

Beginning traders thinking only about equities or futures might want to check out online currency trading as regulatory oversight and a favorable set of circumstances have opened up new opportunities for individual traders.

Currency party opens to the public

BY CHRISTIAN SIPPEL

The 30-plus years since the United States abandoned the gold standard in 1971 have arguably been more eventful and of greater consequence to the currency markets than any period in the entire history of coins and denominated paper.

Yet, the foreign exchange markets, despite the multitude of trading opportunities during this intriguing chapter in the macroeconomic record, have never been a more viable trading option for the individual investor than now.

Sure, the financial follies of politicians in the 1970s sparked some interest among currency-curious, recreational traders in Chicago's new International Monetary Market futures contracts created in 1972. And, more recently, aspiring online equity buffs got their taste of the foreign exchange markets by ordering an international mutual fund side dish along with their "free lunch" at the "Day Trader's Café" (a daily special that has since been unceremoniously canceled).

However, numerous though they may be, past examples of individual participation in currency trading will pale in comparison to what lies ahead for opportunistic speculators.

RIGHT STUFF

It's hard to remember another time when, simultaneously, the macro environment was more suitable, trading opportunities were more plentiful, and an industry to research, execute and manage currency exposure was more attune to the needs of the individual trader. Indeed, the maturation and regulation of the budding online foreign exchange trading industry is quickly transforming foreign currency exposure from risky business to a feasible asset class worth careful consideration.

The online currency industry couldn't have come onto the scene amid better overall political and economic conditions. On the surface, it's easy to dismiss this notion, given the ramifications of at least 10 potentially destabilizing hot spots around the globe. The constant fear that political, social or economic turmoil somewhere in the world will result in violent price swings is probably the biggest reason why most online speculators consider the "shark-infested" waters of the currency markets better left to the sharks.

And who can blame them? If you take a dart in hand, stand blindfolded in front of a big map of the world and toss

the dart, your chances of not hitting a body of water or a festering fiasco (financially and/or otherwise) are about as good as Saddam Hussein being invited to Christmas dinner at the Bush family ranch this year. But the reality is that more than 80% of all trading in the foreign exchange markets takes place in seven major currencies — U.S. dollar, euro, sterling, yen, Swiss franc and, to a lesser extent, Australian and Canadian dollars. In these countries, the underlying fundamentals haven't been this stable in quite a long time.

ASCENT OF THE EURO

Western Europe and even the "good ole U.S.A." haven't always been models of fiscal and monetary stability. For years, professional traders bulked up their bonus checks on the volatility created by various currency crises, hyperinflation, devaluations and governments changing hands more often than the Cincinnati Bengals change starting quarterbacks.



But the major Western European economies have put double-digit inflation, prohibitive interest rates, rampant unemployment and monetary crises in their past. The European Monetary Union (EMU) is thriving and in all likelihood will soon include the United Kingdom, making the EMU one of the most formidable economic entities in the world. It already represents more than 300 million people and accounts for one-sixth of the world's total gross domestic production. And the poster child for this pioneering experiment is its single currency, the euro. It is now the second most-used currency on a worldwide scale, trailing only the U.S. dollar.

For speculators in forex, the complete assimilation of the euro onto balance sheets and into cash registers, pocket-books and bank accounts around most of Europe means that one currency can now be traded as a proxy for all of the EMU's current and potential economic clout. The integration and coordination of monetary policy in the EMU also lessens the chances of another European monetary crisis dramatically. This might not be what the volatility vultures in the professional trading pits want to hear, but it is certainly the basis for a more ideal situation for policymakers as well as individual forex traders.

Without the online foreign exchange industry, the individual speculator would never make the guest list at the "professionals only" party that goes on 24/7 in the currency market. The leaders in this industry have been around since at least 1999 and some, such as Saxo Bank, had a forex portal as far back as 1996.

FOREX DEALERS

Forex Capital Markets (FXCM)	http://fxcm.com/
Gain Capital	http://www.gaincapital.com/
Alaron FX	http://www.alaronfx.com/home.htm
21st Century Forex Capital Market Services (CMS forex)	http://www.cms-forex.com/
Global Forex Trading (GFT)	http://www.gftforex.com/
Peregrine Financial Group	http://www.pfgca.com/bestdirect.htm
MG Financial Group	http://www.mgforex.com/
Hotspot FX	http://www.hotspotfx.com/
FX Solutions	http://www.fxsol.com/
Swiss Finance Corp. (regulated by the British FSA)	http://www.sfc-uk.com/
Saxo Bank (regulated by the Danish FSA)	http://www.saxobank.com/

"Forex dealers" (above) lists well-established players in the industry. All are registered futures commission merchants (FCMs) with the Commodity Futures Trading Commission (CFTC) except Swiss Finance Corp. and Saxo Bank, which are foreign companies falling under the jurisdiction of British and Danish regulators.

REGULATORY BOOST

When choosing an online forex trading firm, it is imperative that you do your due diligence with the CFTC to see if there are any complaints, past or pending, against the company in question. This is easily done by checking the CFTC web site at www.cftc.gov/cftc/cftchome.htm. You also can read a bit

Why forex trading is growing

TRADE EXECUTION AND ACCOUNTING:

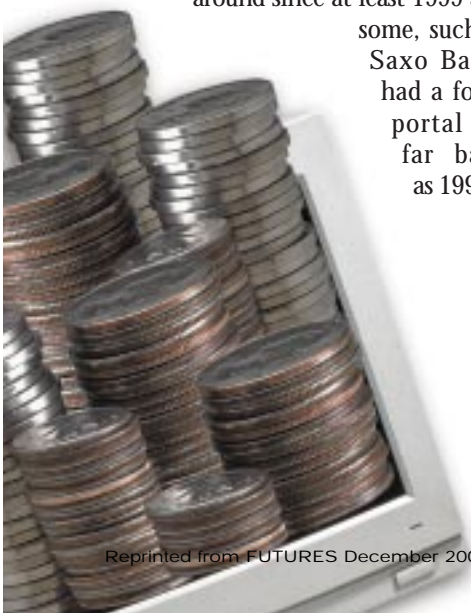
- 24/7 access to the largest, most liquid market in the world where between \$1 trillion and \$1.5 trillion changes hands daily.
- Instant trade execution and confirmation online.
- No commissions on trades at almost all of these companies.
- State-of-the-art trading platforms that include streaming price quotes, easy-to-use trade execution screens, online order books, automatically updated trading blotters, position sheets and account statements.
- Back-up trading systems as well as access to the trading desks via telephone in case your Internet connection or computer goes haywire.
- Minimum balance requirements as low as \$2,000, though most require at least \$5,000.
- Position leverage of up to 100 to 1 at some shops.

SERVICE, SUPPORT AND EDUCATION:

- Demo systems that can be downloaded easily to help traders get used to the functionality of the particular system as well as the dynamics of the market.
- 24-hour customer support online and via telephone.
- As much background and research material as you will ever need, including up-to-the-minute news, market analysis and charting services.
- Seminars and other educational offerings and material regarding all aspects of the markets and foreign exchange trading.
- Trading systems with complete back office functions to handle the clerical and accounting requirements of introducing brokers.

REGULATION:

- Regulatory oversight requiring that firms operating in the United States be registered FCMs with the CFTC.



WEAKENING YEN?

Currencies tend to be good technical markets, and if that holds true on the euro/yen chart, the breakout above the top of the ascending triangle suggests the move could reach 124.90.



Source: eSignal

more regarding CFTC forex regulation at www.cftc.gov/enf/enfforex.htm.

In the online forex industry, regulatory oversight has been key in helping reputable companies establish credibility and confidence with traders. Alex Teplitsky, manager of 21st Century Forex (CMS), credits CFTC oversight for the increase in new accounts following the passage of the Commodity Futures Modernization Act of 2000.

"Even though 70% of our customers are non-U.S. citizens, our business increased dramatically after becoming a registered FCM," he says. "CFTC oversight of the industry has been a tremendous asset to us."

Other industry leaders also note that their business is experiencing strong growth. Commenting on the growth at Saxo Bank, CEO Lars Seier Christensen notes, "We have recorded an average of 50%-60% growth annually for a decade now, essentially going from a very small company to a substantial market participant. If anything, this growth rate appears to be accelerating, and it is higher in forex than other areas."

TEST DRIVE

Of course, not everyone in the online forex business does everything equally

well. It's important to investigate the strong points of each firm, depending on your trading style and expertise. Downloading the trading platform demo available from most companies will help you differentiate one company from another. For instance, FXCM, among the largest of online forex trading firms, and Gain do not charge commissions, which some might find appealing.

However, while HotSpot FX does charge brokerage fees to the client who hits the bid or pays the offer, it uses a matching system, and traders will find that the bid/offer spread on its trading platform can be tighter than in non-commission shops. This type of trading can be advantageous to active traders such as pip scalpers whose sense of market movements can help them avoid excessive brokerage costs by waiting for another trader to act on their price.

Most firms offer charting services. However, firms like 21st Century CMS listened closely to customer feedback and took charting and trading to a new level. Now, CMS clients can plot and then execute and track a trade directly from the chart they are studying. In addition, customers can use any currency as the base currency for these charts, not just the U.S. dollar. Recognizing the interna-

tional appeal of forex trading, CMS' trading platform is also multilingual.

Even some up-and-coming forex players are making their presence felt. FX First (www.fxfirst.com) now provides www.forbes.com with its twice-daily currency analysis, interactive charts for the major currency pairs and its new currency converter. FX First is in the process of registering as an FCM with the CFTC.

SOUND PLATFORMS

Trading platforms used by these companies are state of the art and must pass the scrutiny of both regulators and management. Most, if not all, of the key people at these firms are long-time professionals in the forex markets so they understand the conditions and strain under which these systems have to operate.

Glenn Stevens, managing director at Gain Capital, is a 17-year veteran of the forex markets and, as such, is acutely aware of the importance of traders having confidence in the trading platform. "We tested and traded on our platform for over a year before we came to market with our system," he says. "We probably didn't have to test for that long, but in the end, it was worth ensuring the integrity of our system."

It's ironic that, although the foreign exchange industry launched screen-based, electronic trading when Reuters and EBS introduced their matching systems to professionals in the early 1990s, trading among individual currency investors is only now gaining momentum. However, following on the heels of the online trading boom (and bust) in the equity markets might not be the worst thing.

Those familiar with other markets are usually able to make an easy transition into forex while using some of the financial and technical tools they've acquired along the way. Marc Prosser of FXCM agrees, saying, "If you're in the market to speculate, there is no better market than forex."

INVESTING IT'S NOT

Prosser makes an important point: Currency trading is speculation, not investing. You're not going to hold

EUR/USD in your portfolio and will it to your grandchildren. Stevens is correct in pointing out that those involved with the currency markets “have to make a comfortable disconnect between investing and trading.”

With many former equity day-traders still reeling from corporate scandals, Stevens isn't far off the mark.

“Trade Enron or IMClone shares, and you're putting your trust in some very untrustworthy individuals,” says former forex pro and aspiring online entrepreneur, Paul Sprigal. “Trade the U.S. dollar, and your CEO is Alan Greenspan.”

One impediment working against the online forex trading industry is the cultural block most Americans have to understanding foreign exchange. Unless they're about to take an overseas trip, most Americans couldn't distinguish the yen (Japan) from the yuan (China), much less how much the dollar will fetch vs. any

other currency in the world. On the other hand, most Europeans, no matter what their station, understand the value of their money on the world market. However, this barrier is being overcome almost as quickly as the pace of world commerce “shrinks” the globe. Further, online forex companies conduct business and attract clients internationally so they don't depend just on U.S. traders.

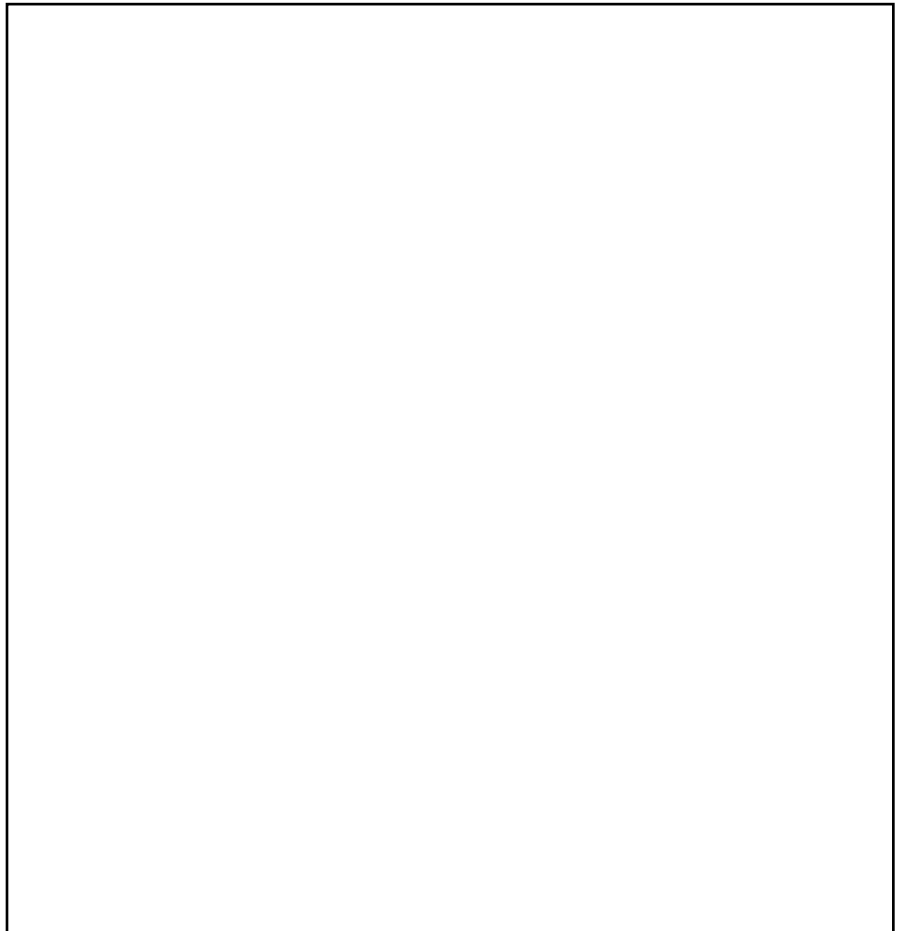
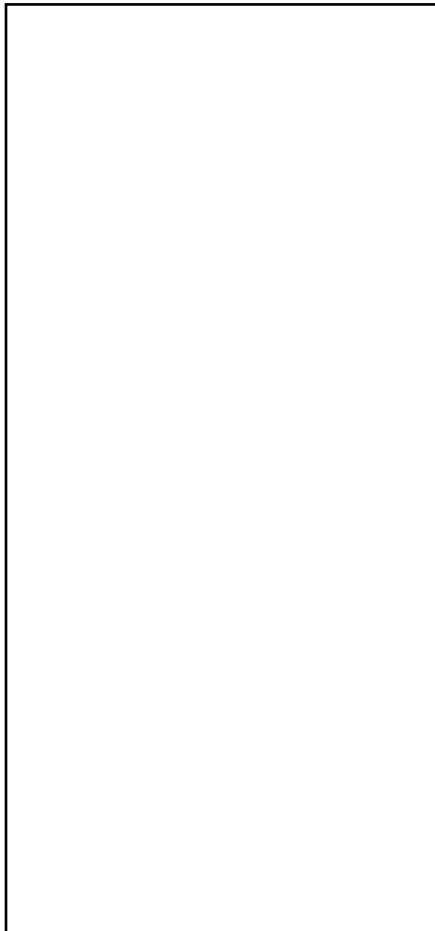
Another benefit of considering trading currencies is that they chart very well. This suits the trader that thrives on action. With currencies, there are usually several alternatives. For example, the EUR/USD appears to be heading higher on long-term charts, indicating a weaker dollar, while the USD/JPY also seems to be going higher, suggesting a stronger dollar. Currency traders have another choice in the EUR/JPY, believing the euro will be stronger than the yen.

In September, the corrective rally in the EUR/JPY extended higher, breaking

a large consolidation pattern (point 5 on “Weakening yen?” left). When markets break higher from this type of formation, the measured move higher can be significant. One way to measure the potential of this trade is to take the distance from point 2 straight up to the trendline above it (points 1-3) — in this case, approximately 5.25 full points — and then add this to the level where the market broke higher (119.65), giving a projected target of approximately 124.90.

“Traders are opportunistic,” Stevens notes. “They look at markets without emotion. Whether it's a Monet, oil, gas or USD/JPY, they will look for value and seize the opportunity. Now, many of them are finding these opportunities in the currency markets.” |FM

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