What is Forex Trading?

Overview

FXCM provides an online trading platform for individuals that want to speculate on the exchange rate between two currencies. In doing so, traders buy and sell currencies with the hope of making a profit when the value of the currencies changes in their favor, whether from market news or events that take place in the world. The forex market is the largest market in the world with daily reported volume of over 1.8 trillion making it one of the most exciting markets for trading.

Market Hours

The spot FX market is unique to any other market in the world, as trading is available 24-hours a day. Somewhere around the world, a financial center is open for business, and banks and other institutions exchange currencies, every hour of the day and night with generally only minor gaps on the weekend. Essentially foreign exchange markets follow the sun around the world, giving traders the flexibility of determining their trading day.

How Market Hours Work

Time Zone	GMT	New York
Tokyo Open	0:00	7:00 PM
Tokyo Close	9:00	4:00 AM
London Open	8:00	3:00 AM
London Close	17:00	12:00 PM
NY Open	13:00	8:00 AM

NY Close	22:00	5:00 PM

How an FX Trade Works

In this market you may buy or sell currencies. The objective is to earn a profit from your position. Placing a trade in the foreign exchange market is simple: the mechanics of a trade are virtually identical to those found in other markets, so the transition for many traders is often seamless.

Example of How FX Trade Works

Trader's Action	Euros	US Dollars
A trader purchases 10,000 euros in the beginning of 2001 at the EUR/USD rate was .9600.	**+10,000**	**-9,600**
In May of 2003 the trader exchanges his 10,000 euro back into US dollar at the market rate of 1.1800.	**-10,000**	**+11,800**
In this example, the trader earned a gross profit of $2,200.	**0**	**+2,200**

Quoting Conventions

Currencies are quoted in pairs, such as EUR/USD or USD/JPY. The first listed currency is known as the base currency, while the second is called the counter or quote currency. The base currency is the "basis" for the buy or the sell. For example, if you BUY EUR/USD you have bought euros (simultaneously sold dollars). You would do so in expectation that the euro will appreciate (go up) relative to the US dollar.

Currency Abbreviations

Symbol	Definition	Symbol	Definition
EUR	Euro	**NZD**	New Zealand dollar
GBP	Great British pound	**AUD**	Australian dollar

USD	US dollar	**CAD**	Canadian dollar
CHF	Swiss franc	**JPY**	Japanese Yen

EUR/USD
In this example euro is the base currency and thus the "basis" for the buy/sell.

If you believe that the US economy will continue to weaken and this will hurt the US dollar, you would execute a BUY EUR/USD order. By doing so you have bought euros in the expectation that they will appreciate versus the US dollar. If you believe that the US economy is strong and the euro will weaken against the US dollar you would execute a SELL EUR/USD order. By doing so you have sold euros in the expectation that they will depreciate versus the US dollar.

USD/JPY
In this example the US dollar is the base currency and thus the "basis" for the buy/sell.

If you think that the Japanese government is going to weaken the yen in order to help its export industry, you would execute a BUY USD/JPY order. By doing so you have bought U.S dollars in the expectation that they will appreciate versus the Japanese yen. If you believe that Japanese investors are pulling money out of U.S. financial markets and repatriating funds back to Japan, and this will hurt the US dollar, you would execute a SELL USD/JPY order. By doing so you have sold U.S dollars in the expectation that they will depreciate against the Japanese yen.

GBP/USD
In this example the GBP is the base currency and thus the "basis" for the buy/sell.

If you think the British economy will continue to be the leading economy among the G7 nations in terms of growth, thus buying the pound, you would execute a BUY GBP/USD order. By doing so you have bought pounds in the expectation that they will appreciate versus the US dollar. If you believe the British are going to adopt the euro and this will weaken pounds as they devalue their currency in anticipation of the merge, you would execute a SELL GBP/USD order. By doing so you have sold pounds in the expectation that they will depreciate against the US dollar.

USD/CHF
In this example the CHF is the base currency and thus the "basis" for the buy/sell.

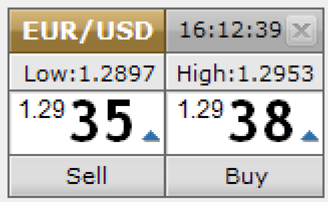
If you think the Swiss franc is overvalued, you would execute a BUY USD/CHF order. By doing so you have bought US dollars in the expectation that they will appreciate versus the Swiss Franc. If you believe that due to instability in the Middle East and in U.S. financial markets the dollar will continue to weaken, you would execute a SELL USD/CHF order. By doing so you have sold US dollars in the expectation that they will depreciate against the Swiss franc.

Buying/Selling

First, the trader should determine whether they want to buy or sell. If they want to enter a short order – whereby they will profit if the exchange rate falls – they simply need to click on the SELL rate. The opposite holds true for traders who enter buy orders: they can simply click on the BUY rate, and thus will profit if the exchange rate goes up.

Example of How Buying/Selling Works

Just like in all markets, there are two prices for every currency pair. The difference between these two prices is the spread, or the cost of the trade. In this example, the spread is three pips. On a mini account, a pip on the EUR/USD currency pair is worth $1.



Margin

The margin deposit is not a down payment on a purchase of equity, as many perceive margins to be in the stock markets. Rather, the margin is a performance bond, or good faith deposit, to ensure against trading losses. The margin requirement allows traders to hold a position much larger than the account value. FXCM's online trading platform has margin management capabilities, which allow for this high leverage. FXCM's most lenient margin requirement is 1%.

In the event that funds in the account fall below margin requirements, the FXCM Dealing Desk will close some or all open positions. This prevents clients' accounts from falling into a negative balance, even in a highly volatile, fast moving market.

Example of How Margin Works

Since the trader opened 1 lot of the EUR/USD, his margin requirement or Used Margin is $1000. Usable Margin is the funds available to open new positions or sustain trading losses. If the equity (the value of his account) falls below his Used Margin due to trading losses, his position will automatically be closed. As a result, the trader can never lose more than he/she deposits.

Rollover

For positions open at 5pm EST, there is a daily rollover interest rate that a trader either pays or earns, depending on your established margin and position in the market. If you do not want to earn or pay interest on your positions, simply make sure it is closed at 5pm EST, the established end of the market day. Since every currency trade involves borrowing one currency to buy another, interest rollover charges are an inherent part of FX trading. Interest is paid on the currency that is borrowed, and earned on the one that is purchased. If a client is buying a currency with a higher interest rate than the one he/she is borrowing, the net differential will be positive – and the client will earn funds as a result. Please note that clients must be on 2% margin in order to earn funds.

Getting Started

With no commitment or cost, you can open a Virtual Trading Account. The account has the full capabilities of a "real" account including live market rates, access to real-time market analysis, and the ability to execute trades off streaming prices. The virtual account (or Demo Account) gives you the ability to learn about the forex markets and test your trading skills without any risk.

How to Trade Your Demo: Use this time to make a plan.

1. Choose the right currency pair. Find out based on your risk parameters, which currency is best suited for your trading style. Some may be too volatile and some to slow so decide which currency pair is most appropriate for your strategy and time frame.
2. Decide on how long you plan to stay in a trade. If you are an intraday trader, what is the average time of your trade, few minutes, couple of hours a full day, swing trade (couple of days to a week).
3. Before you enter a trade you should also have clear exit plan. Place your stops and limits accordingly.
4. Know how much you are willing to risk and how much you are looking to gain.
5. Keep track of important news and technical levels, which may be tested within your time frame.