Title:
FOREX or Futures. Where to Trade

Word Count:
572

Summary:
This articles explores the differences between future trading and investing on the FOREX exchange.

Keywords:
forex, forex trading, forex online

Article Body:
Our modern futures market originated in the 19th century when farmers began selling contracts to deliver agricultural products at a later time. They did this to attempt to anticipate market needs and to smooth the supply and demand during the off-season.

The futures market has changed dramatically since then, in current times the futures market is no longer restricted to agricultural products. This worldwide commodities market now includes such things as manufactured goods and financial products as well as agricultural products. A futures contract is a guarantee that a certain product will be sold at a fixed price on a certain date.

When speculators play the futures market there is no expectation of the products being delivered and the actual goods are not even important. It is actually just the contracts themselves that are traded and the value of these contracts is in constant fluctuation.

In every futures contract there are two positions a long position and a short position. The short position is filled by the seller and the long position is the buyer. Futures accounts are settled on a daily basis.

As an example a farmer enters into a contract with a grocer to sale him 1000 bushels of corn at $10 a bushel. At the end of the specified time the contract is settled, if the current market price of corn is at $9 a bushel the farmer will realize an extra profit of $1000 dollars on the contract and the grocer will have lost the same amount. In this situation the farmer now sells his corn at $9 a bushel on the open market but his loss is covered by the profit from the contract. The grocer now will buy his corn for $9 a bushel but in reality he is still paying $10 a bushel because of the cost of the contract. If he had not entered into a contract he could have bought his corn for $9 and saved $1000. However if the price of corn had risen significantly to $13 a bushel he would have saved himself $3000.

Speculators try to guess the direction of the market fluctuations and make a profit by buying and selling contracts.

FOREX

The FOREX market has numerous advantages over the futures market. Since it is the largest financial market in the world it is far larger than the futures market. The FOREX market is also far more fluid, which makes it easier to execute stop orders with very little slippage.

The futures market is usually only open 7 hours a day where as the FOREX exchange is open 24 hours a day 5 days a week. This extra time makes the FOREX market more fluid and allows traders to take advantage of this by trading at any time instead of waiting for the markets to open.

There are no commissions in FOREX trades; the brokers make their profit through the spread. This is the gap between the currency buy price and selling price. In futures contracts the trader has to pay commission fees on every transaction.

Due to the extremely high volume of trades in the FOREX market most transaction are executed almost immediately, this allows for better price control of your trades. In future contracts the price the broker quotes will be from the last transaction and your price could be significantly different.

In the futures market debits are a constant possibility due to daily fluctuations. The FOREX exchange has many built-in safeguards in the trading system that helps protect the traders.