

# Commodity Broker: What You Need to Know to Select the Right Broker for You

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## **Sample of Content:**

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## **Content:**

It has been said many times. Futures trading should be treated as a business. Part of this business involves qualifying the right commodity broker to facilitate your trading activities. The correct selection will help to make your futures trading experience enjoyable and hopefully profitable while the incorrect choice can bring frustration and probably costly consequences. By profiling a number of commodity brokers you will begin to see the differences and be able to discard the less desirable of the group. If you

take the time and do the homework you will be rewarded with a long-term satisfying business relationship between you and your broker.

The following list of questions is designed to provide a consistent process of qualifying each firm. Most of the information can be obtained from the respective commodity brokers website. Some will require email questions or personal contact.

**Question #1 - Is the commodity broker an IB or FCM?** This information is useful in determining whom you are dealing with. An IB (Introducing Broker) must use an FCM (Futures Clearing Merchant) for trade clearing and order execution among other things. If you are considering opening an account with an IB then you should realize that your money will be held by the FCM not the broker you are working with. This is not bad, it means that you should also qualify the FCM.

**Question #2 - How Many Years in Business?** The main consideration here is the fact that just like any other new business, the odds of failure are very high in the first five years of operation. Stick with an established firm.

**Question #3 - NFA and CFTC Data?** The NFA and the CFTC are the regulatory bodies charged with the task of regulating and monitoring the activities of the members and registrants. All brokers must be registered. This group conducts Complaint investigation and regulatory action against members. You should take the time to visit the NFA website at [www.nfa.futures.org/basicnet/Welcome.aspx](http://www.nfa.futures.org/basicnet/Welcome.aspx). Enter the Commodity brokers name and document any Regulatory actions and any Complaints. You can also use this site to find out when the firm applied for registration. This will give you a pretty good idea of how long they have been in business. If you are profiling a firm that has regulatory actions or a large number of complaints, you may want to consider moving on to another commodity broker.

**Question #4 - Minimum \$\$ to Open Account?** This will vary greatly. In my experience the range is \$0 to \$10,000+. It depends on the type of trading you do and the markets you trade. The least amount required is not always the best way to go and should only be a small factor in your decision. Whatever you do only use risk capital!

**Question #5 - How will I receive Account Statements?** This question is used to determine your own personal preference. The variations are almost endless. Just be aware that some futures brokers expect you to download your statements when you want them. They do not send any statements to you. The other side of the spectrum is the futures brokers that mail your trade confirmation statements and monthly statements. I prefer the electronic statements so that I can verify trades in a timely fashion. Most will provide real-time online account information.

**Question #6 - 24 Hour Customer Service/Trading Desk?** The average online trader gives far too little importance to this issue. Not having a reliable backup trading avenue is like driving without a spare tire. No Big Deal until you have a flat Right? Maybe your computer crashes, maybe you have suddenly lost Internet access, maybe the trading platform is not functioning. You need to be familiar with the trading desk and it's operation. Be aware of possible added costs to use the Trading Desk.

**Question #7 - Multiple Trading Platforms to Choose From?** Some Brokers offer their own platform. This will usually be offered at no cost to you. Other Brokers only offer third party fee based platforms. And finally, some offer both their own and third party platforms. In addition to the costs, if any, your major concern should be reliability. The more active trader you are the more important this is. Nothing worse than being in the middle of a trade and the platform freezes or hangs. You do not know whether you have

an order in or not! Take your time to probe for the answers to this question. There are at least 5 widely used third party platforms out there. The costs vary greatly, from cost-per-trade to monthly fee plus cost per trade. Also remember that if you need live streaming data you will possibly be charged the Exchange Data Fees. Do your homework on this one so there are no surprises.

**Question #8 - Commissions and Fees?** Now it gets complicated. You will have to muster all your detective skills and patience to get through this one. The plain truth is you cannot blindly believe what you find on the websites and you probably cannot believe what the live body tells you. No they would not lie to you, they just are not telling you everything. With few exceptions, I can guarantee that you will not find full disclosure of trading costs on any futures brokers website. The space limitation in this article prevents the detailed listing of all the cost related possibilities. I suggest you contact the perspective commodity broker and run through a simulated trade asking for a breakdown of costs associated with the transaction. Be sure and make the simulated trade a full round turn transaction.

**Question #9 - What else can I get and is there a Charge?** Just visit any commodity brokers website and you will see the free gimmicks they use to entice us to open an account. Charting, research, newsletters, educational materials, webinars, live futures trading news services, pamphlets, booklets, leaflets, trial subscriptions etc. I think you get the idea. Focus on what is important to you. If you are interested in Charting, have them send you some examples.

**Question #10 - Are the Floor Traders employees of the Firm or are they Contracted?** This question is important if you are trading markets that are executed in the live trading pits. Many commodity brokers do not have Traders in the Trading Pits and therefore contract the order execution out to Independent Floor Traders. The brokerage firm has less control over the Independent Trader, opening the door to unfavorable order fills. You want the Floor Traders to be employees of the firm or at least ask what measures are in place for comparing order execution.

**In Conclusion** - Obtaining answers to these questions should get you well on your way to finding the best qualified commodity broker. Take your time and do the homework. You will make an informed decision.

Merv Thompson operates <http://www.futures-brokers-review.com/> a website dedicated to providing tools and reviews for today's futures traders. Detailed broker profile forms are available on his website.

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