

Title:

Forex: No psychological limitations

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690

Summary:

There are many reasons to trade forex, but the best may be one you haven't heard.

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forex, forex trading, forex vs stocks, forex vs. stocks, forex returns, realistic forex returns, forex liquidity

Article Body:

Back when I first started learning about investing, I decided to start from the beginning and read basic books on personal finance as well as "guides" for understanding all of the investment world in a nut shell. Most of these authors were very knowledgeable and informative, but their investment advice was far too conservative for my taste. They would literally write chapter after chapter talking about the differences between conservative investing, which according to them generally yields somewhere around 5% PA, as opposed to "risky" investing which usually meant a diversified stock/mutual fund portfolio yielding (in my mind) only slightly higher averages. What kind of returns can you expect in the stock market? Well they say the market has gone up an average of 10% a year since Adam and Eve. Popular indexes like the DOW and the now more popular S&P500 have always, like real estate, "gone up over time."

Now, these market averages are almost worshiped like golden calves. Repeatedly drilled into my brain was the concept that there were hundreds (if not thousands) of fund managers and other "professionals" out there with Harvard degrees, decades of experience, millions of dollars under management, and they were all spending 15 hours a day consuming every single bit of market information in the hopes of beating these golden calves by a few points.

What chance did I have? If Dr. Fund Guru Jr. who eats, sleeps, breathes the markets and has more credentials than I have individual hairs on my body can't consistently make 20% a year...well...forget it kid...your chances are slim to none. I guess I'll buy some shares of XYZ fund and accept the scraps off the table from the stock gurus.

NOT!

The foreign exchange market offers many benefits that the stock market does not have. Most of these have been beaten to death on various forums, blogs, articles, e-books, etc. However, it's always good to reiterate the positive (my own personal reason is last):

- Forex offers unprecedented liquidity. With over two trillion dollars transacted per day on the market, it makes filling any buy/sell order virtually instant. That equates to less slippage and more profitability. "Paper trading" stocks vs actually trading stocks is very different, because orders may not be filled in a timely manner. The difference between trading a forex demo account and an actual account is virtually nil.
- Forex is available 24 hours a day 5.5 days a week, as opposed to the daylight trading hours of the stock exchanges.
- Forex is uncontrollable by large entities. Large net worth individuals, banks and fund managers who throw their weight around in the stock market can often have huge effects on price action. Because of the immense volume of foreign currency traded per day, the market is unmoved by "heavy hitters." Not even central banks can control the Forex market.
- Forex offers up to 200:1 leverage as opposed to 2:1 stock leverage.
- Forex has no restrictions for selling short, as opposed to the stock market's "uptick" rule
- Forex can actually be traded INSIDE of an IRA or Roth IRA account.
- Forex gains are taxed at the preferred 60/40 rate, no matter what trading style you use (intra-day, swing, position) as opposed to the tax penalties for holding stocks for short periods of time.

The list does go on, but for me the biggest advantage is a psychological one. I know it probably sounds silly, but fear and intimidation can sometimes subconsciously defeat us before we even begin. I don't like the idea of having to live up to, and in a way, compete with "professional managers" who have more knowledge of the fundamentals of the markets than I ever will. It's almost as if Forex, in some way, levels the playing field. I don't have to psychologically compete against anyone's idea of what kind of returns are "acceptable and realistic" and what kind of returns are "pure fantasy." I only have to trade until I can find an acceptable reward to risk ratio, and consistent profitability thereof. The only one I compete against is myself.

-Joshua White

<http://www.consistentforextrading.com>