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I wish to further elaborate on prior posts in opposition to the 10:1 leverage rule.

It is important to calibrate your thinking with mine prior to reading the thoughts below. One tenant is that I believe writing options is similar to being the house in gambling. That is the options writers take no risk, put up minimal capital and make profits come thick or thin.

The point I wish to make is how the very firms opposing 10:1 leverage are indeed offering to 'protect' the small investor by offering options which will be highly leveraged. I have commented that options are saddled with 3 costs, while traditional forex, versus a system with one cost has potential for fewer losses. I have proposed that the options writers are indeed attempting to funnel traders into higher profit products by supporting these rule changes.

I wish to add to this vein of thought with a challenge. The challenge is that with modern technology it is easy to break a trade or transaction into an infinite number of pieces. The traditional rational is that options must be written by insiders to control risk and to have options written by monied firms. It stands to reason that this is no longer true and the insiders could indeed allow options to be written by the market rather than by transactional firms.

I know this proposal will be rejected by the options writing firms. They will say the software requirements are too complex. I will hand it to them that the costs to develop the software will run into the tens of millions of dollars, from which Wall street firms will expect tens of billions of profits. However I go to challenge these firms to offer the small investor to help them write options. Software could be written allowing individuals to bid on options and to set up counterbalancing transactions such as buying currencies on margin or shorting currencies on margin from their traditional accounts (100:1) leverage accounts.

These transactions would have the wonderful advantage to the market of allowing small investors to play the house. I also think something else would happen. I think that options pricing would drop. Then investors would more likely feel protected by options as they could either play the house or play the options market.

Today however the altruistic wall street firms are interested in telling you how they provide a service with options and they are protecting the customer. I wonder if they also tell you that their London subsidiaries, who by the way do the majority of volume are trading with 500:1 leverage? I can bet there is some country that would offer 1000:1 leverage if there was indeed a demand for this leverage. I conjecture the reason 1000:1 leverage is not commonly offered is that there is no demand for this as investors are too often wrong to make beneficial use of this type of leverage, not because it is inherently evil.

What is the appropriate leverage? I can tell you from experience that leverage is a double edged sword. Like a double edged sword when surrounded by the huns and fighting for your life it does you more good in an emergency than when you are stalking your prey in the black forest. Then a more targeted weapon is most useful. However to deny the small investor the maximum use of the lowest cost transaction system will deny him flexibility in a war which he has few advantages.

So I will issue a challenge. That is if the great investment houses are responding to this rule change with altruism and protection of the consumer at heart they will be also offering something else. This something else will be to let the small investor in on the monopoly of writing options. I would suggest if the opposers of this rule were to band together to writing software and propose rules then their altruism would be proven.

However I believe these firms will do nothing of the sort. They will continue to trade at 500:1 leverage while telling the regulators that individuals need to be protected by limiting them to 10:1 leverage.

I wish to make a point twice. That is that profitable small investors are indeed taxpayers. The Federal government should not allow these large firms block small taxpayers from earning a living while forcing transactions offshore. This only hurts our federal government's income in these tough times.

Regards

Dan Price