

From: Harry Lee <harry.lee@gte.net>
Sent: Saturday, March 20, 2010 11:04 AM
To: secretary <secretary@CFTC.gov>
Subject: Regulation of Retail Forex

David Stawick,
Secretary, Commodity Futures Trading Commission
1155 21st Street, NW.
Washington, DC 20581

RE: RIN 3038-AC61

Dear Mr. Stawick:

Thank you for accepting comments regarding the proposed rule changes that will affect retail forex trading.

I read most of the Background and Proposed Rules sections and would like to comment regarding two of the regulations.

Regarding the broker/dealer capital requirement:

The \$20M minimum is excessive. It diminishes competition from start-up or smaller broker/dealers---it was this competition that drove down the spreads being charged by the retail broker/dealers. A better solution would be for broker/dealers to hold a **minimum capital at one and one-half times the total amount of customer accounts**, and then manage the customer margin electronically by closing open positions when customer margin falls below a certain amount, for example, less than 25 percent of margin. Insomuch, as all retail forex trading is done electronically, this can be done, and is done (my forex broker does this).

Regarding the proposed reduction of leverage to 10:1:

Who is this regulation supposed to protect, the "...unsophisticated, elderly, low net worth, and other vulnerable individuals"? There have been charmers and con artists, as well as people who are charmed and conned, since the beginning of history. Do you really think you are going to stop that by imposing outrageous margin and leverage requirements on forex traders?

We all have heard the phrase "caveat emptor". This Latin phrase has its origin in Roman law, and it is as valid today as it was in Roman times. The buyer has to be responsible, too. In the Background section, there is discussion of the Commission filing "114 forex-related enforcement actions on behalf of 26,000 customers." There is a fine line between being a speculator (trader) and a gambler. And to be a successful trader, you have to know that and know on what side of the line you are before you even open a position. In the case of the 26,000 customers, I suspect that 100% of them did not understand the side of the line on which they were standing, that 100% of them signed, or at least read and ignored, a Risk Disclosure Statement, and that 100% of them are losers. Are these 26,000 losers the only data point for reducing the leverage?

Every trader has heard this:

"95% of all traders lose their money" or "Only 5.0% of traders are successful"---no one ever cites their source for these statistics, and I question their validity. However, for our discussion here, let us accept them as fact, and that **5 in 100** traders are successful.

Here are some statistics you rarely hear, citations included:

The chance of a high school baseball player being drafted by the MLB is 0.5% (or 1 in 200). <http://www.hsbaseballweb.com/probability.htm>

The chance of a high school athlete entering sports (basketball or football) and turning pro is 0.02% (or 1 in 5000) <http://www.bls.gov/oco/ocos251.htm#outlook>

The chance of becoming the next American Idol is 0.001% (or 1 in 103,000) <http://www.bookofodds.com/Daily-Life-Activities/Entertainment-Media/Articles/A0350-Odds-of-Becoming-the-Next-American-Idol>

From the statistics I just cited, by comparison, trading offers the greatest chance for success. **Perhaps regulations should be put in place to protect the poor souls (and their parents' bank accounts!) who consider sports as their profession, and the wannabes who line up to become the next American Idol!**

In regards to trading, I am an overnight success. It only took me 10 years of emotional and financial sacrifice to get to that level: eight years trading futures, and two years trading forex. I began as one of those "...unsophisticated...low net worth, and other vulnerable individuals" identified in CFTC proposal. But, it has been only through trading the forex at 200:1 and 400:1 leverage have I realized this success, and subsequently, been able to build a trading account. It should be obvious that my recommendation is **to not reduce leverage but to increase it to 200:1 and 400:1**. A trader must be able to trade with real money, and having high leverage provides the opportunity to become successful.

Thank you.

Sincerely,

Harry Lee
Overnight success---10 years in the making

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