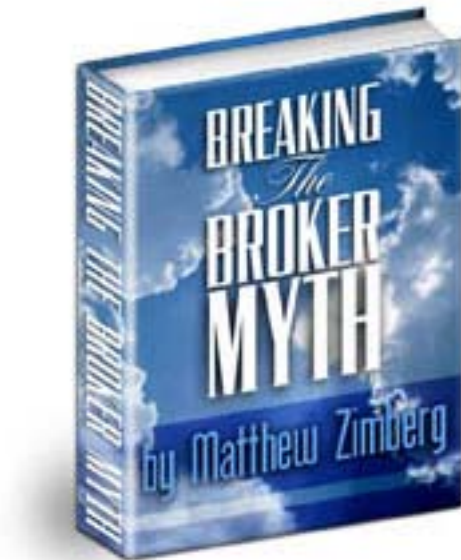


Breaking The Broker Myth



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Breaking The Broker Myth

“Breaking the Broker Myth”

An Important Guide On How To Make Your Broker Your Pal

By: Matthew Zimberg

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The following information will navigate you into the best and most fully functioning relationship to be had with your broker. It provides rare insight into the client-broker relationship. As such, we strongly recommend reading it in its entirety.

This is an observation of over 50 brokers in a six year span that has been gathered not only from my own experience but from that of countless others in the industry. I have conducted many interviews and conversed for hours with [seasoned brokers](#) in order to relay these common but little known facts about brokers. I am also a broker. This is my life, and this is my story.

Have you ever wondered about the things that drive your broker's actions? The reasoning he really uses? Who are your broker's favorite clients? The richest ones? The most frequent traders? The most easy-going? Do you effectively use your broker to gain knowledge and grow as a trader? Who calls the shots? You or your broker? How about the worst things you could possibly say to your broker? Can you guess what they are?

There are a lot of good brokers out there – and a lot of bad brokers. Can you trust yourself to be able to tell the difference? There's much more than meets the eye. This piece will help you easily distinguish between the two – and fully maximize the many benefits of a good relationship with a good broker. Do you want to know by the first trade whether or not you are with a good broker? Read on.

There are massive misconceptions regarding brokers and the ways they operate with their clients. Believe me when I say, there is an effective and smart way to leverage a relationship with a broker and enjoy a long-term, valuable, rewarding and lasting relationship. You are about to receive a full disclosure. We'll begin by "Breaking the Broker Myth" and by identifying some widely held beliefs about brokers that are actually misconceptions and stereotypes:

“Brokers only care about commissions-whether I make or lose money, they will make money” Please take this thought out of your mind. If you allow this neurosis to dictate your interactions, you will never get anywhere with your broker. There certainly are brokers out there who will try to take advantage of their clients on a daily basis. The important thing is to make sure you don't have that broker, and to make sure you are not that client! For every bad broker there are many more good ones who will try to do their best to develop a healthy, long term relationship with you.

Good brokers keep your interests *in harmony* with their own, in the name of making you as much money as possible from the lucrative world of the markets. Brokers are *not* a sadistic group of people who seek enjoyment and pleasure in losing their customer's money. This belief is not only neurotic but also ignorant. Remember, you make money, they make money!

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More reasons why brokers are driven to accomplish your investment successes and monetary goals-

The internal fee structure in most firms, big and small, work like this: If a broker works for a highly established and busy firm like an introducing brokerage (IB) or a Futures Clearing Merchant (FCM), they almost never receive the whole of a commission charged to your account. When you think of the dollar amount of a fee you paid, *do not think of it as leaving your pocket and going into your broker's!* Commissions cover the many costs of high production volume that goes on behind the scenes. Believe me, it is not a simple thing to manage money. Money is the most highly guarded of all assets. One should take comfort in a good firm that minds your money as carefully as possible. Competent guardianship is not free.

Many industries work on a cost per transaction basis: account processing and set up, account statement mailings, and many other administrative costs all fall on the same payout chain. But brokers of all types, real estate brokers, car sales persons, mortgage brokers, even job recruiters can get themselves paid up to a year's salary just from landing and maintaining one good account. It is in their best interest to do so.

Realize that most brokers do not have a line of people outside their door waiting to open up new accounts. Therefore when starting a new relationship with a customer, most brokers will try to do their very best to service him or her and maximize a long-term relationship.

Lastly, try to remember one more thing that falls outside of the *real* value of the customer to the broker, and the subsequent quality treatment that client receives. Brokers do not control the fact that there are external market forces. Ultimately, the market itself is the only force capable of affecting your account balance adversely. In reality it will always be ultimately responsible. In situations where changing market forces alter your investments, it's best to remain calm so that you can communicate with your broker effectively to learn what actually "went wrong." By working together in a mutual effort to analyze both bad and good trades, you will only gain, in learning and understanding more about trading – much more, and much faster than if you are trying to just wing it on your own.

Trading is a skill you have to constantly practice. Appreciate the value of trading; appreciate the very existence of the market! The best protection against volatility is knowledge and understanding. However, at times there could be market forces that could affect your situation adversely regardless of your knowledge. As with any area in life, the better you know what you want, the clearer your goals, the quicker you'll get there.

Clients often give brokers a hard time, asking aggressive and unrealistic questions. A good example is "If you are so good then why don't you sit at home and just trade your own account?"

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To all the clients who have ever said that, here is a good question back:

- 1) Why are *you* looking for a broker in the first place? How else would you plan, originate and execute trades?

Let me explain: clients and brokers need to work together. Using the above question to start a conversation with a broker says a lot about a prospective client. Usually it's apparent that they are just trying to "take it out" on a broker, not seeking to establish a professional relationship with them. From extensive experience in this industry, I feel comfortable asserting that people who had some very bad experience in the markets yesterday are now seeking to take it out on somebody else today or on some other broker, with the very idea of "the broker" as being the culprit, responsible for all market mishaps. Because it's everybody else's fault - right? Wrong!!! Don't get off on the wrong foot with an aggressive, offensive or overly defensive attitude with a broker. They won't want to deal with you. They will avoid dealing with you.

A very important broker myth to avoid is that brokers have some sort of control over the market. Remember, we don't! But even more important to remember is that education could sometimes prevent trading mistakes. By communicating well with your broker you make it easy for them to help you understand, to teach you about the fundamental workings of the market place. If you are interested in making some money, these are things you should really know.

What is a broker in general, and what constitutes a good one? The broker is a gateway to the market. That is all. The broker is a middleman. Now, what constitutes a good broker? Is it a broker that generates a lot of commissions? A broker that has many clients? A broker that is a super salesman? Of course these are all good attributes for any broker to have, but I'll tell you what a good broker *really* is: A GOOD RISK MANAGER! That's right, a *good* broker is there to help you capitalize on an opportunity *in harmony* with your personal risk tolerance. A good broker is there to help you, *not* to unrealistically guarantee success, but to help you perform the best trades with the best suitability to your risk tolerance.

Another broker myth to break is that "*Brokers really only like high net worth individuals who trade a lot.*" Far From True!!!

Brokers like nice customers who communicate effectively with them. All business connections are relationships in one way or another, and it's true, communication really is everything, it makes or breaks that tie. It does so happen that many high net worth individuals have mastered the art of effective communication.

There are two explanations for this:

- 1) Obviously, with a lot of money at stake, the quantities traded are higher and instructions and interactions are more precise.
- 2) High net worth people operate outside the box, period. Success does not just happen; it is not a random occurrence! High net worth people think and act differently. It is by *not* doing what everyone else is doing that they encounter success. They seek to do better even in a simple conversation.

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Here comes the good stuff: After reading the material following, you will be able to adopt the same type of successful habits.

What does it mean to communicate “effectively?”

- 1) Knowing and understanding standard trading terminology (order types) is essential.
- 2) Considering and estimating the *risk* as well as the reward of each trade will keep you in reality – and will help your broker trust *YOU!*
In short, how much are you standing to lose for how much you may gain? Is a given trade worth it – or are you trading based on wishful thinking. It’s good to consider trading opportunities in these terms.

A lot of traders don’t understand the most basic trading rules. Any good broker should provide you with a list, over email or regular mail, of the most basic [order types](#) to make sure that if you have any questions or confusion, they will be able to clear it up by helping you understand them. Avoid like the plague brokers that do not want to do this for you. Usually they are the brokers that like to be in control and leave you with little say. (Later on I will mention more about specific broker types that you should stay far away from.) There is enough risk in the marketplace – it’s a huge waste of time and resources for both you and your broker to have to deal with a bad trade that happened because of a simple misunderstanding in terminology or concept.

Making the Right Moves – at the Right Times

Know how your broker’s day goes! Remember that during morning hours, brokers are trading and helping their clients. When making arrangements for discussion, try to make sure that you are going to schedule a time that is of convenience to both of you. Clients who expect their brokers to drop everything for them are not playing fair. Don’t suffer from a power trip – it will be you who suffers. If you need help, your broker needs to be able to give it to you properly.

OK, here is a real trade secret: Set stop losses for every trade and make sure to call your broker to trail them once you have your positions moving in your favor. Do not remove your stops... ever! (Unless the position is closed) However also remember that **stop-loss orders may not limit your loss to the amount intended. Certain market conditions may make it difficult or impossible to execute such orders.**

It is also worth mentioning the value in developing your own opinions about the markets that you are trading. Try to replace questions like: “Do you think I should buy...?” with “I observed that...what do you think?” Or “ I saw that...where do you think I should put my stops?” “Sure thing!” your broker will say. Shaping your language to ask clear questions is one of the best ways to make the most of your client-broker relationship. Yet it is amazing how many traders do not utilize it. Often simple changes in the language you use can transcend into a profound difference on your developments in becoming a proficient trader. Always remember to try and think for yourself. As in all areas of life, personal responsibility is the best risk-prevention of all! Take responsibility for the trades you implement!

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"Brokers are dime a dozen, there is one on every corner"

Yeah right! If you are operating from this point of view, then you will surely find yourself constantly switching between them with no real intention of establishing a rapport with any of them. Not a good way to go. Learn what really makes a good broker. And when you find that [good broker](#) keep him! Hold on for dear life! It is only in *your* best interests to do so.

Now I will mention the broker you should avoid. Based on countless observations from many clients that have told me about their "horror" stories, I will start by saying may God spare you from such experiences. As they say, it's cheaper to learn from other people's mistakes than from your own!

Avoid the following broker types:

- 1) Brokers that are trying to get you to open an account based on a specific trade recommendation should be avoided. Usually they are simply recommending seasonal trades or trades based on current news and events that have gotten investors into a reactionary state. These brokers know it full well, and take 100% advantage of it. Further, they usually exaggerate in their reward estimations and down play the risk.

Because these trades are the most likely ones that people will be interested in implementing, these brokers feed on your receptivity to get you to open an account with them. Their "tip" might even be a decent one – but who's to say what or when their next one will be? This is a generally unprofessional approach for a broker to take. Wouldn't you rather deal with someone serious? Think about it, and be impressed with a broker that is going to be in it to help you grow as a trader, not just for the "one-shot" trade.

- 2) High-pressure sales people - boiler room operators. These are highly sophisticated businessmen. They are slick and extremely good at what they do, and will know how to press the right buttons. Their personalities and techniques are very unscrupulous. Watch out for sentiments like "yes there is risk.... but we stand to make more money than most people only dream of..." and "...Hey, think of what you could do with the profits, you could buy the car that you always dreamed of..." With these broker types, remember that their pitches to you have nothing to do with the markets; they are just pure psychological and manipulative sales techniques.
- 2) Brokers with High Commissions-to-Equity Ratios. Watch what you are you spending when you make your first trade. Double check the commissions debited to your account. I had a broker calling me and telling me that if I were to establish an account with his brokerage, they would only charge me "\$200 per options futures contract." I nearly fell from my seat, and asked him how could it possibly be so expensive? He proceeded to tell me that he is a "full service broker" and therefore the commissions were easily justified. He said that initially he would buy me "only" five futures options for every \$5K USD! Bottom line is he was trying to conjure me into losing 20% right off the bat.

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One good way to test the intentions of a broker is to tell them that you are only interested in making one trade, "just to see how it would go." Makes reasonable sense, right? Well, wait and see what they come back with. It may be just like watching a dog chase it's tail around. Insisting that you would like to do only one trade often perplexes a broker trying to sell you, and will allow their true personality to come out. Prepare yourself...this might be ugly...but probably also very entertaining.

The list of bad broker types could go on and on, a list of manipulative broker techniques could be an encyclopedia in itself. Everyone tries to appear very nice and caring, whether they actually are or not. But these are the main traits to watch out for. You need to be able to trust your own intuitions; this goes for all areas of life.

Going back to working with your broker, not against him: The Broker-Client relationship is a "200% relationship." You should put 100% into knowing your investment interests and following the markets, and [your broker](#) should put 100% into alerting you to adverse market moves to help you manage the risk in the account as well as possible. Never forget that at the end of the day it's *your money* at hand; therefore it's always up to you to be responsible with it. Avoid making your broker into an authority figure, or your own personal referee. *You* are the best-equipped person to take care of your money.

Simple Things that You Should Always Be Aware Of:

- 1) Your Account Statement. All trading customers receive statements for every trade that they do, however only some read them. Why would anyone blow off statements that relay
 - A) Your account balance
 - B) Your Commissions Paid

When you see it arrive in the mail, just open it. You can also request from your broker to receive these via email for easy review of your trades on a timely basis. Know that the futures industry-wide standard is that you are supposed to receive a statement for every trade you do as well as a monthly summary.

- 2) Trade Errors. If you believe that there has been an error made in your account, notify your broker right away. Believe me, your broker will appreciate the fact that you are on top of things and will be happy to see that you are an attentive client. Brokers like having competent clients as much as clients like having competent brokers. Avoid the "blame game" at all costs and sort out the position as soon as possible. First fix the problem so it doesn't worsen. Then you can sort it out carefully. This is the way to conduct business in the market. Staying calm will always help. Always try to remain rational when trading. If there appears to be a trade that does not belong to you, do not trade your way out of it; rather notify your broker immediately of your concern. ([This does not apply as an excuse for losing trades you have initiated that are adversely affecting you account balance. Be ethical!](#)) The fewer errors to correct, the less painful it will be for both you and your broker. Don't turn one error into 20!__

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- 3)** Stay Level Headed. Don't be an emotional roller coaster. There are much more pleasant and simple ways to live. When trades do not go your way, avoid using derogatory phrases and screaming to make yourself feel better. It's not fair to your broker, who probably feels bad enough. In the same hand, avoid over excitement when you have won, stay cool! There's more than one reason for this. If your broker notices that you are a highly emotional trader he may be averse to keeping in frequent touch with you. Enthusiasm and virility is one thing – but no broker needs more headaches. You do not want your broker to hesitate to call you when there is an opportunity in the market. Another important reason to stay level headed is that the less emotionally attached you are to the market, and to "beating the market" the clearer, you will think as a trader. Don't let your emotions do the trading. Would you let a toddler cook dinner? Remember, trading is like life - not every thing will go your way - and not every trade will make you money. Accept the fact that **Past performance is not indicative of futures results. There is a risk of loss in futures and options trading.**

The next section will discuss how to accurately choose which markets you should trade in, the best ways to follow them with your broker, and the importance of maintaining your trade log.

On Placing and Monitoring Your Trades:

- 1) Ask your broker for a **trading log**. A good broker should be able to provide you with one easily. Trade logs usually come with blank spaces to record and track your current trades. The most important thing to know are your trade ticket #'s. Your broker should automatically provide them. On the trade log, write down the phone number of the trade desk where you can liquidate or initiate trades, if circumstances or computer problems arise.
- 2) Keep your own clearly written track record of all trades you have implemented. While brokers should do their best to help and watch over their clients, it is very time consuming to track trades throughout the trading day. Keep your own for quick & easy reference.
- 3) Also important is to record ticket numbers for any stop-loss trades you have implemented. When setting stop-losses, make sure that your broker confirms for you the amount at risk as well as the price it is going to be placed at. Should you want to change your stop-losses, please *clarify* to your broker that you want to cancel and replace a trade, as new trades do not automatically cancel pre-existing ones.
- 4) Be Accessible. Just as clients need accessible brokers, brokers need accessible clients! Provide your broker with all the phone numbers where you can be reached. If you don't have one and you can afford it, buy a cell phone. Use it only as an open line with your broker if you like. Email is highly useful too, as it is both secure and instant. It is essential (and only fair!) that your broker is able to reach you in a timely fashion to initiate a trade, take a profit or get you out of a bad position.
- 5) Be conscientious of the time zones of the markets you are trading in. If necessary give your broker a contact number where you can be reached at an early hour. For example, if you are trading currencies and you are on the west coast, remember that these markets open trading at 5:20AM your time. Just ask your broker for information on any market's hours.

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- 6) When uncertain which way to go next in trading, don't be proud. Ask your broker which markets best suit you, that's what you're paying him for! Most brokers will make suggestions based on the capital that you have at risk and your objectives. For example, the higher the level of capital at risk, the higher the volume and quantity of commodity positions you would be able to trade comfortably. The world of the market is enormous. There is a market and a trade volume for every investor.
- 7) When calling your broker or leaving a message, always start with your name and your account number. Your broker will appreciate it.

Things to Remember As You Progress

Good brokers recognize the fact that, like themselves, their customers are always in the process of gaining experience and developing into more independent traders over time. Brokers want to accommodate you at all stages of development. If the time arises that you call your broker to ask for a discount commissions based on volume, he may very well be more receptive than you might think.

Contrary to popular belief, brokers *do* seek to accommodate and reward good customers in many ways. Fair is fair. However know that it is not at all customary to ask for deep commission discounts if you are still using your broker as a full service broker. Fair is fair. If you are still using your broker to follow your trades, offer advice and call you regularly, you are receiving full service brokerage privileges; expect to compensate as such.

A word of warning: Good broker advice might save you thousands and thousands of dollars! Do not switch to a cheaper and more independent "broker-assisted" execution from a good full service broker just for the sake of commissions, especially if you are not totally comfortable implementing your trades on your own. In my opinion it takes at least 5-6 months under the supervision of a good broker to understand how real trading is done. However, every investor is unique, and if you know yourself to be an independent decision maker, who knows trading terminology well and is familiar with all the different order types, go ahead and ask your broker for the most ideal arena to execute your trades.

Keep in mind that brokers have 3 main types of rate systems:

- 1) Full broker fees
- 2) Broker Assisted fees
- 3) Online Trading fees

Within these parameters, each broker and each brokerage firm has their own rates. Don't try to menacingly quote your broker on what other brokers are charging. It will probably be not only a waste of time but also an annoyance, as they are most likely quite familiar with the going rates. Honestly, they are not even relevant when setting up a personalized relationship between two individuals who are trying to suit each other's individual needs. You are not a statistic and should not be charged as such. A good broker is not a statistic either, he is valuable to you, and it's best to listen when he makes a serious quote for the cost of retaining him.

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Keep in mind, that there is a difference between a broker that you are getting somewhere with and making real progress as opposed to a broker that you are calling to try to negotiate with on a big discount desk; one who is “playing hardball” and does not care to know your name, your risk tolerance or anything else that is important to you as a trader. These are not brokers. They are order clerks. Many are very young and inexperienced. Many big brokerages are thoroughly staffed with them, and when you call in all they will ask for is your customer number. Do you want to be a number? Would you rather be a good client with a problem, or a number with a problem? Avoid these brokers and have a broker that knows you well.

Now, you are probably wondering about the benefits of online trading. There can be many advantages to online trading, and it is certainly the cheapest means of simple execution. However, in order to trade online you must be familiar with 3 essential things:

- 1) Order types and how they apply to each market you trade
- 2) The actual [online platform](#) that your broker operates through
- 3) Basic computer functions, specifically windows application.

You need not be intimidated by online trading if you are familiar with all three of the above things. A good broker will patiently walk you through the platform; explain exactly how it works and how to correctly place your orders according to the markets that you are trading in.

I cannot emphasize enough that you must be very familiar with all concepts of trading and the platform that you are about to use. Again, ask your broker for a demo, and then let him walk you through it. Remember; resist the switch to online trading until you have been broker assisted for at least 6 months. He can advise you on whether it is appropriate for you to start trading online. Trading is not a natural human function; it involves abstract concepts that must be learned. Some traders think that because they have traded stocks online, they are okay to trade futures online. There is no doubt that online stock trading experience is a lot better than no experience, but futures trading does involve some additional rules that you are best to be acquainted with first.

A word of warning: Do not join companies that offer only online trading. Here is why: let's say something goes wrong with your online trading system, either because of your own computer or maybe your brokerage systems and you need to liquidate or initiate some trades—do you want to have to be calling other traders, scrambling and panicking, trying to exit or enter trades? No? Well the best way to avoid this is to secure a good broker from a good multi-service firm, establish a rapport with him, and maintain a good business relationship that will allow you to call him for help when you need him. This is how the broker-client relationship should work. A good broker can always assign you to a professional trade desk where you could painlessly do what you have to. There is also the question of your own convenience as a paying customer. If you happen to be away from your computer and you need to exit your trades, a good broker will be more than happy to help execute your order verbally via telephone. Remember: Even with online trading, ensure that you have an assigned broker that at the very least knows your name.

Here are some additional guidelines that you should use to evaluate a good commodity broker:

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- They provide you with comprehensive support
- They continually monitor your progress, and proactively and preventatively suggesting course corrections when necessary
- They supply you with whatever technical and fundamental research information you require to trade efficiently
- They update you on market developments, and keep you current on new products and tools, as they become available in the marketplace.

And here are some additional guidelines that you should use to evaluate a good [online broker](#):

- They instruct you carefully on making online orders correctly, and on how to track your progress from your own computer
- They provide you with a variety of platforms and then match you with the appropriate system, whether you are a day trader or a position trader.
- They provide you with the option to execute on the phone should you happen to be away from your computer terminal, or in the unfortunate event that you experience technical difficulties.
- They provide you with an assigned broker to assist with trading questions or general inquiries regarding your investments or the markets.

Whichever way you choose to trade, remember that it's all about teamwork. Trading is not a sport, but it does require all the things that good athletes rely on: concentration, skill, excellent teamwork, and trust in the coach. There is no guarantee that you are going to win in sports, and there is no guarantee that you are going to make money in the market. However by working with a good broker that has gotten to know your personal goals and preferences over time, your odds can increase substantially. Always remember the definition of a Team: A group that is organized to work together.

That's it. I hope that by now you understand what the broker is all about and how you can work best with him, once you decide to establish an account. I could write pages and pages more on this subject, but if I have gotten only one thing across, I hope it is that at the end of the day, we are all human beings. Yes, brokers too! Let's *all* work to get the best from each other and help one another, each opportunity is indeed a two-way street.

If there is anything that I personally can help you with, questions I can answer, or thoughts you have, please feel free to contact me anytime at: matthew@brokerforbeginners.com and I will reply as soon as possible. I would really like to hear your comments about this article, and if I have missed any important details that are important to you as a trader please let me know.

As a broker, I have learned about real customer needs and wants from the only place possible, my customers themselves. It is all of them who have made me a better person and a better broker.

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I am grateful to all of them. Particularly to my old client and friend, Mr. Bill Faulkner from Canada, who has made me not only a better broker, but also a better man to my family. Bill, I am forever grateful to you.

I wish all of you success and happiness.

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