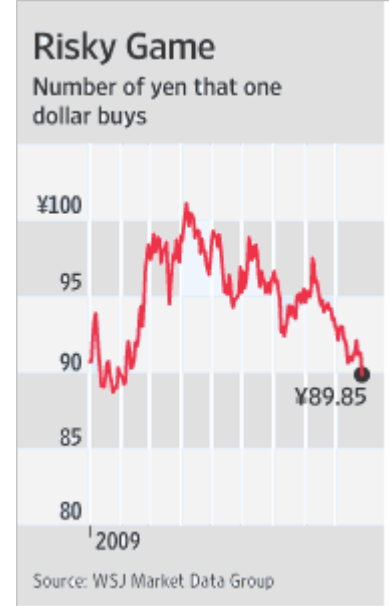


Small Investors Make Big Bets on Currencies

September 26, 2009

By Jeff D. Opdyke



The dollar is zigzagging, falling below the 90 yen mark Friday and testing the depths it plumbed against the euro a year ago. That kind of action is music to the ears of investors such as Ray Firetag.

As most of America slept on a recent Monday night, Mr. Firetag was in front of his computer in Elk Grove, Calif., wagering on the Australian dollar.

Gold, silver and oil had slipped, and trading in Asian stocks had been weak. The 43-year-old speculator figured the Australian dollar, strongly tied to commodities, would spurt higher against the Japanese yen, then fall as investors overseas responded to weaker commodity prices. He was right, and his trade proved profitable.

"I love this work," says Mr. Firetag, who last year left a 14-year career in real estate to trade currencies online full-time. He says he turned his initial \$50,000 investment into "something north of seven figures."

Ariel Zambelich for the Wall Street Journal

Ray Firetag of Elk Grove, Calif., has seen particular success trading the Australian dollar.

One of the riskiest corners of Wall Street is making a push to attract individual traders like Mr. Firetag. Institutions ranging from the Chicago Mercantile Exchange to Citigroup Inc. and Deutsche Bank AG have recently launched currency products and online currency-trading platforms geared toward smaller account sizes than is typical with institutional currency trading.

While central banks and multinational corporations account for the bulk of the nearly \$4 trillion in daily world-wide currency trading, currency trading volume among individuals now approaches \$120 billion. That is up about 20% from a year ago and nearly double the level three years ago, according to Aite Group, a Boston-based financial-services industry research and advisory firm.

At GFT in Ada, Mich., a large online currency-trading platform, volume for the first two quarters was up 78% from a year earlier. Citigroup's CitiFX Pro, an online platform for higher net worth traders, opened shop in the U.S. last year, and plans to be in most major markets globally within six months.

The heightened interest in currency trading comes as the dollar is sagging. On Friday, it fell below 90 yen for the first time since early this year. Since April, the yen has gained nearly 12% on the dollar. The euro is pressing up against \$1.50, a level it last attained in August 2008.

Currencies trade in pairs. In trading the dollar/yen pair, for instance, traders buy one currency and at the same moment sell the other. That is a two-pronged bet that could be affected by economic news or political events out of either country or elsewhere in the world. For example, traders through most of last

year sold yen and Swiss francs to buy Australian and New Zealand dollars to profit from the wide gap in interest rates. But when the economic crisis hit, the Australian and New Zealand currencies weakened quickly, leaving many traders with losses.

The dollar/yen and the euro/dollar are two of the most popular pairs. The other four that round out the six major pairs pit the dollar against the British pound, the Swiss franc and the Canadian and Australian dollars.

Investors are typically attracted to currency trading because of the vast leverage available -- as much as 500 to 1. That allows an investor to put up just a few hundred dollars of capital to make a bet of tens or hundreds of thousands of dollars. For example, at 200:1 leverage, common in the industry, a \$500 investment controls a standard-sized \$100,000 block of cash.

But leverage also points to the risk of currency trading. Depending on how much leverage is deployed, a move of just half a penny in the euro/dollar pair, the most popular pair among currency traders, "would eat up your entire capital," says Brian Dolan, chief currency strategist at Forex.com.

Many newcomers are lured by currency-trading systems, seminars and software sold online that promise big returns. But beware, says Tony Mossif, who says his experiences working for a currency-trading firm prompted him last year to launch ForexJustice.com, a free site where users rate forex brokers and currency-trading systems and software. "Some of these systems are just scams," Mr. Mossif says.

Gary Tilkin, chief executive of online firm GFT, says trading currencies "is a business for speculators, not investors. It's more common to come in with \$2,000 and lose than it is to turn that \$2,000 into \$25,000."

Some individuals can't take the pressure. Tony Wong, a 49-year-old landlord in Orlando, Fla., spent \$5,000 to attend an advanced currency-trading workshop about three years ago. At various times, he was trading his native British pound against the U.S. dollar, or trying to exploit longer-term trends he thought he saw in the Japanese yen, or pursuing quick profits on daily gyrations in the euro/dollar pair. On his best days, he could earn \$1,000, he says.

Technical Analysis Training: Trends & Trendlines

In this technical analysis tutorial you will learn how to interpret a trend, read line, bar and Japanese candlestick charts and how to draw a trendline correctly.

"But the thing is," Mr. Wong says, "currency trends can reverse so quickly, and by the end of the week you're not laughing, you're crying."

Mr. Wong found it difficult to sleep at night "because I was mentally thinking about the trades that were troubling me." Ultimately, he abandoned the currency market after he lost about \$2,500.

Daniel Acuña, a 26-year-old risk analyst at a bank in San José, Costa Rica, began trading currencies in January, drawn to the market, he says, because of the leverage. "If you can master the art of leverage, you can make a real living. Or it can kill you."

It almost killed Mr. Acuña.

Using leverage of 100:1, he quickly lost his initial \$5,000 investment after trading multiple currency pairs based on multiple strategies all at once -- a scattershot approach that left him unable to manage all the necessary trading.

Chastened, Mr. Acuña is back in the game, this time with \$1,000. He starts following currency movements when he gets to work, makes a few trades from his desk, "then I intensify my trading at night," he says.

He's still using 100:1 leverage, and he trades so-called minilots of \$10,000. Each fractional movement adds or subtracts \$1 from his account balance. He's at breakeven, but says: "It takes two or three times of wiping out your account before you're able to make money consistently. I'm on my second attempt, and I hope I don't need a third."