PROP TRADING

INTRODUCTION TO FINANCIAL MARKETS

TRADEAPP

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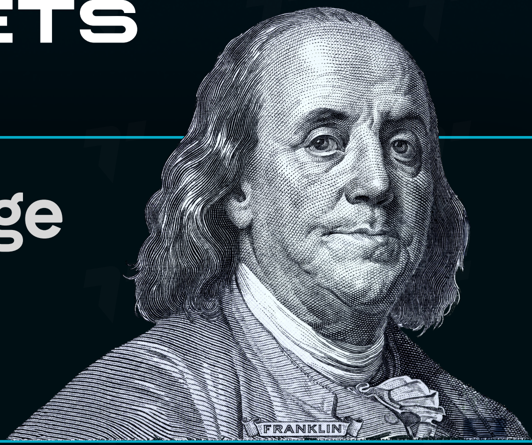
Investment in knowledge
pays the best interest.

— Benjamin Franklin



The financial markets are **dynamic and constantly changing,** offering opportunities for investors and traders to grow their wealth. To succeed, it's essential to understand key concepts, terminology, and instruments, as well as develop strategies to manage risk. This book introduces fundamental financial instruments, essential terms, and common pitfalls **to help traders navigate the markets with confidence.**

1. WHAT IS FOREX?

Forex (foreign exchange) is the largest financial market in the world, with daily trading **volumes exceeding $6 trillion.**

It operates as a decentralized market where currencies are exchanged. Every transaction involves two currencies, such as the EUR/USD pair, where EUR (Euro) is the base currency and USD (US Dollar) is the quoted currency. Forex is favored by traders worldwide due to its accessibility, flexibility, and resistance to manipulation.

2. WHAT'S A COMMODITY?

A commodity is a raw **material or primary agricultural product** that can be **bought and sold.** Commodities are crucial to global trade and are often used to hedge against inflation or diversify investment portfolios. Examples include **crude oil, gold, and wheat.**

3. WHAT'S AN INDEX?

An index **tracks the performance** of a group of stocks representing a specific market or sector. Notable examples include **the Dow Jones Industrial Average, the S&P 500, and the FTSE 100.** Indices help simplify market trend analysis and provide valuable **insights into economic conditions.**

Apple

Amazon

Tesla

4. WHAT'S A SHARE?

A share **represents ownership in a company.** By purchasing shares, investors gain a stake in the company's profits and future growth. Popular examples include stocks of major companies such as **Apple, Tesla, and Amazon.**

5. WHAT'S A CFD?

A Contract for Difference (CFD) allows traders to profit from price movements **without owning the underlying asset.** CFDs offer leverage, enabling traders to **control larger positions with smaller investments, though this also increases risk.**

6. KEY TERMINOLOGY

Key Concepts Explained:

- **Pips, Points, and Ticks:** Units used to measure price changes.
- **Balance and Equity:** Represent the state of your trading account.
- **Stop Loss and Take Profit:** Automated tools used for managing risk.

Chart Types for Analyzing Price Movements:

- **Line Chart:** Connects closing prices to highlight trends.
- **Candlestick Chart:** A detailed visual representation of price movements.
- **Renko Chart:** Filters out minor fluctuations to emphasize broader trends.

7. WORST MISTAKES TRADERS MAKE:

1. **Trading Emotionally:** Letting fear or hope drive decisions often leads to poor outcomes.

2. **Averaging Down:** Adding to losing positions increases risk and potential loss.

3. **Ignoring Risk Control:** Failing to use stop-loss orders can result in significant losses.

4. **Not Following a Plan:** Straying from a trading strategy often leads to poor results.