Who Else Wants to Understand the Secrets of Forex Charts and Spreads?

Nothing affects your profitability more than the spreads offered by your Broker. But spreads in the Forex charts spot market can be confusing to understand, and the marketing from many brokerages can be deceiving. Nearly every broker is claiming to have the tightest Forex charts and spreads in the industry. However, what does this mean, and how can you tell if a brokerage is delivering what they promise.

In order to understand the spread, you need to know what it is. A spread is the difference between the ask price (the price you buy at) and the bid price (the price you sell at) that is quoted in the pips. The pips are the smallest unit of difference between the two currencies in the quote. If the quote between EUR/USD at a given moment is 1.2222/4, then the spread equals 2 pips, the difference between the 2 and the 4. If the quote is 1.22225/4, then the spread is going to equal 1.5 pips.

The spread is how brokers make their money. Wider Forex charts and spreads will result in a higher asking price and a lower bid price. The end result of this is that you will pay more when you buy and get less when you sell, making it more difficult to realize a profit. Brokers generally don`t earn the full spread, especially when they hedge client positions. The spread helps to compensate the brokerage for the risk it assumes from the time it starts a client trade to when the broker`s net exposure is hedged (which could possibly be at a different price).

Forex charts and spreads affect the return on your trading strategy in a big way. As a trader, your sole interest is buying low and selling high (like futures and commodities trading). Wider Forex charts and spreads means buying higher and having to sell lower. A half-pip lower spread doesn`t necessarily sound like much, but it can easily mean the difference between a profitable trading strategy and one that isn`t.

The tighter the spread is the better things are going to be for you. Nevertheless, tight Forex charts and spreads are only meaningful when they are paired up with good execution. A good example of this is when your screen shows a tight spread, but your trade is filled a few pips in the wrong direction, or is mysteriously rejected.

When this occurs repeatedly, it means that your broker is showing tight Forex charts and spreads but is effectively delivering wider Forex charts and spreads. Rejected trades, delayed execution, slipping, and stop-hunting are strategies that some brokers use to get rid of the promise of tight Forex charts and spreads.

Forex charts and spreads should always be considered in conjunction with depth of book. Oddly enough, when it comes to economies of scale, Forex charts doesn`t even act like most other markets. On the inter-bank market, for example; the larger the ticket size, the larger the spread is. So when you see a 1-pip spread on an ECN platform, you have to wonder if that spread is valid for a $2M, $5M or $10M trade, which it probably isn`t. In many cases, the tight spread that is offered applies only to a capped trade sizes that don`t work for most of the common trading strategies.

Spread policies change a great deal from broker to broker, and the policies are often difficult to understand. This makes comparing brokers difficult. Some brokers actually offer fixed Forex charts and spreads that are guaranteed to remain the same regardless of market liquidity. But since fixed Forex charts and spreads are traditionally higher than average variable spreads, you can end up paying an insurance premium during most of the trading day so that you can get protection from short-term volatility.

Other brokers offer traders variable Forex charts and spreads depending on market liquidity. Forex charts and spreads are tighter when there is good market liquidity but they will widen as liquidity dries up. When it comes to choosing between fixed and variable rates, the choice depends on your individual trading pattern. If you trade primarily on news announcements that you hear, you may be better off with fixed Forex charts and spreads. But only if the quality of execution is good.

Some brokers have base the Forex charts and spreads they offer their clients on the type of account the client has. For example, those clients that have larger accounts or those who make larger trades may receive tighter Forex charts and spreads, while the clients that are referred by an introducing broker might receive wider spreads in order to cover the costs of the referral. Other brokers offer the same spreads to everyone.

It is often difficult to get information on a company`s Forex charts and spread policy or its order book depth. Because of this, many traders are caught up in the promises they hear, often take a broker`s words at face value. This can be dangerous. The only real way to find out what a company`s policy really is to try out various brokers or talk to those who have.

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About the Author

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