# Introduction to Forex

Do you ever feel like you know just enough about Forex to be dangerous? Let's see if we can fill in some of the gaps with the latest info from Forex experts.

The Foreign Exchange Market - better known as FOREX - is a world wide market for buying and selling currencies. It handles a huge volume of transactions 24 hours a day, 5 days a week. Daily exchanges are worth approximately $1.5 trillion (US dollars). In comparison, the United States Treasury Bond market averages $300 billion a day and American stock markets exchange about $100 billion a day.

The Foreign Exchange Market was established in 1971 with the abolishment of fixed currency exchanges. Currencies became valued at 'floating' rates determined by supply and demand. The FOREX grew steadily throughout the 1970's, but with the technological advances of the 80's FOREX grew from trading levels of $70 billion a day to the current level of $1.5 trillion.

The FOREX is made up of about 5000 trading institutions such as international banks, central government banks (such as the US Federal Reserve), and commercial companies and brokers for all types of foreign currency exchange. There is no centralized location of FOREX - major trading centers are located in New York, Tokyo, London, Hong Kong, Singapore, Paris, and Frankfurt, and all trading is by telephone or over the Internet. Businesses use the market to buy and sell products in other countries, but most of the activity on the FOREX is from currency traders who use it to generate profits from small movements in the market.

Even though there are many huge players in FOREX, it is accessible to the small investor thanks to recent changes in the regulations. Previously, there was a minimum transaction size and traders were required to meet strict financial requirements. With the advent of Internet trading, regulations have been changed to allow large interbank units to be broken down into smaller lots. Each lot is worth about $100,000 and is accessible to the individual investor through 'leverage' - loans extended for trading. Typically, lots can be controlled with a leverage of 100:1 meaning that US$1,000 will allow you to control a $100,000 currency exchange.

If you don't have accurate details regarding Forex, then you might make a bad choice on the subject. Don't let that happen: keep reading.

There are many advantages to trading in FOREX.

? Liquidity - Because of the size of the Foreign Exchange Market, investments are extremely liquid. International banks are continuously providing bid and ask offers and the high number of transactions each day means there is always a buyer or a seller for any currency.
? Accessibility - The market is open 24 hours a day, 5 days a week. The market opens Monday morning Australian time and closes Friday afternoon New York time. Trades can be done on the Internet from your home or office.
? Open Market - Currency fluctuations are usually caused by changes in national economies. News about these changes is accessible to everyone at the same time - there can be no 'insider trading' in FOREX.
? No commission - Brokers earn money by setting a 'spread' - the difference between what a currency can be bought at and what it can be sold at.

How does it work?

Currencies are always traded in pairs - the US dollar against the Japanese yen, or the English pound against the euro. Every transaction involves selling one currency and buying another, so if an investor believes the euro will gain against the dollar, he will sell dollars and buy euros.

The potential for profit exists because there is always movement between currencies. Even small changes can result in substantial profits because of the large amount of money involved in each transaction. At the same time, it can be a relatively safe market for the individual investor. There are safeguards built in to protect both the broker and the investor and a number of software tools exist to minimize loss.

Now might be a good time to write down the main points covered above. The act of putting it down on paper will help you remember what's important about Forex.



## About the Author

Matthew Bass of http://forex-resource-pro.com writes frequently about the Forex market.