**Forex Trading For Beginners: A Guide To Making Profits From Currency Trading**

Have you invested your money in the stock market? Now, you want to expand your investment journey and spread wings all over the world? Then, this is an excellent opportunity for all the investors in the world. It’s time for investors to explore themselves and strengthen their investment plans with the forex market, or in simple terms, foreign money exchange trading.

Here is an ultimate guide for all the new investors who would like to try their hands on the foreign market. In this article, we are dealing with:

* The basic definition of the Forex market.
* The History of the Forex market.
* Different types of Forex market.
* How does the Forex market work?
* Countries involved and not involved in the FX Market.
* The Forex market's advantages and disadvantages.
* The Last Word.

Let’s start with:

1. **The Basic Definition of The Forex Market**

The Forex market, or Foreign Exchange market, abbreviated FX, is defined as a place where a buyer or seller can trade or exchange one country’s individual currency with that of another country's currency. For example, if a person from the USA goes on a trip to European countries, and there he converts the US dollar to Euro currency, then he is knowingly or unknowingly a participant in the foreign currency exchange market.

The forex market is made up of several individual units, such as central banks, investment management companies, banks, private firms, investors, forex retail brokers, etc.. And, the forex market is the largest, oldest, and the original financial retailer in the world.

The foreign exchange market operates online continuously for 24 hours a day, 5.5 days a week, and is primarily responsible for the trading of trillions and millions of dollars each day. At the end of the day, forex gives you more money and high returns, but it also comes with a lot of risks.

1. **The History of the Forex market.**

Before digging deep into this vast subject of the Forex market, let’s explore the Forex history first!

According to the confirmed sources, the Forex market(FX) took birth based on the Gold Standard, and Bretton Woods System.

**What is a Gold Standard System?**

The barter system was started in 6000 B.C. and it is the oldest system to exchange goods for other goods. During this period, salt and other spices are the most popular exchange mediums.

Besides the exchange of goods, the exchange of gold coins started in the same 16th century B.C. because of its rare characteristics such as portability, durability, and uniformity. But the gold coins were too heavy for transportation.

Hence, in the 18th century, the government adopted the gold standard method. Under this method, a trader with enough gold coins can redeem the amount of paper money under the government's supervision. This system ran successfully until World War I. Later, because of some disputes, the government banned the gold standard system, and the Bretton Woods System came into existence.

**What is a Bretton Woods System?**

At the end of World War II, the Bretton Woods System became the most vital transformation towards the global exchange market. The main aim of establishing the Bretton Woods policy is to stabilize and restore global economic conditions. Through this policy, they created an adjustable foreign exchange rate where one country’s currency is fixed against another country’s currency. The foreign countries fixed their currency rates on the U.S. dollar because, during that period, the U.S. had the highest number of gold reserves. Hence, foreign countries need to carry out their transactions through the U.S. dollar. But later, this system failed because the U.S. lacked gold reserves.

After the failure of the Bretton Woods System, several other systems, such as the free floating system, the maastrict treaty, etc., were signed, but these systems did not survive for a long time. And finally, internet trading through telecommunication technology has evolved, and it is growing rapidly and has become the largest forex market with the trading of around $5 trillion dollars worth every day.

1. **Different types of Forex markets**

In the world economy, the foreign exchange market plays a vital role, and it is highly important in international money transfers. This involves the buying, selling, and exchanging of currency pairs at the market rate. Therefore, let’s take a look at the various types of foreign currency exchange markets:

1. **The Spot Market**

The spot market, or in other words, the cash market, is a financial place where securities, currencies, and commodities are traded effectively and for immediate delivery. Generally, in spot markets, financial transactions or market settlements can take place in T+2 working days.

1. **Futures market**

Liquidity is high in the future market when compared to the other markets. As a result, a high number of traders enter this market. And, the transactions in the futures market need a future payment and distribution at a pre-determined market rate, which is called the "future rate."

1. **Forward market**

This market is highly flexible and the deals happening in the forward market are very much similar to the future market transactions. Here, the parties will discuss the transaction terms and agreements and they will be altered as per the requirements of the concerned parties.

1. **Swap market**

The lending and borrowing of the two different types of currencies between two investors at the same time is known as the "swap market." In this case, the investor borrows one currency and, in return, he pays the other investor in the form of the second currency.

1. **Options market**

To understand the options market in a better way, you need to learn what an option is exactly.

An option is an agreement in which the buyer has the right to sell or buy a currency at a fixed date, fixed time, and fixed price, and the place where the entire process of selling and buying a currency takes place is called the options market.

1. **How does the Forex market work?**

Unlike the other trading platforms, the FX market is also similar to the buying and selling of properties, securities, stocks, and shares. However, in the Forex market, currency pairs such as EUR/USD (Euro/US Dollar) and AUD/USD (Australian dollar/US Dollar) are traded instead of shares and stocks.

In Forex trading, you will buy one currency and sell another currency. Let’s see this with an example: The euro and U.S. dollar exchange rates are 1.30 to 1. It means to purchase 1000 euros, you need to pay 1300 U.S. dollars. Later, if the currency rates are rise to 1.50 to 1, You can sell those 1000 euros for 1500 U.S. dollars and you will gain a profit of $200.

Previously, forex trading was done through forex traders. But now, with the advancement of internet technology, online FX trading has taken the hot seat, and now traders can happily trade and check the forex market price fluctuations from the comfort of their home.

1. **Advantages and Disadvantages of FX Market**

Unlike the other trading platforms, the Forex trading platform also has its own advantages and disadvantages. Before entering this lucrative business, gain some knowledge about the forex market's pros and cons.

**Let’s first check out its advantages:**

1. **Easily accessible**

 The forex market is easily accessible for individual traders. They can create a forex account within a time period of one to three days and can begin trading with a minimum amount of $100 through various brokerages available online.

1. **Flexible timings**

Unlike the other trading apps, the FX market is open 24 hours a day, 5 days a week. This allows the trader to wisely choose his or her flexible time to trade. Besides, traders can also have access to live market updates, tools, market news, and strategies through various forex trading apps.

1. **A wide variety of trading options**

Through forex trading, a trader can trade with hundreds of currency pairs and also have the choice to enter different markets such as– future markets, spot markets, or forward markets. Besides, the FX market deals with low transaction trading costs.

Apart from these advantages, forex trading has its own limitations. Let’s dig into it:

**Disadvanges of FX trading:**

1. **Unpredictable price changes**

In the FX market, there will be high volatility. It means the currency pair values fluctuate up and down frequently, which is called highly volatile. In the trading business, if the volatility is high, the risk is also high, and there are chances that the trader may end up with a loss.

1. **The Price is Difficult to Determine**

The volatility in the currency exchange prices is determined by various factors and for several reasons. It can be international policies, regional politics, economic conditions, tourism, etc. Hence, determining the price value of a foreign currency becomes highly difficult because of the complex price determination method.

1. **A lack of transparency**

This is one of the biggest limitations in the world of online FX trading. Due to its decentralized nature, the FX market is heavily dominated by local brokers, private firms, etc. Hence, the dealer may not have control over how the trade is going, what the price is to trade, or get fewer views on trading quotes. Therefore, it is advisable to trust the regulated brokers from a well-established brokerage company.

The other few drawbacks to FX trading are risk from scammers, variations in currency rates, interest rate fluctuations, social trading, and centralized currency exchanges.

Hence, while investing in online FX trading, one should study both the advantages and disadvantages of the FX market and proceed further.

**Countries involved and not involved in the FX Market.**

Technological improvements, advancements in smart phone devices, and the immense growth of the internet over the years have opened the path for the Forex market to expand its wings. But, everywhere in the world, will traders have the same access to tools, knowledge, updates, and resources? The answer is no!

But, there are a few countries where forex traders have set up their own hubs and are actively performing foreign currency trading, and there are also some countries that have banned FX market trading.

Here is a list of the countries that are actively involved in Forex trading:

**The** **countries involved in the forex market are:**

* America (U.S. Dollar)
* Europe (EURO)
* Japan (Yen)
* English-British Pound (GBP)
* Switzerland: Swiss Franc (CHF)
* The Canadian Dollar (CAD) is the currency of Canada.
* Dollars of Australia and New Zealand (AUD and NZD)
* The South African Rand (ZAR)

**Here is the list of the countries where forex trading is banned:**

* India, but in a few places, illegal forex trading is taking place.
* Malaysia.
* Belgium.
* North Korea.
* Isreal.
* France.
* Pakistan.

**Last Word**

I'd like to conclude by saying that this article is purely for beginners, and I hope you understand the fundamentals of what a forex is, the different types of forex, how it works, and so on. Try putting your knowledge into practice. Open a demo account and start trading online with a minimum amount and comment below on how this article helped you trade better.