

Introduction to Forex trading

Forex (short for “foreign exchange”) trading is by a wide margin the biggest financial market in existence, featuring an estimated daily traded volume of some \$3.2 billion and unique characteristics which enable traders from all around the world to start investing on a relatively low budget, but with outstanding profit opportunities.

When you trade in the Forex market, you are speculating over the future trend of a currency pair. Supposing you are trading the EUR/USD hoping the Euro will gain value over the US dollar, opening a trade means buying a predetermined amount of dollars in exchange for euros at the current market price: conversely, when closing the same trade you are reselling euros in exchange for US dollars.

Although the number of factors contributing to the price oscillations of a currency pair is certainly large, these can be grouped into two general categories. The first main influence is given by the economical stability of the two countries involved and financial news that are regularly released during press conferences; the second great influence are trend patterns that are subject of advanced mathematics and probability concepts, and can largely be attributed to the psychology of the traders involved in this market.

The unprecedented attention that Forex has been drawing to small investors all around the world in recent years mainly has to do with the very unique possibilities offered by this market.

In fact, since price oscillations in currency pairs rarely go beyond a daily $\pm 1\%$, brokers have started offering their clients the possibility to leverage their investments on a scale that typically ranges from 20x to 400x their initial investment: this means that you can control as much as \$40,000 with an initial deposit of just \$100 and temporarily borrowing the remaining \$39,900 from your broker, which gives you the possibility to greatly enhance your profits (as well as your losses).

Another unique feature of the Forex market are the trading hours, with the possibility to trade 24 hours a day, five days a week. The main reason for this is in the fact that there is no actual physical location where forex trades take place, so the market movements keep on all day long, intensifying during certain timeframes (such as 9:00-17:00 local time in the US, Japan or Europe, the countries featuring the strongest currencies and economies).

Also, many brokers don't charge any commissions at all to their clients, but are merely compensated by what is commonly referred to as the “spread”, the difference between the bid and the ask price of a pair. This accounts for extremely flexible trade sizes, since charging the spread only means a fee that is always proportionate to the size of the trade, with no penalization for small or very small trade sizes.

These and many other advantages that are unique to the Forex market have been known by brokers since the introduction of this market in 1971: however, only in recent times the opportunities offered by fast and reliable DSL Internet connections made it possible for brokers to offer the full range of their services through an online platform.

Since the early 2000s, the online forex brokerage industry has been constantly expanding, attracting a growing number of investors around the world that want to take their chances in this extremely risky, but also very profitable market.