

The Forex Trading Basics

Trading is probably as old as mankind itself. It's been there since man learned that he could trade his extra stone knife and five arrow heads for somebody else's nice warm fur blanket. These days we call it bartering, but it's the same process.

And these days we've gotten more sophisticated with our trading. Now we use something called money to stand in for the blankets and the knives, but we're still trading our ability to work and produce something useful in exchange for somebody else's goods that we want.

But now, trading is not only about goods or services, it has grown into something much more than that.

Now we're trading one region's money for another region's money because we've learned that their relative values can vary, sometimes significantly. The first enterprising souls to notice this were the world's first currency traders, taking their profits from the buying and selling of actual banknotes and coins.

But today the whole process has been formalized into what we call the Foreign Exchange (or Forex) market. And it has attracted a lot of action. Up to \$3 trillion a day worth of action, in fact.

Forex trading simply involves the buying and/or selling of different foreign currencies in the global market. Many investors today don't consider it enough to have a portfolio stuffed only with bonds, mutual funds and stocks.

One of the strongest appeals of the Forex market is its 24-hour open door. On the world clock, a trading day starts in Sydney, Australia and steps from time zone to time zone around the world until it reaches New York city, the last market to open each day. And it does this five days a week, closing only on the weekend.

Almost every country has its own currency, but on the Forex market, it's mostly the so-called "major" currencies that are traded. These currencies are highly regarded because their issuing countries are politically and economically more stable than most other currencies (most of the time).

The major currencies that are traded in the FX market are the Euro, the British Pound, the Japanese Yen and the Swiss Franc, as well as the dollars of Canada, Australia and the USA.

Most people, when they first learn of Forex trading, find it all a bit strange. Typically, money is used to buy goods and services, not other types of money. However, it's not really all that hard to understand. Just think of traveling to another country. Once you arrive, you go to a currency exchange or a bank and trade your dollars or Euros to buy ringits or yen. Then when you return home, you do the same in reverse. Sometimes the value has changed between the two exchanges, and you make a small profit or lose a bit.

Well, that's exactly what a Forex trader does, but he does it much more often, and usually with much larger sums of money. Also, he's not doing it because of travel but because he believes he foresees a coming shift in the exchange rate. In other words, he sees an opportunity to make a profit and seizes it. If he knows what he's doing, the profits can be both big and consistent.

So how do you get into the Forex market?

It's surprisingly easy to enter, although it's not quite as easy to rack up steady profits.

You'll need a computer and fast Internet connection. You'll also need seed money to cover your first trades. Minimum deposit requirements vary, but considering the opportunities available, even the higher entry fees are surprisingly low.

You can choose from among many software programs available for logging in to your account and placing your trades. The software also allows you to receive alerts on market conditions, rates, and other important information. The more sophisticated software can recommend when to buy or sell.

Forex trading can be an exciting way to make money, but when done in the wrong way, it can get very expensive. Learning what you're doing before you start trading is crucial. Do your research and your due diligence. Learn what the business is about. Set up a dummy account with a broker and do lots of paper trades so that you fully understand the entire process. Stay with this long enough to become comfortable.

In addition, read comments and advice from other traders... many other traders. It's important to have a strong grasp of the strategies you'll need

day-in and day-out. This is a business, and it's important that you treat it with the respect that a sophisticated, highly profitable business deserves.

This mindset of professionalism and responsibility are fundamental to any success you expect to build. Without such a mindset, you're nothing but another gambler and you'll lose more than you win.

Forex trading is more risky than stocks and bonds. But it also holds out the promise of much higher returns. Lightning can strike within seconds or minutes sometimes.

Don't ever forget, ordinary mortals can take part in Forex trading. Just because 98% of all trading is done by huge financial institutions and multinationals, don't think there won't be any "left-overs" for you. People from all walks of life are involved in that other 2% of Forex trading. Consider - just 2% of Forex's daily \$3 trillion volume leaves some very large chunks of opportunity up for grabs.

When you go looking for a system or strategy to guide your trades, don't just seize the first one you find. Do your homework. Take advantage of free trial versions of software. Look for customer testimonials. And after carefully considering all the factors involved, you can choose a system for your trading.

Another important factor - check out the brokers and choose one who can effectively help you devise a trading strategy that fits your goals and your personality.

If you truly want to make it big in the Forex market, use all available resources to learn your new business well. The average newcomer to Forex trading is impatient and wants to go straight to the "good stuff." Their impatience assures they'll never get to the good stuff and instead suffer mainly losses and disappointment.

Be determined. Be disciplined. Take the long-term view always. This will instantly set you apart from the losers. Once you have a good, solid knowledge of Forex trading basics, coupled with a well-tested strategy, you have a much better than average chance of making consistent profits in currency trading. After all, isn't that exactly what you're aiming for?

About the Author

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