From: dan price <danprice21703@yahoo.com>
Sent: Friday, February 12, 2010 6:57 PM
To: secretary <secretary@CFTC.gov>
Subject: Regulation of Retail Forex

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I am writing in opposition to a 10:1 leverage limit for all retail investors. I am not against the other proposed rules such as registration and capital requirements.

Part
of the benefits of the internet is to allow retail investors the same access to markets as the big players. Certainly you will hear from large players who engage in high leverage for their firm, but have figured out it will be better for their bottom line if small players to become part of the club. But will you hear from small retail traders who are not hurt by the current rule and use them to their advantage?

I
write modestly from the perspective of one of these small traders who understands that we can buy options. However if I place a currency trade I can place a limit trade and I do not have to pay the guaranteed

profit to my dealer. He only makes money if the market wiggles. This way I am making the markets work for me, not solely my dealer. This is one reason current options trading firms will want to have you limit the leverage for Forex. The other reasons is the insane profits involved being the house and creating options out of thin air.

I write asking you to think this through from the perspective of a small investor who may not be protected by the 10:1 rule. Would it be reasonable that a person who has placed a certain number of trades or certain number of years? or certain size of account? that would not be protected by a 10:1 rule? Or would some type of very extensive education requirement help? Not the boilerplate and quick weekend seminars, but possibly some accredited university courses that included tests, labs etc.?

I am merely asking you overall
to think about this from a perspective of someone who may not be harmed if they were given equal access to markets as Goldman Sachs, AIG or Warren Buffet. There must be a reasonable way for a small businessman(woman) to open a small fledgling trading business trading their own account and make some money for the dinner table. I do fear that the 10:1 rule is intended to stop people from doing this or to force them to buy expensive options in the process.

I wish to further point out how the options/stock marketplaces are not protecting retail traders and are enriching wholesale traders or market makers.

I recognize in this discussion that if the bar to achieve professional versus retail trader status were to be set reasonable that the comments below would become mute. I understand that there will be wide divergence of opinion on what a 'retail' versus a professional trader may be. However I think that considering the risk of the Forex market and the potential rewards to our country of having capable people play this market that we should consider this point very carefully. Afterall retail traders that make money also pay taxes ... So for the treasury we should promote 500:1 leverage.

I am not intending to insult you with basic information. However I wish to compare current Forex markets with stocks in the illustration. I will for the moment not address options which by the way have higher transaction costs than stocks.

Stock investors must contend with two elements of cost. And one element of capital utilization. The costs are commissions and spreads. Commissions are paid by options traders, stock investors and futures traders, but not Forex traders. Spreads are also a cost and are set by the market makers and in cases of electronic trading platforms in recent years set by those with advance (mili-second) knowledge of market positions. 'Retail Traders' (or shall we call them sheep) are stuck with paying these costs in advance of any order.

Forex traders however only needs to consider spreads. Simply open up two websites simultaneously and a reasonable approximate of spreads can be estimated. That is a 'retail' trader can easily compare these prices. This same retail trader is only hit with this one price, not two prices, that of commissions and spreads. (if you were to use this same test in stocks it would not hold as well) A Forex trader can additionally have the market pay the spreads by setting limit orders.

Forex traders also have access to high amounts of leverage. Leverage that I employ to provide protection of my interests. That is I use

leverage as a means to keep me in the game. I typically try to position no more than 10% of my portfolio while maintaining the other 90% as downside protection to take care of market wiggles. To do this with the proposed 'retail' protection limit of 10:1 would limit my gains to the point that I would not be able to 'play the game' anymore. It would not be a problem for me if the rule was that I had 100:1 leverage, but could only initiate trades at 10:1 leverage. It would also not be a problem if the house guaranteed that I could not loose any more than is in my account.

Options costs are even greater than stocks costs.
Options investment for retail traders involve commissions, spreads and options interest. Not only are there three ways to loose money there are three ways for market makers to make hideous profits from options. Is it not surprising that the large trading houses are arguing that

they are 'protecting' the 'retail' investor by forcing them to options?

What
current proposed rules to limit low cost Forex markets to 10:1 leverage
and not limit options leverages are going to do is to drive traders
from a system that has one cost to that of a system that has 3 costs.

Now
any small businessman knows that to watch and manage one cost is much
easier than managing 3 costs. So what about a system that forces 3
costs on individual traders versus a system that used only one cost?
Consider that a trader may be marginally profitable with 3 costs to
bear, maybe they make a killing when only considering 1 cost. Might
this trader also pay more US taxes?

Ever wonder why the allure
of Forex? I suggest it is not just the leverage, but it is the lower
cost structure. Not to say that leverage is not a great equalizer for
the individual versus the trading houses.

I also wish to point
out that most of the calls for 'protection' of the individual trader
will come from the 'expert trading' houses which by the way loose out
when an individual investor decides to use Forex at the exclusion of
stock or futures investments. (Investments that are so layered with
costs that individual traders are almost completely guaranteed to loose
when day trading anyway.)

I also wish to point out that these large institutions will point out now low currency options costs are. Will these options be so low priced if 10:1 limits are imposed?

If this rule goes into effect I will have to seriously consider renouncing my citizenship in order to pursue my profession. Not a pleasant thought but the thought that I would have to live life without my primary income is not a contemplation I wish to undertake.

Dan Price