Retail FX Trader: Survey Results.

Christopher J. Davison

Nottingham Trent University

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Abstract

Between the 29th November 2015 and 25th April 2016, 133 Retail FX traders responded to a request to take part in an anonymous online survey, which asked 14 questions about the way they trade. The purpose of the survey was to inform research looking at effective ways to help improve the profitability and reduce the risk of the Retail FX trader.

Over fifty percent of the respondents stated they had been trading for more than four years. The survey found that more than half of the traders had experienced account-closing losses with nearly 40% have experienced this at least twice. The most common cause of these losses were the use of trades sizes that were too large, with nearly half of all traders stating this was the cause of their worst trade. Additional 'worst trade' factors were identified as allowing losing trades to run for too long and the lack of automated stop loss levels. Less than a quarter of traders identified their 'system' as being the cause of either their best or worst trades, with 'best' trades being attributed to significant market moves over 40% of the time closely followed by allowing winning trades to run for a long time. Only a third of traders said they regularly checked the bid-ask spread before placing a trade with only a quarter ever checking the interest swap charges, despite nearly half of all traders saying they kept trades open overnight. When asked what single area a trader would like to improve, most traders focused on physiological issues rather than system ones.

The purpose of this paper is to share these results with the Retail Trader community and to seek further input as to the best way to help address some of the identified issues.

Survey Results

Between 29th November 2015 and 25th April 2016, 133 Retail FX traders responded to a request to take part in an anonymous online survey, which asked 14 questions about the way they trade. The survey request was placed on two FX online forums, Forex Factory (Forex Factory 2015) and MyFXbook (MyFXBook 2015). The purpose of the survey was to inform research taking place at Nottingham Trent University (NTU 2016) around helping improve the profitability and reduce the risk of Retail FX traders.

Below is a summary of the results of the survey data together with some observations on the correlation between data sets, where some is indicated. The correlation of data has been achieved by assigning proportionate numeric values to the answers given and looking for trends within that numeric data.

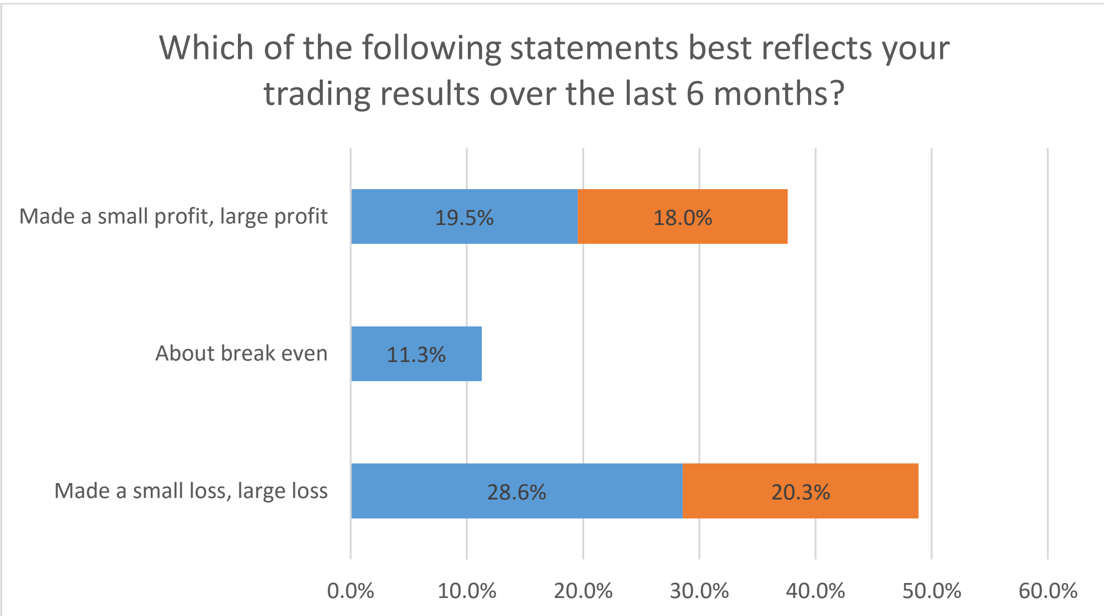
Many thanks to all the traders who took part.

Q1) How many years have you been trading Forex?

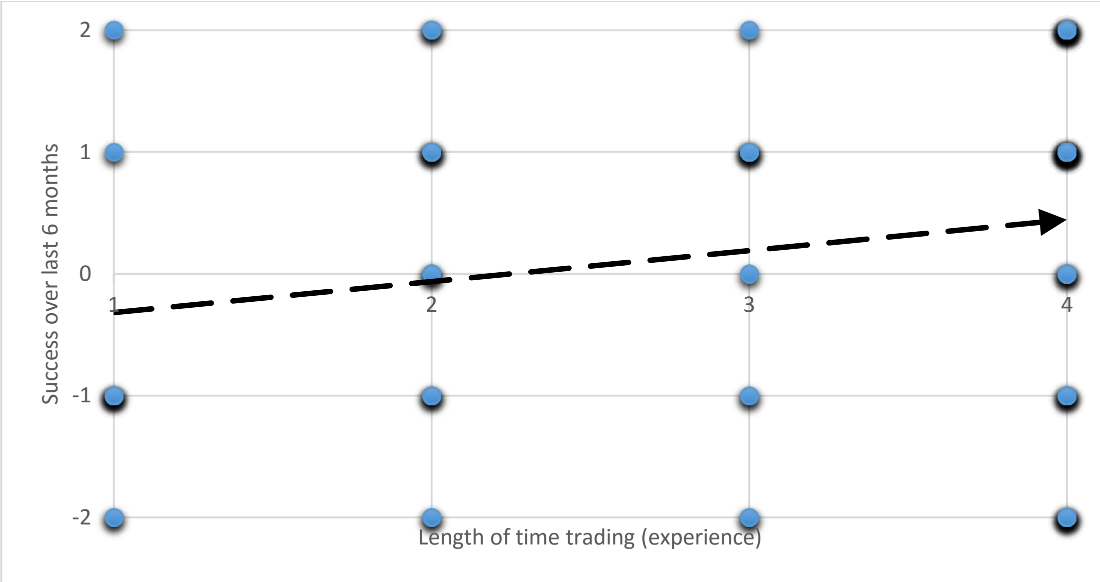
Just over half the respondents had been trading for more than four years, with a number indicating that they had been trading for nine or ten years. Just over a third had been trading for two years or less.

Q2) Which of the following statements best reflects your trading results over the last 6 months?

This question looked at a self-evaluation of profitability over the last 6 months, with just over a third of respondents (37.5%) saying they were either slightly or very profitable during that time. One in five (20.3%) stated they had made a large loss with a slightly smaller number (18%) reporting being very profitable. These numbers are in line with other analysis of the level of profitable traders carried out by the author (Davison 2016) which concluded that between 20% and 33% of retail FX traders are in profit at any one time, with self-selection of responders perhaps accounting for the slightly higher profitable rate?

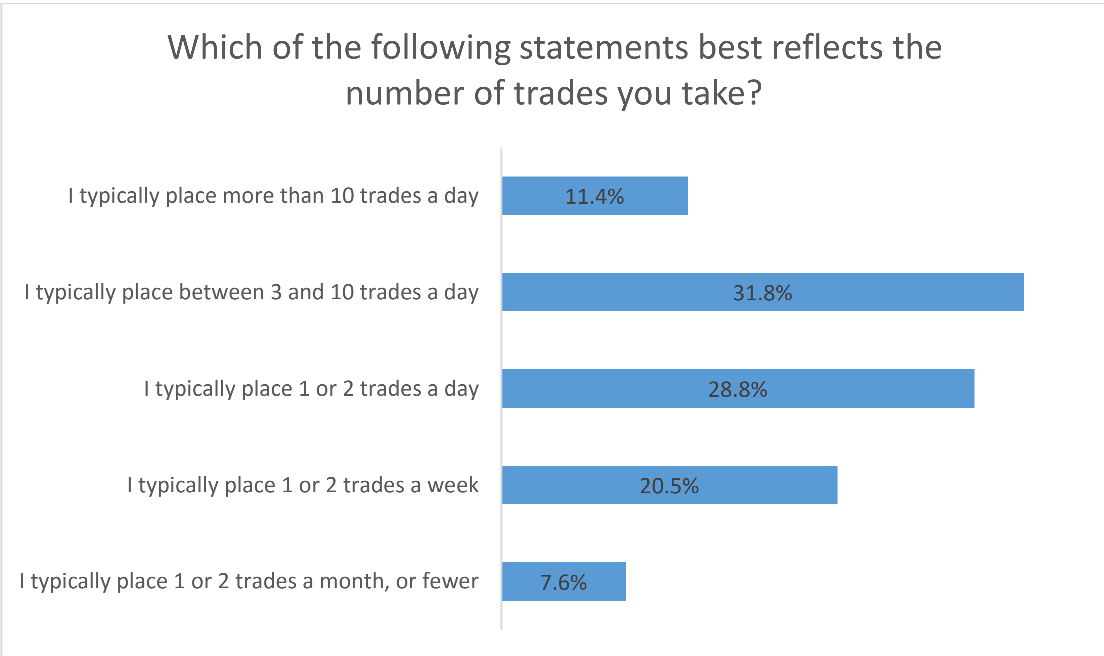


A positive correlation is indicated between the length of time traders had been trading for (Q1) and there reported success in the last six months (Q2).

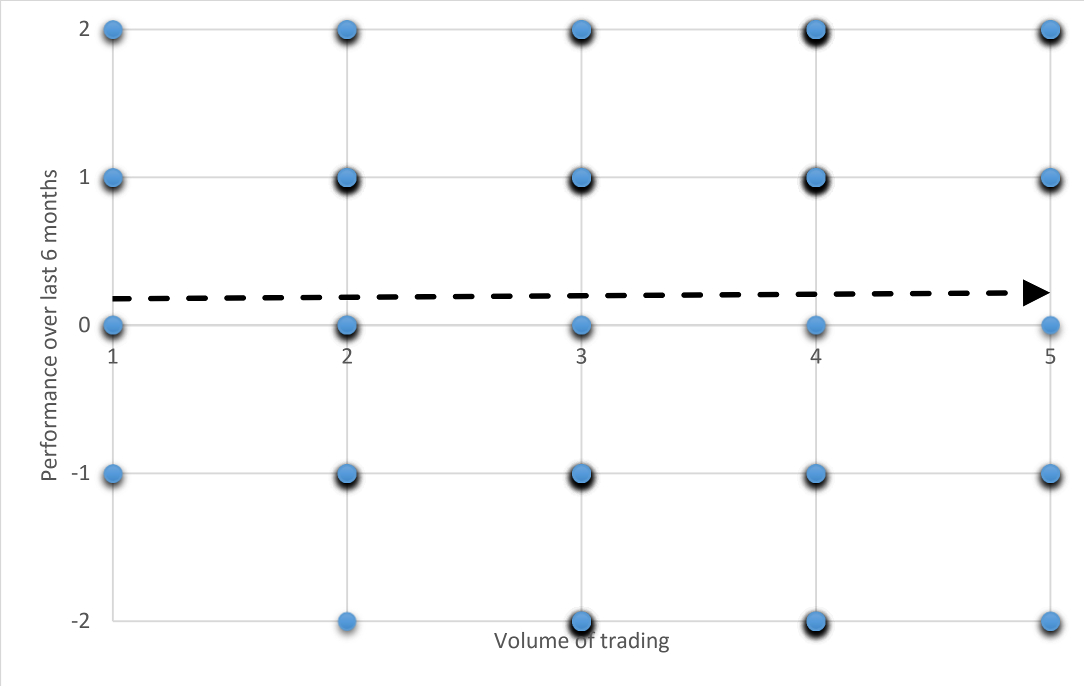


Q3) Which of the following statements best reflects the number of trades you take?

In terms of the volume of trades opened each day, just under three quarters (72%) of traders opened at least one trade every day with 11% of traders stating they opened ten or more trades each day.

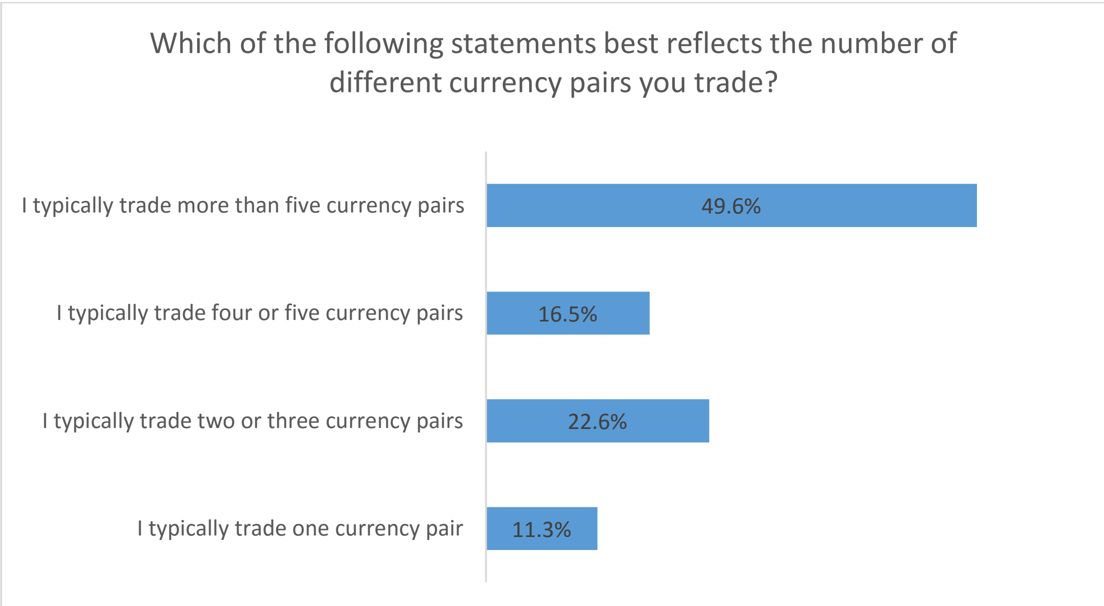


There is no apparent positive or negative correlation between the volumes of trades placed (Q3) and reported profitability over the last 6 months (Q2) despite the increased spread costs incurred due to the higher volume of trading.

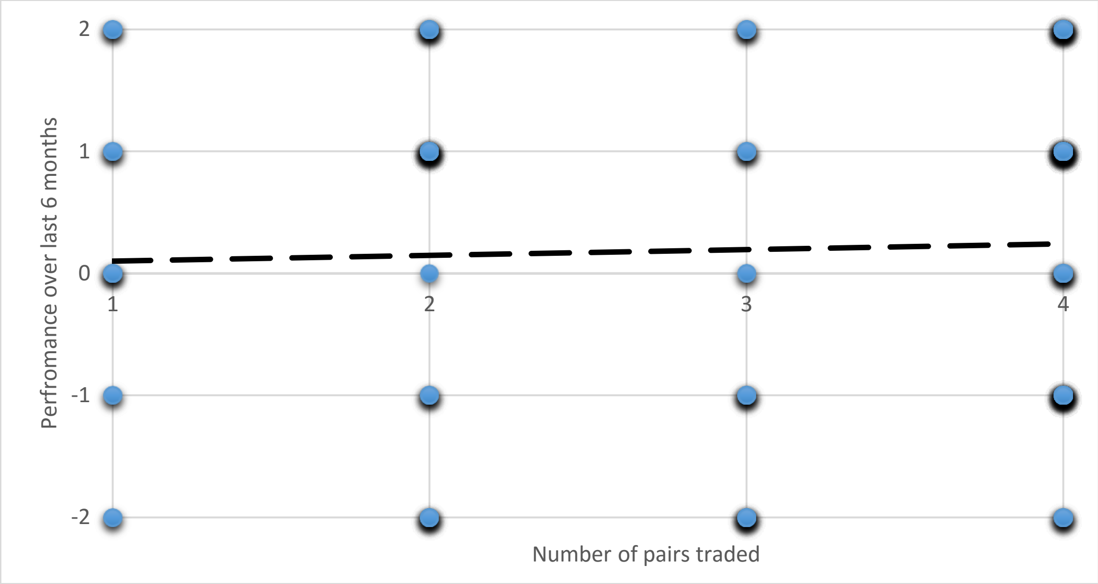


Q4) Which of the following statements best reflects the number of different currency pairs you trade?

Nearly half (49.6%) of the respondents said they trade more than five currency pairs with only 11% focusing on a single pair.

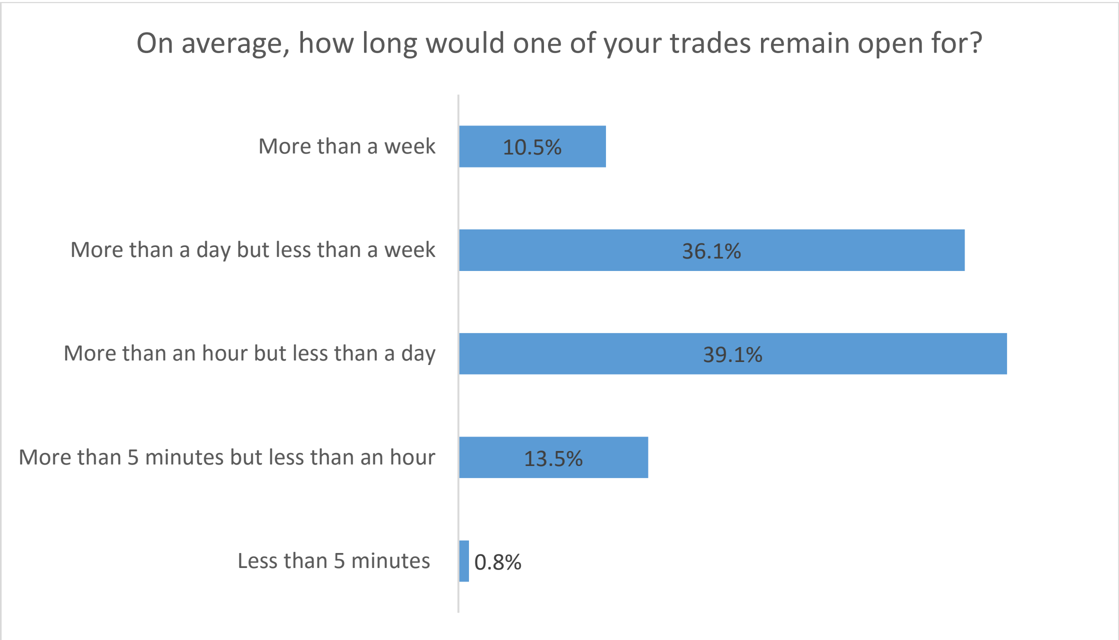


There appears to be a small positive correlation between reported profitability (Q2) and the number of currency pairs traded (Q5).

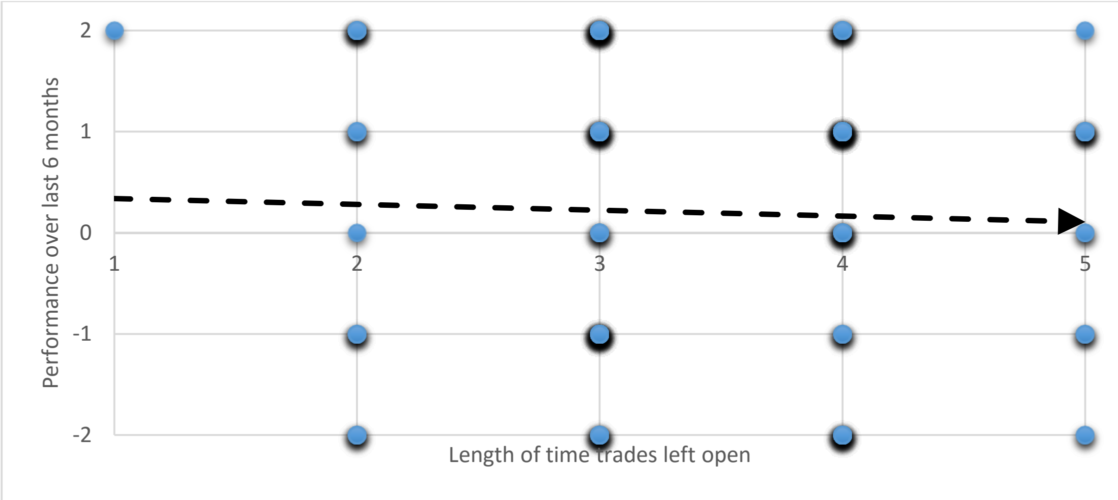


Q5) On average, how long would one of your trades remain open for?

Around 15% of traders reported keeping their trades open for less than an hour, the timeframe often associated with scalping. By contrast, slightly under half (46.6%) reported keeping trades open, on average, for more than a day.

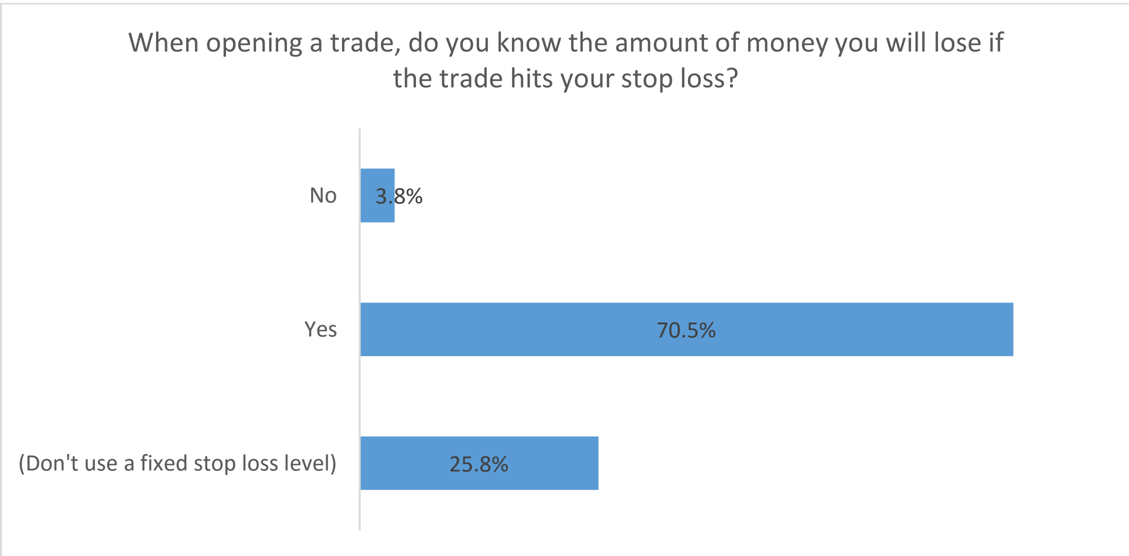


There is small negative correlation between the length of time trades are left open (Q5) and reported profitability (Q2) visible in the converted numerical data. This could be due to the impact of swap (interest) charges, frequently charged by brokers on trades held overnight, however there is not sufficient data to state this is the cause.



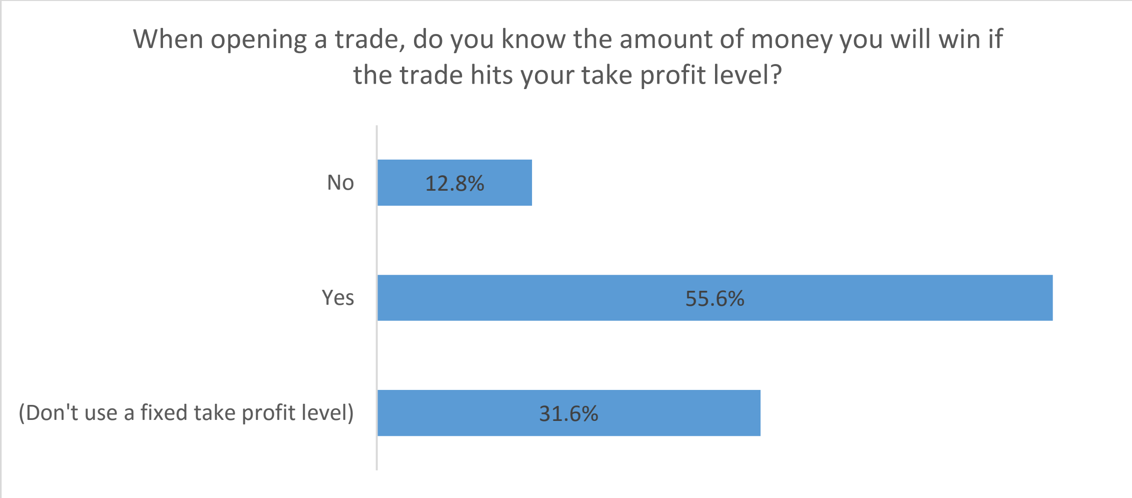
Q6) When opening a trade, do you know the amount of money you will lose if the trade hits your stop loss?

Seventy percent of traders reported knowing the amount of money they will lose if their trades hits a stop loss level, with a quarter indicating they did not use fixed stop levels. This is an interestingly high number given that the most commonly used retail trading platform, MT4 (MetaQuotes 2016), does not automatically provide this information.



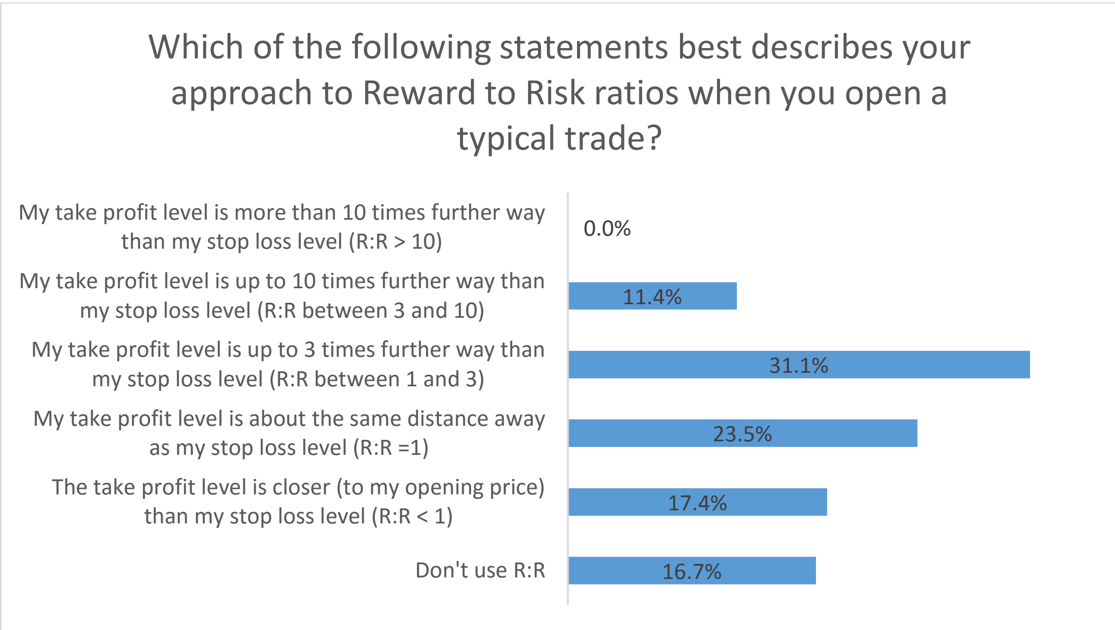
Q7) When opening a trade, do you know the amount of money you will win if the trade hits your take profit level?

By contrast to the stop loss figures, just over half of traders (55.6%) reported knowing the amount of money a winning trade would produce, with just under a third (31.6%) not using fixed take profit levels.



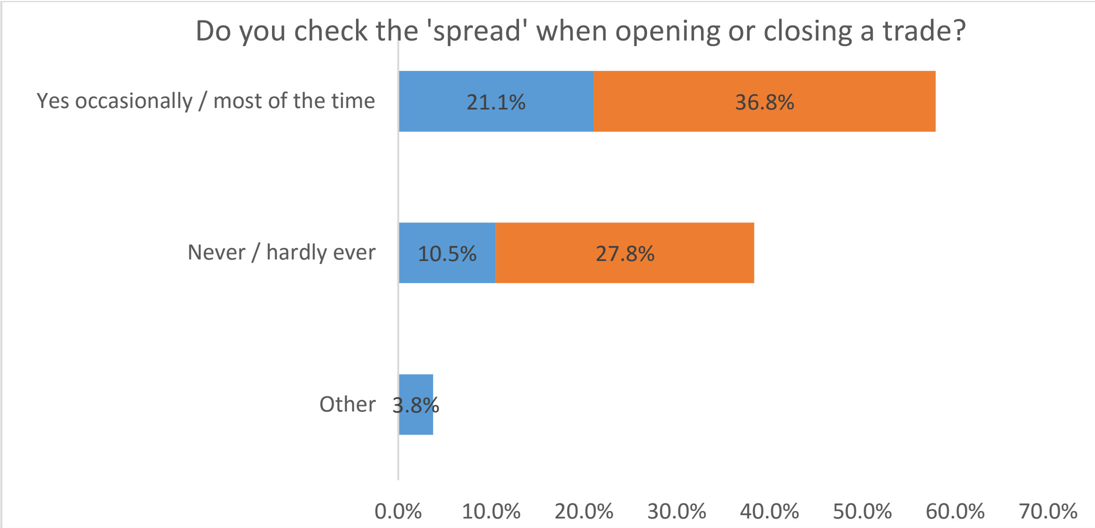
Q8) Which of the following statements best describes your approach to Reward to Risk (or risk to reward) ratios when you open a typical trade?

Looking at the ratio of profit to loss targets, a similar number of traders reported using a positive reward to risk ratio (42.5%) as used a ratio of 1:1 or less (40.9%). None of the 133 traders reported setting a profit target more than ten time further away than their loss level. One in six traders do not use the concept of a reward to risk ratio. There is no statistical correlation between the length of time traders left trades open and their approach to reward-to-risk ratios.



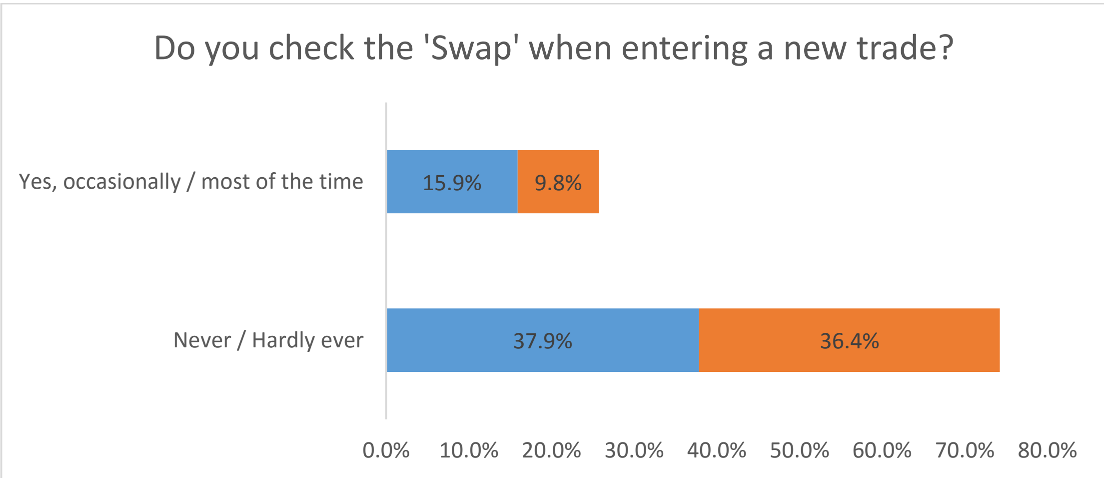
Q9) Do you check the 'spread', the difference between the Bid and the Ask prices, when opening or closing a trade?

Whilst well over half (57.9%) of traders report they check the cost of the spread before trading only 36.8% say they do this on a regular basis, with 38.3% stating they never or hardly ever check this cost. There is no observable correlation between the number of trades placed a day and the propensity to check the spread charges.



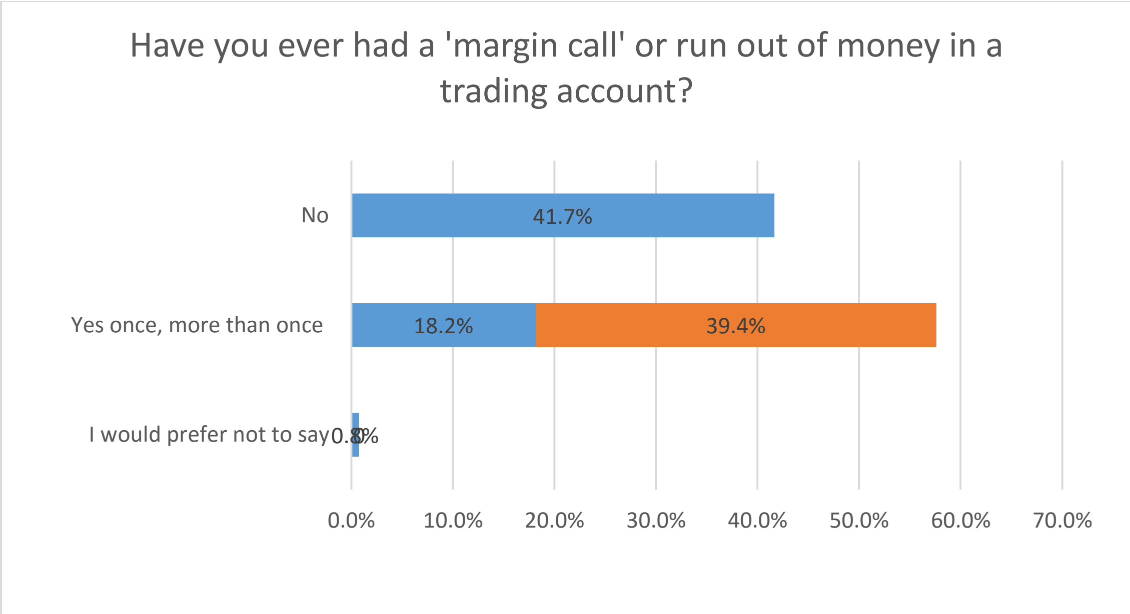
Q10) Do you check the 'swap', the interest payable or received when a trade is open, when entering a new trade?

Nearly three quarters of traders (74.2%) report they never or hardly ever check the swap (interest) cost of a trade, with less than one in ten (9.8%) stating they do this on regular basis. This contrasts with the 46.6% of traders (Q5) who keep trades open for more than a day and who are therefore most likely to be affected by swap costs.

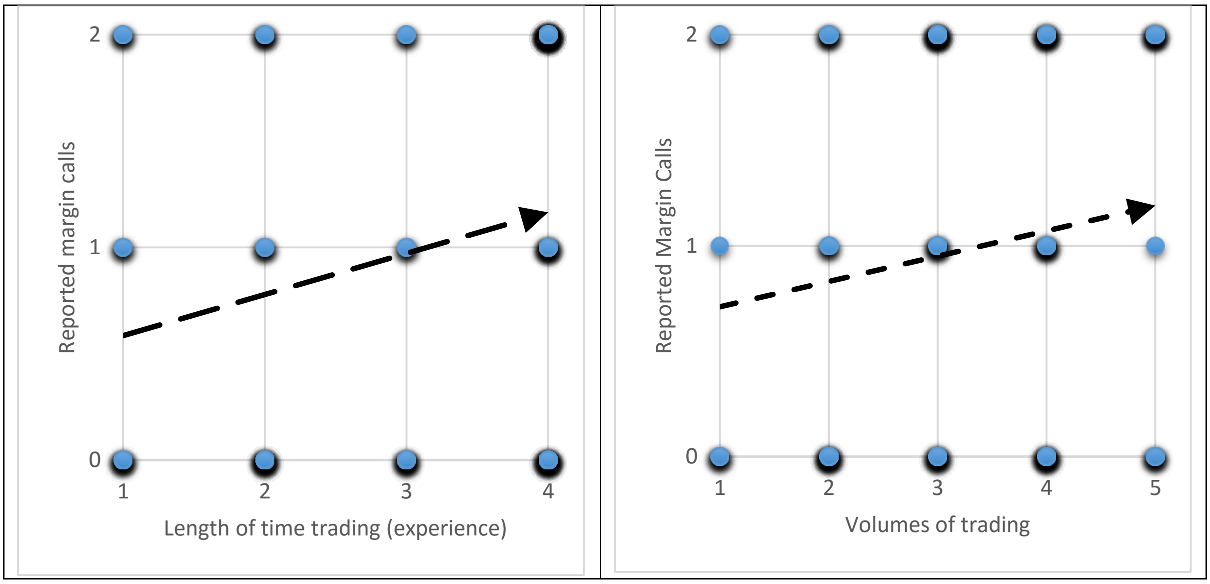


Q11) Have you ever had a 'margin call' or run out of money in a trading account?

Well over half of traders (57.6%) reported that they had experienced a margin call or run out of money in their trading account, with 39.4% reporting this had happened more than once.

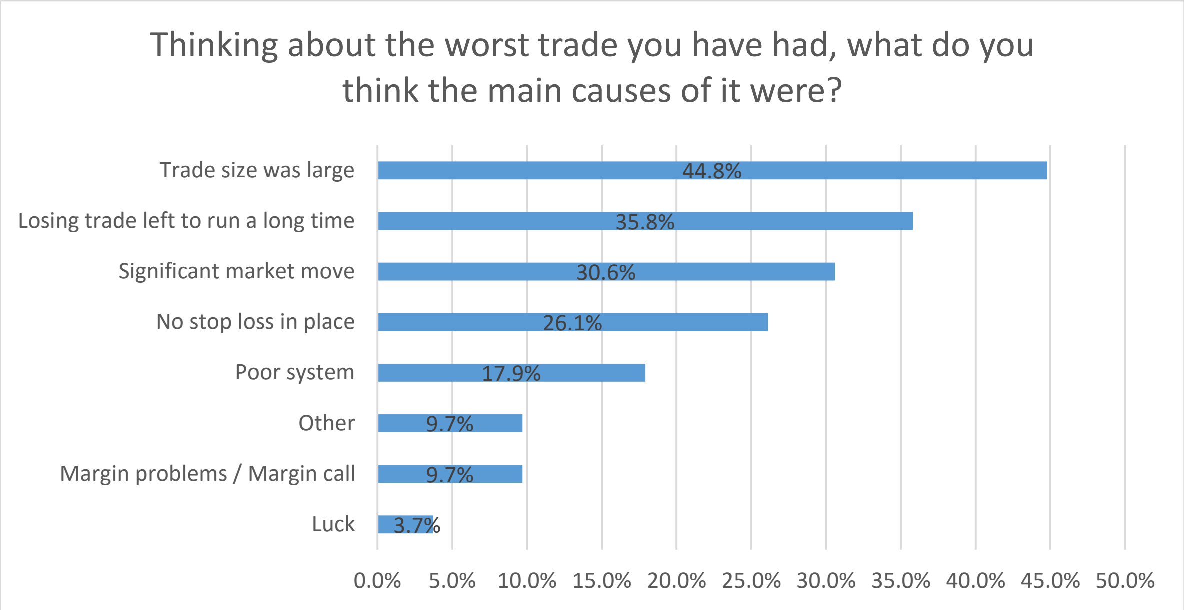


There is an indicated positive correlation between the length of time traders have been trading for (Q1) and the likelihood of one or more margin calls (Q11). There is also an indicated positive correlation between the number of trades placed per day (Q3) and the number or reported margin calls (Q11).



Q12) Thinking about the worst losing trade you have had, what do you think the main causes of it were?

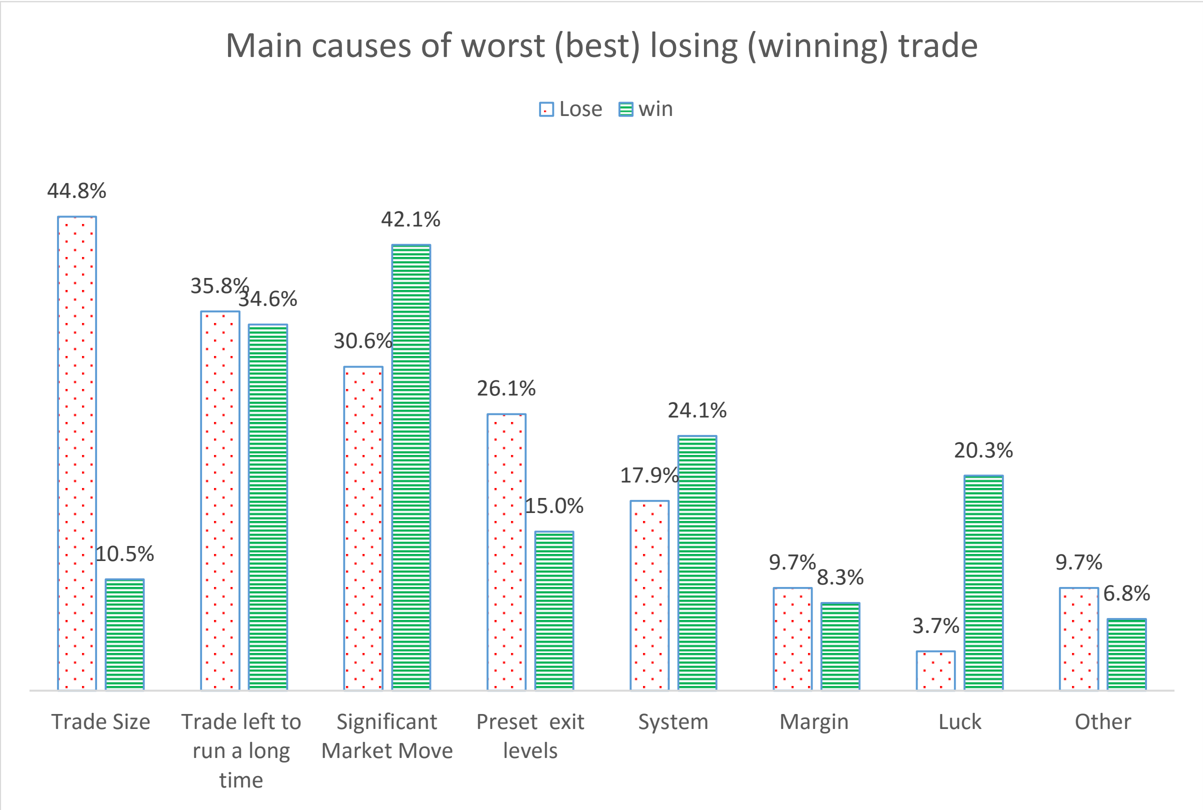
Traders were given a list of possible causes of a worst losing trade and could select multiple responses. Just under half (44.8%) reported that a 'trade size too large' had been a major factor, with over a third (35.8%) reporting that the losing trade had been left to run for too long. Only one in four (26.1%) reported not having a stop loss in place, which could imply that up to three quarters of 'worst trades' did have a stop loss in place, yet caused significant loss without that stop being hit? Over a third (36.8%) of respondents cited multiple factors as being the cause. A significant market move was identified as the cause in 30.6% case and only 17.9% of traders identified a poor system as being a factor.



Q13) Thinking about the best winning trade you have had, what do you think the main causes of it were?

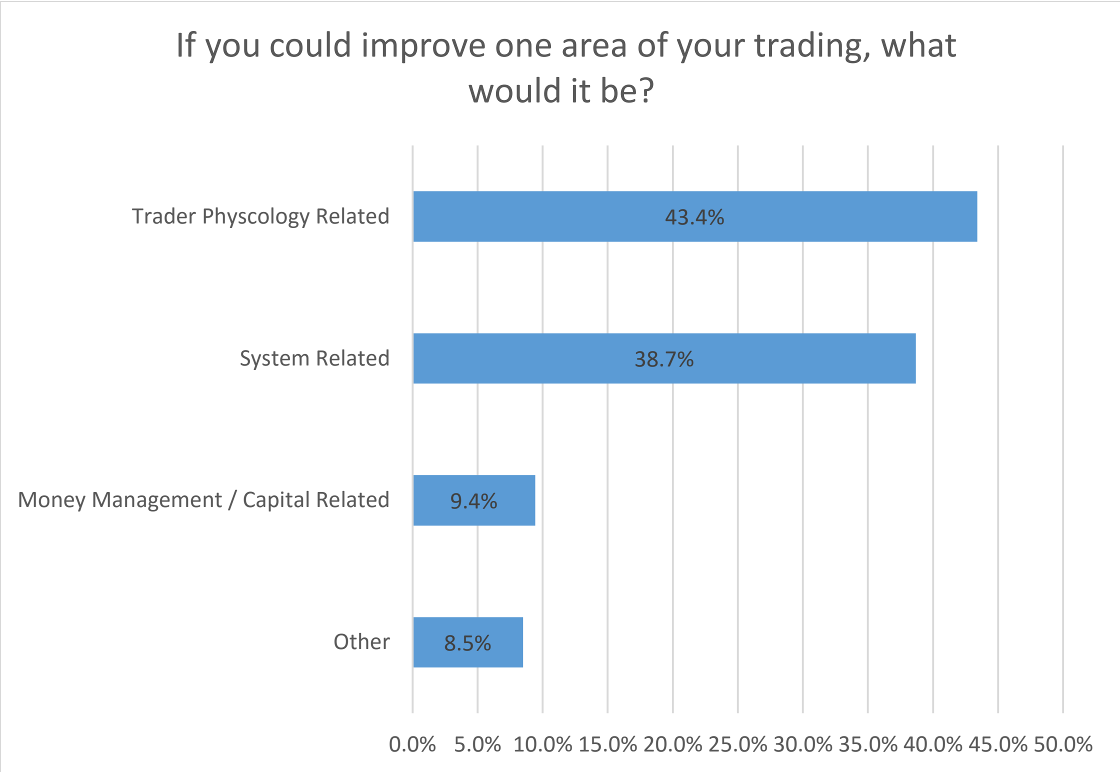
When thinking about their best winning trade, a 'significant market move' was identified as the most frequent reason (42.1%) with over a third (34.6%) saying that 'letting a winner run' was instrumental. Slightly less than a quarter of traders (24.1%) identified a 'good system' as being a factor, with one in five (20.3%) stating that luck was a major cause.

When comparing causes of trades where significant money has been made or lost, common factors are trades being left to run a long time and significant market moves, the former being under the control of the traders whilst the latter is a function of the wider market. Trade size and lack of pre-set exit levels appear more for losing trades and luck is identified as a larger component of winning trades. Across both winning and losing trades less than a quarter of traders identify their system as being a factor for these extreme trades.



Q14) Finally, if you could improve one area of your trading, what would it be?

This was a free format question with traders being able to make any comments they wished. Results were then categorised into one of four groups, which were found to be common themes across the responses. Trader psychology was identified as the number one area for improvement (43.4%), with words like ‘patience’, ‘discipline’ and ‘confidence’ appearing frequently. Within the ‘better system’ category (38.7%), automated trading was frequently mentioned, which is often seen as a way to reduce the impact of a trader’s psychological challenges.



Conclusions

Firstly, many thanks to the 133 anonymous traders who took part in the survey. There was some concern that the group would ‘self-select’ with profitable traders more likely to respond than non-profitable ones, however as stated before, the level of reported profitability is broadly in line with that of previous research, with 37.6% stating they were profitable and 48.9% having made a quantifiable loss in the last 6 months. We are also pleased with the spread of reported experience, with 50.4% of traders having traded for more than 4 years. The results can be grouped into five areas;

1. **Big losses happen!** Well over half (57.6%) of all the traders that responded have experienced losses sufficiently large that it caused their trading account to run out of money. Nearly 40% of all respondents have experienced this more than once! The results suggest that the likelihood of a trader experiencing a margin call is linked to the amount of years they have been trading (are margin calls an ongoing problem?) and the volume of trades placed. Traders reported that the causal factors of the worst trades they had experienced was trades size too large (44.8%), losing trades let to run (35.8%), significant market move (30.6%) and no stop loss (26.1%). Three out of these four are completely controllable by the trader. Additionally 70.5% of traders reported that they know when placing a trade, how much

money a trade will lose if the trade closes against them. This high number seems at odds with the frequency of margin calls and factors that caused the reported 'worst' losses?

2. **Small losses happen!** The two main transactional costs in FX trading are the bid-ask spread and the interest rate swap. Only just over a third of traders (36.8%) regularly check the spread they are about to be charged whilst 38.3% of traders admit to never or hardly ever checking. In terms of the interest rate swap cost, despite 46.6% of traders saying they keep their trades open for a day or more, only 25.8% ever check what the cost of holding that trade overnight will be and only 9.8% say they do this regularly. This could be a contributing factor to the negative correlation between the length of time trades are help open for and reported profitability.

3. **Significant market moves occur!** The number one factor (42.1%) in a trader's biggest winning trade and the third most common in a largest losing trade (30.6%) was identified as being a 'significant market move'. Unlike many other factors, this is outside the control of the trader and all the trader can do is react to such a move, either in the context of already opened trades or in opening new trades. In the context of such a market move, the second most cited factor in both (best) winning and (worst) losing trades was the length of time a trade was kept open. It does not require too much imagination to see a trade size that is too large (44.8%, the number one cause of worst losing trades) being subject to a significant market move (30.6%) and being left to run for too long (35.8%) with no pre-set exit level (26.1%) leading to a margin call that 57.6% of traders say they have experienced.

4. **It's not about the system!** Less than a quarter (24.1%) of all traders said that their best winning trade was caused by the system they use and only 17.1% thought their system was a cause in their largest losing trade. When asked for one area they would like to improve, only 38.7% identified a system related area. The survey did not focus on what a 'system' means to a trader or the breadth and depth of one, for example covering trade size, stop loss levels and length of time to keep trades open, three of the top four factors in losing trades.

5. **Discipline and patience please!** When asked "if you could improve one area of your trading, what would it be?" 43.4% of traders identified trader psychology, or a specific component of it, as being their improvement area. The most common single words used in this free-format input (once the word trade / trader or trading had been removed) were 'Discipline' and 'Patience'. It is not clear from the survey what the specific areas of trading that the discipline and patience are required in, but this may be related in part to the factors that are causing large losers and open the potential to the corresponding large winning traded.

Next steps

Pulling the feedback given via the survey together, there would seem to be a significant opportunity to help the retail FX trader both reduce risk and increase profitability. By better addressing the controllable factors identified as causing the worst losing trades it should be possible to reduce the occurrence of account closing trades. By increasing the awareness of spreads and swap costs it may be possible to reduce the trading costs that make FX trading a negative sum game. By capturing the upside of the positive market moves it should be possible to improve the profitability of a winning trade. Much of this could be done without changing the trader's individual system in terms of entering trades. Two novel approaches to achieving this objective could be considered;

1. **Serious Game:** Helping the trader to develop discipline and patience' via the use of a 'serious game'. The concept would be to develop game that would address some of the challenges faced by a trader but in a non-trading environment. Parallels to these trader identified problems would be created, for example simulating the closing of losing trades or reducing overly large trade sizes. The aim would be to help the player (trader) develop the discipline and patience required to play the game, which could then be transferred into the world of trading.
2. **Trading Assistant:** Helping the trader by providing some kind of 'automated trading assistant' that could identify when trades have gone beyond limits defined by the trader (based on best practice) and either requesting trader intervention (for example to close a losing trade or reduce lot size) or indeed to automate that process when agreed 'non-margin call' levels of loss are met. Additionally the assistant could simplify the process of viewing the spread and swap costs of potential trades. The assistant could also provide statistical feedback on the volume of trades placed as well as achieved reward to risk ratios. As well as acting as an extension to a trader's system, the assistant would help develop discipline and patience within a trading environment.

Further input from traders as to the preferred approach and scope will be sought and this feedback will be used to inform the direction of ongoing research.

Appendices

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