From: Khurrum Mahmood <khurrum_mahmood@yahoo.com>
Sent: Wednesday, January 20, 2010 9:19 PM
To: secretary <secretary@CFTC.gov>
Subject: Regulation of Retail Forex - Account Leverage, Risk, Timeframes, and Trading styles

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Hi

My first point would be that limiting leverage is more an enforced protection against stupidity and ignorance. Rather like stopping everyone from being able to drink because some people can't handle it.

Although experienced traders will only rarely use 100:1 (or higher in some cases) leverage, there are times when it is useful. Ultimately, its a matter of how much money you're risking and how much you hope to gain. If you're looking for a few pips over a short timeframe, a 100:1 leverage is no real threat at all. Reducing available leverage would really just remove some traders' ability to trade in the style they know to trade with. Rather like the ban on hedging - some people just can't trade effectively without hedging (as a psychological issue) - some people use it to make much greater profits.

Besides, limiting US brokers only forces traders to look outside the US for brokers. Personally, both of my trading accounts are outside the US - even though I personally don't use hedging in my trading style or use 100:1 leverage. I was just learning about Forex when the NFA rules against hedging came out, and I didn't want to be limited if it turned out I needed to use it to make money. Seriously, its better that US brokers make money from US customers, than that brokers abroad make money from US customers unnecessarily.

One suggestion I do have for a regulation... trading the larger timeframes is easier even if money is made slower. The minimum lot size, at various brokers can limit the ability of novice traders and people with small capital from trading those timeframes. It might be better for a lot of investors, if the option to use even smaller lot sizes was possible, so that that avenue would be open to them.
Pass regulation to make all Forex brokers support the use of 0.0001 standard lots. That way people who are learning, or people who have little money but want to trade the daily and weekly charts, have a chance to make money without taking high risks.

Important Point:
You see it really doesn't matter how much leverage is available, what matters, is how much of someone's account they can risk losing on a single trade. Lets assume 1:10, and you buy 1 standard lot with a $10K account, on the GBPJPY, and it goes against you by 300 pips in one day (which happens from time to time). You lost $3000+ - 30% of your account. If that happens, what it really means is that you were severely over-leveraged on that trade, despite the fact that you only used your max 1:10 leverage. Someone who acts stupidly like this, could burn through their account quite fast.

In theory, **you could** force the use of a maximum stop loss, compare that to the position size and enforce rules that say that a trade is invalid if it risks more than a *maximum* of 5% of a trader's account on a single trade - and that's good trading practice, generally you should risk less than that. But anyway, that way someone can use 200:1 or 400:1 leverage, and not be able to enter trades that will lose them a lot of money.

If such a rule existed, I can't say I'd find a good objection to it... apart from the fact that forcing customers away from US brokers to brokers overseas, doesn't really help us. Ultimately people must have a right to buy the services they want to buy - the only important thing is that they be educated. Improve the warning that people are given when they enter forex trading, on what they are really risking, if they are careless. Have variations of it tested to see what expression and wording leads people to typically better understand the message you're trying to convey.

Best Regards,
Khurrum Mahmoood