

ECN VS Market Maker Forex Brokers

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We all know Forex Brokers manipulate prices and spreads. How do they do it? Why not someone stops them?

It may come to you as a surprise that Forex market is not as transparent as its counterparts like Stocks and Options market. Unlike those markets, it is not centralized or regulated in the similar fashion, hence exchange rate of any given currency can vary between brokers. The main liquidity providers are the big banks and hedge funds, they are known as InterBank Market. With this in mind lets look at how ECN and Market Maker brokers fits into the picture.

Market Maker Brokers

As the name suggest they “make” the price, as in change Bid and Ask value. Say for example they receive 1 pip spread from InterBank Market on EURUSD, but instead for us they display 3 pips spread (spread is the difference between Bid and Ask). Brokers can vary this from time to time and sometimes even show tighter spreads on Demo accounts but when you open live account it is a totally different story.

Every time you open and close a trade you lose the spread. This adds up to a significant value if you trade frequently. Not only this but market maker brokers are notorious for creating spikes, they do it in order to take out customer’s stops. Some market maker brokers also freeze their platform during news announcements or increase spreads by 20-30 pips which is quite common. Since Forex is not tightly regulated as other markets there is not much NFA or similar organizations can do.

The only advantage of using a market maker broker is that they require less funds to open account and usually offer platforms that are easy to use. They also offer higher leverage, benefits of which are debatable.

ECN Brokers

ECN Brokers simply provides the best possible price i.e. the best spread based on current market participants. The price on their platform comes straight from the InterBank market and there is no manipulation of the spreads. Spreads as you know are the bread and butter of market maker brokers. Since there is no mark-up on spreads by ECN brokers, the only way they can make money is to charge commissions / fees. This fee is not different from what you pay when buying or selling stocks. From my personal experience the commission are negotiable and you can bid one broker against another to quote you the lowest commission rate. Also paying commission works out economical than higher spreads on market maker platform. I've traded on several occasions when there was no spread at all (BID=ASK)

When it come disadvantages, the most common one is the lack of user friendly platform. Most ECN Broker's platforms are hard to navigate and it takes time to get used to them. However once you are familiar you can take advantage of advance order types which are not typically available on other platforms.

ECN vs Market Maker Forex Brokers Summary:

To me it is quite clear, ECN brokers win hands down. There is not better way of trading. Having said that, they may not be suitable for everyone, for those specially who choose to start with less amount of funds and prefer higher leverage.

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