

Where to Begin With Forex Trading?

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Where to Begin With Forex Trading?

Three Main Characteristics of the Forex Market

While there are many characteristics of the Forex market, there are three that help new traders learn exactly what the foreign exchange market is all about. These characteristics are those that every new trader should know long before they make their first trade. The Forex system is one that is made to encompass the entire globe.

It can be difficult to interpret and even more difficult to trade successfully within. Knowing how the system works is the first step to being a successful trader however. So, before you even think about opening a Forex account, be sure that you are familiar with the foreign exchange market's geographical, functional, and participant characteristics.

Geographical Characteristics

The Forex is a huge market that encompasses the entire globe. This is a market that spans from the United States to Europe, to China, and back. There is no area it cannot touch. This is one thing that makes the market so popular. There is simply something for everyone with the Forex market. It is easily accessed due to it being open all day in every country. Its 24-hour access makes it even more attractive for investors.

No matter what time of day you want to trade, there will be someone trading in some distant location around the world. Although there is trading in the Forex in every corner of the globe, the major exchanges are Singapore, Hong Kong, Tokyo, Bahrain, London, New York, San Francisco, and Sydney. The geographical characteristics of the foreign exchange market can help new traders realize the size and volume of the Forex. It is simply unmatched in volume and size. This makes the Forex a powerful tool for investors everywhere.

Functional Characteristics

The entire Forex market functions to transfer purchasing power. This is done between countries. When trades are made, they are allowing partners to convert currency revenues into their domestic currency. When one country's purchasing power is strong, another country's may be weaker. It also functions to obtain and provide credit for international trade and to avoid an exchange rate catastrophe. When it comes to international trade, the Forex is helpful because it can help the movement of goods between countries and offer credit for financing.

Participant Characteristics

There are two main parts to the foreign exchange market. The first part is the interbank, which is often called the wholesale market. The second part is the client, which is often called the retail market. Throughout these two categories, there are approximately five different types of participants.

The bank and non-bank foreign exchange dealers are those that buy at bid prices and sell at asking prices. This helps the efficiency of the market as a whole. An interesting thing to note is that by trading currencies, banks often make up to 20% of their profits.

Individuals and commercial and investment firms make up the second type of participants. This group consists of importers, exporters, tourists, and other portfolio investors. They use the market basically to help them invest. These are often those participants that use the Forex to hedge, which is a way to reduce their risk.

Speculators and arbitragers are the third group type that seeks to profit from the foreign exchange market. These people are those that are out to make money for themselves. They are acting in their own self-interest. They seek profitable rate changes in order to help them profit and try to profit with the least possible risk involved. Large banks are sometimes a part of this group.

Central banks and treasuries are also involved in the Forex. They use it to change the value of their own currency, or to at least attempt to do so. This is something that they do with reserves. Their motive is not to profit but to influence the market. They want the value of their domestic currency to benefit their interests.

Lastly, foreign exchange brokers are the last of the five groups involved in the participant characteristic of the Forex. These participants are those who facilitate trading but are not partners in the transaction. They typically charge a fee for their service, which is most often on a commission scale. They are often seen as go betweens for large traders.

Six Trading Tips for the Forex Newbie

For those of you who are new to the forex market, or even for those of you who are considering becoming a forex market trader, this article is for you. Welcome to forex 101, where you will learn exactly who forex is and what it does. Also for the forex newbie's, you will find a list of six trading tips that will help you in your transactions.

For those of you who are new to forex trading, first you should know the meaning of the term "forex," which stands for FOReign EXchange market. This pertains to the international foreign currency exchange market where currencies of all kinds are bought and sold.

The forex market got its start back in the early 1970's when floating currencies and free exchange rates were first introduced. At this time, the forex market traders were the only players on the market to decide upon the value of one type of currency against another, all solely based upon a particular currency's supply and demand.

The forex market is very unique for a number of reasons. First of all, this is one of the few markets that require very little trading qualifications and is free from any external control and can not be manipulated in any way. As the largest financial market, with trades reaching up to 1.5 trillion U.S. dollars, or USD, the money moves so fast, it's impossible for a single investor to substantially affect the price of any major foreign currency.

In addition, unlike any stock that is rarely traded, forex traders are able to open and close any positions within seconds, because there are always a number of willing buyers and sellers.

1. To open a forex account, all you have to do is simply fill out an application and provide all the necessary identification. The application will include a margin agreement will state if the broker will be allowed to intervene with any trade when it appears too risky. This agreement is made to protect the interests of the broker because most trades are done by using the broker's money. However, once you have established an account, you can fund it and begin trading in the forex market.

2. In order to become a successful trader, you will need to adapt your own trading strategy. There is no one strategy that will work for all the traders, each individual trader will need to develop their own approach to the market. While some traders may rely solely on technical analysis, others may prefer a more fundamental approach, while the more successful traders use a combination of both. Each individual trader will need to learn the best approach for themselves in order to gain a more comprehensive overview of the forex market in order to prepare for any entry and exit points.

3. Understand that prices move by trends. Forex has a popular saying, "The trend is your friend." there are certain movements that have been studied over many years in order to identify a pattern in the trend. These trends need to be understood in order to understand a good trading strategy. For small accounts that are \$25,000 and under, trading with a trend may help improving your odds when compared to bi-directional trading. Most newbie's will look to trade in any direction, when they should be trading with a trend.

4. Before you take any position, look over the top five currencies to make sure you're not missing something. The top five foreign in forex are: USD/Yen, Swiss franc/USD, Euro/Yen, Euro/USD and Pound/USD.

5. For newbie's, it would be safest to have two accounts because you learn as you play the trading game. Keep one real account, one that you will actually use to trade real money; and the second account should be a demo, one that you can use to test alternative moves in the trading game. You can easily use your demo account to shadow the trades in your real account so you can widen your stops to see if you are being too conservative or not.

6. Always examine the one hour, four hour and daily charts that concern your trades. Although you can trade at 15 and 30-minute time intervals, doing so requires a handful of dexterity.

Rules for Trading in Forex Markets

Being new to trading in Forex markets can be a little intimidating. Although many people desire to learn about trading in the Forex, those who begin learning about the trading system find the rules and strategy tactics to be overwhelming at times. While there are rules that you will simply learn along the way, such as price limits and such, there are a few steadfast rules you should know before you make your first move in the Forex market. Use these three rules to help you get started and successfully maneuver throughout the foreign exchange market.

Don't Over Leverage Your Portfolio

When you are just starting out in the Forex, it can be really easy to get caught up in the leverage of the market. The great thing about leverage is that someone who is not investing as much as other larger traders can play with the "big boys" and potentially makes a good profit. An investor can expect to only need to back their investment up to 4% in most cases. This can get some people in trouble however.

When you choose to abuse this system, you can end up with a lot of debt. You should never over leverage your portfolio. Be responsible when trading and remember that you are trading larger amounts that you probably have in your portfolio. Keeping yourself grounded is the best way to make sure you use the Forex market to your best potential.

Know When to Quit

Another simple rule for trading in the Forex market is to know when to quit. In turn, this can also mean knowing when to let things stay as they are. There are no way around having occasional trades that have a negative impact on your finances. Not every trade you make will be a hugely successful one.

If life were fair, this may not be true, but in the foreign exchange market, where things change by the minute, there is no way to guarantee every trade will reap rewards. Keep in mind that even the most seasoned foreign exchange market traders have bad trades. Your ultimate goal in trading in the Forex should be to try to come out with more wins than losses.

To make it easier to come out ahead at the end of the day, you should always know when to fold on a deal. Never let deals that you know are losing simply happen because you are praying something will change or to save your pride. Be sure to get out losing the least amount of money as possible.

This is a strategy every great trader uses. Watch your trades closely so you can get out when you should. If you have researched the trade before, you will know what the breaking points likely are and be able to make this decision easily. Knowing when to leave well enough alone, alone, is another thing you must learn. Learn to be patient with your trades, especially if they are not in a negative position.

Research Trades

Researching trades beforehand can seem very boring. However, you should never make an order in the Forex market without knowing exactly what you expect to happen. You can look at trends and the history in order to get a better idea of what to expect. If you simply go out into the market with no background on the issues, you will likely lose a lot of money. So, take the time to do a little research before you begin.

Place Stop Loss Orders

You should always be familiar with a stop loss order before you begin trading in the Forex market. The stop loss order is something that should be placed right along with your entry order. This type of order protects you from a potential loss getting out of hand. If the market takes a dive, you will be protected with the stop loss order.

You must figure out however, before placing the order, at what point you would want to cut your losses. You should always do this way before placing an order. Although you may find that many traders do not utilize the stop loss order process, you will find that the more successful traders use it often.

Top Ten Basic Terms in Forex Trading and Their Definitions

Forex refers to the foreign currency exchange market, the world's largest financial trading market. Some terms that help a person understand Forex trading include:

Bid: to buy

Ask: to sell

Liquidity: financial ease of transaction, i.e. cash

Trading volume: the amount traded

Bid/ask spread: the difference between the proposed buying price and the actual selling price

OTC: over the counter

Exchange rate: the difference between currency values; for instance, a Canadian dollar is valued at .86 of a US dollar

Hedge funds: large mutual funds companies that control vast amounts of money and are able to manipulate the value of a currency through speculation

Central bank: the national bank of a nation, which usually exerts control over the value of that currency

Forex trading is in essence the investment in the currency of one country. Large international corporations that do business in many nations find value in keeping their cash reserves in a variety of nations, and holding their funds in a variety of ways. For example, a US company may have a percentage of its working capital in US dollars, but if it does quite a bit of business in Europe may also find it beneficial to keep a percentage of its money in Euros, in European banks. Many individual investors over the years have discovered that there is profit to be made in investment and speculation in the currency or forex markets.

As an example, during the 1970's the German deutchmark was changing rapidly in value. It was worth anywhere from 1.7 marks to the US dollar to 2.5 US marks to the dollar. When the mark was worth 2.5 it was beneficial to spend dollars buying marks, since the mark would buy more goods or services at that rate. When the mark was only worth 1.7 to the dollar there was less incentive.

The forex market itself is not unified. There are many small forex markets specializing in trading various currencies. The most commonly traded currencies in forex trading are the US dollar, the Australian dollar, the British pound sterling, the Japanese yen, and the European Euro.

The values of these currencies will vary depending on the market in which an investor is looking, so there is really no such thing as a single, unified dollar rate, but instead there are several dollar rates, which are different according to the market where the trade is occurring. The major cities in which trades occur are London, New York and Tokyo. This covers a 24-hour clock. When Asian trading ends, European trading beings, and when European trading ends, then American trading opens. Of course when American trading ends, it is time for Asian trading to open again, and so on.

The most commonly traded currency is the US dollar, involved in 89% of all trades. This is followed by the Euro involved in 37% of all trades, then by the yen in 20% and the pound in 17%. The fastest rising currency in trade is the Euro, but the US dollar is still widely considered the anchor point, and the currency to watch to judge how others will react. Differences in value of currencies come form the daily news.

Changes n gross domestic product growth, in inflation, interest rates, budget and tirade deficits, surpluses and other economic conditions will cause changes in currency values. Investors and traders for this reason follow the news very closely. In fact, there are 24 hour cable news channels and many web sites devoted to news of value to currency traders.

It wasn't long ago that the nation of Iran removed its currency from European investment banks. In anticipation of rising world tensions they removed their currency to become less vulnerable to freezing of their assets and to economic warfare, of which forex trading could be a part. The forex market is very susceptible to rumors.

In fact the central banks of some countries have at times manipulated the value of their currency by spreading rumors about hikes in interest rates and other economic news that could have an impact on the value of the currency. When this news is false it is called a dirty float.

The Appeal of Forex Trading Versus the Stock Market

Forex trading is appealing to many more people than the stock market does and for many reasons. Among the reason is the chance of a much greater return. Foreign currency fluctuations of just one or two percent, occurring on a daily basis, have a chance of returning great rewards to an investor who catches a wave of change and properly plans his entrance and exist strategy.

Many people also like the fact that more leverage is available with foreign currency exchange. For example, 10,000 dollars can be leveraged to purchase as much as 100,000 dollars through margins. This allows the chance of great returns, even at only one percent, with less risk than might otherwise be necessary.

Also the market is open 24 hours a day for forex trading while the stock market is only open during business hours. Also many people point out that most forex trading is done without paying commissions, which can amount to significant savings.

Many people who don't understand forex and have some experience with the stock market immediately think that it is risky and has low profit margins, some would say tiny. They get this idea however because less information is available on forex than other types of trading. Forex requires a trader to educate himself. Rather than just turning on CNN or CNBC, a forex trader needs to read newsletters and find other ways of self-education.

Being open 24 hours a day and simply being huge is a big benefit for forex trading. A forex trader can literally work 24-hours a day, moving from the Asian market to the European to the American. Couple this with the leverage opportunities then the chances of large profit with forex are phenomenal.

Of course stocks have their advantage in that a person can invest in the stock market without really knowing that much and probably do fine. If an investor buys blue chip stocks they are unlikely to go down in value. For long-term savings stocks are fine, but the short term large gains are definitely to be found with forex.

Many people don't realize how large the forex market is. It is so huge that no single investor can corner the market as has happened in the past with some stocks, and also with some precious metals and commodities.

Forex is considered by some people however to be risky. Pension funds rarely invest in forex. However for the smart investor who has time to become educated, forex can be the way to go. The billionaire George Soros is a prime example of someone who has done well with forex. He shorted the British pound sterling and made \$2 billion in profit at one point. He also makes over 60% returns on the Quantum Fund, which he owns and has over \$4 billion under management.

Of course, Soros has also lost money, but he says "I simply make a lot of money when I am right...and lose as little money as possible when I am wrong." Soros admits to being right only about half the time, but does very well when he is right. Soros's philosophy is to look at a country and its stock market and see if current trends are wrong. If he believes that a current trend is overshot then he goes opposite it, and makes a killing.

In October 1987 the stock market crashed and Soros lost a staggering \$200 million in just one day! His reply to this was stoic, "I made a very big mistake, because I expected the crash to come in Japan, and I was prepared for that, and it would have given me an opportunity to prepare for the falloff in this country, and actually it occurred in Wall Street and not in Japan. So I was wrong!" While this mistake cost him a great deal, it wasn't the end of the world.

Soros philosophy is if he is right, he makes a ton of cash, and if he is wrong he pays for his mistake and keeps on moving. A prime example of how good money can be made in forex by investors who are willing to study, learn, invest and take risks. While not for the timid, the chances of a good return from forex make it the place for daring entrepreneurs to try their hand.

Forex Charts: What Are They and How Do You Read Them?

When learning to read forex charts, remember that there are two basic approaches for online forex trading. They are fundamental analysis and technical analysis. Fundamental analysis doesn't rely on forex charts. It uses both political and economic factors to help determine trades. Charts here are only used as a reference. Technical analysis on the other hand will try to predict where the prices are going by analysis of historical price activity. Those who use technical analysis study the relationship between price and time.

The most traded pair of currencies is the Euro and the US dollar, so we will use them in our example. The dollar is on the right hand side of the chart and the Euro is on the left hand side. The currencies are expressed in relationship to each other in pairing. Forex charts will always display how much of the currency on the right hand side is necessary to buy a unit of the currency on the left hand side. Looking at the chart you will notice the last price displayed on a given date. This number is always highlighted.

The time is recorded horizontally across the bottom of a chart and the price scale is displayed vertically along the right hand edge of the chart. The time and the price are often in all caps to help the trader remember that technical analysis is about the relationship between time and price. That is a fundamental rule of this type of relationship.

There are many ways to observe the price and time movement on a chart. These include bars, lines, point and figure, and Japanese candlesticks, the most popular method. With the candlestick method there is a fat, red section that is the body of the candlestick. Lines protrude from the top and bottom and they are the upper and lower wicks. When you look at all the candles on a chart it is clear that bodies can be different sizes and sometimes there is no body at all.

The same is true with wicks. Candlewicks can be of many different sizes, or there may be no wick at all. The length of the body and the length of the wick are determined by the price range for the candle. Longer candles will have had more price movement during the time that they were open. The top of a candlewick is the highest price for that currency while the wick's bottom is the lowest price.

A candle or currency is bullish when the close of the candle is higher than the open. In English this means that there were more buyers than there were sales during the opening time period. Sometimes the candles will not have wicks. The price opened and it dropped off until it closed.

Forex charts are not a sure fire method, but they are a tool that can help a trader. Many forex traders use charts on a regular basis. Historical trends do have their place in forex trading as

most traders will admit, and using the charts to track historical trends can assist a trader in making a decision today.

Often the charts are online rather than on paper. By joining a service that provides the charts via the internet a trader is able to stay very current indeed on currency activity. Charts can be checked on a minute to minute basis. For those who primarily do their trading based on historical accuracy this can be a true help. Most forex traders however use a combination of the two approaches. They may chart historical trends, but they will also pay close attention to political, cultural and economic events within a nation.

They may also use charts or other methods to check and see if a particular political event as a recent historical parallel that can be checked to determine how the currency behaved in past times. Simply following a system usually is not enough. A trader should also be, somewhat at least, a student of history and of economics. Using all the tools at your disposal will make you a better and stronger forex trader.

A Crash Course in Forex Education: What You Need to Know to Get Started

The Forex, or foreign currency exchange, is all about money. Money from all over the world is bought, sold and traded. On the Forex, anyone can buy and sell currency and with possibly come out ahead in the end. When dealing with the foreign currency exchange, it is possible to buy the currency of one country, sell it and make a profit. For example, a broker might buy a Japanese yen when the yen to dollar ratio increases, then sell the yens and buy back American dollars for a profit.

The Forex and the stock market have some similarities, in that it involves buying and selling to make a profit, but there are some differences. Unlike the stock market, the Forex has a much high liquidity. This means, much more money is changing hands everyday. Another key difference when comparing the Forex to the stock market is that the Forex has no place where it is exchanged and it never closes. The Forex involved trading between banks and brokers all over the world and provides twenty-four hour access during the business week.

Another difference between the stock market and the Forex is that Forex trading has much higher leverage than the stock market. When someone decides to invest in the Forex, they can expect much higher profits when they are experienced and understand how it works. There can also be the potential for losing much more money as well.

For those who are just getting started in the Forex, many brokers provide the service of trading using the mini-Forex system. This has a smaller minimum deposit, usually \$100. This makes it easier for those learning how to trade on the Forex to have less of a chance of losing a lot of money and to learn how the system works.

There is a lot of terminology when dealing with the Forex. Learning to trade on the Forex can be somewhat complicated for the novice trader. When looking at the names used in the Forex, a symbol is composed of two parts. The first one that is used is one currency and the second half of the symbol is the second currency that is being used. The symbol "usdjpy" means "US

dollars" and Japanese yen. It is important to learn what currency symbols mean when learning about the Forex. There are many books and websites dedicated on teaching traders about using the Forex.

For those using the Forex, a broker is usually a good idea. Brokers are professionals when it comes to trading on the Forex and their experience is invaluable, especially to the new trader. When it is time to find a broker, there are several factors to consider. One thing to look for when choosing a Forex broker is to go with someone that offers low spreads.

The spread is calculated in pips, or the difference between the price at which currency can be purchased and the price it can be sold at any given time. Because Forex brokers do not charge a commission, they will make their money off of the spreads, or the difference. When choosing a broker, look at this information and compare that with other brokers.

Also, when looking at a Forex broker, look for one that is backed by a well known financial institution. Forex bankers are generally associated with large banks or other types of financial institutions. If a broker is not with a large bank, keep looking. In addition, find a broker that is registered with the Futures Commission Merchant (FCM) and that is regulated by the Commodity Futures Trading Commission (CFTC). Making sure that the broker is properly registered and backed by a large bank or institution ensures that you are getting a reliable broker that is experienced in trading on the Forex.

When looking for a broker, check to be certain that the broker has access to the latest research tools and data. It is important that brokers understand and have access to charts, graphs, news and data that are in real time. This will ensure that the broker is making wise decisions based on accurate Forex forecasting.

Also, look for a broker that can offer a wide range of account options. They should offer mini-accounts with a smaller minimum deposits and a standard account. This will give anyone interested in the Forex the opportunity to trade at a level where they feel most comfortable.

Five No Nonsense Strategies in Forex Trading

When considering forex trading as a profit-making venture, it is important to work out winning strategies beforehand if at all possible. Making decisions regarding your forex trading and developing a strategy can be seen as your foundation. With your strategy you will optimize your risk with respect to the expected reward, or put the odds in your favor.

Trading strategies should be disciplined and limit risk, while placing you at the most favorable advantage in the market. One strategy is the simple moving away average, which is based on a technical study over twelve periods, with each period fifteen minutes in length. This is a good example of a trading decision that is arrived at through strategy.

A simple algorithm is used in this strategy. When currency price crosses above the twelfth period, simply move away it is a signal to stop and reverse. In this way a long position will be liquidated and a short position will be established, both using market orders. This system will

keep trades always in the market, with either a short position or a long position after the first signal.

Another strategy is of support and resistance levels. This is another technical analysis strategy and derives support and resistance. The idea is that the market tends to trade above support levels and trade below resistance levels. If either a support or a resistance level is broken, then the market will follow through in the direction given. These levels can be determined by analysis of the chart and assessment of where the chart has encountered unbroken support or resistance in times past.

Another strategy that many see as exotic is called the balloon strategy. A balloon option is an option that balloons, or increases in size when triggers are reached. For example, if an investor believes that the dollar will gain strength against the Euro in the near future and is currently trading at 100, the investor will see 110 as being strong resistance, but the investor also believes it will be broken.

So, rather than buying straight dollars at 100 for the next six months the investor will purchase at "at the money" balloon call with a 110 trigger and multiple of two. The investor will then own a 100 call in USD110mm. But if the dollar and Euro ever trade at or above 110, the 110 call will double to USD 20mm.

The double bottom is another strategy worth looking at. The double bottom is significant to the short term trader as double bottoms indicate a possible major change in sentiment and trend. The pattern is used on all time frames, and many powerful intraday and long term bull markets are conceived from this setup. Double bottoms reflect strong support levels.

When prices fail to break support in the down trending markets on more than one occasion we see powerful changes of trend. These reversal signals are meaningful. The most common entry point where a trader will open on a double bottom trade is on a move through the high of the two troughs. This high will represent secondary resistance, and when penetrated confirms a price reversal. The stops are placed around the lows of the pattern because a move below lows negates the pattern premise.

Another good potential strategy is the Ichimoku chart. These charts are following indicators, which identify support and resistance levels and create trading signals in a way that is similar to moving averages. A big difference however between the two is that the Ichimoku chart lines shift forward in time, creating wider support and resistance zones and decreasing the risk of trading false breakouts. They are calculated using information on trend existence, direction, support and resistance.

The four main lines are:

Turning Line = (Highest High + Lowest Low) / 2, for the past nine days

Standard Line = (Highest High + Lowest Low) / 2, for the past twenty-six days

Leading Span 1 = (Standard Line + Turning Line) / 2, plotted twenty-six days ahead of today

Leading Span 2 = (Highest High + Lowest Low) / 2, for the past fifty days, plotted twenty-six days ahead of today's date.

Whichever strategy you choose to use, devote as much study as possible to increase your chances of gain and profit.

Money Management Basics for Forex Traders

Money management in the foreign exchange currency market requires educating yourself in a variety of financial areas. First, a definition of the foreign exchange currency or forex market is called for. The forex market is simply the exchange of the currency of one country for the currency of another. The relative values of various currencies in the world change on a regular basis.

Factors such as the stability of the economy of a country, the gross national product, the gross domestic product, inflation, interest rates, and such obvious factors as domestic security and foreign relations come into play. For instance, if a country has an unstable government, is expecting a military takeover, or is about to become involved in a war, then the country's currency may go down in relative value compared to the currency of other countries.

There are five major forex exchange markets in the world, New York, London, Frankfurt, Paris, Tokyo and Zurich. Forex trading occurs around the clock in various markets, Asian, European, and American. With different time zones, when Asian trading stops, European trading opens, and conversely when European trading stops, American trading opens, and when American trading stops, then it is time for Asian trading to begin again.

Most of the trading in the world occurs in the forex markets; smaller markets for trade in individual countries. Simply put forex trading is the simultaneous buying of one currency and selling of another. Over \$1.4 trillion dollars, US of forex trading occurs daily and sometimes fortunes are made or lost in this market. The billionaire George Soros has made most of his money in forex trading. Successfully managing your money in forex trading requires an understanding of the bid/ask spread.

Simply put the bid ask spread is the difference between the price at which something is offered for sale and the price that it is actually purchased for. For instance, if the ask price is 100 dollars, and the bid is 102 dollars then the difference is two dollars, the spread. Many forex traders trade on margin. Trading on margin is buying and selling assets that are worth more than the money in your account.

Since currency exchange rates on any given day are usually less than two percent, forex trading is done with a small margin. To use an example, with a one percent margin a trader can trade up to \$250,000 even if he only has \$5,000 in his account. This means the trade has leverage of 50 to one. This amount of leverage allows a trader to make good profits very quickly. Of course, with the chance of high profits also comes high risk.

People who do forex trading do so because they are attracted by 24 hour trading days, by strong liquidity – unlike stocks, buying and selling is almost instantaneous – and the fact that forex trading usually occurs without paying commissions.

Like many other speculative investments, a key part of money management for the forex trader is only using money that can be put at risk. It is wise to set aside a portion of your net worth and make that the only money you use in forex trading. While the chances of good profits are there, if you should have a problem and get wiped out, you'll only have a limited amount of money placed at risk. Also remember that the market is in constant motion. There are always trading opportunities.

If a currency is becoming stronger or weaker in relation to other currencies there is always a chance for profit. For instance, if you believe that the Euro is going to become weak compared to the US dollar then selling Euros is a good bet. If you believe that the dollar is going to become weaker than the yen, or the pound sterling, then selling dollars is wise.

Staying current on the news and current events in the countries whose currency you hold is a smart move. Many people reach points where they can predict currency changes based on political or economic news in a given country. Remember though that forex trading is speculation, so be careful when managing your funds and only invest what you can afford to risk (i.e. lose).

The Basics on Understanding Forex Options

There are many different options a trader can use when trading on the foreign currency exchange or Forex market. Any trader can find which option works best for their personal needs when they look at all of the different options that are available. Using options when trading on the Forex, offers many benefits to the trader.

When trading on the Forex, there are two major types of options available to traders. The most common option is call the call/put option, which works similar to stock options and the other called single payment option trading, or SPOT. This option gives traders more flexibility when it is done properly.

With the two types of options that are usually used on the Forex, the traditional option allows the buyer the right but not the obligation to purchase something from the option seller. This means that the buyer is not locked into a trade or purchase at any set time or price. If trader purchases a Forex option to buy two lots of euros to dollars at a certain price, this is called a call/put trade.

If the pair is below a set amount the trade does not turn a profit and the buyer will lose the premium. If however, the pair rises, then the buyer has the option, or the choice, to gain two lots at the initial price. Then the pair can be sold for a profit to another buyer.

Within the traditional Forex options, there are two sub-categories. These include the American-style traditional option, which allows the trader or broker the option of buying or selling at any

point until the expiration of the pair. The other one is the European-style option. This Forex option allows the buyer to make a purchase only at the time of the expiration.

There are several advantages for using the traditional options when trading on the Forex. One major benefit is that traditional options have lower premiums than the SPOT options. The American-style option is also good for traders because it allows for more flexibility because the options can be bought and sold before the expiration. One disadvantage of the traditional Forex option, though, is that these options can be harder to set, maintain and execute than SPOT Forex options.

Single payment options trading, or SPOT for short are easy to trade and are often the most popular among traders. When a trader inputs the scenario of their ideal trade and obtains a premium quote, they receive a pay out, or makes a profit, if that scenario is successful. The SPOT option converts the option to cash and gives the trader a payout on the transaction. Using the SPOT option when trading on the foreign currency exchange is really just a matter of knowing and understanding which scenarios will be profitable, setting those parameters and letting it play out.

If the trader is correct and the scenario does in fact take place, then the trader has made a profit. If not, they experience a loss. The loss is the trader's premium. There are many different scenarios that can take place using the SPOT option and for traders this is usually seen as a big advantage over the traditional Forex option. However, one disadvantage is that usually the SPOT options have much larger premiums and will cost more than the traditional options.

Many Forex brokers and traders like to use options when trading on the foreign currency exchanges. The options have an appeal that most traders like. When using either the traditional options or SPOT options, the risk is limited to the option premium, which is the amount that is paid to purchase the option. Also, there is the potential to earn an unlimited amount of profits when using these types of options.

With these options, less money is needed to pay up front. Additionally, the options are popular among traders because they get to set the price and expiration date. These are not pre-set or pre-defined like some options. Options are also appealing to many traders because they can be used to hedge to limit the amount of risks. Many brokers and traders enjoy the flexibility that Forex options offer. When learning to buy, sell or trade on the Forex, it is important to learn and understand these types of options before setting up any kind of account.

The Lowdown on Day Trading

Day trading – no, it's not something that Bill Murray wished he had in Groundhog Day. It's a style of trading on the foreign currency exchange market in which a trader completes all his trades within a single day. In other words, he may make a few dozen – or more – trades in a day with the objective of buying and selling quickly and making a profit from the fluctuations in a currency exchange rate over the course of the day.

Sound complicated? Depending on the method or system that you use to pick your trades it can be. The idea behind day trading is that currency exchange rates are subject to fluctuations over the course of the day – they go up and down depending on who's buying, who's selling and what rumors are floating around.

In fact, day trading in the foreign currency market is probably the single segment of any type of stocks, currency or futures trading market most affected by rumors and real-time, real-world happenings. A savvy trader who is quick on his feet can roll up the profits by paying attention to what the current news is doing to the currency exchange rates.

The currency market, commonly referred to as the forex (short for Foreign Exchange), is the most liquid market in the world. The latest statistics say that daily trading on forex is in excess of \$1.3 trillion U.S. dollars. That makes forex the world's largest, most efficient market. A major part of the reason for the liquidity and volume of trade is the practice of day trading.

The difference between day trading and other types of trading is in how long you hold your stocks (or in this case, your currency). In day trading, you hold nothing beyond the close of the day's market. Think of it as a game in which the object is to keep trading cards back and forth, increasing the value of your cards – but have no cards in your hand at the end of the day.

Of course, since the currency market is a 24-hour market, there really IS no market closing – so the rules change slightly. The currency market is open from Sunday afternoon to Friday afternoon, with trading going on all the time, so you can pick your times to trade rather than being locked into the Stock Exchange timetable.

How You Make Money in Day Trading

People will tell you that the difference between a day trader and an investor is the length of time that each holds onto their stocks. That's a superficial difference. The real difference is in the mindset of short-term vs. long-term and liquidity. An investor buys something that he believes will steadily increase in value, and holds onto it for the long haul. A day trader rides the minute fluctuations in the currency market minute by minute the way a surfer rides a wave. Because you're trading in lots of 100,000, a tiny fluctuation can mean a big profit – or a huge loss.

Limiting Loss in Day Trading

One of the hardest concepts for new traders to grasp is that of limiting loss. Let's say you make a trade for a currency that is heading down because you believe that it's near its support point – the point where it will rebound and start heading back up. Instead, it breaks the point and keeps heading down – you're losing money instead of making it.

You have two choices – hold onto it because you KNOW it will start heading back up soon, or get rid of it and limit the amount of money you're going to lose. In day trading, the name of the game is limiting your losses and maximizing your wins – decide ahead of time just how much you'll allow each trade to lose before you sell it, and then STICK TO YOUR LIMIT. By the same token, decide how much profit you want to make, set a sell order for when the currency reaches that point – and sell when it hits the mark.

Know what you're doing.

Day trading on the forex is like any other business. The people who make money are the ones who take the time to learn the market and understand the ins and outs of the trades that they make. Those who jump in feet first without learning the terms, rules and trends of the forex market are priming themselves to lose – and lose big. Remember, there's no such thing as high profit potential without equivalent risk. Before you jump in, take a course in trading, or read, read, read all that you can.

The World Makes the Forex Market Go Round

You may wonder if it's possible to day trade currencies along with trading stocks. Yes, it is possible to day trade currencies as well as trading stocks. In case you have ever wondered how the foreign exchange market, or Forex, works, here is an overview of some of the markets basic features.

First and foremost there are the foreign exchange rates, which is the proportional value of two currencies. To be more specific, it's the required quantity of one particular currency to sell or buy a unit of another currency. There are two methods used to express a foreign exchange rate. The most common method would express the amount of foreign currency that is needed to buy one U.S. dollar. For instance, if a foreign exchange quote expressed as USD/CND at 1.4300, this means that one U.S. dollar can be exchanged for 1.43 Canadian dollars, and vice versa.

The second method is when the foreign exchange rate is expressed under the terms that the USD amount can be exchanged for one unit of a foreign currency. For instance, if a quote of CND/USD at 0.6700 means that one Canadian dollar can be exchanged for the same 0.6700 USD. When the USD is not used to convey an exchange rate, then the "cross rate" term is used to convey the proportional values between the two currencies. For instance, if the quote is DEM/SFR at .7000, this means that one German Mark can be exchanged for only .7 Swiss Francs.

Basis points are normally when the foreign exchange rate is expressed by a whole number followed by four decimal points. For example, 0.0001 is called a basis point. Therefore, if an exchange rate rises from 1.4550 to 1.4590, then the currency is said to have changed by 40 basis points.

The forex market is used to invest in other countries or even to buy foreign products. Sometimes individuals or firms who wish to buy foreign currencies or products, may need to get hold of some of the currency, beforehand, from the country in which they wish to do business with. Also, the exporters may require payment for services or goods in their own currency, or in USD, which is accepted throughout the world.

In the Forex market, a majority of selling and buying of foreign currencies throughout the world is taken place, mostly by the large commercial banks, who are the major traders in the forex market. With five major institutions based throughout the world in New York, London, Frankfurt, Zurich and Tokyo, the forex market is considered the largest financial market in the

world by far, with the multitude of trading volumes exceeding 1.5 trillion USD on most days.

Consisting primarily of world wide network interbank traders who are connected together by computers and telephone lines, forex traders are incessantly negotiating prices among one another. These artful negotiations normally ensue in a market bid, or asking price, for a specific currency which is then introduced continuously into computers to be displayed on official quote screens. When the forex exchange rates are quoted between banks, this is called "Interbank Rates."

The foreign exchange spreads are when the exchange rates in the forex market are cited as a two tier "bid" or "ask" rate. For instance, when a USD and a DEM is cited as 1.6000/15, the forex trader who cites this exchange rate is agreeing to buy the DEM's at 1.6000 and sell them at 1.6015.

The "spread" is the actual difference between the price of purchase and the price of sale and also illustrates the profit expected from the transaction for the forex trader. The "spread" may vary comprehensively on any specific currency, all depending on the currency's strength or weakness, and even its past history or prospective volatility.

Many individuals may not be able to get hold of some foreign currencies at forex rates unless they become licensed traders through forex. Instead, those individuals may be able to come across foreign currency through a commercial bank, which may charge the individuals with either a commission or a higher spread than those reigning in the forex market. Sometimes these commercial banks will even charge individuals both commission and higher spread as to enable the bank to make a reasonable profit from the transaction.