CHOOSING A FOREX BROKER

MAKE SURE TO CHOOSE THE RIGHT BROKER IF YOU WANT TO PROFIT FROM FOREX TRADING. READ THE SEVEN THINGS TO LOOK FOR.

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Most traders are scratching their heads when it comes to choosing a reliable forex broker to trade with. As forex trading saw a rapid rise over the last few years, the number of forex brokers in the market has also increased.

Choosing a suitable broker is a crucial step in forex trading. Unless you are a bank or large financial institution, you will need a broker to trade currencies. However, not all brokers are of the same mould. You will need to find a broker that meets your specific needs as a trader. This is where the difficulty lies since not all brokers offer the same services or have the same policies, which can greatly affect your ability to trade effectively.

In this article, we will discuss the seven criteria that every trader must consider when choosing a forex broker.

1. REGULATION

The regulated forex brokers are accountable to the authorities. They have specific regulations to follow. With these brokers, most of the information is available online and you can easily find out their past performance. To find out if a forex broker is regulated, you first need to find out which country the broker is registered in. Always choose a forex broker that is conducting business in a country where their activities are monitored by a regulatory agency. For example, US Forex brokers should be a member of the National Futures Association (NFA) and registered as a Futures Commission Merchant (FCM) with the Commodity Futures Trading Commission (CFTC). In Switzerland, the regulatory body is the Swiss Federal Department of Finance. If a broker is not regulated at all, it

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might be wise to choose another broker.

2. SPREAD

In another words, low transaction cost. Unlike futures or stocks, currencies are not traded through a central exchange. Hence, different brokers may quote you different spreads. The spread is a major consideration in every good trader's mind because choosing a broker with unusually high spreads is a sure-fire way to kill off your account.

In addition, do 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 the day it is. Some brokers use a variable spread, which means that the spread varies depending on the market conditions. Typically, this would mean a small spread when the market is quiet and a wider spread when activity heats up. When you play with a wider spread, take note that the market must move more in your favour before you start to see a profit. Over the long term, fixed spreads can be safer for a trader.

3. TRADING PLATFORM AND SOFTWARE

The best way to get a feel of the broker's trading software is to try out the demo account which is readily available. Choose one that you would be most comfortable with when trading. The software should have basic features like trailing stops and direct trading from the chart or price quotes. Some features may only be available at a cost, so be sure you understand what you are getting and how your broker is charging for the added services. The speed of execution is also very important. Be wary of brokers who do not "honour" the price feeds displayed. This happens most often through "re-quotes" and delays in getting the price that you clicked. For the record, the most popular trading software which forex traders all around the world use is called the MT4 (Meta Trader 4) platform.

4. SUPPORT

The forex market is a dynamic market. Over US$3 trillion is traded every single day, 24 hours a day. Your broker should ideally offer 24-hour support. Check out the avenues of support provided – is it through a direct telephone line or just a simple email address?

Most reputable brokers now have a "Live Chat" function, where traders can engage a customer service officer readily, anytime of the day. You should also check if you can close positions over the phone – absolutely essential in the event your most trusted PC or internet connection crashes at a critical moment (think Murphy's Law).

5. MINIMUM TRADING SIZE REQUIREMENT

Many brokers offer different types of accounts. The two most common ones are the "standard account" and the "mini account." A standard account means that the trader uses lots of 100,000 units. While a mini account means that the trader uses lots of 10,000 units. Hence, one "mini" lot is 10 per cent of a "standard" lot.

The main difference between the two accounts is the "payout". For a "standard" account, 1 pip is usually worth US$10. In a "mini" account, 1 pip is worth US$1. A "pip" is a unit of measurement for each uptick (or downtick) in the currency charts. A "mini" account is appropriate for a beginner because, while the profit potential is lower, the amount of risk involved per trade is also lower. Do check that your broker offers "mini" accounts, especially if you are new to forex trading.

6. MARGIN AND LEVERAGE POLICY

Ensure that you understand the broker's margin terms before setting up an account. What are the margin requirements? How is their margin calculated? Does it ever vary according to the currency pair being traded? Or even the day and time of the week you trade? Some brokers may offer different margins for "standard" and "mini" accounts. In terms of leverage, most brokers offer anywhere from 50:1 all the way up to 400:1. Leverage is truly a double-edged sword. As a general rule of thumb, don't use too much leverage. It's one of the biggest reasons why novice traders blow up their accounts.

7. WITHDRAWAL FEES

Ultimately, the benchmark of any forex trader worth his salt is to be consistently profitable in the forex market. Make sure that there aren't too many "financial leaks" deterring you from this goal. Do a comparison on the withdrawal/wiring fees of some brokers. Over the long-term, you would be wiring back a portion of your profits on a consistent basis. For some traders, it could mean once every several months. Do your homework early so that the fees incurred do not cause too much of a dent in your trading profits.Always remember to trade on a demo account for at least two months first before going live on your chosen broker.

For more information, visit www.metaquotes.net/files/fx1academy/fx1a4setup.exe to download a free forex demo account. You can also visit www.fx1academy.com. SI

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