

Title:

Why Trade the FOREX?

Word Count:

534

Summary:

Why Trade the FOREX discusses the advantages of trading foreign currency exchange (FOREX) over trading stocks or commodities (futures), including liquidity, leverage, costs, and investment size.

Keywords:

FOREX, commodity market, stock market, liquidity, margin accounts, trade execution, leverage

Article Body:

My purpose for writing this article is to demonstrate to you the advantages of trading on the FOREX market. However, there is one myth that I want to dispel before I go further. The myth is that there is a difference between trading and investing. To dispel that myth I quote from Al Thomas, President of Williamsburg Investment Company, who wrote "If It Doesn't Go Up, Don't Buy It". He said "Everyone who invests is a trader, only the time period is different." It is a lesson that I took seriously after taking a beating in the stock market in 2000.

So now, let's compare features of currency trading to those of stock and commodity trading.

**Liquidity** - The FOREX market is the most liquid financial market in the world around 1.9 trillion dollars traded everyday. The commodities market trades around 440 billion dollars a day, and the US stock market trades around 200 billion dollars a day. This ensures better trade execution and prevents market manipulation. It also ensures easily executable trading.

**Trading Times** - The FOREX market is open 24 hours a day (except weekends) which means that in the US it opens at 3:00 pm Sunday (EST) and closes Friday at 5:00 (EST), allowing active traders to choose the times they want to trade. Commodities trading hours are all over the board depending on which commodity you are trading. Including extended trading times US stocks can be traded from 8:30 am to 6:30 pm (ET) on weekdays.

**Leverage** - Depending on your FOREX account size, your leverage may be 100:1,

although there are FOREX brokers that offer leverage of up to 400:1 (not that I would ever recommend that kind of leverage). Leverage in the stock market can be as high as 4:1, and in the commodities market, leverage varies with the commodity traded but it can be quite high. Because the commodity markets are not as liquid as the FOREX market, its leverage is inherently riskier. Although I was never shut out of a commodity trade by the day limit, the fear was always in the back of my mind.

Trading costs - Transaction costs in the FOREX market is the difference between the buy and sell price of each currency pair. There are no brokerage fees. For both the stock and the commodity markets, there are transaction costs and brokerage fees. Even when you use discount brokers, those fees add up.

Minimum investment - You can open a FOREX trading account for as little as \$300.00. It took \$5,000 for me to open my futures trading account.

Focus - 85% of all trading transactions are made on 7 major currencies. In the US stock market alone there are 40,000 stocks. There are just over 200 commodity markets, although quite a few are so illiquid that they are not traded except by hedgers. As you can see, the fewer number of instruments allows us to study each one more closely.

Trade execution - In the FOREX market, trade execution is almost instantaneous. In both the equity and commodity markets, you count on a broker to execute your trades and their results are sometimes inconsistent.

While all of these features make trading the FOREX market very attractive, it still requires a lot of education, discipline, commitment and patience. All trading can be risky.