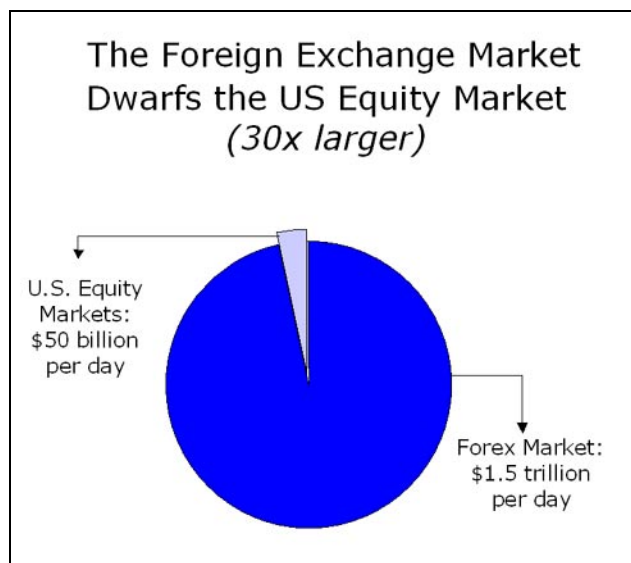


Foreign Exchange: Diversify your Portfolio in the World's Largest Financial Market

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Diversification is key to successful investing. If you are looking for ways to diversify your portfolio, you should consider the Foreign Exchange market.

The Foreign Exchange market, also referred to as the "Forex" or "FX" market, is the largest financial market in the world, with a daily average turnover of approximately US\$1.5 trillion. In comparison, the daily volume of the U.S. Equity Markets combined (NYSE + NASDAQ) is approximately US\$50 billion per day.



There are now firms that allow individuals to trade foreign currencies online. These firms offer all the tools self-directed traders need to make informed trading decisions, and often do not charge commissions or fees – something unheard of in the stock market.

If you do not have the time or expertise to trade your own account, you can have your money managed by Forex market professionals.

Getting on board is just a matter of learning the basics about the Forex market, identifying which approach works best for you, and then finding a reputable online trading firm or money manager.

How it works

"Foreign Exchange" is the simultaneous buying of one currency and selling of another. Currencies are always traded in pairs, for example Euro/U.S. Dollar (EUR/USD) or U.S. Dollar/Japanese Yen (USD/JPY). Currency prices are affected by a variety of economic and political conditions, most importantly interest rates, inflation and political stability.

There are two reasons to buy and sell currencies. About 5% of daily turnover is from companies and governments that buy or sell products and services in a foreign country or must convert profits made in foreign currencies into their domestic currency. The other 95% is trading for profit, or speculation.

For speculators, the best trading opportunities are with the most commonly traded (and therefore most liquid) currencies, called "the Majors." Today, more than 85% of all daily transactions involve trading of the Majors, which include the US Dollar, Japanese Yen, Euro, British Pound, Swiss Franc, Canadian Dollar and Australian Dollar.

Trade Your Own Account

If you are interested in trading currencies online, you will find the Forex market offers several advantages over stock and futures trading.

- **24-hour market**

The Forex market is open 24-hours a day. Whether it's 6pm or 6am, somewhere in the world there are always buyers and sellers actively trading Forex. You can respond to breaking news immediately and, more importantly, trade on your time schedule.

- **Superior Liquidity**

With a daily trading volume that is 50x larger than the New York Stock Exchange, there are always broker/dealers willing to buy or sell currencies in the FX markets. The deep liquidity of this market helps ensure price stability. Investors can always open or close a position, and more importantly, receive a fair market price.

- **Lower transaction costs**

It is much more cost-efficient to trade Forex in terms of both commissions and transaction fees.

Commissions for stock trades range from \$7.95-\$29.95 per trade with online discount brokers up to \$100 or more per trade with full service brokers.

In contrast, many Forex trading firms charge NO fees whatsoever, while still offering traders access to all relevant market information and trading tools.

Another important point to consider is the width of the bid/ask spread. Even as a retail player, you should expect to deal on a spread of 5 pips or less (a pip is .0005 US cents). In general, the width of the spread in a FX transaction is less than 1/10 that of a stock transaction, which could include a .125 (1/8) wide spread.

- **50:1 Leverage**

50:1 leverage is commonly available from online FX dealers, which substantially exceeds the common 2:1 margin offered by equity brokers. At 50:1, traders post \$2000 margin for a \$100,000 position, or 2%.

While certainly not for everyone, the substantial leverage available from online currency trading firms is a powerful, moneymaking tool. Rather than merely loading up on risk as many people incorrectly assume, leverage is essential in the Forex market. This is because the average daily percentage move of a major currency is less than 1%, whereas a stock can easily have a 10% price move on any given day.

The most effective way to manage the risk associated with margined trading is to diligently follow a disciplined trading style that consistently utilizes stop and limit orders. Devise and adhere to a system where your controls kick in when emotion might otherwise take over.

Invest in a Managed Account or Currency Fund

If you are unable to watch the markets 24 hours a day or who simply prefer to have your risk capital managed by professionals, consider investing in a managed account or currency fund as part of your diversification strategy. A well-balanced investor portfolio should contain multiple asset classes from multiple geographic regions to take advantage of shifts between outperforming assets.

Studies of professionally managed currency funds show uncorrelated returns compared to most other asset classes, including the major equity indexes. So, a partial allocation to managed currency funds can substantially reduce your portfolio's total return volatility and provide for better total return over time.

There are many managed accounts and currency funds available. Look for one managed by experienced market professionals with a solid track record. Standard fees are a 2% management fee and 20% of profits, and minimum investments start around \$25,000.

Getting started

Are you interested in learning more about forex? There is a wide variety of information available online to help get you started.

For more background about the Foreign Exchange market, visit the Federal Reserve Banks' "All About the Foreign Exchange Markets in the United States"
www.ny.frb.org/pihome/addpub/usfxm/

If you're ready to trade currencies online, there are many firms to choose from. No matter how skilled a trader you are, selecting the right platform is crucial. Always open a demo account to see the software and service firsthand – before you begin trading. A few other things to look for: experienced management and trading teams, commission-free trading, full account protection via FDIC insured, segregated accounts, and 24-hour customer service.

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GAIN Capital is a Warren, NJ-based online forex trading firm. Founded in 1999, GAIN's service is used by hedge funds, professional money managers, and individuals from more than 35 countries. In June 2001, GAIN was named "Best Independent FX Trading Platform" by Global Finance magazine.

For more information, visit www.gaincapital.com or come see us at the Online Trading Expo in Anaheim, CA (August 17-19, 2001) in Booth #517

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