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COMMENT
CL-05402

From: CALEB DEEDS <deeds.23@buckeyemail.osu.edu>
Sent: Tuesday, February 16, 2010 12:08 PM
To: secretary <secretary@CFTC.gov>
Subject: Regulation of Retail Forex

Secretary,

There are many valid reasons that regulation such as this proposal will hurt the economy and the average individual trader rather than help. This proposal assumes that traders are not using leverage properly. Having leveraging capabilities isn't tantamount to over-leveraging one's positions, and this is what the proposal is failing to recognize; instead, leverage merely allows a trader to exercise exact risk management in relation to the size of their positions. For instance, if a trader wished to risk only 1% of their total capital per position, they would use leverage to determine the amount that they are willing to risk per pip, based on the size of thier stop loss. Having leveraging capabilities allows a trader to dynamically adjust the size of their stop, so as to accommodate the current volatility levels of the market, while still maintaining a fixed position risk, regardless of whether they are risking 10 pips or 1000 pips. Consequently, not having such leverage available will likely negatively impact traders who are using appropriate risk management. Reducing the leverage means that you will have less available margin for active positions, even if you are risking the same amount in both scenarios. This means that such traders are more likely to experience a margin call, assuming a consistent position risk, if the leveraging allowances were to be reduced. Essentially, traders who are currently already using proper risk management will begin to experience margin calls on top of the inexperienced traders who misuse leverage leading to an increase in margin calls instead of the supposed decrease implicitly implicated in the proposal. Individual retail traders would have to largely decrease their stop loss to accommodate the new margin requirements, which in turn, as I depicted would lead to a vast increase in margin calls because it does not change the volatility in the market. If anything, in order to protect individual traders from volatility in the market the leverage requirements should be decreased to around what it used to be, between 200:1 and 400:1. This kind of regulation will price individuals out of the largest market which moves $3 trillion in a single day, to offshore brokers with less stringent regulation.

What is most disturbing about this proposed regulation change is that it strays away from what the real cause of the financial crisis and economic meltdown really was. Retail Forex trading is not dangerous enough to precipitate this type of financial crisis. What is more prudent at this time is that the SEC and bank regulators wake up and execute their responsibilities as they are supposed because had they done so we wouldn't be in this mess. These regulators allowed all the major investment banks to underwrite sub-prime mortgage bonds on the basis that housing prices would go up in perpetuity. The only reason housing prices were able to reach astronomical levels was because of cheap money from the FED and speculation with it. Hence, I am not only opposed to this Regulation but rather advocate some level of deregulation in an effort to protect individual retail traders from being priced out of the market. I also encourage all regulators to focus on the true nature of the problem instead of looking for a scapegoat that will only exacerbate the current issues within the financial system as well as the economy as a whole.

Regards,

Caleb Deeds