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Sent: Thursday, January 21, 2010 5:43 PM
To: secretary <secretary@CFTC.gov>
Subject: Regulation of Retail Forex

To whom it may concern:

I am a college student majoring in math and economics, and a retail foreign exchange trader. I focus on a time horizon of about 6 months, and make trading decisions based on fundamental economic analysis. I have always believed and argued to others that 100:1 leverage is far too high in essentially all circumstances. I do not oppose a decrease in the maximum leverage ratio for retail foreign exchange to around 50:1, but I believe the current proposal to limit leverage to 10:1 excessive, and would have a number of negative consequences, even for traders like me who would never want to use even 50:1 leverage, let alone 100:1.

Currently my foreign exchange leverage is only about 12.5:1, and that is about where I want it to be. However, since I make my trading decisions based the analysis of economic fundamentals, it sometimes happens that in the short run, the market moves against my positions even as my analysis stays the same or becomes still more convincing. At such times I tend to allow my use of leverage to increase, because I believe that short term market volatility is often only noise which will be of little consequence over my time horizon.

However, while on average a maximum leverage ratio of 10:1 would force me to decrease my position sizes only slightly, at times of increased volatility such a maximum would likely cause unnecessary margin calls that would force me to exit my positions just when I believe the market is behaving least rationally. Fear of such a contingency would thus cause me to reduce my leverage far below even the 10:1 limit, allowing me to take on less than the optimal amount of risk given my risk preferences.

More generally, it is important to recognize that any decrease in the maximum leverage ratio is likely to have a similar effect for many medium and long term traders, and thus the effective maximum leverage ratio for many foreign exchange traders will be significantly lower than the actual rule. Even considering this, I think a maximum leverage ratio not less than 50:1 would not be unreasonable, and would have the added benefit of protecting, somewhat, those uninformed traders who do regularly use close to 100:1 margin, but a maximum much lower than that would have too many negative side-effects for traders like me.

Sincerely,
Benjamin Segal