Quoting Prices
- Bid/Ask – The bid is the price which the bank will buy the currency, and the ask is the price at which they will sell the currency.
- Most Currencies use Direct Quotations, except for the EUR, GBP, AUD and NZD.
- Direct Quote = Domestic currency price of one unit of the foreign currency
- Indirect Quote = foreign currency price of the domestic currency

FX Strategies: Forecast for the currency to appreciate (go long) and Forecast for the currency to depreciate (go short)
- **Fundamental Analysis** (trading the news) – market analysis (interest rates, employment rates, inflation, BoP). Attempts to measure the intrinsic or underlying value of a currency by assessing the impact of economic factors.
- **Technical Analysis** – use of charts and graphs to identify trends – explains and forecasts price movements based on historical behaviour, the analysis of market generated data involves: price, volume, open interest.
  - Assumptions in Technical Analysis – (1) the market discounts everything, (2) prices move in trends, (3) history tends to repeat itself.

Keep a FX diary!

Manage Risk:
- Limit Orders – instructs the system to automatically exit a position when your target profit has been achieved
- Stop/Loss Orders – instructs the system to automatically exist a position when your maximum loss has been hit.

Support & Resistance – Resistance is the upper boundary and support is the lower boundary, these levels indicate the boundaries where the market tends to change direction. When markets break through these boundaries, it is referred to as a "breakout" and is usually followed by increased market activity.
- Support level – the bottom of a market swing – a price level that market fails to break
- Resistance Level – capping point where the market peaks and the exchange rate reverses an upward movement.

FX Speculation – generating profits by speculation is complex and risk because the markets are difficult to predict (many factors). This requires a large amount of: (1) Knowledge, (2) Research, (3) Monitoring.
- Stop-Loss orders only provide a limited about of protection, therefore expect to cut losses and start again.

1.2 Bond Markets

Reasons for Investing in Bonds:
1. Provides fixed income and Face Value upon maturity
2. Traded on the ASX, therefore it has **high liquidity**/ ability to convert in back into cash when needed.
3. Potential profits or losses (low risk and growth!) which more likely provides capital security.
4. Reduced Risk through diversification

Two Types of Bonds:
1. Exchange Traded Treasury Bonds (TB) – features of a simply vanilla bond, TBs pay coupons twice a year.
2. Exchange Traded Treasury Indexed Bonds (TIBs) – TIBs compensate you for the effects of inflation by their face value adjusting in line with the consumer price index, TIBs pay coupons every quarter.

Bond Market Sector – retail and institutional investors and they can either invest in a pooled investment vehicle or construct their own portfolio.
- Benefits of pool funds – (1) better diversification in obtaining desired exposure, (2) better liquidity, (3) professional management.

Term to Maturity – the date that the issuer will redeem the bond by paying the principal (indenture provisions may allow the issuer or bondholder to alter the bond's term to maturity).
- Importance of Maturity = (1) time the holder can expect to receive coupon payments and time before the principal is received in full, (2) Yield on a bond is dependent on the maturity, (3) the volatility of a bond is dependent on its maturity (i.e. the longer the maturity the more volatile).

Principal and Coupon Rate:
- Principle Value – amount that the issuer agrees to repay the bondholder at the maturity date.