

Choosing The Right Commodity Broker

One of the best decisions that you can make when expanding your investment portfolio is to put thought into commodity trading. There are plenty of people who will manage a commodity investment for you, but you need to choose carefully as most lose! The commodity broker is an intermediary who talks to lots of different principals (traders, producers, consumers of commodities) in the hope he will get an "order" to buy or sell goods. He takes a commission from the transaction which is deducted from the seller's account. Part of the value of a good commodity broker is that he will provide not only information about prices and deals, but snippets of gossip about who is doing what - and why. Traders are always focused on supply and demand aspects of physical commodities in which they trade and as well as the larger macro-economic picture, so it is important to assess what other competitors, are doing in the market. Some brokers are providing a lot of value-added service in providing not just price information - but offering lots of ideas - on the economic backdrop, current and future price trends, etc. Whether brokers are futures brokers or deal in physical transactions, the tendency has been for many of them to become principals. Traders can be skeptical about the information given by brokers, particularly if they feel it has been influenced by the broker's own relationship with another position taker - either inside his own group, or elsewhere. However, since brokers are largely looking to commission as a way of earning money for the company - and their own commissions, this may be a somewhat churlish position to take. Nonetheless, brokers play a key role in augmenting price transparency alongside the international and domestic commodity exchanges. Let's now take a look at the kind of commodity brokers to avoid:

- Brokers with hypothetical track records These commodity brokers simply launch a performance graph that looks great in hindsight and then very often collapses in real time trading.
- Managers claiming real time track record but no audit Not only do you want the track record verified, you want a statement that the account you are investing in is representative of all funds under management.
- Drawdown Watch out for highly volatile performance the bigger the drawdown the bigger the risk of ruin. Generally, look for broker who has smooth equity curve. Look for drawdown of around 30% max.
- Conflict of interest Check your broker does not earn a proportion of the dealing fees, as this sets up a conflict of interest. They may deal for commission, rather than profits. Try and get brokers who have confidence to be paid on performance only.

About the Author

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