FOREX for INVESTORS?

by: Bob Llewellyn
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The forex spot market is frequently overlooked when people are looking for safe investments. In fact, most people have no idea what the forex market actually is, which drastically limits the options when trying to create a solid investment strategy. The forex market did have a chaotic start, however there have been significant breakthroughs since then in the field of forex trading.

But first, why would an investor want to even think about the forex currency market? The first reason is its familiarity, not with the market, but with the product. The product is the very same money (dollars, pounds, francs), that you have in your wallet. The value of one currency changes in value compared to another currency all the time. This constant change in value creates the foreign exchange (forex) market. This market is larger than all the stock markets of the world combined, its size makes it next to impossible to manipulate. No one can corner even part of the forex market, there are no bubbles to burst or concerns over bad accounting practices like with Enron. There are no bull or bear markets in forex, just changing values of one currency to another. This all combines together to make the forex market the most transparent market in the entire world. Transparency is the market term for safety, but how one trades that market can make a good and safe market go very wrong, as we saw in the beginning years of forex.

There are three main ways to trade currencies. The first two were brought over from the stock and futures markets, they are price chasers. Some people like to use fundamental trading, that is they listen to the news and try to guess which way the price of some currency pair will move and by how much - this has led to the game of follow the leader, as it is in the stock market. Market managers study the world markets and make predictions, then investors follow along - much of this is now automated so when the manager makes a trade it is automatically copied to the followers account.

The other preferred method of deciding the future price direction and how far it is likely to go, is technical trading. Technical traders will tell you that fundamentals don't move the market, fundamentals move the traders, but it is the traders that move the market. And traders are people, and people are somewhat predictable. Technical traders use an assortment of indicators to make those predictions, indicators that use historical data to create its readings. Which is somewhat interesting since you will find the words “past performance is no indication of future events” on every website that has anything to do with forex trading. I can't say how reliable these indicators were in their native futures and stock markets but in the current forex market they aren't very reliable at all. Therefore, traders use several different indicators to make their decisions upon. But even then, a technical trading system is considered to be good if it makes a right guess at least 60% of the time.

The third type is what I have come to refer to as systemic trading, corresponding to the entire trading system as apposed to just the price fluctuations. Practitioners of systemic trading don't try to guess which way the price will move or how far. They treat the entire span of historical prices as a whole unit that is divided into more or less equal parts called ranges. The early systems were called grid trading systems but thanks to the researchers and pioneers in this market, the forex now has a system that was created specifically for the forex market, automated trading. Forex robot traders are neither good nor bad, it just depends on what system they use to trade, just as it is for humans, but robots have no emotions. Emotions are the worst nemesis to successful trading in any market. So the robots have a range of effectiveness, some like those based on the GoldenGrid system developed by the Forex-

Assistant research group that never loses trades at all while the price remains between the historical limits,* to others that are absolute failures that are basically scams.

How do you tell the difference between effective robots and scams? There are a number of forums and websites that are dedicated to evaluating various forex robots, but the best way is to not get in a hurry to get the latest and best wizbang program out there. The good ones will usually survive while the scams don't. Another good indicator is how long the developers allow you to test their robots before purchasing it.

Every forex broker will give you a free demo account using pretend money to practice with. Robot creators will also give a demo copy of their robot to evaluate, the ones that don't probably have something to hide and should be avoided. If their system is based on some super secret trading system that only they know and are sworn to never divulge … remember Warren Buffet's advice, 'never trade something that you don't understand.' But when you do find one that constantly produces, why not take advantage of the technical advances of today and add one or two good automated systems to your own portfolio?

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He has been trading the forex market for over seven years, and has created several automated trading systems.

*Historical limits for the GoldenGrid are the highest and lowest prices that have been actually reached. Beyond the historical limits the system hedges out all open trades.