

1. The Basics of Currency Trading

With over \$3 trillion in average daily turnover, the foreign exchange market is five times the size of the U.S. futures market, making it the largest market in the world. Surprisingly, this sleeping giant is unfamiliar terrain for most individual traders and investors. Until the popularization of Internet trading a few years ago, forex was primarily the domain of large financial institutions, multinational corporations, and secretive hedge funds. But times have changed: the U.S. dollar recently fell to record lows, and everyone, from car dealers to bartenders, is waking up to the impact of currencies.

How does this Market Differ from other Markets?

Unlike the trading of stocks, futures, or options, currency trading does not take place on a centralized exchange, but instead through different forex brokers. At first glance, this ad hoc arrangement must seem bewildering to investors who are used to structured exchanges like the NYSE or CME. However, this arrangement works exceedingly well in practice: participants in forex must both compete and cooperate with each other, and self-regulation provides an effective amount of control over the market. Furthermore, reputable retail forex dealers in the United States become members of the National Futures Association (NFA), and by doing so, they agree to binding arbitration in the event of any dispute. Therefore, it is critical that any retail customer who contemplates trading currencies do so only through an NFA-member firm.

Here are five other factors that make the currency market different from other markets:

1. Simple Bet—Pro-Dollar or Anti-Dollar. When it comes to trading any of the dollar-based currency pairs, the general idea is simple: you are either pro-dollar or anti-dollar. Because 80 percent of all currency transactions involve the U.S. dollar, the outlook for the greenback and U.S. economic data tend to dominate the price action of the currency pairs.

2. Forex Trades on Public Data—No Fraud Like Enron. Since the currencies we offer are the ones from the most developed economies in the world, such as the US, the UK, the Eurozone, and Australia, accounting fraud is not an issue in currency trading. Also, economic data is released at the same time to everyone, which means that there is no such thing as insider trading. For example, CNBC will announce the nonfarm payroll numbers the instant that it is released, leveling the playing field for all investors.

3. The Ability to Earn Rollover. Rollover is the interest paid or earned for holding a position overnight. Each currency has an interest rate associated with it. Because forex is traded in pairs, every trade involves not only two different currencies, but their two different interest rates. If the interest rate of the currency you bought is *higher* than the interest rate of the currency you sold, then you will *earn* rollover (positive roll). If the interest rate on the currency you bought is *lower* than the interest rate on the currency you sold, then you will *pay* rollover (negative roll). Rollover can add a significant extra cost or profit to your trade.

4. 24-Hour Trading. The currency market is the most liquid market in the world, and one of the most seamless. With FXCM, you can trade 24-hours a day, between 5:15 PM (EST) Sunday and 4:00 PM (EST) Friday. In the forex market, there are relatively few price gaps. Its sheer size (trading over US\$3 trillion on average each day) and scope (worldwide) also makes the currency market the most accessible market in the world. You can trade before work, during work, or even after work, and there will always be a market open.

* Leveraged foreign exchange trading carries a high level of risk, and may not be suitable for all investors. The possibility exists that you could sustain a loss of some or all of your initial investment and therefore you should not invest money that you cannot afford to lose.