Forex Market Trading Myths

The foreign exchange market is the largest and most liquid financial market in the world, with corporations, portfolio managers, individuals and financial institutions from around the globe participating for a wide variety of different purposes. Furthermore, since the advent of the Internet, the forex market has become an increasingly popular trading environment for many people who could not previously participate.

Perhaps because of the greater popularity of the forex market as a trading medium, even among non-professional traders, a number of inaccuracies and myths have arisen about trading currencies which shall be addressed in this article.

Myth Number 1- Trading Forex is Easy.

While opening an account and entering into foreign exchange contracts or currency futures is relatively easy, being successful at trading currencies entails a certain amount of knowledge, time and practice. Even the best trading system will not substitute for having a firm foundation in trading principles and techniques. Nevertheless, trading forex *can* be easy, once you have identified a sound trading strategy and have developed the discipline necessary to carry it out effectively. You can also greatly simplify the process by acquiring a trading system that has a proven track record and which trades automatically.

Myth Number 2- You Cannot Time the Market.

A considerable number of people are misled by brokers and investment advisors who make this claim. Of course it probably works to their advantage to advise you that you cannot time the market, since they prefer to obtain market orders from their clients that are guaranteed to earn them a commission. Nevertheless, the statement is not completely untrue for big players like the major fund managers with huge portfolios to shift. They can make the market move simply by buying or selling a small part of their overall position. Those traders really cannot time the market as easily as smaller traders can.

One must always remember when dealing with brokers and investment advisors that it is in their best interest for you to trade often and according to their advice in order to generate more commissions. They will even often sometimes take the other side of your trade. Fortunately, once you have learned enough about the markets and trading, you will no longer need their services other than perhaps for executing transactions.

Myth Number 3- Only the Wealthy Can Trade Forex.

This was once true, but with the development of computer technology and the advent of the Internet, forex trading is now available online to just about anyone with a computer and Internet connection. Forex trading accounts can now be started with just $1, with many online brokerages even offering practice trading accounts where you can paper trade without committing any funds until you feel ready to do so.

Due to its global appeal, low barrier to entry, and relatively low volatility compared to most stocks, the forex market is rapidly becoming the market of choice when it comes to smaller players who want to trade their own accounts.

Myth Number 4- Trading Currencies Requires You to Watch the Market All Day.

Depending on the trading strategy or system used, and by following a trading program with strict discipline, forex traders trading their own account can now enjoy their life without having to spend all day sitting in front of a trading screen. Watching the market constantly is even considered counterproductive because some traders tend to overtrade or even “marry” positions where they create a psychological dependence on being right. Holding such a mindset often makes a trader stubbornly refuse to cut losses, leading to frustration and ultimately, to losing money as a trader.

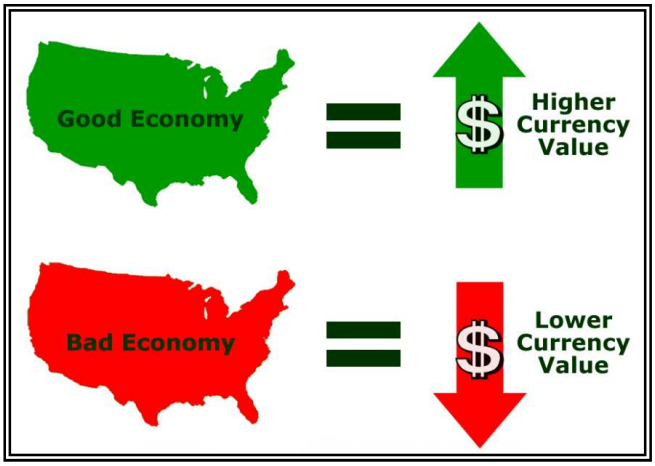
Myth Number 5- Trading Currencies Requires an Advanced Degree.

Education and background have no relevance to success in trading. The market does not discriminate and is the end result of the minds of millions of participants. Being educated may have substantial benefits when acquiring trading skills; however,, many highly-educated people have trouble with over analyzing and fail to “pull the trigger” in sufficient time to get in on a good trade. This condition is known as “analysis paralysis.”

Furthermore, achieving success as a trader involves more than just knowing where to get in on a trade. A successful trader also needs to know where to get out of a trade profitably and how to minimize losses. Knowing the right trading principles and being able to implement a trading strategy with discipline and consistency both help tremendously when trading. Traders generally need to pick up these skills by developing experience in the market, not by studying advanced subjects at college.

Myth Number 6- Forex Rate Movements are Random.

Some evidence does exist that market prices are random, and some theoretical option pricing models even assume this is the case. Nevertheless, Forex rates frequently demonstrate non-random trending behavior or other technical price patterns that are often a response to underlying interest rate adjustments by the relevant central banks. Also, valuation in the forex market generally reflects the price of the currency of each nation in terms of the currencies of other nations, and this market valuation responds sensitively to long-term economic and interest rate cycles.



Another way to look at forex is that a currency's value behaves as if it were the stock of a nation. If a corporation is doing well and giving good dividends, then its stock tends to rise. Likewise, if a nation is doing well economically and its interest rates are either attractive to investors or becoming more so, then the currency of that nation will tend to strengthen relative to currencies of nations with less buoyant economies and lower interest rates. This analogy is something of an oversimplification, especially given the global nature of the marketplace and the complex interaction of valuation effects including differences in interest rates, economic growth, trade deficits or surpluses, as well as how much money a given nation prints and with what security backing it.

In addition, if the currency is a reserve currency such as the U.S. Dollar, which has historically been used extensively for the buying and selling of key commodities like oil and gold, then that usage can also provide support to the currency despite an economic downturn. All of these valuation factors will tend to have an effect on the exchange rate of the various currency pairs, so keeping an eye on the fundamental economic picture of the countries involved can be a helpful indicator when it comes to the long-term behavior of one currency relative to another.

While the Forex market may be increasingly easy to participate in for non-professionals, it still helps to have an **experienced trading mentor** show you the ropes so that you can avoid Forex trading myths like those described above. Remember, whenever you start trading a volatile market, you will be taking substantial risks that can go either for or against your position. As a result, the prudent development and use of risk management principles and trading discipline is important to help make your foray into Forex trading a profitable and long-lasting one.

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