

Most traders open live trading accounts while still not knowing what kinds of brokers there are and what differences they have. The different types of brokers and the way they make money through your trades will be explained here. Forex is about buying or selling currencies against each other. When you buy EURUSD, it means you buy Euro against US dollar and vice versa. What the broker does in this Buy/Sell process?

Market Maker (Dealing Desk) Brokers:

There are two kinds of brokers. Some brokers are market maker / dealing desk brokers. It means that the market belongs to them and so you buy from them and sell to them only. When you open an account with this type of broker, you trade only with them, not the real and global currency market. That said, it is always in the interest of market maker that traders lose their money.

For example you buy one standard lot of Euro against USD at 1.3012 and the broker charges 2 pips (\$20 in case of EURUSD) as the spread. For example price goes up for 22 pips and you make a nice $20 \times \$10 = \200 of profit. Broker has to pay you that \$200 of their own money. If the price goes down 20 pips you lose the same amount, so yours 200 USD goes straight to broker's pocket. To summarize this: your loss is their profit, and off course, you always pay the spread as well.

This is how a market maker broker makes money. They not only earn through the spread, but also through the traders' losses. So what about the statistical 5% of the traders that win? It is a good question. Market maker brokers do their best to make all the traders lose. They can do it, since they have basically full control over their trading platform. So if they see a trader who knows how to trade and makes money, they will start acting against him, because the traders' profit should be paid from their account. It's a fact that a good trader can easily wipe out a new broker that does not yet have a reasonable amount of money.

All kinds of dirty tricks are already built into the market makers brokers systems to make sure that their system doesn't let the good traders win, as long as it can. There are cases that when they see they cannot stop a good trader from winning, they make up some general excuse and close his account. They off course keep the losers, offering them all kind of bonuses and "gifts" on their additional deposits. Often, when a winning trader wants to withdraw his profit, broker give no answer or make several excuses not to pay the money.

Market maker brokers design and arrange everything in order to make traders lose as soon as and as much as possible:

1. Leverage:

Almost all of the market maker brokers offer an extremely high leverage like 500:1 or even 1000:1. This enables the novice traders to take big positions with a small account and it increases the probability of loss and margin call by the first a few trades. Brokers know that most traders do not give up for the first time and will reload their accounts for a few more times, and off course, lose again and again. This happens to more than 90% of beginners who open a live account.

2. Minimum account size and bonuses:

There are thousands of people who would love to make easy money on forex, especially in developing countries. However, they have three problems: 1. They do not have enough knowledge nor experience (like 95% of the traders), 2. They do not have enough money to invest and 3. When, they the small amount of money is somehow raised and invested, they really are under pressure to earn as soon and as much as possible. So an account is opened with less than \$50 and the leverage is 500-1 or higher. As a result they end up losing their hard earned (sometimes the only) money very fast. Many brokers offer the minimum account size of as low as \$20. They also offer some bonuses to those who fund and re-fund their live accounts. For example, they add \$30 to your account balance if you add a \$100 fund to your account. Sometimes they also remove the service fees too, doing everything to make the trader feel comfortable and deposit more. Here you can see the very tempting promises of Trading Point and Accent Forex brokers:

20% Welcome Bonus
On All New Accounts

[Read More](#)

10% Loyalty Bonus
For Every New Deposit

[Read More](#)

New Members Area is Now Live and Offering
With **100%** Instant Depositing and ZERO FEES



**Special offer: "Bonus +35%"
(To EACH Deposit)**

AccentForex makes an exclusive, special limited offer for customers – "Bonus +35%". During the promo, any client can open any live account, accept these rules, and get additional bonus cash in the amount of 35% of each fund deposit (replenish) to client's live account.

Due to numerous requests of our customers promo "bonus +35%" extension until January 31 2012 inclusive.

[>Open an account<](#) [>Get the Money<](#) [>Ask online<](#)

Brokers know for a fact, that almost all of those who open such small accounts with the high leverage they offer, will end up losing. All the bonuses and "gifts" will stay in the broker's pocket. The advertised free deposit fees can be easily recovered with the money that the traders lose.

3. Slippage:

Slippage is a time difference between clicking on the buy/sell/close buttons by the clients and receiving the orders by the liquidity providers. Having some minor slippage sometimes is normal. Some brokers set the extra forced slippage (execution delay) in their platform, which prevents the traders from opening and, more importantly, closing their positions when they want. Slippage steals a portion of the profit of the winning positions and also makes the losing positions lose more. It helps brokers to have more loser and less winner traders.

4. No Connection and other platform problems:

Many traders have experienced that their MT4 platform suddenly loses connection (or freezes) when they have a winning position and they want to close it and collect the profit. During the disconnection (or freeze) period there is time for the market to reverse and make winning position a losing one. It is well known that some brokers switch off the MT4 connection a little before the major news releases to prevent the news traders from making big profits on huge news spikes in a matter of minutes.

5. Stop Loss Hunting:

In order to have a higher rate of losing positions, market maker brokers increase the stop loss when the current price is close to the stop loss level. This stop hunting happens as an instant, abnormal move or increase in spread, which triggers a stop loss limit and closes the trade. When trading with a reliable broker, you know that if stop loss is placed correctly, let's say just above the major resistance level, price can touch that resistance but will not trigger your SL, which is 2-5 pips further away. Many market makers do the stop hunting and have all sorts of excuses for it.

ECN/STP Brokers:

There are a few different kinds of ECN (Electronic Communications Network) brokers, but the best one is STP or Straight-Through Processing. When you trade through an ECN/STP broker, your orders will be placed directly on the real and global Forex market. ECN brokers make money only through the spread and most of them also charge a commission for each position. On normal, non-ECN, accounts there are no commissions, only spread. How do these differ from market makers?

STP broker only connects your trading platform to the liquidity providers (banks), nothing else. Therefore, STP broker doesn't lose money if you win. Also, since they make money from trading/spreads, it's in their best interest that trader has a long, successful career with a lot of trades.

Spread and execution quality depends only on their liquidity pool. Some STP brokers work with bigger and more reliable liquidity providers, and so they are able to provide even better execution quality and reasonable spread. Every STP broker tries to improve itself in all the aspects, in order to compete with other STP's for new professional trader clients. STP never uses bonuses, free money, contests and other marketing rubbish to promote itself.

When choosing a STP broker, it is important to note where they have their servers and how fast they are. Reliable STP broker, which has a slow connection (or is situated far away from the trader), might have some delay, which would negatively affect the trading. Customer support, ease of account opening and money withdrawal process also varies from one STP to another.