Trading Execution Risks

SLIPPAGE

Newcom Ltd. aims to provide clients with the best platform bridging pricing available and to get all orders filled at the requested rate. However, there are times when, due to an increase in volatility or volume, orders may be subject to slippage. This most commonly occurs during fundamental news events.

The volatility in the market may create conditions where orders are difficult to execute, since the price might be many pips away due to the extreme market movement. Although the trader is looking to execute at a certain price, the market may have moved significantly and the order would be filled at the next best price or the fair market value. Similarly, increased volume may also result in slippage if sufficient liquidity does not exist to execute all trades at the requested rate.

The concept of slippage is not unique to the forex market, as it often occurs in the equities and futures markets. It is important to note that the "At Market Points" feature on the Newcom Ltd. trading platform allows traders to control the amount of potential slippage they are willing to accept on a market order. Zero indicates no slippage is permitted. When zero is selected, the trader is requesting his order may be executed only at the exact price requested, or not executed at all. If the trader elects to accept a range of permissible slippage to raise the probability of having his order executed, the order will be filled at the best price available within the specified range. For instance, a client may indicate that he is willing to be filled within 2 pips of his requested order. The system would then fill the client within the acceptable range (in this instance, 2 pips) if the market has moved quickly through the price at which the order was entered. If the order cannot be filled within that permissible range, the order will be rejected.

Once a stop is triggered, it becomes an At Best market order, and there is no guarantee it will be filled at any particular given price. Therefore, stop orders may incur slippage depending on market conditions.
Newcom Ltd. has obtained close banking relationships with some of the world's largest and most aggressive price providers. Having multiple price providers is especially important in volatile markets, when one or two banks may post wide spreads, or simply avoid quoting any price at all. With so many major banks quoting prices to Newcom Ltd., there are competitive spreads and fills, even during market-moving news events.

DELAYS IN EXECUTION

A delay in execution may occur for various reasons, such as technical issues with the trader's internet connection to the Newcom Ltd. servers, which may result in hanging orders. The Newcom Ltd. Trading platform on a trader's computer may not be maintaining a constant connection with the Newcom Ltd. servers due to a lack of signal strength from a wireless or dialup connection. A disturbance in the connection path can sometimes interrupt the signal, and disable the Trading Station, causing delays in transmission of data between the trader's Newcom Ltd. trading platform and the Newcom Ltd. server. One way to check your internet connection with Newcom Ltd.'s server is to ping the server from your computer.

RESET ORDERS

Market volatility creates conditions that make it difficult to execute orders at the given price due to an extremely high volume of orders. By the time orders are able to be executed, the bid/ask price at which a counterparty is willing to take a position may be several pips away. In cases where the liquidity pool is not large enough to fill a Market Range order, the order will be rejected. For Limit Entry or Limit Orders, the order would be rejected and reset until the order can be filled. Newcom Ltd. offers the At Best order type for traders who wish to avoid this situation.

WIDENED SPREADS

Newcom Ltd. strives to provide traders with tight, competitive spreads; however, there may be instances when spreads widen beyond the typical spread. During news events spreads may widen substantially in order to compensate for the tremendous amount of volatility in the market. The widened spreads may only last a few seconds or as long as a few minutes. Newcom Ltd. strongly encourages traders to utilize caution when trading around news events and always be aware of their account equity, usable margin and market exposure. Widened spreads can adversely affect all positions in an account.

HANGING ORDERS

During periods of high volume, hanging orders may occur. This is a condition where an order sits in the "orders" window after it has been executed. The order will be highlighted in red, and the Status column will indicate "executed" or "processing." Generally, the order has been executed, but it is simply taking a few moments for it to be confirmed by the banks. During periods of heavy trading volume, it is possible that a queue of orders will form. That increase in incoming orders may sometimes create conditions where there is a delay from the banks in confirming certain orders. Depending upon the type of order placed, outcomes may vary. If this is a Market Range order and the order cannot be filled within the specified range, or if the delay has passed, the order will be rejected. If it is an At Best order, every attempt will be made to fill the order at the next best available price in the market. In both situations, the "status" column in the "orders" window will typically indicate "executed" or "processing." The trade will simply take a few moments to move to the "open positions" window. Depending upon the order type, the position may in fact have been executed, and the delay is simply due to heavy internet traffic.

Keep in mind that it is only necessary to enter any order once. Multiple entries for the same order may slow or lock your computer or inadvertently open unwanted positions.
If at any time you are unable to access the Newcom Ltd. trading platform to manage your account, you may access the following link http://www.newcom-stn.com/ for further assistance.

GRAYED OUT PRICING

Newcom Ltd. does not intentionally "gray out" prices; however, this is a condition that occurs when liquidity decreases, and market makers that provide pricing to Newcom Ltd. are not actively making a market for particular currency pairs. At times, a severe increase in the difference of the spread may occur due to a loss of connectivity with a bank or due to an announcement that has a dramatic effect on the market that dries out liquidity. Such graying out of prices or increased spreads may result in margin calls on a trader's account. When an order is placed on a currency pair affected by grayed out prices, the P/L will temporarily flash to zero until the pair has a tradable price and the system can calculate the P/L balance.

INVERTED SPREADS

When utilizing Newcom Ltd. technology, you are trading on feeds that are being provided by multiple top-tier banks and financial institutions. Unfortunately, online trading technology is not perfect and, in rare cases, this feed can be disrupted. This may only last for a moment, but when it does, spreads often become inverted. During these rare occasions, Newcom Ltd. advises that clients avoid placing At Best orders. While it may be tempting to place a "free trade," keep in mind that the prices are not real and your actual fill may be many pips away from the displayed price. In the event that trades are executed at rates not actually offered by Newcom Ltd.'s banks and financial institutions, Newcom Ltd. reserves the right to reverse such trades, as they are not considered valid trades. Keep in mind these instances are usually rare, and by placing Market Range orders or not trading during these moments, traders can avoid the risk associated with the above scenarios.

TRADING DESK HOURS

Dealing hours generally are from Sunday 5:15 PM (EST) through Friday 4:00 PM (EST). The open or close times may be altered by the Trading Desk because it relies on prices being offered by banks and financial institutions that provide liquidity for Newcom Ltd.

Outside of these hours, most of the major world banks and financial centers are closed. The lack of liquidity and volume during the weekend impedes execution and price delivery.

PRICES UPDATING BEFORE THE OPEN

Shortly prior to the open, the Trading Desk refreshes rates to reflect current market pricing in preparation for the open. At this time, trades and orders held over the weekend are subject to execution. Quotes during this time are not executable for new market orders. After the open, traders may place new trades, and cancel or modify existing orders.

LIQUIDITY

Please be aware that during the first few hours after the open, the market tends to be thinner than usual until the Tokyo and London market sessions begin. These thinner markets may result in wider spreads, as there are fewer buyers and sellers. This is largely due to the fact that for the first few hours after the open, it is still the weekend in most of the world.

GAPPING

Sunday's opening prices may or may not be the same as Friday's closing prices. At times, the prices on the Sunday open are near where the prices were on the Friday close. At other times, there may be a significant difference between Friday's close and Sunday's open. The market may gap if there is a significant news announcement or an economic event changing how the market views the value of a currency. Traders holding positions or orders over the weekend should be fully comfortable with the potential of the market to gap. One of the great things about trading at Newcom Ltd. is that outside of announced major holidays, the trading hours routinely close only once a week on the weekends, which corresponds with the hours of major banks and financial institutions. In contrast, most stock exchanges close five times each week, and can gap significantly on each day's open.

ORDER EXECUTION

Limit orders are often filled at the requested price. If the price requested is not available in the market, the order will not be filled. If the requested price of a stop order is reached at the open of the market on Sunday, the order will become a market order. Limit Entry (LE) orders are filled the same way as limit orders. Stop Entry (SE) orders are filled the same way as stops.

WEEKEND RISK

Traders who fear that the markets may be extremely volatile over the weekend, that gapping may occur, or that the potential for weekend risk is not appropriate for their trading style, may simply close out orders and positions ahead of the weekend.

MARGIN CALLS

The idea of margin trading is that your margin acts as a good faith deposit to secure the larger notional value of your position. Margin trading allows traders to hold a position much larger than the actual account value. Newcom Ltd.'s online trading platform has margin management capabilities, which allow for this high leverage. Of course, trading on margin comes with risk, since high leverage may work against you as much as it works for you. If account equity falls below margin requirements, the Newcom Ltd. trading platform will trigger an order to close all open positions. When positions have been over-leveraged or trading losses are incurred to the point that insufficient equity exists to maintain current open positions, a margin call will result, and open positions must be liquidated.

Please keep in mind that when the account's useable margin reaches zero, all open positions are triggered to close. The margin-call process is entirely electronic, and there is no discretion on Newcom Ltd.'s part as to the order in which trades are closed. Such discretion would require Newcom Ltd. to actively monitor positions and accounts.

Example: A trader has $10,000 in a standard account and his margin requirement is 1% (i.e., he has leverage of 100:1). For each position he opens (each position = 1 lot = 100,000 notional value), he is required to set aside $1000 in used margin. If he opens two positions, his required margin is $2000. The trader can lose up to $8000 before he starts dipping into his margin requirement. When his account equity reaches $2000, a margin call is triggered and all positions will be closed.

The margin requirements are generally $1,000 per lot for Standard accounts (lot size of 100,000). It is strongly advised that clients maintain the appropriate amount of margin in their accounts at all times. Margin requirements may be changed based on account size, simultaneous open positions, trading style, market conditions, and at the discretion of Newcom Ltd..

CHART PRICING VS. PRICES DISPLAYED ON THE PLATFORM

It’s important to make a distinction between indicative prices (displayed on charts) and dealable prices (displayed on the MT4). Indicative quotes are those that offer an indication of the prices in the market, and the rate at which they are changing. Market watchers, such as S&P and Signal, compile indicative quotes as a proxy for the market's actual movement. These prices are derived from a host of contributors such as banks and clearing firms, which may or may not reflect where Newcom Ltd.'s liquidity providers are making prices. Indicative prices are usually very close to dealing prices. Indicative quotes only give an indication of where the market is. Equity and futures traders dealing through a broker will see indicative quotes. Executable quotes ensure finer execution and thus a reduced transaction cost. Equity and futures traders are used to prices being the same at any given time, regardless of which firm they are trading through or which charting provider they are using and they often assume the same holds true for spot forex. Because the rolling spot forex market is decentralized meaning it lacks a single central exchange where all transactions are conducted each forex dealer (market maker) may quote slightly different prices. Therefore, any prices displayed by a third party charting provider, which does not employ the market maker's price feed, will reflect "indicative" prices and not necessarily actual "dealing" prices where trades can be executed.