LAUNCHPROPFIRM RESEARCH DESK

2026 Institutional Edition

Forex Trading for Beginners
Starter Guide & Manual

A comprehensive operational blueprint covering currency mechanics, pip mathematics, position sizing equations, session volatility windows, and proprietary firm risk rules.

MODULE 1 - 3

Quotation anatomy, pip & pipette calculations, spread costs, and lot sizing equations.

MODULE 4 - 6

Session schedules, order execution dynamics, daily drawdown limits, and evaluation checklists.

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Module 1: The Currency Market Mechanics & OTC Architecture

The foreign exchange (forex) market is the largest, most liquid financial ecosystem in the world, processing over **$7.5 trillion in daily transaction volume**. Unlike centralized equities markets such as the New York Stock Exchange, foreign exchange has no physical central exchange. It operates as an Over-the-Counter (OTC) decentralized network of Tier-1 bullion banks, institutional liquidity providers, commercial multinational corporations, and retail brokerage bridges.

1. Base Currency vs Quote Currency

Every forex trade represents an exchange transaction: you simultaneously buy one currency while selling another. Currencies are quoted in standardized pairs:

```
EUR / USD = 1.08500
[Base Currency] / [Quote Currency] = [Exchange Rate]
```

- **The Base Currency (EUR):** The first currency listed. It represents the standardized merchandise unit being bought or sold.
- **The Quote Currency (USD): The second currency. It specifies how much quote currency is required to purchase exactly one unit of base currency.**

2. Bid, Ask, and the Spread

Broker terminals display two live prices: the Bid (the price you sell at) and the Ask (the price you buy at). The difference is the broker transaction cost known as the Spread:

```
EUR/USD -> Bid: 1.08500 | Ask: 1.08512
Spread = Ask - Bid = 0.00012 (1.2 Pips Broker Commission)
```

> **Institutional Rule: Stick to Major Pairs**
>
> **Beginners must trade major currency pairs (EUR/USD, GBP/USD, USD/JPY) where institutional volume guarantees ultra-tight spreads between 0.0 and 1.2 pips. Avoid exotic pairs with 15–30 pip spreads that eat into your profit expectancy.**

Module 2: Pip Math, Contract Sizing & Lot Size Matrix

In foreign exchange, price fluctuations are quantified in standardized units called **pips** (Percentage in Point). For all major currency pairs, 1 pip represents movement in the **fourth decimal place (0.0001)**. The exception is Japanese Yen pairs, where 1 pip is the **second decimal place (0.01)**.

1. Standardized Forex Lot Sizes

Lot Type	Volume Units	Pip Value (EUR/USD)	Minimum Capital Recommended
Standard Lot	100,000 Units (1.00 Lot)	$10.00 per pip	$10,000 - $100,000
Mini Lot	10,000 Units (0.10 Lot)	$1.00 per pip	$1,000 - $5,000
Micro Lot	1,000 Units (0.01 Lot)	$0.10 per pip	$100 - $500
Nano Lot	100 Units (0.001 Lot)	$0.01 per pip	$25 - $50

2. The Universal Position Sizing Equation

Professional traders never guess their lot size. Before placing an order, calculate exact contract volume using this mathematical formula:

```
Position Size (Lots) = [Account Capital x Risk %] / [Stop Loss Distance (Pips) x Pip Value per Standard Lot]
```

Worked Example: Risking 1% on a $50,000 Account

- Account Capital: $50,000
- Allowable Risk (1%): $500
- Stop Loss Distance: 25 Pips on EUR/USD ($10 per pip per standard lot)
- **Lot Size = $500 / (25 x $10) = 2.00 Standard Lots**

Module 3: Forex Session Clocks & Volatility Windows

The global forex market operates 24 hours a day, 5 days a week, rotating across four major international financial centers. Maximum liquidity and the cleanest price moves occur when two financial capitals overlap.

Global Market Sessions (UTC & New York Time)

Trading Session	UTC Time	EST (New York)	Characteristics & Top Pairs
Asian (Tokyo)	00:00 - 09:00 UTC	7:00 PM - 4:00 AM	Range-bound, consolidation. Top pairs: USD/JPY, AUD/USD, NZD/USD.
London Session	07:00 - 16:00 UTC	3:00 AM - 12:00 PM	Major volume breakouts, trends form. Top pairs: EUR/USD, GBP/USD, EUR/GBP.
New York Session	12:00 - 21:00 UTC	8:00 AM - 5:00 PM	High impact news (CPI, NFP, FOMC). Top pairs: EUR/USD, USD/CAD, USD/JPY.
London / NY Overlap	12:00 - 16:00 UTC	8:00 AM - 12:00 PM	Peak daily volume (over 55% of total transactions). Tightest spreads.

Order Types: Market vs Pending

- **Market Order:** Instant execution at the current best available Ask (buy) or Bid (sell). Subject to slippage during high-impact news releases.
- **Buy Limit / Sell Limit:** Execution at a price better than current market price (e.g., buying at support after a pullback).
- **Buy Stop / Sell Stop:** Execution in the direction of momentum once price crosses a key resistance or support level.
- **Stop Loss (SL):** Automated liquidation order to cap maximum loss on an adverse move. Essential on every trade.
- **Take Profit (TP):** Automated profit-taking limit order executed once price reaches your target objective.

Module 4: Risk Engineering & Prop Firm Passing Protocols

Commercial prop trading firms provide traders with accounts ranging from $10,000 to $200,000+ upon passing an evaluation challenge. Passing these evaluations requires strict adherence to mathematical drawdown preservation.

1. The Two Non-Negotiable Drawdown Limits

- **Maximum Overall Drawdown (typically 8% - 10%):** The total loss an account can incur from the highest recorded equity or initial balance.
- **Maximum Daily Drawdown (typically 4% - 5%):** The loss limit within a single 24-hour cycle. Resets at server midnight (00:00 server time).

2. Golden Rules for Passing Prop Evaluations

Evaluation Metric	Novice Gambler Behavior	Institutional Passing Protocol
Risk Per Trade	3% to 5% per trade	0.5% to 1.0% maximum per setup
Risk-to-Reward (RR)	1:1 or negative RR	Minimum 1:2 or 1:3 asymmetric RR
Trades Per Day	10 - 20 over-traded scalps	1 - 2 high-probability session setups
Drawdown Buffer	Trades until 4.9% daily loss	Hard stop of the trading day at 2.0% loss

Official LaunchPropFirm Tools & Resources

Access our real-time interactive risk calculators and institutional resources:

- **Lot Size Calculator:** `https://launchapropfirm.com/tools/prop-firm-lot-size-calculator`
- **Drawdown Buffer Calculator:** `https://launchapropfirm.com/tools/prop-firm-drawdown-calculator`
- **Server Reset Clock Tracker:** `https://launchapropfirm.com/tools/prop-firm-reset-clock-tracker`
- **Daily Rollover Chart:** `https://launchapropfirm.com/blog/prop-firm-daily-drawdown-reset-time`

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