Getting Started In Forex

by Justin Kuepper,

The forex (FX) market has many similarities to the equity markets; however, there are some key differences. This article will show you those differences and help you get started in forex trading.

Choosing a Broker
There are many forex brokers to choose from, just as in any other market. Here are some things to look for:

- ***Low Spreads*** - The spread, calculated in "pips", is the difference between the price at which a currency can be purchased and the price at which it can be sold at any given point in time. Forex brokers don't charge a commission, so this difference is how they make money. In comparing brokers, you will find that the difference in spreads in forex is as great as the difference in commissions in the stock arena.
  Bottom line: Lower spreads save you money!

- ***Quality Institution*** - Unlike equity brokers, forex brokers are usually tied to large banks or lending institutions because of the large amounts of capital required (leverage they need to provide). Also, forex brokers should be registered with the Futures Commission Merchant (FCM) and regulated by the Commodity Futures Trading Commission (CFTC). You can find this and other financial information and statistics about a forex brokerage on its website or on the website of its parent company.
  Bottom line: Make sure your broker is backed by a reliable institution!

- ***Extensive Tools and Research*** - Forex brokers offer many different trading platforms for their clients - just like brokers in other markets. These trading platforms often feature real-time charts, technical analysis tools, real-time news and data, and even support for trading systems. Before committing to any broker, be sure to request free trials to test different trading platforms. Brokers usually also provide technical and fundamental commentaries, economic calendars and other research.
  Bottom line: Find a broker who will give you what you need to succeed!

- ***Wide Range of Leverage Options*** - Leverage is necessary in forex because the price deviations (the sources of profit) are merely fractions of a cent. Leverage, expressed as a ratio between total capital available to actual capital, is the amount of money a broker will lend you for

trading. For example, a ratio of 100:1 means your broker would lend you $100 for every $1 of actual capital. Many brokerages offer as much as 250:1. Remember, lower leverage means lower risk of a margin call, but also lower bang for your buck (and vice-versa).
Bottom line: If you have limited capital, make sure your broker offers high leverage. If capital is not a problem, any broker with a wide variety of leverage options should do. A variety of options lets you vary the amount of risk you are willing to take. For example, less leverage (and therefore less risk) may be preferable for highly volatile (exotic) currency pairs.

- ***Account Types*** - Many brokers offer two or more types of accounts. The smallest account is known as a mini account and requires you to trade with a minimum of, say, $250, offering a high amount of leverage (which you need in order to make money with so little initial capital). The standard account lets you trade at a variety of different leverages, but it requires a minimum initial capital of $2,000. Finally, premium accounts, which often require significant amounts of capital, let you use different amounts of leverage and often offer additional tools and services.
Bottom line: Make sure the broker you choose has the right leverage, tools, and services relative to your amount of capital.

Things To Avoid

- ***Sniping or Hunting*** - Sniping and hunting - or prematurely buying or selling near preset points - are shady acts committed by brokers to increase profits. Obviously, no broker admits to committing these acts, but a notion that a broker has practiced sniping or hunting is commonly believed to be true. Unfortunately, the only way to determine which brokers do this and which brokers don't is to talk to fellow traders. There is no blacklist or organization that reports such activity.
Bottom line: Talk to others in person or visit online discussion forums to find out who is an honest broker.

- ***Strict Margin Rules*** - When you are trading with borrowed money, your broker has a say in how much risk you take. As such, your broker can buy or sell at its discretion, which can be a bad thing for you. Let's say you have a margin account, and your position takes a dive before rebounding to all-time highs. Well, even if you have enough cash to cover, some brokers will liquidate your position on a margin call at that low. This action on their part can cost you dearly.
Bottom line: Again, talk to others in person or visit online discussion forums to find out who the honest brokers are.

Signing up for a forex account is much the same as getting an equity account. The only major difference is that, for forex accounts, you are required to sign a margin agreement. This agreement states that you are trading with borrowed money, and, as such, the brokerage has the right to interfere with your trades to protect its interests. Once you sign up, simply fund your account, and you'll be ready to trade!

Define a Basic Forex Strategy
Technical analysis and fundamental analysis are the two basic genres of strategy in the forex market - just like in the equity markets. But technical analysis is by far the most common strategy used by

individual forex traders. Here is a brief overview of both forms of analysis and how they apply to forex:

Fundamental Analysis

If you think it's difficult to value one company, try valuing a whole country! Fundamental analysis in the forex market is often very complex, and it's usually used only to predict long-term trends; however, some traders do trade short term strictly on news releases. There are many different fundamental indicators of currency values released at many different times. Here are a few:

- Non-farm Payrolls
- Purchasing Managers Index (PMI)
- Consumer Price Index (CPI)
- Retail Sales
- Durable Goods

Now, these reports are not the only fundamental factors to watch. There are also several meetings from which come quotes and commentary that can affect markets just as much as any report. These meetings are often called to discuss interest rates, inflation, and other issues that affect currency valuations. Even changes in wording when addressing certain issues - the Federal Reserve chairman's comments on interest rates, for example - can cause market volatility. Two important meetings to watch are the Federal Open Market Committee and Humphrey Hawkins Hearings.

Simply reading the reports and examining the commentary can help forex fundamental analysts gain a better understanding of long-term market trends and allow short-term traders to profit from extraordinary happenings. If you choose to follow a fundamental strategy, be sure to keep an economic calendar handy at all times so you know when these reports are released. Your broker may also provide real-time access to such information.

Technical Analysis

Like their counterparts in the equity markets, technical analysts of the forex analyze price trends. The only key difference between technical analysis in forex and technical analysis in equities is the time frame: forex markets are open 24 hours a day. As a result, some forms of technical analysis that factor in time must be modified to work with the 24-hour forex market. These are some of the most common forms of technical analysis used in forex:

- The Elliott Waves
- Fibonacci studies
- Parabolic SAR
- Pivot points

Many technical analysts combine technical studies to make more accurate predictions. (The most common is combining the Fibonacci studies with Elliott Waves.) Others create trading systems to repeatedly locate similar buying and selling conditions.

Finding Your Strategy
Most successful traders develop a strategy and perfect it over time. Some people focus on one particular study or calculation, while others use broad spectrum analysis to determine their trades. Most experts suggest trying a combination of both fundamental and technical analysis, with which you can make long-term projections and also determine entry and exit points. But in the end, it is the individual trader who needs to decide what works best for him or her (most often through trial and error).

Things to Remember

- Open a demo account and paper trade until you can make a consistent profit - Many people jump into the forex market and quickly lose a lot of money (because of leverage). It is important to take your time and learn to trade properly before committing capital. The best way to learn is by doing!

- Trade without emotion - Don't keep "mental" stop-loss points if you don't have the ability to execute them on time. Always set your stop-loss and take-profit points to execute automatically, and don't change them unless absolutely necessary. Make your decisions and stick to them!

- The trend is your friend – If you go against the trend, you had better have a good reason. Because the forex market tends to trend more than move sideways, you have a higher chance of success in trading with the trend.

Conclusion
The forex market is the largest market in the world, and individuals are becoming increasingly interested in it. But before you begin trading it, be sure your broker meets certain criteria, and take the time to find a trading strategy that works for you. Remember, the best way to learn to trade forex is to open up a demo account and try it out.

Here are some useful resources:

Economic calendar: http://mam.econoday.com/index.html
FOREX brokers: http://www.fxstreet.com/nou/brokers/senseframestaula.asp
FOREX forum: http://moneytec.com/

FOREX news: http://forexnews.com/

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Justin Kuepper has many years of experience in the market as an active trader and a personal retirement accounts manager. He spent a few years independently building and managing financial portals before obtaining his current position with Accelerized New Media, owner of SECFilings.com, ExecutiveDisclosure.com and other popular financial portals. Kuepper continues to write on a freelance basis, covering both finance and technology topics.