

## LESSON 4: MAKING THAT FIRST TRADE

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# Forex Training Summary and Quiz

## Making First Trade

Use practice accounts to experience realistic trading scenarios without actually risking your funds.

Create a "watch list" of currencies for which you intend to specialize. Learn the factors that tend to affect the value of each currency on the list.

Intra-day trades (also known as *day trades*) are trades that are opened and closed within the same trading day.

Inter-day trades are trades held open overnight and remain in effect the following day. Inter-day trades are typically used to:

- Trade on a long-term view
- Establish a carry-trade
- Hedge future currency exposures

Trading on a long-term view is the forming of an opinion on the expected direction of a currency pair over an extended period of time.

Carry trades are a special trading strategy designed to take advantage of an interest rate differential between two currencies in a currency pair. To profit on the difference in interest rates, you need to be long the higher-yielding currency and short the lower-yielding one.

Technical Analysis is the use of charts and graphs to predict future exchange rates.

Fundamental Analysis is the study of news and economic results to predict future exchange rates.

Forex order types include:

- Market order - executed immediately at the current market price.
- Limit order - buy or sell order that is executed only when price conditions are met.
- Take-Profit order - automatically closes an open position at specified rate to lock in profits.
- Stop-loss order - automatically closes an open position to prevent further losses.
- GTC order - limit order that remains pending until you physically cancel the order if not executed by the trading system.
- GFD order - limit order that remains pending only until the end of the business day if not executed by the trading system.
- OCO order - combination of two limit orders; if one is executed, the other order is immediately canceled by the trading system.

Beware of setting take-profit or stop-loss thresholds so close to the market price that normal rate fluctuations can trigger them.

### Putting It All Together

**1. Most online forex brokers offer free \_\_\_\_\_ accounts.**

- margin
- savings
- practice
- brokerage

**2. An intra-day trade - also known as a day trade - is one that is opened and closed during the same trading day. \_\_\_\_\_ trades are opened on one trading day, but closed on another.**

- Carry

Day  
Futures  
Inter-day

**3. A carry trade is based on the interest rate differential between two currencies. The idea is to hold \_\_\_\_\_ the currency with the higher interest rate, while holding \_\_\_\_\_ a currency with a lower interest rate.**

long, long  
short, long  
short, short  
long, short

**4. Because you receive interest on currencies you hold long but must pay interest on currencies you have shorted, the net interest for the position is calculated as the interest you receive \_\_\_\_\_ the interest you must pay.**

minus  
instead of  
plus  
in addition to

**5. The net interest as calculated above is also known as the interest rate carry, or simply, the \_\_\_\_\_.**

amount you owe  
stop-loss  
volatility  
carry

**6. If you have positive carry, your position \_\_\_\_\_ money while it is open, but if you have negative carry, you must \_\_\_\_\_ interest while the position is open.**

earns, pay  
costs, pay  
charges, defer  
reduces, generate

**7. "Trading on the technicals" refers to trading based on information derived from \_\_\_\_\_. This is also known as technical analysis.**

market rumors  
price charts  
central banks  
future prices

**8. "Trading on the fundamentals" - or "trading the news" - describes traders that attempt to predict the effect \_\_\_\_\_ such as interest rate changes and labor reports will have on an exchange rate.**

historical prices  
future growth  
price chart patterns  
economic indicators

**9. A \_\_\_\_\_ order is executed immediately when submitted and is priced at the current spot market rate.**

limit  
equity

market  
Good 'til Cancelled

**10. A \_\_\_\_\_ order is an order to buy or sell a currency, but only when certain conditions are met. These conditions are in the form of instructions and are attached when the order is first created.**

limit  
futures  
stop-loss  
market

**11. A limit order that has not yet been executed, is said to be \_\_\_\_\_.**

cancelled  
pending  
executed  
profitable

**12. A \_\_\_\_\_ order automatically closes an open position when the exchange rate reaches the specified threshold.**

take-profit  
option  
closed  
market

**13. A \_\_\_\_\_ order is used to minimize losses and automatically closes a losing order at the threshold specified.**

market  
stock options  
stop-loss  
forex

Score 13/13

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