

## The FX Markets

Mt.Cook Financial (“MTC”) and their partners have to date built one of the most structured, sophisticated, and stable trading environments available on the market. Countless man hours have been poured into the technology side, the administrative side, and the relationship building aspect to construct a final finished product which runs as smoothly and as efficiently as possible.

However given the very decentralized nature of the foreign exchange markets, there are often various types of trading and execution risks which are inherently present, and often out of the direct control of MTC. While many of these conditions may be extremely rare, or typically non-existent, they are still possible given the nature of the foreign exchange markets. The purpose of this document is to highlight some of these potential risks.

## Widened Spreads

MTC strives to always provide traders with tight, competitive spreads and has to our knowledge, one of the best feeds and pricing available to traders; however, there may be instances when spreads widen beyond the typical average spread. During news events spreads may widen substantially in order to compensate for the tremendous amount of volatility in the market. The widened spreads may only last a few seconds or as long as a few minutes. MTC strongly encourages traders to utilize caution when trading around news events and always be aware of their account equity, usable margin and market exposure. Widened spreads can adversely affect all positions in an account including hedged positions.

## Slippage

MTC aims to provide clients with the best pricing available and to get all orders filled at the requested rate. However, there may be times when, due to an increase in volatility or volume, orders may be subject to slippage. This varies considerably based on the existing market condition, and the method in which orders are being passed through (i.e., the platform being utilized) and most commonly occurs during fundamental news events. API trading is much less susceptible to slippage, but in any regard, MTC shall not be held responsible for any instances where such instances may happen to occur.

The volatility in the market may create conditions where orders are difficult to execute, since the price might be many pips away due to the extreme market movement. Although the trader is looking to execute at a certain price, the market may have moved significantly and the order would be filled at the next best price or the fair market value. Similarly, increased volume may also result in slippage if sufficient liquidity does not exist to execute all trades at the requested rate. The concept of slippage is not unique to the forex market, as it often occurs in the equities and futures markets. Once a stop is triggered, it becomes an At Best market order, and there is no guarantee it will be filled at any particular given price. Therefore, although rare, stop orders may incur slippage depending on market conditions.

MTC has obtained close banking relationships with some of the world's largest and most aggressive price providers. Having multiple price providers and different bands of liquidity is especially important in volatile markets, when one or two banks may post wide spreads, or simply avoid quoting any price at all. With so many major banks quoting prices to MTC, there are competitive spreads and fills, even during market-moving news events.

## Delays in Execution

A delay in execution may occur for various reasons, such as geographic latency, or technical issues with the trader's internet connection to the MTC servers, which may result in lagging or hanging orders. MTC's trading platforms running on a trader's computer may not be maintaining a constant connection with the MTC servers due to a lack of signal strength from a wireless or dialup connection. A disturbance in the connection path can sometimes interrupt the signal, and may disable the MTC platforms, causing delays in transmission of data between the trader's platforms and the MTC server. One way to check your internet connection with MTC's server is to "ping" the server from your computer and look for any anomalies or latency issues. If a trader is unsure of their strength or reliability of their internet connection it is recommended to trade from a Virtual Private Server (VPS) or a Dedicated Server (DS) with high uptime and low latency to MTC's trade servers. Please contact MTC for more information or a consultation on such alternatives.

## Reset Orders

Market volatility creates conditions that make it difficult to execute orders at the given price due to an extremely high volume of orders. By the time orders are able to be executed, the bid/ask price at which a counterparty is willing to take a position may be several pips away. In very rare cases where there may not be enough liquidity to fill a Market Range order, the order may be rejected. For Limit Entry or Limit orders, the order could be rejected and reset until the order can be filled. MTC offers the At Best type of order for traders who wish to avoid this situation.

## Hanging Orders

MTC provides its clients with direct market access, no dealing desk, forex execution. MTC utilizes an STP (straight through processing system) whereby client orders are sent through to banks and filled on bank prices in a near-instantaneous fashion. During periods of high volume, hanging orders may occur. This is a condition where an order sits in the "orders" window after it has been executed. Generally, the order has been executed, but it is simply taking a few moments for it to be confirmed by the banks. During periods of heavy trading volume, it is possible that a queue of orders will form. That increase in incoming orders may sometimes create conditions where there is a delay from the banks in confirming certain orders. Depending upon the type of order placed, outcomes may vary. If this is a Market Range order and the order cannot be filled within the specified range, or if the delay has passed, the order will be rejected. If it is an At Best order, every attempt will be made to fill the order at the next best available price in the market. In both situations, the "status" column in the "orders" window will typically indicate "executed" or "processing." The trade will simply take a few moments to move to show

as an "open positions". Depending upon the order type, the position may in fact have been executed, and the delay is simply due to heavy internet traffic.

Keep in mind that it is only necessary to enter any order once. Multiple entries for the same order may slow or lock your computer or inadvertently open unwanted positions. If at any time you are unable to access the MTC trading platforms(s) to manage your account, you may contact our dealing desk directly as per our support protocol found in our client area.

## Hedging

The ability to hedge is permitted by MTC. Hedging allows a trader to hold both buy and sell positions in the same currency pair simultaneously. Traders have the ability to enter the market without choosing a particular direction for a currency pair. While the ability to hedge is an appealing feature, traders should be aware of the factors that may affect hedged positions.

## Diminishing Margin

A margin call may occur even when an account is fully hedged, since spreads may widen, causing the remaining margin in the account to diminish. Should the remaining margin be insufficient to maintain any open positions, the account may sustain a margin call, closing out any open positions in the account. Although maintaining a long and short position may give the trader the impression that his exposure to the market's movement is limited, if insufficient available margin exists and spreads widen for any period of time, it is possible that it could result in a margin call on all positions.

## Rollover Costs and Risks

Rollover is the simultaneous closing and opening of a position at a particular point during the day in order to avoid the settlement and delivery of the purchased currency. This term also refers to the interest either charged or applied to a trader's account for positions held "overnight," on MTC's trading software. The time at which positions are closed and reopened, and the rollover fee is debited or credited, is commonly referred to as Trade Roll Over (TRO). It is important to note that rollover charges will be higher than rollover accruals. When all positions are hedged in an account, although the overall net position may be flat, the account can still sustain losses due to the spread that occurs at the time rollover occurs.

## Exchange Rate Fluctuations (Pip Costs)

Exchange rate fluctuations, or Pip Costs, are defined as the value given to a pip movement for a particular currency pair. This cost is the currency amount that will be gained or lost with each pip movement of the currency pair's rate and will be denominated in the currency denomination of the account in which the pair is being traded. When a trader's position is hedged against exchange-rate risk, it may still be exposed to exchange-rate volatility if the counter currency of the pair being hedged differs

from the denomination of the account. This can be very important for clients who have very large, hedged JPY positions: if the USD/JPY falls 1000+ pips, it can (depending on leverage, of course) have a severe impact on the gross P/L of any hedged JPY positions.

## Inverted Spreads

MTC maintains a predominantly “direct market access” execution model. When you trade with MTC, you are trading on aggregated feeds that are being provided by multiple (over 40) top-tier banks and financial institutions. Unfortunately, online trading technology is not perfect and, in rare cases, this feed can be disrupted. This may only last for a moment, but when it does, spreads may become inverted. During these rare occasions, MTC advises that clients avoid placing orders. While it may be tempting to place a "free trade," keep in mind that the prices may not be real and your actual fill may be many pips away from the displayed price. In the event that trades are executed at rates not actually offered by MTC's banks and financial institutions, MTC reserves the right to reverse such trades, as they are not considered valid trades, and such trades can be reversed as far as up to 90 days after occurring. Keep in mind these instances are usually rare, and by not trading during these moments, traders can avoid the risk associated with such rare scenarios.

## Holiday / Weekend Execution

### TRADING DESK HOURS

The open or close times may be altered by the Trading Desk of MTC occasionally, because it relies on prices being offered by banks and financial institutions that provide liquidity for MTC. Outside of these hours, most of the major world banks and financial centers are closed. The lack of liquidity and volume during the weekend impedes execution and price delivery. Traders should also take note of any DST time shifts which may impact MTC's open and closing trading hours and market watch time. Please inquire with MTC if you are unsure of these times or how they may impact you.

### PRICES UPDATING BEFORE THE OPEN

Shortly prior to the open, the Trading Desk may refresh rates to reflect current market pricing in preparation for the open. At this time, trades and orders held over the weekend are subject to execution. Quotes during this time may not be executable for new market orders. After the open, traders may place new trades, and cancel or modify existing orders.

### LIQUIDITY

Please be aware that during the first few hours after the open, the market tends to be thinner than usual until the Tokyo and London market sessions begin. These thinner markets may result in wider spreads, as there are fewer buyers and sellers. This is largely due to the fact that for the first few hours after the open, it is still the weekend in most parts of the world.

## GAPPING

Sunday's opening prices may or may not be the same as Friday's closing prices. At times, the prices on the Sunday open are near where the prices were on the Friday close. At other times, there may be a significant difference between Fridays close and Sundays open. The market may gap if there is a significant news announcement or an economic event changing how the market views the value of a currency. Traders holding positions or orders over the weekend should be fully comfortable with the potential of the market to gap. One of the great things about trading at MTC is that outside of announced major holidays, the trading hours routinely close only once a week on the weekends, which corresponds with the hours of major banks and financial institutions. In contrast, most stock exchanges close five times each week, and can gap significantly on each day's open.

## ORDER EXECUTION

Limit orders are often filled at the requested price or better. If the price requested is not available in the market, the order will not be filled. If the requested price of a stop order is reached at the open of the market on Sunday, the order will become a market order. Limit Entry orders are filled the same way as limit orders. Stop Entry orders are filled the same way as stops.

## WEEKEND RISK

Traders who fear that the markets may be extremely volatile over the weekend, that gapping may occur, or that the potential for weekend risk is not appropriate for their trading style, may simply close out orders and positions ahead of the weekend.

## Margin Calls

The idea of margin trading is that your margin acts as a good faith deposit to secure the larger notional value of your position. Margin trading allows traders to hold a position much larger than the actual account value. MTC's online trading platform has margin management capabilities, which allow for this high leverage. Of course, trading on margin comes with risk, since high leverage may work against you as much as it works for you. If account equity falls below MTC's margin requirements, the MTC Trading Platform will trigger an order to close all open positions. When positions have been over-leveraged or trading losses are incurred to the point that insufficient equity exists to maintain current open positions, a margin call will result, and open positions must be liquidated.

Please keep in mind that when the account's useable margin is fully used up, all open positions are triggered to close. This may happen before useable margin reaches zero. The margin-call process is entirely electronic, and there is no discretion on MTC's part as to the order in which trades are closed. Such discretion would require MTC to actively monitor positions and accounts.

Although the margin call feature is designed to close positions when account equity falls below the margin requirements, there may be instances when liquidity does not exist at the exact margin call rate.

As a result, account equity could possibly fall below margin requirements at the time orders are filled, even to the point where account equity becomes negative. This is especially true during market gaps or volatile periods. Clients should be mindful that all funds on deposit in an account are subject to loss. MTC also recommends that traders use stop orders to limit downside risk in lieu of using a margin call as a final stop. It is strongly advised that clients maintain the appropriate amount of margin in their accounts at all times and trade responsibly. You may request to change your margin requirement by contacting and requesting this change to MTC (which is subject to approval by MTC). Margin requirements may be changed based on account size, simultaneous open positions, trading style, market conditions, and at the discretion of MTC.

## Chart Pricing vs. Prices Displayed on the Platform

It is important to make a distinction between indicative prices (displayed on charts) and deal-able prices (displayed on the MTC DMA Quote viewer). Indicative quotes are those that offer an indication of the prices in the market, and the rate at which they are changing. Market watchers, such as S&P and eSignal, compile indicative quotes as a proxy for the market's actual movement. These prices are derived from a host of contributors such as banks and clearing firms, which may or may not reflect where MTC's liquidity providers are making prices.

Indicative prices are usually very close to dealing prices. Indicative quotes only give an indication of where the market is. Equity and futures traders dealing through a broker will see indicative quotes. Executable quotes ensure finer execution and thus a reduced transaction cost. Equity and futures traders are used to prices being the same at any given time, regardless of which firm they are trading through or which charting provider they are using, and they often assume the same holds true for spot forex. Because the spot forex market is decentralized, meaning it lacks a single central exchange where all transactions are conducted, each forex dealer (DMA or market maker) may quote slightly different prices. Therefore, any prices displayed by a third party charting provider, which does not employ the provider's price feed, will reflect "indicative" prices and not necessarily actual "dealing" prices where trades can be executed. MTC has invested a large amount of money and technology to limit this type of misalignment, but it may still transpire on rare occasions and MTC shall not be liable for such pricing.

## Mobile Trading Platform

There are a series of inherent risks with the use of the mobile trading technology such as the duplication of order instructions, latency in the prices provided, and other issues that are a result of mobile connectivity. Prices displayed on the mobile platform are solely an indication of the executable rates and may not reflect the actual executed price of the order. Mobile trading platforms utilize public communication network circuits for the transmission of messages. MTC shall not be liable for any and all circumstances in which you experience a delay in price quotation or an inability to trade caused by network circuit transmission problems or any other problems outside the direct control of MTC. Transmission problems include but are not limited to the strength of the mobile signal, cellular latency, or any other issues that may arise between you and any internet service provider, phone service provider, or any other service provider.

Please note some features of the MTC Trading Platforms may not be available on the MTC Mobile Trading Platforms. It is strongly recommended that clients familiarize themselves with the functionality of the MTC Mobile Trading Platforms prior to managing a live account via portable device.

**THIS BRIEF DOCUMENT MAY NOT DISCLOSE ALL THE RISKS AND SIGNIFICANT ASPECTS OF THE FOREIGN EXCHANGE MARKETS. THEREFORE, YOU SHOULD SEEK INDEPENDENT PROFESSIONAL ADVICE AND GUIDANCE WHEN REQUIRED.**

### Questions

MT.COOK is committed to transparency and integrity, and are always willing to assist in helping existing or potential participants understand various topics and make well informed decisions. Please do not hesitate to contact MT.COOK at [www.mtcookfinancial.com/contact/](http://www.mtcookfinancial.com/contact/) for any further questions or clarifications pertaining to this, or any other documents as they relate to MT.COOK.