

Forex Special Report:

The 29 Most Frequently Asked Questions about the Forex that Every Trader Should Know!

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The 29 Most Frequently Asked Questions about the Forex that Every Trader Should Know!

IN THIS REPORT, WE DISCLOSE THE MOST FREQUENTLY ASKED QUESTIONS ABOUT TRADING THE FOREX. IT IS IMPORTANT THAT FOREX TRADERS UNDERSTAND THE RESPONSES TO THESE QUESTIONS. YOUR SUCCESS IN TRADING THE FOREX MAY DEPEND ON HOW WELL YOU APPLY THIS INFORMATION.

1. WHAT IS THE FOREIGN EXCHANGE (FOREX) MARKET?

The Foreign Exchange market, also referred to as the spot "FOREX" market, is the largest financial market in the world, with a daily average turnover of approximately \$1.5 trillion USD. Foreign Exchange is the simultaneous buying of one currency and selling of another. Most Forex trading consists of trades between the U.S. dollar and six major world currencies...Australian Dollar (AUD), Great British Pound (GBP), Canadian Dollar(CAD), Japanese Yen(JPY), and Swiss Franc (CHF).

2. WHY HAVE I NEVER HEARD OF THE FOREX MARKET?

Many Americans have not. Yet, the Forex has been actively traded by banks and financial institutions for nearly 30 years. In 2000, the U.S. Congress passed the Commodity Futures Modernization Act which made trading the Forex possible for the average U.S. investor.

3. HOW DOES THE FOREX MARKET DIFFER FROM THE STOCK MARKET?

The Forex is the fastest growing market in the world because it offers the average investor leverage unlike most any market, up to 100:1. Since the Forex is traded globally through a network of banks and financial institutions 24-hours a day from Sunday at 5pm (Eastern Time) through Friday at 4pm (Eastern Time), there is no central exchange. Traders and investors can trade the Forex most anytime that it is convenient for them.

4. WHAT MAKES THE FOREX MARKET MOVE?

World currencies are exchanged in large because of international trade. For instance, consumers of one country purchase goods of another country. Also, when large companies do business with other global companies. Global investments and monetary diversification are additional reasons that make the Forex market move.

5. CAN THE FOREX MARKET EXPERIENCE A COLLAPSE SIMILAR TO WHAT HAPPENED TO SOME STOCK MARKETS?

No. The balance of trade between world currencies alleviates the Forex from a major breakdown. Furthermore, the constant trade between international companies and the daily buying and selling of goods and services to global consumers supports the Forex.

6. WHO REGULATES THE FOREX MARKET IN THE U.S.?

The Commodity Futures Trading Commission (CFTC) and National Futures Association (NFA) monitor Forex trading in the U.S. and provide a high degree of requirements and regulation of U.S. brokers.

7. DOES THE U.S. ECONOMY AFFECT THE FOREX MARKET?

Yes. The U.S. Dollar is by far one of the most valued currencies in the world. As the U.S. economy strengthens, so does the value of the U.S. dollar. Traders should note that the most traded currency pair in the world is the EUR/USD.

8. WHO ARE THE PARTICIPANTS IN THE FOREX MARKET?

The Forex market is called an "Interbank" market due to the fact that historically it has been dominated by banks, including central banks, commercial banks, and investment banks. However, the percentage of other market participants is rapidly growing, and now includes large multinational corporations, global money managers, registered dealers, international money brokers, futures and options traders, and private speculators.

9. WHEN IS THE FOREX MARKET OPEN FOR TRADING?

In a 24-hour market, Forex trading begins each day in Sydney, and moves around the globe as the business day begins in each financial center, first to Tokyo, then London, and New York. Unlike any other financial market, investors can respond to currency fluctuations caused by economic, social and political events at the time they occur - day or night. Generally in the U.S., the Forex market is available for trading from Sunday at 5:00 PM Eastern Time till Friday at 4:00 PM Eastern Time except for holidays.

10. WHEN IS THE BEST TIME TO TRADE THE FOREX MARKET?

Generally, the best time is when a country's banks and equity markets (such as the stock, commodities, bond, etc.) are open. For instance, trading the EUR/USD may be best from 1:00 a.m. Eastern Time through 9:00 a.m. Eastern time.

11. WHERE IS THE CENTRAL LOCATION OF THE FOREX MARKET?

Forex trading is not centralized on an exchange, as with the stock and futures markets. The Forex market is considered an Over the Counter (OTC) or "Interbank" market, due to the fact that transactions are conducted between two counterparts over the telephone or via an electronic network.

12. WHAT ARE THE MOST COMMONLY TRADED CURRENCIES IN THE FOREX MARKETS?

The most often traded or 'liquid' currencies are those of countries with stable governments, respected central banks, and low inflation. There are six major currency pairs, and trading these pairs account for more than 80% of Forex transactions: EUR/USD, GBP/USD, USD/JPY, USD/CHF, AUD/USD, and USD/CAD. Some brokers provide more exotic Forex currency pairs such as EUR/JPY, EUR/AUD, EUR/GBP, GBP/JPY, GBP/NZD, EUR/CAD, and GBP/CHF.

13. WHAT IS A CURRENCY PAIR?

Two currencies make up a foreign exchange rate. For instance, the US Dollar and Japanese Yen make the USD/JPY currency pair.

14. WHAT IS THE BASE CURRENCY AND CROSS CURRENCY?

The first currency in a currency pair is the Base Currency. It is the dominant currency of the pair. The second currency is the Cross Currency.

15. WHAT IS A PIP?

PIP is an acronym for Price Interest Point. It is the smallest unit of a currency. It is the farthest digit to the right of a currency pair. Suppose the EUR/USD moves from 1.2400 to 1.2401, the move of 0.0001 is equal to 1 pip. With currency pairs related to the Japanese Yen, a pip is equal to 0.01 because there are only 2 digits after the decimal.

16. HOW IS VALUE OF A PIP CALCULATED...FIXED OR FLOATING?

There are fixed and floating values for a pip depending upon the currency pair. When the USD is on the right side of the pair (EUR/USD, GBP/USD, AUD/USD, and NZD/USD) the pip is value is fixed at \$1.00 per 10,000 currency units. This is a fixed pip value. When the USD is on the left side (USD/CHF) or the currency pair is made of two foreign currencies (EUR/JPY), the pip value floats or changes compared to the daily exchange rate fluctuation. An approximate floating pip value of the USD/CHF per 10,000 units of the base currency is \$0.96.

17. WHAT IS A LOT?

A standard unit of measurement for a Forex trade. One lot in a standard account is approximately equal to \$100,000 currency. Whereas, one lot in a Mini account is approximately equal to \$10,000 of currency.

18. WHAT IS MARGIN?

The amount of cash deposit required in a client's account in order to open a position or to maintain an open position. Margin is essentially collateral for a position. If the market moves against a customer's position, the client will be requested to deposit additional funds through a "margin call." If there are insufficient available funds, a broker most likely will close out the client's open positions.

19. WHAT IS THE MARGIN REQUIREMENT TO MAKE A TRADE?

The Forex allows spot currency positions to be leveraged at various amounts depending on the broker – up to 100:1 leverage is common. This means that a 1% margin deposit (\$100) allows you to control \$10,000 of currency in a 1 Mini lot position in the Forex market. Forex trading is conducted on "margin" which means that a cash deposit, usually much smaller than the underlying value of the currency contract, is required in order to trade. Margin available in your trading account is based on account equity, not account balance. The equity is the most accurate measure of the value of your account, as it takes into account unrealized gains and losses.

20. WHAT DOES IT MEAN TO HAVE A "LONG" OR "SHORT" POSITION?

In trading, a long position is one in which a trader buys a currency at one price and aims to sell it later at a higher price. In this scenario, the trader benefits from a rising market. A short position is one in which the trader sells a currency in anticipation that it will depreciate. In this case, the trader benefits from a declining market.

21. HOW DO I MANAGE RISK?

The most common risk management tools in FX trading are the limit order and the stop loss order. A limit order places restriction on the maximum price to be paid or the minimum price to be received. A stop loss order ensures a particular position is automatically liquidated at a predetermined price in order to limit potential losses should the market move against an investor's position. The liquidity of the Forex market ensures that limit order and stop loss orders can be easily executed.

22. WHAT ARE THE TYPES OF ORDERS IN TRADING THE FOREX?

Market Order - An order to buy or sell immediately at the best price currently available in the market. Market orders are popular for traders who want to buy or sell without delay. However, a market order does not guarantee a price; it only assures an immediate execution. The last-traded price is not necessarily the price at which the market order will be filled. In highly volatile market conditions, it is possible a market order will be filled away from the last-traded price.

Example: When placing a buy order on the EUR/USD at the current ask price of 1.2050, a market order is placed for a long position in the EUR/USD at the best price available in the market. A market order does not guarantee a price. It only has immediate execution.

Entry Order - An order to buy or sell when a specific price is reached and remains in effect until the client cancels the order. There are 4 types of Entry Orders:

1. **Buy Stop** - a buy order set at a price above the current price, and is filled as a market order when reached.
2. **Buy Limit** - a buy order set at a price below the current price, and is filled as a market order when reached.
3. **Sell Limit** - a sell order set at a price above the current price, and is filled as a market order when reached.
4. **Sell Stop** - a sell order set at a price below the current price, and is filled as a market order when reached.

Stop-Loss Order - A stop order to buy or sell an existing position at specified price for the purpose of stopping the position from accruing additional losses. For instance, a stop-loss order on a Long position is an order to sell (close) that position at a loss. A stop-loss order remains in effect until the position is liquidated or canceled by the client.

Example: If you have an open Long position in the EUR/USD, which you bought at 1.2050 and you want to set a stop order in case the value of the EUR/USD depreciates. A stop order could be set at 1.2030 to sell EUR/USD. When the market hits the stop order, the long position is closed with a 20 pip loss.

Limit Order (Stop-Limit) - A stop order to buy or sell an existing position at a specified price for the purpose of closing the position and locking in gains. For example, a limit order on an existing Long position is an order to sell (close) that position. A stop-limit order remains in effect until the position is liquidated or canceled by the client.

Example: Suppose you have an open Long EUR/USD position, which you bought at 1.2050. You decide to set a limit order to take profit if the price reaches 1.2080. When the market reaches 1.2080, the position is closed with a 30 pip gain automatically.

Trailing Stop Order - A stop order to buy or sell an existing position in which the stop loss price is set either a fixed point or percentage away from the current exchange price. When in a Long position and if the exchange price rises, the trailing stop loss price rises proportionately; but, if the exchange price falls, the trailing stop loss does not change. This type of order allows a trader to set a limit on the maximum possible loss without setting a limit of the maximum possible gain. A trailing stop order remains in effect until the position is liquidated or canceled by the client.

Example: Suppose you have an open Long EUR/USD position, which you bought at 1.2050. You set a trailing stop order at 15 pips. As the long position rises in value, the trailing stop rises accordingly at 15 pips below the maximum exchange price reached. Suppose the maximum exchange price is 1.2075, then the trailing stop is 1.2060. If the current exchange price retraces to 1.2060, then the long position is closed at 1.2060 for a 10-pip profit.

23. WHAT IS THE PROCESS IN WHICH YOU EXECUTE TRADES?

The majority of all Forex trades are made over electronic trading platforms connected to the Internet. Typically, a Forex trader installs and opens a trading platform on their computer. Then, the trader creates an opening transaction on the trading platform, which is an order to establish either a buy (Long) or sell (Short) position. As a general rule, a trade position is kept open until one of the following occurs: a sufficient profit from a position is attained; the specified stop-loss is triggered; the trader chooses to close and liquidate a position in favor of executing another position at a better price.

24. CAN YOU MAKE MONEY SELLING A CURRENCY PAIR AS WELL AS BUYING IT?

Yes. You can trade either a buy (Long) position or sell (Short) position. Furthermore, short selling in the Forex market does not have some of the requirements as shorting in some other markets.

25. CAN YOU TRADE MORE THEN ONE CURRENCY PAIR AT A TIME?

Yes. Most Forex trading platforms allow for multiple currency pair positions. However, according to the NFA Compliance Rule 2-43, U.S. Forex Dealer Members may not carry offsetting positions in a customer account, but must offset them on a First-In, First-Out (FIFO) basis, thereby prohibiting a trading practice commonly referred to as "hedging."

26. WHAT IS THE DIFFERENCE BETWEEN "INTRADAY" AND "OVERNIGHT POSITION"?

Intraday positions are all positions opened anytime during the 24 hour period AFTER the close of normal Forex trading hours at 5:00pm Eastern. Overnight positions are positions that are still on at the end of normal trading hours (5:00pm EST), which are automatically rolled over to the next day's trading session.

27. HOW OFTEN ARE TRADES MADE?

Market conditions often dictate trading activity on any given day. As well, the type of trader you are will coincide with your trading activity. Day-traders might trade as often as 2 to 10 times a day. Whereas, Swing traders might make a small amount of trades a week. And, Position traders may only trade 1 to 3 times a week or month.

28. WHAT TYPES OF TRADE STYLES ARE BEST SUITED FOR THE FOREX MARKET?

Since the Forex market is traded by banks, international companies, investment firms, and retail traders, the Forex is suited for most any trade style. Many retail traders are considered day traders holding small intraday positions; while, major institutions may carry positions for weeks. Use a trade style suited to your personality and risk tolerance.

29. HOW DO I CALCULATE PROFITS AND LOSSES IN MY TRADES?

When you close a Long trade, subtract the price you bought from the price you sold. Then, multiply the difference by the number of lots traded and the transaction size. Here is an example of buying 5 mini lots of the EUR/USD at 1.2500 and selling the same 5 mini lots of EUR/USD at 1.2523 (1 mini lot equals the transaction size of 10,000). To calculate the profit: $(\$1.2523 - \$1.2500) = \$0.0023 \times 10,000 = \$23 \times 5 = \$115$. Similarly, to calculate a loss, suppose the position closed at 1.2480, the result is a \$100 loss: $(\$1.2480 - \$1.2500) = -\$0.0020 \times 10,000 = -\$20 \times 5 = -\$100$.