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Investing in Forex vs. Stocks



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Today's active investors and traders have access to a growing number of trading instruments, from tried-and-true blue chip stocks to the fast-paced futures and foreign exchange (or forex) markets. Deciding which of these markets to trade can be complicated, and many factors need to be considered in order to make the best choice.

The most important element may be the trader's or investor's risk tolerance and trading style. For example, buy-and-hold investors are often more suited to participating in the stock market, while short-term traders—including swing, day and scalp traders—may prefer forex whose price volatility is more pronounced.

KEY TAKEAWAYS

- Deciding whether to invest in the foreign exchange markets (forex) or stocks/stock indexes depends on the trader's or investor's risk tolerance and trading style.
- Specific elements to compare include volatility, leverage, and market trading hours.
- Broadly speaking, the equities markets—blue chip stocks and index funds—suit a buy-and-hold investor, while active traders often prefer the fast-moving forex.

Comparing Forex to Blue Chip Stocks

The [foreign exchange market](#) (aka forex) is the world's largest financial market, accounting for more than \$6.6 trillion in average traded value each day in 2019, according to the most recent Bank for International Settlements. ^[1] Many traders are attracted to the forex market because of its high liquidity, around-the-clock trading and the amount of leverage that is afforded to participants.

[Blue chips](#), on the other hand, are stocks of well-established and financially sound companies. These equities are generally able to operate profitably during challenging economic conditions and have a history of paying dividends. Blue chip stocks are generally considered to be less volatile than many other investments and are often used to provide steady growth

So what would be the key differences to consider when comparing a forex investment with one in blue chips?

- [*Volatility*](#). This is a measure of short-term price fluctuations. While some traders, particularly short-term and day traders, rely on volatility in order to profit from quick price swings in the market, other traders are more comfortable with less volatile and less risky investments. As such, many short-term traders are attracted to the forex markets, while buy-and-hold investors may prefer the stability offered by blue chips.
- [*Leverage*](#). A second consideration is leverage. In the United States, investors generally have access to 2:1 leverage for stocks. The forex market offers a substantially higher leverage of up to 50:1, and in parts of the world even higher leverage is available. Is all this leverage a good thing? Not necessarily. While it certainly provides the springboard to build equity with a very small investment—forex accounts can be opened with as little as \$100—leverage can just as easily destroy a trading account.
- [*Trading Hours*](#). Yet another consideration in choosing a trading instrument is the time period that each is traded. Trading sessions for stocks are limited to exchange hours, generally 9:30 A.M. to 4pm Eastern Standard Time (EST), Monday through Friday with the exception of market holidays. The forex market, on the other hand, remains active round-the-clock from 5 P.M. EST Sunday, through 5 P.M. EST Friday, opening in Sydney, then traveling around the world to Tokyo, London and New York. The flexibility to trade during U.S., Asian and European markets—with good liquidity virtually any time of day—is an added bonus to traders whose schedules would otherwise limit their trading activity.

Should You Trade Forex Or Stocks?

Comparing Forex to Indexes

Stock market indexes are a combination of stocks, with some sort of element—either fundamental or financial—which can be used as a benchmark for a particular sector or the broad market. In the U.S. financial markets, major indexes include the Dow Jones Industrial Average (DJIA), the Nasdaq Composite Index, the Standard & Poor's 500 Index (S&P 500), and the Russell 2000. The indexes provide traders and investors with an important method of gauging the movement of the overall market.

A range of products provide traders and investors broad market exposure through stock market indexes. [Exchange-traded funds](#) (ETFs) based on stock market indexes, such as the SPDR S&P 500 ETF Trust ([SPY](#)) and the [Invesco QQQ](#), which tracks the Nasdaq 100 Index, are widely traded.

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