What the spread actually costs

> **SPREAD COST**
>
> The spread is a cost you pay on every single trade: the gap in pips multiplied by your pip value, charged the moment you enter. It scales with how often you trade and when you trade, because spreads widen outside the liquid sessions, and across a month it is usually a beginner's largest trading expense.

In module 2 you learnt to read the spread as information: dealers repricing risk in front of news, or thinning their books late on a Friday. That reading has a price attached. Every one of those pips comes out of your account when you deal.

The spread is easy to dismiss because any single instance is small. Priced across a month of normal activity it stops being small, and unlike every other line on the bill, you choose its size twice: once with how often you trade, and once with when.

How does a gap in pips become money?

Multiply the spread by your pip value from lesson 2. That is the whole calculation for one trade, and it is charged whichever direction you deal, because you always buy at the higher ask and sell at the lower bid. There is no direction in which the gap works for you.

Why does when you trade change the bill?

The spread is a live number set by dealers, and module 2's session lesson showed it breathing: tightest when London and New York overlap and both books are deep, wider through the Asian afternoon, widest in the minutes around news and the last hours before the weekend.

Trading the same idea at a wide-spread hour multiplies the cost without changing anything else. The worked example prices the same position at a calm-session spread and at a late-Friday one, and the difference compounds across every trade you take.

What does frequency do to it?

Multiplies it, with no upper bound. Forty trades a month at a modest spread is a serious number in any currency, and it is the quietest way a small account shrinks: no losing streak, no bad calls, only the toll booth visited too often.

Worked example - figures in USD

EUR/USD at 0.5 lots: a 0.9 pip spread in the London session against 2.2 pips in the late-Friday quiet, across 40 trades a month.

1. Price one trade in the liquid session: 0.9 pips at 0.5 lots costs $4.50 - paid whichever direction you deal.
2. Price the same trade in the late-Friday quiet: 2.2 pips costs $11.00. Same idea, same size, more than double the toll.
3. Multiply by your month: 40 trades at the calm-session spread comes to $180.00, before commission, financing or a single losing trade.

What this means for you

Know your per-trade spread cost the way you know your rent. If you trade often, the monthly figure deserves a line in your records next to your wins and losses, because it behaves like a guaranteed loss that only frequency and timing can shrink. When a trade can wait an hour for a liquid session, the waiting is paid work.

Try it yourself with the spread-cost calculator: https://ticksprout.com/tools/spread-cost

Check your understanding

1. Two traders take identical positions, one during the London-New York overlap and one in the hour before the weekend close. Who pays more, and why?

a. They pay the same - the spread is fixed per pair
b. The weekend-close trader, because dealers quote wider spreads when their books are thin
c. The overlap trader, because volume raises costs

Answer: b. Spreads are set by dealers and widen when liquidity thins - late Friday being a reliable example from module 2. They are never fixed per pair, and deep-liquidity sessions produce tighter spreads, not wider ones.

2. Which two choices of yours scale your monthly spread bill?

a. Trade frequency and session timing
b. Direction and stop distance
c. Broker nationality and account currency

Answer: a. Each trade pays the spread once, so frequency multiplies the bill, and the session sets the spread's width. Direction never affects it - the gap is paid both ways - and stop distance changes risk, not spread cost.

3. Why is the spread called a cost with no winning direction?

a. Because you buy at the ask and sell at the bid, and the gap between them is against you both ways

b. Because brokers refund it on winning trades

c. Because it only applies to sell orders

Answer: a. Entering long means paying the ask; exiting means hitting the bid. Reverse the direction and the same logic applies in mirror image. No refund exists, and it applies to every order that crosses the market.