

From: Patrick Clevenger <rpclevenger@stoltzins.com>
Sent: Wednesday, February 10, 2010 4:26 PM
To: secretary <secretary@CFTC.gov>
Subject: Regulation of Retail Forex

A COMPREHENSIVE RISK MANAGEMENT FIRM

STOLTZ AND COMPANY 

Dear Mr. Secretary,

Regarding RIN 3038-AC61, I would strongly implore you to reconsider changing the retail forex leverage from 100:1 to 10:1. It will not decrease the risk to traders and will do harm, not good.

1. Especially concerning uneducated and/or new traders, you will never be able to regulate against intentional ignorance. If someone wants to lose money due to willfully choosing not to gain sufficient education and skill prior to trading a live account, no amount of rule changes will convince them.
2. Also, the amount of margin required to enter each trade would actually increase, meaning that more "out-of-pocket" money is required to open the same size position that is possible at the current leverage ratio, and with the potential for greater losses. For example, now, I can enter a trade of one full size contract that controls \$100,000 with only \$1,000 of margin, and a 1 pip move against my position equates to only a \$10 loss, but if the rule is changed, suddenly my actual margin exposure increases to \$10,000, and the same 1 pip move against my same size position as before now equals a \$100 loss. Ouch! You may reduce my margin leverage by a factor of 10, but you're actually increasing my true leverage risk by a factor of 10. This is unacceptable, and I sincerely hope that that is not what you want to accomplish with this proposed rule change.
3. One last example. People who really understand 100:1 leverage realize that this just helps the regular person to be able to trade without having to have a pile of cash to get started. It's about the margin requirement. True in-trade leverage is very different from any broker/dealer's advertised maximum margin leverage and is always controlled by the trader's position size. If I have a \$10,000 account and a position size of 1 full contract (controls \$100,000), my margin requirement at the 100:1 ratio means that \$1,000 of my money is tied up in that trade. **However, true leverage (the leverage that really counts in any and every trade) is the dollar amount of the position size divided by the total amount in the trading account; in this case \$100,000(position)/\$10,000(account size) = 10:1.** As you can see, it is the trader's responsibility to understand and apply leverage the correct way based on position sizing. Again, money management is learned behavior, not regulated.

The solution: If your goal is to truly help the average retail Forex investor, leave leverage alone. Reducing leverage only serves to squash the average Joe Trader who relies on leverage to be able to make meaningful trades even with a meager account size. If you truly want to keep uneducated and undisciplined people from blowing up their accounts, then mandate that traders demonstrate a required minimum level of knowledge concerning leverage and how it works before being allowed to open and fund a live account. Knowledge with understanding is power for many; power to the few is oppressive for the many.

To conclude, if you want to help educate traders to understand concepts that can make them better and more profitable market participants, I'm all for it, but your current proposal will only serve to squelch the dreams of many, many investors who rely on being able to attempt great things with modest means. Please, keep the dream alive.

Respectfully,

Patrick Clevenger

Patrick Clevenger
Controller
Stoltz and Company
3300 N A Street
Suite 1100
Midland, TX 79705

Tel: 432-571-4914
Fax: 888-788-5911
rpclevenger@stoltzins.com

CONFIDENTIALITY: This communication, together with any attachments hereto or links contained herein, is for the sole use of the intended recipient(s) and may contain information that is confidential or legally protected. If you are not the intended recipient, you are hereby notified that any review, disclosure, copying, dissemination, distribution or use of this communication is STRICTLY PROHIBITED. If you have received this communication in error, please notify the sender immediately by return e-mail message and delete the original and all copies of the communication, along with any attachments hereto or links herein, from your system including any and all system networks. Thank you for your cooperation.

Relentless Professionalism, Unyielding Honesty, and Total Focus.