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CAUGHT IN THE CURRENCY

By JOHN AIDAN BYRNE

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Some investors looking for a better return than the failed buy-and-hold market philosophy are turning to currency trading as the new coin of the realm.

Turned off by steep losses in stocks, housing and other investments, a record number of small investors are piling into one of the riskiest trading games, hoping for gold -- even as others get burned by online foreign-currency trading.

Trading in foreign currencies, which made great strides in recent years with enhanced Web-based trading platforms, is almost deceptively simple, especially when executing "pairs" trading of, say, the US dollar and the euro.

This is where an online investor, in effect, simultaneously exchanges one unit of currency for another he expects to weaken -- betting that hours, or days, later, he'll get back more of the currency than he originally exchanged. The carry trade between the Japanese yen and the US dollar is an example of this trade.

"We have seen customers becoming millionaires trading currencies, and they started out with nothing," said Brendan Callan, managing director at FXCM. The company, based in New York, provides customers online access to foreign-currency trading.

The number of new accounts opened at FXCM has exploded this year -- in February alone, 9,112 new accounts were signed, compared with 6,313 in the same month last year.

The company, which began as a small shop in 1999, now has some 160,000 live accounts, and its trading desk executed a staggering $6.8 trillion in foreign-currency trades in 2008 for clients, according to FXCM.

"Our customers include equity traders who've found it hard to find opportunities in a bear market. Many customers get up early to trade the closing hours of the European markets and the opening of the US. Most still have a day job," said Callan.

That's for sure. Last month, one customer at FXCM, starting out with $961, had a stunning monthly return of 1,951.22 percent -- that's not a typo -- when he closed the month with $20,000. He was named "king" in his category of forex trading.

Volatility, leverage and 24-hour trading are the main drivers to the extraordinary returns or losses.

"A two-penny downside move of the euro against the US dollar may not seem like much of a hit but with leverage -- as high as 200:1 -- it's massive," warns Shah Gilani, a retired hedge-fund manager who once ran the futures and options division for Lloyds Bank out of New York.

"Currency trading is a dangerous game if you are not familiar with leverage," added Gilani, who is testing a proprietary currency-trading program for high net worth managed accounts for his company, Exchequer Capital Management.

Fraudsters and scammers also tout these forex returns as a way of enticing investors into a Ponzi scheme. "It doesn't take a whole lot of persuasion to sell some investors on these foreign-exchange scams, because there hasn't been any other place for folks to put their money," said Joseph Borg, who chairs the international committee of the North American Securities Administrators Association. "They are scared of the stock market, there's no money in CDs, but promises of huge returns in currencies are ridiculous," he added. "The scams are a growing phenomenon."

While some of the crooks get caught, small investors don't stand much chance if they directly place a bad bet themselves. "They could be trading against professional traders with a lot of research, charts and sophisticated computer programs -- and these pros could fleece them," warned securities industry attorney Bill Singer, who is a former regulator. "I am now hearing cases of folks like these small investors losing $5,000, $15,000, $20,000, $25,000," he added.

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