

What is FOREX?

The Foreign Exchange market, also referred to as the "FOREX" or "Forex" or "Retail forex" or "FX" or "Spot FX" or just "Spot" is the largest financial market in the world, with a volume of over \$4 trillion a day. If you compare that to the \$25 billion a day volume that the New York Stock Exchange trades, you can easily see how enormous the Foreign Exchange really is. It actually equates to more than three times the total amount of the stocks and futures markets combined! Forex rocks!

What is traded on the Foreign Exchange market?

The simple answer is money. Forex trading is the simultaneous buying of one currency and the selling of another. Currencies are traded through a [broker](#) or dealer, and are traded in pairs; for example the euro and the US dollar (EUR/USD) or the British pound and the Japanese Yen (GBP/JPY).

Because you're not buying anything physical, this kind of trading can be confusing. Think of buying a currency as buying a share in a particular country. When you buy, say, Japanese Yen, you are in effect buying a share in the Japanese economy, as the price of the currency is a direct reflection of what the market thinks about the current and future health of the Japanese economy.

In general, the exchange rate of a currency versus other currencies is a reflection of the condition of that country's economy, compared to the other countries' economies.

Unlike other financial markets like the New York Stock Exchange, the Forex spot market has neither a physical location nor a central exchange. The Forex market is considered an Over-the-Counter (OTC) or 'Interbank' market, due to the fact that the entire market is run electronically, within a network of banks, continuously over a 24-hour period.

Until the late 1990's, only the "big guys" could play this game. The initial requirement was that you could trade only if you had about ten to fifty million bucks to start with! Forex was originally intended to be used by bankers and large institutions - and not by us "little guys". However, because of the rise of the Internet, online Forex trading firms are now able to offer trading accounts to 'retail' traders like us.

All you need to get started is a computer, a high-speed Internet connection, and the information contained within this site.

BabyPips.com was created to introduce novice or beginner traders to all the essential aspects of foreign exchange, in a fun and easy-to-understand manner.

What is a Spot Market?

A spot market is any market that deals in the **current price** of a financial instrument.

Which Currencies Are Traded?

The most popular currencies along with their symbols are shown below:

Symbol	Country	Currency	Nickname
USD	United States	Dollar	Buck
EUR	Euro members	Euro	Fiber
JPY	Japan	Yen	Yen
GBP	Great Britain	Pound	Cable
CHF	Switzerland	Franc	Swissy
CAD	Canada	Dollar	Loonie
AUD	Australia	Dollar	Aussie
NZD	New Zealand	Dollar	Kiwi

Forex currency symbols are always three letters, where the first two letters identify the name of the country and the third letter identifies the name of that country's currency.

When Can Currencies Be Traded?

The spot FX market is unique within the world markets. It's like a Super Wal-Mart where the market is open 24-hours a day. At any time, somewhere around the world a financial center is open for business, and banks and other institutions exchange currencies every hour of the day and night with generally only minor gaps on the weekend.

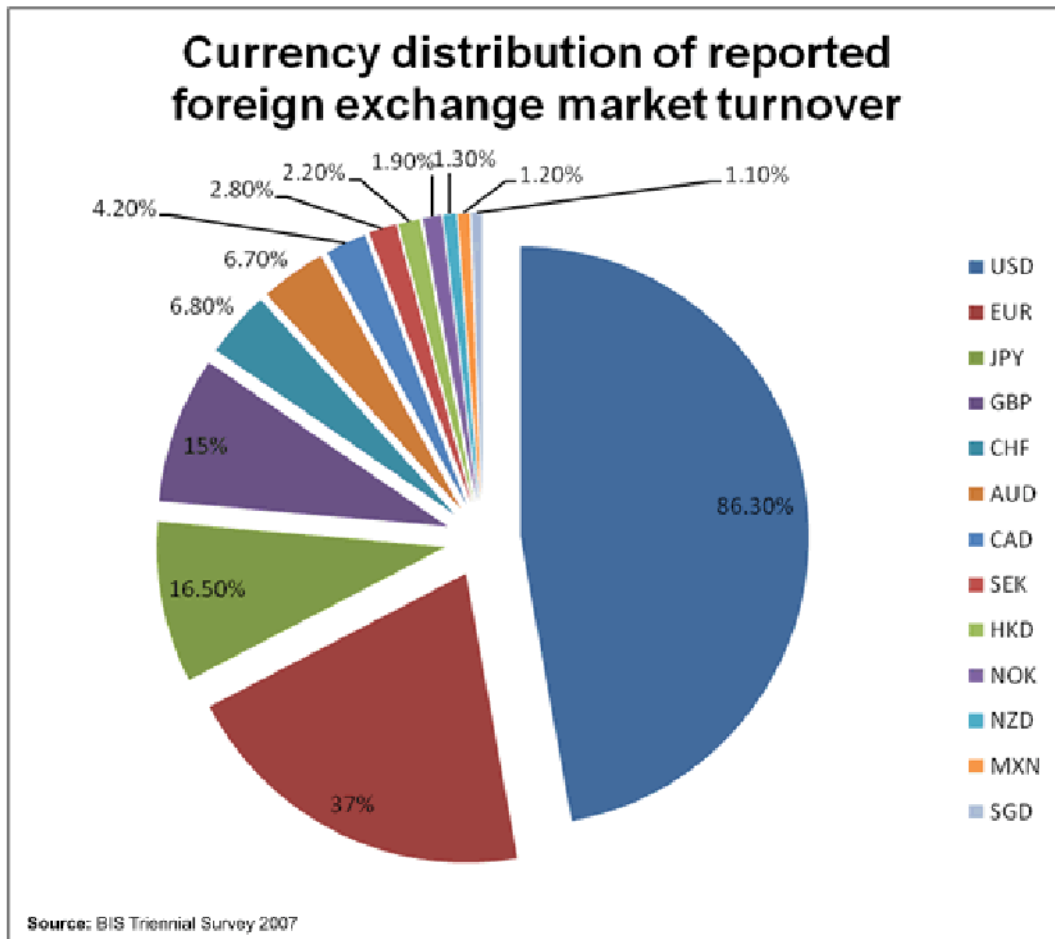
The foreign exchange markets follow the sun around the world, so you can trade late at night (if you're a vampire) or in the morning (if you're an early bird). Keep in mind though, the early bird doesn't necessarily get the worm in this market - you might get the worm but a bigger, nastier bird of prey can sneak up and eat you too...

Time Zone	New York	GMT
Tokyo Open	7:00 pm	0:00
Tokyo Close	4:00 am	9:00
London Open	3:00 am	8:00
London Close	12:00 pm	17:00
New York Open	8:00 am	13:00
New York Close	5:00 pm	22:00

The Forex market (OTC)

The Forex OTC market is by far the biggest and most popular financial market in the world, traded globally by a large number of individuals and organizations. In the OTC market, participants determine who they want to trade with depending on trading conditions, attractiveness of prices and reputation of the trading counterpart.

The chart below shows global foreign exchange activity. The dollar is the most traded currency, being on one side of 86% of all transactions. The euro's share is second at 37%, while that of the yen is third at 16.5%.



Why Trade Foreign Currencies?

There are many benefits and advantages to trading Forex. Here are just a few reasons why so many people are choosing this market:

- **No commissions.**
No clearing fees, no exchange fees, no government fees, no brokerage fees. Brokers are compensated for their services through something called the bid-ask spread.
- **No middlemen.** Spot currency trading eliminates the middlemen, and allows you to trade directly with the market responsible for the pricing on a particular currency pair.
- **No fixed lot size.**
In the futures markets, lot or contract sizes are determined by the exchanges. A standard-size contract for silver futures is 5000 ounces. In spot Forex, you

determine your own lot size. This allows traders to participate with accounts as small as \$250 (although we explain later why a \$250 account is a bad idea).

- **Low transaction costs.**
The retail transaction cost (the bid/ask spread) is typically less than 0.1 percent under normal market conditions. At larger dealers, the spread could be as low as .07 percent. Of course this depends on your leverage and all will be explained later.
- **A 24-hour market.**
There is no waiting for the opening bell - from Sunday evening to Friday afternoon EST, the Forex market never sleeps. This is awesome for those who want to trade on a part-time basis, because you can choose when you want to trade--morning, noon or night.
- **No one can corner the market.**
The foreign exchange market is so huge and has so many participants that no single entity (not even a central bank) can control the market price for an extended period of time.
- **Leverage.**
In Forex trading, a small margin deposit can control a much larger total contract value. Leverage gives the trader the ability to make nice profits, and at the same time keep risk capital to a minimum. For example, Forex brokers offer 200 to 1 leverage, which means that a \$50 dollar margin deposit would enable a trader to buy or sell \$10,000 worth of currencies. Similarly, with \$500 dollars, one could trade with \$100,000 dollars and so on. But leverage is a double-edged sword. Without proper risk management, this high degree of leverage can lead to large losses as well as gains.
- **High Liquidity.**
Because the Forex Market is so enormous, it is also extremely liquid. This means that under normal market conditions, with a click of a mouse you can instantaneously buy and sell at will. You are never "stuck" in a trade. You can even set your online trading platform to automatically close your position at your desired profit level (a limit order), and/or close a trade if a trade is going against you (a stop loss order).
- **Free "Demo" Accounts, News, Charts, and Analysis.** Most online Forex brokers offer 'demo' accounts to practice trading, along with breaking Forex news and charting services. All free! These are very valuable resources for "poor" and SMART traders who would like to hone their trading skills with 'play' money before opening a live trading account and risking real money.
- **"Mini" and "Micro" Trading:**
You would think that getting started as a currency trader would cost a ton of money. The fact is, compared to trading stocks, options or futures, it doesn't. Online Forex brokers offer "mini" and "micro" trading accounts, some with a minimum account deposit of \$300 or less. Now we're not saying you *should* open an account with the bare minimum but it does make Forex much more accessible to the average (poorer) individual who doesn't have a lot of start-up trading capital.

What Tools Do I Need to Start Trading Forex?

A computer with a high-speed Internet connection and all the information on this site is all that is needed to *begin* trading currencies.

What Does It Cost to Trade Forex?

An online currency trading (a “micro account”) may be opened with a couple hundred bucks. Do not laugh – micro accounts and its bigger cousin, the mini account, are both good ways to get your feet wet without drowning. For a micro account, we'd recommend at least \$1,000 to start. For a mini account, we'd recommend at least \$10,000 to start.