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## **Funded Trading Rules and Parameters**

### **Prop**

To find the perfect firm that fits your trading style, you need to do some research. Not all prop firms are the same. For some beginner traders, these terms could be overwhelming when you are researching a prop firm. You can start reading our article “What You Need to Know Before Choosing a Prop Firm” to help you in choosing a prop firm. And if there are terms you are not familiar with, then this article can help. In this article, we will explain the trading rules and parameters of funded trading to make it easier for future traders when doing their research on which prop firm to choose.

### **Funded Trading Terms**

We compiled a list of terminology used by prop firms to describe their rules and restrictions. Traders need to understand the rules and fine print. Most prop firms have strict rules that you may accidentally breach and have your account suspended. Because traders come from all over the world, there may be some loss in translation when English is not your first language. As a result, it is critical that you properly understand these guidelines.

### **Broker**

A broker is a person or company who works as a go-between an investor and a securities exchange. There are also prop firms that don't use third-party brokers, but instead, partner with institutional liquidity provider that allows them to benefit from deep liquidity in the market. Some traders favour them since there are no commissions or swaps on trades and tight spreads.

### **Evaluation**

The evaluation phase, often called ‘challenge’, is when prop firms require their potential trader to complete their evaluation phase. This is to demonstrate your trading talents and expertise to the prop firm. They usually give you about 30 days to pass the challenge, which is to hit a profit target of 10%. Some prop firms have 1 phase, but most of them have 2 phases. So the second phase of the evaluation is the verification phase, where they usually give you 30-60 days to hit another profit target. But there are prop firms that only have 1 phase evaluation.

But not all prop firms have evaluations to get a funded account. Some just require a phone interview where they ask questions about your trading experience or your strategy. These prop firms are useful if you keep failing challenges and having to keep paying the fee to retry the challenge. Some traders would just prefer to start trading on a live account rather than spending time doing challenges. If you are looking for prop firms that don't have challenges and demo accounts, then there are Fund-Your-FX and Audacity.

### **Drawdown**

A drawdown is the amount of capital or investment that an account has lost from its peak to its low. All prop firms will have a maximum drawdown for their traders. Some prop firms have a strict drawdown with just 4%, while others are more generous at 10%. The daily drawdown is 4% and the maximum drawdown is 5%. This drawdown is pretty tight for beginner traders.

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Trading derivatives and leveraged products carry a high level of risk, including the risk of losing substantially more than your initial investment. It is not suitable for everyone. Before making any decisions in relation to a financial product, you should obtain and read our Disclosure Statement (DS) and other legal documents available on our website and seek independent advice if necessary.



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### **Demo Account**

A demo account is a type of account provided by prop firms that allows a potential user to test the platform before depositing real money. All prop firms that use evaluation or challenge for their potential traders are done in a demo account.

### **Live Account**

The opposite of a Demo account is trading with a Live account. This uses real funds, and you are trading for real. Quite a few prop firms have their traders move from a demo account to a live account after they have passed the evaluation.

### **Loss**

A loss and a drawdown don't necessarily mean the same thing. Loss is the opposite of profit. All prop firms will have a maximum loss for all their traders. Once you hit their maximum loss, your account could be revoked.

### **Expert Advisor**

Expert Advisors are a set of algorithms that can trade automatically. They may do everything from giving you a trade signal to automatically placing and managing the trade for you. Using an Expert Advisor is one of the popular trading strategies for prop traders. However, not all prop firms allow the use of EAs. Many prop firms allow the use of EAs.

### **Hedging**

Hedging is a risk management strategy that is used to offset investment losses by acquiring an opposing position in a related asset. Only a few prop firms allow the use of hedging. There are prop firms that allow full use of hedging and allow you to hedge one hedged position at a single time. So hedging on multiple accounts is not allowed and restrictions are applicable

### **Holding Positions**

Most traders prefer a prop firm that allows overnight and weekend holding. Some allow overnight holding but do not allow weekend holding. But most prop firms allow both, Overnight positions are simply trading positions that have not been closed at the end of the trading day. These trades are held overnight. Overnight holdings expose traders to the risk of unfavourable moves that occur beyond normal trading hours. Weekend trading is the same, but the trade is held through the weekend.

### **Initial Account**

An initial account is the amount of funding that you start with. Prop firms have a variety of funded trading programs with different funded amounts. If you want a much bigger initial account, the one-time fee will also be much bigger.

### **Leverage**

Leverage, often known as margin trading, is the use of a smaller amount of cash to obtain exposure to a larger trading position. Leverage carries risk as it can result in high losses. You may trade up to \$100,000 at 100:1 leverage with as little as \$1,000 of margin in your account. Prop firms have different leverage on different trading instruments.

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### **Lot Sizes**

The number of units of a trading instrument purchased on an exchange is called a lot. When you place orders on your trading platform, they are put in lot sizes. Most prop firms have the maximum trade size calculated in lots and they are not allowed to exceed the maximum trade size.

### **News Trading**

News trading is a trading strategy that seeks to profit from market opportunities created when important economic facts and information make news. It is important to keep up with current events. Important news or economic events may impact the markets short-term if you are day trading stocks or currencies. Most prop firm allows news trading.

### **Profit Target**

Most prop firms we review have a profit target. This is especially true for those with evaluations. The profit target is the goal they need to reach to pass their evaluation. Profit target can vary between 5-25% depending on the prop firm. But some don't have a profit target.

### **Platform**

The most popular prop trading platforms are Meta Trader 4 and Meta Trader 5. Meta Trader 4 is only for Forex while Meta Trader 5 can be used outside of Forex. A lot of prop firms use Meta Trader 4 since it is the most popular. But there are also prop firms that use not only the Meta Trader platform but also other platforms.

### **Profit Split**

All funded trading firms will have a profit split with their traders. This can range between 50%-90%. This profit split usually starts only when you become a funded trader with the prop firm. Demo accounts don't usually have a profit split.

### **Trading Instruments**

Trading instruments are all of the various assets and contracts that can be traded. Stocks, Metals, Forex, Crypto, Indices, Commodities, and Bonds are all the kinds of instruments that prop trading support. But not all prop trading firms support all the trading instruments. But all prop trading firms support forex trading.

### **Trading Fees**

Trading fees are the cost of being a member of a prop firm. Most charge a one-time fee to participate in their challenge or to receive instant funding. Only Audacity has a one-time fee and a monthly platform fee. Different funding amounts have different fees. Instant funding prop firms usually have a higher fee compared to those with challenges

### **Trading Strategy**

Different traders employ various trading tactics. Some traders are experienced in specific methods, thus if a prop business does not allow it, the trader will be at a disadvantage. Most prop firms allow all kinds of trading strategies like scalping, swing trading, day trading, etc. But not all prop firm allows algorithmic trading, scalping, swing trading or news trading.

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### **Scaling Plan**

The more capital the trader has, the bigger their profit. Prop firms offer different amounts of funded accounts. It is important that there be a scaling plan. This way when a trader is profitable and ready for more funding, they can apply for the scaling plan to get more funding. The more funds available to you, the profit potential will also be bigger. Most prop firms offer scaling plans in the millions of dollars on a terms and condition basis

### **Stop Loss**

All prop firms usually require a stop loss. Putting a stop loss on your trade is very important. But some traders like to trade aggressively without using a stop loss. Only 1 firm offers a program where there is no mandatory stop loss. The 5 %ers have what is called The Aggressive Program and in that program is the Freestyle trading program. This one does not require any stop loss.