Forex For Beginners

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Forex For Beginners

Information for beginners and experienced traders.

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- **What is forex?**

The simple sense of Forex (Forex currency exchange, Foreign Exchange) is simultaneous purchase and sale of the currency or the exchange of one country's currency for the one of another country. The world currencies do not have a fixed exchange rate and are always fluctuating being traded in the currency pairs like Euro/Dollar, Dollar/Yen whsan others. 85% of daily trades are taken by major currencies trading.
Investments usually deal with 4 major pairs: Euro against US dollar, US dollar against Japanese yen, British pound against US dollar, and US dollar against Swiss franc or EUR/USD, USD/JPY, GBP/USD, and USD/CHF used to sign these pairs accordingly. These major pairs are considered as Forex market's "blue chips". You will not receive any dividends on the currencies. Well known "buy low - sell high" gives the profit for currency trades.

In case you have a forecast that one currency would get higher to another you can exchange the second one for the first one and wait for the profit. If you are lucky to see the trades following your forecast you can make an opposite transaction and to exchange currencies back gaining the profit.
Forex transactions are carried out by Forex brokerage companies, also known as major banks dealers. Forex market is worldwide and your European colleagues may make a transaction with Japanese traders when it's time for you to sleep in the North America. There are 3 shifts for the major institutions to work in due to 24-hours a day activity of the Forex market. It's possible to ask for overnight execution for take-profit and stop-loss orders of the client.

Prices in the Forex market fluctuate without any dramatic changes unlike stock market where considerable gaps are likely to be seen. There isn't any problems entering and exit the market due to its daily turnover of about $1.2 trillion. Forex market can not ever be forced to stop. The transactions were carried out even in 2001, on September, 11th.

Foreign exchange market (also called Forex of FX to shorten the name) is the oldest market in the world. It is also seen to be the largest one. Being currencies' primary market working 24-hours a day, Forex is also the largest market with highest liquidity. This is an interbank market carrying out spot (or cash) transactions. The currency futures market, to be compared with Forex is traded only 1% as much.
Forex market doesn't have any exchange center unlike the stock market. Forex trading seem to go after the sun around the world, from banks of the United States to other parts of the world like Australia, New Zealand, the Far East or Europe and back to the US some time later.

High minimum amount of transaction and strict financial requirements used to make this interbank market unavailable for small speculators. The only dealers of currency markets were banks, huge-amount speculators and largest currency dealers. They had an ultimate access to this market dealing with lots of primary exchange rates of the world currencies, the market with an extremely high liquidity along with an unusually strong nature of trends.

Nowadays small traders have an opportunity to purchase the small lots (units), as a result of the large inter-bank units being split by market maker brokers like FX Solutions, at the amount they like.
The traders of any size like small companies and individual speculators have an access to the market at the same price fluctuations and exchange rates which only large players used to enjoy recently. Market makers monitor the rates so that produce their profit on the difference of rates at which the currency was bought and sold.

Foreign Exchange Market has an acronymic name Forex. It has the largest size and the liquidity throughout the world nowadays. Forex daily transactions are carried out at the common amount from 1 to 3 trillion dollars. There is no stock market that is able to deal with a comparable amount of money.
This enormous market is like the dangerous sea where you can meet lots of sharks and dangerous waters but at the same time it is the only one where two weeks of trading can hypothetically bring you $1,000,000 out of $1,000 of initial investment.

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This is certainly hypothetically because a lot of newbie traders deal with their trades as gambling, that surely bring them to having nothing in the end. You should always keep the phrase "be careful!" in your mind. This market would give you its profit possibilities only if you learn the basic things hard and make lots of demo trading.

The statistics is that as much as 95% of traders come to losing their money at Forex, 5% have profit and less than 1% of traders make large fortune at Forex. You shouldn't produce, sell or advertise anything trading at Forex. Your assets are your knowledge, experience and a small amount of cash.
This market is a platform for banks, transnational corporations and individual traders to change the currencies they possess into other ones. This is the spot Forex market. At this market you can trade with up to 1:400 leverage which means that you'll get $400 on your account for each dollar invested. So, you can trade with the $400,000 sum having invested $1,000 onto your account.

Still, lots of experienced traders consider such leverage dangerous and won't get started with it. Though, if you know how ho use such high leverage it will do you only good. But this is the place to stop speaking about the basic things. Keep reading these articles if you want to be aware of how this market has occurred and some of its historical matters.

Now it is time to speak about the strategies and the way of making money at Forex some traders use. First we should say that the things that work in one case do not certainly work in another. The fact is that currency trading surely means risk. Still, there are a number of strategies for the newbie to use to be the winner.

Forex trading may seem very easy but it is not. Your high today earnings may turn into considerable losses even of your starting capital tomorrow. Newbie traders are likely to make the same mistakes several times. Here is a list of such typical mistakes.

1. There is no use of searching the "Holy Grail"

This phrase is to think for those who are scared of losses or being too greedy does his best to get rich in no time. You can surely make lots of money during some time and there isn't a necessity of producing and advertising anything but a huge homework is required to learn first. You have to know how this market works and which factors can take the exchange rate up or down. You should also be aware of the effective management for your money not to lose everything.

The majority of traders starting at Forex, look for their ultimate strategy that will cause no losses and will bring only profit. The desire of such people is to make a strategy that guarantees stable profit and millions of earnings in a short time without any losses for them to quit and enjoy their fortune and the new huge house. This will never bring any success.

There is no strategy that will give you only profit and such research is only waste of time. High profits of trading are caused by high risk, and you won't earn a fortune without being on the knife edge. Don't be sure that every trade will close in advantage to you. You will always feel uncertain and there is no way to vanish it. It means that you should always be ready to the possibility of your strategy failing even if it is thought as perfect.

You'll save a plenty of time and nerves by avoiding the search for the perfect strategy of earning millions. Even if you find this strategy you won't ever need it. You'll see why later.

2. Apply fundamental and technical analysis.

At the beginning of my trading I relied only on the money management on which I wanted to base my strategy and saw no sense of these analyses. But money management which is still very important doesn't

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worth omitting them. You can forecast the direction of the market basing on your technical and fundamental strategies to see their effectiveness.

You'll be able to make forecasts of price movements by applying the past data of the prices and graphs to the technical analysis methods. You can predict future prices with the level of accuracy dependent on your technical analysis skills using the graphs of the rates you observe.

Trading with some brokers you can see technical indicators along with the graphs. You can apply it to your demo account and estimate your prediction skills necessary for planning trading decisions.

It is impossible to choose the most effective indicator among lots of various ones. Each trader has to decide for himself which indicator is best for him. You can't find any magic formula; you just see the graphs, make your forecasts and find out whether they come true seeing the values in the news later.
Your decisions form this formula along with your knowledge that occurs out of the practical experience. Starting trading with an online broker it's best for you to trade with yourself on the sheet of paper rather than invest real money at once. There are a lot of technical analysis indicators available but here are the ones which are the most wide-spread: the Moving Average Convergence Divergence (MACD), the Bollinger Bands, Pivot Points, RSI, Stochastic, Fibonacci, EMA, Elliot Waves.

The broker's software will automatically make all the necessary calculations when you add the technical analysis indicator to the graph so that you'll see some facts which are unavailable without using these indicators. It is even possible for you to build your own technical systems basing on these indicators.
Fundamental analysis is another tool that maximizes your profit and minimizes your losses on the trades. There are some traders who prefer only one kind but the majority prefers both.

Fundamental analysis means trading following the news, e.g. telling about the economist or unemployment rate in the countries of the currencies you trade. They can also tell about the events that can have a strong influence on the currencies' exchange rate.

You can make forecasts on the market direction by following the news as well. That's why various trading software of the brokers like www.oanda.com offer a link to the page containing important news.

1. www.n2cm.com/economiccalendar
2. www.bloomberg.com
3. www.businessweek.com
4. www.economist.com
5. money.cnn.com
6. www.reuters.com

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3. Use the strategies of money management.

Money management strategies let you win or lose. You should use them to be in a profit. Many traders make too vast investments in every trade and this is not always rational and reminds of a saying: "Expect to make too much and you will make too little, expect to make little and you will make a lot." It means that even if you invest much trying to get a lot on every trade you can lose all and even if you make small investments looking for a small reward you can make a lot in some period.

1% of the total sum of your account is the maximum sum of the potential risk. This is the first rule of the money management. Stop loss and limit orders may help you to follow this rule. This may be the reason of the small profit, especially if you have small initial investments, but by compounding a part of you profit or the whole one you can get an exponentially growing income.

This strategy of compound profits is the one that helped to make millions on financial market instead of gambling that results in losing all investments quickly.

Here is the example of the opposite tactics that many traders follow. Imagine that you have an initial investment of $5,000. You're lucky to possess the trading account and you enter a $1,000 trade. In case the markets trends down and you lose your $1,000 your assets become $4,000. You keep following your strategy and enter a $1,500 trade being sure that the market is at its low and hoping to get back your $1,000 plus earn $500 more. Then the market keeps moving against you leaving you with $2,500 on your account which is only one half of your starting capital. This is a very difficult situation to recover from.

Forex FAQ

What exactly is forex?
Forex is an acronym for FOReign EXchange and is the worldwide currency inter-bank or inter-dealer market that uses a floating exchange rate system. It is the world's largest financial market, with an estimated daily average of more than $1.5 to $2 trillion. Some estimate that it would take the New York Stock Exchange about 2-3 months of trading to equal one day in forex.

Why is forex so popular?
Forex trading is attractive because it offers unparalleled freedoms. A forex trader can live anywhere as long as he/she is within reach of the internet. Work from home or office. Trade while traveling! A forex trader can usually choose his/her own hours to work since the global foreign exchange market is open 24-hours a day. There is NO inventory, NO shipping, NO billing, NO collections, NO employees, NO commuting and NO dress code. And finally, since forex traders can potentially earn a very high income, they enjoy the possibility of never, ever working for someone else again.

How fair is the forex market?
The forex market is so large and has so many participants that no one player, not even a large government, can completely control the long-term direction of the market. That's why so many experts have called forex the "most level playing field" on earth.

Where is the central location of the forex market?
For most currency instruments, there is NO central location where trading takes place. This is called the forex "spot market," not to be confused with currency futures or options. The bulk of forex trading takes place between a few hundred large banks that process transactions for large companies and governments. These institutions continually provide exchange rates for each other and for the broader market. The most recent quotation from one of these banks is considered the market's current pricing for that currency. Trading occurs over the internet, by telephone and through computer terminals at hundreds of locations around the globe.

Can I really trade at any time?
Of course! This system is perfect for people who have jobs or "have a life" and don't want to, or can't, sit in front of their computer all day trading. You can successfully trade around your work hours. Since the FOREX market is open 24 hours a day (Monday through Friday) there are good chances that you'll be able to find trading opportunities that won't conflict with your job.

Can I trade from home?
Trade from anywhere. If you like to travel, this is a dream business. Take your laptop with you and you can trade the FOREX and make money anywhere in the world where you have an internet connection. You can be on the white-sand beaches of Guadeloupe(My country).
You have total freedom of location. FX Trading is not bound to any one trading floor and is not centralized on an exchange, as with the stock and futures markets. The FX market is considered an Over-the-Counter (OTC) or 'Interbank' market, due to the fact that the entire market is run electronically, within a network of banks, continuously over a 24-hour period.

How much can I win?
The FOREX has a DAILY trading volume of around $1.5 trillion dollars - 30 times larger than the combined volume of all U.S. equity markets. This means that 1,498,574 skilled traders could each take 1 milllion doll_ars out of the FOREX market every day and the FOREX would still have more money left than the New York Stock would have daily!

Is there any risk?
If you'd like to make $200 to $3,000 for as little as ten minutes of work -- work that involves minimal risk, but plenty of upside potential -- then this ongoing email mini- course if for you.

Yes there is a risk, like in every investment, if you follow our training system and some fundamentals rules, it is much less risky than trading in the other markets. In fact, You can only loose what you decide to; the system of stop loss let you choose before the trade, how much you want to risk! You have a minimal risk for a unlimited potential!

I trade stocks, what is the difference?
I also trade the stock market before, and I can tell you that trading Forex is much easier and less risky than trading shares, and last but not least, you need only $300 to start.

Can I try first for FREE?
This is one of the numerous particularity of the forex, you can try one month for free whith the majority of the brokers, without any obligation. You will have access to the demo trading platform and you will trade in direct, with a simulation account.
In most of the case, you will have $50,000 to start! (not real money). You will place your trades in directs, everything like the pros. Once you are profitable move into a real account with a small investment.

Is it too difficult?
Trading Forex is so easy, anyone can do it. You don't need to watch bloomberg TV every morning or to buy every financial newspaper to determinate the trend. The Forex Market is highly predictable.

When does forex trading occur?
The first session, the Tokyo Session, begins each week on Monday morning in the Asia-Pacific region (Sunday evening in the Americas). Trading continues non-stop, moving into the London Session and on to the New York Session until all markets close on Friday afternoon.

What are the primary currencies traded in forex?
For most online brokers, there are four main currency pairs that are heavily traded and that offer immediate liquidity most of the time:
Euro / US Dollar
US Dollar / Japanese Yen
British Pound / US Dollar
US Dollar / Swiss Franc

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How often does a person have to trade?
The beauty of self-trading forex is that you can trade as occasionally or as often as you wish. You might rely on longer-term strategies that may require checking the market as little as once or twice a week. Or, you might trade shorter-term methods that may require that you watch the market for a few hours a day.

How much money does it take to open a real money trading account?
If you're a new student of forex, you should first practice with a free practice account, often called "demo trading," using "pretend" money. When you feel ready to trade with real money, you can open a "mini" account with as little $300 USD, although we recommend starting with no less than $1000-$2000.

Who participates in the FX market?
Central, commercial and investment banks have traditionally dominated the Forex market. Other market participation is rapidly increasing, and now includes international money managers and brokers, multinational corporations, registered dealers, options and futures traders, and private investors.

When is the FX market open for trading?
Forex is a true global 24-hour marketplace. The trading day begins in Sydney, and moves around the globe as each financial center comes to life. Tokyo follows, then London, and finally New York. Investors can respond in real time to any fluctuations caused by current economic, social and political events.

What are foreign currency exchange rates?

Foreign currency exchange rates are what it costs to exchange one country's currency for another country's currency. For example, if you go to England on vacation, you will have to pay for your hotel, meals, admissions fees, souvenirs and other expenses in British pounds. Since your money is all in US dollars, you will have to use (sell) some of your dollars to buy British pounds.
Assume you go to your bank before you leave and buy $1,000 worth of British pounds. If you get 565.83 British pounds (GBP 565.83) for your $1,000, each dollar is worth .56583 British pounds. This is the exchange rate for converting dollars to pounds.

If GBP 565.83 isn't enough cash for your trip, you will have to exchange more US dollars for pounds while in England. Assume you buy another $1,000 worth of British pounds from a bank in England and get only GBP557.02 for your $1,000. The exchange rate for converting dollars to pounds has dropped from .56583 to .55702. This means that US dollars are worth less compared to the British pound than they were before you left on vacation.

Assume that you have GBP100 left when you return home. You go to your bank and use the pounds to buy US dollars. If the bank gives you $179.31, each British pound is worth 1.7931 dollars. This is the exchange rate for converting pounds to dollars.

Theoretically, you can convert the exchange rate for buying a currency to the exchange rate for selling a currency, and vice versa, by dividing 1 by the known rate. For example, if the exchange rate for buying British pounds with US dollars is .56011, the exchange rate for buying US dollars with British pounds is 1.78536 (1 ?·.56011 = 1.78536). Similarly, if the exchange rate for buying US dollars with British pounds is 1.78536, the exchange rate for buying British pounds with US dollars is .56011 (1?·1.78536 = .56011). This is how newspapers often report currency exchange rates.

As a practical matter, however, you will not be able to buy and sell the currency at the same price, and you will not receive the price quoted in the newspaper. This is because banks and other market participants make money by selling the currency to customers for more than they paid to buy it and by buying the currency from customers for less than they will receive when they sell it. The difference is called a spread.

How can I trade foreign currency exchange rates?
As you can see from the example, currency exchange rates fluctuate. As the value of one currency rises or falls relative to another, traders decide to buy or sell currencies to make profits. Retail customers also participate in the forex market, generally as speculators who are hoping to profit from changes in currency rates.

How does the off-exchange currency market work?
The off-exchange forex market is a large, growing and liquid financial market that operates 24 hours a day. It is not a market in the traditional sense because there is no central trading location or "exchange." Most of the trading is conducted by telephone or through electronic trading networks.
The primary market for currencies is the "interbank market" where banks, insurance companies, large corporations and other large financial institutions manage the risks associated with fluctuations in currency rates. The true interbank market is only available to institutions that trade in large quantities and have a very high net worth.

In recent years, a secondary OTC market has developed that permits retail investors to participate in forex transactions. While this secondary market does not provide the same prices as the interbank market, it does have many of the same characteristics. How are foreign currencies quoted and priced? Currencies are designated by three letter symbols. The standard symbols for some of the most commonly traded currencies are:

EUR — Euros
USD — United States dollar
CAD — Canadian dollar

GBP — British pound
JPY — Japanese yen
AUD — Australian dollar
CHF — Swiss franc

Forex transactions are quoted in pairs because you are buying one currency while selling another. The first currency is the base currency and the second currency is the quote currency. The price, or rate, that is quoted is the amount of the second currency required to purchase one unit of the first currency. For example, if EUR/USD has an ask price of 1.2178, you can buy one Euro for 1.2178 US dollars.

Currency pairs are often quoted as bid-ask spreads. The first part of the quote is the amount of the quote currency you will receive in exchange for one unit of the base currency (the bid price) and the second part of the quote is the amount of the quote currency you must spend for one unit of the base currency (the ask or offer price). In other words, a EUR/USD spread of 1.2170/1.2178 means that you can sell one Euro for $1.2170 and buy one Euro for $1.2178.

A dealer may not quote the full exchange rate for both sides of the spread. For example, the EUR/USD spread discussed above could be quoted as 1.2170/78. The customer should understand that the first three numbers are the same for both sides of the spread.

What transaction costs will I pay?
Although dealers who are regulated by NFA must disclose their charges to retail customers, there are no rules about how a dealer charges a customer for the services the dealer provides or that limit how much the dealer can charge. Before opening an account, you should check with several dealers and compare their charges as well as their services. If you were solicited by or place your trades through someone other than the dealer, or if your account is managed by someone, you may be charged a separate amount for the third party's services.

Some firms charge a per trade commission, while other firms charge a mark-up by widening the spread between the bid and ask prices they give their customers. In the earlier example, assume that the dealer can get a EUR/USD spread of 1.2173/75 from a bank. If the dealer widens the spread to 1.2170/78 for its customers, the dealer has marked up the spread by .0003 on each side. Some firms may charge both a commission and a mark-up. Firms may also charge a different mark-up for buying the base currency than for selling it. You should read your agreement with the dealer carefully and be sure you understand how the firm will charge you for your trades.

Why is the Spot Currency Market Attractive to Investors?
Professional investors for individual accounts have dramatically increased their level of participation in the cash Forex markets in recent years. Add to this the growing use of cash Forex by individual investors and you have a rapidly growing investment arena. The following summarizes the many reasons professional investors have flocked to this market.

Liquidity This market can absorb trading volumes and per trade sizes that dwarf the capacity of any other market. On the simplest level, liquidity is a powerful attraction to any investor as it suggests the freedom to open or close a position at will. Access a substantial attraction for participants in the Forex market is the 24-hour nature of the market. In Forex, a participant need not wait to react to a news event, as is the case in most markets.

Flexible Settlement Many professional investment managers have a particular time horizon in mind when they establish a position. In the Forex market, a position can be established for a specific period of time which the investor desires.

When does Forex trading occur?

The first session, which is the Tokyo Session, begins each week on Monday morning in the Asia-Pacific region which is Sunday evening in the Americas. Trading continues non-stop moving into the London Session and on to the New York Session until all markets close on Friday afternoon.

How do I close out a trade?
Retail forex transactions are normally closed out by entering into an equal but opposite transaction with the dealer. For example, if you bought Euros with U.S. dollars, you would close out the trade by selling Euros for U.S. dollars. This is also called an offsetting or liquidating transaction.
Most retail forex transactions have a settlement date when the currencies are due to be delivered. If you want to keep your posi- tion open beyond the settlement date, you must roll the position over to the next settlement date. Some dealers roll open positions over automatically, while other dealers may require you to request the rollover. Most dealers charge a rollover fee based upon the interest rate differential between the two currencies in the pair. You should check your agreement with the dealer to see what, if anything, you must do to roll a position over and what fees you will pay for the rollover.

How do I calculate profits and losses?
When you close out a trade, you can calculate your profits and losses using the following formula:
Price (exchange rate) when selling the base currency - price when buying the base currency X transaction size = profit or loss
Assume you buy Euros (EUR/USD) at 1.2178 and sell Euros at 1.2188. If the transaction size is 100,000 Euros, you will have a $100 profit.
($1.2188 - $1.2178) X 100,000 = $.001 X 100,000 = $100
Similarly, if you sell Euros (EUR/USD) at 1.2170 and buy Euros at 1.2180, you will have a $100 loss.
($1.2170 - $1.2180) X 100,000 = - $.001 X 100,000 = - $100
You can also calculate your unrealized profits and losses on open positions. Just substitute the current bid or ask rate for the action you will take when closing out the position. For example, if you bought Euros at 1.2178 and the current bid rate is 1.2173, you have an unrealized loss of $50.
($1.2173 - $1.2178) X 100,000 = - $.0005 X 100,000 = - $50
Similarly, if you sold Euros at 1.2170 and the current ask rate is 1.2165, you have an unrealized profit of $50.
($1.2170 - $1.2165) X 100,000 = $.0005 X 100,000 = $50
If the quote currency is not in US dollars, you will have to con- vert the profit or loss to US dollars at the dealer's rate. Further, if the dealer charges commissions or other fees, you must subtract those commissions and fees from your profits and add them to your losses to determine your true profits and losses.

Is trading at night as good as day, or week ends?
The Forex market is not open on weekends, but is open 24 hours a day from Sunday evening to Friday afternoon. While the Forex market is open, trades can and do happen at all times and on every currency pair. The manuals suggest some times when trades might happen a little more frequently, but you can find them any time. Even the techniques related to news announcements can be traded around your current schedule.

How much money do I need to trade forex?
Forex dealers can set their own minimum account sizes, so you will have to ask the dealer how much money you must put up to begin trading. Most dealers will also require you to have a certain amount of money in your account for each transaction. This security deposit, sometimes called margin, is a percentage of the transaction value and may be different for different currencies. A security deposit acts as a performance bond and is not a down payment or partial payment for the transaction.
Dealers who are regulated by NFA are required to calculate and collect security deposits that equal or exceed the percentage set by NFA rules. Although the percentage of the security deposit remains constant, the dollar amount of the security deposit will change with changes in the value of the currency being traded.

The formula for calculating the security deposit is:

Current price of base currency X transaction size X security deposit % = security deposit requirement given in quote currency
Returning to our Euro example with an initial price of $1.2178 for each Euro and a transaction size of 100,000 Euros, a 1% security deposit would be $1,217.80.
$1.2178 X 100,000 X .01 = $1,217.80
Security deposits allow customers to control transactions with a value many times larger than the funds in their accounts. In this example, $1,217.80 would control $121,780 worth of Euros.
Value of Euros = $1.2178 X 100,000 = $121,780

This ability to control a large amount of one currency, in this case the Euro, using a very small percentage of its value is called leverage or gearing. In our example, the leverage is 100:1 because the security deposit controls Euros worth 100 times the amount of the deposit.
Since leverage allows you to control large amounts of currency for a very small amount, it magnifies the percentage amount of your profits and losses. A profit or loss of $1,217.80 on the Euro trans- action is 1% of the full price (with leverage of 1:1) but is 100% of the 1% security deposit. The dollar amount of profits and losses does not change with leverage, however. The profit or loss is $1,217.80 whether the leverage is 100:1 or 25:1 or 1:1.

The higher the leverage, the more likely you are to lose your entire investment if exchange rates go down when you expect them to go up (or go up when you expect them to go down). Leverage of 100:1 means that you will lose your initial invest- ment when the currency loses (or gains) 1% of its value, and you will lose more than your initial investment if the currency loses (or gains) more than 1% of its value. If you want to keep the position open, you may have to deposit additional funds to maintain a 1% security deposit.

Some dealers guarantee that you will not lose more than you invest, which includes both the initial deposit and any subse- quent deposits to keep the position open. Other dealers may charge you for losses that are greater than that amount. You should check your agreement with the dealer to see if the agree- ment limits your losses.

Does it matter where I am located when I trade the Forex?
No, it doesn't. Since the trading is done online, you can trade from anywhere in the world that has internet access.

Can I trade options on foreign currency transactions?
A number of firms are presently offering options on off-exchange foreign currency contracts. Buying and selling forex options present additional risks, many of which are similar to those inherent in buying options on futures contracts.

There are two significant differences between buying off-exchange forex options and buying options on futures contracts. First, when you exercise an option on an exchange-traded futures contract, you receive the underlying exchange-traded futures contract. When you exercise an off-exchange forex option, you will probably receive either a cash payment or a position in the underlying currency. Second, NFA's options brochure only discusses American-style options, which can be exercised at any time before they expire. Many forex options are European-style options, which can be exercisedonlyon or near the expiration date. You should understand which type of option you are purchasing.

What is Margin?
Margin is a performance bond that insures against trading losses. Margin requirements in the FX marketplace allow you to hold positions much larger than the asset value of your account. Trading with WPP includes a pre-trade check for margin availability; the trade is executed only if there are sufficient margin funds in your account. The WPP trading system calculates cash on hand necessary to cover current positions, and provides this information to you in real time. If funds in your account fall below margin

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requirements, the system will close all open positions. This prevents your account from falling below your available equity, which is a key protection in this volatile, fast moving marketplace.

Why would I trade the FOREX?
Forex is a true 24-hour market. Whether it's 6pm or 6am, somewhere in the world there are buyers and sellers actively trading foreign currencies. Traders can always respond to breaking news immediately, and P&L is not affected by after hours earning reports or analyst conference calls.

After hours trading for U.S. stocks and futures brings with it several limitations. Electronic Communication Networks exist to bring together buyers and sellers - when possible. However, there is no guarantee that every trade will be executed, nor at a fair market price. Quite frequently, traders must wait until the market opens the following day in order to receive a tighter spread.

What are "short" and "long" positions?
Short positions are taken when a trader sells currency in anticipation of a downturn in price. Making this move allows the investor to benefit from a decline. Long positions are taken when a trader buys a currency at a low price in anticipation of selling it later for more. Making these moves allows the investor to benefit from changing market prices. Remember! Since currencies are traded in pairs, every forex position inevitably requires the investor to go short in one currency and long in the other.

What is the difference between an "intraday" and "overnight position"?
Intraday positions are all positions opened anytime during the 24 hour period after the close of Fx desk of WPP normal trading hours. Overnight positions are positions that are still on at the end of normal trading hours.

What are the five major currencies that you can trade?
Most trading platforms offer trading with: EUR (Euro), JPY (Japanese Yen), GBP (British Pound), CHF (Swiss Franc) and AUD (Aussie Dollar), all paired up against the USD.

How do I withdraw money from a trading account?
Most market makers would ask you to fax your request, and within 5 –7 working days, the money will be in your local bank account. Before completing an application form and transferring your money, it is best to check with the company you decide to trade through as they all have their own policy regarding administration of funds.

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What happens if the rate changes at the very moment your order was entered?
That is the price you will get.

Will a Stop-Loss order be filled at the exact exchange rate, which the order is placed?
Yes mostly. Trading systems are programmed to do that but once again – check with the company that provides the trading platform that you will trade on. Unfortunately, on some other systems you do get filled at the next price.

What do the terms "bid/ask" and "spread," mean?
Bid is the highest price that the seller is offering for the particular currency at the moment; Ask is the lowest price acceptable to the buyer. Together, the two prices constitute a quotation; the difference between the two is the spread, that is, the difference between the price offered by a dealer willing to sell something and the price he's willing to pay to buy it back. In a trading situation consider the figure $/Y 115.05/10. What this figure means is that the trading platform would be able to offer you yen at .05 but is willing to buy it back at 10. As a trader, the spread is inherently important to know because your desire to obtain or liquidate your position on the market will be effected by the spread.

How is pricing determined for certain currencies?
The full range of economic and political conditions impact currency pricing. It is generally held that interest rates, inflation rates and political stability are top among important factors. At times,

governments participate in the forex market in order to influence the traded value of their currencies. These and other market factors such as very large orders can cause extreme relative volatility in currency prices. The sheer size of the forex market prevents any single factor from dominating the market for any length of time.

How can I manage risk?
The most common risk management tools in Forex trading are the stop-loss order and the limit order. The stop-loss order directs that a position be automatically liquidated at a certain price in order to guard against dramatic changes against the position. A limit order sets the maximum price that the investor is willing to pay in a transaction, as well as a minimum price to be received in exchange. The foreign exchange marketplace is so liquid that it is easy to execute stop-loss and limit orders.

What trading strategy should I use?
Both economic fundamentals and technical factors influence the decisions of currency traders. Those who follow economic fundamentals use government issued reports, current news, and broad economic trends to anticipate movements in price. Technical traders rely on trend lines, support and resistance levels, and a variety of charts and mathematical analysis to identify trading opportunities. Over time, the most significant price movements occur in close association with unexpected events. Perhaps the central bank changes rates without warning or an election puts an unexpected candidate in power. News from conflicts certainly impacts currency pricing. More often than not, it is the expectation of a certain event rather than the actual event that drives price pressures.

How often can trades be made?
As one might expect, trading activity on any particular day is dictated by current market conditions. Some small to medium size traders might make as many as 10 transactions in a day. By not charging commission and offering tight spreads, Washington Prime Plus Inc. investors can take positions as often as is necessary without concern for excessive transaction costs.

How long a position should be maintained?
Forex traders generally hold positions until one of three criteria is met:
A sufficient profit has been realized from the position.
A pre-set stop-loss order is triggered.
A better potential position emerges and the trader needs to liquidate funds to take advantage of it.

What's the difference between a demo and live trading account?
The only difference is that there is no capital at risk when trading on the demo system. Most online forex demo system are fully functional and, more importantly, the bid/ask rates available in the demo system are the exact rates available to live trading clients. The demo allows you to see the consistent Interbank dealing spreads and sample the ability to deal instantly from live, streaming quotes.

How do margin calls work?
A margin call is generated when the equity balance in an account drops below the margin requirement for that size account. If the maximum allowable leverage has been exceeded, any open positions are immediately liquidated, regardless of the nature or size of the positions.

What is the difference of Forex from Futures?
As a potential investor it is important for you to understand the differences between cash Forex and currency futures. In currency futures, the contract size is predetermined. Futures traders exercise leverage by utilizing Margin to control a futures contract. (Margin is money deposited by both the buyer and the seller to assure the integrity of the contract.)

What's the difference between a demo and live trading account?
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are the exact rates available to live trading clients. The demo allows you to see the consistent Interbank dealing spreads and sample the ability to deal instantly from live, streaming quotes.
But with liquidity in mind, the futures market may seem limiting because the data flow comes to a stop at the end of the business day (just as it does with the stock market) thus disrupting your perception of the market. For some traders this could lead to a certain level of anxiety. For example, if important data comes in from England or Japan while the U.S. futures markets are closed, the next day's opening could be witness to sharp movements.. In contrast to the futures market, the spot forex market is a 24-hour, continuous currency exchange that never closes. There are dealers in every major time zone, in every major dealing center (i.e., London, New York, Tokyo, Hong Kong, Sydney, etc.) willing to quote two-way markets. The size of this market, over one trillion dollars per day gives you near perfect liquidity. Because of the advantages of sheer volume and daily volatility, the excitement of this market is unparalleled.

How do I fund my account?
When trading the Forex online there are usually a few different ways to fund your account:
Personal or Business Check
Wire Transfer

What happens to my open positions at the end of the trading day?
Most online forex brokers will automatically roll forward all open positions to the next day's value date at the end of each business day.

How much money do I need to open an account?
The minimum deposit to open a trading forex account online with most trading companies is around 20 USD using a credit card. You might require to wire at least 2500 USD with most online forex brokers when wiring the funds straight from your bank account.

Can I place profit limit and stop loss orders?
Yes, they are strongly recommended. The stop rate is used as a backup to close the position when the market moves against it to protect you from further losses. When the market reaches this value the position is closed. The profit limit rate is used as a profit limit. When the market reaches this value, your position is closed.

How much am I willing to risk?
What is my upside and downside potential?
What are the market conditions? Is the market volatile or calm?
What is the logic behind entering this trade?
When will "I" know if the assumptions/logic behind the trade is right or wrong?
Having answers to these questions is not enough. Being able to articulate a definite plan and then execute it is, in National Academy of Forex’s view, a necessary pre-condition for being a successful trader. Many are able to develop excellent plans yet do not have the discipline to carry the plans to fruition. Emotions get in the way of individuals being able to execute their trading strategies. Trading decisions are business decisions and should not be decided on an emotional basis.

What is the spot market and on what exchange is it traded?
In the Wall Street Journal, one can read quotations for the spot rate, forward rate, and options. At the spot rate, currencies can be exchanged within two days i.e. on the spot. The word market is a slight misnomer in describing Forex trading, since there is no central location where trading takes place. The bulk of trading is between 300 large international banks, which process transactions for large companies and governments. These institutions are continuously providing prices for each other and the broader market. The most recent quotation from one of these banks is considered the market's price for that currency. Forex trading is not bound to any one trading floor, but done electronically between a network of banks continuously and over a 24-hour period.

What is the difference between futures and spot trading?

When you are dealing in Yen or CHF in the futures market, you are buying a currency contract based on a forward date, dealing in standardised contracts made and traded on an exchange that is chartered and licensed to serve as a trading arena in specific futures contracts. Spot trading in the Forex market is different. A forward market is one in which people agree to trade a commodity at a fixed price at some future date. In the Spot market, the price in question is that for immediate delivery i.e. within two days. You can also think of spot trading as the money exchange (Bureau de Change or cambio) you have to deal with when you travel when exchanging one currency for another. Depending on the rate, one USD will get you so many Lire or Yen or GBP, because you are trading a pair of currencies, one for the other.

What is a "margin call?"
A Margin call is the liquidation of one's positions due to an inability to meet margin requirements. When one's account balance is no longer able to cover one's minimum margin requirement one's positions are closed automatically. Due to the fact that margin requirements are so low the Trader will not receive a margin call warning, but will instead be closed out automatically. Due to this policy, no client has ever lost more money than they had in their account, though it is theoretically possible. Were the market to gap at the same time your positions were being closed due to margin you could theoretically get a closing price much lower than the price you would receive under normal market conditions. Most trading platforms require a minimum margin requirement of between $2000 and $5000. This once again depends on the company you trade through.

Why a bull trend in chart is a bear trend in value?
Similarly, our use of words such as "up" and "down", or "bullish" and "bearish" are meant to intuitively follow or reflect the visual chart direction of trade of a currency, not necessarily its value against USD. In case of JPY, CHF, and CAD, their bullish trend in chart means bearish trend in value. For example, if we say, "JPY is expected to slide back down from 120.00 to 118.00," we mean that yen's chart movement pattern is to turn south while its value is to strengthen against dollar from the weaker rate of 120.00 to the stronger rate of 118.00. One would have to get used to it in order to elude the confusion, and one usually does in time.

What should I do if prices on my screen do not update?
Check your connection to the Internet, then your service provider and then try calling the company that you are trading through.

Can I deal over the phone?
Yes. Most market makers offer clients the option of dealing with their Dealing Desk either over the Internet or in the more traditional manner - over the phone.

What is a trading session?
A trading day (or session) starts at the open of the Asian and Pacific Markets at 12h30 (CET – Central European time) and ends at the close of New York market (NYC) at 11:00 CET the following day.

What is a profit/loss point value?
Pip or point value depends on the leverage or gearing of the investment. With most companies, the pip value is about $10, depending on the exchange rate and interest rate differentials between currencies.

Why is Swiss Franc called "CHF" on the Forex market?
Swiss Franc CHF
German mark DEM
British pound GBP
Japanese yen JPY
Canadian dollar CAD
Australian dollar AUD

What is the difference between Demo and Live Trading?

There is no difference except for the fact that a demo account uses fictitious money and the live account uses real money.

Do all of the units I'm trading of a particular currency get closed when I only want to close one unit at a time?
Yes and No. Only on some trading platforms can you choose the amounts in units of a currency that you want to liquidate or close at any given time. Once again, here you need to check with the company that you are trading through.

Forex Trading Examples

Example 1

Many beginning traders don't fully understand the concept of leverage. Basically, if you have a start up capital of $5,000 and if you trade on a 1:50 margin you can effectively control a capital of $250,000. However, a two percent move against you and your capital is completely wiped out. If you are a beginning trader you should not use more than 1:20 margin until you get comfortable and profitable and then and only then you can attempt to use higher margins.

What does 1:20 margin mean? It means that with your $5,000 you will control a capital of $100,000. Let's say you are trading EUR/USD and by using our entry strategy you have decided to enter the trade on a long side. That means that you are betting that USD will depreciate against Euro.

Let's say current EUR/USD rate is 1.305. Again, if your trading capital is $5,000 and you are using 1:20 leverage you will effectively be exchanging $100,000 to Euros. If the current rate is 1.305 you will receive 100,000/1.305 = 76,628 Euros.

If the trade goes in your direction margin will work in your favour and 1% decline in USD will mean 20% increase in your start up capital. So if EUR/USD rate moves from 1.305 to 1.318 you will be able to exchange your 76, 628 Euros back to $101,000 for a profit of $1,000. Since your start up capital was $5,000 it is effectively a 20% increase in your account. However, if the trade went against you and USD appreciated 1% vs. Euro your account would be reduced to $4,000. That would not have happened as our strategy has built in hard stops to prevent such outcome.

Example 2

The most frequently asked question of aspiring traders is "How much money can I make?" Unfortunately there's no easy answer, because it depends how much you are willing to risk.

Trading is a function of risk and reward: The more you risk, the more you can make. Here's an easy example: Let's say you start with a $5,000 account and you're willing to risk $1,000. Now you could place a trade to go long at the opening, set a profit goal of $1,000 and a stop loss of $1,000. Let's say you investigated the market behavior in the past couple of months and realized that your chances of achieving your profit goal are 60%.

Unfortunately the trade you just placed is a loser, and you lose the whole $1,000. Since this was the amount you were wiling to risk, you close your account, transfer the remaining $4,000 back in to your checking account and that's it for you.

Now let's assume you wanted to risk only $100 per trade and you adjusted your profit goal to $100, too. Now you can make at least 10 trades, because only if all 10 trades are losers you'll lose the $1,000 you are willing to risk. I don't want to become too mathematical, but statistics says that the probability of having 10 losing trades in a row is less than 1%. Therefore it's highly likely that you will have a couple of winners within the 10 trades. If your trading system shows the same performance as it did in the past (60% winning percentage), you should make $200: 4 losing trades * $100 = -$400 + 6 winning trades * $100 = $600. Make sense?

Compare these two options:

The risk of losing your money in scenario 1 is 40%. But if you won, you would have made $1,000.

In scenario 2 the risk of losing your money after 10 trades is less than 1%, but you have a fair chance of making $200. Therefore you need to define first how much you are willing to risk, since the amount you can make is a function of that risk. Make sense? I'll give you more specific examples later in this chapter.

Keep in mind that there's a difference between the amount you need to trade and the amount you're willing to risk. Your broker is always asking your for a "margin", and you need to fund your account with that margin requirement + your risk. In our previous example you funded your account with $5,000, but you only risked $1,000. More on that later.

Example 3

50:1 Leverage: what does it mean?

With a minimum account of USD 10,000, for example, you can trade up to USD 500,000. The USD 10,000 is posted on margin as a guarantee for the future performance of your position.

Example 4

The AUD/USD rate is quoted at '0.7500/04'. This quote represents the bid/offer spread for AUD vs USD. The offer rate of 0.7504 is the rate at which you can purchase AUD (or BUY AUD and SELL USD). The bid rate of 0.7500 is the rate at which you can Sell AUD to buy USD.
You believe that the Australian Dollar will strengthen against the US Dollar, and decide to BUY or 'go long' A$100,000 @ 0.7504 (the offer price).
Quote (bid/offer) 0.7500/04
Buy Price 0.7504
Volume A$100,000
Initial Outlay (1% margin) A$1,000
In the example above you have purchased A$100,000. But because FX is traded on margin with CMC Markets you will only need A$1,000 (1%) to maintain the same market exposure.
The risk on this AUD/USD trade is equivalent to US$10 per each point movement. Each point is valued at 0.0001. For example if the AUD/USD rate moves from 0.7504 to 0.7505 you will receive a profit of US$10.
Your prediction is correct and the Australian Dollar appreciates against the US Dollar. The quote on AUD/USD is now 0.7590/94. To close your position, you decide to SELL A$100,000 @ 0.7590 (the bid price).
Quote (bid/offer) 0.7590/94
Sell Price 0.7590
Volume A$100,000
Profit/Loss US$860 Profit
Your profit and loss is usually calculated in the secondary currency. Therefore the above AUD/USD trade profit/loss is calculated in US Dollars. With CMC Markets no brokerage or commission charges will be subtracted from your gross profit. You will only be charged a financing cost if you hold your position overnight.
Profit/loss Calculation:
Size of trade x (sell price - buy price) = profit & loss USD
100,000 x (0.7590 - 0.7504) = US$860 profit
Or, converting the US$860 back to A$ at a rate of 0.7590
(Profit/loss ? AUD rate) = profit & loss AUD
(860 ? 0.7590) = A$1,133.07 profit
By closing your position you realize a gross profit of A$1,133.07
If you anticipated incorrectly and sold AUD at 0.7500 and later bought AUD at 0.7594, a loss of US$940 would have been experienced.

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Example 5
If you want to buy/sell a specific amount of GBP, first enter the symbol GBP as the transaction currency. Then choose USD as the settlement currency from the drop down menu. You will then receive the quote USD/GBP, e.g. Bid: 1.5300 Ask: 1.5310
This means that GBP 1 = US$1.53XX
If you want to buy GBP 10,000, click on the ask and enter 10,000 as the quantity of GBP that you wish to buy. You will pay $1.5300 for each GBP. Thus, you will pay $15,310.
If you want to sell GBP 10,000, click on the bid and enter 10,000 as the quantity of GBP that you wish to sell. You will receive $1.5300 for each GBP. Thus, you will receive $15,300.

Example 6
If you want to buy/sell a specific amount of USD. First enter the symbol USD as the transaction currency. Then choose GBP as the settlement currency from the drop down menu. You will then receive the quote GBP/USD, e.g. Bid: 0.6530 Ask: 0.6536
This means that USD 1 = GBP 0.653XX
If you want to buy USD 10,000, click on the ask and enter 10,000 as the quantity of USD that you wish to buy. You will pay GBP0.6536 for each USD. Thus, you will pay GBP 6,536.
If you want to sell USD 10,000, click on the bid and enter 10,000 as the quantity of USD that you wish to sell. You will receive GBP0.6530 for each USD. Thus, you will receive GBP 6,530.

Forex Market

Forex market - the interbank international exchange market. Banks of the different countries are trading among themselves in currencies of the different countries. But the total volume of these operations is huge, in day he exceeds 3 billion US dollars! It also is Forex market! **Forex market** reminds the Internet - he belongs to nobody, nobody can operate it.
Exchange-traded Forex futures contracts were introduced in 1972 at the Chicago Mercantile Exchange and are actively traded relative to most other futures contracts. Forex futures volume has grown rapidly in recent years, but only accounts for about 7% of the total foreign exchange market volume, according to The Wall Street Journal Europe (5/5/06, p. 20).
The foreign exchange (currency, or Forex, or FX) market exists wherever one currency is traded for another. It is by far the largest market in the world, in terms of cash value traded, and includes trading between large banks, central banks, currency speculators, multinational corporations, governments, and other financial markets and institutions. Retail traders (small speculators) are a small part of this market. They may only participate indirectly through brokers or banks and may be targets of Forex scams.

Market size and liquidity
The foreign exchange market is unique because of the following featuries:
trading volume,
the extreme liquidity,
the large number of, and variety of, traders,
geographical dispersion,
long trading hours - 24 hours a day (except on weekends).
the variety of factors that affect exchange rates,
Average daily international foreign exchange trading volume was $1.9 trillion in April 2004 according to the BIS study Triennial Central Bank Survey 2004
$600 billion spot
$1,300 billion in derivatives, ie
$200 billion in outright forwards
$1,000 billion in Forex swaps
$100 billion in FX options.

There is little or no 'inside information' in the foreign exchange markets. Exchange rate fluctuations are usually caused by actual monetary flows as well as by expectations of changes in monetary flows caused by changes in GDP growth, inflation, interest rates, budget and trade deficits or surpluses, and other macroeconomic conditions. Major news is released publicly, often on scheduled dates, so many people have access to the same news at the same time.

On the spot market, according to the BIS study, the most heavily traded products were:
EUR/USD - 28 %
USD/JPY - 17 %
GBP/USD (also called cable) - 14 %
and the US currency was involved in 89% of transactions, followed by the euro (37%), the yen (20%) and sterling (17%). (Note that volume percentages should add up to 200% - 100% for all the sellers, and 100% for all the buyers). Although trading in the euro has grown considerably since the currency's creation in January 1999, the foreign exchange market is thus still largely dollar-centered. For instance, trading the euro versus a non-European currency ZZZ will usually involve two trades: EUR/USD and USD/ZZZ. The only exception to this is EUR/JPY, which is an established traded currency pair in the interbank spot market.

The main trading centers are in London, New York, and Tokyo, but banks throughout the world participate. As the Asian trading session ends, the European session begins, then the US session, and then the Asian begin in their turns. Traders can react to news when it breaks, rather than waiting for the market to open.

Forex Currencies

Most Forex exchanges invariably involve the U.S. dollar against a different currency, as the American economy remains the biggest. Other currencies serve as the base for trade as well, such as the Japanese Yen, the British Sterling, the Swiss Franc, and the German mark. Each country's market has its own particular properties.

Euro came up to take the place of the German mark. The latter was the foundation. The European central bank has replaced the Bundesbank that has lost its past significance after the former East Germany came to reconsolidation.

The feature of the Japanese yen is its instability in some previous years. The greatest rise of this currency has happened in October 1998 when the dollar has suffered 15% reduction against the Japanese yen within a number of days.

The Swiss franc is sometimes called "a safe heaven" fulfilling the same function as the dollar does. It is called like this because of the neutrality and independent policy pursued by Switzerland, its economy isolation and banking system privacy.

The British pound has always had significance for the international exchange markets but it mostly hasn't been stronger than other currencies. This trend has changed vice-versa lately and the British pound has become one of the most important and attractive currencies in Europe. It was the first currency that Forex market dealt with through cables crossing the Atlantic, that's why the term "cable" has appeared.

European currencies had a number of crises because of the attempts to adjust their rates towards one another artificially. French frank and German mark used to create the basis for the Continental European currencies and formed the European currency stem. The stability was useful for the Benelux countries. Considerable fluctuations around this stem were seen in the currencies of rest of the Europe, Mediterranean and Scandinavian countries in particular. Great alterations have come to foreign exchange trading after the European common currency has appeared in 2001. A number of European banks were forced to make their trading assets reconsideration after the currencies of the countries taking part in the unification were fixed relative one another at the beginning of 1998. Still the Euro appearance is not thought to be harmful for the foreign exchange markets health. The Euro being weak has turned into mark and made non-participating European currencies less stable and more affective to speculative forces. It gives prospects for sterling along with the Swiss franc to turn into the most important European currency market.

Exotic currencies have a severe risk together with an ability to gain very high possible profits. The weak but fixed currencies can be sought much in order to carry out speculative attacks on them that may lead the countries involved to wide depreciation and economical difficulties. A number of developing currencies try to peg their currencies to the US dollar exchange rates to bring the monetary officials to order and force currency holders not to resort to devaluations. In most of the cases it's impossible to fix the exchange rates due to indiscipline and it mostly leads to considerable depreciation. These devaluations often cause high possible profit but within the stable periods investors mostly hold the currencies due to high interest rates.

Forex market shouldn't have solid technical aspects grasp while dealing with foreign exchange market especially at emerging markets due to their riskiness. Inability to gain a protection against the risks of these markets can be very harmful at the outlook of the commercial companies. South East Asian and South American markets seem to be the most interesting but it doesn't exclude African Continent and Eastern Europe possibility to become important markets in future.

Forex carries out its trading through Lots which is the equivalent of the dollar. The "margin" means that while the value of one lot is $1,000 you can accordingly have a control of $100,000 within the currency. Currency trading in the Forex market is usually carried out in pairs. The notation of each pair shows the rates at which its currencies are being traded. The ABC/XYZ format is always used to show the notation. Here ABC/XYZ doesn't correspond any currency pair but it shows the possible notation. ABC symbolizes the currency of one country whether XYZ shows the currency of another one.

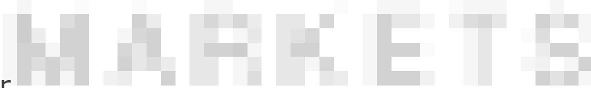
It's impossible for the currency to be traded by itself. For instance to make sense of the trade with JPY it must be compared to any other currency but never traded by itself. This process forms the core of the Forex market.
Here are some of the creal and **common symbols** used in the Forex market:

- USD - The US Dollar
- EUR - The currency of the European Union "EURO"
- GBP - The British Pound
- JPN - The Japanese Yen
- CHF - The Swiss Franc
- AUD - The Australian Dollar
- CAD - The Canadian Dollar
- NZD - The New Zealand Dollar

The most commonly traded currencies are referred to as the 'Majors':

- US Dollar (USD)
- Japanese Yen (JPY)
- Euro (EUR)
- British Pound (GBP)
- Canadian Dollar (CAD)
- Australian Dollar (AUD)
- Swiss Franc (CHF)

Most commonly traded currency pairs are:



- EUR/USD which stands for Euro / US Dollar
- USD/JPY which stand for US Dollar / Japanese Yen
- GBP/USD which stands for British Pound / US Dollar
- USD/CAD which stands for US Dollar / Canadian Dollar
- AUD/USD which stands for Australian Dollar/US Dollar
- USD/CHF which stands for US Dollar / Swiss Franc
- EUR/JPY which stands for Euro / Japanese Yen

Numerator and Denominator
The higher fraction is supposed to be the Numerator while the Denominator corresponds its lower part. For example, in the EUR/USD pair EUR would act as a Numerator being the first or the top, whether USD being after or below is known as Denominator.

The basic currency is usually the Numerator whether Denominator is a counter currency.
Thus, when you would like to buy a currency and you'll place the corresponding "BUY" order dealing with the EUR/USD on the Forex platform you are considered to be selling the USD and buying EUR. "LONG" is the name for buying process.

On the contrary, if you would like to sell the pair you mean that you are buying the USD and selling the EUR. This is called "SHORT" along with the same stock market process when you first sell any stock, currency or commodity trying to buy it later at a lower brice, that means you use short-selling.

In case you would like to sell or buy a currency pair you're going to sell or buy its Numerator (base currency or the top one), so that the base currency should be dealt vice-versa when you're selling a currency pair.

While trading, the base currently is always bought and the counter one is sold. Selling any pair you just specify the currency for sale and the one to buy. Finally the transaction is equal. The absence of any restrictions while short selling is an advantage of the Forex market. Another plus is that both market rise and fall bring profit. You can earn in Forex at any trends directions whether the stock market should rise in order to give profit.

Forex History

Introduction

Initially, the value of goods was expressed in terms of other goods, i.e. an economy based on barter between individual market participants. The obvious limitations of such a system encouraged establishing more generally accepted means of exchange at a fairly early stage in history, to set a common benchmark of value. In different economies, everything from teeth to feathers to pretty stones has served this purpose, but soon metals, in particular gold and silver, established themselves as an accepted means of payment as well as a reliable storage of value.

Originally, coins were simply minted from the preferred metal, but in stable political regimes the introduction of a paper form of governmental IOUs gained acceptance during the Middle Ages. Such IOUs, often introduced more successfully through force than persuasion were the basis of modern currencies. Before the First World War, most central banks supported their currencies with convertibility to gold. Although paper money could always be exchanged for gold, in reality this did not occur often, fostering the sometimes disastrous notion that there was not necessarily a need for full cover in the central reserves of the government.

At times, the ballooning supply of paper money without gold cover led to devastating inflation and resulting political instability. To protect local national interests, foreign exchange controls were increasingly introduced to prevent market forces from punishing monetary irresponsibility.

In the latter stages of the Second World War, the Bretton Woods agreement was reached on the initiative of the USA in July 1944.

The Bretton Woods Accord

The first major transformation, the Bretton Woods Accord, occurred toward the end of World War II. The United States, Great Britain and France met at the United Nations' Monetary and Financial Conference in Bretton Woods, New Hampshire to design a new economic order. This location in the U.S. was chosen because, at the time, was the only country unscathed by war. Most of the European countries were in shambles. Up until WWII, Great Britain and the British Pound had been the major currencies by which most currencies were compared.

This changed when the Nazi campaign against Britain included a major counterfeiting effort against its currency. In fact, WWII vaulted the US dollar from a has been currency after the stock market crash of 1929 to the benchmark by which most currencies were compared. The Bretton Woods Accord was established to create a stable environment by which global economies could re-establish themselves. The Bretton Woods Accord established the pegging of currencies and the International Monetary Fund ("IMF") in hopes of stabilizing the global economic situation.

Major Currencies were pegged to the US dollar. These currencies were allowed to fluctuate by one percent on either side of the set standard. When a currency's exchange rate would approach the limit on either side of this standard, the respective central bank would intervene, thus bringing the exchange rate back into the accepted range. In addition to this, the US dollar was pegged to gold at a price of $35 per ounce. Pegging the dollar to gold and the pegging of the other currencies to the dollar brought stability to the world Forex situation.

The Bretton Woods Conference rejected John Maynard Keynes suggestion for a new world reserve currency in favour of a system built on the US dollar. Other international institutions such as the IMF, the World Bank and GATT were created in the same period as the emerging victors of WW2 searched for a way to avoid the destabilising monetary crises which led to the war. The Bretton Woods agreement resulted in a system of fixed exchange rates that partly reinstated the gold standard, fixing the US dollar at USD35/oz and fixing the other main currencies to the dollar - and was intended to be permanent.

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The Bretton Woods system came under increasing pressure as national economies moved in different directions during the sixties. A number of realignments kept the system alive for a long time, but eventually Bretton Woods collapsed in the early seventies following president Nixon's suspension of the gold convertibility in August 1971. The dollar was no longer suitable as the sole international currency at a time when it was under severe pressure from increasing US budget and trade deficits.

Pegged and semipegged currencies

In 1971, the Bretton Woods Accord was first tested because of dramatically uncontrollable currency rate fluctuations. This started a chain reaction, and by 1973, the gold standard was abandoned by President Richard Nixon. The fixed-rate system collapsed under heavy market pressures, and currencies finally were allowed to float freely.

The Foreign Exchange market, ("FX or Forex") as we know it today, originated in 1973. However, money has been around in one form or another since the time of Pharaoh. The Babylonians are credited with the first use of paper bills, and receipts. Middle eastern moneychangers were the first currency traders exchanging coins of one culture for another. During the middle ages, the need for another form of currency besides coins emerged as the method of choice.

These paper bills represented transferable third party payments of funds; this made foreign exchange much easier for merchants and traders and caused the regional economies to flourish. From the infantile stages of Forex during the Middle Ages to WWI, the Forex markets were relatively stable and without much speculative activity. After WWI the Forex Markets became very volatile and speculative activity increased ten fold. Speculation in the Forex market was not looked on as favorable by most institutions and the public in general. The Great Depression and the removal of the gold standard in 1931 created a serious lull in Forex activity. From 1931 until 1973, the Forex market went through a series of changes. These changes greatly impacted the global economies at the time. Speculation in the Forex markets during these times was little if any.

The foreign exchange markets officially switched to a free-floating market after the double demise of the Smithsonian Agreement and the European Joint Float. This switch occurred more due to lack of any other available options, but it is important to understand that the free floating of currency was not, by any mean, imposed. This means that countries were free to peg, semipeg, or free-float their currencies.
Pegged: Some smaller economies have attached their currencies to larger economies with which they hold close economic liaisons. For instance, many Caribbean nations, such as Jamaica, have pegged their currencies to the U.S. Dollar.

Semipegged: Semipegged currencies have disappeared since 1993. A perfect example of semipegging would be the currencies of the European Monetary System (EMS). Those currencies only would be allowed to fluctuate within 2.25 percent or, exceptionally, within 6 percent intervention bands. Following the foreign exchange crisis of 1993, the new EMS intervention rates were expanded to 15 percent. Semipegging would have a slowing-down effect on currencies when they were reaching the extreme values allowed within the range. Since 1999, the semipegged currencies of the EMS were switched to fully pegged values that form the Euro.

Free-floating currencies and fixed exchange rates

Free-Floating: When the major currencies are free-floating, such as the U.S. Dollar, they move independently of other currencies. The value of the currency is determined by supply and demand, which has no specific intervention point that has to be observed, and can be traded by anybody so inclined. Free-floating currencies are in the heaviest trading demand.

The FOREX market was made available to the average investor in 1998 and is one of the fastest growing markets in the world, with daily volume of nearly 100 times that of the entire stock market.

In the 1980s, cross-border capital movements accelerated with the advent of computers and technology, extending market continuum through Asian, European and American time zones. These same technologies

made it feasible for private investors to enter a market that had traditionally been the sole domain of banks and large institutions. Transactions in foreign exchange rocketed from about $70 billion a day in the 1980s, to more than $1.5 trillion a day two decades later, with close to 95% of the volume being speculative.

The following decades have seen foreign exchange trading develop into the largest global market by far. Restrictions on capital flows have been removed in most countries, leaving the market forces free to adjust foreign exchange rates according to their perceived values.
But the idea of fixed exchange rates has by no means died. The EEC introduced a new system of fixed exchange rates in 1979, the European Monetary System. This attempt to fix exchange rates met with near extinction in 1992-93, when pent-up economic pressures forced devaluations of a number of weak European currencies. Nevertheless, the quest for currency stability has continued in Europe with the renewed attempt to not only fix currencies but actually replace many of them with the Euro back in 2001.
This project is fairly advanced now and the final structure and fixed levels were decided in May 1998. After this a dangerous three-year period loomed, where devaluation candidates could be attacked nearly without risk until the final introduction of the Euro in this Millennium.

The lack of sustainability in fixed foreign exchange rates gained new relevance with the events in South East Asia in the latter part of 1997, where currency after currency was devalued against the US dollar, leaving other fixed exchange rates, in particular in South America, looking very vulnerable.

But while commercial companies have had to face a much more volatile currency environment in recent years, investors and financial institutions have found a new playground. The size of foreign exchange markets now dwarfs any other investment market by a large factor. It is estimated that more than USD1,200 billion is traded every day, far more than the world's stock and bond markets combined.

Timeline of foreign exchange
1944 – Bretton Woods Accord is established to help stabilize the global economy after World War II.
1971 – Smithsonian Agreement established to allow for greater fluctuation band for currencies.
1972 – European Joint Float established as the European community tried to move away from its dependency on the U.S. dollar.
1973 – Smithsonian Agreement and European Joint Float failed and signified the official switch to a free-floating system.
1978 – The European Monetary System was introduced so other countries could try to gain independence from the U.S. dollar.
1978 – Free-floating system officially mandated by the IMF.
1993 – European Monetary System fails making way for a world-wide free-floating system.

Forex psychology

A trading psychology, based upon how well you know yourself and are able to profit from your strong points, as well as control you weak ones, has a lot to do with how successful of a trader you will be. When you truly know yourself, then you are aware of how you are going to react under certain circumstances and you can protect yourself from self-damaging actions or decisions when it comes to managing a trade.
The overlap between trading and psychology is complex. Psychological factors, such as performance anxiety, can interfere with clear-headed decision-making about markets. Similarly, poor trading practices - such as taking on too much risk with excessive size - can magnify the normal stresses of the marketplace. Sometimes it is difficult to separate chicken and egg. Many traders put their money at risk without a demonstrable edge. It is difficult to imagine such trading *not* generating frustration over time. Other traders ground themselves in solid methods, but these may not fit their talents, skills, or personalities. A very short-term, aggressive method of scalping markets, for instance, may work fine on paper, but prove completely unworkable - and stressful - for a highly analytical, risk-averse trader.
Sometimes, however, trading psychology problems have nothing to do with trading. They are the results of pre-existing problems that will not be solved by different trading methods. Nor will they go away with simple coaching advice to control emotions and build discipline.

Your biggest enemy when trading is YOU. It's not the market, or the market makers, or world events. It's You! If you do not have a professional psychology then you will make the wrong decisions and lose money on a consistent basis. Here are the keywords, and concepts that you need for developing a professional trading psychology:

Trading psychology's rules:

Trade with a DISCIPLINED Plan: The problem with many traders is that they take shopping more seriously than trading. The average shopper would not spend $400 without serious research and examination of the product he is about to purchase, yet the average trader would make a trade that could easily cost him $400 based on little more than a "feeling" or "hunch." The plan must include stop and limit levels for the trade, as your analysis should encompass the expected downside as well as the expected upside.
Examine all of the facts carefully before you make a trade. Don't let excitement, fear, or someone else's influence cause you to enter or exit a position before the circumstances match YOUR guidelines.
What goes up must come down and what goes down should eventually come back up. A good trader understands that there are times when it's better to be in an all cash position and watching the market from the sidelines.
Don't let temporary circumstances erode your convictions. You know that you should take steps to protect your profits when a trend is weakening, so do it. Likewise, you know what to do when the stock resumes trading up, so do that to.
Don't fall in love (or hate) with your stocks. The stocks don't care that you own them, and they are not your friends. Your only friend is your trading psychology. Pay attention to the technical aspects and do the right thing based upon your own system. Do not marry your trades: The reason trading with a plan is the #1 tip is because most objective analysis is done before the trade is executed. Once a trader is in a position he/she tends to analyze the market differently in the "hopes" that the market will move in a favorable direction rather than objectively looking at the changing factors that may have turned against your original analysis. Traders with a losing position tend to marry their position, which causes them to disregard the fact that all signs point towards continued losses.
Remain emotionally detached from the market and the excitement that its movement creates. Don't constantly check your share prices all day long (unless you're day trading). If you get caught up in "tick" watching then you are going to make wrong decisions based upon greed or panic. There is no valid psychology that includes greed or panic.
Unless you are a day or swing trader, the day-to-day prices of your stock are not that important. **Stay focused on the large trend**s and do not try to react to every market move.

Unexpected things, both good and bad. Understand these events, be prepared for them, and take the appropriate actions. A good psychology takes into consideration that you can not predict what is going to happen in the market.
Unless you're trading in short positions, only increase your position when prices goes up, not down. Generally, when a price starts to move it usually continues in that direction for a while.

Forex Advantages

There are some Forex market advantages: liquidity, efficiency, cost, quotations unambiguity, the **margin size**.

- **High liquidity**. (i.e. an opportunity of reception under the transaction of money, instead of the goods). The market on which money are assets, have highest of all possible liquidities. This circumstance is powerful attractive force for any investor since it provides to him freedom to open and close a position of any volume. The FOREX market with an average trading volume of over $1.5 trillion per day is the most liquid market in the world. That means that a trader can enter or exit the market at will in almost any market condition minimal execution barriers or risk and no daily trading limit.

- **Efficiency (a 24-hour market).** The main advantage of the **Forex market** over the stock market and other exchange-traded instruments is that the Forex market is a true 24-hour market. Whether it's 6pm or 6am, somewhere in the world there are always buyers and sellers actively trading Forex so that investors can respond to breaking news immediately. In the currency markets, your portfolio won't be affected by after hours earning reports or analyst conference calls. Recently, after hours trading has become available for U.S. stocks - with several limitations. These ECNs (Electronic Communication Networks) exist to bring together buyers and sellers when possible. However, there is no guarantee that every trade will be executed, nor at a fair market price. Quite frequently, stock traders must wait until the market opens the following day in order to receive a tighter spread. A trader may take advantage of all profitable market conditions at any time; no waiting for the 'opening bell'.

- **Cost. Forex market** traditionally has no commission charges, except for a natural market difference (spread) between the prices of a supply and demand. The retail transaction cost (the bid/ask spread) is typically less than 0.1% (10 pips or points) under normal market conditions. At larger dealers, the spread could be less than 5 pips, and may widen considerably in fast moving markets.

- **Quotations unambiguity**. Because of high liquidity of the market the sale of practically unlimited lot can be executed on a uniform market price. It allows to avoid a problem of the instability, existing in futures and other share investments where during one time and for a determined price can be sold only the limited quantity of contracts.

- **The margin size**. The size of credit "shoulder" (**margin**) in Forex market is defined only by the agreement between the client and that bank or broker firm which provides to him an output on the market, and makes 1:33, 1:50 or 1:100, for example. On Forex market the traditional size of "shoulder" 1:100, i.e., having brought the mortgage in 1000 dollars, the client can make transactions for the sum, equivalent 100 thousand dollars. Use of an opportunity of crediting, together with strong variability of **quotations** of currencies, also does this market highly remunerative and highly risky. A leverage ratio of up to 400 is typical compared to a leverage ratio of 2 (50% margin requirement) in equity markets. Of course, this makes trading in the cash/spot forex market a double-edged sword the high leverage makes the risk of the down side loss much greater in the same way that it makes the profit potential on the upside much more attractive.

- **Always a bull market**. A trade in the FOREX market involves selling or buying one currency against another. Thus, a bull market or a bear market for a currency is defined in terms of the outlook for its relative value against other currencies. If the outlook is positive, we have a bull market in which a trader profits by buying the currency against other currencies. Conversely, if the outlook is pessimistic, we have a bull market for other currencies and a trader profits by selling the currency against other currencies. In either case, there is always a bull market trading opportunity for a trader.

- **Inter-bank market**. The backbone of the FOREX market consists of a global network of dealers (mainly major commercial banks) that communicate and trade with one another and with their clients through electronic networks and telephones. There are no organized exchanges to serve as a central location to facilitate transactions the way the New York Stock Exchange serves the equity markets. The FOREX

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market operates in a manner similar to the way the NASDAQ market in the United States operates, and thus it is also referred to as an 'over the counter' or OTC market.

- **No one can corner the market**. The FOREX market is so vast and has so many participants that no single entity, even a central bank, can control the market price for an extended period of time. Even interventions by mighty central banks are becoming increasingly ineffectual and short-lived, and thus central banks are becoming less and less inclined to intervene to manipulate market prices.

- **Unregulated**. The FOREX market is generally regarded as an unregulated market although the operations of major dealers, such as commercial banks in money centers, are regulated under the banking laws. The conduct and operation of retail FOREX brokerages are not regulated under any laws or regulations specific to the FOREX market, and in fact many of such establishments in the United States do not even report to the Internal Revenue Service (IRS). The currency futures and options that are traded on exchanges such as Chicago Mercantile Exchange (CME) are regulated in the way other exchange-traded derivatives are regulated.

- **Equal access to market information**. Professional traders and analysts in the equity market have a definitive competitive advantage by virtue of that fact that they have first access to important corporate information, such as earnings estimates and press releases, before it is released to the general public. In contrast, in the Forex market, pertinent information is equally accessible, ensuring that all market participants can take advantage of market-moving news as soon as it becomes available.

- **Profit potential in both rising and falling markets**. In every open FX position, an investor is long in one currency and short the other. A short position is one in which the trader sells a currency in anticipation that it will depreciate. This means that potential exists in a rising as well as a falling FX market. The ability to sell currencies without any limitations is one distinct advantage over equity trading. It is much more difficult to establish a short position in the US equity markets, where the Uptick rule prevents investors from shorting stock unless the immediately preceding trade was equal to or lower than the price of the short sale.

- **Most brokers have very good trade execution software**. There are only a handful of stock brokers that have execution platforms that offer order-cancels-order type controls and other contingent orders. I’ve looked at several forex-based platforms, and forex brokers place a premium on putting high levels of functionality into traders’ hands. This makes business sense – if you find it easier to execute your strategy, you’re likely to trade more often. This is one area where the equities world could learn a thing or two from their forex counterparts.

- **Trending nature of currencies**. Major currencies are still dominated by central banks, national financial policies and macro trends. This means that currency traders enjoy markets that have a greater tendency to trend than most markets. I have seen some compelling data on this trending characteristic of the currency markets. (Special note – if anyone has seen recent data on the trending nature of currencies, please let me know at drbarton@iitm.com. Most of the research I have is a few years old.)

Forex Participants

According to the BIS study Triennial Central Bank Survey 2004

53% of the transactions were interbank or interdealer strictly

33% of the transactions dealt with a fund manager or an kind of financial institution not associated with banks and a dealer (like bank for instance).

14% were held between non financial organizations and dealers.

Commercial banks take the majority of currency deals. Accumulating the markets exchange conversion cumulative needs due to clients' operations as well as means accommodation or attraction and their movement to other banks are the main bank activities. Banks can carry out their independent deals for their own purpose aside from customers. Large international banks such as Deutsche Bank, Barclays Bank, Union Bank of Switzerland, Citibank, Chase Manhattan Bank, Standard Chartered Bank affect the exchange markets in the world considerably by the daily operations at the amount of billions dollars. Such dramatic volumes can have an influence on the currency price or the quotation. Such large players usually contain the groups of bulls and bears.

The interbank market deals with the commercial turnover majority as well as speculative trading considerable amounts carried out daily. Billions of dollars is possible turnover for a large bank. Besides the customers' transactions, the majority of the operations are made for the bank's own account and by proprietary desks.

The exchange brokers from abroad led the major part of their business by creating low-paid anonymous counterparts and facilitating interbank transactions some time ago. Recently the majority of this business got down to using such electronic systems as EBS, Reuters Dealing 3000 Matching (D2), the Chicago Mercantile Exchange, Bloomberg and Trade Book(R). The traders are still listening in on ongoing interbank trading through the brokers squawk box but the trading amount got much smaller lately.

"Bulls" is the name for the participants of the Forex market who try to make the currency price higher. Bears are supposed to be concerned with the currency price reduction in the Forex market. The common market process is a balance between bulls and bears market and in case of a currency price change it is mostly not very significant. Though when either bulls or bears take the lead the exchange prices may change dramatically.

Commercial companies are one of the key financial players as far as they are interested in foreign exchange in order to pay for goods produced or services provided. These companies usually deal with small trading amount comparable with the banks or speculators but can have a brief effect on the market rates. Still, the streams of foreign trade are the important factors affecting the permanent currency rates. The exposures of some multinational companies happened due to covering very large positions can have a strong effect of the market in case the players are not aware of these processes.
Investment Management Firms. They usually deal with considerable accounts being the assets of such customers as pension funds and endowments. are quite important players for the exchange market as far as they use it to make the transactions of their foreign securities easier. For instance in order to pay for and redeem foreign equities purchases and sales the manager of an investment company having an international equity portfolio will have to deal with the certain market that will force him to sell or buy foreign currencies. The purpose of such transactions is profit increase and they are not considered as speculative, being secondary for the investment decisions. There are special Currency Overlay units included in the investment management firms that try to make profit of customers' assets with a minimum risk using currency operations. These transactions may have an affection on large trades as far as the number of the dedicated currency managers in not high whether amount of their AUM (assets under management) is considerable.

Companies with foreign investments: These companies use Forex market for their foreign trading operations. The companies being the participants of international Forex market such as regarding importers have a stable foreign currency demand whether the exporters have large amounts of the currency on offer. Both these kinds of the companies have short-term deposits to hold their currency. That's why these companies don't use the Forex market directly due to using commercial banks for conversion and depositary operations.

The companies carrying out foreign investments of assets, such as Investment Funds, International Corporations, Money Market Funds. These kinds of companies contain a number of international investment funds that are following the policy of their investments diversification by placing the assets in various governmental and company securities. Georges Soros's "Quantum", and " Dean Witter" fund are well-known funds of this kind. Xerox, Nestle, General Motors, British Petroleum and others are the kind of companies that deal with the international industrial investments for purposes of joint ventures, creating branches and others.

Hedge Funds: These funds, known due to George Soros's Quantum fund, have raised their importance during the 1990s currency speculation in an aggressive form. Billions of dollars at the disposal of these funds along with the billions that can be borrowed make Hedge Funds the possible better support for the currencies of the countries welcoming Hedge Funds than central banks are.

The reputation of the Hedge Funds has raised due to their recent aggressive currency speculations. As far as the amounts of money in such funds are increasing they are very attractive for foreign exchange markets. These markets can speculate with tens billions of dollars due to their leverage so consolidation of the players known as the "herd instinct" of these funds can be very unpleasant. Though, these funds are not thought to be successful without the strategy that sounds. It is also thought that the actual functioning of these funds is instable financial weakness using and uncovering for the purpose of returning the normal values to realignment.

Speculation: Currency speculators and the influence they cause to the currencies depreciations are widely and regularly disputed. Thought the speculators are considered to carry out such important functions as supporting hedgers for the market and entrusting the risks with suitable people from the point of view of some economists like Milton Friedman. Others (for instance Joseph Stiglitz) consider this not an economical approach, but mostly a political or dedicated to the free market one.
The key speculators provided by professionals are the well-capitalized "position traders" as well as the major hedge funds.

Many countries are quite suspicious to such operations as currency speculations. From this point of view, the traditional forms of investment including stocks and bonds bring more effective economic rise by supplying the capital unlike currency speculations. This is considered just as gambling that often doesn't go along with the economic policy. The currency speculations obliged the Central Bank of Sweden make a short-term rise of the interest rates up to the value of 150% a year that has been followed by krona devaluation. One of the most determined advocates of this point of view, Mahathir Mohammad who used to be the Prime Minister of Malaysia, called George Soros and other speculators the main culprits of the Malaysian ringgit devaluation in 1997.

The follower of the opposite opinion, Gregory Millman, argues that speculators make the international agreements to be "enforced" as well as forecast the consequences of the main economic "law" for the purpose of making profit being compared to "vigilantes".

Simply speaking, the speculators of the forex market just accelerate the economical process bringing the economy to an unavoidable collapse in case the instable financial masses occur or the economy is carried out badly. A soon collapse is supposed to be better way out than a prolonged depression. Thus, it is supposed that in order to distract the public attention from putting the economy into decline Mahathir Mohammad along with the other critics blame the speculators.

Central banks - they provide the currency security from its exchange rates considerable leaps causing economical crises as well as monitor the balance of export-import processes that can be generally called currency regulation. Exchange markets are under direct pressure from central banks. It can affect the market either by direct currency pressure which is the straight line affection or by varying the interest rates and money assets which is called indirect affection. As far as they can be interested in uptrend as well as downtrends due to the certain targets, they can not be called either bulls or bears. In case the aim of the central bank is to affect the national currency it acts alone in the forex market, but if it cooperates with other central banks their goal is likely a joint intervention or common currency policy. The key players in the sphere having the greatest influence are: Bundesbank (the central bank of Germany), Bank of England (the Great Britain), the central bank of the USA and Federal Reserve System (US Federal Reserve or just FED).

Foreign exchange markets are dependent on national central banks as well as the inflation, the interest rates, as well as the money support are under control of the latter. Sometimes there are some certain goals for the national central banks concerning their national currencies target exchange rates. As well as they possess their own substantial foreign exchange reserves, they can use these reserves for the purpose of economy stabilization. The stabilization strategy for the central banks offered by Milton Friedman is trading for profit which means buy as soon as the exchange rate gets too low and to sell in order it is too high. Though while the central banks do not have any risk of the bankruptcy in case of large losses, there is no reason for them to follow this strategy.

It is enough for the central banks to provide some rumor or expectations in order to make the currency stable but to the countries with an unstable currency policy it is possible to apply such methods as an aggressive intervention. Still, it doesn't always let the central banks achieve their goals. Any central bank can be easily defeated by the combination of market resources. The 1992-93 ERM collapse has suffered various kinds of these operations as well as the South East Asia later.
Currency stock exchanges are the reality for the transitive economies. Legal person currency exchange and Forex exchange rate shaping are realized by the currency stock exchanges. Forex exchange rate is usually widely affected by the state due to the market density.

Forex broker firms - they provide the currency conversion or credit-depositary processes between the foreign currency purchaser and seller as well as the meeting of the above mentioned ones. The broker firms have their fee by charging the percent out of the operation sum.

The share of the retail brokers is insignificant in accordance with the general amount of foreign exchange market. A daily retail volume estimated by one broker is from $25 to $50 billion according to CNN-provided data which makes only about 2% of the whole volume. According to the National Futures Association official cited by CNN as well, "Retail forex trading has increased dramatically over the past few years. Unfortunately, the amount of forex fraud has also increased dramatically." The retail forex makers generally work with two different trading desks. The first one called "non-dealing" desk is used for the actual foreign exchange trading and is generally traded by the proprietary. The second one called "dealing desk" or "trading desk" is used for trading off-exchange with retail customers. As far as a great number of retail speculators of the currency are beginners and are hardly profit-making the "offset" of the clients' trades on the interbank market is impossible as it's asked by the makers that have to take the same position with the clients. The interbank market would have a stable income from the market makers in case all trades were offset. In case the market maker considers the net positions of its clients to be quite insecure it usually applies offsetting.

The dealing desk has roughly the same functions as currency exchange counter does in the bank. The retail customer sees the interbank exchange rates at a dealing desk (in the bank lobby as well) only after the rates coming from the interbank system are adjusted at a non-dealing desk in order to preserve the market makers' (or the banks') profit. That's why the prices of dealing desks can't be considered as a direct currency exchange index being the value substituted by the originating broker.

The off-market pricing done by retail market makers on the retail trading platforms gives sense to the arbitrage which is still effectively avoided by makers by moving the pickers (which is a widely used name for arbitrages) off from their systems as well as by a sharp reduction of market activity of the latter.

Most Forex brokers, excluding rather small number of them, do not provide a direct access to the interbank trading for their customers due to two obvious reasons. First reason is a limited number of banks which are ready to deal with private investors' orders and the inability for the brokers to offer this service as a result. The second is that as far as the traders' losses transform directly into the market makers' profit while using the dealing desk model, it is very profitable for firms.

Dealing desk brokers can not only be in charge of the trading but the pricing as well and they can adjust it in any way and any moment to raise the income while non-dealing desk brokers earnings come only out of transaction commissions (fees). To prove this some traders try to make a requotation of a counteroffer done by a market maker by satisfying the execution order of the trader that rejects the order based on the defined terms instead of accepting the offer and places another one that is thought to meet the interests of the market maker.

It is worth mentioning that the retail speculators are not actually in beneficial conditions due to the "rules of the game". Possible large profits are the bait for the inexperienced and moreover low-capitalized (because of the account minimum of 250-500 USD) speculators. What is more, some traders are compelled to take unreasonably large positions because of low position size varying from 10,000 to 100,000 units on major platforms. Very high leverage at the amount of 1:100 or even 1:200 is considered to be the worst thing about retail Forex firms. The average leverage used by professional traders generally doesn't exceed 1:10 whether retail Forex firm use such a high leverage without any notification. Such account defaulting may lead to a margin call that would be profitable for the market maker in order the trade is not offset.

Dealing desk brokers being market makers besides creating made-up, off-exchange pricing, also correspond liquidity sources, completely independent and competing, for the banks that take part in the trading by acing as interbank system market makers. Brokers are defenseless before possible off-exchange trade taking out that is thought as a ground for interest’s conflict.

The insurrection that took place more than 35 years ago forced the minor investors leave the big stock brokerage firms due to possible discounts. The companies like Schwab, E-trade, Ameritrade, Datek, and Fidelity dealing with on-line brokerage, are sure that's it's the possible way of retail Forex market development. The reason for the investors to abandon their brokers is that the latter used to trade for their own benefit (leading so-called churning accounts), or the benefit of the corporate customer, nut not the private investor. It is possible as well to make the traders work without non-dealing desks offering the direct access to the market accordingly.

The Wall Street Journal says that "Even people running the trading shops warn clients against trying to time the market. 'If 15% of day traders are profitable,' says Drew Niv, chief executive of FXCM, 'I'd be surprised.' “In Currency Markets Draw Speculation of July 26, 2005. It was also said that for the United States "it is unlawful to offer foreign currency futures and option contracts to retail customers unless the offer or is a regulated financial entity" relied on the data of Commodity Futures Trading Commission. The NFA (National Futures Association) members are legitimate retail brokers having the FCMs (or "futures commission merchants") registration with CFTC. NFA gives he possible customer a possibility to the FCM status of the broker. The Securities Investor Protection Corporation controlling stock brokers doesn't have any power concerning retail Forex brokers that are hardly regulated at all. An increasing number of Forex frauds was announced by the CFTC.

Interbank brokers: Some time ago, making the interbank trading easier and providing anonymous deals were the job of the foreign exchange brokers who had a modest income out of these operations. The electronic systems which are now used by the majority of this business' participants are seen to be as a

sphere adapted for banks only. The traders are still listening in on ongoing interbank trading through the brokers' box but the trading amount got much smaller lately.

Customer brokers. A specialized services related to the foreign exchange are demanded by private and commercial clients. Analysts and strategic offer the clients to use the dealing services proposed by non-banks. The private clients are mostly not supported by the banks that can't offer an adequate dealing for the commercial clients of a medium size as well as don't possess the necessary resources. The nature of the services provided by these brokers, is generally oriented to the service but is close to the investment brokers.

Physical persons. They make a wide range of transactions concerning foreign tourism, translations of wages, fees, pensions, sales and purchases of cash currency seen as uncommercial operations. The Forex market trading first introduced in 1986 gave a chance for physical persons to deposit the available money resources in order to gain the profit.