn in sentiment.

The first phone call picked up by sales is one of the bank's smartest clients and he buys a huge chunk of USDJPY around 103.50.

"It's impossible to buy these!" the USDJPY trader yells.

A full reversal is underway and now the mood is euphoria. Stocks rip higher as the market comes to a brand-new conclusion: Donald Trump is great news for markets. He brings less regulation, lower taxes, and a business-friendly change of pace after the long post–financial crisis economic slog.

Can the trader buy his dollars back and get on board again, even though what is happening is the exact opposite of what he expected? Can he admit that he was wrong and buy dollars on a Trump victory? Of course he can. This is not about politics and it is not about being right. It is about what is the best trade. It's about solving the puzzle.

The trader reloads and makes a big bet on a rising dollar. 104.00 trades USDJPY. 105.00. By 9:00AM he is profitable again. His view that Hillary would win the election was totally wrong. Yet he survived. And now he is back in the black.

Election night 2016 is a microcosm of everything that is fantastic and terrible about currency trading. The hills and valleys. The emotional and financial highs and lows. Currency trading is mentally exhausting and (sometimes) incredibly satisfying. Tiring and exhilarating. Bad decisions can lead to good outcomes and good decisions can lead to bad outcomes. Luck rules on any given day while skill dominates in the long run.

FX trading is hard. But it can be incredibly rewarding.

Trading is a serious intellectual pursuit that is also incredibly fun. The joy of attempting to solve an unsolvable puzzle. A nearly impossible daily test of discipline and self-control. An endless emotional rollercoaster of instant feedback, frequent disappointment, sudden euphoria, and nearly unbearable periods of crushing self-doubt.

Enjoy the ride.