Characteristics of so-called high-leverage transactions

In accordance with supervisor's circular letter no. 6/2013 of the Supervisory Authority, eBrókerház Zrt. presents the characteristics, risks and the benefits and disadvantages of high-leverage transactions in the following brief guide.

The meaning of leverage

Leverage **means taking positions higher than our disposable capital.** Basically, this can be accomplished in daytrading, i.e. transactions completed within the same day, and in futures and other derivative transactions, since in these cases the customer is not required to pay the entire purchase or selling price at the moment of conducting the transaction.

For example, if the maximum available leverage is fivefold, then you can buy five times as many shares as you would be able to purchase otherwise. In other words, you need to deposit 20% for the purchase of 100%. And this also means that when you purchase shares with fivefold leverage, if their price drops by 20%, you will lose all your money, since the movement of 1% means 5% for you, and a drop of 20% means 100%.

In the case of futures, once again you do not have to pay the entire purchase or selling price, rather you need to post an initial margin and a variation margin, which will cover any losses at the end of each day. In options transactions, you need to pay an option fee, which also enables a significant leverage. In general, we consider it high leverage if the given transaction enables at least tenfold leverage.

The general effect of high leverage on Forex/CFD transactions

When using high leverage and a low margin, in the case of a change of price of the given financial instrument by one unit, multiple gains or losses may occur in the financial instruments invested by the customer, parallel with the size of the leverage. This may work for or against the customer. In the case of a volatile market situation, high leverage may result in a loss that exceeds the entire invested amount, therefore eBrókerház Zrt. provides protection against negative account balance for every customer. Even so, we advise you against applying leverage that is disproportionately high compared to your risk-bearing capacity.

Similarly to all financial transactions and investments, leveraged trading is also characterized by certain types of risk, including but not limited to counterparty and liquidity risks. Leveraged trading requires constant monitoring and thorough trading skills of the trader. For this reason, eBrókerház Zrt. offers guidance for each customer so they can acquire the knowledge and investment techniques essential for successful trading, and it makes available on the Online Trading Platform several indicators, economic analyses and training materials that make trading easier.

The effect of leverage on the closing of the positions

Although there is no relationship between the size of leverage and the execution of orders for the closing of open positions, in the case of higher leverage the non-execution of orders for the closing of the position may result in higher losses in invested financial assets. Therefore, in the case of responsible trading conduct, the application of higher leverage should have an effect on the number of open positions, and especially on the application of stop orders.

Risk management strategies and risk-mitigating orders

eBrókerház Zrt. encourages every customer to apply stop and limit price order types [we offer more detailed information about these types of orders on the website of our Company: http://www.iforex.hu/forex-glossary]. The customer must be aware of the types of orders intended to exclude or limit losses.

Risks deriving from business hours

Certain events that also affect open positions may occur at times when the financial markets are closed. This can result in a situation where at the opening of the market the price of the traded product is significantly different than the going price at the time of closing. Naturally, the trade platform provided by eBrókerház Zrt. cannot be used on weekends, on trading holidays and at any other time when there is no trading in the financial markets, therefore at these times there is no opportunity for taking orders or changing orders already taken. There is a high risk that during such periods stop orders intended to limit losses will not be executed or will be executed at worse prices than the prices specified by the customer. eBrókerház Zrt. will always inform its customers on these times.

Supporting software programs

The exorbitant development of IT technology characteristic of the 21st century has made it possible to apply so-called 'high frequency trading' [HFT], also called robots, in Forex/CFD trading as well. These programs place orders without human intervention, based on algorithms, on the trading platforms, without the personal involvement of the investor. eBrókerház Zrt. considers the so-called robot trading incompatible with responsible business conduct, therefore it is stipulated in every customer contract that the application of robot trading is prohibited.

Supplementary information

As a transparent and fair European investment company registered in Hungary, eBrókerház Zrt. is committed to ensuring that the guidance provided by institutions of the EU is communicated to the widest possible scope of customers, therefore we especially call the attention of our customers to the guidance made available by the European Securities and Markets Authority (www.esma.europe.eu) and by the national financial supervisory authorities.

eBrókerház Zrt.

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