Title:
How Is Currency Trading Different?

Word Count:
411

Summary:
Unlike the trading of stocks, futures or options, currency trading does not take place on a regulated exchange. It is not controlled by any central governing body, there are no clearing houses to guarantee the trades and there is no arbitration panel to adjudicate disputes. All members trade with each other based upon credit agreements. Essentially, business in the largest, most liquid market in the world depends on nothing more than a metaphorical handshake.

At first glan...

Keywords:
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Article Body:
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At first glance, this ad-hoc arrangement must seem bewildering to investors who are used to structured exchanges such as the NYSE or CME. However, this arrangement works exceedingly well in practice: because participants in FX must both compete and cooperate with each other, self regulation provides very effective control over the market. Furthermore, reputable retail FX dealers in the United States become members of the National Futures Association (NFA), and by doing so they agree to binding arbitration in the event of any dispute. Therefore, it is critical that any retail customer who contemplates trading currencies do so only through an NFA member firm.

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Where is the commission in FOREX?
Investors who trade stocks, futures or options typically use a broker, who acts as an agent in the transaction. The broker takes the order to an exchange and attempts to execute it as per the customer's instructions. For providing this service, the broker is paid a commission when the customer buys and sells the tradable instrument.

The FX market does not have commissions. Unlike exchange-based markets, FX is a principals-only market. FX firms are dealers, not brokers. This is a critical distinction that all investors must understand. Unlike brokers, dealers assume market risk by serving as a counterparty to the investor's trade. They do not charge commission; instead, they make their money through the bid-ask spread.

In FX, the investor cannot attempt to buy on the bid or sell at the offer like in exchange-based markets. On the other hand, once the price clears the cost of the spread, there are no additional fees or commissions. Every single penny gain is pure profit to the investor. Nevertheless, the fact that traders must always overcome the bid/ask spread makes scalping much more difficult in FX.