Title:
Forex trading

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Summary:
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Keywords:
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Article Body:
So what is is Forex trading you may ask? Forex is the exchange you can buy and sell currencies. For example, you might buy British pounds (by exchanging them to the dollars you had), then, after pounds / dollar ratio goes up, you sell pounds and buy dollars again. At the end of this operation you are going to have more dollars, then you had at the beginning.

The Forex market has much higher liquidity, then the stock market, as much more money is being exchanged. Forex is spread between banks all over the planet and as a result it means 24 hour trading.

Unlike stocks, Forex trades are performed with high leverage, usually it is 100. It means that by investing $1000 you can control $100,000, and increase potential profits accordingly. Some brokers provide also so called mini-Forex, where the size of minimum deposit equals $100. It makes possible for individuals to enter this market easily.

The name convention. In Forex, the name of a "symbol" is composed of two parts - one for first currency, and another for the second currency. For example, the symbol usdjpy stands for US dollars (usd) to Japanese yen (jpy).

As with stocks, you can apply tools of the technical analysis to Forex charts. Trader's indexes can be optimized for Forex "symbols", allowing you to find winning strategy.

Example Forex transaction

Assume you have a trading account of $25,000 and you are trading with a 1% margin requirement. The current quote for EUR/USD is 1.3225/28 and you place a market order to buy 1 lot of 100,000 Euros at 1.3228, expecting the euro to rise against the dollar. At the same time you place a stop-loss order at 1.3178 representing a maximum loss of 2% of your account equity if the trade goes against you, 50 pips below your order price, and a limit order at 1.3378, 150 pips above your order price. For this trade, you are risking 50 pips to gain 150 pips, giving you a risk/reward ratio of 1 part risk to 3 parts reward. This means that you only need to be right one third of the time to remain profitable.

The notional value of this trade is $132,280 (100,000 * 1.3228). Your required margin deposit is 1% of the total, which is equal to $1322.80 ($132,280 * 0.01).

As you expected, the Euro strengthens against the dollar and your limit order is reached at 1.3378. The position is closed. Your total profit for this trade is $1500, each pip being worth $10.