PRECISION PIPS ACADEMY | TRADING FROM ZERO · LESSON 01

WHAT IS TRADING, AND HOW DOES THE FINANCIAL MARKET WORK?

Trading from zero: instruments, market participants, forex, XAUUSD, BUY and SELL, and the difference between trading and gambling

Welcome, Fam

This series helps you understand the market beyond pressing BUY or SELL: what you are trading, why prices move, how to find opportunities and how to manage risk. A trader who understands the process is better prepared than one who relies on signals.

1. What Is Trading?

Trading is buying and selling financial instruments to benefit from changes in their prices. A trader decides on the possibility that the market will move in a particular direction, while accepting that the prediction can be wrong. Trading is not about knowing what the market will do next; it is about deciding with incomplete information and managing the consequences.



Figure 1: common tradable instruments.

Example: gold trades at $4,000 per ounce. You believe it will rise and open a BUY. If price reaches $4,020 the position may profit; at $3,980 it may lose. These are simplified numbers: actual results depend on position size, contract specifications, costs and execution.

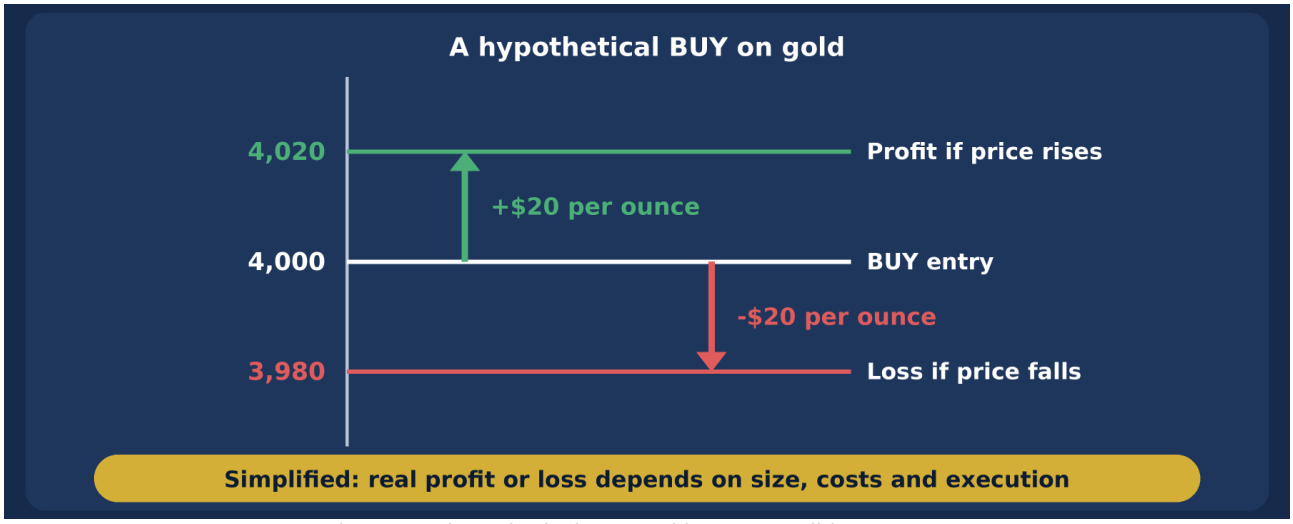


Figure 2: a hypothetical BUY and its two possible outcomes.

2. How Does a Financial Market Work?

A market brings together participants who want to buy and sell. They have different objectives: some hedge business exposure, some invest, some speculate, and others provide liquidity. When buyers and sellers interact, prices change as orders are submitted, matched and executed across venues.

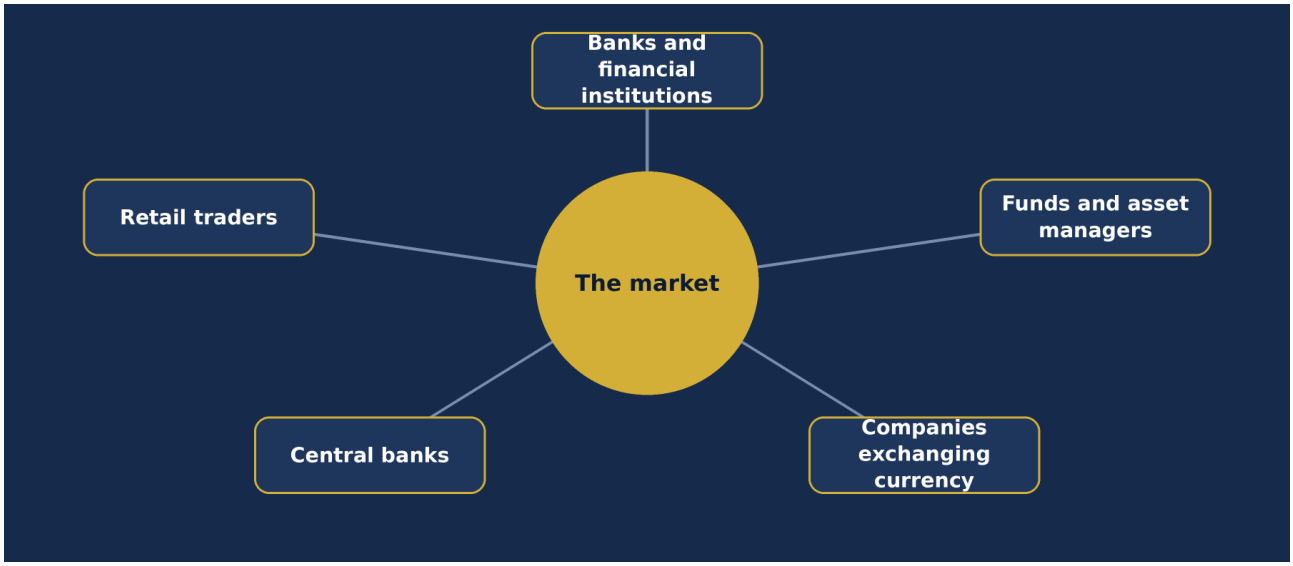


Figure 3: who takes part in the market.

Price moves when buying and selling pressure changes, when available liquidity changes, or when new information makes participants reassess value. For gold, relevant influences include dollar strength, interest-rate expectations, inflation and data, geopolitical uncertainty, and positioning and liquidity.

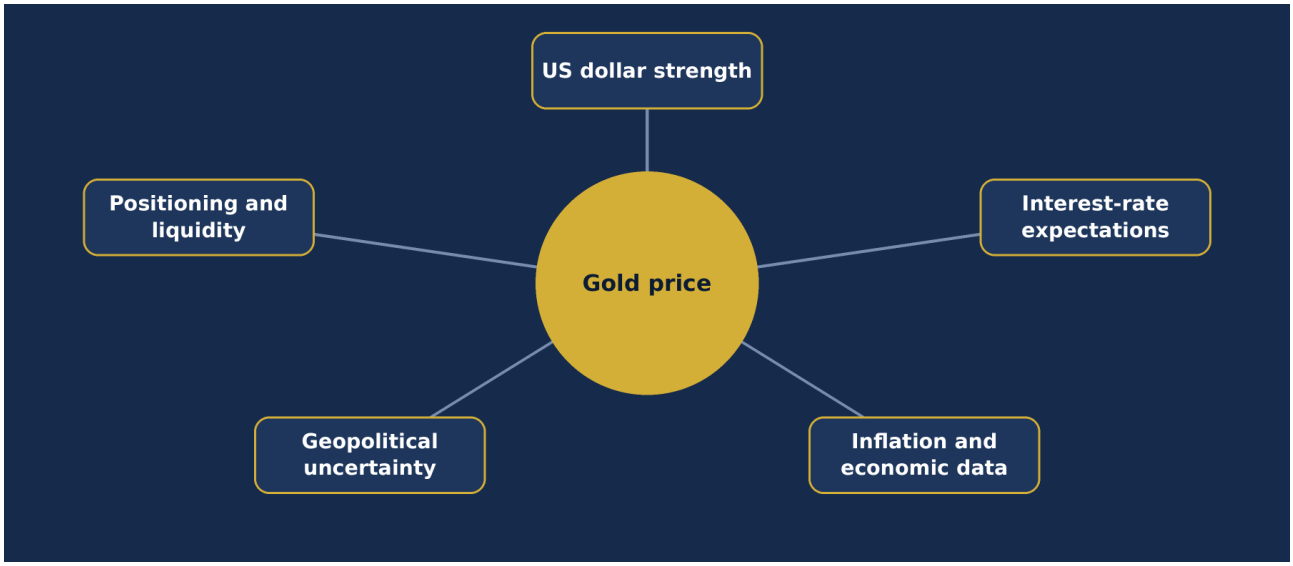


Figure 4: the main influences on gold.

Important lesson
Never assume one piece of news automatically decides the direction of gold. Markets respond to how information compares with expectations, as well as to positioning and liquidity. Sometimes gold rises despite a stronger dollar; sometimes it falls during geopolitical tension.

3. What Exactly Is Forex?

Forex means foreign exchange: currencies exchanged against one another. A pair has a **base** currency (first) and a **quote** currency (second). If EUR/USD is quoted at 1.1000, one euro is worth 1.10 US dollars at that quote.



Figure 5: reading a currency pair.

Gold is not a currency. But many platforms offer gold against the dollar as XAUUSD, so it is commonly grouped with forex products. That matters for our community because we focus heavily on gold.

4. Understanding XAUUSD

XAUUSD means gold priced in US dollars: XAU is the market code for gold and USD is the dollar. The chart shows the quoted price per troy ounce. The price on your platform can differ slightly by broker, specification, spread and feed.

Example: entry 4,000 and exit 4,020 is a $20 move per ounce, favourable to a BUY. But $20 does not mean every trader makes $20. If a broker defines one standard lot as 100 ounces, a $1 move is about $100 gross per lot, before costs. Contract sizes differ, so always verify your broker's specifications and never copy someone else's lot size.

5. What Does It Mean to Buy or Sell?

A BUY benefits when price rises above the entry; a SELL benefits when it falls below the entry. A rising price does not automatically continue, and a falling price does not automatically keep falling. Market structure, liquidity and higher-timeframe analysis come later; for now, separate your position's direction from the reasoning behind it.



Figure 6: BUY and SELL on gold (before costs).

Added: Bid, Ask and Spread

Platforms show two prices: the **ask** (where you BUY) and the **bid** (where you SELL). The difference is the **spread**, a cost of trading that you pay when you enter. Spreads can widen in fast or illiquid markets, which is one reason chart entries and real fills can differ.

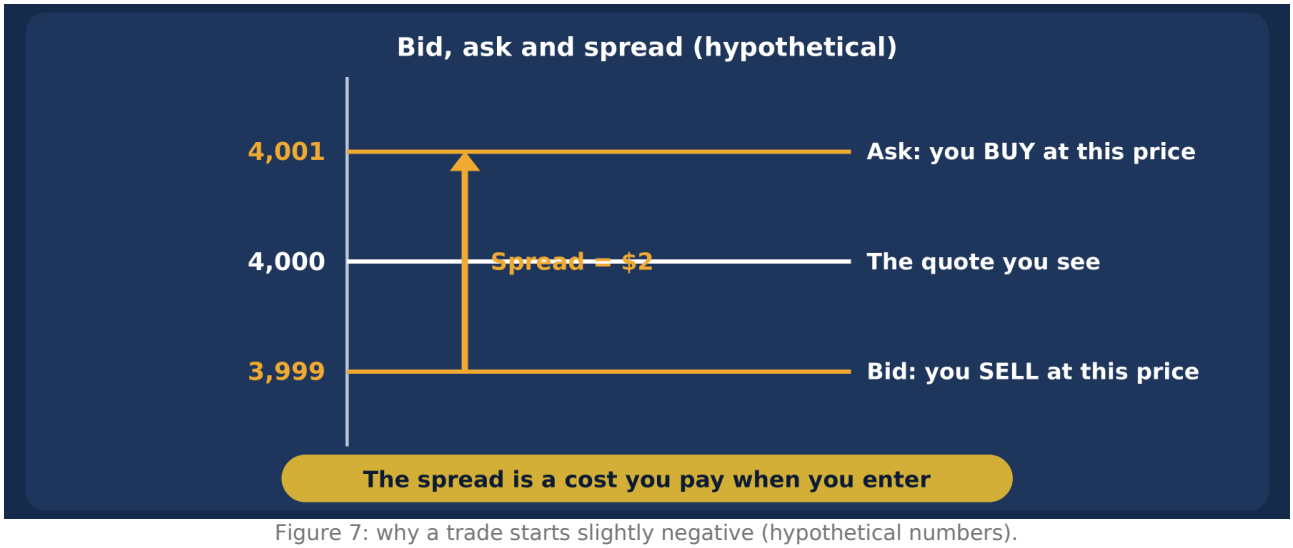


Figure 7: why a trade starts slightly negative (hypothetical numbers).

Added: Leverage and margin
Leverage lets you control a larger position than the money you deposit as margin. It magnifies gains and losses and is not "free money". Margin is collateral, not your maximum loss. Learn on a demo account first.

6. What Is the Difference Between Trading and Gambling?

Trading involves uncertainty: even a well-researched trade can lose, and technical analysis does not remove that. A structured approach has a reason to enter, an invalidation point, a calculated risk, consistent rules and a review over a meaningful sample. An undisciplined approach enters randomly, raises size after losses, removes stops out of fear or chases price. The difference is not whether a trade wins, but whether the decision process is disciplined, tested and appropriate for the risk.

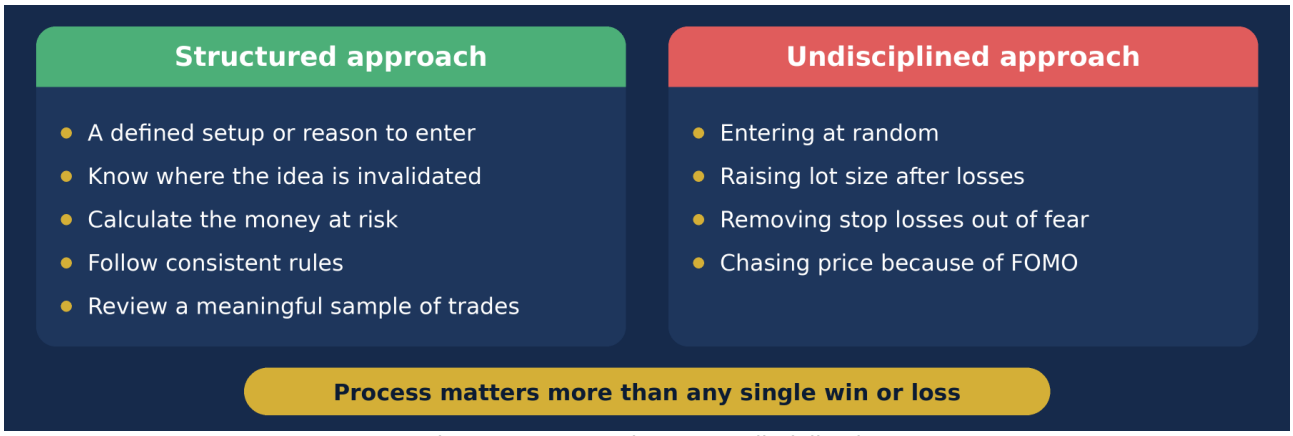


Figure 8: structured versus undisciplined.

7. What Every Beginner Must Understand

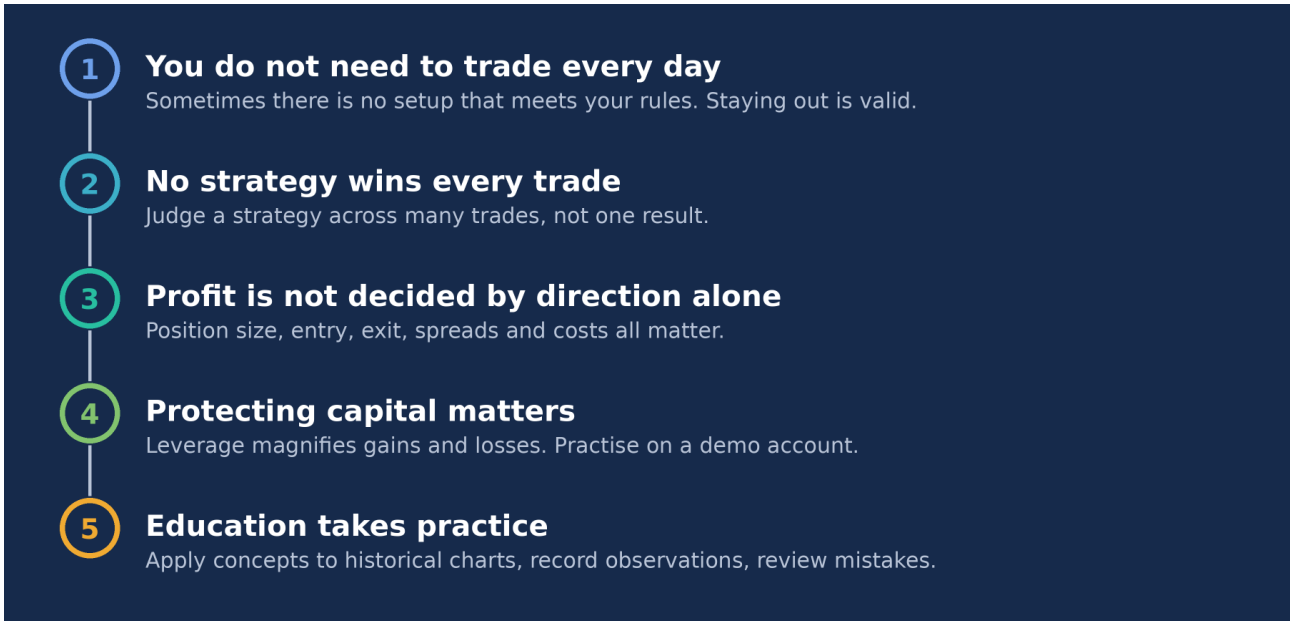


Figure 9: five principles before advanced concepts.

Key Takeaways

- Trading means taking positions based on possible price movements.
- Markets contain participants with different objectives.
- Forex means exchanging currencies; XAUUSD is gold priced in dollars.
- BUY benefits from rises; SELL benefits from falls.
- Price movement and profit or loss are not the same thing.

- Risk management and a repeatable process are essential.

Knowledge Check

Q: What does XAUUSD represent?

A: Gold priced in US dollars (per troy ounce).

Q: BUY at 4,000, close at 4,015: for or against you?

A: In your favour: price rose $15 per ounce.

Q: Gold falls from 4,000 to 3,985: BUY or SELL benefits?

A: SELL.

Q: Does a correct prediction guarantee a profit?

A: No. Size, entry, exit, spreads and other costs also decide the result.

Q: Name two factors that influence gold.

A: For example the US dollar and interest-rate expectations.

Homework: Your First Market Observation

- Open XAUUSD on TradingView (or your platform) on a candlestick chart.
- Observe 10–15 minutes (or historical candles) and write the starting price, whether price moved higher, lower or sideways, and one possible reason, or “unknown” if you cannot say.
- Answer: “What do I currently understand about trading, and what do I still find confusing?”

Added: Glossary

Term	Meaning
Instrument	Something you can trade, such as a currency pair or gold.
Base / quote	First / second currency in a pair.
Lot	Standard unit of trading volume; contract sizes vary.
Spread	Difference between bid and ask.
Leverage	Using margin to control a larger position.
Demo account	Practice account with virtual money.

Next lesson
Lesson 02: Understanding XAUUSD. How gold is priced, what moves it, and what every gold trader should know.

Educational content only. Not financial advice. All prices are hypothetical examples, not market quotes or trade signals. Trading involves substantial risk. Figures are original schematic illustrations.