From: Bryan Cogswell <bogie6953@comcast.net>
Sent: Thursday, January 28, 2010 10:02 AM
To: secretary <secretary@CFTC.gov>
Subject: 'Regulation of Retail Forex

Re: RIN 3038-AC61

To Whom it May Concern:

There are several forex forums on the internet where traders are posting the letters they have written to your office concerning this latest, proposed regulation. Several are well-written, reasoned responses by those whom are, obviously, experienced traders with valid concerns over what recent regulations, and proposals of pending regulation, will do to their trading businesses. Interestingly, these come from traders, not just in the US, but from traders all over the world. Many have trading accounts with brokers in the US. Others, simply see these new rules as a threat to their own trading environment, if they should ever be adopted by regulators in their own countries.

I, too, am a retail forex trader, and am writing to voice my opposition to, and utter astonishment over, these recent, and proposed regulations that will negatively impact the way that I am able to conduct my trading activities.
First, I would like to say that I do appreciate the intent to protect the trader from fraudulent and predatory forex establishments. However, as you will see from the example below, that these regulations do, and will further, negatively impact certain trading systems and strategies that depend on the freedom of the trader to operate in an environment that is not overly regulated.

Hence, I would like to submit a real-life example of a successful trading system/strategy that has been negatively impacted by the recent FIFO, and no-hedging regulations. In addition, I will show how the above-mentioned regulation will further impact, in a negative manner, most, if not all, traders whom have adopted this system in their trading practices.

THE EFFECT OF THE NO-HEDGING RULE:

The system itself is comprised of both signal indicators, as well as trading strategies and practices, that are designed to limit potential losses, and maximize potential gains. It is a system that accurately signals major reversals of any given currency pair, and even provides a trigger signal for entering into the trade. In addition to the system signals, the system strategy provides a definite place for setting the stop loss. Being a reversal system, the take profit is determined when the system signals that the current trend has exhausted itself and has reversed. The trader, then, performs a stop-and-reverse trade at the system-provided signal. This entire trade range is known as the Primary Trade Signal, or PTS.

In addition to the PTS trade, is another system-indicated trade range called a Secondary Trade Signal, or STS. This type of trade opportunity happens WITHIN the trade range of the PTS, and gives the trader the opportunity to take advantage of the major, smaller reversals that take place within the current, larger trend. This is also a reversal-type trade, and the system will indicate when the trader should, once again, stop and reverse the current (second) position.

In order to take advantage of this secondary type of trade, the trader needs to have the ability to enter into a trade in the opposite direction of the currently held position, on the same currency pair. The new no-hedging rule has eliminated this ability, and taken away a valuable opportunity.

Now, the workaround for this, as has already been noted in some of the aforementioned letters to the CFTC, is for the trader to have a second trading account through which he/she would enter a trade, in the same currency pair, but in the opposite direction of the trade in the first account. Therefore, one of the major results of the no-hedging rule is that it has FAILED to keep traders from hedging, but it has FORCED traders to divide their available trading margin among multiple accounts, thus, reducing the number of lots that can be traded in either account. Furthermore, this has the potential of tempting the trader to put him/herself at greater risk, by utilizing a higher percentage of margin in either, or both, accounts, in order to maintain the level of trading for which his/her system/strategy requires.

THE EFFECT OF THE FIFO RULE:

In this real-life example of a trading system, the trader also has the opportunity to scale in, and scale out, of any given trade. One of the methods for scaling in can be accomplished by using the reversal of the Secondary Trade Signal as the entry point of a scaled in position. This would give the trader a second position in the same direction as the initial trade signalled by the PTS. This position is, obviously, at greater risk of loss than the original PTS trade, since it is closer to the current price level than the first position.

Now let's assume that the second trade has moved into profit, and, for whatever reason, the trader has decided that it is time to take profit on the second trade. The trader determines that his/her original trade is still safely distant from the threat of price action, but because of the new FIFO rule, he/she is forced to take out the first trade, thus leaving the second position at a higher risk of being moved agianst.

THE EFFECT OF THE 10:1 Margin Rule

This is perhaps the most disturbing of the three new rules. The immediate effect is that many traders, with smaller accounts, will no longer be in a position to continue trading, and they may be forced to simply close their accounts. This would include those whom have traded responsibly, and exercised sound money management principles.

Another effect may be that it will drive traders to move their accounts to foreign brokers, thus exposing themselves to whatever may await them in a potentially unregulated environment. (I have read accounts of several traders whom have done this already.)

It is not difficult to imagine that there soon will be the need for further, new regulations that will make it against the law to do so.

From my perspective, these three rules have done little to help the individual trader. Rather, implementing these rules has simply forced traders into higher-risk situations, or will force many responsible traders out of the business.

It would be interesting to see the results of a poll, if one were conducted amongst active traders, to see how many would actually be in favor of such rules. My guess, is that, even traders whom have lost considerable amounts of money, would vote to eliminate these stifling regulations. If for no other reason, perhaps, because they may see them as further eroding the trader's right to choose how much risk they are willing to accept.

I would ask that, the 10:1 margin rule, the FIFO rule, and the no-hedging rule be eliminated.

Please allow traders to continue to trade in an environment that does not stifle responsible activity. But, please, focus on eliminating fraudulent and predatory activities of service providers, thus limiting the REAL problems experienced by traders in the Forex market.

Best Regards,

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