



# The beginners guide to opening a prop trading brand

2024 Edition



#### About the author.

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Paul founded Game Changers Magazine, where he brings industry leaders together to discuss topics often overlooked by traditional media. As a thought leader in Neo Banking and payments, he's recognized for creating innovative solutions that endure the test of time.

Paul is a trusted advisor for buying and selling banks, setting up trading desks for banks, and helping you develop a banking infrastructure for brands. He also co-founded The Banking Expert, a platform designed to answer all your questions on banking, payments, institutional FX trading, and legal aspects of compliance.

Connect with Paul on LinkedIn or follow The Banking Expert to stay updated on the latest in the financial industry.

## Introduction

Welcome to our latest guide from The Banking Expert!

In this edition, we're taking a fresh approach. Inspired by a deep-dive conversation with one of the leading technology providers in the proprietary (prop) trading industry, we've ventured into new territory—exploring the dynamics of prop trading and funded accounts.

Previously, our exposure to these areas was limited, but as we delved deeper, we discovered that these terms, often used interchangeably and are reshaping the modern trading landscape.

To truly understand this evolving field, we didn't just rely on the technology providers' data; we reached out to the people who live and breathe it. We spoke with traders, challenge winners, and those who have journeyed through the highs and lows of the prop trading experience. We asked them to share their thoughts and emotions as they navigate these challenges. How does this differ from traditional FX or CFD trading? What drives their passion and resilience? Their insights offer a unique glimpse into the mindset of today's trading community.

This guide is designed to provide decision makers like you with a comprehensive overview of prop trading—offering a solid foundation to help you assess if this is a strategic move worth pursuing for your brand.

If you're ready for a more technical, hands-on discussion, we're here to connect you directly with the technology experts who provided the in-depth research behind this guide. Their unique perspective, gained through hours of discussion and backed by cutting-edge data, highlights the potential of this vibrant and rapidly evolving industry.

Thank you for taking the time to explore this exciting new chapter with us. We hope you find it as insightful and inspiring as we did!

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## What is prop trading?

Proprietary trading, often referred to as "prop trading," is when a financial institution, such as a bank or trading firm, uses its own capital to trade financial markets for direct profit, rather than earning commissions by trading on behalf of clients. This approach allows firms to take on larger, more speculative positions, benefiting directly from market movements.

In the context of CFD (Contract for Difference) and FX (Foreign Exchange) retail trading, the funded trader model has gained significant popularity. This model provides traders with capital from the prop trading firm in exchange for a share of the profits. Traders are evaluated through challenges or simulations, and upon passing, they gain access to the firm's funds to trade in real markets.

The advantage for retail traders is that they can trade larger positions without risking their own money, while the firm profits from successful trades by taking a share of the earnings.

This model appeals to retail traders who may not have substantial personal capital but possess the skills and strategies needed to trade profitably. The key difference from traditional prop trading is the firm's focus on providing market access to individual traders who demonstrate strong risk management and profitability within a structured environment.

## Audience – who trades?

The demographics of the funded trader model can vary, but there are some common patterns:

### Age Range:

- Primarily attracts individuals aged 25–45.
- There is a general tendency for the average age to be 3–5 years younger than that of a ‘traditional’ FX/CFD retail trader.
- Many are young professionals or self-taught traders, often tech-savvy and interested in financial markets.
- Some in their early 20s may also be interested, especially those exploring new career paths or looking to supplement their income through trading.

### Education and Professional Background:

- A significant portion of traders come from finance, economics, or business backgrounds, but the model also attracts individuals from tech (IT, software development) and engineering fields who are analytical and drawn to algorithmic or quantitative trading.
- Many have a self-taught background in trading, with some taking courses in technical analysis or using social media and online platforms to learn trading strategies.
- Experienced retail traders who have previously traded with personal accounts also find the funded trader model attractive.

### Geographical Spread:

- The model has global appeal, with a strong presence in regions with high retail trading interest, such as Europe, North America, Australia, and Asia.
- Emerging markets, such as Africa and Latin America, are also seeing growth in this space due to easier access to online trading platforms and low entry barriers.

### Gender:

- Predominantly male, although female participation is steadily growing as more women become interested in retail trading and finance.
- Some firms actively promote gender diversity by implementing initiatives to encourage more women to enter trading.

### Financial Situation:

- Typically, these traders have modest disposable income and are attracted to the low upfront costs of the funded trader model, which allows them to trade larger volumes without risking substantial personal capital.
- Many view this as a side hustle or secondary income source, although some aim to transition into full-time trading careers.

#### Mindset and Interests:

- These individuals are typically ambitious, risk-tolerant, and have a strong desire for financial independence.
- They are motivated by the potential for high returns and the opportunity to trade with significant capital without needing large personal reserves.
- Many are drawn to the idea of self-employment, appreciating the flexibility that trading offers in terms of time and location.

This demographic is attracted to the funded trader model because it offers the potential for higher returns with less personal capital at risk and aligns with their tech-savvy, risk-seeking, and financially motivated mindset.



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What is the difference in experience for the trader?

### Onboarding Procedure

Getting started with your brand is designed to be effortless for new clients. The process is as simple and intuitive as shopping on any popular e-commerce platform—just like buying a T-shirt online. From the moment they engage, clients experience a smooth, familiar journey that makes onboarding quick and hassle-free.

No complicated procedures, no unnecessary steps—just a straightforward way to begin their journey with your brand. By streamlining the process, clients can jump right in, enjoying a seamless first interaction, creating an effortless start that blends simplicity with modern convenience.

Given the dynamic nature of the industry, there is currently a streamlined KYC process in place for client onboarding. This means that the usual lengthy identity verification steps have been significantly reduced, allowing clients to get started faster and with less hassle.

However, this is a temporary window of opportunity, as these relaxed requirements may tighten soon. For those looking to engage swiftly and efficiently, now is the time to take advantage of this simplified process before regulations potentially change.

Unlike the challenges often faced by FX/CFD traders—such as compliance procedures, payment processing delays, or country-specific regulations—the prop trading industry has largely eliminated these barriers. There's no frustrating wait or delayed gratification.

Traditional trading environments can present numerous obstacles that make getting started a lengthy and complicated process. In contrast, the prop trading world has streamlined both onboarding and trading access, making it faster and easier for traders to begin their journey without the usual roadblocks. For traders, this means immediate access to opportunities, free from the red tape that often slows down traditional FX/CFD experiences.

### Cost of client.

Partnering with our leading technology provider, we've discovered some interesting comparative data: the cost per client in prop trading is around 10% of what it costs to onboard a typical FX/CFD client.

This significant reduction in acquisition costs allows you to reallocate funds towards increased marketing efforts, generating more client onboarding while substantially lowering expenses. As a result, prop trading becomes an incredibly efficient and profitable addition to your business.

If you're considering launching a prop trading brand to complement your existing FX brokerage, the advantages extend beyond cost savings. With access to valuable data from your current client base, you can seamlessly activate new opportunities and develop powerful cross-sell strategies.

By leveraging this data, you can target existing clients with prop trading offers tailored to their trading interests, further boosting engagement and profitability.

In short, prop trading isn't just an affordable expansion option—it's a smart, data-driven way to unlock new revenue streams and deepen relationships with your clients.

## Value of client.

Prop trading and retail FX/CFD trading may seem similar at first glance, but there are crucial differences that set them apart—especially when it comes to their impact on your business's balance sheet.

For traditional retail traders in FX/CFDs, the law of large numbers suggests that only a minority of clients will win. However, these losses don't immediately appear on your balance sheet. Factors like slow trading activity, low trading volumes, or cautious strategies can delay the reflection of these losses, meaning the flow of capital into your business can be slower than expected.

In contrast, prop trading offers a more direct and immediate benefit. When a trader purchases a challenge or evaluation as part of the funded trader model, that payment is instantly reflected on your balance sheet. Regardless of whether the trader passes or fails the challenge, the initial payment serves as an upfront injection of capital, ensuring that cash flow remains steady. This approach not only strengthens your business's financial health but also reduces your reliance on traders' long-term losses to maintain liquidity.

Many FX brokerages struggle because they lack sufficient liquidity on their balance sheets to weather market fluctuations or low trading periods. Prop trading, however, largely eliminates this concern. As long as you have clients willing to fund trading challenges, your business is consistently fueled by a stream of upfront payments. This structure ensures that you're not solely dependent on trading activity or market conditions to keep your company afloat.

The beauty of the prop trading model is that it offers a more predictable and reliable revenue stream, allowing you to focus on scaling your business and serving your clients without the financial pressure that many FX brokerages face. It's a powerful tool to enhance your liquidity and, ultimately, the longevity of your business.



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## What is the difference in experience for the trader?

The beauty of prop trading lies in its ability to eliminate many of the common challenges and frustrations that clients often face in traditional FX/CFD trading. From the moment a client engages, the process is streamlined.

As mentioned earlier, there's no lengthy KYC process, and leverage restrictions are removed, allowing traders to get started quickly and operate with greater freedom. This simplified onboarding process not only saves time but also creates a smoother and more appealing experience for clients.

What truly sets prop trading apart, however, is the psychology behind it. Unlike the typical retail trading environment, where traders constantly battle the ups and downs of their account balance, prop trading introduces a more gamified approach. The challenge-based structure of prop trading shifts the focus away from direct account balance management and toward completing specific tasks or achieving milestones.

This subtle shift in mindset transforms the trading experience. Traders are no longer just trying to win or lose based on their account performance—they're motivated by the challenge itself. This gamified environment engages them in a way that traditional FX/CFD trading often cannot. It taps into their competitive nature, giving them a sense of accomplishment with each milestone they reach.

As a result, prop traders tend to seek a faster, more immediate experience, focusing on short-term goals rather than long-term account growth. This different mindset not only creates a more engaging experience for traders but also keeps them coming back for more challenges.

## Community Aspect

Interestingly, there seems to be a stronger sense of community in prop trading compared to regular FX/CFD trading. Our discussions with the tech company that provided our data revealed the following insights:

### Shared Experiences and Goals:

In prop trading, especially within the funded trader model, participants often share common experiences, such as passing challenges, achieving trading milestones, or navigating similar evaluation processes. This creates a sense of camaraderie, as traders are working toward shared goals, unlike in regular retail FX/CFD trading, where traders are more isolated and focused solely on their individual accounts.

### Challenge-Based Structure:

The gamified, challenge-based nature of prop trading fosters both competition and cooperation. Many firms offer leaderboards or community features where traders can compare

their performance and discuss strategies, creating a more interactive and community-driven atmosphere.

**Educational Focus:**

Many prop trading firms provide educational resources, webinars, and mentorship programs, encouraging a learning environment where traders support and engage with one another. This contrasts with retail FX/CFD trading, where education tends to be more self-directed and individualized.

**Forums and Social Media:**

Prop trading communities often thrive on forums, social media, and online groups where traders exchange tips, discuss strategies, and share their success stories. The competitive nature of passing challenges or hitting profit targets creates a high level of engagement and interaction within these communities.

**Team Competitions and Collaboration:**

Some prop trading firms even organize team-based competitions or challenges, where traders work together or compete as teams, further enhancing the sense of community. These collaborative environments are rare in traditional retail FX/CFD trading, where the focus is primarily on individual performance.

**Mentorship and Support:**

Many prop trading models encourage mentorship or provide access to seasoned traders who guide newcomers, creating a mentor-apprentice dynamic within the community. This is less common in regular retail trading, where traders are typically left to figure things out on their own.

Overall, prop trading fosters a more interactive and community-driven environment compared to the often solitary world of retail FX/CFD trading. The focus on challenges, education, and shared experiences makes it easier for traders to connect and build relationships within the prop trading ecosystem.

## Why should existing FX brands look to Prop Trading?

If you're an existing FX brand, you've already laid the groundwork for success. One of the most significant expenses for any FX company is client acquisition. But what if you could maximize your existing client base and re-engage old leads without starting from scratch? By leveraging challenge fees, you could open a whole new revenue stream while revitalizing your brand presence.

Based on existing client data from prop brands and insights from the technology provider we consulted with, for every €10,000 deposited in challenge fees, your brand stands to earn around €6,500. It's not just about generating additional income; it's about transforming your existing resources into powerful assets.

This approach also offers a way to breathe new life into your database of live and demo accounts, turning dormant data into active traders ready to take on new challenges.

Moreover, traders who successfully complete these challenges present a golden opportunity for your brand to seamlessly integrate them into your trade-following services. Imagine converting challenge participants into long-term, loyal clients who not only trade with your brand but also encourage others to follow their strategies through your platform. It's a win-win: they grow as traders, and your community expands, solidifying your brand as a leader in the FX industry.

Introducing challenge-based trading is more than just a tactical move—it's a strategic evolution. It reinvigorates your brand with fresh energy and gives your marketing team something innovative and exciting to showcase.

In an industry where many prop trading firms struggle to maintain stability, your established brand stands out as a beacon of reliability, offering traders a sense of security in a competitive landscape.

Let's not forget the bigger picture: the FX industry is fiercely competitive. Many of your rivals are already offering similar challenges and successfully engaging their audience with these dynamic strategies. Can you afford to be left behind? Staying ahead means not only keeping up with trends but also setting them. Don't just be part of the conversation—lead it, with a strategy that drives growth, innovation, and unwavering client confidence.



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## **Risk management. – Why do prop brands fail?**

You've likely seen the headlines about a wave of prop trading firms closing their doors, casting a shadow over the entire industry. What's really going on here?

The surge of interest in prop trading has led to a modern-day gold rush, attracting a wide range of entrepreneurs, many of whom lack a solid understanding of the sophisticated financial tools required to run these businesses successfully. The reality is that prop trading isn't just about clever marketing or acquiring clients; it demands deep knowledge of trading strategies, risk management, and capital efficiency.

For those who come from a marketing background, launching a prop trading brand can seem deceptively straightforward—just sign up traders, collect fees, and let the rest take care of itself. But as recent failures have shown, this approach is often a recipe for disaster. Proper risk management isn't just a technical term; it's the backbone of every successful trading operation. Simply taking a client's fee and hoping they lose isn't a sustainable strategy; it's a fast track to failure.

In our discussions with the technology partner who helped us compile this dossier, they identified these gaps and developed a comprehensive outsourced risk management module that allows you to focus on client acquisition while they handle the complexities of managing risk. With this solution, your firm can operate like a well-oiled machine, even if your expertise is primarily in marketing.

Another critical issue leading to the downfall of many prop trading firms is undercapitalization. Many new entrants to the market mistakenly believe that setting up a prop trading firm today is like the old days of building a brokerage, where a modest investment of \$20,000 and a list of leads could get you started. Times have changed, and the industry has evolved. Today, to truly succeed and maintain a viable prop trading brand, you're looking at needing capital between \$150,000 to \$300,000.

The good news? If you're an existing FX brand, you may be able to enter this space at a lower capital threshold, thanks to the infrastructure and business fundamentals you already have in place. But whether you're starting fresh or expanding from FX, understanding the importance of robust risk management and adequate capitalization is crucial to ensuring your firm's long-term success.

In today's competitive landscape, prop trading isn't just about riding the wave of the latest trend; it's about building a sustainable, resilient business that stands the test of time. With the right tools, knowledge, and strategic approach, you can turn these challenges into opportunities for growth and leadership in the industry.

## Banking and payments.

Transactions are the lifeblood of any business, whether online or offline. In the world of prop trading, what once seemed like a low-risk endeavor is evolving. Clients are now buying packages as seamlessly as they would any other product online.

However, this growing popularity comes with its own set of challenges. Global regulators are stepping up their game and will likely classify prop trading similarly to FX trading in the near future, making it more complex and demanding to secure banking and payment partners.

In this environment, the need for a solid and reputable partner to handle your banking and payment needs becomes even more crucial. It's not just about finding someone who can process transactions—it's about aligning with a partner that offers security, reliability, and a deep understanding of the industry's shifting dynamics. Identifying trustworthy partners in this crowded marketplace is becoming one of the most critical steps in ensuring your business's success.

Recognizing these challenges, our technology partner provided a practical solution. They introduced us to a network of brands that have already been vetted for their credibility and expertise in the field. These partners are ready to help you navigate the complex landscape of banking and payments, making the daunting task of setting up your business much smoother.

With the right support, you can focus on what matters most—driving growth and innovation—while leaving the complexities of financial compliance and partnerships in capable hands.



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## Affiliates and partnership marketing

Prop trading is largely an affiliate-driven business, similar in nature to online gambling sites and the early days of FX. It's a fast-paced industry where a single brand might have thousands of affiliates promoting their services, often in straightforward ways like sharing personal links or creating basic videos on popular social media platforms with the link attached.

Our technology partner, who helped us compile this report, highlighted the essential need for a robust affiliate tracking system. When dealing with affiliates who may not have the most advanced promotional tactics, having the right tools to track their efforts and pay them accurately for the revenue they generate is crucial. This not only ensures transparency and smooth operations but also helps build a strong online reputation—an absolute must for any brand aiming to grow through affiliate networks.

If you're an independent prop trading brand without an existing FX affiliate infrastructure, integrating a unified module is a game-changer. It eliminates the common headache of juggling multiple software solutions that often don't work seamlessly together. Instead of wasting time trying to connect different systems and dealing with technical issues, this solution brings everything under one roof.

The real advantage? You'll get up and running much faster.

No more piecing together off-the-shelf tools or dealing with countless invoices from various providers. This streamlined approach not only reduces the stress of setting up but also accelerates your ability to operate at full capacity. In a world where speed and efficiency matter, this integration can be the difference between staying ahead of the competition and falling behind.

## KYC and onboarding your clients.

One of the main critiques from regulators about the prop trading industry has been the lack of solid compliance procedures across some brands. As the industry moves closer to adopting FX-style criteria, the pressure to enhance regulatory standards is increasing.

If you're already in the prop trading space or considering entering it, now is the time to align your compliance practices with the standards already established in the FX industry. Proactively adopting these standards can save you from future headaches when regulatory changes inevitably come into play.

In the financial world, staying ahead of the regulatory curve is always a smarter strategy than scrambling to catch up later. It's far better to invest in compliance technology now than to face a drawn-out legal and administrative struggle down the road.

To make this transition easier, consider partnering with a provider that offers a seamless technology module specifically designed for compliance. This integration can transform your back office into a streamlined, organized powerhouse that enables your compliance team to operate more efficiently.

Why wait for regulatory audits to become a source of stress? By taking action now and preparing for the future, you can turn compliance into a strength rather than a burden, positioning your brand to thrive in a landscape that's bound to grow more regulated.

## Business intelligence.

A major reason prop trading brands are failing is their lack of effective business intelligence software. In this highly competitive industry, fraud is a constant threat, with traders exploiting brands that have weak procedures and outdated systems. Without robust detection tools in place, these brands become easy targets for those looking to game the system.

Brands that don't invest in advanced fraud prevention not only risk financial losses but also damage to their reputation. Once a brand is seen as vulnerable, it can quickly be overwhelmed by those seeking to exploit any weaknesses. In this environment, being proactive is essential to protecting your brand's integrity and profitability.

Partnering with a technology provider that specializes in spotting red flags is crucial. Modern fraud tactics have become incredibly sophisticated, and the ability to detect them early can make the difference between success and collapse.

This isn't just about adding a few challenges and watching the profits roll in—it's about safeguarding your business with the right intelligence tools to identify and neutralize threats before they cause harm.

In today's landscape, owning a prop trading brand demands more than just market knowledge; it requires cutting-edge technology to stay one step ahead. Investing in business intelligence software is not just a good idea—it's a necessity for survival in this rapidly evolving industry.

## Marketing.

Building a successful prop trading brand without a dedicated marketing department may seem like a daunting task, as marketing can be the most subjective department and often leads to skyrocketing budgets.

Many marketers still cling to outdated tactics, believing that all it takes is attending expos and offering big rebates to affiliates. While these strategies might have worked back in 2010, today's market demands a far more sophisticated approach.

Finding seasoned marketers who truly understand the prop trading industry is like discovering a rare gem. These experts know the ins and outs of the sector, but hiring them doesn't come cheap. Salaries for experienced professionals capable of running a high-functioning marketing and design team can quickly eat into your budget. For a growing brand, that's a hefty cost that might not be sustainable.

A smarter solution is to partner with a prop tech brand that offers a suite of marketing tools and features tailored for today's landscape. Look for platforms that go beyond the basics—offering downloadable content, engaging videos, informative webinars, and up-to-date news. Even more valuable are features like certificate generation for those who complete trading challenges, which can help enhance credibility and engagement with your audience.

While this approach may not completely replace the need for in-house marketing expertise, it brings you remarkably close. It provides a scalable way to manage your overhead while gaining access to professional-grade resources that drive growth. By leveraging the right technology, you're not just building a brand—you're setting the stage for a more profitable and sustainable prop trading business.

Adapting to this modern marketing model ensures that you stay competitive, flexible, and ready to meet the evolving needs of traders in a market that's more dynamic than ever.



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