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Savvy Maneuvers

Joseph R. Plazo

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A Thousand There …

A free book dedicated to All Forex Aficionados

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Forex for Absolute Dummies

Forex (foreign exchange) refers to the foreign currency exchange market, the world's largest financial trading market. Pass yourself as a forex expert with these buzz words:

- Bid – to buy
- Ask – to sell
- Liquidity – financial ease of transaction, i.e. cash
- Trading volume – the amount traded
- Bid/ask spread – the difference between the proposed buying price and the actual selling price
- OTC – over the counter
- Exchange rate – the difference between currency values; for instance, a Canadian dollar is valued at .86 of a US dollar
- Hedge funds – large mutual funds companies that control vast amounts of money and are able to manipulate the value of a currency through speculation
- Central bank – the national bank of a nation, which usually exerts control over the value of that currency

Forex trading is the investment in the currency of one nation. Multinational Corporations doing business across national boundaries find value in keeping their cash reserves in a variety of countries, and holding their funds in a myriad of ways. For example, a UK corporation may hold a percentage of its working capital in UK pounds, but if it does quite a bit of business in USA it may also maintain a percentage of its money in dollars, in US banks. Individual investors over the decades have discovered that there is profit to be made in investment and speculation in the currency markets.

Take the case during the 70's when the German DM swung rapidly in value. It was worth anywhere from 1.2 marks to the US dollar to 3.5 US marks to the dollar. When the mark was worth 2.5 it was beneficial to spend dollars buying marks, since the mark would buy more goods or services at that rate. As the mark bottomed out 1.7 to the dollar there was less incentive.

Surprisingly, the forex market itself is not unified. One can find many small forex markets specializing in trading various currencies. The most commonly traded currencies in forex speculation are the US dollar, the Australian dollar, the British pound sterling, the Japanese yen, and the European Euro. Currency values vary depending on the market in which an investor is speculating, so there is really no such thing as a single, unified dollar rate, but instead there are multiple dollar rates, which vary according to the market where the trade is occurring.
The major cities in which trades occur include New York, London, and Tokyo. It's a 24 hour process. When Asian trading ends, European trading commences, and when European trading ends, then American trading opens. Naturally, when American trading ends, it is time for Asian trading to open house once more... and so on.

Currently, the most actively traded currency is the US dollar, involved in 90% of all trades. This is followed by the Euro involved in 36% of all trades, then by the yen in 20% and the pound in 17%.

Our fastest rising currency in trade is the Euro, however the US dollar is still the favored anchor point-- and the currency watched so as to judge how others will react. Differences in value of currencies come from the current events. GDP growth, inflation dips, interest rate swings, budget and trade deficits, surpluses and other economic conditions all shift currency values. Investors, for this reason, follow the news very closely. There are 24 hour cable news channels and many web sites devoted to news that aid currency speculators.

The forex market is highly susceptible to rumors. In fact the central banks of countries frequently manipulated local currency value by sowing rumors about interest rate hikes and other economic propaganda that impacts the value of the domestic currency. When this news is false it is called a dirty float- and it dismays the market.

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Money Management Basics for Forex Traders

Money management in the foreign exchange currency market requires educating yourself in a variety of financial areas. First, a definition of the foreign exchange currency or forex market is called for. The forex market is simply the exchange of the currency of one country for the currency of another. The relative values of various currencies in the world change on a regular basis. Factors such as the stability of the economy of a country, the gross national product, the gross domestic product, inflation, interest rates, and such obvious factors as domestic security and foreign relations come into play. For instance, if a country has an unstable government, is expecting a military takeover, or is about to become involved in a war, then the country's currency may go down in relative value compared to the currency of other countries.

There are five major forex exchange markets in the world, New York, London, Frankfurt, Paris, Tokyo and Zurich. Forex trading occurs around the clock in various markets, Asian, European, and American. With different time zones, when Asian trading stops, European trading opens, and conversely when European trading stops, American trading opens, and when American trading stops, then it is time for Asian trading to begin again.

Most of the trading in the world occurs in the forex markets; smaller markets for trade in individual countries. Simply put forex trading is the simultaneous buying of one currency and selling of another. Over $1.4 trillion dollars, US of forex trading occurs daily and sometimes fortunes are made or lost in this market. The billionaire George Soros has made most of his money in forex trading. Successfully managing your money in forex trading requires an understanding of the bid/ask spread.

Simply put the bid ask spread is the difference between the price at which something is offered for sale and the price that it is actually purchased for. For instance, if the ask price is 100 dollars, and the bid is 102 dollars then the difference is two dollars, the spread. Many forex traders trade on margin. Trading on margin is buying and selling assets that are worth more than the money in your account. Since currency exchange rates on any given day are usually less than two percent, forex trading is done with a small margin. To use an example, with a one percent margin a trader can trade up to $250,000 even if he only has $5,000 in his account. This means the trade has leverage of 50 to one. This amount of leverage allows a trader to make good profits very quickly. Of course, with the chance of high profits also comes high risk.

People who do forex trading do so because they are attracted by 24 hour trading days, by strong liquidity – unlike stocks, buying and selling is almost instantaneous – and the fact that forex trading usually occurs without paying commissions.

Like many other speculative investments, a key part of money management for the forex trader is only using money that can be put at risk. It is wise to set aside a portion of your net worth and make that the only money you use in forex trading. While the chances of good profits are there, if you should have a problem and get wiped out, you'll only have a limited amount of money placed at risk. Also remember that the market is n constant motion. There are always trading opportunities. If a currency is becoming stronger or weaker in relation to other currencies there is always a chance for profit. For instance, if you believe that the Euro is gong to become weak compared to the US dollar then selling Euros is a good bet. If you believe that the dollar is going to become weaker than the yen, or the pound sterling, then selling dollars is wise. Staying current on the news and current events in the countries whose currency you hold is a smart move. Many people reach points where they can predict currency changes based on political or economic news in a given country. Remember though that forex trading is speculation, so be careful when managing your funds and only invest what you can afford to risk.

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Foreign Exchange Markets – A General Overview and Structure of the Forex Market

In the beginning countries would trade with each other using the barter system. If one nation needed lumber but had cattle, they would trade one product for another. This was pure trading. This type of economy has many limitations, but served mankind well for many centuries. However, nations quickly saw the benefit of having a system of exchange, and while some cultures used pretty rocks, or animal teeth, precious metals quickly became established methods of exchange. God and silver were the most popular. Initially gold and silver coins were used, and