AUTORITÉ
DES MARCHÉS FINANCIERS

Study of investment performance of individuals trading in CFDs and forex in France

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Study background:

The Autorité des Marchés Financiers (AMF), particularly concerned by the number of complaints from clients attracted to trading in contracts for difference (CFDs) and forex[1] and ultimately losing significant sums, launched a quantitative study to assess the performance of a large panel of individuals investing in these financial instruments.

This document first defines the methodology used by the AMF to conduct this study, then highlights the main observations.
Over a four-year observation period, the AMF found for the clients of the intermediaries surveyed (14,799 active clients):

- the rate of clients who lost money exceeded 89%;
- an average loss of €10,887 per client;
- a median loss of €1,843;
- total losses of €161,115,493.

The study thus confirms the level of extremely high risk in this type of trading, which is inappropriate for the overwhelming majority of individual investors.

1. Methodology

a. Market share of participating intermediaries

The intermediaries surveyed[2] have a very large share of the market for trading CFDs and forex in France. According to a study for Investment Trends for 2013, the clients of the intermediaries in question represent 54% of investors actively trading in CFDs and 45% of those trading in forex. It is an estimate of a share of the market of intermediaries with "primary relationships": it represents the proportion of active investors (i.e., who made at least one trade in 2013) using a specific intermediary as their main intermediary. This method thus has the advantage of counting an investor who trades only once without taking into consideration that the investor may have accounts with other intermediaries.

In addition, the intermediaries did not all disclose the identity of their clients (for which an internal code was sometimes used). It is quite likely that some clients have accounts with several intermediaries. For these clients, the performance from the trades with intermediary A may be compensated or amplified by the performance with intermediary B. Nevertheless, given that clients had significant losses and the majority of clients lost money with each of the intermediaries, it is likely that the share of clients recovering their losses through trades with another intermediary is marginal.

In brief, the share of the market of intermediaries covered by the study ensures that it is representative of the experience of individual investors trading in CFDs and forex in France.

b. Financial instruments covered

Taking into account the respective offers of the targeted intermediaries, the study covers the following products:

- forex;
- CFDs for all type of underlying products (equities, bonds, indices, foreign currency and commodities).

[1] "Forex" in this study refers to rolling spot foreign exchange contracts (see AMF position DOC-2011-08).

[2] The study is based on figures collected from investment services providers authorised to offer CFDs and forex to investors in France. The results are thus not biased by the fraud-related behaviour sometimes observed in entities offering trading in CFDs and forex without required authorisation. As a reminder, AMF regularly publishes a blacklist of entities determined to be acting illegally.

Some intermediaries also integrated in the data results of trading in binary options, which nevertheless represent a minor share of their business.

It is important to note that the scope of the products offered by different intermediaries is not identical. Some do not offer rolling spot forex but only currency CFDs.

In addition, the intermediaries were not all able to distinguish the data by type of financial instrument (forex and CFD)[3].

Given these difficulties concerning the uniformity of the data and type of financial instruments, it was not possible to conduct a study by type of instrument (forex or CFD) for each of the intermediaries. It was also not possible to study the relationship between the leverage used by the investor and performance. The report thus focuses on earnings and losses of retail customers by combining performance from trading forex and CFDs[4].

In summary, the study covers a full range of CFD- and forex-type products offered to clients in France without distinguishing in greater detail profit and loss profiles by type of underlying product. The partial data that was available nevertheless shows that the rates of losses are similar – and high – for both CFDs and forex.

c. Period covered

Since the longest period for which the AMF has data for each of the intermediaries was too limited (only for 2011-2012), it was decided to calculate the statistics over:

- four years from 2009 to 2012 for certain intermediaries,
- and four years from 2010 to 2013 for another intermediary whose 2009 data was unavailable.

In summary, the study concerns a long period during which the financial markets overall performed well[5], which precludes any explanation based on economic cycle for the results.

d. Monitoring consistency of data

All intermediaries requested data from their IT departments, and some did so several times to correct certain anomalies that were detected by AMF correspondents in the first-level intermediary data. The work of obtaining raw data was thus particularly time consuming to the extent that data collected was then subject to a second-level consistency check by AMF.

In brief, even though data used for the study was solely declarative in nature, verifications carried out by the intermediaries and AMF and resulting corrections by the intermediaries provide a reasonable level of comfort as to their reliability.

The results are also consistent with those published in 2012 by the Polish Financial Supervision Authority (KNF)[6].

[3] The level of granularity required at the start even went beyond the forex/CFD distinction since for the CFD data, the AMF sought to obtain granularity by type of underlying product (indices, equities, commodities and currencies). Since the leverage offered by providers of CFDs varies by underlying asset, it would have been interesting to determine whether certain underlying products were more "toxic" than others for individual investors. None of the intermediaries could make this distinction.

[4] While it was not possible to split up all the results for all intermediaries, AMF was able to obtain certain distinct P&L for trading forex and trading CFDs. The results reveal that CFD trading (78% of active clients lost money) is nearly as "toxic" as forex (84% of active clients lost money).

[5] For the record, between 1 January 2009 and 31 December 2012, the CAC40 NR (with net dividends reinvested) performance was nearly 30%, while the Citi EMU Government Bond Index Euro had a performance of 22%.

[6] The Polish regulator conducted a study which found that 82% of investors who used online forex trading venues lost money in 2011. Link to webpage (in Polish):
http://www.knf.gov.pl/o_nas/komunikaty/2012/wynikow_osiaganych_przez_inwestorow_na_rynku_forex.html

2. Main observations

a. A majority of clients have significant losses

The percentage of clients losing money by year can vary[7], depending on intermediary and year, from 75% to 89%: the differences observed from one intermediary to another are thus minor, with a rate of annual loss always greater than 75%.

Combining all intermediaries, the percentage of clients losing money over any given year is nearly 84%. For purposes of comparison, the Polish Financial Supervision Authority found that 82% of clients lost money in the Polish market in 2011 (news release of 18 April 2012 in Appendix). The AMF's findings are thus very similar.

Table 1: Percentage of clients losing money, by year and for the entire period covered by the study, for all intermediaries surveyed

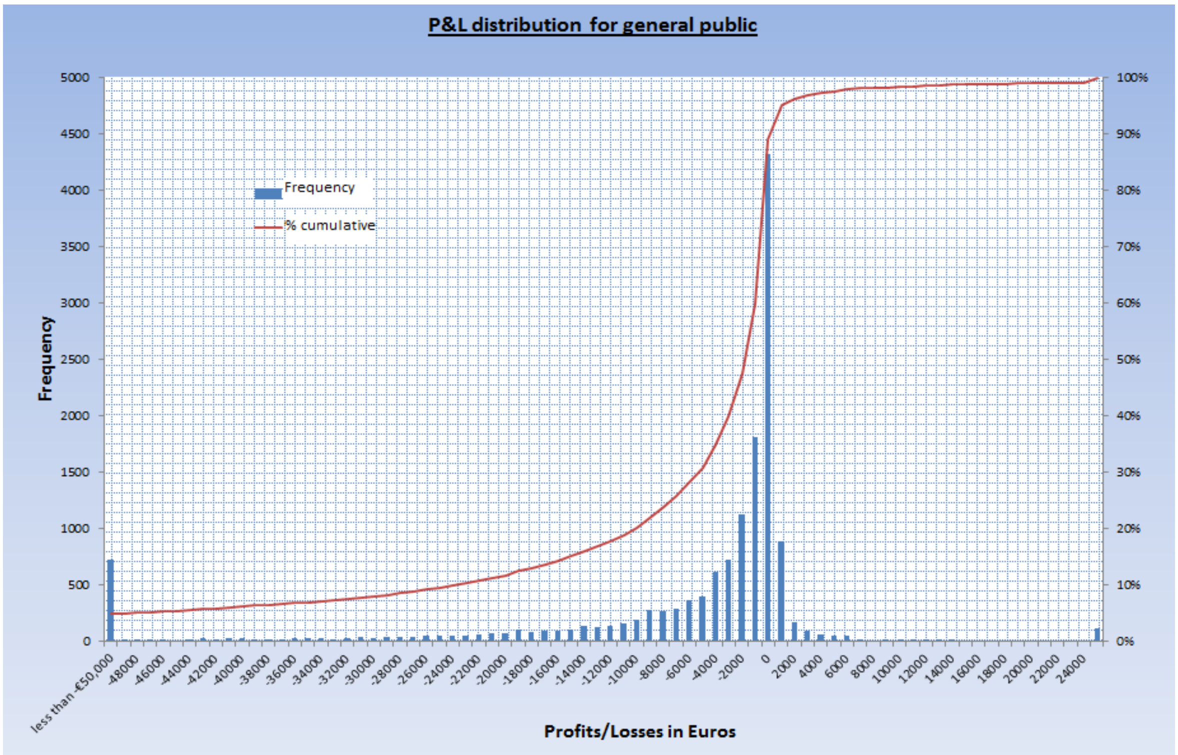
Period	Percentage of clients losing money
2009	84.2%
2010	84.2%
2011	83.8%
2012	84.2%
2013[8]	83.3%
Cumulative over 4 years	**89.4%**

Cumulatively over four years, the AMF observes for the clients of the intermediaries surveyed:
- a rate of clients losing money in excess of 89% for 14,799 active clients[9] (between 84% and 92% depending on the intermediary);
- average loss of €10,887 per client;
- median loss of €1,843, indicating that half of clients lose more than -€1,843;
- total losses of €161,115,493 for the 16,181,843 transactions performed by the population of 14,799 clients.

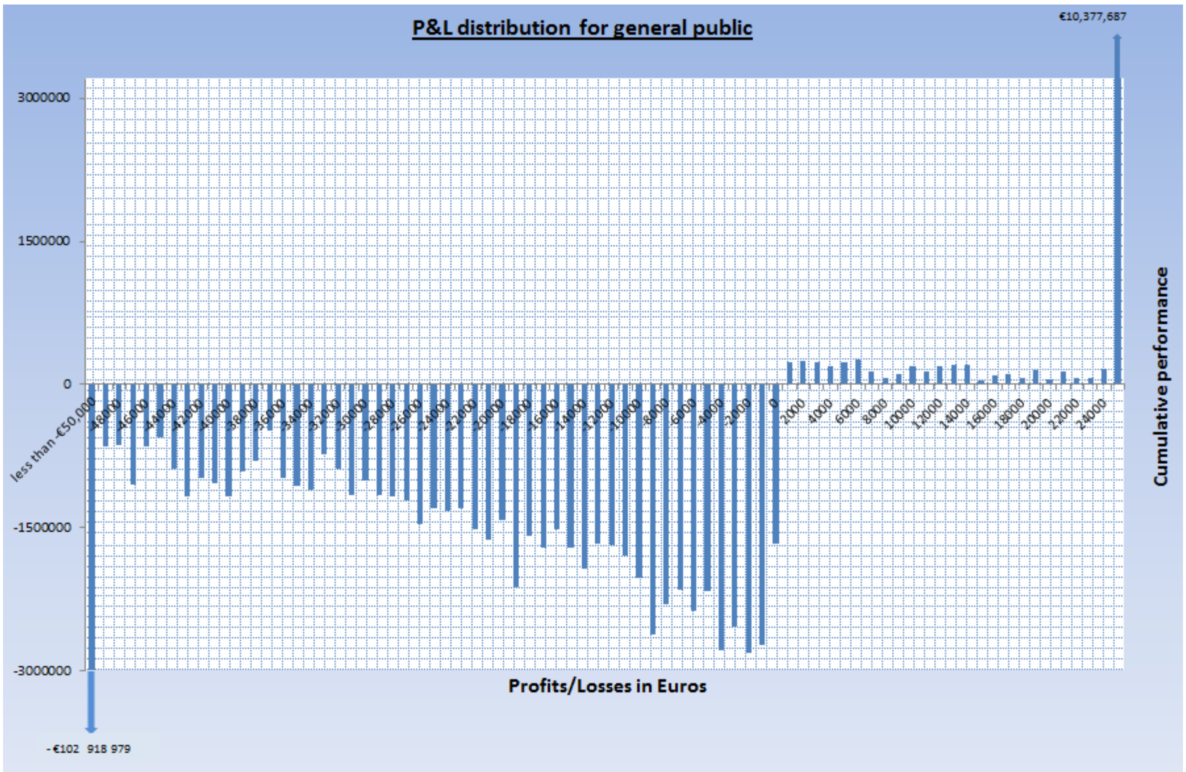
The following two graphs indicate:
- in the first, the number of clients by amount of cumulative earnings/losses over the period is shown in blue and cumulative percentage of these clients in red;
- in the second, cumulative amount of earnings/losses of the clients is shown by performance interval.

They illustrate the very negatively asymmetrical[10] and leptokurtic[11] nature of the performance distribution, i.e., a distribution that is very unfavourable for the client.

[7] The number of investors with a negative result divided by the number of active investors (who made at least one trade during the reference period, which in this case is one year).
[8] The study integrates figures for 2013 only for the intermediary who could not provide data for 2009.
[9] A client here is considered "active" if, during the period under study, he made at least one transaction, whether on his own initiative or at the initiative of the intermediary (who may initiate a transaction to change a position if there is no response from the client to margin calls).
[10] A negatively asymmetrical distribution is an asymmetrical distribution (which is decentered compared with the average) with a pronounced tail (compared with normal distribution) on the left (negative values).
[11] A leptokurtic distribution includes a sharp peak and long distribution tails (compared with normal distribution).



This graph shows the number of clients who had a given performance (earnings/losses). For example, the graph indicates (furthest column on left) that 722 clients had losses greater than €50,000, while (furthest column on right) only 121 clients had earnings surpassing €24,000.



This graph shows the cumulative performance of client groups who each had a single given result (X-axis). For example, the graph indicates (furthest column on left) that clients who each lost more than €50,000 (722 clients) had total losses of more than €102 million, while (furthest column on right) clients earning more than €24,000 (121 clients) had total earnings of some €10 million.

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b. Potential factors affecting performance profile

i. Fees charged

Providers of CFDs and forex receive remuneration primarily by three methods, which vary by product and intermediary:

- commission per transaction;
- quoted spread[12];
- roll-over fees, billed when the client maintains a position overnight[13].

Data concerning fees could not be collected from all intermediaries. Observations on fees charged are thus not necessarily representative of all firms. Using the data collected, the AMF found that amounts charged by intermediaries (finance charges and trade commissions) explain only a small share (14.2%) of client losses.

No intermediary provided information concerning implicit fees included in quoted spreads.

ii. Trading period

Examination of the results for the same fixed set of 1,881 clients followed for four years, and who conducted at least one transaction per year, shows that the nature of the distribution is relatively uniform for the various periods and thus that the main conclusions are relevant no matter which period is selected.

It should be noted that trading experience does not appear to be acquired easily since the average result increases significantly over time. There is also little difference between the rate of loss over four years of clients active every year and thus having more experience (87.56%) and that of the entire population studied (89.4%).

Table 2: Results for clients active every year during 2009-2012[14]

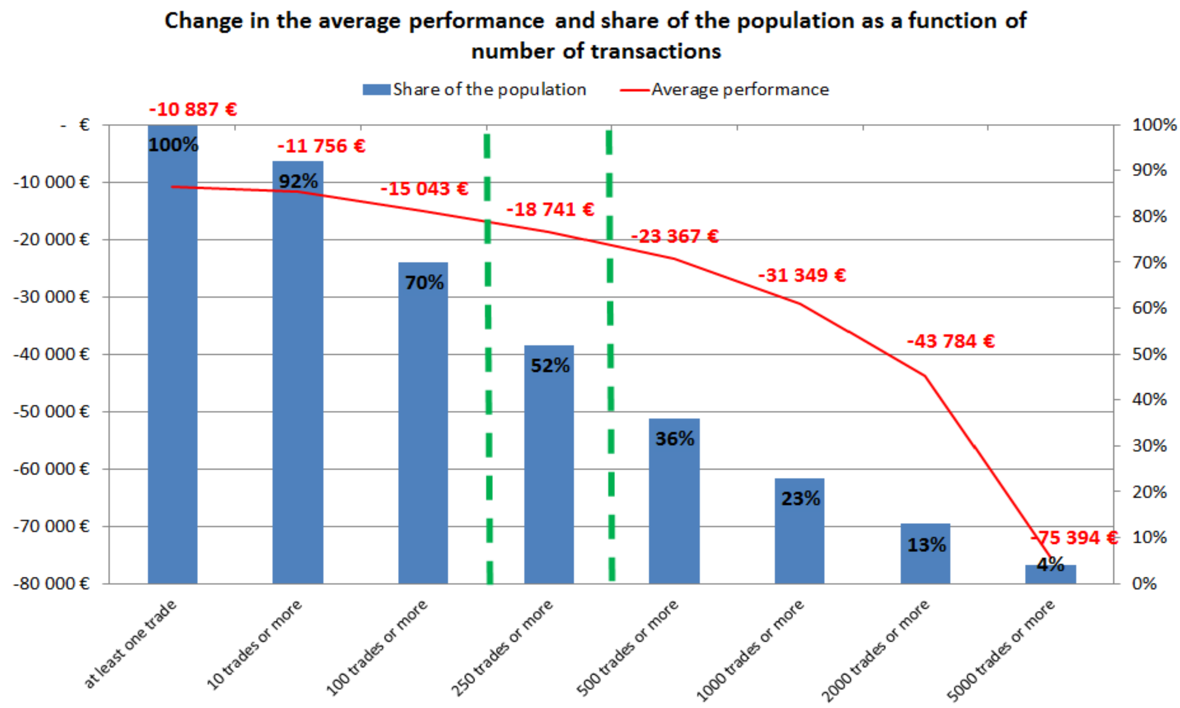
Period	Number of clients	Share of clients losing money	Average performance
2009 only	1,881	82.51%	-€4,989
2009-2010	1,881	85.49%	-€10,183
2009-2011	1,881	85.06%	-€16,386
2009-2012	1,881	87.56%	-€26,745

iii. Number of transactions and volume handled

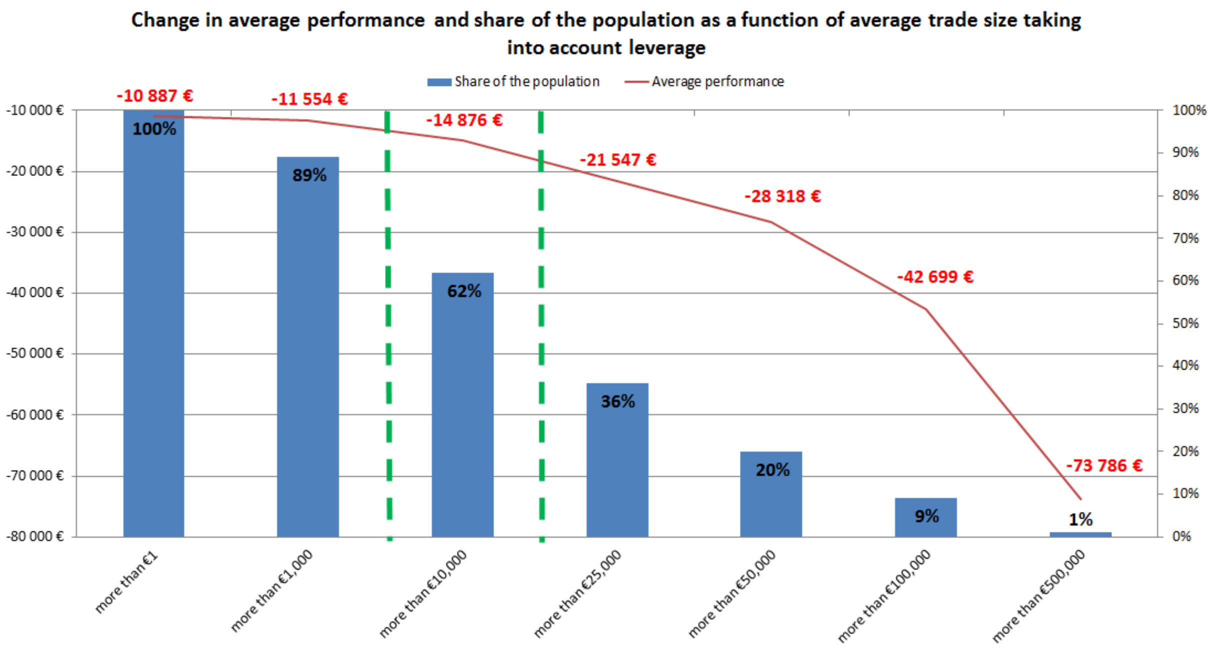
The following graphs concern all 14,799 clients and the entire period under examination. They compare respectively:

- average client performance and number of transactions completed;
- average client performance and average trade size per client[15];
- average client performance and average volume traded by client.

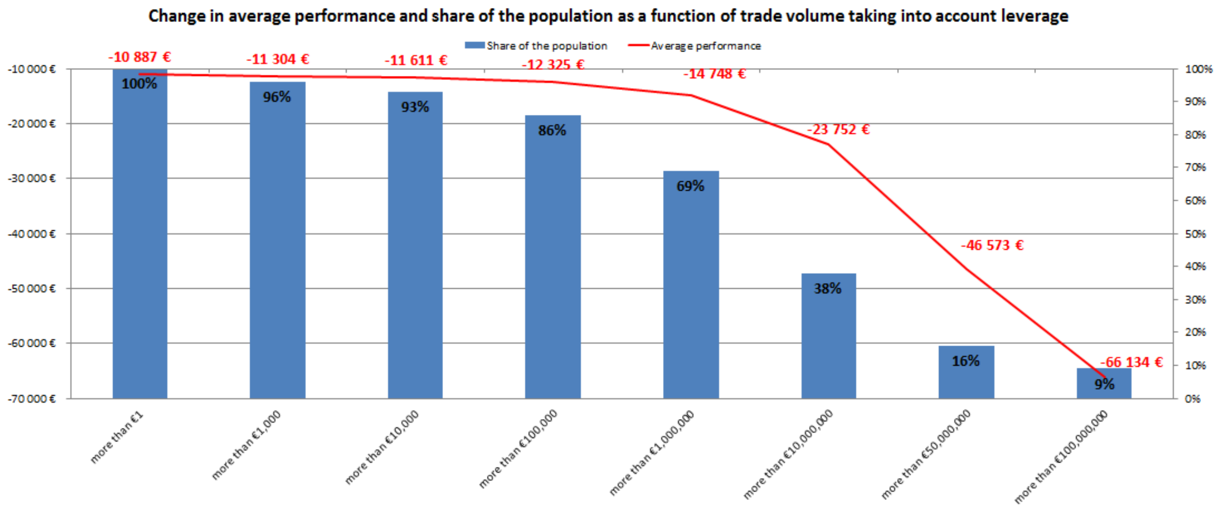
[12] Depending on the case, this may be added to the commission.
[13] In other words, holding a position from one day to the next.
[14] Does not integrate clients of the intermediary for which 2009 data were not available.
[15] The size of an order includes leverage associated with a product. An investor with €100 on deposit can place an order of €20,000 on a CFD or currency pair with leverage of 200.



An examination of the area between the dashed green lines in the graph above shows that investors who placed at least 250 orders during the four-year period represent 52% of the population studied and that they lost an average of €18,741.



An examination of the area between the dashed green lines in the graph above shows that investors who placed orders with an average size exceeding €10,000 represent 62% of the population sample and that they lost an average of €14,876 over the period under study.



Respectively, the graphs indicate that:
- the more trades a client makes, the greater the client's losses;
- the greater the average size of the client's trades, the greater the client's losses;
- the greater the client's exposure (cumulative size of all trades), the greater the client's losses.

3. Conclusion and salient points

This study demonstrates that trading in CFDs and forex is the source of significant losses for an overwhelming majority of individual investors, with an average rate of clients losing money over a four-year period in excess of 89%. Expected loss is significant (-€10,900) but varies significantly by provider (from -€4,500 to -€13,400).

In addition, the study also indicates that investors who trade the most (by number of trades, average trade size or cumulative volume) lose the most. The same applies to those who continue over time, indicating there is no learning curve.