

Forex trading gaining popularity

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Australian investors are dabbling in trading foreign exchange at a growing rate and are using more and more highly sophisticated instruments to do so.

Local retail investors are increasingly using online trading platforms that offer products like contracts for difference (CFDs) to buy and sell currencies.

Investment Trends, a specialist market research company, recently undertook a survey on foreign exchange contracts for difference traders, which found it is a small but rapidly growing market. Investment Trends principal Mark Johnston says "the market is growing rapidly, though off a fairly small base".

In May, an Investment Trends survey showed there were 39,000 active CFD traders, an increase of 7000 from 2009, and many more hold accounts.

Johnston says CFD traders favoured Australian blue-chip companies but foreign exchange trading was growing in popularity, with 40per cent of the 9644 investors surveyed traders dabbling in currencies.

Johnston says most traders keep their positions on for short-periods – not many hold positions for more than a week.

Traders typically held post-graduate tertiary qualifications, and were, in general terms, slightly more educated, he says. CMC Capital Markets FX dealer Tim Waterer agrees and says trade has grown quickly since the global financial crisis. Traders are looking to branch out into new investments and FX is typically more volatile and has good liquidity, which means investors can make returns more quickly and easily, Waterer says. FX products also have the advantage over share investments because they are commission free.

Johnston agrees, stating that the Australian market is "quite a competitive space" and attractive for retail investors.

The largest foreign exchange specialists in the Australian market are IG Markets, FXCM, GFT and CMC Markets, the Investment Trends survey reported.

Both men say retail traders used charting tools and technical analysis to form trading ideas. "The unifying theme of FX CFD traders is the use of technical analysis. Eight out of 10 use technical analysis to identify trades," Johnston says. Most CFD providers provide charting tools and traders rate GFT as the best provider, he says.

GFT director of currency research, New York-based Kathy Lien, says there are several tips she would give investors to maximise their returns from trading FX.

"The first rule of trading is to always know how much you are willing to lose and what it takes to make that back," Lien says. Traders should use tools like limits and stops to prevent large losses when a position goes against them, she says. Lien advises traders to do their homework and keep abreast of developments in the market, and says "consistency is far more important than one-hit wonders".

Lien says most traders tend to focus on what she terms "high profit trading. But if you want to reduce risk and protect your capital, it may be more lucrative to practice 'high probability trading'." She advises frequent small return trades, rather than loading into one-off risky positions for a big return.

Lien says trading defensively and preserving capital means would-be FX traders could be around longer. "And as Rocky Balboa once said, 'It ain't about how hard you hit; it's about how hard you can get hit and keep moving forward'. That's how winning is done," she says.

Investment Trends survey found Australian retail investors overwhelmingly favoured trading the \$A/\$US. Traders also dabble, in order of popularity, in €/\$US, £/\$US, \$US/¥ and the \$A/¥, Johnston says. The Bank for International Settlements (BIS), the so-called central bankers' bank, recently reported in its three-yearly survey of foreign exchange markets that the \$A/\$US was the fourth most traded currency pair in global foreign exchange markets in April 2010. Global currency investors' currency of choice is the \$US/€, which accounts for 28 per cent of all global currency transactions, the BIS survey said.

The Australian Financial Review

Foreign affairs

- Foreign exchange CFD trading is a small but rapidly growing market, growing from 7000 traders in 2009 to 39,000 active traders in May.
- Most traders trade short positions only – not many hold positions for over a week.
- Most CFD providers provide charting tools, and traders rate GFT as the best provider.

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