Why every trade starts underwater

> **TRADING COSTS**
>
> An FX position is losing money at the moment it opens, because the spread, any commission and any overnight financing are charged to you whichever way price goes. The size of that opening deficit, measured in pips, is the distance price must move in your favour before you have made anything at all.

You open a position and close it thirty seconds later without price moving at all. Your account is smaller than it was. Nothing went wrong. You paid the costs of trading, and they were charged the instant you entered.

Module 1 showed you the bid and the ask. Module 2 taught you to read the spread as a live signal. This module prices the whole machine, and it starts with an uncomfortable inventory.

What are you actually charged?

Four things, and only the first two show up where you can see them. The spread is the gap between the price you can buy at and the price you can sell at, so crossing it costs you the gap at your position's size. Commission is a fee some account types charge per lot, taken at entry and again at exit, or as one round-trip charge.

The third cost arrives at 5pm New York time. Hold a position overnight and financing is added or removed, a few units of your currency per lot per night. Lesson 6 takes it apart. The fourth is slippage, the difference between the price you asked for and the price you got, and lesson 5 shows when it bites.

None of these depends on being right or wrong about direction. A winning trade pays the same spread as a losing one.

Why does the deficit matter more than its size?

The money is small on any one trade. The distance is not. Costs convert into pips through your pip value, and pips are the unit your trade plan is written in. A trade that needs 12 pips of movement to reach break-even has spent its first 12 pips of being right on the bill.

That distance scales with holding time and trade count, and it never scales with skill. The most accurate reader of charts in the world pays the same spread you do.

Worked example - figures in USD

You deal 0.5 lots of EUR/USD on a raw account: a 0.9 pip spread, $7.00 round-trip commission per lot, overnight financing of -$8.20 per lot per night, held three nights.

1. Price the spread first: 0.9 pips at 0.5 lots costs $4.50 the moment you cross it - paid whichever direction you deal.
2. Add the round-trip commission: $7.00 per lot at 0.5 lots is $3.50.
3. Add the financing: -$8.20 per lot per night for 3 nights comes to $12.30. The sign belongs to the rate your broker publishes.
4. The opening deficit is $20.30. At $5.00 per pip, price must move 4.06 pips in your favour before the trade has made anything.

Diagram: Every position opens below zero. Costs stack downward at entry; the climb back is the distance price must travel before the trade earns anything.

View it in the web lesson: https://ticksprout.com/learn/fx/costs-and-mechanics/why-every-trade-starts-underwater

What this means for you

Before you enter, you can know the exact size of the hole the trade starts in, in your currency and in pips. Work it out while the ticket is still unsent. If the move you expect is 20 pips and the deficit is 12, most of your idea's value is already spoken for, and that arithmetic is a reason to not take the trade that has nothing to do with the chart.

The rest of this module takes each line of the bill apart: the spread in lesson 3, commission models in lesson 4, slippage in lesson 5, financing in lesson 6, and the collateral machinery in lessons 7 and 8 that decides what happens when the bill and a losing position arrive together.

Try it yourself with the break-even calculator: https://ticksprout.com/tools/break-even

Check your understanding

1. You open a position and close it seconds later at an unchanged price. What happens to your account?

a. Nothing - no price movement means no gain or loss
b. It falls by the spread at your size, plus any commission
c. It falls only if the broker charges commission

Answer: b. The spread is charged by crossing it: you buy at the ask and can only sell at the lower bid, so an instant round trip loses the gap at your position's size, plus commission where the account charges one. 'Nothing' ignores the spread entirely, and 'only if commission' forgets that spread-only accounts still charge - through a wider spread.

2. Which of the four trading costs depends on being right about direction?

a. None of them
b. The spread - winners earn it back
c. Financing - it only applies to losing positions

Answer: a. Spread, commission, financing and slippage are all charged regardless of outcome. A winner pays the same bill as a loser; it has covered the bill and then made something. Financing applies to any position held overnight, winning or losing.

3. Why measure the opening deficit in pips rather than money?

a. Pips are the unit trade plans are written in, so the deficit compares directly with the move you expect
b. Because the money amount cannot be calculated in advance
c. Regulators require costs to be quoted in pips

Answer: a. The money amount can be calculated precisely in advance - the worked example does. Converting it to pips puts the cost in the same unit as your expected move, which is what makes the compare-before-you-enter check possible. No regulator requires pip quotation.