

# Experience of Foreign Exchange Investment Simulation Trading

Yining Ma

Guangdong Experimental High School, Guangzhou 510375, China.

---

**Abstract :** Foreign exchange and foreign exchange transactions are relatively unfamiliar to domestic enterprises and individuals. However, with the integration of global economy, the development of international trade and international financial market has become more and more important. Foreign exchange transactions and exchange rate fluctuations have a greater impact on economic benefits, and the foreign exchange market has become pivotal to the economic development of a country. As a teenager living in the 21st century, it is very necessary for future development to understand and master certain knowledge of foreign exchange trading and risk control.

**Keywords:** Foreign Exchange; Exchange Rate; Risk Control; Position; Take Profit Price; Stop Loss Price

---

## 1. Concept

Foreign exchange refers to foreign currencies for international trade settlement and securities such as checks and bills of exchange used in exchange for foreign currencies.

Exchange rate refers to the ratio of a country's currency to another countries, or the comparative value of other countries' currencies represented by a country's currency.

## 2. Risk Factors Affecting Exchange Rate Changes

### 2.1 International and domestic political situations

Relations between countries, domestic factional conflicts, changes in important government officials of a certain country, civil wars, local conflicts, political turmoil, religious riots ,etc. will have a great impact on the exchange rate. If the situation is relatively stable, the exchange rate will remain stable. When times are turbulent, the exchange rate goes down. For example, the exchange rate of the ruble against the dollar was 0.013 a year ago. After the Russia-Ukraine war broke out, the US announced sanctions against Russia, and the exchange rate of the ruble to the dollar fell to 0.0077 in an instant.

### 2.2 Economic development situation

The economic development situation of a country, such as the level of economic growth, the balance of payments, the level of inflation and the level of interest rates , will affect the exchange rate of its currency. For example, China's economic has grown steadily in recent years, and the trade surplus has led to the appreciation of the RMB exchange rate.

### 2.3 Macro-fiscal, monetary, foreign exchange, trade policy

The government's macro-fiscal, monetary, foreign exchange and trade policies all play a decisive role in exchange rate changes. For example, during the Russia-Ukraine war, the United States and western countries announced sanctions against Russia, causing the exchange rate of the ruble to the dollar to drop from 0.013 a year ago to 0.0077, However, when Putin announced that the sale of natural gas to unfriendly countries must be settled in ruble, the exchange rate of the ruble against the dollar suddenly rose to 0.010, basically wiping out the decline caused by financial sanctions.

## **2.4 Psychological predictions of foreign exchange investors**

The psychological prediction of foreign exchange investors on the development trend of the financial market also has a great impact on the trend of the exchange rate. When the psychological expectations of the public reach a consensus, the exchange rate will fluctuate within a certain time, and the fluctuation of exchange rate may completely deviate from the market fundamentals, or the central bank intervention may be ineffective. For example, the outbreak of COVID-19 in 2020, the epidemic has been well controlled in China, while the US is out of control. the dollar depreciates, and the renminbi appreciates, which are closely related to investors' economic expectations for the country.

## **2.5 Speculative transactions of International hot money**

The speculative transaction of international hot money will also have a profound impact on the market trend of the exchange rate. For example: in 1997, Soros's Quantum Fund bought a large amount of put options , blocking the Thai baht, causing a sharp devaluation of the Thai baht in a short period of time.

## **2.6 Important emergencies**

Some major contingencies will have a significant impact on the psychology of global financial markets ,and will have a profound effect on the long-term changes in the exchange rates. For example, the Us stock market was closed for four days due to the 9/11 Terrorist attack, and the stock market on Wall Street experienced sharp turbulence. In the foreign exchange market, the dollar depreciated sharply in a short time.

## **3. Forex simulated trading process and results**

The starting capital of my simulated investment is 50,000 US dollars. according to the market trend at that time, I chose the dollar and the euro as the trading object, each of the currencies bought 3 hands, just bought has been loss-making situation, but at the end of the first day,there was a slight profit.In the next few days, the exchange rate change curve was like a roller coaster, with ups and downs.Because I wanted to make more money, I didn't stop the profit in time when I made a profit, and it didn't take long for the profit to turn into a loss. After a few days of observation, I felt that the euro was expected to fall, so I shorted the euro, and the position changed from 3 hands to 30 hands. The trading in the next few days was very smooth, and my profit increased from the original \$200 became \$3,000. One night, I made a profit of \$30,000. My total assets changed from \$50,000 to \$83,000. The continuous profit has boosted my confidence. I think I am an investment genius. The trading objects have expanded from USD and EUR to JPY and AUD, and the positions has also boldly changed to 50 hands and 80 hands . I didn't expect that, because of the wrong direction judgment, the Japanese yen made me lose a lot. Because of the large position, overnight, I not only lost the previous profit, but also lost 20,000 principal.

## **4. Investment Experience**

Many foreign exchange investors have had this experience. When they first started investing, they seemed to be able to make a small profit, but as time went on, they would go through the process of turning from profit to loss. What is the reason for this? Through my own simulation From investment experience, the reasons why I turned from profit to loss are as follows:

### **4.1 Without a good mentality, greed and fear are not overcome in the process of trading**

Greed and fear are two weaknesses of human nature, which can never be eradicated. In the process of investment transactions, the greed and fear of human nature can be fully reflected. With the increase of the number of small profits, the greed continues to grow. The prudent attitude is gradually lost, and at the same time, the safety control of investment has

been relaxed, and the capital used has begun to exceed its own investment capacity. As a result, once the foreign exchange market trend is wrongly judged, great losses will occur, and the foreign exchange market will suffer. Compared with securities and futures investment and trading markets, there are also huge risks. Using the "leverage" function of foreign exchange margin trading provides investors with high profits, but at the same time increases investment risks. Investors are most likely to have psychological imbalances when they are extremely panicked by losses. In order to return to capital or return to the previous level of income, the idea is relatively strong, and they are selective in turning a blind eye to potential risks that may appear in the future. In order to obtain high returns, there are often The gambler's mentality of increasing his chips and wanting to get his money back and get rich overnight, thus entering a situation of doom.

Being in a good mood when trading is key because sometimes it's not your research that determines how successful a trade is, but your mood at the time. When trading, you must remain objective and calm. When the market conditions and trends are in line with your expectations, you must avoid greed. When the market trends are contrary to your expectations, you don't have to stand firm. Be brave enough to admit mistakes, avoid fear, and dare to stop losses and leave the market., Even if the trading plan loses money, you must control your impulses, and you must not make another transaction other than the trading plan, trying to gain profits again by opening a new position, establish a good trading plan, strictly implement it, and achieve the unity of knowledge and action.

## **4.2 Insufficient awareness of one's own abilities, and do not know how to carry out risk control.**

### **4.2.1 No position management**

The size of the position directly determines the size of the risk. The larger the number of position, the more margin will be occupied, which also increases the risk of liquidation. Liquidation is something that all investors are unwilling to encounter, and liquidation occurs represents a major mistake in investment judgment and operation. For foreign exchange beginners, whether theoretical knowledge, practical experience and financial strength are not enough to deal with heavy positions, so for new traders who have recently entered the market, it is necessary to manage each transaction position. The position ratio should not be too large at the beginning. Only when you have accumulated rich trading experience and have a good continuous successful trading record, consider gradually increasing the position ratio.

Leverage can be used in foreign exchange trading, but leverage is a double-edged sword. Rational use of leverage can increase profits . However, if you blindly increase leverage, you may be liquidated in the worst situation. Remember not to have a get-rich-quick mentality with high leverage.

For foreign exchange traders who have recently entered the market, I think it is safer to have a position ratio of no more than 5%. After accumulating enough successful experience, the position can be increased to 10%. When the position is well controlled, if the foreign exchange market fluctuates sharply, because of the appropriate position, we can be happy with the rise and not sad with the fall. your mentality will be more pleasant. Good position management is the secret to maintaining a good attitude.

### **4.2.2 No stop-profit and stop-loss targets were set, and no coping strategies were formulated in advance**

We must make predictions based on the analysis of the current market situation, but there are too many factors that affect the foreign exchange rate, such as the international situation, macro policies, emergencies, etc., any of these factors will lead to rapid changes in the exchange rate, so we must formulate the operation goals and plans of the transaction when buying and selling each foreign exchange, such as: position holding time, take profit target, stop loss target, so that the operation becomes executable , so as not to be in a hurry when encountering market trends that are inconsistent with

expectations, causing operational errors.

Stop loss price refers to when the market development does not meet expectations, in order to prevent the loss from continuing to expand and the maximum acceptable loss price for closing the position, the stop loss price must be set for each transaction, and strictly abide by, do not arbitrarily expand the stop loss. Otherwise, it will deviate from the principle of setting the stop loss price for risk management in advance.

The take profit price refers to the psychological price at which the position can be closed for profit in order to prevent a sudden U-turn when the market development is still in a good state. Setting a take profit point can also reduce investment risks, because during the trading process, the floating income formed by the open position is not called the actual income, but only after the transaction is closed and the profit is settled. Usually, in short-term operations, the take-profit point may be relatively small, while in long-term operations, the take-profit point is correspondingly larger.

Foreign exchange trading positions should not be held for too long, because exchange rate changes are affected by multiple factors, the longer the holding time, the greater the risk of uncertain events occurring in the middle. Avoid holding positions, even in short-term trading, it is not advisable to hold positions over the weekend.

## 5. Conclusion

After going through the simulated foreign exchange trading practice, I found that there is still a big difference between theoretical knowledge and practical operation. Even if you have mastered the theoretical knowledge, it is still very difficult to achieve the unity of knowledge and action in the actual foreign exchange trading process. Profits and risks in the financial market coexist, and you can make profits through foreign exchange transactions. However, if you cannot use investment scientifically and rationally, and let greed control you, you are only one step away from failure.

Through the foreign exchange simulation trading training, I not only realized the lack of knowledge in the investment field, but also found the direction of my interest in future study; not only let me experience the charm of the foreign exchange market, but also experience its cruelty, which made me feel more in awe of the investment market. In order to become an excellent foreign exchange trading investor, in addition to learning investment theory, you must also cultivate your inner self, strengthen risk control, strictly implement the operation plan, and truly achieve the unity of knowledge and action. I will study and practice investing in the future. The road is a long way to go, and I will go up and down to seek it.

## References

- [1] "Principles and Practices of Foreign Exchange Trading (Second Edition)" by Liu Jinbo. Published by People's Posts and Telecommunications Press, May 2015.
- [2] "Forex Trading Practice (Third Edition)" by Lan Rongying and Ni Xinqi, published by Xiamen University Press, January 2019.
- [3] Yao, Y., Research on the method of exchange rate change trend and risk control technology of foreign exchange speculation [D]. Zhejiang University of Technology, 2009.

About the author: Yining Ma (2004.9-), female, Han nationality, Guangzhou, Guangdong, high school student, G11, school: Guangdong Experimental High School AP International Course.