



Forex For All
garnettrade

A Beginner's Guide

INTRODUCTION TO THE FOREX MARKET

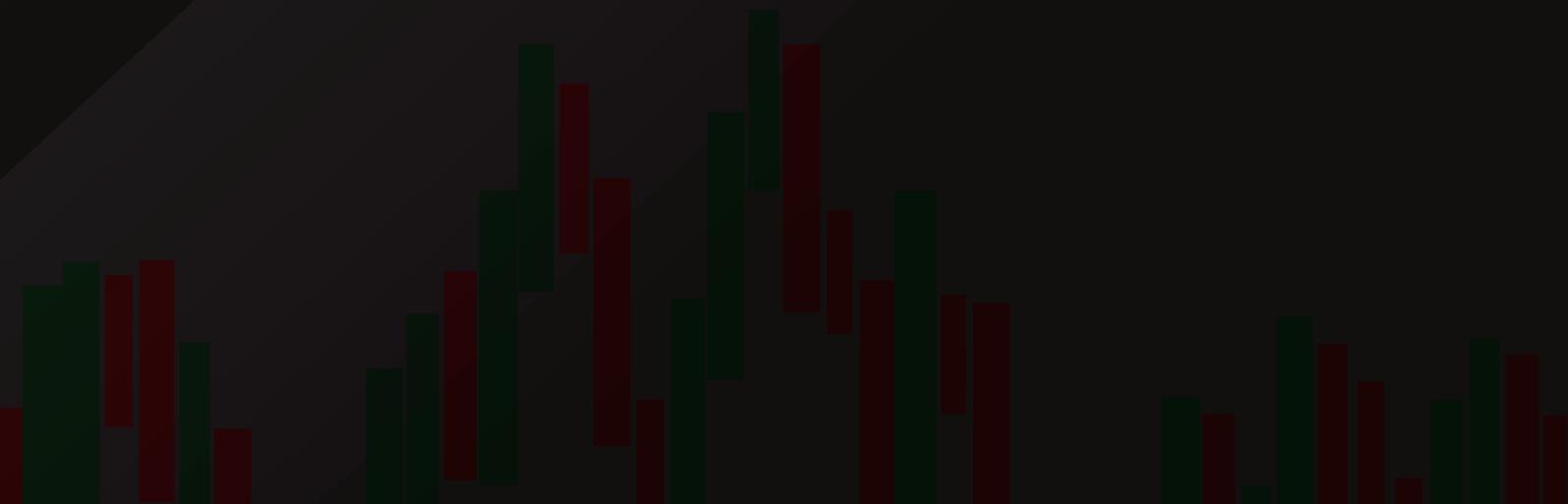


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CHAPTER 1:

INTRODUCTION TO THE FOREX MARKET

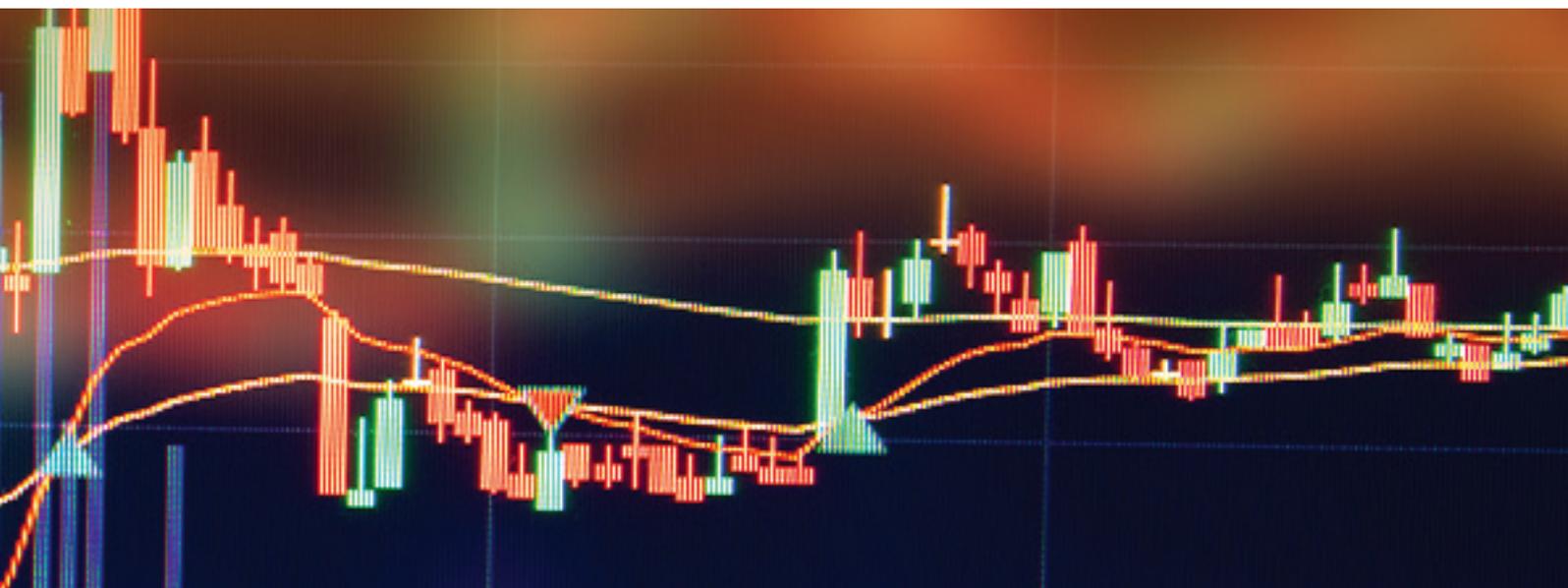
Part 1: What is FOREX?

FOREX is the acronym for the foreign exchange market where one type of currency is traded for another type of currency. FOREX is one of the world's largest trading markets. While some traders on this market are just looking to exchange their own currency for a foreign currency, most participants are currency traders, which means they speculate on exchange rates and their movements, just like traders speculate on stock prices on the stock market. People who trade currency are trying to make money on the fluctuation of rates.

Rate fluctuations on the exchange are typically the result of actual monetary flows in addition to global macroeconomic conditions. All significant news that impacts the market is released publicly, so everyone who is trading on the market gets the news at the exact same time. This reduces "insider information" to almost zero.

On FOREX, currencies are traded against each other and are expressed as xxx/yyy where xxx represents one currency and yyy represents the second currency. So if you are trading euros against the U.S. dollar, one unit would be represented as EUR/USD or 1 euro = 1.0636 dollar. There is no universal exchange for a specific currency pair.

The FOREX market is open 24 hours a day, Sunday evening until Friday evening. When the United States trading session ends, another session (Pacific, Asian and so on) will start. This means that all



world currencies are constantly up for trade. Traders don't have to wait until the market opens to react to significant world news. An average of \$5.3 trillion is exchanged every day.

Part 2: The History of FOREX

The FOREX exchange as it is known today began in 1973, but currency trading has actually been occurring since the first coins were introduced in the times of the Pharaohs of ancient Egypt. After World War II ended, though, the United States economy was strong relative to most of the European countries. The U.S. dollar became the prominent currency at this time and was recognized as the global reserve currency. All other foreign currencies were measured against the U.S. dollar, which created a new financial network known as the Bretton Woods System. This agreement allowed currencies to fluctuate within one percent to the currencies' par.

The Bretton Woods System was in effect from 1944 until 1973, when the agreement to use this market ended. The United Kingdom was faced with severe financial problems and began to float its currency. This caused other currencies to drop in value and float their currencies as well. U.S. President, Richard Nixon is credited with bringing about the free-floating currency system that gave rise to the short-lived Smithsonian agreement in 1971. This agreement allowed currencies to fluctuate within a range of two percent of the currencies' par. These boundaries were found to be too unrealistic and the agreement ended in March of 1973.

1982 marked the first time a currency pair was offered as a purchase option to the United States, with more currencies becoming available in 1983. By 1987, both the United Kingdom and the United States were trading heavily on the FOREX, but there were many other countries such as China, South Korea and even Iran (in 1991) participating as well.

The first online trading of currency occurred in 1994, which in turn led to the development of the Euro currency in Europe. The rise of the Euro threatened the dominance of the U.S. Dollar as the global reserve currency. The Euro is currently the official currency in 19 European countries.

Part 3: Why Trade FOREX?

While many traders are aware of the benefits of trading on the stock exchange, few new traders understand the advantages of trading FOREX. This market is gaining in popularity because it offers many benefits that they don't get with other markets. Here are a few reasons why trading FOREX has gained so much favour among traders.

1. No commissions. No one likes to pay fees to make money. On FOREX, traders do not pay clearing fees, exchange fees, government fees or brokerage fees. Quite simply, traders don't have to give away part of their profits to these fees. Retail brokers on FOREX are compensated through the "bid-ask spread", which will be explained in further detail later.
2. No middlemen. Traders can trade directly with the market instead of relying on a middleman to make the trades for them.
3. No fixed lot size. When trading FOREX, traders can participate with \$25 or less. Traders determine their own lot, which makes the market accessible to just about everyone.
4. 24-hour Market. Traders can trade at any time of the day or night, which makes it easy for part-time traders to decide when they want to trade. The Australian market opens on Monday mornings and it closes in New York on Friday afternoons.
5. Low-cost transactions. The transaction cost for trades is usually less than 0.1 percent. This is the bid-ask spread where brokers make their money. With larger brokerage companies, the cost per transaction can be as low as 0.07 percent.
6. The market cannot be controlled. This market is so big and encompasses so many traders that it cannot be controlled by any single entity for any length of time.
7. Entry into FOREX is easy. It can be easy to think that it would cost a small fortune to begin trading currency, but in actuality, most online FOREX brokers offer trading accounts for as low as \$25, sometimes less. This doesn't mean traders should start with that small of an account, but it does mean that traders can start without a lot of start-up capital.
8. Highly liquid. The FOREX market is huge, which means it is also highly liquid. Traders do not get "stuck" with a trade because there is almost always someone else who is willing to take what is being offered. In fact, traders are able to set a take profit order so that

when they reach the profit level they want, the trade can be closed. They can also set a stop loss order to close a trade if it's going the wrong way.

9. More leverage. Small deposits are able to control larger contract values, which gives traders the ability to reap significant profits and keep risk capital low.
10. Free information and practice. Almost all online FOREX brokers provide free demo accounts to give potential traders practice before trying the real thing. This is a great way for traders to build their skills and risk fake money before risking real money on the actual FOREX.

Part 4: Who Trades on FOREX?

Before the late 1990s, traders would have to have between \$10 million and \$50 million to open a trading account. The market was originally intended to be used by large companies and banks, but when the Internet became widely available, small traders, also referred to as retail traders, were able to access FOREX trading online. There are still four major players on the FOREX market today.

1. Big banks. The biggest banks in the world determine the exchange rates on the market. They set the bid-ask price that brokers must pay per transaction.
2. Big companies. Companies that operate on a global scale exchange on FOREX because they have to exchange their local currency into foreign currency before they can do business in the foreign country.
3. Governments and central banks. As with global companies, governments and central banks trade on FOREX as part of their operations. Central banks can cause fluctuations in the market when they adjust interest rates.
4. Speculators. Almost 90 percent of all trades are executed by speculators. Their goal is to make as much money as possible on the fluctuations in the exchange rates.

Part 5: Why Day Trade?

Day trading is the one opportunity that can provide participants with complete personal and financial freedom. Of course, there are certainly risks, but there are at least 10 reasons why day trading is such a popular "profession".

1. Race, gender, social status, education and background do not matter when you day trade. All that matters is that you have some money available for trading.
2. There are no bosses to answer to and no employees to pay. The only person you have to worry about is your broker and if your broker isn't doing his job, there are many others who will.

3. You can work from home and not pay rent on an office or carry an inventory of goods.
4. There is no face-to-face contact with customers, so you don't have to worry about customer service, invoices, returned checks or any other customer-related hassles.
5. You can trade on your time. If you only want to trade part-time, you can do that. There isn't an eight-hour commitment like with a traditional job.
6. You do not need a ton of money to begin your trading business.
7. Trades can be converted to cash in mere seconds. You do not have to wait for payday to roll around to get money when you need it.
8. Low transaction costs and no commissions mean you keep more of your profits.
9. Trading can be learned quickly and easily, without a college degree. You also don't need years of experience to begin trading FOREX.
10. Minimal requirements are necessary to begin trading. All you need is a computer with a stable Internet connection, an online broker to provide you with trading tools, a funded trading account and a solid trading strategy.