10 factors to consider when choosing a forex broker

There are a number factors to consider when you choose a Forex broker and to help you do so here is a list of 10 of the key factors you should consider when you select a Forex Broker that will suite you.

1. Reputation This may seem like an obvious place to start but surprisingly this is quite often overlooked in people's quest for profits. A simple place to start is to check out several Forex forums to see what other traders have said about their experiences with brokers and this will help you to get a good idea of the general user experience as well as details about the level of service and support you are likely to get from particular brokers and probably most importantly, payments.

2. Foundation and legitimacy Most Forex brokerages are usually either associated with or are part of a bank or large financial organization but with the rising number of online Forex brokers there are a number of checks concerning their foundation that should be made. Brokerages that are associated with large financial organizations or banks are not only backed up by funds from their Forex trading but also have other income streams and investments which means they don't have all their eggs in one financial basket. Having fund insurance against fraud or bankruptcy is good to have as this means you aren't relying just on being paid from their backup investments which might otherwise mean a longer wait for your money should they be experiencing any financial difficulties. Are they registered with the appropriate regulatory organizations? Legitimate Forex brokers should be registered with the Futures Commission Merchant (FCM) and regulated by the Commodity Futures Trading Commission (CFTC) Note: It is also worthwhile checking out any parent company's website for any financial information that can assure you that your funds are covered and secure.

3. Execution Quite simply this is how they conduct their business. There are two main business models that Forex brokers use, Electronic Communication Network, (ECN), and Market Maker. The ECN model is one where a Forex Broker provides a marketplace for Market Makers, traders and banks to enter their competing bids and offers into this trading platform and have them filled by liquidity providers. All trades made in this environment are made in the name of the ECN broker which means that your trades are all performed completely anonymously. The Market Maker model provides pricing and liquidity for a particular currency pair and then stands ready to buy or sell that currency at the quoted price. A market maker takes the opposite side of whatever your trade is and has the option of either holding that position fully or to partially offset it with other market traders in order to manage their aggregate exposure to their clients. Other aspects of the Forex brokers' execution of their business are: Do they use automatic execution for trades? If they do not have this as part of their model then how fast is their average order execution? How much are you allowed to trade without having to request a quote? Do they offset client trades?

4. Trading Platforms Forex trading is a rapidly moving environment and it pays to have a home computer that can keep up with the processing involved because time lag could mean you are not trading on the latest figures. If your current computer is not as up to date as you would like it to be and you are not in a position to bring it up to a faster processing specification or replace it with a faster workstation, then it is worth considering only using Forex Brokers that operate the ECN platform because this software requires less processing power to run at full speed as it is simpler software Some Forex brokers have restrictions on the number of currency pairs you can trade so check how many of these you are allowed to trade. Get used to the trading platforms and the features they have, such as one click trading, mobile trading, orders types and other features. The best way to do this is to sign up for a Demo account as these use the same software you would use with a live trading account. These accounts are free and if you are considering several Forex brokers then why not try them out with a demo account to see which one you prefer?

5. Account Size If you are starting out you aren't going to go gungo-ho and open large live trading accounts that have high minimum trades, but having said that you might want to increase your amounts later and so need some flexibility. Ascertain what the minimum trade size is as well as whether or not you can adjust the standard lot traded. Unsurprisingly the minimum account opening balance a broker requires is important in deciding which broker to use. It is also very worth checking whether or not unused equity will earn you interest.

6. Spread The spread is the difference between the ask price (the price you buy currency at) and the bid price (the price you sell it at). These are quoted in pips. An example of this is: If you are trading the currency pair US dollars and Euros you might see a spread like this, 1.2700/05, the spread is the difference between 1.2700 and 1.2705, or 5 pips. In order to make the most from your trades you need to know the brokers spread so find out if they use a fixed or variable spread? How tight is the spread? Is the spread larger for small accounts?

Note: Fixed or variable? This choice depends on your trading pattern. If you make trades only or mostly influenced by news announcements--when markets tend to be volatile--you might be better off with fixed spreads. Although this is only if the quality of execution is good. Some brokers have different spreads for different clients. Clients with larger accounts or that make larger trades can receive tighter spreads. Clients that are referred by an introducing broker might receive wider spreads so as to cover the costs of the referral. Other brokers though might offer everyone the same spread regardless of whom they are or the size of their account. It can be difficult to determine a company's spread policy so the best way to find out is to try various brokers, or talk to other traders who have, and of course check out the forums.

7. Slippage Slippage is the time between when your order is placed and the transaction is completed, so find out how much slippage can be expected for fast and normal moving markets.

8. Commissions This is probably the simplest thing to find out. Check your prospective Forex broker's commissions to see if they are built into the spread, as with most Market Makers, or if they charge a separate commission.

9. Margin The margin is the amount of deposit required to either open or maintain a trade position. Margins are either "free" or "used". A used margin is the amount which is being used to maintain a position that is open, and a free margin is the amount that is available to open a new trade position. Check what the broker's margin requirement is. Is this margin the same for both standard and mini accounts? Does the margin change for different currency groups or change for different days of the week?

10. Rollover Policy Rolling over will either accrue you interest or cost you interest depending on whether you bought a currency with a higher interest rate or sold a currency with a higher interest rate. Check the broker's conditions or requirements regarding earning rollover interest. There may be a minimum margin requirement before can earn interest on overnight positions so make sure you know your position. visit www.forexandoil.blogspot.com for daily forex signal and powerful trading system

About the Author

A veteran forex trader who have trained a lot of succesful traders all over the world.visit www.forexandoil.blogspot.com for daily forex signal and powerful trading system