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How to Make Consistent Profits
Trading Futures Part II
Direct Access Electronic Trading

The issue of direct access is an important one and it becomes more important the more short term your trading is. The market can change from a state of seeming paralysis to one of shocking volatility and activity in a flash. The length of time it takes between you deciding to enter an order and the order actually being in the market is obviously important. When I first started trading I used a phone broker and was dismayed that my fills would often be so far from the price the market was trading when I first entered the order.

The first time I visited the trading floor, I discovered why. When I called in an order, first my discount(!) broker would check my account equity, then he would call a phone booth on the floor, the phone broker on the floor would then write the order down and pass it on (by phone) to a booth next to the appropriate pit, at that booth my order would be written down again and then signaled to a broker in the pit to be executed.

As you can imagine this would take quite a long time, even longer of course if the market was very active, as this would mean that the broker in the pit would be too occupied to take new orders. Compare this to my experience of trading as a pit trader. In the pit I was in the heart of the market and could observe every single order as it was executed (there was no delay in my price feed!). To initiate a trade, whether it was to buy or sell at the market, or join the bid or the offer, all I had to do was open my mouth. You can start to see the huge advantage that trading on the floor gave me over off floor traders; and

that doesn't take into consideration the fact that my round trip costs fell by 96%.

Now the floor no longer exists, not in Europe at least, so why talk about the advantages of pit trading? Well the level playing field is now open to all, but very few take advantage of it. Trading with an electronic trading platform is exactly the same as trading in the pit, except I can sit down, it is much quieter and there are no crude jokes flying around. I can trade with the click of a mouse; my order shoots to the exchange, enters in the market and appears back on my screen before I have time to blink. I think the advantages of direct access trading are clear and any futures trader still using a phone broker should move to direct access, they will also find their commissions are less (around £8 for private client traders).

The next question that arises is why trade futures? That is an important consideration given that there are a variety of alternatives vying for your trading capital (spread betting, CFDs and options), but in my opinion, futures are the only option (no pun intended) for successful short term trading.

Malcolm Robinson

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