



Is it possible to forecast future Forex movements?

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I often hear traders claim that it is impossible to forecast price movement.

I can categorically claim that it is possible, and have considerable success and good accuracy in the process utilizing technical analysis in 100% of my forecasting.

Economists of course laugh at the idea that there can be any other method than applying economic theory.

So how should new, and for that matter experienced traders, formulate their own approach to forecasting future price movements? To be honest it is something personal to each trader. The most important factor they need assess is their own personal skill set. Are they analysts by nature, or are they traders. Each has a completely different mind set and also different abilities in terms of analyzing.

A pure trader is reactive, wants to trade and wants to make quick decisions.

A pure analyst is reflective, ponders decisions but likes to explore different factors that are affecting the market.

Most market participants are a hybrid of the two. Some err on the side of reaction and some err on the side of making sure of their trade, planning the entry and exits.

So how should a new trader decide what he or she should do in terms of analysis?

I am a pure analyst. I include no fundamental factors in my analysis. I am 100% pure technical analysis and I can be no other way since it works well for me. I have been able to forecast approximate targets 6-10 months in the future when the circumstances all work together well. That is how strong technical analysis can be. If an analyst knows what they are doing the advantage that technical analysis has over fundamental analysis is the ability to provide accurate targets, both on retracements and projections. It may also provide good timing.

In that case, do I recommend that all new traders base their trading on technical analysis alone?

Indeed not.

To be able to forecast with technical analysis in this way with a high success ratio requires a deep understanding of price movement, why it does what it does and what happens when it doesn't move in the way that has been predicted. My method is based around Elliott Wave and a purely personal interpretation of Elliott Wave since I have found the Elliott's methodology does not really apply to the Forex market, Elliott Wave takes years of practice and use to feel comfortable applying it. I also use time cycles which are also not plain straight forward to apply. If you don't know what you are doing then you can end up making very bad trades. How long would it take to forecast accurately utilizing 100% technical methodologies? At least 5-10 years depending on the individual's analytical skills.



So does that imply that new traders should base their trading on fundamental analysis alone?

Indeed not.

I am not a skillful fundamental analyst but I have worked with several and have seen their successes and failures. Certainly they require time to understand the vagaries of the Forex market and how what appear to be understandable and underlying economic factors can apparently fail totally. They can often forecast the underlying direction but what is impossible is to forecast precise levels to enter or exit.

Thus, for the new trader it is important to incorporate both elements into trade decisions. Fundamentals are normally favored because it is easier to conceptualize the concepts. They appear logical while technical analysis does not. It is normally easier for a new trader to become a little more skillful in applying fundamentals in a quicker time than he/she can with technical analysis.

However, the bigger problem for traders is knowing when to enter and where to place stops. The only solution is technical analysis. Since the process of understanding how to use technical analysis will take time it can be useful to subscribe to a technical service. Since probably 80% of traders are not analytical in nature it could be that most traders will find it useful to subscribe to an analytical service permanently and will need to try several services to see which suits their own personal style of trading.

Choosing an analytical service is important. Since there are always several ways a price pattern can develop what a good service must do for you is provide you with guidance to the possible alternatives, the levels that confirm a move and when it breaks down. It is vital to have a firm view of when to enter, why you are entering and when to take profit, or take a loss. Not to have this in your trading strategy will cause you more losses than you need take.

The key to successful and profitable trading is study and that means hard work. It is well known that trading is a stressful profession and that in itself implies that it is not a simple pastime, even for institutional traders who have a wealth of information at hand. However, there is enough information available to private traders these days and for the savvy who do their homework, there are good profits to be made.

Good luck.
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