Title:
What is Forex Trading?

Word Count:
457

Summary:
FOREX investing is one of the most potentially rewarding types of investments available. Learn why this form of investing is much more lucrative than traditional investing.

Keywords:
Forex trading, Forex Trading Guide

Article Body:
FOREX, (FOReign EXchange market) or FX, is an international exchange market where stocks and shares are not traded, but currency. The return for the investor is not in the value of the currency per se, but rather the relative exchange value of one currency against another currency. Therefore, Forex trading is always expressed in pairs such as Euro/US Dollar (EUR/USD) or US Dollar/Japanese Yen (USD/JPY).

By simultaneously buying and selling pairs of currencies, the investor, or speculator, hopes to profit from a favorable exchange rate change. Unlike the American stock exchanges, the New York Stock Exchange (NYSE) and the National Association of Securities Dealers Automated Quotation System (NASDAQ), Forex trading is more predictable than stocks.

One strategy that the Forex investor uses is a technique that stems from the assumption that all information about the market and a particular currency's future fluctuations is found in the price chain. In other words, an investor simply looks at what has happened to that currency in the recent past, and predicts that the small fluctuations will generally continue just as they have before. Another strategy for the Forex investor is to analyze the country of the currency's economy, political situation, and other possible rumors. The investor can also anticipate such things as political unrest or change that will also have an effect on the market.
Forex is the largest financial market in the world handling between 1.5 and 1.9 trillion US dollars a day. The combination of rather constant but small daily fluctuations in currency prices, create an environment which attracts investors. Because of the the liquidity of the market, unlike some rarely traded stock,

traders are able to open and close positions within a few seconds as there are always willing buyers and sellers.

What are the risks?

Because of the sheer scale of the Forex Market, it ensures greater price stability and greater leverage. Also, with built-in protections such as safety margins, automatic limits for buying and selling, and other risk protection measures, the likelihood of ending up in the red even when the Forex market is volatile is drastically reduced. Furthermore, because of its' size, it is near impossible for a single investor to significantly affect the price of a major currency.

However, all Forex traders should be aware that the market is one of the most liquid around and subject to strong currency trends. While leverage figures of up to100:1 are possible, without adequate risk protection in place the gap between profit and loss can be dramatic. Even veteran Forex traders can be caught out from time to time and take large hits. With this type of investor speculation, the golden rule must be: don't risk more than what you can afford to lose.