

Forex Trading Execution: Learn The Facts!

THE NO DEALING DESK ADVANTAGE

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SECTION 1

HOW DOES FXCM'S NO DEALING DESK (STP) SERVICE MAKE MONEY?

FXCM makes an identical amount of money in the form of pip markups (which are really commissions) regardless of whether the customer made or lost money on the account. FXCM receives prices from over a dozen of the world's largest banks and market makers in the foreign exchange markets. A best bid/offer engine sorts those prices and marks them up with our standard fixed markup on the majors. This markup acts as the commission on the trade. When a customer clicks on a price, they are actually clicking on a price from the bank that currently has the best bid or offer, plus our markup. Given that we make money on a per trade basis, we are motivated to encourage size and high frequency and it is why we offer extra incentives to clients. It's also why we dedicate a lot of resources in trying to improve client profitability so they have the money to stay around and trade in bigger sizes. We don't benefit from customer losses.

HOW DO TRADITIONAL DEALING DESKS MAKE MONEY?

This subject generally invites much folklore—most of it untrue. But there are logical issues that customers need to be aware of. Given the nature of retail forex order flow, there are two ways for retail dealers to make money.

A. Take the other side of the order: If the customer buys EUR/USD, the dealer sells it to him and bets that the pair is going down. The customer closes the position at a loss but at a profit for the dealer. Obviously, if the opposite occurred the dealer would lose. If dealer losses persist over more than a few trades, dealers will manually intervene and begin to either widen the spread and/or re-quote the order.

B. Customer buys EUR/USD at 1.4350: Dealer waits anywhere from seconds to minutes (sometimes hours) and buys EUR/USD at a price below 1.4350. Customer gets out of the position at 1.44 making 50 points. The dealer again waits and gets out at a better price. Obviously, the example works the same if the customer loses money on the trade. This is made possible since over 80% of retail order flow trades in a counter trend fashion. Meaning customers, no matter if they are buying currencies, stocks, etc., tend to buy falling markets and sell rising markets, generally allowing the dealer to wait and get a better price. Customers who have prices move in their favor quickly after getting filled are unprofitable for the retail forex dealer, and between re-quotes, spread widening, etc. these type of strategies are discouraged by dealers.

Many dealers claim they match clients internally (buyers and sellers) but those rarely show up exactly at the same time in frequent enough quantity. Dealers must bunch them all in and take risk during the day. Overall, by the end of the day, positions aren't large because most clients trade intraday and

therefore close the positions they opened that day not because there are a lot of simultaneous buyers and sellers in any given second.

WHICH TRADING STRATEGIES ARE IDEAL TO EXECUTE AT A TRADITIONAL DEALER?

Our experience suggests that dealers favor customers using range trading strategies where clients buy falling markets and sell rising markets. The caveat is that the buying and selling need to be done at least 10 to 15 minutes apart to give the dealer time to properly hedge the trade. Clients who exit in seconds or trade for just a few pips present a challenge to the dealer as it's not practical for retail dealers to hedge this quickly.

SECTION 2

WHICH STRATEGIES ARE IDEAL TO EXECUTE AT A NO DEALING DESK FIRM?

No Dealing Desk firms can pretty much take all strategies. The ones that differentiate FXCM over dealing desk firms are breakout and momentum strategies, mostly used by professional traders, as well as scalping strategies which are basically very short term high frequency range trading.

FXCM WANTS PROFITABLE CLIENTS. WHY AND HOW?

FXCM encourages profitable clients to come over and sign up since we depend on size and frequency to make money and nothing else. Our assumption is that more profitable traders eventually trade bigger and more often. Many dealing desks have problems with profitable clients because many strategies that are profitable are not that easy or impossible to hedge as a dealer. As a rule, unregulated dealers in offshore jurisdictions will rarely tolerate any real streak of profitability and some have been known to be very creative in their attempts to restrain profitable clients. Regulated onshore brokers, as a general rule of thumb, do not engage in market manipulation and other things where the regulatory penalties would be severe. Nevertheless, trading desks do not have the customer's best interests at heart and will make sure they are protected and profitable from this deal.

WHAT IS THE MAXIMUM TRADE SIZE WITH FXCM?

There is no maximum trade size with FXCM. Specifically, the trading station allows for order sizes up to 50 million per trade. Traders have the ability to trade incremental sizes (multiple orders of 50 million for the same pair).

FXCM has preset stop/limit functionality as well as one-click trading.

In contrast, dealing desk firms may employ a maximum trade size as scalpers and other traders create too much risk for the dealing desk broker to manage. Exceptions may be made to traders the dealing desk firm see as "not profitable" because in these situations the dealer is happy to take the other side of the trade.

ENTRY ORDER RESTRICTIONS - MY BROKER DOES NOT ALLOW ME TO PLACE MY STOP WITHIN 5 PIPS. DO YOU GUYS DO THIS?

No. There are no restrictions when placing stops, limits, or entry orders on FXCM's No Dealing Desk platforms.

Restrictions on stops and limits occur with dealing desk brokers. This occurs because bank spreads are variable, while dealing desk broker spreads are normally fixed. Therefore, if a bank provides a 5 pip spread and the dealing desk broker is guaranteeing a 2 pip spread, the dealing desk broker will lose 3 pips on each trade. To mitigate this risk, restrictions on orders may be imposed. If the dealing desk broker chooses a restriction of 5 pips then they have mitigated their risk to 7 pips (5 pip restriction + 2 pip spread). Unless bank spreads widen past 7 pips, the dealing desk broker is protected. During news events and volatile markets, bank spreads can easily widen beyond this amount, which is why dealing desk brokers may heighten restrictions when the market is likely to move.

Alternatively, when trading on any of FXCM's No Dealing Desk platforms there are no restrictions on stop, limit, or entry orders. In fact clients can place entry orders within the spread. This access is made possible due to the fact that FXCM's No Dealing Desk offering does not require FXCM to manage risk of client trades.

Please note that FXCM Trading Station allows for order sizes up to 50 million per trade. Traders have the ability to trade incremental sizes (multiple orders of 50 million for the same pair).

SECTION 3

FXCM DOESN'T RE-QUOTE. WHY?

FXCM does not re-quote its customers because it doesn't set the prices. If a price is available from one of the liquidity providers on our system then the order is filled. Our business model allows us to profit from all trading strategies and in fact we tend to favor high frequency trading strategies that get customers re-quoted at other firms. While we cannot guarantee that we will fill you at the price you want, as the liquidity providers may have moved their prices, we genuinely try to fill you as best as we can as it is in our best interest to do so no matter what the ultimate outcome of the trading strategy.

AREN'T BANKS MARKET MAKERS TOO?

Yes, they are, and, just like retail forex market makers, they hope to get into a trade at a better price in which they let you in. So, is a No Dealing Desk broker just aggregating a bunch of market makers and what's the difference between that and dealing with one market maker where you have a relationship? Well there is a huge difference. Having ten banks or market makers compete for your business is different than executing with one. Banks can't identify the end user customers and therefore cannot adjust their tactics accordingly. Secondly, introducing competition and giving the full benefit to the customer makes the service better if a bank slacks off and makes worse prices its competitors take the market share. Another advantage banks have is scale. They deal with a lot of retail shops like FXCM, as well as thousands of other institutions. This gives them access to so much order flow that it's easier for them to offset trades internally. In addition, speculators are just a portion of the customers most banks have corporate customers, investment funds in other asset classes dealing in cross border securities as well as other daily business transactions make up huge swaths of currency trading where the end users sometimes are price sensitive but never directionally sensitive as he/she isn't speculating in the forex market. These transaction flows provide banks great advantages as a result they are better market makers as they further enable buyers and sellers to meet at the same time internally.

CAN BANKS SEE MY ORDERS?

No, banks cannot see your orders. Market makers on the FXCM system don't get to see who the customer is. In fact, all customer orders to them look exactly the same as they come from one customer—FXCM. All orders stops and limits sit on the FXCM side and only when triggered are they sent as market orders to the banks (this also includes margin calls) that ensures that banks can't position their feeds to trigger upcoming orders unnecessarily.

SECTION 4

MY BROKER CLAIMS TO OFFER NO DEALING DESK EXECUTION, BUT I DOUBT THAT. HOW CAN I TELL?

A broker offering No Dealing Desk execution will not have order restrictions, will not re-quote trades, and will not restrict trading strategies. The role of a No Dealing Desk broker is to act as a true middle man that offers access to the market and who collects a transaction fee for doing so.

Transparency is also a way to determine if a broker is using a No Dealing Desk model. FXCM's Active Trader platform not only shows up to ten tiers of prices, but also displays how much liquidity is available at each price. This level of transparency can only be employed by a No Dealing Desk broker as a dealing desk broker will take trades regardless of market pricing or liquidity if they feel that they are on the correct side of the market.

WHY DOES MY ORDER HANG?

Hanging orders are the result of trades being sent to a liquidity provider who has not acknowledged the status of the trade. Keep in mind that FXCM passes all trades to the liquidity provider who made the given price. Thus, confirmation from the liquidity provider is needed to complete the order. If a technical glitch that affects the confirmation of the trade occurs, the order may hang until confirmation is received. In extreme situations confirmation may not come, at which point orders may be reset or rejected.

While rare, if you notice an order hanging for an extended period of time, please call our client service desk at 1-888-503-6739.

THE CHART CLEARLY TRADED THROUGH MY LIMIT, BUT THE TRADE DID NOT EXECUTE, WHY DOES THIS HAPPEN?

It is possible for the market to trade through a limit without your limit order being executed. This occurs when there is not enough liquidity in the market to fill all orders at the price points displayed on a chart. Generally speaking, this is more likely to occur during news announcements when liquidity can dry up.

Imagine that over 20M sell limit orders are sitting on FXCM platforms at the price of 1.3350, while the market is at 1.3320. A news announcement comes out that spikes the market from 1.3320 to 1.3355 within a few milliseconds. You watch this occur on the chart and subsequently watch the market drop back below your limit within seconds. The tick chart clearly traded through your limit, so why were you not filled?

Generally, a spike like this occurs as one liquidity provider makes an aggressive bid to the market. Due to the risk involved, the liquidity provider will normally send limited liquidity, say for instance 1M. If 20M worth of orders are sitting in the market, then only 1M can be filled as the price spike had only 1M attached to it. Because a No Dealing Desk offering simply passes through what is available, the remaining 19M worth of orders are simply reset.

Note, generally speaking price spikes on tick charts reflect limited liquidity amounts.

Please note, FXCM Micro, in its discretion, may or may not offset individual transactions unlike transactions in most FXCM Standard accounts. For additional information, [click here](#).

FXCM is compensated through a small markup in the spread.

Risk Warning:

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