

## **9 Rules For Choosing a Good Forex Broker**

With currency trading becoming ever more popular, the number of brokers is growing at a rapid rate. Most traders are scratching their heads when it comes to choosing a reliable broker to trade with.

Unless you are a bank or large financial institution, you will need a broker to trade currencies. In fact, all individual traders need a broker to trade in the Forex market. This is a critical step to take before you can begin trading currencies. Thankfully, this is not difficult since there are so many brokers in the Forex market.

However, not all brokers are the same. You will need to find a broker that meets your specific needs as a trader. This could be where the difficulty lies since not all brokers offer the same services or have the same policies. This can affect your ability to trade effectively.

### **What should one look at when deciding which broker to open an account with?**

Here are the 9 rules:

#### **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 might be wise to choose another broker.*

#### **2. Spread**

In another words, low transaction cost. Because currencies, unlike futures and stocks, are not traded through 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 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.

Some brokers use a variable spread, which might appear to be nice and small when the market is quiet, but when things get busy they can widen the spread, which means the market must move more in your favour before you start to make a profit.

Fixed spreads are generally slightly wider than the variable spreads are when at their narrowest, but over the long term fixed spreads can be safer.

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### **3. Execution**

Some brokers will show live prices on their trading platform, but will they 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 them a test drive. This will also give you the opportunity to see what the speed of execution is like - when you want to buy, you want to buy now, not sit around waiting for ten minutes whilst your order is confirmed!

### **4. Support**

Forex is a 24 hour market, so your broker should offer 24 hour support. You might not be trading at 3am, but that could be what time it is in your broker's head office on the other side of the planet, so make sure there will be somebody there to pick up the phone if things go wrong.

You should also check if you can close positions over the phone - essential in case your PC or internet connection crashes at a critical moment (think Murphy's Law).

### **5. Trading Platform & Software**

Good trading software will show live prices that you can actually trade at, not just indicative quotes. Trading software is very important for the online FOREX trader. Get a feel for the options that are available by trying out a demo account at a few online brokers. Above all, you are looking for reliability and the ability to perform well in fast-moving markets.

The software should offer automatic trading and may have special features such as trailing stops and trading from the chart. Some features may only be available at an extra cost, so be sure you understand what your trading needs are and how much the broker charges to provide them. It will be an added advantage if the trading software runs on your mobile device.

### **6. Minimum Trading Size Requirement**

Many brokers offer different types of accounts. The two basic types of accounts are standard and mini. In a standard account, the trader uses lots of 100,000 units. In the mini account, lots are usually ten percent of the standard account size (i.e. 10,000 units).

The two accounts carry different levels of risk and potential for profits. A mini account is appropriate for a beginning Forex trader because, while the profit potential is lower, the amount of risk is lower as well. In fact, a trader can open a mini account with \$300 though \$2,000 is recommended as the minimum amount. Standard accounts are usually for more experienced traders who will fund their accounts with \$10,000 or more.

### **7. Margin and Leverage Policy**

Margin accounts are the lifeblood of FOREX trading, so be sure you understand the broker's margin terms before setting up an account. You need to know the margin requirements and how margin is calculated. Does margin change according to the currency traded? Is it the same every day of the week? Some brokers may offer different margins for mini and standard accounts.

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Most brokers offer more than enough leverage and you can easily get 100:1 (which is way more than enough for most traders) but you can get up to 400:1. A word of caution - don't use too much leverage. It's the reason most novice Forex traders wipe themselves out.

### 8. Broker's Rollover Policy

What is the minimum margin requirement to earn on overnight positions? Is it 0.5%, 1% or 2%? This is not very important for both scalpers and day traders but might be a good question if you are a swing, position or long term currency trader.

### 9. Value-Added Services?

Most Forex brokers offer free technical tools, books, articles etc. Additionally, most of the brokers offer Forex charts and real-time economic news for free to their clients but this shouldn't be the most important thing to consider in your process to find a broker.



#### I want to open a LIVE account NOW!

Woa! Slow down cowboy! Open a demo account first with your preferred broker BEFORE you send him your money. Test the reliability and ease of execution on the trading platform for at least 1 month. Then make your final decision!

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So there you have it – 9 rules for choosing a good Forex broker.

Use the **Forex Broker Scorecard** on the next page as a reference for choosing your preferred broker.

Go through each of the 10 criteria listed and check “Yes” or “No” for each one, depending on whether the broker meets each criterion.

Then, add up the points and write it at the bottom of the page. Our recommendation is that you should consider the broker if it meets a minimum of 75 points, ideally, 85 points or more.

Happy hunting!

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#	Criteria	Yes	No	Points
1	Regulated by home country regulatory body			30*
2	Pip Spread: 2 – 3 pips for major pairs			10*
3	Fast order execution			10*
4	Ease of contact: readily available by phone / email / live chat			10*
5	Free demo account available			10*
6	Comprehensive & customisable trading platform & charting software			10
7	Recognition awards			5
8	Minimum trading size requirements			5
9	Leverage at least 100:1			5
10	Mobile trading software available			5
Total Points				

\*= required criteria

Min. score criteria = 75 points

Preferred score = 85 points

DISCLAIMER: The recommended criteria & scoreboard is just a guide and reference only. Independent confirmation should be made when selecting any broker.

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