International Academic Institute for Science and Technology

International Academic Journal of Accounting and Financial Management
Vol. 5, No. 1, 2018, pp. 1-7.

ISSN 2454-2350

International Academic Journal of Accounting and Financial Management

www.iaiest.com

Wrong Ways to Earn Money without Risk at Forex Market

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Abstract

Recent decade forex market has become important market for Turkish investors because of some offers in terms of leverage, high profit and instant trading advantage. However, these offers can turn into a nightmare for individual investors. As it is known, forex market contains lots of financial instruments such as currency, index, and commodity and so on. These instruments are volatile and include high risks owing to leverage unlike stock market. For this reason, investors can lose their all investments. Investors losing their money or hear that forex is dangerous market as well as it enables investors to make huge profit are looking for different way in order to earn money in forex market. That is why, in this study different ways which investors look for will be emphasized with their risks. There are many studies about risks in forex market such as volatility risk and leverage risks. On the other hand, there is no study about process of swap income, bonus transfer and their invisible risks. Therefore, this study can be important observation for finance literature.

Keywords: Invisible Risk, Forex, New Perception, Bonus Transfer, Swap Income, Forex Market

Received:16 January 2018/Accepted:11 April 2018/Published:27 June 2018

1. Introduction

Forex which is also known as a foreign exchange, is a global market that enables investors to trade currencies. Provided that it is widely explained, Forex is a market which traders can buy and sell variety of commodities, currencies and indexes. Investors can access their screen in order to see their open position, trading new commodities or currency in 24 hours. Five days and 24 hours open market leads investors focus on the price screen and it causes investors to open overmuch positions. In this way, investors start to feel themselves as a professional trader and they try to learn technical analysis and basic analysis. After figuring out kind of analysis, they start to invest more much money and finally they lose their huge amount of investments. It is obvious that investors will be expert on financial markets by losing and winning. However, most of investors try to avoid well-known risks such as volatility and leverage risks and they try to find a way without risk and uncertainty. That is, investors understanding technical analysis and other techniques cannot prevent them from risks and uncertainty create some ways to get fixed and risk free profit. These ways are swap income and bonus transfer. These two terms and their risks will be explained instead of well-known risks.

In this study, general information about forex, hedge system, difference between swap and swap income and cost will be emphasized before focusing on how to make profit by applying swap income, bonus transfer and their undesirable results.

2. Literature Review

As it is known, forex market possesses 5,5-billion-dollar volume all over the world. For this reason, it is believed that there is no probability to manipulate this market. However, trends can be determined by central banks of countries. Especially, announcements and news result in uncertainty and volatility. At first, this situation is not like manipulation then it can become manipulation. To illustrate, FED took some measurements for macroeconomic vision after 2008 mortgage crisis and fed started to announce too many news about macroeconomic indicators. That is, economic movements start to depend on mouth of FED and it has affected all over the world. Way of the trend, volatility and investment decision have been formalized by decision of FED. Especially in announcement and news hours, market is volatile and risk become double.

While positive effect of FED results in increase of USD, negative effect of FED lead to decrease of USD. For instance, XAU/USD (Gold) is sensitive to Central Bank of America. That is, XAU/USD (Gold) increases or decreases by being sensitive to announcements of FED. Announcement hours and sudden shocks are important risks for individual investors. For this reason, while investors pay attention to technical and basic analysis for forecasting future, hedge system are essential role for avoiding risks and loss.

In this part, literature review will be observed about technical analysis, basic analysis and hedge system.

2.1 Technical Analysis

Technical analysis contains price, volume and historical movements on graphs and comments all of these concepts. It is believed that technical analysis is a method which tries to enable investors to forecast

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future price and change of price by using statistic ways that show buying and selling signals (Akman, 2004, p.273).

Technical analysis accepted that price includes everything about factors and effect on formation of price. In the market, there is a trend and this trend occurs via historical trend movements. That is, investors can try to estimate future trend via historical trend formation (Erdinç, 2004, p.183).

Volume, opening price, closing price, lowest and highest price are the important concept for technical analysis since all of these information constitute process of price. Graphs play an essential role on technical analysis since technical analyst tries to understand way of the trend via observing price graphs that consist of demand, supply and demand meeting point. Moreover, analyst tries to follow change of trends determines the turning point of price such as resistance and support point. In this way, technical analysis enable investors to schedule about buying and selling process. Technical analysis possesses three important approaches (Murphy, 1985, p. 2).

i. Market rebates everything: this assumption which is very important for technical analysis support that price reflects everything that possesses effects on price such as economic situation, psychologic factors, politic situation, news and announcements. While increase of supply reduces the price, increase of demand rise the price. That is, technical analysis approach accepted that price reacts due to change of demand and supply.

ii. Prices move with trends: technical analysis suggests that buying and selling process depend on trend direction and it continues constant point and time

iii. The past repeats: similar graph formation and similar price movement enable investors to determine the trend of the price. That is, price is growing from historical price movement and graph formations.

2.2 Basic Analysis

Basic analysis differs from market to market. That is, basic analysis for share market is function of company's financial structure that will be operated (sold or bought) in the stock market. On the other hand, basic analysis for forex market is function of economic situation of countries since currencies and commodities are bought and sold in the forex market. Furthermore, difference between basic analysis of stock market and forex market is that there is chance to make analysis for long run investment at the stock market. However, there is no chance to make analysis in long run investment at the forex market since there is powerful volatility and leverage effect. Another reason why long range investment cannot be made is that forex market does not have structure for long run investments.

Basic Analysis contains huge amount of indicators in terms of company information, sector information, long run factors (Change of population, urbanization, natural resource and development of international trade) and macroeconomic information and expectations (Sevinç, 2004). However, only macroeconomic parameters can be used at forex market and this help investors with having idea for currency and commodities.

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2.3 Hedge system

First of all, hedge system is different concept from hedge fund. Hedge funds are special funds which can use different financial instruments without dependent of legal restrictions and these funds have possibility for short-selling and borrowing (Fıkırkoca, 2006, p.8). That is, while hedge fund is related to investment funds, hedge system is a way which enables investors have fixed profit and avoid losses. This system is the most convenient way to prevent investors from having losses. This way is used for many goals. The first one is that existing and losing position can be protected. Secondly, investors can protect existing position in important announcement hours. The last one is to make profit without risks and uncertainty via bonus transfer and swap income. In this study, the last one will be mentioned because this hedge way start to be big problem for individual investors. All of these ways are used for avoiding risks. On the other hand, last one for profit without risk cannot remove risks. On the contrary, individual investors take much more risks when hedge system is used for profit without risk. This risk will be emphasized after bonus transfer and swap income are explained.

3. Bonus Transfer and Swap Income

Individual investors pay attention to find brokerage companies which are reliable and offering some advantages. That is, they are looking for companies which offer fast withdrawing, bonus opportunities, high swap income and law spread. However, most of beginner and experienced investors do not know which company is reliable. This has become important problem for investors. Turkish investors believe and deposit their money to foreign brokerage company owing to bonus offers, high swap income, absence of swap costs and lower spread.

These brokerage firms are not audited by Sermaye Piyasası Kurulu (SPK) since they are located in abroad. There is an agreement and many rules are declared between investor and Brokerage Company. However, these do not protect the investors. These companies are not regulated by capital markets board of their countries let alone SPK. When investors live problem about withdrawing money, screen errors and others, they cannot find an institution in order to complain. These companies can be reached when investors deposit money. On the other hand, when investors make profit or have any problem, company vanish.

The most attractive question is how investors believe these companies and what are the results?

In this part these questions will be answered and some ways which are used by brokerage companies will be explained.

Companies located in abroad call and offer two kinds of ways that enable investors to make profit without risk. While the first way is bonus transferring, the second one is swap income.

Bonus Transferring: this way seems simple and logical way to make profit. Turkish investor opens two different accounts. While first account is opened at Turkish company, second one is opened at foreign company. Foreign companies offer %20, %30, %40 and %50 bonus advantage depending on depositing amount of money. Investor deposits 30.000$ to two companies and bonus transferring system works Figure 1.

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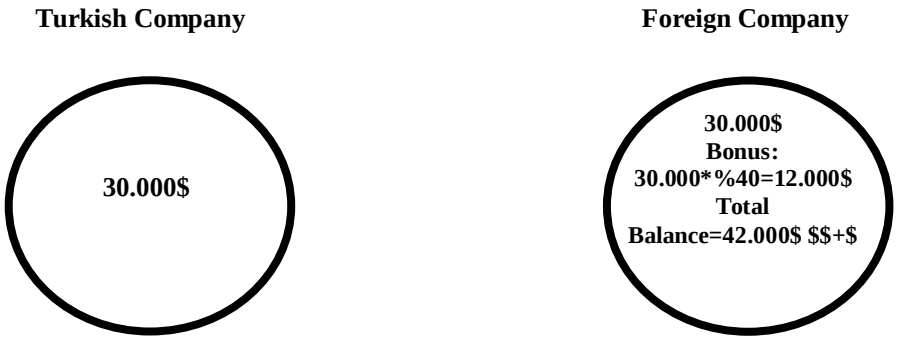


Figure 1. Bonus Transferring System

As it is seen at figure 1, each companies are deposited at 30.000$. However, total account is 42.000$ at foreign company because of bonus. That is, investor will buy and sell same currencies and commodities at two accounts in order to transfer 12.000$ from foreign company to Turkish company. However, loss should be 42.000$ at foreign company to transfer 12.000$. In this way, total account in Turkish Company will be 72.000$.

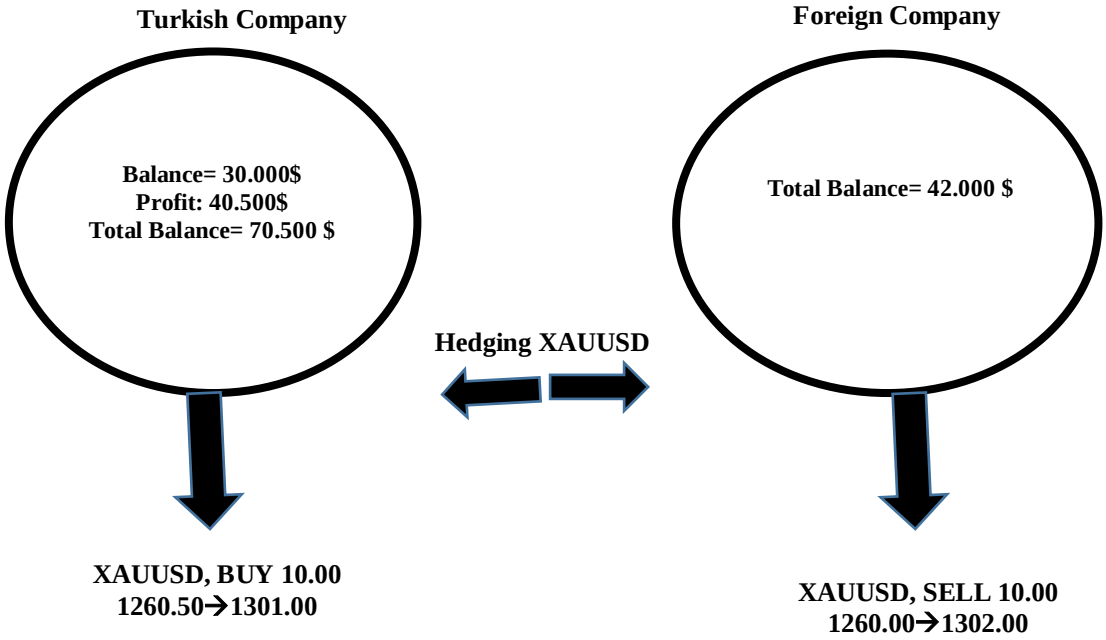


Figure 2. Profit Circulation of Bonus Transferring

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As it is shown at figure 2, bonus and all money was transferred from Foreign Company to Turkish Company via XAUUSD. However there is a spread cost at 1.500 $. That's why, total profit is 10.500$. This way provides investors with opportunity to take fixed and risk free profit thanks to hedging commodities and currincies. As it is seen, change of gold price does not affect the investor thanks to hedge. Opposite function between two brokerage companies protect investor from volatility of gold. Every pip is 1.000$ loss and profit oppositely. Gold increased from 1260.50 to 1301.00 and gold position became profit at Turkish Account, opposite position of gold at foreign account can seem loss. However, it is profit not loss since gold position was hedged and loss and bonus transfered from foreign account to Turkish account automatically. In this way, while bonus was transferred as profit, rest of money was transferred as available capital. After extracting spread cost, investor gained 10.500 $ profit.

Swap Income: brokerage firms give investors swap interest when they have short position with USD (sell USD). On the other hand, swap interest is taken from investors, when they have long position (buy USD). To illustrate, when investors sell USDTRY, they will have swap income. This income differs from company to company. Furthermore, Turkish brokarage firms have to take swap cost when investors buy USDTRY and swap costs are everytime higher than swap income. That is, Turkish brokerage firms do not accept agreement without swap costs. In this wise, swap income can be prevented by brokarage. However, it is believed that there is a way in order to get swap income by investors who look for new ways to find riskless and fixed income. This way is demonstrated at figure 3.

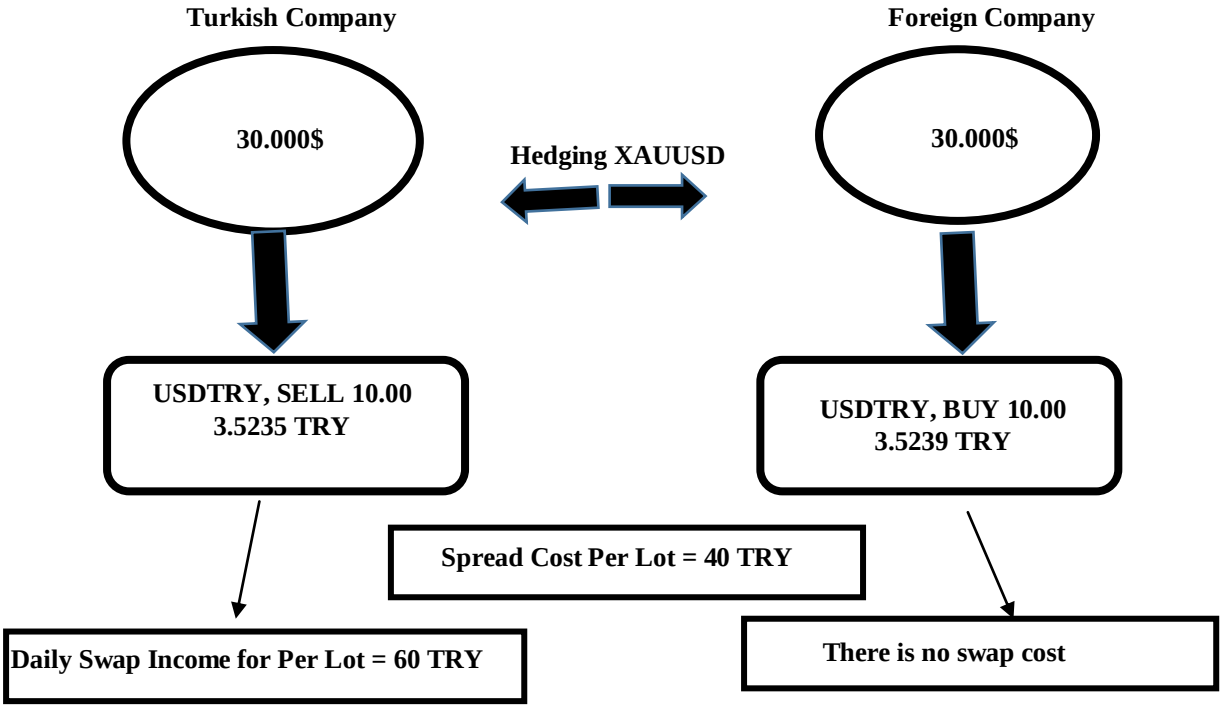


Figure 3. Illustrate of Swap Incame

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Turkish investor opens account both Turkish and foreign company. While investor agree with foreign company not to pay swap cost, daily swap income will be taken from Turkish company at 60TRY. Investor sells USDTRY at 3.5235 TRY and buy it also at 3.5239 TRY. In this way, USDTRY will be hedged and there is no risk on USDTRY. There is only spread cost (40TRY) and it is 400TRY at 10.00 lot USDTRY.

Provided that investor does not close the both USDTRY positions in twenty days, profit will be 11.600TRY. Calculation is shown below.

Total Swap Income = (Days * lot * daily swap income) – spread cost

11.600 TRY = (20 * 10.00 * 60TRY) – 400TRY

Provided that investor waits longer, profit will increase since spread cost will be paid lower. Therefore, USDTRY should be bought and sold from point that does not result in margin call. Every margin call leads to new trades and new trade leads to much more spread cost.

4. Conclusion

Developing financial methods and plans brings with it new perception. In these days, the perception is better risk free income than risky one. Therefore, individual investors do not desire to take risk even probability of high profit and they try to find the best way in order to have fixed income. When huge amount of investors hear bonus transferring and swap income strategies, are volunteer to apply these strategies. However, they are not aware of danger of these strategies. That is, individual investors focus on riskless strategy, fixed income and easy way of money. Brokerage companies offering bonus, swap income, low spread and none swap cost trick individual investors. Investors trying to avoid risks and uncertainty face fraud and they lose their whole investments. Bonus transferring and swap income can seem attractive strategy, however, huge amount of investors faced fraud owing to these strategy. Especially, shopkeepers in grand bazaar are tricked many company because of these strategy even these shopkeepers have knowledge about forex market and these kind of brokerage company.

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