

How the Foreign Exchange Market is Different from the Stock Market

In this article we will investigate some of the significant differences between the forex market and others like the stock market. Established in the early 1970's, the relatively new forex market is one that is not based on any one business or investing in any one business, but the trading and selling of currencies between countries creating a vast amount of transactions on a daily basis.

For most stock traders, the first difference they will notice between the forex market and equities is timeframe. Although the hours of stock trading have been expanding in recent years, they are still subject to a normal business work day and will be closed on banking holidays and weekends. The forex market is still the only one which can truly be viewed as 24-hour.

The lack of an exchange like a NYSE is probably the next big thing that stands out as being different in forex. The stock market in any country is going to be based on only that country's currency, say for example the Japanese yen, and the Japanese stock market, or the United States stock market and the dollar. However, in the forex market, you are involved with many types of countries, and many currencies. You will find references to a variety of currencies, and this is a big difference between the stock market and the forex market. While it is true that there is exchange-based forex trading in the form of futures, the primary trading takes place over-the-counter via the spot market or in the form of online trading.

The lack of an exchange also means a difference in how a transaction is processed. In the stock market an order is submitted to a broker who facilitates the trade with another broker/dealer or through an exchange. In spot forex much of the trading done by individuals is actually executed directly with their broker/dealer. That means the forex broker takes the other side of the trade. This is not always the case, but a very common approach.

Margin trading is a familiar term to those used to trading in futures. Margin accounts are not limited to equities - they are also used by currency traders in the forex market. A major difference between the forex and equities markets is the number of traded instruments: the forex market has very few compared to the thousands found in the equities market. This makes currency trading easier to follow because rather than having to cherry-pick between 10,000 stocks to find the best value.

Although these are just a few of the differences between the traditional stock market and the fast-paced forex market, investment of any type should be considered carefully weighing the benefits and risks of each type of transaction before deciding the best option for you.

About the Author

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