

## How to Make Informed Decisions in Forex Trading?

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How to make informed trading decisions and strive for the best chances of success in forex trading? Fundamentalists suggest that currency traders should understand what really drives the foreign exchange markets and how best to take advantage of this knowledge. In contrast, technicalists believe that how market prices move and how to identify patterns of exchange rate behaviors is more important for forex investors.

Fundamental analysis considers macroeconomic factors like income growth, interest rates, inflation, employment, and trade balances, along with government policies, sociopolitical conditions, and global news as determinants of foreign exchange market movements. Fundamentals-based models such as purchasing power parity, uncovered interest parity, and the monetary approach have proved theoretically justifiable and intuitively attractive. Nevertheless, these models receive rare empirical support and more devastatingly, they are generally unable to outforecast a naïve no-change random walk. That being said, however, it does not necessarily preclude fundamental factors from having profound effects on the currency markets.

Rather than focusing on forces that may drive the market, technical analysis concerns analyzing price movements and identifying price patterns. Trading strategies, on the basis of trend, support/resistance, moving averages, head-and-shoulders, peak-and-troughs, Elliott Wave and others, are often found to be profitable in forex and stock trading. But their out-of-sample profitability is reported significantly worse. In addition, detecting price patterns can be extremely time-consuming and technical analyses nowadays are becoming more and more technologically sophisticated.

Forex trading disregarding fundamentals makes for just as incomplete as the one without technical elements. Strong believers in fundamentals should recognize that exchange rates often drift away from fundamental values for a sustained period of time while technical purists would be well served to pay attention to how central bank policies, reports of leading economic indicators, and significant global events may affect price. As such, an intelligent and well-informed trading decision must contain ingredients of both fundamental analysis and technical analysis.

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