



TraderTalk

With Paul Jackson, Senior Dealer at CMC Markets

Paul, how long have you been trading foreign exchange and what attracted you to the industry?

This December will mark my 13th year in Foreign Exchange. I joined a highly reputable US bank at the end 1995 as an Assistant FX Spot and Options trader. To be honest, I was thrown completely in at the deep end of a busy dealing room and it was a steep learning curve for me. At times the atmosphere was electric; studying the price action and the pace at which people worked was an experience in itself. I think at this early stage I realized that trading was a thrilling occupation to be involved in and foreign exchange appealed to me the most.

I enjoyed learning about the mechanics of trading, understanding market forces and trying to anticipate and prosper from price movements gave me great satisfaction. Working besides experienced traders and learning various trading techniques and strategies also stimulated me.

This was an incredibly exciting time to be entering the world of foreign exchange as the markets were extremely volatile and

technology was coming to the forefront of trading. I joined CMC Markets (formerly Currency Management Corporation) in December 1996 who were, at that time, the first in the world to launch an online, commission free, real-time FX trading platform. I was keen to work for an innovative company such as CMC as I believed that technology was the way forward and there would soon be a migration of trade execution from the telephone to the internet. I have since witnessed the remarkable transition lead by advances in technology, which has opened up opportunities of trading to a wider audience.

You are currently Senior Dealer at CMC Markets in London. Can you tell us a little about your main responsibilities at the firm?

I manage a team of FX dealers - we offer online trading via our Marketmaker platform as well as telephone dealing to our clients. We execute Margined and Spreadbet foreign exchange and precious metals business. I am responsible for analysing and managing the exposure, implementing strategies in order to maximize our risk/return ratio

and most importantly, to provide a consistently high level of service to our clients. I assess our clients' needs, delivering innovative trading solutions as a result. We offer over 70 currency instruments ranging from the popular major currencies to the emerging markets, in order to provide a spectrum of choice for our world-wide client base.

I have helped develop trading models which we continue to maintain in order to manage our business effectively. I liaise with Senior Dealers from other asset classes (such as CFD equities and indices) and collectively assess risk and product development. I also have regular contact with our overseas offices and numerous internal departments to ensure we are doing all that we can to fulfil our clients requirements.

The company now has 22 global offices, with over 1000 staff members, providing service to clients in 70+ countries around the world. Does each region operate independently when it comes to trading or is there a more integrated level of co-ordination and co-operation between them?

In foreign exchange we operate out of two risk centres London and Sydney. However, in London we still run 24hrs a day in order to provide complete coverage to our Spreadbet and locally based clients during the Asian session. In terms of the multitude of entities we have around the world, they are mostly Sales offices whose primary purpose is to promote our business and open client accounts. However, offices work in conjunction with one another and seek a common goal of enhancing our service and attracting reputable business. Often, business opportunities may overlap or extend beyond a particular region and therefore all offices have to work in unison.

In the past our target audience has predominantly been private investors of a retail nature but as the company has expanded we have managed to attract a wider spread of clientele and institutions.

Having been at CMC since its infancy, I am still astounded by the pace at which the company has grown and has adapted to the level of business we now process.

What's the most challenging part of your job?

Within my role, I'm still very much involved in the day- to- day operations such as the execution of trades and controlling of risk, but at the same time I am responsible for implementing further enhancements to our service. It is essential that we push forward with innovation in a highly competitive marketplace. We already have an award- winning trading platform in MarketMaker but we cannot afford to become complacent. That is why we are always looking to improve our overall trading package that we offer to our existing customers but also be correctly placed to acquire future business worldwide. Therefore, I would surmise that the most challenging part of my job is combining my daily duties with meeting the needs of the clients and preparing for future growth.

Do you have a preference for trading certain currencies and would you agree with some traders who believe that from a micro perspective they all trade differently?

Personally speaking, I focus most of my attention on the G-10 currencies because that is where

the majority of our clients tend to trade. I think it would be fair to say that retail clients often migrate to the tightest spreads and most fluid execution. Some risk adverse clients look at the more liquid currencies which might provide greater price stability within their trading. They also look at the margin costs of acquiring a position, so where margins are reasonably low might appeal more. Having said that, because CMC offers competitively fixed spreads and exceptionally low margin requirements across all currency pairs we do have some clients moving towards more exotic currencies. Therefore, I still keep abreast of other, more emerging currencies such as PLN, MXN and CLP.

In terms of what correlations can be made between one currency pair and another, I believe that certain parallels can be drawn in terms of how prices are influenced by the same type of fundamental and technical factors. However, the degree at which they move may vary depending on the liquidity of the instrument, timing, weight of the influencing factor and the association to the currency pair. For example, many comparisons can be made between





EUR/USD and GBP/USD in terms of their relationship to the USD and how they can be influenced by the same type of economic data. However, in terms of global liquidity and price action, dealers will convey that they are by no means identical.

E-Trading tools and technology have revolutionised the FX trading landscape over the last few years. Where do think they have had the greatest impact on your own trading style and day to day activities?

As previously mentioned, I joined CMC nearly 12 years ago when E-tools were just announcing themselves amongst the innovative elite. Back then we had a small team of dealers that each day contended with a reasonable amount of phone business. Today, we have a similar number of dealers assigned to FX, we continue to execute telephone orders, but the overwhelming difference is that 99% of FX business is currently transacted via the internet. Not only that, but we now offer clients a variety of asset classes including CFD's, indices, equities, commodities, treasuries as well as a news and charting package through

one all-inclusive trading platform. It is estimated that to deal solely on the phone with the level of business we currently retain today, we would need to quadruple the number of dealers we have. The fact is, if it wasn't for the significant amount of investment and resources that has, and continues to be put into technology, CMC as a marketmaker provider would cease to exist. Instead, the company's chairman and founder (Peter Cruddas) has embraced the idea of E-tools trading and over the last few years we have been able to establish ourselves as a recognizable name within the industry.

CMC Markets maintains relationships with top tier banks that supply us with their own E-Tools and API technology. Such tools allow us fast and efficient access to the interbank market. Their presence has brought greater price transparency, and competition has led to an increase in liquidity and a reduction in trading spreads/costs.

The FX market moves in different cycles. What tools do you find particularly useful in helping you understand the state of the market?

As you would expect we have access to numerous news services and chart providers. Our bank counterparts also supply us with technical research and daily commentaries, whilst here at CMC we have a dedicated team of media and analytical experts that provide us with useful information.

Aside from these generic pools of resources, I find a useful way to gauge the market sentiment is to analyse customer flows and orders. We have a sophisticated risk management tool that enables us to collect data and monitor exposures. In addition, we have a devoted team of Business Analysts which provide us with valuable statistics that helps us gain a better understanding of our currency risk. Intraday, I constantly study price action and try to get a feel for how the markets are positioned.

Recent turmoil in global financial markets and a rise in volatility has thrown the spotlight for all FX market participants on ways to improve their Risk Management systems and operations. Can you give us an idea of how you build and maintain some of your own models to assist you in managing risk effectively?

We have always kept a tight grip on our risk and have implemented numerous books of business in order to distinguish one type of exposure from another. These books are constantly reviewed by my team and can be adjusted whenever deemed necessary. One of the dealer's primary responsibilities is to assess and scrutinize the business from the front line and report upwards significant points of interest.

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Trading in the off exchange retail foreign currency market is one of the riskiest forms of investment available in the financial markets and suitable for sophisticated individuals and institutions. The possibility exists that you could sustain a substantial loss of funds and therefore you should not invest money that you cannot afford to lose.

and gather information and have a dedicated Trading Analysis team who support the risk assessors. Our Product Control Department also monitor our exposures and P/Ls from a Capital Adequacy and Regulatory perspective.

Historically, our risk management has been equally effective in quieter market conditions as well as more volatile periods. This model has proved successful over a sustainable length of time alongside CMC's vast growth and increase in turnover.

In what ways do you actively review and analyse your flow of business and how do you leverage that information?

Dealers are the eyes and ears of trading. Whilst they execute the business they are also responsible for highlighting relevant information to managers. Daily, weekly and monthly reports are written and reviewed by a selective group of people. Furthermore, Dealers have at their disposal, an extensive piece of risk management equipment where they can run generically built reports as well as having the ability to create and tailor new reports specific for their own ad-hoc analysis. We constantly monitor our business flows to ensure that we are operating as efficiently as possible whilst meeting clients' needs and company targets. We also identify patterns of trading and run regular checks to ensure we are operating within our regulatory obligations.

Automated and system-based trading is becoming more popular amongst many Retail FX traders.

Do you think the benefits to traders of auto-executing their FX trading strategies and models may ultimately lead to the majority of trades being executed this way?

Gone are the days of bad pin-striped suits, oversized phones and the barking of orders aggressively across a dealing floor. The growth in technology and the internet have paved the way for a more sophisticated trading environment. The rapid evolution of system based trading has forced the financial community to adopt a more proficient way of processing orders.

of business on a day to day basis. We would have to vastly increase manpower in order to keep up with the sheer work load; accuracy and efficiency would ultimately deteriorate. This sub-standard type of service is something we avoid and is not something our customers have come to expect.

In relation to the wider market, our counterparts provide us with a host of automatic capabilities such as one click trading, STP and API solutions.

Do you offer assistance to traders with customising their own strategies and help with their use of trading metrics?

In terms of advising clients, we classify ourselves as execution only. However, we do provide a wealth of facilities aside from trading which helps our clients formulate their own views. Our

Marketmaker trading platform provides a comprehensive news and charting package. The charts include a 'backtest' function where clients can 'road test' their theories against historical data. We provide training seminars for existing and potential investors; these include fundamental and technical analysis.

CMC Markets have a team of analysts who deliver market synopses to a host of well recognised news channels. They also provide education and market commentary via our web based CMC Plus function. We have a team of Sales Traders who are responsible for assisting and consulting with a selective group of clients in order to provide a more personal service.



In the past few years CMC have invested heavily not only in our Marketmaker front end, but just as importantly, our back end infrastructure. By doing so, we have been able to adapt our technique to adequately cope with the influx of automatically processed business. Nowadays, Retail clients demand the highest level of service - tight spreads and instant execution often top the list of dealing requirements. Currently 97% of our FX business is automatically executed and the remaining 3% is dealt with efficiently through dealer intervention.

If we did not have an auto-executing function we would struggle to cope with the volumes

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What impact do you think the current “credit crunch” will have on the Retail FX market. For example, are you seeing any evidence of the adoption of more low-risk strategies?

I believe the “credit crunch” will ultimately have an impact on volumes traded on particular currency pairs within certain retail markets. I do not think that the credit crunch will affect the entire global retail market but some countries may out perform others. You may see some speculators shifting their attention towards more risk averse and liquid pairs, moving away from more expensive exotic currencies. As clients begin to feel the pinch of the economic slowdown, they will be less likely to acquire positions that have higher margin requirements and trading costs. I anticipate clients hedging their portfolios across a wider spectrum of pairs and with various asset types. In recent weeks we have seen the carry- trade once again becoming desirable within the retail sector, as clients seek a more consistent return on their investment. Whether this will be a sustainable strategy in the long run remains to be seen. In the meanwhile, CMC Markets has recently launched ‘CFD Currency Indices,’ which allows investors to trade one currency against a basket of weighted currencies. Spreading risk across a combination of instruments might prove to be an attractive trading opportunity in the current climate.

Over the last few years, Carry Trade strategies have provided substantial profit opportunities for many leveraged traders.

Do you expect to see this continuing or will this form of basis trading eventually unwind?

Carry trades have been a lucrative investment in recent years as traders have looked to exploit both relatively stable underlying currency prices and wide differentials in interest rates, but for the trend to remain popular both these elements need to co-exist. The big issue we have now surrounds the US sliding into recession - the dollar remains the dominant global currency so its performance has the ability to provide influence across the board and if exchange rate risk increases, then you are going to be looking for an even greater differential in interest rates to make the carry trade worthwhile. The Yen has also been a popular choice as the base currency for any carry trade, simply because of the incredibly low interest rates. Although US economic weakness may encourage the BoJ to run with the ultra lax monetary policy for the time being, the fact remains that growth is likely to continue in Japan in the years ahead and if it’s getting more expensive to borrow Yen then it’s going to get harder for those carry

trades to produce a worthwhile return based on the associated risks.

CMC Markets talks about providing clients with the “total trading package.” What roll do you play in helping the company meet this promise?

CMC Markets provides clients the ability to actively trade 24hrs a day on a multitude of highly competitively priced instruments over the phone, through an award winning platform or via mobile trading. We offer a variety of asset types such as FX, CFD’s, Indices, Commodities and Treasuries on a margined or Spreadbet basis. CMC charge no commissions in FX and our low margins requirements allow clients substantial leverage should they choose.

Marketmaker has a number of features available such as news, charting and real time position keeping naming but a few. In addition, we also provide facilities such as educational training and seminars to new and existing customers.

My role is to ensure that we are continuously providing a high level of service for our clients, making sure we offer the right products and delivering them in a competitive, professional and compliant way. I help develop new products as well as enhancing existing instruments and I’m also involved in software development, finding ways to make trading more efficient for both clients and dealers. From a Dealing perspective, I help manage business flow and exposure risk which can ultimately lead to improvements in clients’ execution.





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