FOREX TRADING GUIDE

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If this is your first time coming across the online Forex market, then you've come to the right place.

This guide will provide you with the basic knowledge, tools and techniques a novice Forex trader should have as you take your first steps in the fascinating world of Forex. Learn from a professional trader and expert the key to trading Forex successfully. Great for those who want to know how to trade professionally for a living.

Forex training is important. Traders should obtain the proper preparation and expertise before trading currencies with live funds. Our firm puts a lot of emphasis into the training and mentoring of our customers. Our forex training was created to teach our clients a step-by-step strategy to day trade currencies.

Forex Market Introduction

Money or currency is the ultimate commodity. Every time a company or government buys or sells products and services in a foreign country, they are subject to a foreign currency trade; the exchanging of one currency for another. Many individuals and organizations also trade currencies for speculative purposes. With all of these currency transactions going on daily, it is no wonder that the foreign currency exchange market, also known as "FOREX" or "fx" market, has such a huge global reach and has become extremely popular among traders. Trillions of dollars of foreign exchange activity takes place every day. From 1997 to the end of 2000, daily forex trading volume surged from US$5 billion to US$1.5 trillion. The forex market continues to grow at a phenomenal rate (it is estimated that around US$4 trillion in daily trading volume is generated in FX today).

Before the internet came along, only corporations and wealthy individuals could trade currencies in the forex market through the use of the proprietary trading systems of banks. These systems required as much as US$1 million to open an account. Thanks to advancements in online technology, today investors with only a few hundred dollars can have access to the forex market 24 hours a day.

For traders, forex trading provides an alternative to stock market trading. While there are thousands of stocks to choose from, there are only a few major currencies to trade (the Dollar, Yen, British Pound, Swiss Franc, and the Euro are the most popular). Forex trading also provides a lot more leverage* than stock trading, and the minimum investment to get started is a lot lower. Add to that the ability to choose flexible trading hours (forex trading goes on 24 hours a day) and you have the reason why so many stock traders have flocked to day trade currencies.

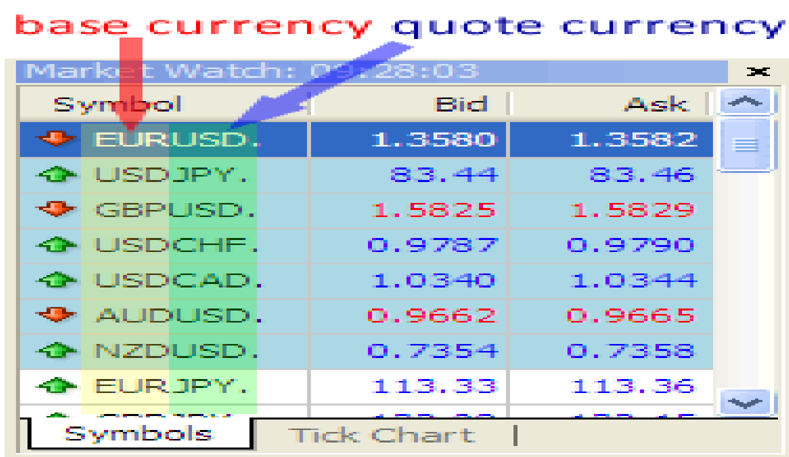
Forex Quote - How to Read a Currency Quote

Before trading currencies an investor has to understand the basic terminology of the forex market, including how to interpret forex quotes. In every foreign exchange transaction an investor is simultaneously buying one currency and selling another. These two currencies make up what is known as a "currency pair." This is an example of a foreign currency exchange rate of the dollar versus the yen:

USD/JPY = 85.32

The currency to the left of the slash ("/") is called the base currency (in this example, the US dollar) and the one on the right is called the quote currency or counter currency (in this example, the Japanese Yen). This notation means that 1 unit of the base currency (that is, 1 dollar) is equal to 85.32 Japanese Yen. If buying, the exchange rate specifies how much you have to pay in units of the quote currency to buy one unit of the base currency; in the above example, you have to pay 85.32 yen to buy 1 US dollar. If selling, the foreign currency exchange rate specifies how much units of the quote currency you get for selling one unit of the base currency; in the above example, you will receive 85.32 Japanese Yen when you sell 1 US dollar.

As with stocks, a forex quote includes a bid price (or bid) and an ask price (or ask). This can be easily illustrated with an example of a currency quote taken from the forex trading software:

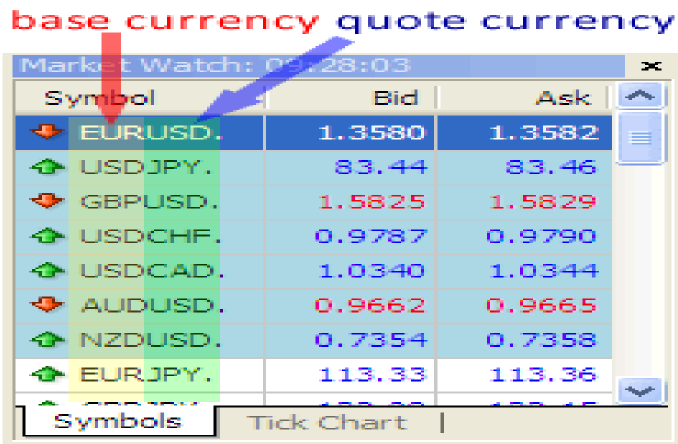


In the above example, the bid price for USDJPY is 83.44 yen and the ask price is 83.46 yen. The bid price is the price at which dealers are willing to buy the base currency (in units of the quote currency) and users of our http://www.etoro.com/A27219_TClick.aspx can sell. Thus, if a trader wants to "Sell USD," he/she would sell dollars at 83.44 yen. The ask price, on the other hand, is the price at which dealers are willing to sell the base currency and users of our system could buy it. If a forex trader wants to "Buy USD," he would be buying dollars at 83.46 yen.

Even though there are many currencies all over the world, 85% of all daily transactions involve trading a group of currencies known as the "Majors." These currencies include the US Dollar, Japanese Yen, Euro, British Pound, Swiss Franc, Canadian Dollar and Australian Dollar. The four most actively traded currency pairs are the US Dollar / Japanese Yen (USD/JPY), Euro / US Dollar (EUR/USD), British Pound / US Dollar (GBP/USD), and the US Dollar / Swiss Franc (USD/CHF). The US Dollar / Canadian Dollar (USD/CAD) and the

Australian Dollar / US Dollar (AUD/USD) are also actively traded pairs. For traders, the best trading opportunities are with the most commonly traded (and therefore most liquid) currencies; i.e., the "Majors."

The examples below were taken from the currency dealing system (based on MetaTrader technology) which provides forex real time quotes. From top to bottom are the euro-dollar exchange rate, the dollar-yen exchange rate, the british pound-dollar exchange rate, the dollar-swiss franc rate, etc. The first six currency quotes below are of major currency pairs.



Taking the example of the euro-usd forex quote (first pair above), buying one euro would cost 1.3582 US dollars and selling would provide 1.3580 USD.

> If you want to see more live currency quote examples, you can sign up for a free test drive of our MT4 forex trading software by clicking the appropriate link below. You will be able to obtain live forex quotes as well as place simulated trades in real time using different currency pairs. http://www.etoro.com/A27219_TClick.aspx

Currency Trading Basics

All currency trades involve the buying of one currency and the selling of another, simultaneously. Currency quotes are given as exchange rates; that is, the value of one currency relative to another. The relative supply and demand of both currencies will determine the value of the exchange rate.

When a currency trader places a trade he wants the currency purchased to appreciate in value versus the currency sold. His ability to determine the direction that the exchange rate will move, will dictate his gain or loss in a trade. Let's do an example with a currency quote obtained from the forex trading system.

Symbol	Bid	Ask
EURUSD	1.3488	1.3490
USDJPY	84.20	84.22
GBPUSD	1.5821	1.5825
USDCHF	0.9848	0.9851
USDCAD	1.0248	1.0252
AUDUSD	0.9591	0.9593
NZDUSD	0.7342	0.7347
[illegible]	[illegible]	[illegible]

Hypothetical Example of a forex trade

The current bid-ask price for EUR/USD (see image above) is 1.3488/1.3490, meaning you can buy 1 euro (EUR) for 1.3490 US dollars (USD). [If you need help understanding how to interpret forex quotes, click on this link.]

Suppose you feel that the EUR is undervalued against the dollar. To execute this strategy, you would buy Euros (simultaneously selling Dollars) and then wait for the exchange rate to rise.

So you make the trade: purchasing 100,000 EUR (1 standard lot) and selling 134,900 Dollars. (Remember, at 1% margin, your initial margin deposit would be 1,000 Euros. In this example, we assumed that the leverage was 100 to 1 and that one standard lot was transacted. When you open a forex account, you will instead have available up to a maximum of 500 to 1 leverage (0.2% margin), as well be able to trade mini (10,000-unit) and micro (1,000-unit) lots as well).

As you expected, EUR/USD rises to 1.3590/1.3592. Since you bought Euros and sold Dollars in your previous trade, you must now sell Euros for Dollars to realize any profit. You can now sell 1 EUR for 1.3590 Dollars. When you sell the 100,000 Euros at the current EUR/USD rate of 1.3590, you will receive 135,900 USD.

Since you originally sold (paid) 134,900 USD, your profit is US $1000 (please note: if the price of the Euro against the US Dollar would have gone down instead of up by the same amount in the example above, there would have been a loss of $1000 instead of a profit. A possibility for profit is always accompanied by a risk of loss).

Total profit = US $1000.00

Forex Charts - How to Read a Currency Chart

Forex charts are easy to interpret, especially for someone that has invested in or day traded stocks before. When looking at a real time chart of a stock, the trader has to select the chart period (1 day, 5 minutes, 15 minutes, etc.) and the ticker symbol of the desired stock. The concept is the same for a currency chart. The trader would select the specific currency pair (U.S. Dollar versus the Japanese Yen, the Euro versus the Dollar, etc.) and the desired time period or timeframe for each bar of the FX chart. The example below shows a snapshot of a real time 15-minute candlestick chart of the Euro versus the U.S. Dollar (EUR/USD) currency pair taken from our forex day trading system (this system can be used to obtain free forex charts for 30 days and also to practice day trading).

NOTE: Information on FX charting will be provided during our free, live forex training

The forex chart shows a strong two-day move to the downside in the Euro versus the dollar, from a high of of 1.3784 (on the 9:15 AM bar on October 4th - indicated by the vertical, blue bar on the left) to 1.3637 on the 6:30 AM bar on October 5th). This is a difference of 0.0147 or 147 pips (in forex trading, a "pip" is the smallest tick in the price of a currency, which is similar to a "tick" in stocks). In dollars, this move is equivalent to an amount of US$1,470 per lot for a standard lot, US$147 per lot for a mini lot, and US$14.70 per lot for a micro lot. In our forex trading system, currencies are traded in lots of 100,000 (100,000 x 0.0147 = $1,470), 10,000, or 1,000 base currency units. With a margin requirement of only 0.2% (500:1 leverage), meaning $200 per standard lot, $20 per mini lot, and $2 per micro lot, a 147-pip profit corresponds to a return of over 700% if a maximum leverage is used. In other words, while a move from 1.3784 to 1.3637 is only about 1.1%, with 500 to 1 margin this return becomes over 700% (Please Note: Increasing leverage increases risk; in this example, a move of 1.1% in the other direction would have wiped out the account). In our forex education section we also explain how to read a forex quote and other currency trading basics

More Currency Charts

If you were to look at the forex chart below without knowing that it was a currency chart, you might have thought that it was a chart of an 83-dollar stock. The snapshot of the real time forex chart below shows the relationship between the U.S. Dollar and the Japanese Yen for almost a three month period. Each candle represents one day of price activity, with the last candle on the forex chart showing the current value of the dollar versus the yen (83.19 yen). Consequently, an investor that day trades stocks can easily adapt to forex charts. If he feels that the dollar will go up, he simply buys. Then, for the sake of simplicity, let's say that the candles on his chart start moving up (e.g., 83.50, 83.75, 84.10, etc.). This means his balance is positive.

Notice that three lines of different colors are superimposed on the forex chart shown above. These lines are what are known in technical analysis as "simple moving averages," arithmetic averages of the price of the currency pair over a certain number of periods. The moving averages shown on the currency chart above are 7-day (yellow), 14-day (blue), and 50-day (red) moving averages. Day trading currencies mainly involves the application and interpretation of technical analysis on real time forex charts, just like day trading stocks involves applying technical analysis to real time stock charts.

Free Forex Charts

If you are a trader, by now you have probably realized that currency charts are really no different than stock charts. Once you understand how to read forex quotes, you can begin to trade currencies by applying technical analysis to different currency charts. One of the advantages of trading currencies over stocks is that you only have a few major currencies to trade rather than tens of thousands of stocks to worry about. Thus, it is a lot simpler.

To get access to free forex real time charts, you can sign up for free access to our real life forex demo. This simulator will not only let you play with different currency charts in real time, but it will also allow you to practice executing buy and sell orders at actual prices. The award-winning forex trading system based on MT4 technology is the best way for you to learn forex day trading. Pulling up currency charts is very easy.

Forex Trading

Advantages Over Stock Trading

If you are interested in online currency trading, you will find the forex market offers several advantages over stock and futures trading. The advantages of forex trading are as follow:

24-hour forex trading

Forex is a true 24-hour market. Whether it's 6 PM or 6 AM, somewhere in the world there are buyers and sellers actively trading foreign currencies. Traders involved in forex trading can always respond to breaking news immediately, and profit and loss is not affected by after hours earning reports, analyst conference calls, nor trading stoppages due to "pending news" or announcements.

After hours trading for U.S. stocks and futures brings with it several limitations. ECN's (Electronic Communication Networks), also called matching systems, exist to bring together buyers and sellers - when possible. However, there is no guarantee that every trade will be executed, nor at a fair market price. Quite frequently, traders must wait until the market opens the following day in order to receive a tighter spread.

Superior liquidity

With a daily trading volume that is 50 times larger than the New York Stock Exchange, there are always broker/dealers willing to buy or sell currencies in the forex markets. The liquidity of the forex market, especially that of the major currencies, helps ensure price stability. Traders can almost always open or close a position at a fair market price. This is a huge advantage of forex trading.

Because of the lower trade volume, investors in the stock market and other exchange-traded markets are more vulnerable to liquidity risk, which results in a wider dealing spread or larger price movements in response to any relatively large transaction.

500:1 Leverage in forex trading

100 to 1 leverage is commonly available from online forex dealers (we offer 500:1), which substantially exceeds the common 2:1 margin offered by equity brokers, and 15:1 in the futures market. At 100:1, traders post $1000 margin for a $100,000 position, or 1%. At 500:1, traders only need to post $200 for every $100,000 currency position.

While certainly not for everyone, the substantial leverage available from online forex trading firms can multiply both gains and losses. Rather than merely loading up on risk as many people incorrectly assume, leverage is essential in the forex market. This is because the average daily percentage move of a major currency is less than 1%, whereas a stock can easily have a 10% price move on any given day.

The most effective way to manage the risk associated with margined forex trading is to diligently follow a disciplined trading style that consistently utilizes stop and limit orders. Devise and adhere to a forex trading system where your controls kick in when emotion might otherwise take over.

Lower transaction costs

It is much more cost-efficient to trade forex in terms of both commissions and transaction fees.

Commissions for stock trades in the online discount brokerage world typically range from $7.95-$29.95 per trade, with full service brokers typically charging $100 or more per trade. An average commission on a futures trade is $15 a round turn. Forex brokers offer much lower commission structures. Thus, investors involved in forex trading could limit their cost.

Equal profit potential in both rising and falling markets

In every open forex position, an investor is long in one currency and short the other. A short position is one in which the trader sells the base currency in anticipation that it will depreciate. This means that, in forex trading, potential exists in a rising as well as a falling market.

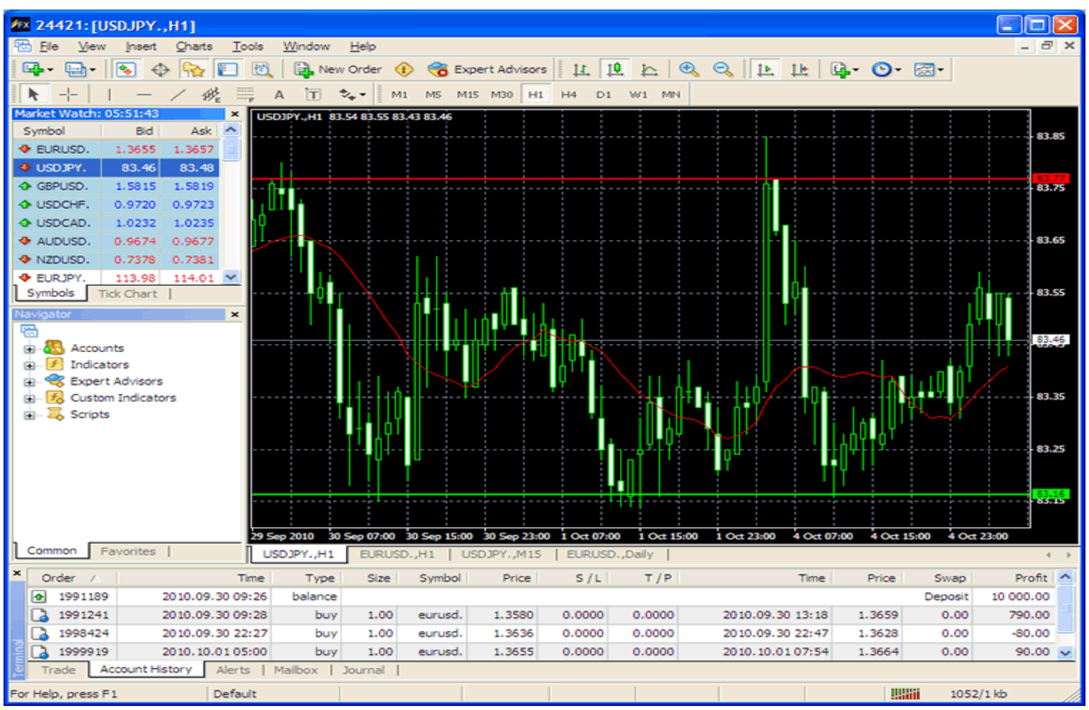
The ability to sell currencies without any limitations is another distinct advantage over equity trading. In the US equity markets, it is much more difficult to establish a short position due to the Zero Uptick rule, which prevents investors from shorting a stock unless the immediately preceding trade was equal to or lower than the price of the short sale. This limitation does not exist in forex trading.

Forex Simulated Trading

Forex simulated trading helps investors practice their forex trading before risking any money. For that reason, taking part in an online forex trading simulation is essential for the long-term success of any trader. The lower the experience level of a trader, the longer that trader should be actively involved in online simulated forex trading.

Before using a simulated forex trading system, it is important that the system is a live simulation program that provides lifelike results. The forex trading simulation system should allow the trader to execute practice trades at prevailing market prices using real time, streaming data.

Our simulated program based on MetaTrader 4 (MT4) technology meets all these requirements and more. Before putting real money to day trade currencies, a trader can sign up for a 30-day demo that provides lifelike executions, streaming charts, technical analysis, news, and other features. The program could also be used to simulate day trading. A snap shot of the forex trading system running in simulation mode is provided below.



The example above of the forex trading simulator shows the "Market Watch" window with some of the currency pairs that are available to trade. Most of the pairs shown consist of the major currencies: the US Dollar (USD), the Euro (EUR), the Japanese Yen (JPY), the British Pound (GBP), the Swiss Franc (CHF), the Canadian Dollar (CAD), and the Australian Dollar (AUD). The real-time, streaming graph shown is a candlestick graph of the Dollar / Yen (USD/JPY) exchange rate in the 1-hour timeframe (H1). The graph is enhanced with a technical analysis study consisting of a 14-period Simple Moving Average and a horizontal channel between 83.16 Yen and 83.77 Yen.

Whether you are an experienced stock day trader or a novice to the trading world, you could benefit from taking our online forex simulated trading program for a test drive. See how good you are at forex trading by using our online currency trading simulation. If you have any questions about simulated trading or any other of our services, don't hesitate to contact us

Forex Trading System - MT4 Technology

The forex trading system is based on the award-winning MetaTrader (MT4) technology, the standard platform in the FX industry. All trading functions can be performed from the main screen, including placing a trade, modifying an existing order, position management, and margin analysis - as well as the implementation of automated trading strategies called EA's (expert advisors).

Under our STP (straight through processing) technology, our etoro trading platform can execute trades in under 1 second, providing a quality of execution unmatched by many forex brokerage firms in the industry.

Below, you will see a screenshot of the actual MT4 trading platform main screen. Below the image, there are links to the most important sections or functions of the trading software, such as how to place an order and close an open position. After you request a forex trading demo and install the platform, a more in depth user guide can be accessed from within your trading terminal.

How to Trade on the Platform - Quick Start

- Executing a Forex Trade and then Closing the Position
- Using "Stop Loss" and "Take Profit" on an open position on etoro Trading Platform- this information is essential for any forex trader.
- Forex Pending Orders - used by FX traders who don't want to buy/sell at the current market price.
- etoro Order Management- learn to modify or cancel any open order on the trading platform.

To be able to run our etoro forex trading platform with free charts and automated trading tools as efficiently as possible, we recommend to use a Windows computer or any Mac running Boot Camp, VmWare Fusion, or Paralells. We also recommend that you register for our free forex training

Forex trading platform requirements

Etoro FX trading platform download and installation instructions

How to use the trading platform will be covered in our free, live FX training webinar

Forex Glossary

A to C

Appreciation - A currency is said to 'appreciate ' when it strengthens in price in response to market demand.

Arbitrage - The purchase or sale of an instrument and simultaneous taking of an equal and opposite position in a related market, in order to take advantage of small price differentials between markets.

Around - Dealer jargon used in quoting when the forward premium/discount is near parity. For example, "two-two around" would translate into 2 points to either side of the present spot.

Ask Rate - The rate at which a financial instrument if offered for sale (as in bid/ask spread).

Asset Allocation - Investment practice that divides funds among different markets to achieve diversification for risk management purposes and/or expected returns consistent with an investor's objectives.

Back Office - The departments and processes related to the settlement of financial transactions.

Balance of Trade - The value of a country's exports minus its imports.

Base Currency - In general terms, the base currency is the currency in which an investor or issuer maintains its book of accounts. In the FX markets, the US Dollar is normally considered the 'base' currency for quotes, meaning that quotes are expressed as a unit of $1 USD per the other currency quoted in the pair. The primary exceptions to this rule are the British Pound, the Euro and the Australian Dollar.

Bear Market - A market distinguished by declining prices.

Bid/Ask Spread - The difference between the bid and offer price, and the most widely used measure of market liquidity.

Big Figure - Dealer expression referring to the first few digits of an exchange rate. These digits rarely change in normal market fluctuations, and therefore are omitted in dealer quotes, especially in times of high market activity. For example, a USD/Yen rate might be 107.30/107.35, but would be quoted verbally without the first three digits i.e. "30/35".

Book - In a professional trading environment, a 'book' is the summary of a trader's or desk's total positions.

Broker - An individual or firm that acts as an intermediary, putting together buyers and sellers for a fee or commission. In contrast, a 'dealer' commits capital and takes one side of a position, hoping to earn a spread (profit) by closing out the position in a subsequent trade with another party.

Bretton Woods Agreement of 1944 - An agreement that established fixed foreign exchange rates for major currencies, provided for central bank intervention in the currency markets, and pegged the price of gold at US $35 per ounce. The agreement lasted until 1971, when President Nixon overturned the Bretton Woods agreement and established a floating exchange rate for the major currencies.

Bull Market - A market distinguished by rising prices.

Bundesbank - Germany's Central Bank.

Cable - Trader jargon referring to the Sterling/US Dollar exchange rate. So called because the rate was originally transmitted via a transatlantic cable beginning in the mid 1800's.

Candlestick Chart - A chart that indicates the trading range for the day as well as the opening and closing price. If the open price is higher than the close price, the rectangle between the open and close price is shaded. If the close price is higher than the open price, that area of the chart is not shaded.

Central Bank - A government or quasi-governmental organization that manages a country's monetary policy. For example, the US central bank is the Federal Reserve, and the German central bank is the Bundesbank.

Chartist - An individual who uses charts and graphs and interprets historical data to find trends and predict future movements. Also referred to as Technical Trader.

Clearing - The process of settling a trade.

Contagion - The tendency of an economic crisis to spread from one market to another. In 1997, political instability in Indonesia caused high volatility in their domestic currency, the Rupiah. From there, the contagion spread to other Asian emerging currencies, and then to Latin America, and is now referred to as the 'Asian Contagion'.

Commission - A transaction fee charged by a broker.

Confirmation - A document exchanged by counterparts to a transaction that states the terms of said transaction.

Contract - The standard unit of trading,

Counterparty - One of the participants in a financial transaction.

Country Risk - Risk associated with a cross-border transaction, including but not limited to legal and political conditions.

Cross Rate - The exchange rate between any two currencies that are considered non-standard in the country where the currency pair is quoted. For example, in the US, a GBP/JPY quote would be considered a cross rate, whereas in UK or Japan it would be one of the primary currency pairs traded.

Currency - Any form of money issued by a government or central bank and used as legal tender and a basis for trade.

Currency Risk - the probability of an adverse change in exchange rates.

D to G

Day Trading - Refers to positions which are opened and closed on the same trading day.

Dealer - An individual who acts as a principal or counterpart to a transaction. Principals take one side of a position, hoping to earn a spread (profit) by closing out the position in a subsequent trade with another party. In contrast, a broker is an individual or firm that acts as an intermediary, putting together buyers and sellers for a fee or commission.

Deficit - A negative balance of trade or payments.

Delivery - An FX trade where both sides make and take actual delivery of the currencies traded.

Depreciation - A fall in the value of a currency due to market forces.

Derivative - A contract that changes in value in relation to the price movements of a related or underlying security, future or other physical instrument. An Option is the most common derivative instrument.

Devaluation - The deliberate downward adjustment of a currency's price, normally by official announcement.

Economic Indicator - A government issued statistic that indicates current economic growth and stability. Common indicators include employment rates, Gross Domestic Product (GDP), inflation, retail sales, etc.

European Monetary Union (EMU) - The principal goal of the EMU is to establish a single European currency called the Euro, which will officially replace the national currencies of the member EU countries in 2002. On January 1st, 1999 the transitional phase to introduce the Euro began. The Euro now exists as a banking currency and paper financial transactions and foreign exchange are made in Euros. This transition period will last for three years, at which time Euro notes an coins will enter circulation. On July 1,2002, only Euros will be legal tender for EMU participants, the national currencies of the member countries will cease to exist. The current members of the EMU are Germany, France, Belgium, Luxembourg, Austria, Finland, Ireland, the Netherlands, Italy, Spain and Portugal.

EURO - the currency of the European Monetary Union (EMU). A replacement for the European Currency Unit (ECU).

European Central Bank (ECB) - the Central Bank for the new European Monetary Union.

Federal Deposit Insurance Corporation (FDIC) - The regulatory agency responsible for administering bank depository insurance in the US.

Federal Reserve (Fed) - The Central Bank for the United States.

Flat/square - Dealer jargon used to describe a position that has been completely reversed, e.g. you bought $500,000 then sold $500,000, thereby creating a neutral (flat) position.

Foreign Exchange - (Forex, FX) - the simultaneous buying of one currency and selling of another.

Forward - The pre-specified exchange rate for a foreign exchange contract settling at some agreed future date, based upon the interest rate differential between the two currencies involved.

Forward points - The pips added to or subtracted from the current exchange rate to calculate a forward price.

Fundamental analysis - Analysis of economic and political information with the objective of determining future movements in a financial market.

Futures Contract - An obligation to exchange a good or instrument at a set price on a future date. The primary difference between a Future and a Forward is that Futures are typically traded over an exchange (Exchange-Traded Contacts - ETC), versus forwards, which are considered Over The Counter (OTC) contracts. An OTC is any contract NOT traded on an exchange.

Good 'Til Cancelled Order (GTC) - An order to buy or sell at a specified price. This order remains open until filled or until the client cancels.

H to N

Hedge - A position or combination of positions that reduces the risk of your primary position.

Inflation - An economic condition whereby prices for consumer goods rise, eroding purchasing power.

Initial margin - The initial deposit of collateral required to enter into a position as a guarantee on future performance.

Interbank rates - The Foreign Exchange rates at which large international banks quote other large international banks.

Leading Indicators - Statistics that are considered to predict future economic activity.

LIBOR - The London Inter-Bank Offered Rate. Banks use LIBOR when borrowing from another bank.

Limit order - An order with restrictions on the maximum price to be paid or the minimum price to be received. As an example, if the current price of USD/YEN is 102.00/05, then a limit order to buy USD would be at a price below 102. (i.e., 101.50)

Liquidity - The ability of a market to accept large transaction with minimal to no impact on price stability.

Liquidation - The closing of an existing position through the execution of an offsetting transaction.

Long position - A position that appreciates in value if market prices increase.

Margin call - A request from a broker or dealer for additional funds or other collateral to guarantee performance on a position that has moved against the customer.

Market Maker - A dealer who regularly quotes both bid and ask prices and is ready to make a two-sided market for any financial instrument.

Market Risk - Exposure to changes in market prices.

Mark-to-Market - Process of reevaluating all open positions with the current market prices. These new values then determine margin requirements.

Maturity - The date for settlement or expiration of a financial instrument.

Momentum investor - A market participant who increase market exposure when the market is rising and decreases exposure or goes short when the market is declining.

O to S

Offer - The rate at which a dealer is willing to sell a currency.

Offsetting transaction - A trade with which serves to cancel or offset some or all of the market risk of an open position.

One Cancels the Other Order (OCO) - A designation for two orders whereby one part of the two orders is executed the other is automatically cancelled.

Open order - An order that will be executed when a market moves to its designated price. Normally associated with Good 'til Cancelled Orders.

Open position - A deal not yet reversed or settled with a physical payment.

Over the Counter (OTC) - Used to describe any transaction that is not conducted over an exchange.

Overnight - A trade that remains open until the next business day.

Pips - Digits added to or subtracted from the fourth decimal place, i.e. 0.0001. Also called Points.

Political Risk - Exposure to changes in governmental policy which will have an adverse effect on an investor's position.

Position - The netted total holdings of a given currency.

Premium - In the currency markets, describes the amount by which the forward or futures price exceed the spot price.

Price Transparency - Describes quotes to which every market participant has equal access

Quote - An indicative market price, normally used for information purposes only.

Rate - The price of one currency in terms of another, typically used for dealing purposes.

Resistance - A term used in technical analysis indicating a specific price level at which analysis concludes people will sell.

Revaluation - An increase in the exchange rate for a currency as a result of central bank intervention. Opposite of Devaluation.

Risk - Exposure to uncertain change, most often used with a negative connotation of adverse change.

Risk Management - the employment of financial analysis and trading techniques to reduce and/or control exposure to various types of risk.

Roll-Over - Process whereby the settlement of a deal is rolled forward to another value date. The cost of this process is based on the interest rate differential of the two currencies.

Settlement - The process by which a trade is entered into the books and records of the counterparts to a transaction. The settlement of currency trades may or may not involve the actual physical exchange of one currency for another.

Short Position - An investment position that benefits from a decline in market price.

Spot Price - The current market price. Settlement of spot transactions usually occurs within two business days.

Spread - The difference between the bid and offer prices.

Sterling - slang for British Pound.

Stop Loss Order - Order type whereby an open position is automatically liquidated at a specific price. Often used to minimize exposure to losses if the market moves against an investor's position. As an example, if an investor is long USD at 156.27, they might wish to put in a stop loss order for 155.49, which would limit losses should the dollar depreciate, possibly below 155.49.

Support Levels - A technique used in technical analysis that indicates a specific price ceiling and floor at which a given exchange rate will automatically correct itself. Opposite of resistance.

Swap - A currency swap is the simultaneous sale and purchase of the same amount of a given currency at a forward exchange rate.

Swissy - Slang for Swiss Franc.

T to Z

Technical Analysis - An effort to forecast prices by analyzing market data, i.e. historical price trends and averages, volumes, open interest, etc.

Tomorrow Next (Tom/Next) - Simultaneous buying and selling of a currency for delivery the following day.

Transaction Cost - the cost of buying or selling a financial instrument.

Transaction Date - The date on which a trade occurs.

Turnover - The total money value of all executed transactions in a given time period; volume.

Two-Way Price - When both a bid and offer rate is quoted for a FX transaction.

Uptick - a new price quote at a price higher than the preceding quote.

Uptick Rule - In the U.S., a regulation whereby a security may not be sold short unless the last trade prior to the short sale was at a price lower than the price at which the short sale is executed.

US Prime Rate - The interest rate at which US banks will lend to their prime corporate customers

Value Date - The date on which counterparts to a financial transaction agree to settle their respective obligations, i.e., exchanging payments. For spot currency transactions, the value date is normally two business days forward. Also known as maturity date.

Variation Margin - Funds a broker must request from the client to have the required margin deposited. The term usually refers to additional funds that must be deposited as a result of unfavorable price movements. Volatility (Vol) - A statistical measure of a market's price movements over time.

Whipsaw - slang for a condition of a highly volatile market where a sharp price movement is quickly followed by a sharp reversal.

Yard - Slang for a billion