

Overview of Financial Literacy Survey of Investors in Foreign Exchange Margin Transactions

April 2018



About this Survey

Target population:

Among individual members of the general public in their 20s to 70s (male and female) from across Japan (source: Nippon Research Center Ltd. Web panel and its affiliated panels), those conducting foreign exchange margin transactions at the time of the survey were preferentially selected. Regarding those who used to conduct foreign exchange margin transactions in the past, those whose last transactions had been conducted more recently were preferentially selected. The total number of persons selected and surveyed is 1,000.

Demographic profile of those surveyed:

In 2017, the Financial Futures Attitude Survey of Individual Investors was conducted to survey 2,000 individual members of the general public (male and female) from across Japan. Using the appearance rate of those having experience of foreign exchange margin transactions obtained from the 2017 survey, we defined the demographic breakdown (by gender and by age) and determined the sample size for each demographic group to select a total of 1,000 respondents (as shown in the following table) for the 2018 survey. While each demographic group initially created is a 10-year age group, two small-size groups are combined into one group.

Demographic breakdown of those surveyed

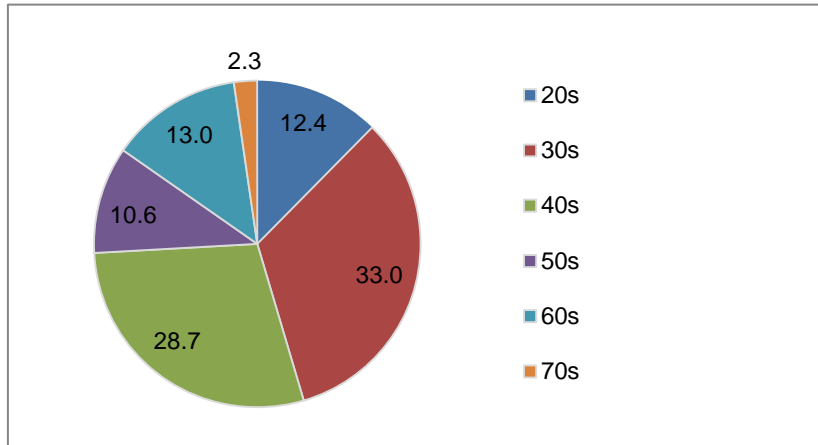
Total	Male						Female			
	Subtotal	20s	30s	40s	50s	60s-70s	Subtotal	20s-30s	40s-50s	60s-70s
1000	763	104	268	222	66	103	237	82	105	50

Method: Internet survey

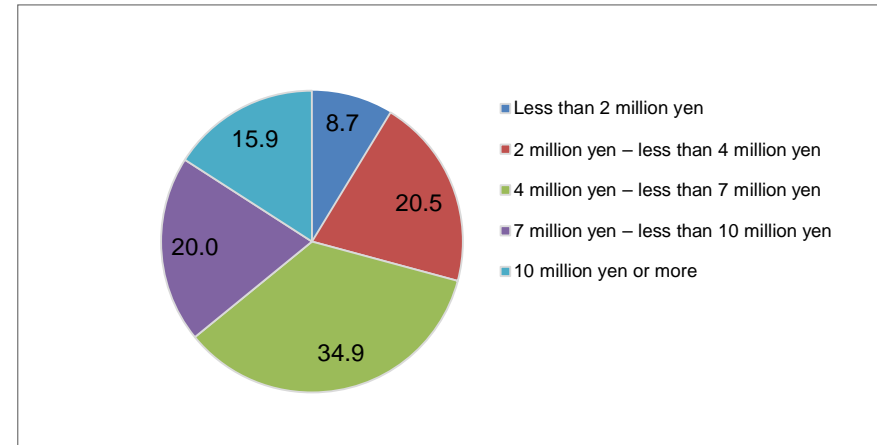
Period: Friday, February 23 – Thursday, March 1, 2018

Demographic breakdown of those surveyed (respondents)

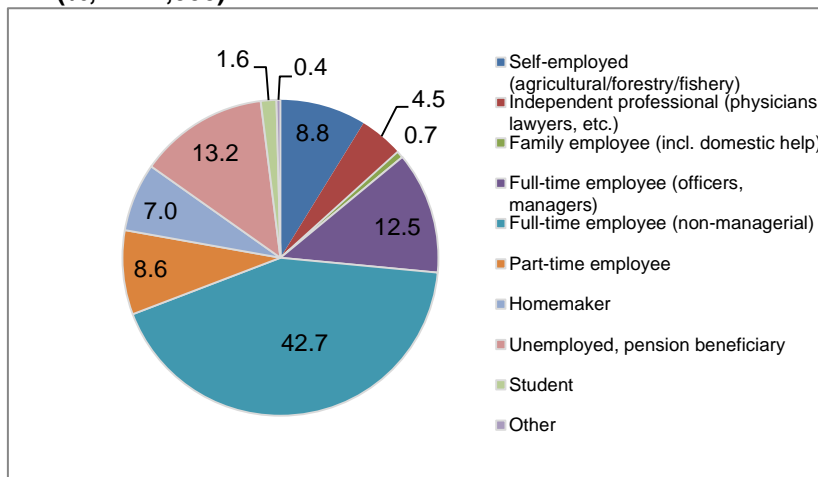
(1) Distribution of the respondents by age (% , n = 1,000)



(3) Distribution of the respondents by annual income (% , n = 1,000)



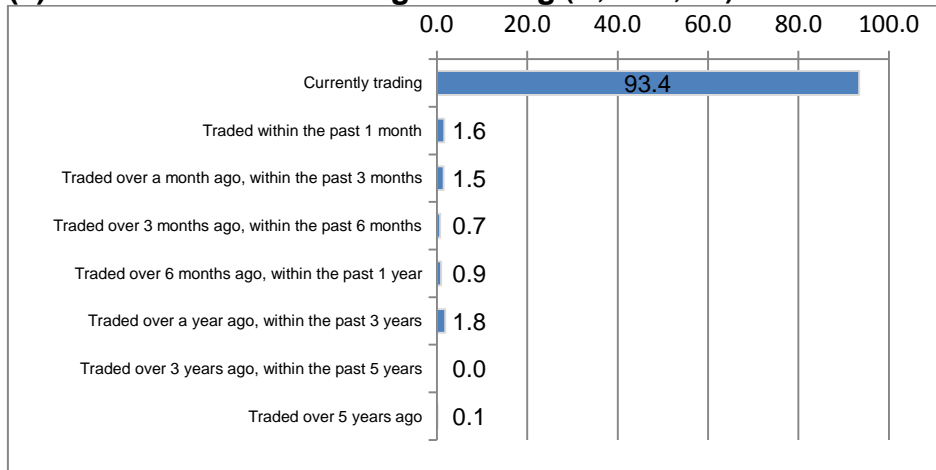
(2) Distribution of the respondents by occupation (% , n = 1,000)



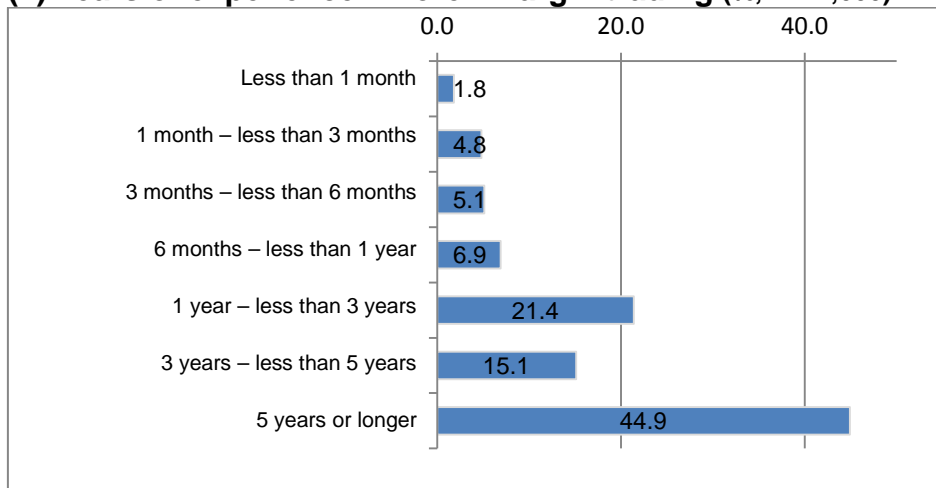
- About 55% of the respondents are full-time employees (officers, managers and non-managerial employees), while unemployed and pension beneficiaries account for about 13%.
- Those whose annual income is not less than 4 million yen and less than 7 million yen account for 34.9%, which is the largest proportion of the respondents. The total of respondents whose annual income falls below 7 million yen amounts to 64.1%.

1. Stance on Foreign Exchange Margin Transactions

(1) Most recent forex margin trading (% , n = 1,000)

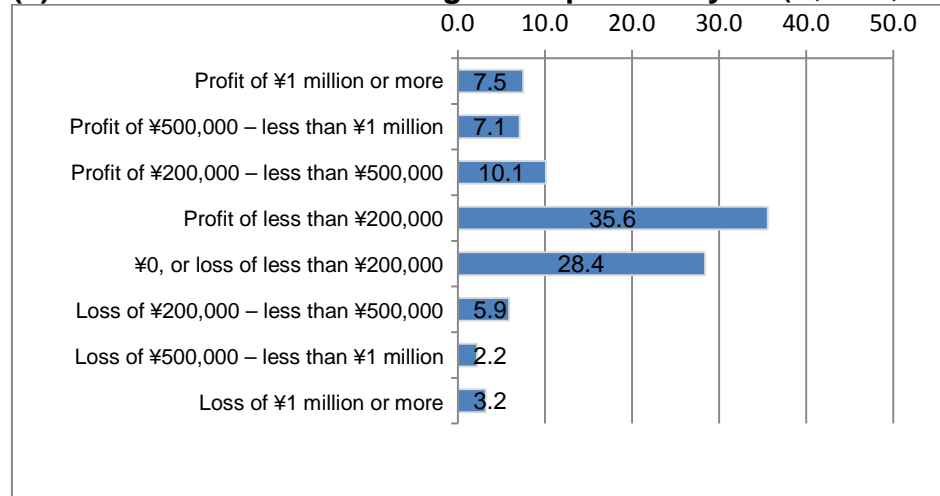


(2) Years of experience in forex margin trading (% , n = 1,000)

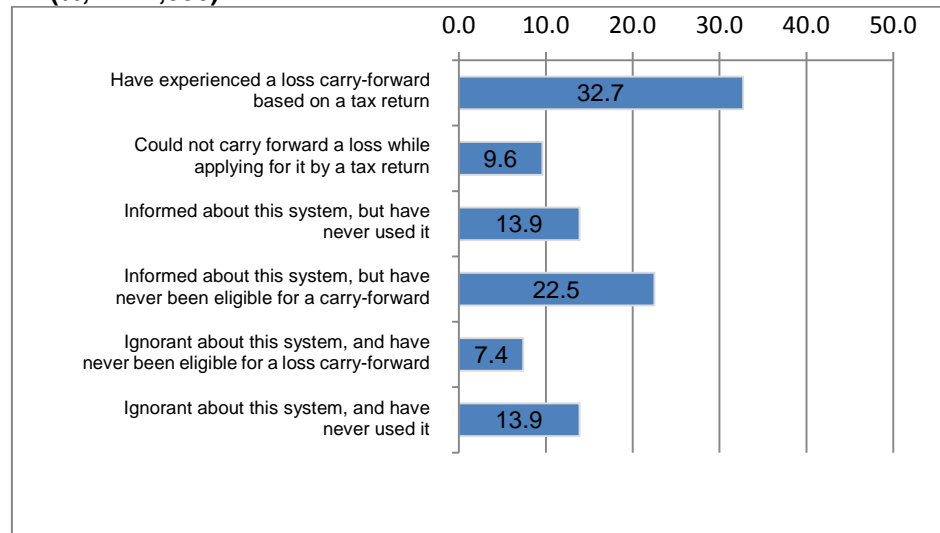


- Among all the respondents in this survey, about 93% said that foreign exchange margin transactions (forex margin trading or merely “FX” trading) presently constitutes their investment choices.
- 81.4% of the respondents have at least one year of experience in forex margin trading, and those who have experience of five years or longer account for 44.9%.

(3) Profit or loss in FX trading in the previous year (% , n = 1,000)

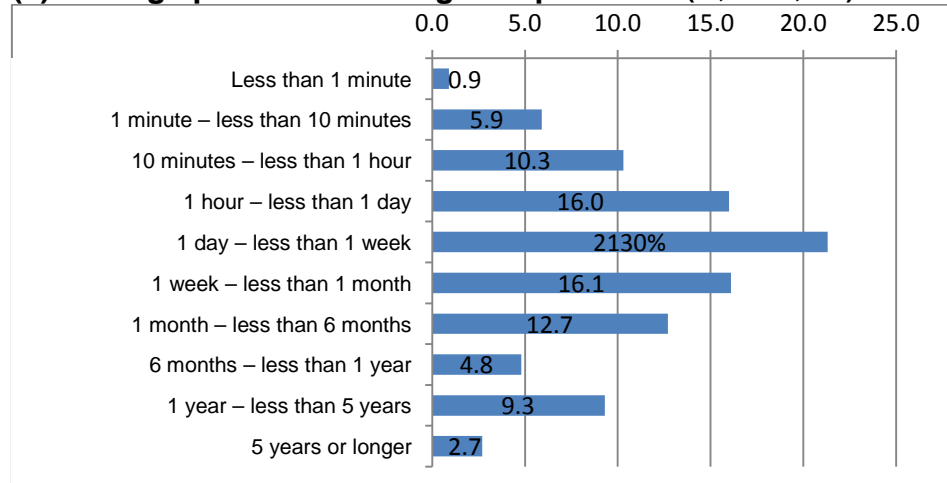


(4) About the system for carrying forward losses from FX trading (% , n = 1,000)

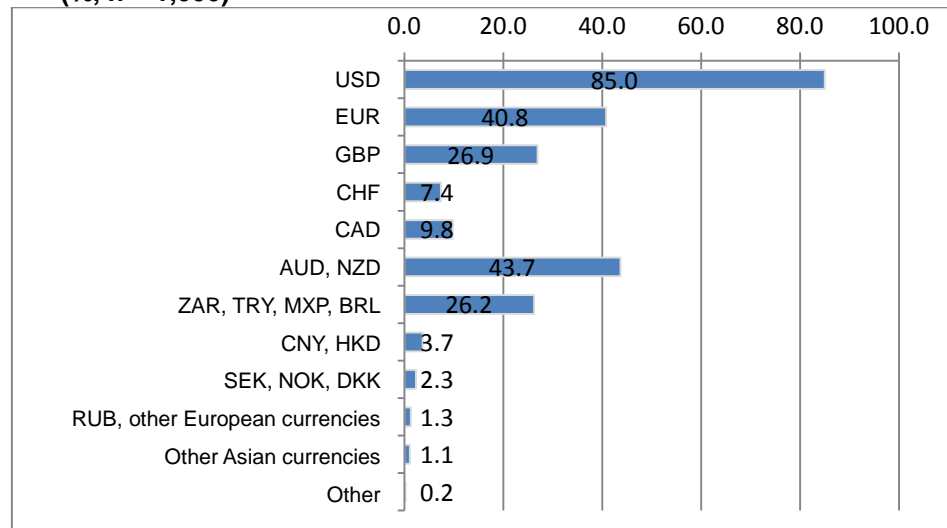


- Regarding the total net profit or loss in forex margin trading in the previous year, 35.6% of the respondents earned a profit of less than 200,000 yen, and 28.4% made no profit or suffered a loss of less than 200,000 yen. A total of 64.0% posted an annual loss not exceeding 200,000 yen.
- We asked about the respondents' awareness of the system for carrying forward a net investment loss incurred as a result of forex margin trading and their experience of using this system. 32.7% said that they took a tax deduction based on their trading losses (i.e. they were allowed to carry forward a trading loss after filing a tax return). 22.5% have no experience of claiming a loss carry-forward (while they knew about the loss carry-forward system, they did not need to take a tax deduction since they finally made a profit on an annual basis).

(5) Average period of holding new positions (% , n = 1,000)



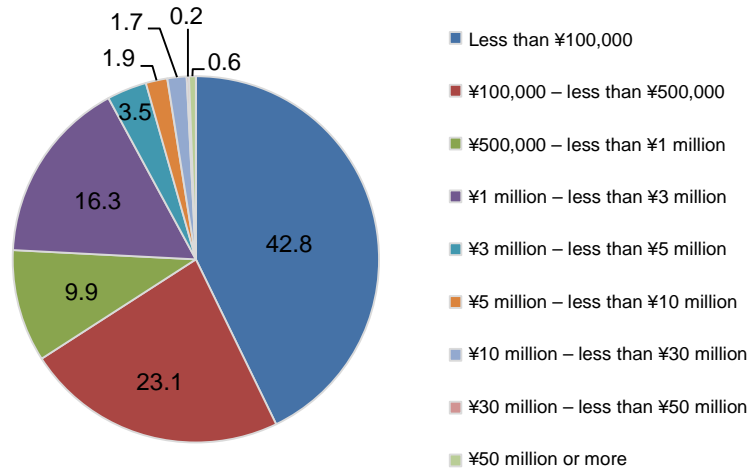
**(6) Foreign currencies traded on margin (multiple answers)
(% , n = 1,000)**



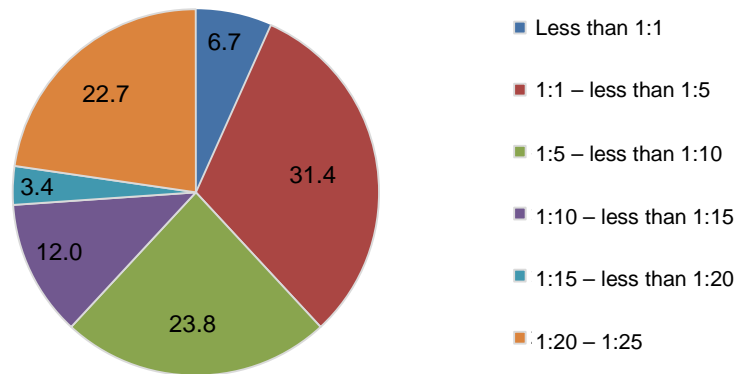
- Looking at the average period of holding new positions, 21.3% of the respondents hold positions one day or more and settle them within one week, which constitutes the largest proportion, followed by those holding positions for a period of not less than one week and less than one month (16.1%) and for a period of not less than one hour and less than one day (16.0%).

- We asked about foreign currencies traded by the respondents on margin. The most traded currency is the US dollar, which is traded by 85.0% of the respondents. Then, the Australian dollar and/or New Zealand dollar (43.7%) and euro (40.8%) follow at the 40% level. The currencies traded by more than one-quarter of the respondents are the British pound (26.9%) and a group of South Africa rand, Turkish lira, Mexican peso and Brazilian real (26.2%).

(7) Average trading amount for new FX transactions (% , n = 1,000)

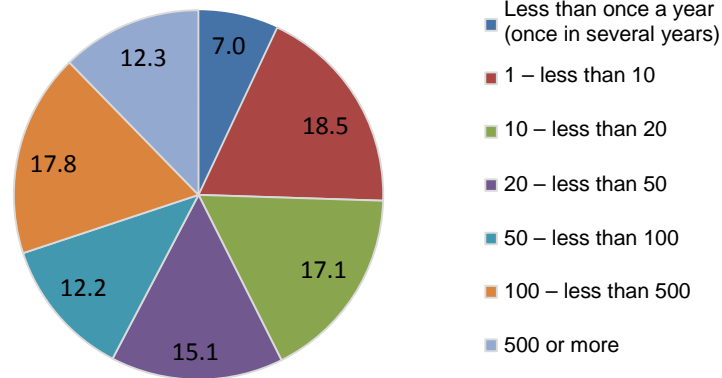


(8) Leverage ratios chosen for executing FX transactions (% , n = 1,000)



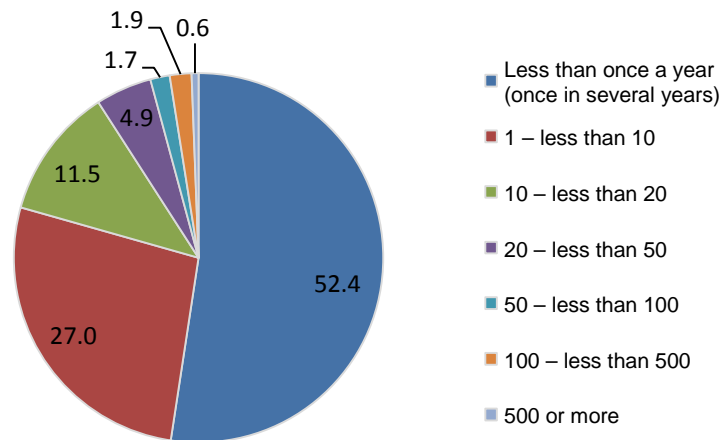
- The average trading amount for new contracts executed in forex margin trading is less than 100,000 yen for the largest proportion of respondents, i.e. 42.8%, and not less than 100,000 yen and less than 500,000 yen for 23.1%. The total of respondents investing one million yen or more for each new contract on average is 24.2%.
- As for the leverage ratios chosen by the respondents when executing forex margin transactions, 31.4% of the respondents choose not less than 1:1 and less than 1:5 and 23.8% choose not less than 1:5 and less than 1:10, while 22.7% set a ratio between 1:20 and 1:25.

(9) Number of FX transactions executed during a year (% , n = 1,000)



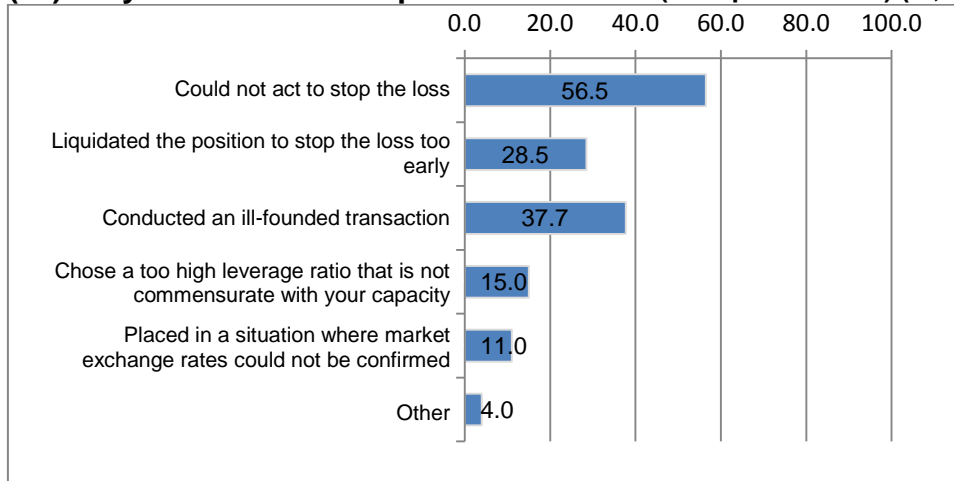
- We asked the respondents how often they execute forex margin transactions during a year. Not less than one and less than 10 transactions are selected by 18.5% of the respondents, while 17.8% said not less than 100 and less than 500 transactions. Most of the given categories show nearly equal proportions around at the 10-percent level. The total of respondents trading 20 or more transactions per year exceeds 57.4%.

(10) Number of loss-cut transactions during a year (% , n = 1,000)

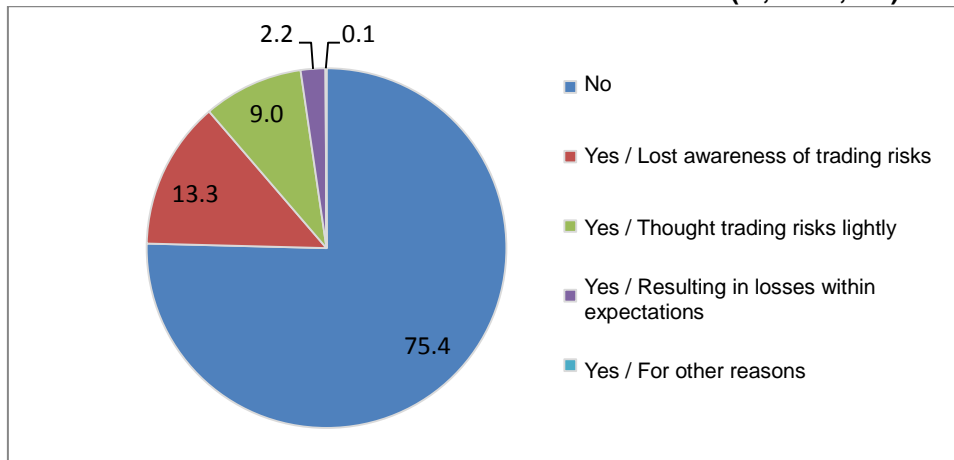


- We asked about the respondents' frequency of executing loss-cut transactions in forex margin trading during a year. A majority (52.4%) said that the number of loss-cut transactions per year is less than one (i.e. once in several years).

(11) Why FX transactions produced losses (multiple answers) (% , n = 1,000)

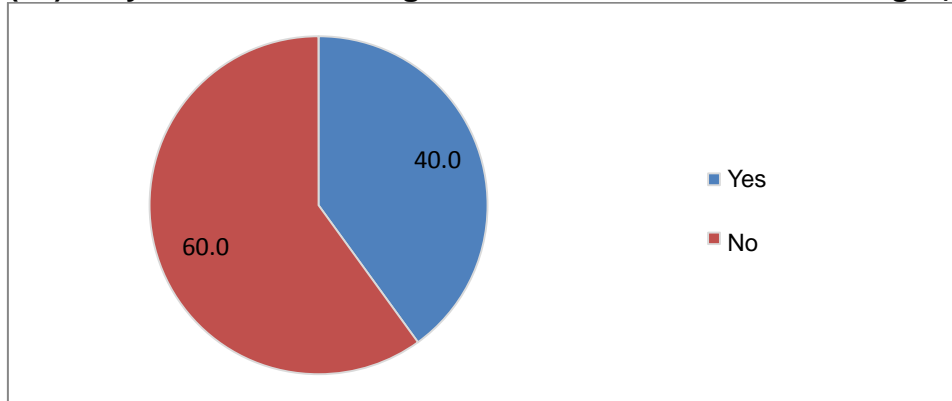


(12) Experience of suffering a loss exceeding the deposited margin amount (the total value of deposited assets) and reasons for the occurrence of such losses (% , n = 1,000)

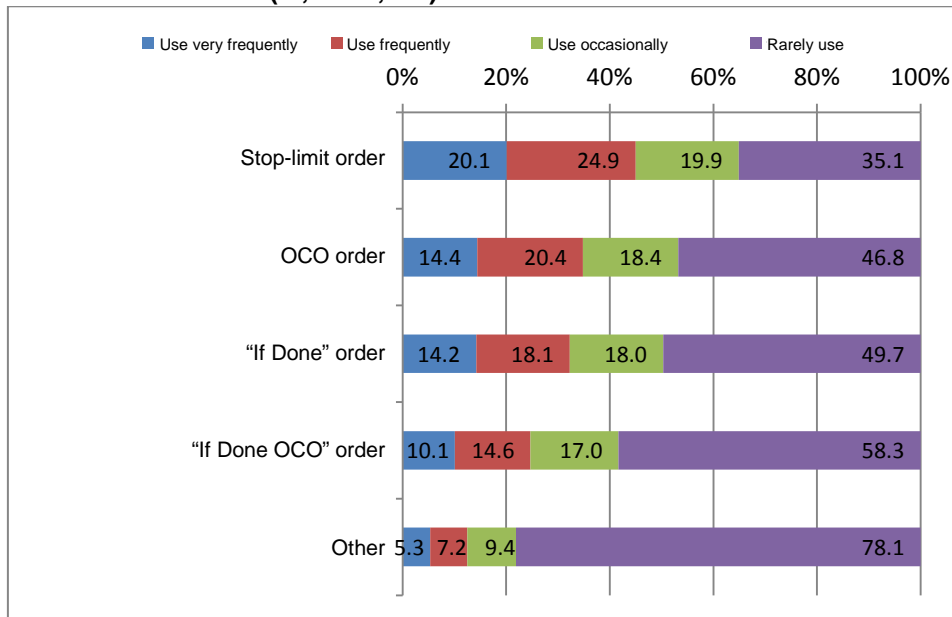


- We asked why respondents suffered a loss in their forex margin trading. The most common answer is that they could not act to stop the loss, as chosen by 56.5% of the respondents. Then, 37.7% said that the transaction was ill-founded, and 28.5% consider that they liquidated the position to stop the loss too early.
- We asked whether the respondents have the experience of suffering a loss at an amount exceeding the margin amount (the total amount of assets) being deposited with their forex margin trading broker. Those who have never suffered such a huge loss account for 75.4%. Those who have suffered such a loss are mainly comprised of: 13.3% of all respondents, who lost awareness of trading risks, and 9.0%, who thought too lightly of the trading risks.

(13) Do you have skills to generate a return from FX trading? (% , n = 1,000)



(14) What types of forex orders are used, aside from limit orders and market orders (% , n = 1,000)

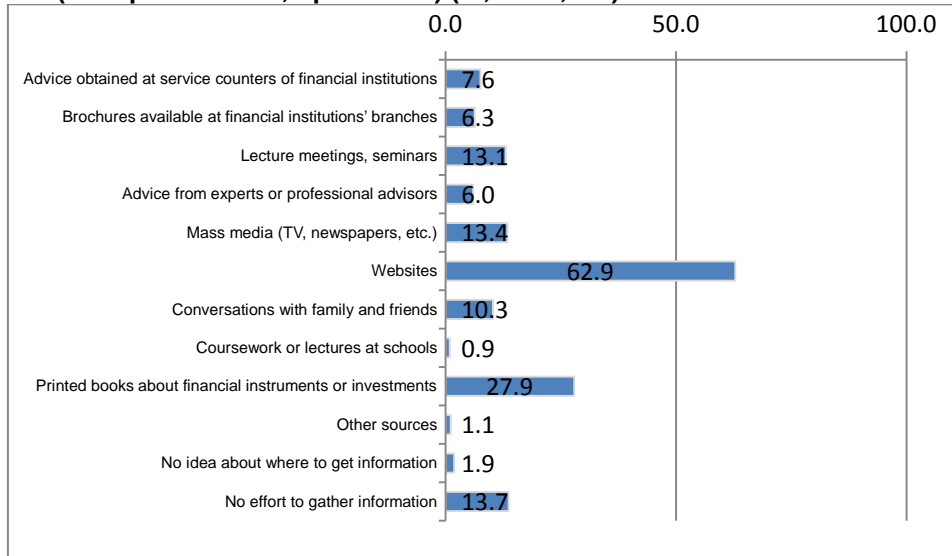


- We asked whether respondents have investment skills to eventually generate a return from forex margin trading (even though they may sometimes suffer losses). 40% said yes, and 60% said no.
- With the exception of limit orders and market orders, which types of orders do the respondents usually use to execute forex margin transactions? Looking into popular order types by adding up those who use them very frequently or frequently, the most-used order type is stop-limit orders (45.0%) and the next is "One Cancels the Other" (OCO) orders (34.8%). The proportion of those who use "If Done" orders is 32.3%, remaining at around the 30-percent level. "If Done OCO" orders are used by 24.7%, and other order types are used by 12.5%.

2. Information Gathering and Investment Policy in Foreign Exchange Margin Transactions

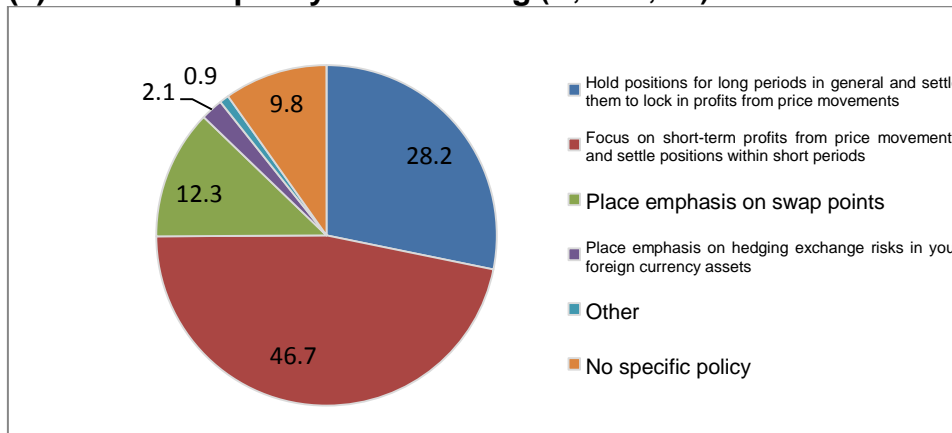
(1) Major sources of FX trading information

(multiple answers, up to three) (% , n = 1,000)



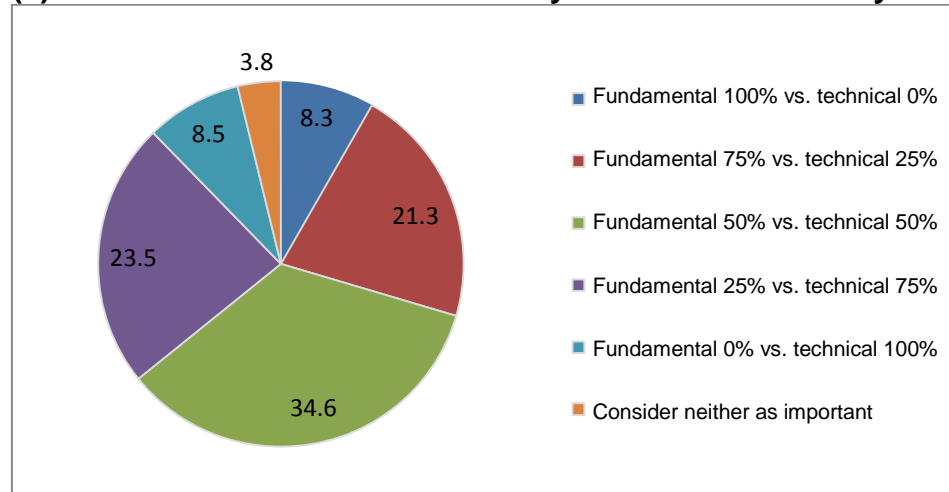
- The most popular source of information about forex margin trading is Web searching, as mentioned by 62.9% of the respondents, which is by far the highest proportion. The second most popular one is printed books about financial instruments or investments (27.9%), followed by mass media such as TV, newspapers, etc. (13.4%) and participation in lecture meetings or seminars (13.1%).

(2) Investment policy in FX trading (% , n = 1,000)



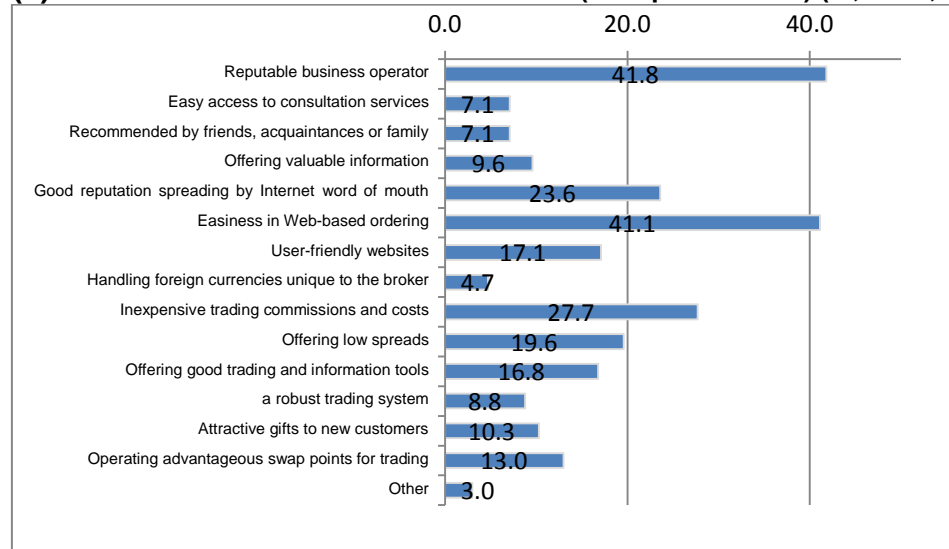
- The most prevailing investment policy in forex margin trading is focusing on short-term profits from price movements and settling positions within short periods, as chosen by 46.7%. The second prevailing one is holding positions for long periods in general and settling positions to lock in profits from price movements, as chosen by 28.2%.

(3) Preference for fundamental analysis or technical analysis in FX trading (% , n = 1,000)



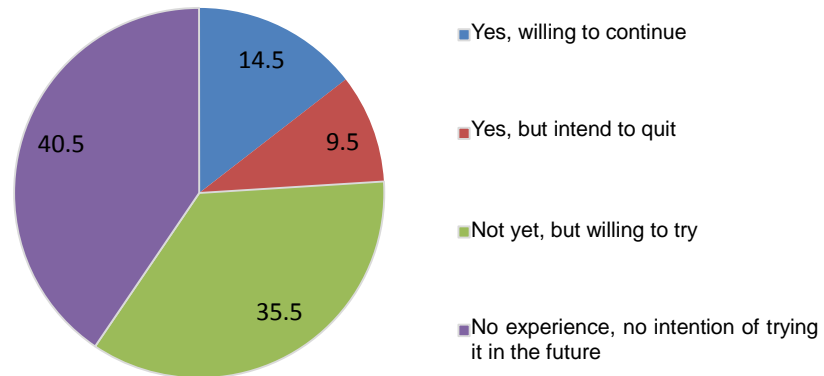
- We asked about the level of importance placed on fundamental analysis and technical analysis. 34.6% of respondents said that both are equally important (50%–50%). Those who put more emphasis on technical analysis (75% or higher) and those who prefer to fundamental analysis (75% or higher) account for about 30% respectively. Therefore, the respondents are classified into these three patterns in nearly equal proportions.

(4) Reasons for choice of FX brokers (multiple answers) (% , n = 1,000)



- The most common reasons for choice of present brokers for forex margin trading are whether they are a reputable business operator or not (41.8%) and easiness in Web-based ordering (41.1%), ranked in almost the same proportion. Then, inexpensive trading commissions and costs (27.7%) and good reputation spreading by Internet word of mouth (23.6%) rank next, respectively at the 20-percent level.

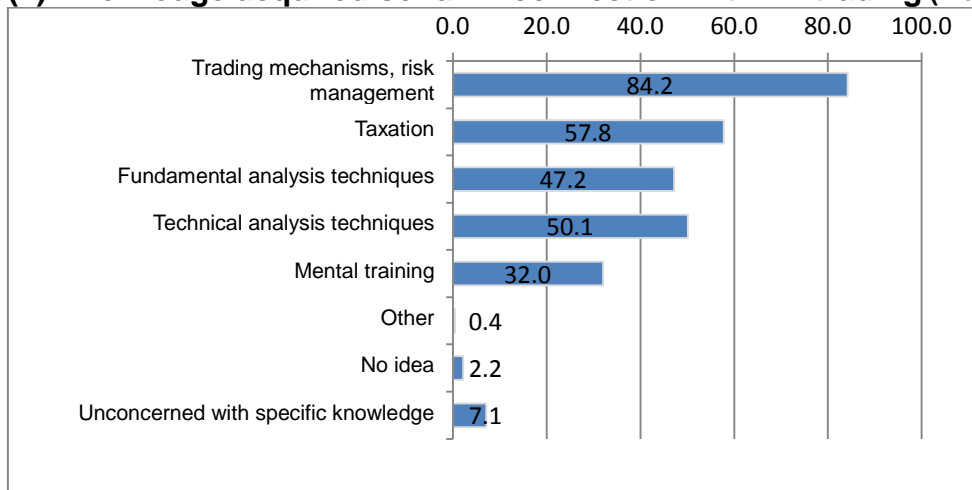
(5) Experience of automated trading processed by a computer program (% , n = 1,000)



- 24.0% of the respondents have the experience of automated trading processed by a computer program. Those who intend to continue automated trading or who are willing to try it while having no experience yet account for 50.0% in total. Looking into other answers, 40.5% have neither experience nor intention of trying it, and 35.5% are willing to try it while having no experience yet.

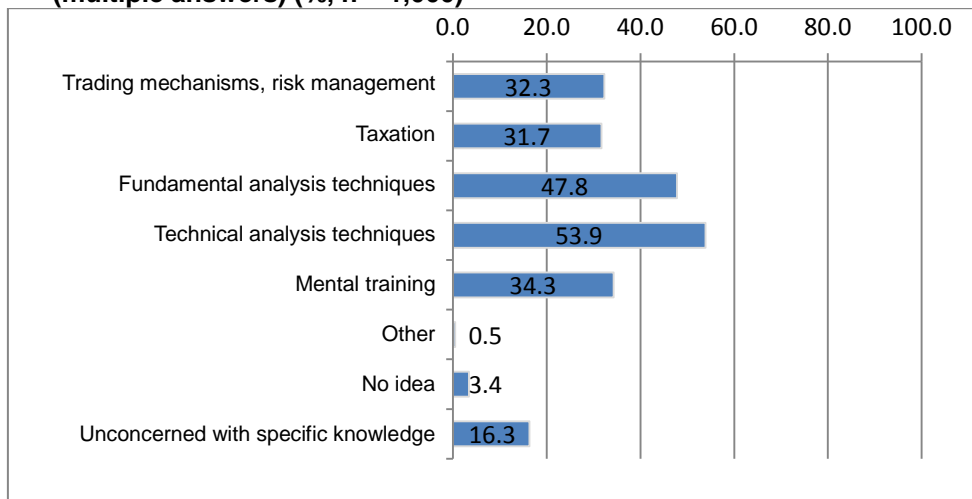
3. Knowledge and Understanding on Foreign Exchange Margin Transactions and Finance in General

(1) Knowledge acquired so far in connection with FX trading (multiple answers) (% , n = 1,000)



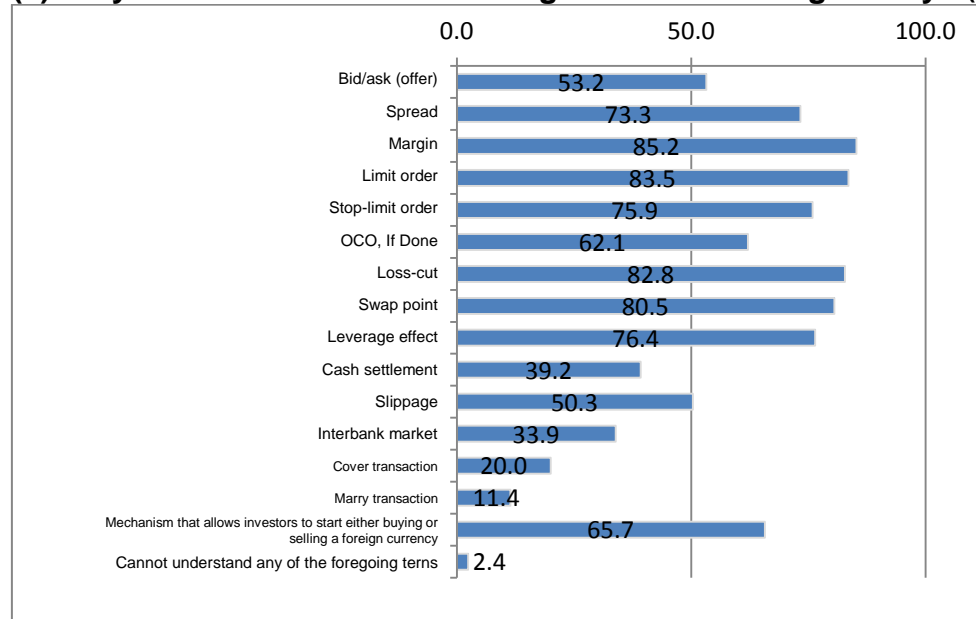
- We asked what kinds of knowledge the respondents have acquired in connection with forex margin trading. The most common answer is the knowledge about trading mechanisms, trading risks and risk management (84.2%), and the next is the knowledge about taxation related to forex margin trading (57.8%).

(2) What do you want to learn about FX trading? (multiple answers) (% , n = 1,000)



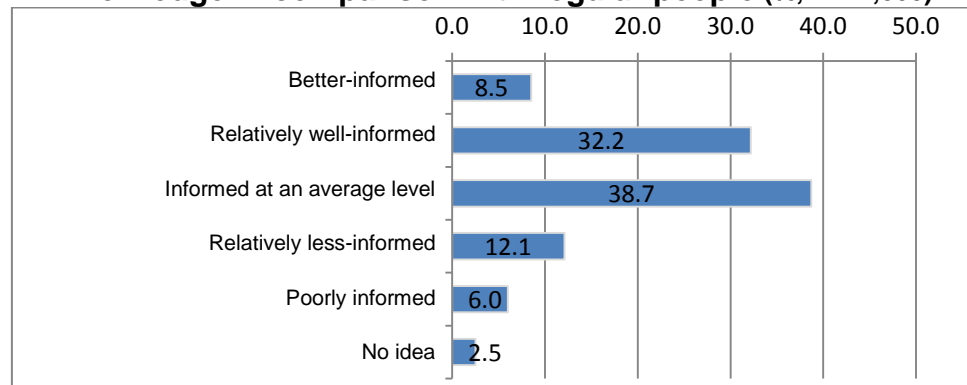
- As for acquisition of new knowledge about forex margin trading, 53.9% of the respondents desire to learn about technical analysis, and 47.8% desire to learn about fundamental analysis. Each of these two categories attracts about 50% of the respondents respectively.

(3) Do you understand the following terms in the FX glossary? (multiple answers) (% , n = 1,000)



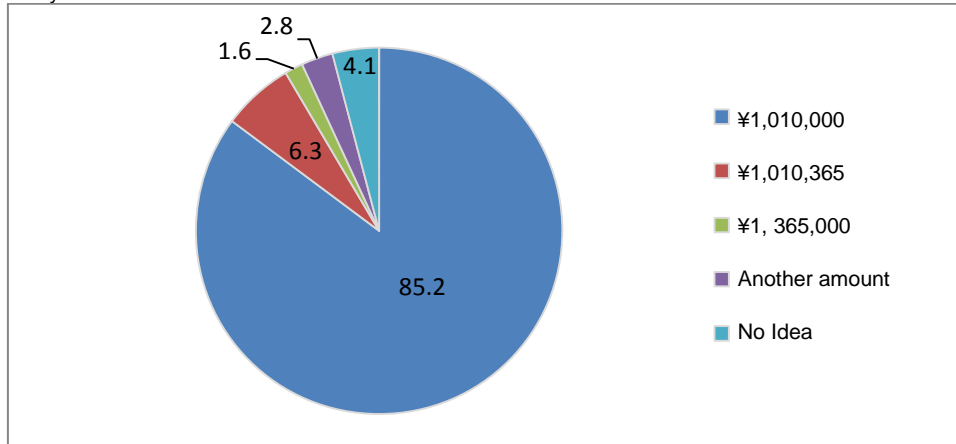
- We asked about the level of understanding of technical terms related to forex margin trading. The terms understood by more than 80% of the respondents include “margin,” “limit order,” “loss cut” and “swap point.” More than 70% understand “leverage effect,” “stop-limit order” and “spread.” In this way, the respondents are more familiar with the terms directly linked to execution of transactions than other technical terms.
- How do the respondents evaluate their overall financial knowledge in comparison with other regular people (the general public)? Those who consider that they are better-informed or relatively well-informed account for 40.7% in total, those who consider themselves informed at an average level make up 38.7%, and those who consider that they are relatively less-informed or poorly informed account for 18.1%.

(4) Self-evaluation of their own level of overall financial knowledge in comparison with regular people (% , n = 1,000)



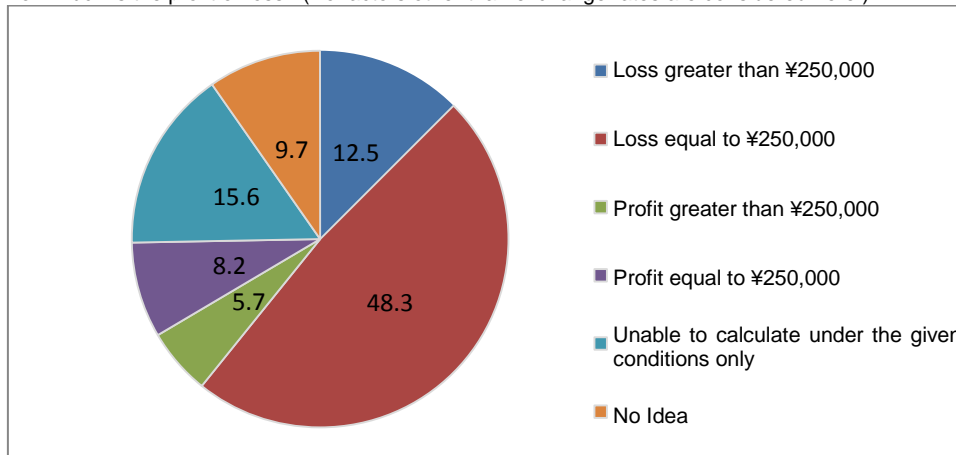
(5) Level of understanding on annual interest rates (% , n = 1,000)

Q: If you deposit one million yen at 1% per annum, how much is your deposit balance (before tax) after one year?



(6) Level of understanding on FX trading profits and losses (% , n = 1,000)

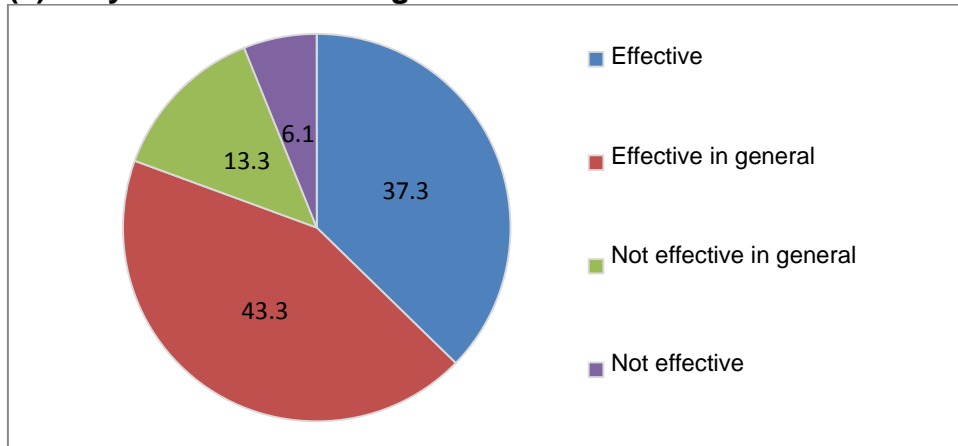
Q: When 1 USD was 100 yen on the market, you bought USD based on a margin equal to one million yen at a leverage ratio of 1:25. If the USD-JPY rate is subsequently changed with a rise in JPY by 1%, how much is the profit or loss? (No factors other than exchange rates are considered here.)



- To check the respondents' level of understanding on annual interest rates, we asked the question about simple interest calculation. As a result, 85.2% of the respondents chose the correct answer "1,010,000 yen."
- To check the respondents' level of understanding on profits and losses arising from transactions of selling or buying foreign currencies on margin, we asked the question about a calculation of a profit or loss from price movements. As a result, 48.3% of the respondents, nearly a half, chose the correct answer "loss equal to 250,000 yen."

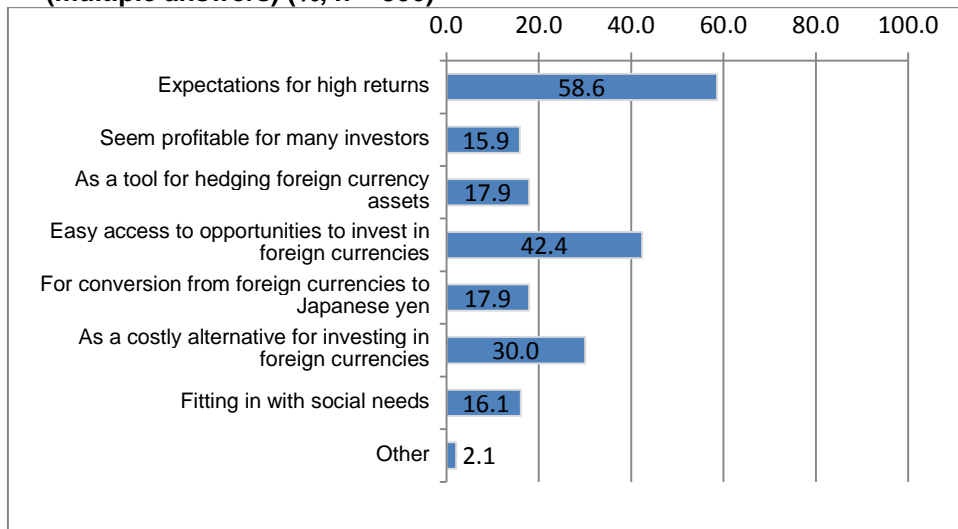
4. Impressions about Foreign Exchange Margin Transactions and Wishes regarding Systems or Services

(1) Do you view FX trading as an effective vehicle for increasing financial assets? (% , n = 1,000)



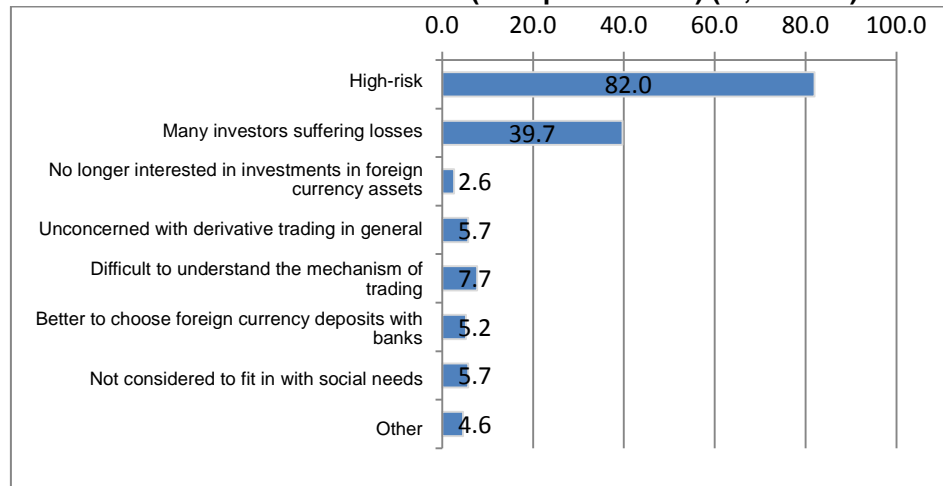
- As to whether or not forex margin trading is an effective vehicle for increasing financial assets, it is considered effective by 37.3% of the respondents and effective in general by 43.3%, constituting more than 80% in total.

(2) Why is FX trading effective for increasing financial assets? (multiple answers) (% , n = 806)

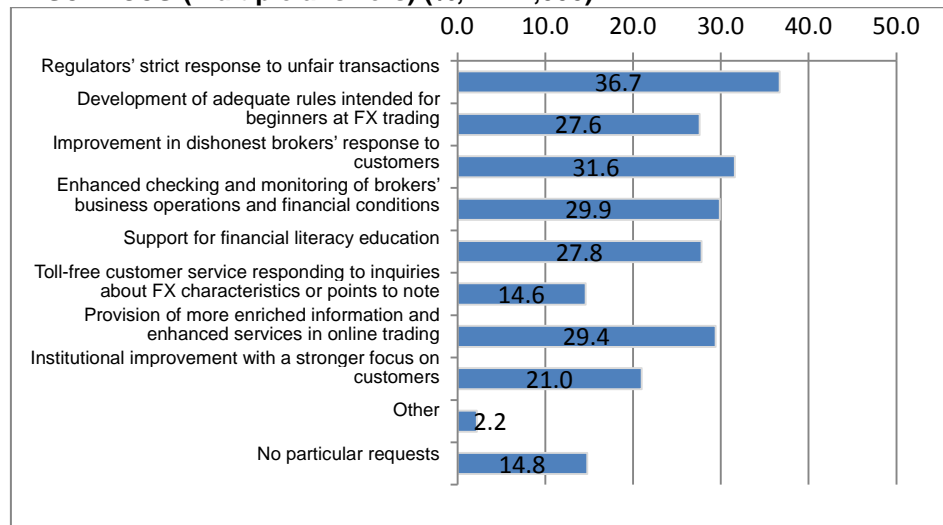


Then, we asked these respondents why forex margin trading is effective for increasing financial assets. The most common answer is expectations for high returns, as chosen by 58.6%, followed by easy access to opportunities to invest in foreign currencies (42.4%) and more inexpensive costs for investments than other instruments in foreign currency such as foreign currency time deposits (30.0%).

(3) Reasons that FX trading is not viewed as an effective vehicle to increase financial assets (multiple answers) (% , n = 194)

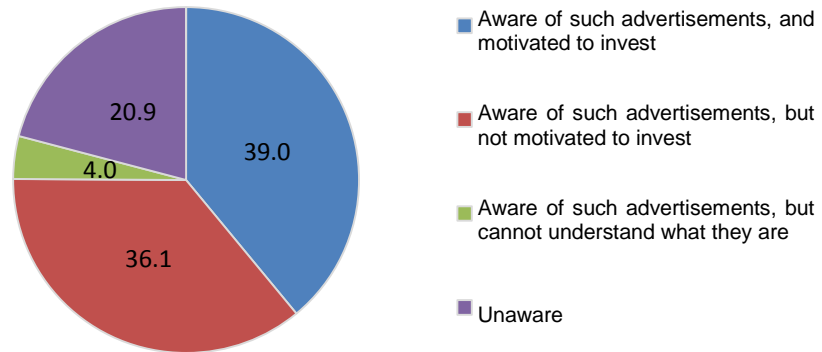


(4) Preferable measures to improve the FX trading system or services (multiple answers) (% , n = 1,000)



- To the respondents who do not view forex margin trading as an effective investment vehicle, we asked why they think so. 82.0% of them said that it is a high-risk investment instrument, and 39.7% point out that many investors suffer losses as a result of forex margin trading.
- How should the forex margin trading systems and services be improved? 36.7% requested regulators' strict response to unfair transactions. Other common answers include improvement in dishonest brokers' response to customers (31.6%), enhanced checking and monitoring of brokers' business operations and financial conditions (29.9%), and provision of more enriched information and enhanced services in online trading (29.4%).

(5) Advertisements indicating spreads for FX trading (% , n = 1,000)



- Regarding advertisements indicating spreads in forex margin trading, 39.0% of the respondents said that such advertisements have come to their attention and motivated them to invest. On the other hand, 36.1% say that such advertisements have come to their attention but have not motivated them into investments.

Note: This English translation is for reference purposes only. In the event of any discrepancy between the Japanese original and this English translation, the Japanese original shall prevail. The Financial Futures Association of Japan assumes no responsibility for this translation or for direct, indirect or any other form of damage arising from the translation.

FY2017 Overview of Financial Literacy Survey of Investors in Foreign Exchange Margin Transactions

The Financial Futures Association of Japan

NBF Ogawamachi Building, 1-3 Kanda Ogawamachi, Chiyoda-ku, Tokyo 101-0052 Japan

Address any inquiries concerning this survey to Research/Analysis Project Team (attn.: Kurakata)

Unauthorized reproduction prohibited