



A publication of Active Trader®

Trading forex the mini way

While foreign currency is the world's largest financial market, it can also be quite cost prohibitive. However, with mini forex futures and mini spot trading, traders can participate in the forex world with much less money at risk.

By Darrell Jobman

Because of its global reach, the forex market has become a favorite of traders from professional money managers seeking to diversify their portfolios into a new asset class to individual retail speculators trying to make a profit. The forex market is attractive to traders for many reasons. Because it trades virtually around the clock, it reacts instantaneously to geopolitical tensions, natural disasters, and economic reports.

“For some traders, abrupt price changes could be devastating if they trade the larger forex contracts,” says Jim Wyckoff, senior market analyst for TradingEducation.com. “Trading mini forex lots or mini currency futures contracts gives them much better leverage than they can get in stocks, where they must put up at least 50 percent of the purchase price, and with much less risk than they might have in the futures markets.”

Where to trade?

Traders with experience in futures may want to trade forex futures; those more familiar with stocks and bonds may be more comfortable in a spot (cash) forex account. The decision could also depend on the amount of money available. Trading both futures and spot forex requires separate accounts, although firms that handle transactions in both venues can transfer money quickly from one account to the other.



TABLE 1 — MARKET HOURS IN MAJOR FINANCIAL CENTERS

	Central time	GMT time
Tokyo open	6:00 p.m.	23:00
Tokyo close	3:00 a.m.	08:00
London open	2:00 a.m.	07:00
London close	11:00 a.m.	16:00
New York open	7:00 a.m.	12:00
New York close	4:00 p.m.	21:00

Source: Xpresstrade

Futures. The Chicago Mercantile Exchange lists futures on a number of foreign currencies, including the Polish zloty and Israeli shekel, as well as some cross-rates. However, most of the activity is in the “majors” — euro, Japanese yen, Swiss franc, British pound, and the New Zealand and Canadian dollars — vs. the U.S. dollar. Most of the trading is done electronically. Each trading “day” begins at 5 p.m. and runs overnight through 4 p.m. the next day. The best liquidity is between 7:20 a.m. and 2 p.m., the regular pit-trading hours.

There are only two mini-forex futures contracts: the euro (E7) and the Japanese yen (J7). Both are half the size of the regular contract, with a one-point move worth \$6.25. Typical margin set by the exchange (which can change) is around \$1,400 per mini contract compared to \$2,700-\$2,800 for the full-size contracts.

The quoting convention for some currency futures may be a little strange. Instead of a cash market price of, say, 110 yen per U.S. dollar, forex futures trade in terms of dollars per yen, or 0.009091 in this case (9/10 of a cent).

The advantages of futures include trading in a centralized marketplace with multiple bid/ask prices; pricing is transparent and available to everyone, regardless of size or location; there is no counter-party risk because the exchange clearing organization is on the other side of every trade; and anonymity for those who want it. Futures advocates contend that your biggest risk as a spot forex trader may not be market risk, but the firm you are dealing with. Many spot forex firms are not regulated by any government agency.

The cash forex market. The standard trade-lot size in the cash forex market is 100,000 units of a currency, but each lot in a mini forex account is only one-tenth that size, or 10,000 units. A one-point change in price (i.e., a “pip”) is usually worth \$1 in a mini lot instead of \$8-\$10 in the full-sized version. As a result, risk in a mini forex account is much less, and the amount of margin needed may be only several hundred dollars. However, a larger amount is recommended (the minimum is set by each firm, not the exchange as is the case in forex futures).

For the trader trying to learn the ropes of forex trading or wanting to test a trading strategy, the lower financial outlay is welcome news. Of course, profits also aren’t as large, but if one mini lot is too small for you, there’s nothing that says you can’t trade two or three lots, or five lots or 100 lots, especially as you become more experienced in forex trading. This provides more flexibility to scale in and out of positions at different price levels.

Most spot forex firms also list 20 or more pairs, so you aren’t limited to trading a foreign currency against the U.S. dollar. It’s just as easy to trade, for example, the British pound against the Japanese yen, giving you additional opportunities to profit.



In almost all cases, whichever pairs are available for trading in a full account can be traded in a mini account. However, you should double-check with the brokerage just to be sure.

In addition to the smaller size, lower margins, less risk, and greater flexibility, there are other advantages to mini forex spot trading. There is true 24-hour trading with no overnight gaps (Table 1); bid/ask prices are always available, even in thin trading hours; and there are no quarterly contract expirations, so time and contract month are not considerations as they are in futures.

Plus, spot forex firms typically provide customers with real-time quotes, charts, and news at no charge (even for mini forex traders), as well as a trading platform and demo or simulated accounts in which traders can practice before they begin trading with real money. If you are shopping for a mini forex firm, be sure to check out all of these features as well as its margin and leverage rules.

The mini forex contract may seem small, but it's one of the best ways to get more bang for your buck with the least risk.

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Source: TradingEducation.com

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