



## Information on trading retail FOREX

### **The Foreign Exchange Market**

Trading in foreign exchange or FOREX is the buying and the selling of currencies. While there is a worldwide market for currencies, no centralized currency market exists in any one country. The major participants in the FOREX market are banks and large institutional investors who trade with each other in an “interbank market”. Individual investors cannot access this market directly, but can engage in FOREX trading only through financial intermediaries that are regulated by a financial regulator such as a Securities Commission, Central Bank or other financial authority. In the FOREX market, transactions are quoted in currency pairs because the investor is buying one currency while selling another.

### **What factors should you consider before trading FOREX?**

Individual investors should consider the following factors carefully before trading FOREX:

**FOREX traders have the advantage:** FOREX contracts involve two parties holding opposite positions, meaning that when one gains, the other loses. When trading FOREX, an individual investor’s loss may become the online firm’s gain. This means the firm has every reason to operate the online system for its benefit. For that reason, individuals should ensure that they get independent advice when trading FOREX online or not trade at all.

**Fast changing market:** FOREX markets can be extremely volatile. Exchange rates move up or down rapidly as the value of currencies reacts to political or economic events, the weather and other national developments.

**High risk of loss:** Individual investors should be aware that they may lose all or more than their initial investments and therefore should not participate in the FOREX market if they cannot afford to lose their investments. Holding large positions by putting down only small deposits (leverage), can lead to huge losses from even small changes in the currency position.

**Margin requirements:** Because of the extreme up and down nature of the currency markets (volatility), investors may have to deposit more money (margin) on very short notice to maintain their positions.

**Trading expertise:** Individuals need a substantial degree of knowledge of the FOREX market and access to current information to be successful traders. In the alternative, investors should get expert advice from registered intermediaries.

**Costs:** Trading in FOREX also involves fees and transaction costs in addition to commissions or markups. These expenses may not be clearly identified up front and may be higher than the potential gains.

### **Take steps to protect yourself**

**Learn about FOREX.** FOREX is a volatile market where investors need current information and expertise to trade. You should first understand the market and its risks and then decide if this market is right for you. In FOREX trading, one side gains and the other loses. An individual who is not knowledgeable about the FOREX market will face challenges when trading against a firm with years of experience in the business. Learn more about the FOREX market.

**Trade only with regulated firms regulated by, or registered with a reputable (international) regulator.** In recent years, numerous unregulated companies have been offering online FOREX trading services. If you transfer money to those firms, it may be difficult or impossible to get your money back if the firm fails or does not honor the transactions. Check the companies behind these offers and only invest after confirming that it is registered with a financial regulator. If the firm is not regulated, do not invest.

**Limit the investment to an amount of money you can afford to lose.** Participants in the FOREX markets may face considerable losses. Because of the extreme volatility in the currency markets, investors should be prepared to respond to calls to deposit additional funds to maintain positions on very short notice. This means investors should be aware that they may lose all or more than their initial investments and should not participate in the FOREX market if they cannot afford to lose their investments.