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No Dealing Desk vs. Dealing Desks

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 global banks, financial institutions, and other market makers in the foreign exchange markets. A best bid/offer engine sorts those prices and marks them up with our standard 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.

2. 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 types 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.

3. 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.

4. 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.

5. FXCM wants profitable clients. Why and how?

FXCM encourages profitable clients to 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 impossible or not that easy 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, some trading desks might not have the customer's best interests at heart and might ensure that the trading desks are protected and profitable.

6. What is the maximum trade size with FXCM?

There is no maximum trade size with FXCM. Specifically, FXCM platforms allow 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). In addition, when calling into the trading desk, one can place an order of any size.

Traders should also note that 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.

7. 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).

8. 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 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 since it is in our best interest to do so no matter what the ultimate outcome of the trading strategy may be.

9. 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. That said, there are distinct differences between executing trades at a retail forex market maker and executing trades through a pass through entity such as FXCM.

- **Competition** - With a No Dealing Desk system, FXCM takes prices from global banks, financial institutions, and other market makers. These firms compete to win your business. For instance, let's use the following example to see how this benefits you, the trader:
  - Market Maker A offers 1.4960 by 1.4962
  - Market Maker B offers 1.4559 by 1.4961
  - Market Maker C offers 1.4959 by 1.4962
    - FXCM would offer 1.4960 by 1.4961 plus our mark up (highest sell price matched with the lowest buy price) "buy low/sell high."

The above example highlights the importance of competition. If one market maker attempts to move the market for their interest, they will lose out on winning trades as multiple other providers will be more competitive. Note how Market Maker C offers a buy price 7 pips above what FXCM offers to their client. This provider will not win out as others are far more competitive.

- **Anonymity** - Another key difference when trading through FXCM’s No Dealing Desk model is that all orders reside on FXCM servers and are sent to market makers as market orders only. One again, let's use an example. Let's say you buy the market at 1.4550 with a stop at 1.4530 and a limit at 1.4600. With FXCM, your stop and limit reside on our server. At no time do banks see where these orders sit. If the market moves down through your stop, FXCM’s system sends your order to the market maker as a market order and execution takes place at the next available price.

In contrast, a dealing desk sees your orders. In the above example, a dealer knows your stop is at 1.4530 and knows that your limit is at 1.4600. In specific cases the dealer will profit when you are stopped out and, since they control the market, they control if and when the market moves through your stop level.
• **Scale** - 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 and, as a result, they are better market makers as they further enable buyers and sellers to meet at the same time internally.

10. 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, to the market maker, all customer orders look as if 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.

11. 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 since 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.

12. 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.

13. 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.
Trading News Events

1. Do you allow news trading without restrictions?

Yes. FXCM allows trading news announcements unrestricted, whether by single directional orders, straddles, or any other way users can make the system do it. Around major economic releases, like Non-Farm Payroll, prices will widen a bit for a short period of time as market makers on our system widen to protect themselves, but then it will quickly return to normal. Many retail forex dealers have large restrictions around order placement during news announcements as they aren't routing the orders into the real market. And situations, such as news releases, can create the potential for users to make outsized profits/losses with little way to predict the actual outcome.

2. Do you accept all EAs?

Yes. FXCM accepts all EAs.

Some EAs use high frequency style trading. For example, when your EA sends through multiple buy orders, the dealing desk broker is taking multiple short positions simultaneously. Now multiply this by the number of people using the same EA. The dealing desk broker is left with too much risk because, if those EA orders are correct, the dealing desk broker is left with several trades on the wrong side of the market, and not enough time to manage such risk appropriately.

In contrast, FXCM has many EA users, and this number is growing each day. Using the example above, when your EA buy orders come to FXCM, FXCM does not hold onto short positions. In contrast, these buy orders are sent to a variety of market makers competing for your trades. Thus, EAs that execute numerous orders or EAs that execute only a few orders are all handled exactly the same through FXCM’s No Dealing Desk model.
1. Which is better: variable spreads or fixed spreads?

In 2006, FXCM made the move to a variable spread, No Dealing Desk model. This move was made after reviewing many questions, namely the one above. One of the biggest differences between these models for traders is that banks quote variable spreads. Thus, a dealing desk broker has to manipulate the market to take prices in a variable fashion but pass them off in a fixed model. There are two distinct advantages for trading on a variable spread.

A variable spread provides, on average, cheaper pricing for the client. For instance, EUR/USD is normally fixed at 2 pips for dealing desk brokers. However, during the London and U.S. session, when volumes on this pair are high, the transaction cost is normally much lower than 2 pips. At FXCM, spreads are typically around 1.6 on major currency pairs. This could potentially save a trader 0.4 to 1 pip if their spreads are fixed to 2 pips.

Using the above example, a dealing desk broker will typically fix EUR/USD spreads at 2 pips. Yet, if bank spreads widened to 4 pips, the dealing desk broker must re-quote you or they will lose 2 pips on the trade. The decision of allowing a trader to enter the market is made by whether or not the dealer feels that they can earn more than 4 pips from your losses. Hence, in rising markets they may give you the trade if you are shorting, whereas if you attempt to buy, you will see a re-quote a few pips higher. Of course with a No Dealing Desk model, re-quoting is irrelevant as the No Dealing Desk broker takes a fixed commission on each trade and only passes through prices, allowing the trader to deal on what price and liquidity is available.

While FXCM 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.

2. How do currencies differ in spreads and liquidity?

Not all currencies are created equal. EUR/USD and USD/JPY are the two most liquid pairs with the best spreads in the markets. This has to do with the fact that they represent the two largest cross border trade and investment flow relationships in the world and that gives the banks a lot of non-correlated forex flows from a lot of non-speculative clients. That's why EUR/JPY, which is a cross of both, is also fairly liquid and tight. The above three mentioned currency pairs have high levels of liquidity 24 hours a day†. GBP and CHF crosses on the other hand are not as liquid and tend to have the majority of their activity during the European time zone. Bid/offer spreads tend to be higher and liquidity attached to those bids and offers are lower. Outside of the European time zone, GBP and CHF crosses tend to be just speculative flows and both spreads and liquidity get worse. The minor currency pairs AUD/USD and AUD/JPY tend to be fairly tight and liquid 24 hours a day† and have shown better consistency then GBP/USD and GBP/JPY in recent years. NZD and CAD crosses are a different matter and are even worse than GBP. Beyond these currencies, Scandinavian and emerging market currencies must be thought of the same as equities, basically fitting into one time zone with no real overnight market in terms of decent spreads and significant liquidity.

3. Why do certain pairs have better spreads and liquidity than others?

This question has a few very important components:
• **A. Size of the country involved in terms of trade flows, as well as maturity and size of the financial market:** The U.S. dollar is backed by the world's single largest economy as well as its single largest financial market. It is also used as a reserve currency by nearly every other country on earth. The euro is a currency used by 16 western nations including four of the top seven economies in the world. The yen is used by the world's second largest economy. As you go down the list and get to smaller, less mature economies, the amount of cross border transactions and financial weight behind it shrinks dramatically and that's why you see higher spreads and less liquidity.

• **B. Natural currency pairs versus synthetic crosses:** Natural currency pairs are pairs where there is a real market of buyers and sellers exchanging the two currencies. Synthetic currency cross rates are currency pairs where there isn't enough natural demand for a dedicated market in that pair. Banks calculate synthetic crosses for the customers that want them from the two underlying pairs. The U.S. dollar, against all freely available currencies, makes the most common natural pairs. The euro is a natural pair only against JPY and its neighbors GBP, CHF, Scandinavian currencies, and the eastern European currencies. The yen is a natural currency only against the euro and the dollar. GBY/JPY is a synthetic pair where the price is really composed from a GBP/USD pair and a USD/JPY pair. This makes it more dangerous to be a market maker since the calculation time adds to latency as well as the execution risk in hedging the legs of the trade. This naturally makes banks take a more cautious stake depending on how well trading is going. Retail market makers don't have such issues as they don't pass the orders to the real market. As long as traders aren't profitable, especially in shorter term strategies, the market maker will be aggressive, but that won't continue if customers start to really make money from it.

• **C. Non-correlated flows:** Flows of money due to trade and cross border investments make up a large part of currency trading in certain pairs. EUR/USD, USD/JPY, and EUR/JPY are the three most liquid and best pairs to trade because of the existence of so much of these non-correlated flows. EUR/GBP and EUR/CHF enjoy this as well during the European trading session. The less non-correlated flows are in a currency pair the more it's dominated by speculators. That means that market makers are more defensive, provide wider spreads, and, most importantly, smaller trade sizes.
Trading Strategies

1. Are all currency pairs created equal and how does this affect my trading?*

- **1) EUR/USD:** The most liquid pair in the world with the tightest prices. Most bank market makers are excellent at providing this pair, which we believe makes it a no brainer to trade at a No Dealing Desk broker like FXCM. It's good and deep 24 hours a day†. It's the best currency pair to do large orders, as well as the best currency to scalp during Asian hours given the low spreads. Most high frequency institutional systems that go for few pips to even one pip profit per trade generally use EUR/USD.

- **2) EUR/JPY:** An excellent highly liquid pair with the same characteristics as USD/JPY but just a notch under. This one happens to have better defined trends and is more volatile due to the concentration of speculators and carry traders. EUR/JPY is a great currency pair for breakout, momentum, and other typical technical strategies.

- **3) USD/JPY:** Another great liquid currency pair that’s almost as good as the EUR/USD but slightly less consistent spread wise. This is another great pair to move as well as scalp on low spreads. This is a safer currency pair to scalp or range trade since it’s less volatile on intraday basis than the EUR/USD. Same as above, this is another currency pair that is widely used by high frequency systems.

- **4) GBP/USD:** After the euro, this is the most popular currency pair to trade. It’s volatile intraday and long term. This pair is not as liquid as the EUR/USD and USD/JPY, thus, it has a higher spread than EUR/USD and USD/JPY, even in the best of times. The London session is best for trading GBP/USD. During the Asia time zone, GBP/USD is hard to trade in large sizes because liquidity is less and its spreads are inconsistent. GBP/USD is the single biggest reason people who lose money trading currencies lose. Range trading strategies are not recommended, neither is scalping. GBP, just like GBP/JPY, is a great breakout and momentum currency. Market makers usually do a better job in GBP/USD during the Asia time zone as they understand that GBP/USD trading is where the majority of people lose money so they are willing to offer fixed spreads or tighter spreads during the Asia time zone. However, when this currency pair does move, usually during London session, it is heavily re-quote by market makers thus offsetting their initial advantage of fixed or tight spread during the Asia session.

- **5) GBP/JPY:** This is one of the most volatile and most favorite currency pair of the retail forex trading community. Just like GBP/USD, it’s a pair that has left massive customer losses in its wake and requires iron discipline to trade. Liquidity and spreads vary widely as it is a synthetic pair created from GBP/USD and USD/JPY. Range trading should not even be remotely attempted and only momentum and/or breakout trading should be tried as strategies. Traditional retail forex market makers love this pair since many clients blow up here, so usually they provide good spreads. However, as mentioned it is a volatile pair so when news does break this is also a pair market makers heavily re-quote.

- **6) AUD/USD:** A great currency pair to trade 24 hours per day†. Australia, being in the Asia time zone, ensures there is activity in the pair during these times, so spreads don't deteriorate.

- **7) USD/CAD:** Liquidity is greatest in the U.S. time zone due to cross border investment and trade (U.S. and Canada are each other's largest in both respects). Outside of the U.S. time zone, spreads are wider and liquidity is lower. USD/CAD is used for macro bets on oil and, although it is not volatile intraday, USD/CAD tends to have great trends on long term basis.

- **8) NZD/USD:** A much smaller economy and currency means that, although similar to Australia, spreads are wider and there is less liquidity. In most years, interest rates are higher than in Australia and people usually trade NZD crosses for the carry.

- **9) EUR/CHF:** This pair is noted for its low intraday ranges and in most years it tends to range period. It’s a perfect pair for range trading strategies and scalping. Liquidity and spreads in the European and
U.S. time zones are excellent. During Asian hours the pair deteriorates significantly from liquidity and spreads perspective.

- **10) EUR/GBP:** This pair is very similar to EUR/CHF with low intraday ranges. Great liquidity and spreads during European and U.S. markets. During the Asian session the spreads widen and liquidity is much less.

- **11) Other yen crosses:** The yen is the world's most consistently borrowed currency for carry trade purposes. Most yen crosses are therefore used for their carry potential with exception of USD/JPY, EUR/JPY, and AUD/JPY other crosses do have fairly wide fluctuations in spread and are usually good for macro bets, breakout and momentum trading. Many people range trade them at times but overall these are trending currencies.

- **12) Emerging market currencies:** These should be traded only in their respective time zone and be thought of as longer term macro bets on the particular country and/or commodity. Spreads won't allow for scalping and it's very hard to trade large sizes in short periods of time. It's better to scale into it. Overnight markets for these are thin to non-existent and so strategies must retrain use of leverage to avoid needing to exit overnight margin call.

- **13) Scandinavian currencies:** These should be thought of in the same way as emerging market currencies. The only exception is that they are much more stable economies and therefore the risks are smaller than emerging market countries.

2. **Which time zones are best for trading?**

The answer depends on what strategy and what currency pairs you are trading. The London time zone, essentially from 4 a.m. to noon ET, is the time where most forex trading takes place. Spreads are the tightest and liquidity is the biggest. It is also a time when the market makes the majority of its moves. For GBP and CHF traders, we believe this is when trading should be done. For EUR and JPY traders, trading at all time zones is ok. Range traders may want to consider the Asia time zone as markets don't move as much and it's less likely that a range trading strategy will get caught in a large move that way.

3. **Why does the Asian trading session present challenges?**

The Asian time zone presents challenges and opportunities in forex. Liquidity is much lower and there are less market makers and institutions in the market during this time zone. This is not the time to place very large orders, nor is it recommended to trade GBP and CHF crosses. EUR and JPY crosses are still fairly liquid and spreads are still relatively good. AUD and NZD pairs are also good since it's their time zone.
Slippage

1. Can I be slipped on trades?

Slippage is a factor when trading in a No Dealing Desk environment.

Slippage occurs when the market gaps prices or when available liquidity on a given price is taken. Market gaps normally occur during fast moving markets when a price can jump several pips without trading at prices between the top and bottom of the gap. Similarly, each price has an available liquidity. For instance, if the price is 50 and there is 2M available at 50, then a 3M order will get slipped since only 2M exists for the price of 50.

To manage slippage, clients with FXCM have the option to use market range orders, whereby clients can either avoid slippage all together or choose the level of slippage they are comfortable with on a given trade. You can read more about market range orders here.

In addition, clients can also add transparency to their trading by using FXCM's Active Trader platform. This platform displays not only each price available for up to 10 prices, but it also displays how much liquidity is available at each price point.

Why doesn't FXCM guarantee stops?

Firms that guarantee stops do not send their orders to the open market but internalize (bucket) all the orders. The theory behind it is that a customer is taking a loss when a stop loss is triggered. There is no need to rub salt in the wound and take more of their money as the dealer pocketed the original loss to begin with. It does not cost the dealer anything. Stops are done in all markets as a resting order which, when triggered, is sent to the market to execute at best as the customer wants the next best available price in the market. Some slippage is generally to be expected. One of the things firms do to kick out profitable clients is to stop guaranteeing their stops.
Scalping

1. Can I scalp on your platform?

Yes. Clients can scalp on FXCM’s platforms.

Scalping is not allowed on dealing desk platforms because the broker is holding the other side of trades. Scalpers create an abnormal amount of transactions, which generally come too fast for the broker to properly manage their risk. In addition, profitable scalpers compound the issue for dealing desk brokers as the dealing desk can wind up holding several losing positions.

In contrast, when placing a trade through FXCM’s No Dealing Desk platforms, the trade is passed through to the liquidity provider making the price. FXCM and the liquidity provider each take a piece of the total transaction cost to the trade.