

## Fast, furious and not for the fainthearted

PUBLISHED: 12 Feb 2011 12:07:27 PRINT EDITION: 12 Feb 2011



Photo: Phil Hearne

### Pip Freebairn

Australian traders weary of lacklustre sharemarket returns are looking to trade foreign exchange, but experts say there are a few things worth knowing before diving into the currency market.

Chief executive officer of broker Easy-Forex Robert Francis says the popularity of trading foreign exchange has risen with the \$A's record rise but playing the FX market is a very different game to sharemarket investing.

Unlike the sharemarket, the FX market is open 24 hours a day, six days a week and market moves tend to be more volatile, which means gains and losses can be made quickly. Traders should be nimble, and be aware that a long-term trade in the market tends to be no longer than a week.

"I don't think a lot of people realise just how volatile the FX market is, or the concept of leverage," Francis says. "The biggest problem I find with new people coming into this market is that the mentality tends to be one of investing, not a trading mentality."

Would-be foreign exchange traders have the choice of using margin or contract-for-difference products, which tend to be similar in nature. EasyForex offers a margin product where traders pay a small percentage or typically 1 per cent, called the margin, of the actual trade size.

This high degree of so-called leverage means small moves in the \$A can mean you lose a lot of money very quickly.

"With our web-based trading platforms we offer a guaranteed stop loss at no costs in all market conditions," Francis says.

CMC Markets, another major player, provides clients with the chance to trade FX contracts for difference, and leverage is typically around 1 to 10.

CMC Markets senior dealer Tim Waterer says foreign exchange is attractive to trade because the high volume means transaction costs tend to be lower – but the volatility can be dangerous.

Francis concurs. "This is a fairly new market for people, so we encourage people to educate themselves. When clients open an account with us, we assign them an account manager to help them with that, and to get them using a demo account first," he says.

"Then we encourage them to start off using a mini-account which enables them to put on a trade for as little as \$25. That is your outlay, so your contract size is \$2500, but we limit their losses to \$25 on those first trades."

Waterer says traders need to learn how to minimise trading risk by learning how and where to place stop-losses on their trades.

A stop-loss is an automatic trigger that limits the loss on a trade. If a trader buys the \$A against the \$US at parity and then sets the stop-loss at US95¢, it will limit any losses on the trade to 5 per cent if the currency falls.

"Traders also need to avoid taking a stab in the dark when putting on trades," Waterer says.

They should educate themselves on how to use charting techniques to identify trades. Technical analysis, as it

is called, is one of the mainstays of FX investing. Proponents say it is a way of identifying patterns in how an asset trades over time, and then using those patterns to predict future moves.

So a currency trader may look at typical trends and patterns in the Australian dollar and trade from there.

Waterer says traders should be aware of the characteristics of a currency and base trades on them. One example, the \$A, along with the Canadian and New Zealand dollars, is considered a commodity currency, given the economy's reliance on commodity exports. So the \$A tends to move in line with commodity prices.

The \$US, the Japanese yen and Swiss franc are all considered safe haven currencies so they tend to rise when global financial markets become concerned about an issue such as the European sovereign debt crisis.

Many foreign exchange providers are aware of the popularity of technical analysis and therefore provide clients opening an account with a range of charting tools, Waterer says.

Investment Trends, a specialist market research company, undertook a survey of foreign exchange contracts for difference traders in 2010 and found eight out of 10 use technical analysis to identify trades. The report also found Australian retail investors overwhelmingly favoured trading the \$A/\$US. Traders dabble, in order of popularity, in €/US\$, £/\$US, \$US/¥ and the \$A/¥.

The biggest Australian foreign exchange specialists are IG Markets, FXCM, GFT and CMC Markets.

Foreign exchange trading has risen in popularity worldwide. In 2010, the Bank of International Settlements triennial survey of foreign exchange markets found that spot foreign exchange turnover had grown 48 per cent between surveys in 2007 and 2010. Total global foreign exchange turnover rose 20 per cent between April 2007 and April 2010 to \$US4 trillion a day,

The Australian dollar leapt past the Swiss franc to become the fifth most traded currency in the world, and only the US dollar, the euro, the yen and the pound were traded more than the \$A in global financial markets in April 2010 when the survey was undertaken.

BIS reported that the \$A/\$US was the fourth most traded currency pair in April. The \$US/€ was the most popular, accounting for 28 per cent of all currency transactions in the month.

## [Tips for novice currency traders](#)

### **Pip Freebairn**

Be familiar with economic data and consider how it could affect a currency pair (a trade involving two currencies), says CMC senior foreign exchange trader Tim Waterer.

Understand that interest rate expectations are one of the main drivers of exchange rates, so get a feel for what analysts expect for the currencies you are trading.

Identify traits of a currency, for example that the \$A is a commodity currency and the yen is a safe haven currency.

Grasp the technical and economic factors that move currencies before putting on a trade.

Know how the currency pair is quoted and how it will move. For example, the \$A/\$US and \$US/yen will not head in the same direction for a given change in the greenback.

Put in place stop-losses to mitigate potential losses .

[display full story](#)

The Australian Financial Review

## **Related News**

Topics [Financial Markets/Foreign Exchange Markets](#)

## **See also**

---

- [Missteps in dancing with the dollar](#)



## **Create an alert**

Click on the links below to create an alert and receive the latest news as it happens

