Investing in Forex markets

Understanding Forex markets as an investment

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Forex trading explained

Foreign Exchange (Forex) is a trillion dollar market where investors from big banks, financial institutions and retail investors invest in the strengthening of one currency against the weaker one. In short, in Forex market we Buy and Sell money. There are major currencies that are mostly traded around the globe. These currencies are from bigger economies and well developed countries. Below are the currencies that are mostly traded and are very liquid:

- Euro (EUR)
- Swiss Franc (CHF)
- Japanese Yen (JPY)
- Canadian Dollar (CAD)
- Australian Dollar (AUD)
- New Zealand Dollar (NZD)
- Great British Pound (GBP)

Since FX Trading is about investing in the appreciation of one currency against the depreciation of another currency, two different countries are always involved and currencies are traded in pairs. The most traded currencies are referred to as Major currencies and they are all paired with the Us Dollar.

Most traded currency pairs

- Eur/Usd (Euro Vs Us Dollar)
- Usd/Chf (Us Dollar Vs Swiss Franc)
- Usd/Jpy (Us Dollar Vs Japanese yen)
- Usd/Cad (Us Dollar Vs Canadian Dollar)
- Aud/Usd (Australian Dollar Vs Us Dollar)
- Nzd/Usd (New Zealand Dollar Vs Us Dollar)
- Gbp/Usd (Great British Pound Vs Us Dollar)

Stock Market

- When investing in stock market, investors are investing in companies.
- Investors are actually buying a share in a company, they hold on to it and they can sell it later if a share appreciates in value and if it doesn’t, they are stuck with it.
- There are high brokerage fees involved.
- There is a set time for the buying and selling of shares.
- Investors need to do a lot of research about the companies that they want to buy their share and also study the history and their performance which can be time consuming.
- Investors can only BUY and sell later and they cannot just SELL.
- The transaction costs are higher.
- Investing in stock market is local; investors can only invest locally using the currency of that particular country and it is opened 5 days a week and follows the banking hours, closed on public holidays and weekends.

Forex Market

- As mentioned above, investors invest actively in the strengthening of one currency against the weakening of the other, investors are buying stronger currencies (buying low and selling high) against the weaker currencies and it all happens at the comfort of the investor's home or computer, Forex market yields more returns compared to stock market because investors are actively involved and it can be a daily activity.
- There are no high monthly brokerage fees like traditional stock brokers.
- There is no set time for the buying and selling of currencies, investors can choose their own time to trade.
- Investors do not need to do any research but rather follow the economic health of the country which they wish to trade their currencies.
- Investors can go SHORT (sell) without any restrictions, because investors can make money in any direction of the market. There is no recession in Forex market as when one currency appreciates in value the other one depreciates in value, creating opportunities to trade and make money even when a currency is really going down. In short, investors BUY the currencies that are appreciating in value and make money when the currency price go higher, and investors SELL those currencies that are depreciating in value and make money when the price is pushed further down, all that is caused by supply/demand of a currency, there are lots of economic factors that contribute to the rising and falling of currencies, things like interest rates of the country, GDP of the country, employment/ unemployment change and statistics like retail sales and trade balance of the country. Investors need to pay attention to what the reserve bank of the country is saying and be tuned in into what the central bank is saying.
- Forex market is opened 24 hours 5 days a week, because it is not local but global, it comprises of 4 trading sessions which are opening and closing at different time zones, investors are from all over the world.

Investing in Forex market & Brokers

There are online Forex brokers who are responsible for the monetary transactions and ensuring that the buying and selling of currencies happens smoothly, there are hundreds of brokers but there are two that come highly recommended to choose from which are internationally and locally regulated by Financial Services Board (FSB) to ensure the safety of client's funds. Deposits to trading account can be made in South African Rand even though the trading itself is in dollars, the broker takes care of that for the investors/traders and the exchange happens within the broker's system which then makes it easy for investors to deposit in Rands and withdraw in Rands to their local bank using bank wire, debit or credit cards, Investors can withdraw their money at any time without putting monthly notice. Forex brokers make their money by charging a spread (few cents on entries and exits of trades), therefore investors are not paying any brokerage monthly fees.

Variety in Forex market

The flexibility within the Forex market allow investors to invest not only in currencies but in stocks as well but in a non-traditional way, by non-traditional way simply means trading stocks without paying high brokerage fees as investors would be trading it in stock market, but doing it within Forex market with a Forex broker using the same trading account that the investor trades currencies in. Trading stocks within Forex market is referred to as trading Stock indices, what the investors trade are not the actual stocks but what derives from the actual stocks, which then gives higher return when traded in the Forex market Vs it being traded in the Stock market because it can be traded actively and daily, basically investors can invest in industrial, technology and agriculture by investing in bucket of stocks which tracks the actual stocks.

Stock indices within Forex market

- Ftsee100
- Dow Jones
- Brent Crude oil
- Nasdaq
- S&P500
- DAX
- JSE and a lot more.

Not only the stock indices but Gold and Silver as well can be traded actively in the Forex market on daily basis, investing in Forex market should be given some time in order for the investment to grow and perform well, performance of the account depends on market conditions which can differ from month to month. The more money invested, the better the options and the better the returns because the quantity, size or volume traded is dependent on equity (money available on trading account). Trading Gold, Silver and the above mentioned Stock Indices can require an investor's equity to be a bit more than when only currencies are traded. Investors have a choice to compound their returns and that is one way of ensuring growth in their Forex trading account.

There are few currencies which their values are highly dependent on raw materials produced in the country, such currencies are called commodity currencies, one example (not the only one) is Canadian Dollar, though it is a major currency (paired with Us Dollar as mentioned above), Its value is highly dependent on the price of OIL since Canada is the big producer of oil and whatever happens to the price of oil has an impact to the price of Canadian Dollar.

How is money made in Forex trading?

When investors feel or think that the currency will be going down or depreciating, though it is not just a feeling but it is usually due to some economic factor, they SELL it against the stronger one, for instance:

- Investors think that EUR is weak and USD is stronger, the investors will then go SHORT (SELL) EUR and LONG (BUY) USD at the same time, and the trade that they enter will be a SHORT (SELL) trade of EURUSD, and they will then make their profit when the currency pair continues to go down as they expect and close the trade when in profit and the price is actually below the price they entered at.

- Investors think that EUR is strong and USD is weak, the investors will then go LONG (BUY) EUR and SHORT (SELL) USD at the same time, and the trade that they will enter will be a BUY (LONG) trade of EURUSD, and they will then make their profit when the currency pair continues to go up as they expect and close the trade when in profit and the price is actually above the price at which they entered.

- Investors can then increase the quantity, volume or size of their trades as the account grows to maximise the profits.