

Safe Investing, Is There Any Such Thing?

Most investors believe that to have an investment portfolio that is relatively safe, one needs to give up on any hopes of a decent return. We even hear market commentators say things like investors are abandoning safety and chasing after higher interest. While there is some correlation between higher risk and higher profits, these two concepts really are mutually exclusive. Traders think differently, traders link safety with money management.

Money management isn't some mysterious voodoo operation that you do while trading, it is simply making decisions that promote safety. For example, you wouldn't buy a car that you couldn't afford to drive, the same principle holds true when trading, keep the size down to a point where if it goes wrong, it won't hurt you. But good money management starts at the very beginning.

Ask yourself why has the forex market grown over 20% in just 5 years? Is it solely because it is only 12 years old and its just curiosity, or is it because the forex market is inherently safer than all the other markets? When we stop to consider the product of the forex market, we can see why it would be safer than the other markets.

The product is money. Does anyone need a lot of complicated formulas and secret inside information to understand money? Enron was a well known and respected company on the stock exchange that got a well known and well respected accounting firm to help it cook its books. This practice just can't happen on the forex market, because there are no books. The forex market is the most transparent market available anywhere.

Real Estate has always been considered one of the safest investments until the real estate bubble that left millions of home owners under water (in other words they owe more than the value of the home). Bubbles don't happen in the currency market because a bubble would throw the entire trading relationships of the various countries into chaos.

If the value of a currency gets too high, the price of their products will be too expensive on the world market, and few buyers will want to buy at those higher prices, so the country's central banks kick in and work to devalue the money back to the normal range. If the country's currency is too weak, then it costs too much to buy imported items and quality of living again decreases. The country's banks want the price of their currency to stay in some normal range with all the other countries. If a buying bubble ever does occur, you can bet the central banks or government will take immediate steps to counter that trend. End result, no bubbles in the forex market.

In the 70s, two oil tycoon brothers Bunker and William Hunt bought billions of dollars worth of silver, driving the price up from \$10 an ounce to around \$50 an ounce. When the Hunt Brothers had to sell some of their silver to pay the tax on a four fold increase, the price dropped like a rock and everyone that tried to ride that buying wave got drowned. The currency market trades over 4 trillion dollars every day. No one, not even a central bank or government can corner the forex market like the Hunt Brothers did with the silver market, it is just too big.

Another value of its size is that when you are ready to sell (close out a trade) there is always a buyer, or in other words, you can close when you want, no waiting. With forex traders including

governments, major banks, corporations and other institutional investors as well as individual traders, the foreign exchange market is without doubt the most liquid market in the entire world.

There are no bulls or bears in the forex market because both sides of the trade is some form of currency. Stocks just hit an all time high while the economy is trashed, how could this be? The stock market is not solely stocks. The price of the stock is in some currency. During high inflation the value of a business looks like it is increasing compared to the decreasing value of the dollar. So governments and central banks look like their policies are working as the stocks hit new highs against the ever weakening dollars. However forex investors and traders are not so easily fooled by the obscurity. There is no inflation in the forex market because if one currency has been devalued, it won't be long before the counter pairs are getting devalued as well. In the forex market, we have a concept of 'normal' that is missing from the other markets.

The futures market runs on hype, hope, fears and frustrations. The forex market on the other hand has a high degree of automated trading systems that remove emotions from the trading arena and in doing so removes the level of stress that used to go along with trading and investing. Automated trading systems eliminate the middleman from your investments, thereby moving their cost into profit. With higher profits, we are not giving up as much if we want to reduce the risk from our investments.

These automated trading systems, called robots, are getting better and better all the time. There is at least one that we know of that traded full time during the financial meltdown of 2008-2009, it took over 3000 trades and during that period there wasn't a single loss that was the result of the trading system (rumor was just one loss for 8 cents during a power outage, not the failure of the robot).

When you hear commentators say things like 'the forex market is growing in spite of the higher risk', make them tell you what that higher risk is. Too often people hear others saying something and never stop to ask if what they are hearing makes any sense and then turn around and repeat the same inaccuracies.

In the beginning of trading the forex market as it is traded today, there was a fairly high loss rate. This was the result of the new forex traders bringing their trading systems from other markets, such as the stock market, into the brand new forex market. Technical trading systems that didn't work on the futures market were showing up on the forex market. Fundamental trading which worked to some degree in the stock yards are worthless in the forex market. Only now, twelve years later, are traders and programmers coming together to create trading systems designed specifically for the forex market. Subsequently we are now seeing those early loss percentages diminish.

Good money management starts at the beginning with the market and the trading system, then it guides the size of the trade making the entire system safer. There is no reason to forgo safety in exchange for profits any longer, you may just need to look to the fundamental form of exchange: currencies and the forex market.

Bob Llewellyn has been a successful forex trader since 2007. He founded the Forex-Assistant Research Group in order to help others realize their dreams of having a secure retirement income, no matter where they're coming from, or where they hope to go.

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