Build EQUITY on TOP of FX Capital Investment

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MegaTrade101 aims to provide useful and quality information through written articles for investors who would want to be successful in trading the Foreign Exchange Market and avoid the unnecessary loses that occur in trading.

It's not a matter of Price call
In today's' investment world, the financial instruments in general are having some difficulties building enough equity for investors due to the recent financial crisis still hovering around the financial markets. Although, the stock market has improved a lot from the beginning of the year, as most investors have made some fairly decent amount of money from the stocks bought in the earlier times when everything was practically considered at a discount.

As the infamous investor like Paul Getty, where he had made his fortune in buying up almost any stocks being offered in the market including oil stocks, which he could lay his hand onto. As for the ' Oracle of Omaha ', also did the same a few years back not mentioning his corporate stock purchases of some Middle East companies which he believed would make money in the near future and including his European Currency investments that amounted to almost USD 3 Billion dollars collectively at that time. This in fact did make a lot of money after a few years.

In the Foreign Exchange Market, to build ' EQUITY ' on Top of an FX Capital Investment can be more crucial and challenging for all concerned. This means that whether the investor and / or trader is getting started with the foreign exchange trading or the veteran trader who has to anticipate every possible / probable moves and directions of the market trends will have to maneuver trade plans to stay consistent with the market behavior day and day out.

An FX trader / Investor have to be in total commitment and all possible trading resources and skills at all times beyond the normal trading hours of the day. Relatively, even some investors are not that confident in managing their own portfolio in-spite of several hours and months of practicing from a demo account and collaborating from other sources that may seem to be legitimate enough. At times, the risk appetite of being involved in the actual trading can be no more than the excitement that it brings other than the expectation of making a killing in the market.

One of the better trading practices that an investor / trader can do is to apply the ' Strategy of Hedging Positions ' which would literally mean is to at least take two (2) positions in the market but not necessarily executed at the same time. Positions taken needs to ' mature ' and be sustained well from the time of execution. As prices may be ripe for the taking when gains are obtained in a shorter period of time. However, when the direction of the market goes totally opposite to the executed trade; the obvious reason to hedge or to simply cut the loss sounds the more logical approach to take.

In every market entry alone, one needs to consider the break-even point on the price of the trade and if such trades needs to pay for the cost of the spread plus the commission if any; without mentioning the cost of the rollovers for cost of overnight trades thereafter. Making some sense in establishing an entry and exit strategy can only help. But with the proper support of a well defined time-table which incidentally should be in parallel with the session hours of the three major markets that these trades can be timed with would be best utilized.

Please take a clear note; that by hedging it does not necessarily mean a buy and a sell or simply called - two contrary positions like buying the GBP/USD and Selling the EUR/USD. This is the very basic and most commonly used by most of the traders trading the market. While taking a buy on the Pound is like selling the US Dollar. And while taking the same buying position on the USD/JPY or the USD/CHF may in fact cause the opposite effect as buying the US dollar. There is the same contrary effect, although choosing to find the correct match for the currency pair is another method that needs further research and study.

As it is a well known open secret that all FX positions are electronically matched on execution as counter -party banks and market makers earn their respective revenues from the spread and occasionally from the mark-up /down on the current market price value between the bid / ask quoted on screen, especially during rapid price actions on economic reports that comes out in the terminal feeds of the market place. So it is wise to at least consider monitoring prices in variable levels of trading this market at all times of execution of trades.

Others may and may not agree on this trading model, but it has been proven otherwise and more often than not it has a higher degree of relevance trading as long as executed properly and in-line with monitoring the point value of the given leverage amount, the trading range of the pairs being matched, the net exposure and effect on the account balance would be carefully looked after.

The worst case scenario, which should always be included in the equation, is that if such strategy was poorly executed, a possible widening of the two positions can cause a negative net effect on the price levels that would cause twice the loss of a single trade. This is now where the level of skill development in timing the market takes place.

On the other hand, the net positive effect whenever the trades are executed in a timely manner will bring more profitable gains as the trades may enjoy the full leg of the trend that maximizes its market potentials. These techniques do apply well together, as the gains on the trades builds up, now it is adding more equity on top of the initial investment principal. And in some instances where losses has to be covered, it is coming from the equity side rather than the main capital investment that should only be used to marginalized the trades.

This is also where proper money management should be in check as to the overall portfolio is concerned. The equity built should also be more than enough to cover any such losses and manage well making the account balance on any trade positive. It is a given fact that losses do occur while trading the FX market and at times may wipe out part or the whole initial investment fund due to the adverse price fluctuation at unexpected times. And equally so, whenever traders refuses to accept the fact that hedging strategies is part of the success process in trading the Foreign Exchange market. A little more due diligence and research can only help along the way.

Since the FX market is pre-dominantly US Dollar base trading; there are in fact several ways of trading the Foreign Exchange Market which also include foreign currency base trading with direct conversions relatively a little more sophisticated degree of trading this market. And not a lot of these traders are as familiar as they may seem to be, although the information is directly available with other financial institutions that offer extended services other than the retail forex dealing services.

For short term trades, it is not a matter of ' Price Call ' but to IDENTFY the TREND There is actually nothing wrong in scalping or day trading the market or any market for that matter. There is the logical approach into FX trading, best mentioned in the article " An Effective FX Trading Strategy " and " Define a Winning Trade " in Identifying the Market trend of any currency pair.