

Title:

Forex: Benefits of Trading the Forex Market.

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684

Summary:

Trading the Forex market has become very popular in the last years. Why is it that traders around the world see the Forex market as an investment opportunity? We will try to answer this question in this article. Also we will discuss some differences between the Forex market, the stocks market and the futures market.

Keywords:

Forex, forex trading, forex benefits, forex market

Article Body:

Trading the Forex market has become very popular in the last years. Why is it that traders around the world see the Forex market as an investment opportunity? We will try to answer this question in this article. Also we will discuss some differences between the Forex market, the stocks market and the futures market.

Some of the benefits of trading the Forex market are:

Superior liquidity

Liquidity is what really makes the Forex market different from other markets. The Forex market is by far the most liquid financial market in the world with nearly 2 trillion dollars traded everyday. This ensures price stability and better trade execution. Allowing traders to open and close transactions with ease. Also such a tremendous volume makes it hard to manipulate the market in an extended manner.

24hr Market

This one is also one of the greatest advantages of trading Forex. It is an around the clock market, the market opens on Sunday at 3:00 pm EST when New Zealand begins operations, and closes on Friday at 5:00 pm EST when San Francisco terminates operations. There are transactions in practically every time zone, allowing active traders to choose at what time to trade.

Leverage trading

Trading the Forex Market offers a greater buying power than many other markets. Some Forex brokers offer leverage up to 400:1, allowing traders to have only

0.25% in margin of the total investment. For instance, a trader using 100:1 means that to have a US\$100,000 position, only US\$1,000 are needed on margin to be able to open that position.

Low Transaction costs

Almost all brokers offer commission free trading. The only cost traders incur in any transaction is the spread (difference between the buy and sell price of each currency pair). This spread could be as low as 1 pip (the minimum increment in any currency pair) in some pairs.

Low minimum investment

The Forex market requires less capital to start trading than any other markets. The initial investment could go as low as \$300 USD, depending on leverage offered by the broker. This is a great advantage since Forex traders are able to keep their risk investment to the lowest level.

Specialized trading

The liquidity of the market allows us to focus on just a few instruments (or currency pairs) as our main investments (85% of all trading transactions are made on the seven major currencies). Allowing us to monitor, and at the end get to know each instrument better.

Trading from anywhere

If you do a lot of traveling, you can trade from anywhere in the world just having an internet connection.

Some of the most important differences between the Forex market and other markets are explained below.

Forex market vs. Equity markets

Liquidity

FX market: Near two trillion dollars of daily volume.

Equity market: Around 200 billion on a daily basis.

Trading hours

FX market: 24hr market, 5.5 days a week

Equity market: Monday through Friday from 8:30 EST to 5:00 EST

Profit potential

FX market: In both, rising and falling markets.

Equity market: Most traders/investor profit only from rising markets.

Transaction costs

FX market: Commission free and tight spreads.

Equity market: High Commissions and transaction fees.

Buying power

FX market: Leverage up to 400:1

Equity market: Leverage from 2:1 to 4:1

Specialization

FX market: most volume (85%) is made on major currencies (USD, EUR, JPY, GBP, CHF, CAD and AUD)

Equity market: More than 40,000 stocks to choose from

Forex market vs. Futures market

Liquidity

FX Market: Near two trillion dollars of daily volume.

Futures market: Around 400 billion dollars on a daily basis.

Transaction costs

FX market: Commission free and tight spreads.

Futures market: High commissions fees.

Margin

FX market: Fixed rate of margin on every position.

Futures market: Different levels of margin on overnight positions than day time positions.

Trade execution

FX market: Instantaneous execution.

Futures market: Inconsistent execution.

All this makes the Forex market very attractive to investors and traders. But I need to make something clear, although the benefits of trading the Forex market are notorious; it is still difficult to make a successful career trading the Forex market. It requires a lot of education, discipline, commitment and patience, as any other market.