To whom it may concern,

I have read the proposal to limit the trading leverage in retail forex down from current levels to 1.5:1. I am vehemently opposed to this proposal on the basis that it will in essence kill retail forex trading for the average investor. For decades, high worth individuals were the only people capable of investing and making a substantial return. Over the years the forex market was opened up to the general public. The only way to allow this was to reduce the size of a standard lot (100k) to a mini lot (10k) and allow a large trading leverage (otherwise known as margin requirement) in the order of 50:1 up to 400:1. Allowing the average person to place as little as $25 in margin deposits in order to control 10k in the currency market has allowed for a high potential return on invested principal. By changing the rules to minimize the leverage/margin requirement down to 1.5:1 you force the average trader to house $6666 in margin deposits while only trading 1 single mini lot. In essence you force a requirement of at least $7000.00 for a market that is highly volatile (and in reality you would need far more than $7000). Let me lay out in english what this means to the investor.

The average daily range of most currency pairs is somewhere in the area of 75-150 pips. Most currency pairs can do this in a very short time period. If an investor has to have a min of $6666 in margin deposits this means they should have much more than that in their free margin to withstand the daily swings in the currency pairs. Many small investors start with just $1k or so. But in this case you eliminate all of those investors as they will now have to have the min margin deposit of $6666 plus some extra to cover the pip movements. So let's assume that an investor has $7k. After the margin deposit this allows for only 334 pips of movement for 1 single mini lot trade (on some currency pairs, assuming $1/pip average). This would be a ludicrous number to require and this investor would basically lose his/her investment in a very short time period if they were not PERFECT in their trade decisions. NO ONE is perfect in their trade decisions so to expect it would be insane. So in essence if this person doesn't want to risk his $334 (while putting up $7k) they will simply stay out. This rule is not protecting anyone from the volatility of the market. Instead it is guaranteeing that the small investor loses his investment unless he is willing to put up $15k or $20k etc...

In the current margin requirement setting (200:1 avg), an investor must simply place $50 into margin deposit. So if a person has let's say $1k in his account then $50 would go to margin for one single mini lot. This leaves $950 for swings in the market. In essence this allows for 950 pips of movement before a margin call occurs. Again, the average daily range of most pairs is 75-150 pips. So in typical market conditions this account is rather safe from losing all with an overnight movement. In these drastic market conditions that we have experienced the past 12 months there have been only a handful of times that the daily high to low range on only a few currency pairs has been so extreme that it would margin out this account. And in those cases the majority of traders are taught to place stop losses to protect the account from being margined. The issue here is not that the margin requirment of 200:1 is a bad thing, no, it is that the trader needs to be taught the proper trade size for the account size they have. Putting this regulation doesn't protect anyone from the volatility of the market, no, instead what it does is eliminates the 'little man' from any possibility of a decent return on his/her investment.

I implore you NOT to regulate the 'little man' out of this market and instead help to educate investors on the proper use of trade size in relation to account size. If you will humor me for a moment and consider this analogy: Cars are a very dangerous tool and they kill tens of thousands of people every year. Yet we don't get rid of cars altogether. We simply force all users to take and pass an exam (in order to force them to educate themselves on the rules of the road) in order to gain the priveledge of driving the 'killer tool'. The claim here is that leverage/margin requirement is the killer tool but in fact it is not a problem at all! The lack of understanding of leverage is the killer. By changing the margin requirements/leverage down to 1.5:1 you will in fact eliminate all possibility of the average person from potentially gaining in this market.

If I may clarify an inaccurate statement that is present in the article: "In the retail forexmarket, there is neither any margin call nor any notice for an investor to deposit additional funds to maintain his or her position. As a result, even small intra-day swings in currency rates have the potential to close out investors on either side of the market." This statement is inaccurate: 'even small intraday swings in rates have the potential to close out investors on either side of the market', this quote is ONLY accurate if the trader has highly overleveraged his account (too many lots traded per account balance size). The example I gave above on a $1k account with 1 mini lot gives the trader a 950 pip fluctuation in a currency pair before being closed out. 950 pips is not a small fluctuation in the market. On the contrary this is an extremely large move in the currency market. This statement leads me to believe that the author has very little knowledge of the subject at hand and to come up with rule recommendations based on this false statement is ludicrous. Again, if the trader has traded too many lots for account size then this is possible but that is simply due to ignorance on the trader and rules should not be designed to regulate the masses b/c of individual's ignorance. Drinking and driving is stupid and kills people, but we don't outlaw drinking and we don't outlaw driving. We simply regulate the two together. Margin requirement has VERY LITTLE to do with a trader's account being traded to zero. Trade size on the other hand IS DIRECTLY RESPONSIBLE FOR THE SAFETY OF AN ACCOUNT. Again, do NOT regulate the little man out of the market by changing the margin requirement. If you want to regulate something, instead regulate the education on trading lot size.

Derrik