From: Teodor <t_tzenov@hotmail.com>
Sent: Sunday, January 31, 2010 4:17 PM
To: secretary <secretary@CFTC.gov>
Subject: FX Leverage10:1

Dear Sir,

Lets really see what is going on here.

1. HIGH ACCOUNT MARGIN lever is "good" for traders..because it allows them to run small trades over longer periods of time in serious drawdowns before a margin call is reached. A lower margin account lever such as 10:1 will cause more traders to hit margin calls earlier..yes, we can argue that the "net" loss of the margin call will be sharply less than at a higher account margin, but if we simply extend it to a longer period...lets say hitting margin calls over and over and over...well...it happens to be about the same effect..just maybe taking slightly longer...depending on style.

2. a low margin account lever ratio also means that a trader would have to select a small position size (eg...profit/risk ratio) in order to survive a margin call.

imho..this is nonsense...it will not protect a trader..it will simply force traders to trade in small position sizes..and/or in shorter time resolutions...two principle "edges" that are going away for trader...yeah...

<u>Here is what the rules should (if at all) target</u>:

1. margin rules for market makers!!! A maximum leverage in hedge that market makers can target client accounts..this alone would do more for traders than any other rule..it will never happen as a consequence of the "loss" profits for your friendly MM!

2. position lever rules for traders...some traders have the most ridiculous expectations with regard to trade size...this single most important part of trading is a discretion of the trader..but it alone controls ALL of the important money management tiers.

the question is..how do you apply rules fairly to all traders when 95% of them are going to lose no matter what position lever max is applied...while the 5% are just going to make LESS because of the rules...

see the problem..you can use the same reasoning to find the problems with the rules..

it DOES NOT HELP traders who are consistently losing and have little prospects..it may permit them just slightly longer to be in the losing game...which is debatable (as pointed out above)..but it will in no way improve the odds of success, by a mere rule change.

However...the 5% of traders who are consistently making a profit are going to be seriously limited by these rules ...for two reasons:

a. the rules are applied to them as a general "protection" while there is no upside to the rule..only a downside. (note: many 5%'ers make MANY positions of varying size...particularly hedgers...who might consume a very high margin account lever...and position size lever..this IS A FACT..and it helps to understand why so many of these very good traders are making alot of money...the fact that they can access high lever in account rule and position stake, allows this!

b. the liquidity loss in the trade volume will be experienced as small losing traders are squeezed under the same rules to make fewer and smaller position size trades.

so, this is really a double dilldo to the successful traders...

one also has to appreciate that the market maker is a beneficiary to the new rules, as the heding risk will go down in general...this will more than make up for an loss in spread revenue.

I am waiting for the rule makers to est criteria for market makers and how they lever hedge exposures lined against their own clients.

I am not holding my breath.

forexhaole

Collected from forums by:

Yours Truly

T. Tzenov