

FOREX is the acronym for “foreign exchange market.” It is the worldwide platform on which global currencies are traded twenty-four hours a day, seven days a week. Given the sheer volume of the trading being done between currencies, it is currently the among the largest markets in the world. Interestingly enough, there is no physical central exchange for the Forex market. The market can operate without pause because once trading shuts down for the day in the North American market, it can be picked up again by the Asian and/or European markets. Therefore, it is technically possible to continue trading currencies non-stop.

The Forex market is made up of various factions that capitalize on the minute movements in currency exchange rates. Some of the traders are businesses that operate overseas and must purchase currencies other than their own in order to pay for their overhead in foreign parts, others include retailers who need to keep stocks of different currencies while still other Forex traders are individuals. However, the vast majority of the Forex market is comprised of currency traders who speculate on the movement in exchange rates. Forex traders deal with such large sums of money that even the slightest change in currency rates can mean either big losses or gains for currency speculators.

Although speculating on the Forex market is very similar to speculating on the stock market, there is one very big difference – it is nearly impossible to anticipate the movement of a country’s currency because it depends on so many interconnected variables including actual monetary flows, inflation, interest rates, the country’s trade balance, government debt and global economic conditions as well as political and economic news. Therefore, all currency traders technically have the same advantage and the strength of a good trader will depend on their speed, their ability to spot a trend and to anticipate currency movements. In essence, Forex trading is a *reactionary* form of trading, where traders wait for news before acting.

When you buy or sell a currency you are trading it against another currency, which means that you are working in currency pairs. Each currency is given a three-letter code and these codes are used globally to indicate that country’s currency. The relationship between the currencies being traded are normally signified as follows: XXX/YYY. So, for example USD/EUR would represent the unit price of US dollars expressed as Euros.

When it comes to currency trading, the amount of difference involved in the asking price (or sell price) and the offering price (or buy price) is usually extremely small – the amount is measured in “pips.” For instance, in our earlier example of USD/EUR, if the US currency was priced at 1.2345, the “pip” is the last digit – the “5.” Therefore the bid/ask would be 1.2345/1.2346.

However, these tiny numbers are usually reserved for trades between the market maker and the whole sale customer. For trades between currency brokers and retail currency traders the spread generally ranges from between 3 and 20 pips.

The Forex market has grown into a thriving and highly lucrative market that has helped people grow their wealth. One of the clear advantages of such a market is that it does not have to be a trader's day-job, because the markets are open twenty-four/seven, it is possible to be a Forex trader by night and still come out on top.