

# The importance of technology in the Forex broker selection process



By Javier H Paz

The appeal of online forex trading might actually get a boost from the disarray in traditional asset classes like equities and real estate. Yet a decade after the popularization of Forex trading an age-old question remains: what forex broker is right for me?

There are approximately 100 forex brokers worldwide - 40 of which reach to international audiences and the rest concentrates on domestic markets. This forex broker mix is now enhanced by major banks that are partnering with established forex brokers.

Clearly, as the number of participants grow the forex broker choice gets tougher.

The competitive forex broker landscape showcases firms highlighting their perceived strengths and what (broker firms perceive) traders wish to hear: broker financial strength, technology prowess, great customer service, and the list goes on. But what are the hot buttons of forex traders nowadays and is technology one of them?

To answer those questions, e-Forex magazine and ForexDatasource.com partnered to conduct a special study. The results were also complemented by market research Forex Datasource had generated previously.

For this special study, both retail and institutional forex traders were included. Each respondent was asked to rank from 1 to 10 (10 being the highest) how important were specific technical and non-technical factors in their forex broker selection process. The survey also asked their forex trading experience in years and

whether they managed the Forex accounts of other people (institutional traders).

The most important variables in the Forex broker selection process were four, and two of them had a technology component:

## Hot button #1: Regulatory Body (9.5 out of 10)

Registration of a Forex broker with the NFA or FSA has come to represent a commitment to transparency. It should not be surprising that many well established broker firms, such as ACM USA, Alpari, and FXDD have sought NFA registration in 2008. The registration process enables them to access the lucrative US market, representing between 35% and 40% of the global retail Forex market. Conversely, a number of firms operating under a less comprehensive regulatory environment (such as Switzerland, the Cayman Islands, or Cyprus) may be placing a limit on their potential global appeal.

It is also true that the NFA registration can be burdensome,



Mikkel Thorup, Capricorn Group Chief Investment Officer

as evidenced by the decisions of two large European brokers to shutter their NFA foray and just keep their FSA (UK) registration. In Nov 2008, CMC Markets US withdrew its membership after 3 years and Saxo Capital Markets US opted to withdraw its membership application.

Capital and regulatory requirements have been on the rise for Forex brokers since 2006 when the US National Futures Association (NFA) started an ongoing push on this regard. By the end of Oct 2008, the NFA raised from \$5m to \$10m the minimum capital requirement for Forex Dealer Members – the same used to be \$250,000 through Jun 2006. By May 2009, this requirement will become \$20m. It is quite conceivable that in a challenging credit market and faced with a competitive broker market, some Forex brokers will be forced to sell their book of business to larger firms. This consolidation process has been taking place quietly since 2006 without much impact on Forex traders.

## Hot button #2: Fund Security (9.4 out of 10)

Major firms with tens of billions of dollars in capital are going bankrupt or needing government bail outs. Many investors wonder whether market turmoil will also hurt forex brokers. Institutional forex traders surveyed appeared to apply a two-stage filter in their broker selection, where fund security and regulatory environment was the first filter, and technology factor comparison was the second filter.

Mikkel Thorup, Capricorn Group Chief Investment Officer, espoused this two-tier approach:

*"In today's markets our primary concern is credit risk when dealing with brokers or execution providers. It does not really matter that a broker provides top notch execution, but then could be out of business the next day, and taking our clients money down with them. Therefore we only deal with banks or top rated FCM's. When looking at execution and technology it is paramount for us that platforms are reliable and have low latency, together with the ability to deal via phone as a backup if there should be system failures. If these conditions are not met, then we will not be entering into business relationships."*

On a positive note, virtually all Forex brokers are focused on one line of business (retail Forex) and are not directly affected by what is going on in the market. Despite the credit difficulty that corporate borrowers face, forex brokers polled do not have plans to curtail the leverage level offered to clients. In terms of financial backing,

however, it is worth noting that the majority of forex broker firms are each owned by 1-5 wealthy individuals, while most of the larger ones have received capital infusions from private equity firms.

As a former management member for a major Forex broker dealer, I understand that a great degree of sophistication is required to manage all financial operations between the broker and clients and between the broker and the interbank market. As an illustration, a single major broker may transact more than 5 million trades with clients in a single month – a level of trades that may actually exceed the turnover seen at Deutsche Bank, the largest FX market maker. So even though the average trade size of these Forex brokers will be a fraction of the average trade of Deutsche Bank, the technical requirements to keep all back office operations in order are high and expensive.

## Hot button #3: Trading platform features (9.3 out of 10)

In a close third place, traders polled cared about the features of their trading platform. This category refers to having the desired charting tools and technical indicators, within a stable environment conducive to a high system uptime. Drawing on the wealth of information from its trader evaluation database (more than 500 unique evaluations from traders in more than 65 countries), Forex Datasource is able to expand on the findings from the e-Forex survey.

The CMS Forex and FX Solutions platforms are the highest ranked

	Average both types	Non-Institutional Traders									Institutional Traders		
		Peter	Rajeev	Edwin	Luiz	Jose	Jhon	Manuel	Prashant	Tanja	Jose S	Ash	Mikkel
<b>Trading Platform Features</b>	<b>9.3</b>	10	10	10	10	8	8	8	10	10	8	10	9
<b>Execution Features</b>	<b>9.1</b>	5	10	10	10	10	10	9	10	8	8	10	9
<b>Advanced Features</b>	<b>6.5</b>	5	0	7	7	5	5	7	7	8	8	10	9
<b>Fund Security</b>	<b>9.4</b>	9	10	8	10	8	10	10	10	10	8	10	10
<b>Regulatory Body</b>	<b>9.5</b>	9	10	10	10	10	10	8	9	10	8	10	10
<b>Services</b>	<b>7.9</b>	8	10	10	8	10	8	9	9	9	8	1	5
<b>Business Factors</b>	<b>7.7</b>	7	6	10	7	8	10	7	3	9	8	10	7
<b>Reputation</b>	<b>8.6</b>	9	10	10	10	8	10	7	7	10	10	7	5
<b>Current Broker</b>	<b>12</b>	FXCM	Forex.com	Forex.com	Forex.com	MBT	MBT	IBFX	FXClub FXSol	CMS	Alpari UK	IBFX, MBT, ForexPro	DBFX, UBS, Saxo
<b>Overall ranking</b>	<b>9.3</b>	8	10	10	10	8	10	10	8, 9	9	10	7	10
<b>Day Trader</b>	<b>9</b>	10	10	10	10	9	10	10		5			10
<b>Swing Trader</b>	<b>5</b>		10			5			10	8	10		
<b>Position Trader</b>	<b>3</b>					4				10			10
<b>High Frequency Trader</b>	<b>1</b>											10	
<b>Years of Trading Experience</b>	<b>4</b>	1	1	1	2	2	2	2	2	4	2	10	15
<b>Fund Manager?</b>	<b>3</b>	N	N	N	N	N	N	N	N	N	Y	Y	Y

trading platforms, followed closely by that of Interbank FX. Conversely, four of the Top 7 trading platforms tracked by Forex Datasource belong to brokers offering the MetaTrader (MT) 4 platform. The MT4 platform is a very popular choice among traders because it combines integrated charting, a robust indicator library and a simple language to program custom indicators or automated trading strategies. FXCM trading platform has gotten high marks by some traders for enabling them to trade from the charts.

**Hot button #4: Trade execution features (9.1 out of 10)**

Trade execution is also a key technology factor for traders, both retail and institutional. Traders are interested in having stable spreads, little or no slippage, little or no price requote, as well as low price latency. Some firms – such as MIG Investments – are taking steps to increase the number of data centers around the world to

Trader Type	Trader Name	Comments
Non-Institutional Traders	Peter	Word of mouth, recommendation from other traders. I owe 100% internet connectivity to my ability to trade forex even in the jungle of Africa Kenya where I reside due to mobile phone 3G internet connectivity and the affordability of laptops. My Broker FXCM has helped me with availing options like: stop loss, trailing stop, and limit setting on their workstation. Due to technology they provide me with interactive online training on various technical analysis tools.
	Rajeev	Credibility of staff in online chats, my personal experience with efficacy of platform as I trade everyday.
	Edwin	Customer service, friendly platform, access to very good research products, online comments, and real time (Forex Insider), and weekly strategy.
	Luiz	No comments
	Jose	ECN broker
	Jhon	No comments
	Manuel	Point spread and cust service (live and 1-800) had kept me quite satisfied with Interbank.
	Prashant	I looked for a broker charging high spreads than the market rates. It guarantees no slippages, no stop loss hunting and good customer service.
	Tanja	First of all is the VT Trader platform, easy account management (which could be easier on line), Visa and other cards available, reports are ok, spreads are ok, rebate is ok, no house money managers is problem – only third party, on line support, withdrawals are also in time....
Institutional Traders	Jose S	My broker is regulated by the FSA in UK, that's a very important aspect for me as a money manager. Fixed spreads. Any complaints about money transfers or any kind of suspect action from them and I found all this out on www.forexpeacearmy.com I looked into many pages where people talk about their experience dealing with brokers from all over the world and I'm very sure I made the best choice.
	Ash	Reputation, Charting, Ease of opening accounts, Instant Executions.
	Mikkel	"In todays markets our primary concern is credit risk when dealing with brokers or execution providers. It does not really matter that a broker provides top notch execution, but then could be out of business the next day, and taking our clients money down with them. Therefore we only deal with banks or top rated FCM's. When looking at execution and technology it is paramount for us that platforms are reliable and have low latency, together with the ability to deal via phone as a backup if there should be system failures. If these conditions are not met, then we will not be entering into business relationships"

	Poll Sections	Description
Technical Factors	<b>Trading Platform Features</b>	Charting, technical indicators, high platform uptime
	<b>Execution Features</b>	Little/no slippage, little/no price requote, low price latency, stable spreads
	<b>Advanced Features</b>	Ability to integrate charting programs to trading platform, ability to program your own automated strategies into the platform, ability to use an API to bypass a trading platform, ability to use a money manager software to manage simultaneously multiple trading accounts
Non-Technical Factors	<b>Fund Security</b>	It matters the size of the dealer, how long they have been in business, and how much capital they have in their books.
	<b>Regulatory Body</b>	It matters where your broker dealer is regulated
	<b>Services</b>	It matters the quality of customer service and other services such as: real time news, training help, other
	<b>Business Factors</b>	It matters to have low currency spreads, whether there is a dealing desk or not, and to be able to trade Forex and also other securities (stocks, futures, options, or CFDs)
	<b>Reputation</b>	It matters what I read about a forex broker dealer or what I hear from people I know

Most Voted % of all votes		Overall - Last 3 mo Average		Platform Average		Customer Service Average	
Interbank FX	14.0%	Interactive Brokers	7.9	FX Solutions	8.6	GFT Forex	8.4
FXCM	12.6%	CMS Forex	7.8	CMS Forex	8.5	Interbank FX	8.1
Oanda	10.8%	FX Solutions	7.8	Interbank FX	8.3	Dukascopy	8.0
Alpari	6.7%	Interbank FX	7.8	MIG Investments	8.1	MIG Investments	7.8
FXDD	5.7%	ODL Securities	7.7	FXCM	7.8	Deutsche Bank	7.8
MB Trading	4.6%	Alpari	7.6	MB Trading	7.8	Crown Forex	7.6
Saxo Bank	4.6%	FXCM	7.5	GFT Forex	7.7	ACM	7.6
		<b>Industry Average</b>	<b>7.1</b>	<b>Industry Average</b>	<b>7.4</b>	<b>Industry Average</b>	<b>7.2</b>

decrease price latency and improve execution speed.

Besides the factors described above, traders polled did not show a consistent preference for the remaining factors. Some traders cared about getting low or fixed spreads, or related *business factors* such as (a broker) not having a dealing desk. Newer traders tended to care more about the *reputation* of Forex broker dealers in discussion boards than more experienced traders did. An even smaller segment of participants cared about the quality of customer service or about advanced technical features – such as API trading or money manager software.

### Favourite Broker Dealers

Now that we have a sense of the hot buttons affecting traders today, it would be useful to know what are some of the most popular broker dealers today. The collective wisdom of a community, whether it be one of ants, bees, or Forex traders, is infinitely greater than that of a single individual.

The Forex Datasource broker dealer database consists of hundreds of trader evaluations which began to be collected in August 2008.

In these evaluations, Forex traders from over 65 countries ranked their preferred broker dealer from

1 to 10 on key areas, such as overall evaluation, platform, and customer service.

Most Forex traders appear to be content with their Forex broker selection and the edge that the top seven brokers in any category have over others tends to be small. It is safe to say that the high regulatory burden imposed on all brokers is also forcing brokers to keep up in terms of technology investment, while tightening spreads and offering outstanding services to clients. So, while Forex traders have quite a bit of work selecting a broker, the latter have a tough assignment carving out a niche in a very competitive broker dealer environment.