# Handbook

# for finding the right FX Broker

**With currency trading becoming even more popular, the number of brokers is growing at a rapid rate. What should one look at when deciding which broker to open an account with? These are the important points to consider.**

## Trading Forex

There are a lot of Forex brokers out there, and it's not always clear how to find the best one. The deciding decision when picking a Forex broker can play a large roll in your future endeavours, so it's something that's worth investing a little time in. By taking time and care in selecting your Forex broker, you can concentrate on what you've set out to do – Forex trading – without worrying about administrative problems getting in the way. Although the majority of trading platforms have the same basics, there can be huge differences between them, for instance regarding the conditions for trading or regarding customer service. It is not always easy to distinguish a second class organization from a professional established company. The following points should help guide you in the process of selecting a Forex broker.

## Reputation and Regulation

When choosing a brokerage firm, it is important to pay attention to its reputation and the regulation they are subject to. Some important questions are where is the broker based and who are the regulatory authorities. Legal registration and solid financial backing are the minimum that you should expect from a Forex broker. Regulation by government entities, such as FSC in BVI, ensures that the firm will properly handle investments, and that the firm has adequate legal supervision.

## Execution of Orders

It is important to know and understand how your broker executes orders. You don't want the broker to interfere during news times, or any other fast market situations. Generally, brokers show live prices on their trading platform, but will they automatically honour them when it comes to pushing the Buy or Sell button? The best way to find out is to open a demo account and give it a test drive. This will also give you the opportunity to see what the speed of execution is. When you want to buy, you want to buy now, not sit around waiting for your number to be confirmed. The best solution is to select a brokerage firm which provides automated execution, which removes the risk of spread widening or manipulation, which can occur with human order execution.

## Customer Support

Probably one of the most important considerations that can have impact on successful trading is customer support. If you are a beginner or already a pro, a dedicated, talented and skilled team is priceless. The only possibility to check customer support is to contact them, and to check how they deal with your questions. The Forex market runs 24 hours a day and a good brokerage firm will offer support around the clock, too. You want to know that if you run into a problem with a trade you'll be able to reach a live person in the brokerage firm immediately. Support that's available only during "business hours" isn't sufficient because business hours at the firm's company headquarters may be overnight where you live, leaving you with no support during your own business hours.

## Spreads

Spreads are a very important factor to be considered, when you want to invest. It is important to realize that the cheapest firm isn't necessarily the best. Rather than charging a monthly fixed commission, Forex brokers make their profit on the spread, i.e. the trade volumes. As a reminder, the spread is the distance between the currency's quoted buy and sell prices, and constitutes the natural market spread and a commission. Firms with fixed spreads set artificial spreads between the buy and sell prices. The spread relies on the liquidity of the currency. Exotic currencies have the highest spreads due to their illiquidity. Because currencies, unlike futures and stocks, are not traded on a central exchange, the spread can be different depending on the broker you use, so it's well worth checking a few out before you open an account. Most Forex brokers publish live or delayed prices on their websites so you can compare spreads, but make sure to check if the spread is fixed or variable. A fixed spread means exactly that - it will always be the same no matter what time of day or night it is. Many brokers use variable spreads, which are much more reliable and beneficial, and are closest to current market prices. Fixed spreads are generally wider than variable spreads in the short term.

## Leverage/Margin

Although the concepts are somewhat complicated, leverage and margin are integral to the Forex market. By borrowing capital, investors can open positions much larger than their investment. Different firms offer different leverage options, ranging from 1:20 all the way up to 1:400. It is extremely important to realize that increased leverage creates increased risk. Increased risk can result in greater profits, but also greater losses. Here's a quick example explaining leverage, comparing 1:20 (trader A), 1:100 (trader B) and 1:400 (trader C) leverage, each with an initial account balance of $5,000.

To open a position, each trader has to deposit a security called *margin*. Let's say that each trader wants to use $1,000 as margin to open EURUSD positions at an exchange rate of 1, leaving $4,000 remaining in each of their accounts as *free margin*, used to feed possible losses, or to open other positions. Using leverage of 1:20 means that someone has to deposit $5,000 in order to open a $100,000 position (100,000 / 20 = 5,000). With $1,000, Trader A is only able to open a $20,000 position. Trader B is able to open a $100,000 position, and trader C is able to open a $400,000 position, since $100,000 / 400 = $250 results in 4 $100,000 positions being opened with $1,000. The size of the positions that they are able to open varies due to the different leverages.

If the exchange rate drops to 0.99, meaning that 0.99 USD is now required to buy 1 EUR, the EURUSD position will have lost value. Let's see how this affects our traders' accounts. Trader A's $20,000 position has fallen to $19,800 in value, trader B's $100,000 position is now worth $99,000, and trader C's

$400,000 position has dropped to $396,000.

Trader A's position has sustained a loss of $200, bringing the free margin down to $3,800, for a total account balance of $4,800. Trader B and trader C, however, have done far worse. Trader B's position has generated a loss of $1,000, bringing the free margin down to $3,000, and the total account balance down to $4,000. Trader C suffered a loss of $4,000, completely eliminating the free margin. Since trader C ran out of free margin to cover any further losses, the position was closed, leaving $1,000 left in the account. This situation is called a *margin call*.

If the exchange rate had gone up to 1.01, the losses would have been profits, and we would have seen trader A making $200, trader B making $1,000, and trader C making $4,000.

Markets move fast, and as the example shows, if you use too much leverage, it can be game over with a movement of only one cent in the wrong direction. Just like in a game of poker, where you shouldn't put all of your money on one hand, you shouldn't put all of your capital in one trade. Careful use of leverage is important to protect against the loss of your investment. Beginners should proceed carefully with leverage, and be aware of the increased risk that it brings. Some brokers push higher leverage, advertising the high potential profits without bothering to make note of the increased potential for greater losses. 1:100 leverage is about ideal since it's large enough to make significant profits, but small enough where you can still react to quick market movements in time. Trading small positions when first starting out is a good way to get used to trading with leverage.

## Trading platform

This is the software provided for making the trades. The trading platform is very important; you will use this tool often, so you have to be comfortable with it. When you choose a Forex broker, it's important to feel good when choosing between the dozens of types of trading software out there, as it can become as complicated as choosing a broker. Ultimately, the measure of a trading platform is whether or not it meets your individual needs. Not all platforms cover all areas of the Forex market, so make sure the platform will let you trade what you want. Another basic requirement is for the trading platform to show live prices that will be honoured once you place the trade. Avoid platforms that show only estimated prices. Good trading software will also offer "limit" and "stop" orders that can be included with your entry order. Remember, a platform may sound ideal in a written description, but the only way to find out if it's really for you is to get a demo account and try it out.  A new innovation is mobile trading, which gives traders immediate access to the markets while away from the computer.

## Conclusion

By knowing the right things to look out for, you can make your search for a Forex broker much easier and more successful, and can save you time and money in the long run. Choosing a Forex broker isn't difficult, but don't rush the decision. Check out a few, and always get a demo account first to make sure that you're happy with the way everything works. As you search, take the time to consult with other traders and check on the brokers' standings with the regulatory authorities. By taking a close look at the brokerage's financial background, account types, trading platform, and other essential factors, you'll be able to find a broker you're comfortable working with and who'll help you get the most from your investment.