



FOREX MAGNATES QUARTERLY MARKET REPORT FOR Q2 2012

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Content Index

1. Q2 2012 Forex market overview and Q3 2012 forecast – *page 6*
2. Media Forex Websites Traffic Survey: Q1 2012 – *page 15*
3. Articles:
 - FX Fund Management VS Copy Trade – *page 19*
 - New OANDA CEO K Duker – *page 22*
 - The role of exchanges in the FX market – CME interview – *page 27*
 - Advanced Markets – *page 29*
 - FXdirekt Bank, – *page 31*
 - Start first, think later. Getting into the FX market – *page 34*
 - FX Options – the right to diversify – *page 36*
 - The social era of Forex, or a brief trend? - *page 39*
 - How Safe are your Funds? - *page 44*
 - Counterparty Risk – the lessons from MF Global – *page 46*
 - FX in Malaysia - *page 48*
 - Forex market in China – a detailed overview - *page 51*
 - Australian Market in Q2 2012 - *page 56*
 - AIP Global Holdings - *page 57*
 - Russian Market in Q2 2012 - *page 59*
 - Latin American Market in Q2 2012 - *page 60*
 - Korea FX market is shaken by the drastic government measures - *page 62*
 - Overview of the Binary Options Software Providers - *page 64*
4. Major News of the Quarter – *page 70*
5. Detailed broker information for the largest brokers in terms of volume – *page 91*
6. Recommended Service Providers – *page 105*
7. Forex Industry Biggest M&As and Investments – *page 116*



Q2 2012 Forex market overview & Q3 2012 forecast

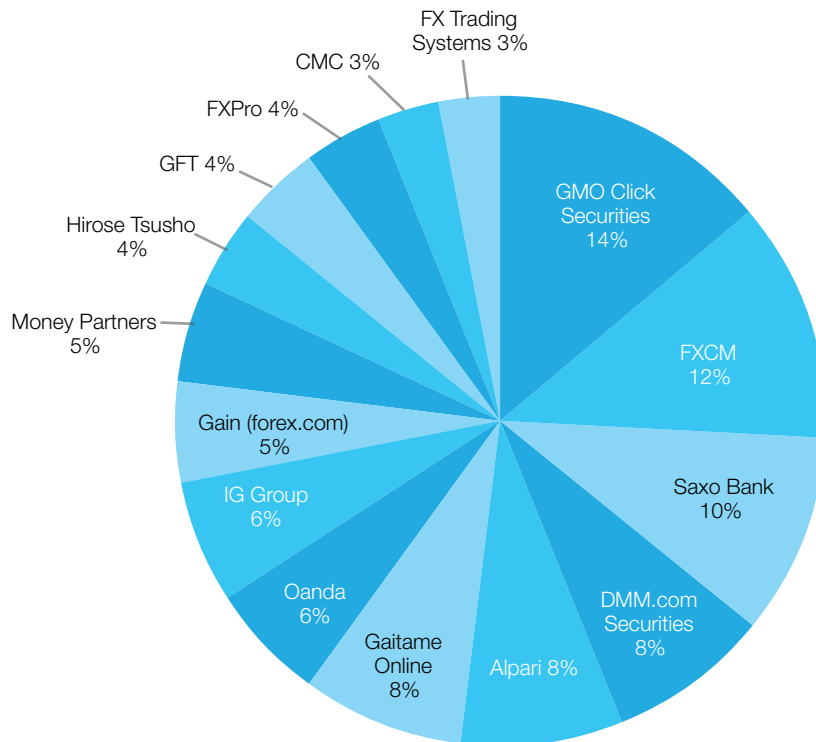
As expected, Q2 2012 was a much more turbulent quarter than Q1. Both market activity (technology developments, M&As, etc) and volatility spiked in Q2 showing us that while volatility is not growing in double digits anymore it at least pushes market participants into a development and M&A frenzy. Biggest news of the quarter definitely belonged to FXCM buying a controlling stake in Lucid Markets at record low EBITDA multiples but still making it FXCM's biggest deal to date. Gain Capital didn't stay behind and too spent some money on collecting assets by acquiring Open E Cry from Charles Shwab for \$12 million. A dominating trend for major brokers now is to try and grow through opportunistic acquisitions rather than grow organically which in this hyper crowded market proves to be quite challenging. Thanks to few days in May and June, Q2 2012 volumes have grown far above Q1 2012 and managed to save several brokers from going bust. Early in the quarter some brokers have decided not to wait for the low volatility period to continue, cut down operational costs and downsized their staff. Overall volume in Q2 2012 was \$221 billion per day.

Main trends in Q2 2012:

Brokers keep spinning technology off

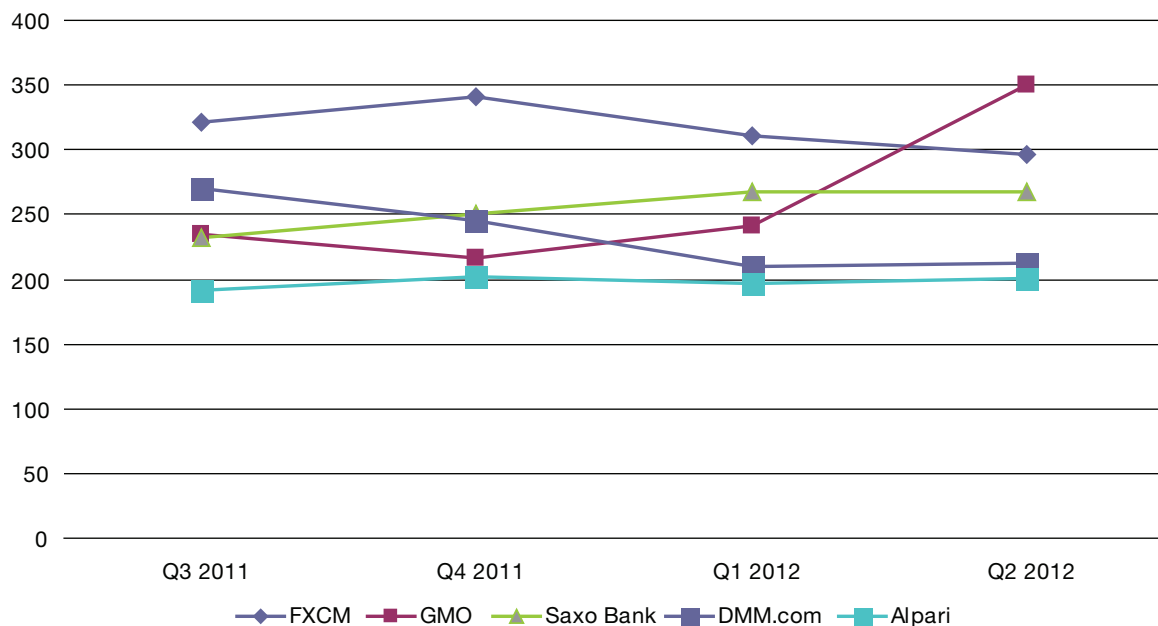
The trend which arguably was started by Easy Forex few years back and later continued by FxPro is now reaching even the largest brokers. Brokers like FXDD and Advanced Markets, to name a few, are spinning off their know-how and technology and are launching separate technology companies which are offering ready and tailor-made solutions to potential partners. FXDD's forexware unit focuses on the Asian (mainly Chinese) market while Advanced Markets's UltiMT focuses on delivering its DMA model combined with MT4 technology to brokers worldwide. It seems that main clients for such services are the smaller brokers or larger White Label partners who have grown and are requiring separate and more custom-made solutions than what the standard white label offerings can provide.

Q2 2012



Performance of the top 5 global forex brokers in past 12 months

Top 5 Global Brokers



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Advanced Markets:

DMA is our DNA, interview with CEO Anthony Brocco

Advanced Markets focuses on Direct Market Access (DMA). Can you explain a bit what DMA is and what is your DMA offering?

Direct market access is exactly what it sounds like. We provide traders with direct, low latency access to spot FX liquidity provided by 10 bank market makers. The rates you see on the screen are the ones you are going to trade on more than 99 per cent of the time when you trade on an Advanced Markets platform. It's a simple model in its pure form and that's what we provide.

How does it differ from an ECN?

ECNs have some of the same attributes as DMA in terms of transparency, anonymity and low latency trade executions. However, the prevalence of high frequency traders on ECNs means banks don't price them as tightly as they do our DMA platforms. Both models are useful to traders seeking clean, low latency fills, but we've optimized our DMA model for traders seeking consistent, interbank liquidity.

What are your monthly volumes?

We are expecting volumes of 100 yards per month within the next 6 months as we are about to complete an integration with several large firms thus more than doubling our current volume.

Who is the target market?

Advanced Markets target market is two-fold:

Our largest business is providing liquidity and technology solutions for brokers and banks that offer highly competitive trading platforms to individual traders and smaller fund manager around the globe. In this sector, we recently launched UltiMT, a technology, liquidity and credit solution for brokers and banks that offer MetaTrader platforms for their trading customers.

In addition to wholesale brokers and banks, we take experienced, well capitalized traders as direct clients. These "professional" traders include former bank traders as well as fund managers who recognize the value of our DMA liquidity model, robust market data and low latency trading platforms.

Who are your main competitors?

On the one hand, I think there's nobody else out there that offers what we do. On the other, every large broker that offers white label solutions is probably a competitor in one sense or another.

Retail brokers are offering hybrid trade execution e.g. DD and ECN, what is the future of DD?

The deal desk model for retail FX trading never made sense to me. In institutional FX, there's an incentive for banks to provide high quality trade executions and related services to institutional clients. The incentive is more of the institutional client's flow and information, which can be valuable depending on the client.

In retail, that relationship dynamic doesn't exist.

Ironically, when bank market makers see the quality of the flows they're getting from us, they do what they can to tighten up their bid/offer spreads to get more of it. So in a way, Advanced Markets is the proxy institutional client, which benefits our clients by enhancing the liquidity on our DMA platforms.

Will you ever introduce DD? Some brokers have started with ECN/STP but rolled back to offering DD as well while others take pride by being DD in the first place.

I don't ever see that happening in our spot FX trading business. It can be more profitable, which is why brokers are attracted to the deal desk model. However, we think our DMA model is much more beneficial to everyone from bank market makers to brokers to the end-user traders. We have an informal mantra at the company "DMA is our DNA." With that in mind, direct dealing is an extreme outlier.

Do you face limitations being based in US post leverage/Dodd-Frank?

The U.S. has a rigorous regulatory structure for FX brokers, but I don't think Dodd-Frank will limit our business activities in a meaningful way.

FXdirekt Bank, German Retail FX Broker, Ready to Take the Global Challenge

The German derivatives trading market is expected to outperform established markets like the UK and Australia as more and more investors look outside the box and diversify their portfolios. Germany has one of the largest stock market participation ratios amongst retail investors in Europe and investors have been geared towards low risk products like warrants and certificates. Self trading, volatility and low transaction costs have been the driving forces of the FX and CFD rising popularity comparing to traditional products.

Germany has many local banks including VPE, Varengold and FXDirekt Bank who offer online trading to retail and institutional traders. Recently we have seen Varengold Bank take the global leap and expand its foothold outside the German borders. Unlike UK or US brokers German brokers have been slow to take the global markets ride.



Joerg Ernst , CEO, FXdirekt Bank

Germany's FXdirekt Bank aims to conquer the world with its technology and quality. German financial firms have been known for their sophistication in the world of banking products. FXdirekt Bank, as a veteran, is now looking to showcase its products and services to traders outside Germany.

Forex Magnates spoke with Jörg Ernst the Chief Operating Officer at Germany's FXDirekt bank to find out about the firm, their products and their future ambitions. Jörg, an accountant by profession, started his career in financial markets after his university graduation in the audit department of KPMG. After several years in the audit industry he decided to move to the private banking industry where he was responsible for a range of assignments in risk management and financial controlling. By 2000 he became CFO and COO for the middle European region of the Anglo-American asset management firm, Invesco, and was responsible for the integration of several acquired companies into the organization, as well as implementing straight-through processing in the brokerage and settlement division of the German-speaking countries.

Ernst joined FXdirekt Bank in 2007 to support the company with his knowledge and experience after the bank introduced CFD's.

Please give us some background about your firm

As a bank regulated by the German regulator BaFin we are a pioneer in online foreign exchange trading in Germany. By 2001 our previous company Ibas AG had already started the "FXdirekt" trading platform and with that we opened the foreign exchange market to private investors in 2002. Following this, we further developed our expertise in online foreign exchange trading, and in 2004 the FXdirekt Bank AG was founded.

The bank started offering CFD products in 2007 and introduced the FEXtrader Pro® multi-market trading platform. This self-developed trading platform offers the highest standards in the field of online trading.

2009 was a remarkable year for the Bank as we were the first bank to operate on the Bayerische Börse AG (Bavarian Exchange) and launched CONTREX, the first exchange controlled CFD trading in Europe. In June 2011 we tailored our accounts' structure to the individual needs of our clients and

The social era of Forex, or a brief trend?

It is no secret that even the biggest and baddest players in the business are seeking entry opportunities into the exciting and mesmerizing arena of social trading. It remains to be seen, whether most if not all of these new platforms will end up converging into what will seem like a similar tool, or whether this will serve as a way of good differentiation in the retail FX industry.

OANDA is one of the key companies which put social on its map, big time, with their fxUnity platform launch earlier this year. We caught up with Alex Case, Product Manager of fxUnity, to discuss the company's strategies, horizon, and personal view of this continuous hot trend.

Alex, tell us a little about fxUnity.

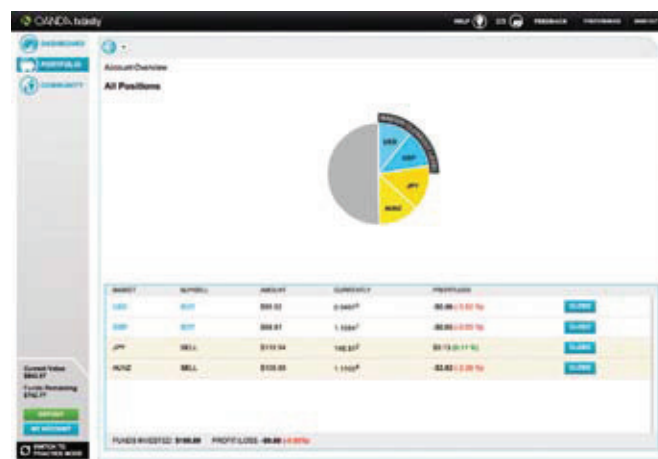
It is a social, interactive currency trading platform, which is, like most, available both online and via mobile. It serves the basic wish of social usage, which is basically enabling people to get involved in the currency market through an engaging, intuitive platform that offers both a practice version and a "live" version. So you don't have to be a maven at anything at a first stage, and you can benefit tremendously from watching and tracking other people's moves and choices. Obviously this is, for us, a great benefit which we can offer our new novice clients.



Yes, but there's already a significant number of platforms out there. What makes your platform that different from others?

Well, it's designed for the new users out there, since our platform provides a more intuitive way to learn about and act on

currency movements. So basically yes, there are a few basic features that provide support and help take some of the complexity out of using a trading platform, which are indeed common to others: "Community": The platform has an engaging interface that includes a social networking component for traders to share their experiences with their peers. "Currency baskets", which is a trading instrument alternative to currency pairs, allowing traders to focus on trading individual currencies or weighted groups of currencies against a collection of other currencies.



So in essence where IS your differentiation situated?

Bottom line – we're more than just a social networking platform. We want to provide intuitive tools for those beginners out there, not just a way of copying the mavens. We have developed unique instruments and features that are designed to provide a more intuitive way to learn about and act on currency movements. On fxUnity, users can trade currencies while simultaneously weighing the market sentiment, connecting with other traders, and following each others' trades. It's tied to OANDA's philosophy of educating clients to help them trade better -- the "teach a man to fish" approach rather than the "give a man a fish" approach.

So if you're saying it's more compatible with those beginners out there, is fxUnity less risky than other platforms?

No – trading in the FX market always comes with its share of financial risks. To help clients manage risk, OANDA has designed fxUnity with limited leverage amounts. The platform provides a user-friendly, interactive dashboard so traders can monitor their funds closely and follow the

FX in Malaysia

Malaysia is home to the new era of Asian financial economies, and over the last ten years it has positioned itself as a leading economy in Asia.

Since it became independent in 1957, Malaysia's economic record has been one of Asia's best. Real gross domestic product (GDP) grew by an average of 6.5% per year from 1957 to 2005. During the last decade the nation has grown at an impressive annual rate of 5% to 7%.

One of Asia's largest economic centres, Singapore, has been overtaking Malaysia impressively and for over 30 years Malaysia was lagging behind. However, new reforms throughout the 1980's were implemented to make the country more business friendly, creating a relatively free economy with local and international private firms dominating the commercial environment. The state plays an important role in guiding economic activity through macroeconomic plans. In 2007, the economy of Malaysia was the 3rd largest economy in South East Asia and 28th largest economy in the world by purchasing power parity with gross domestic product for 2010 of \$237.8 billion.

The South East Asian nation experienced an economic boom and underwent rapid development during the late 20th century and has a GDP per capita of \$14,800.

Capital Markets

The core equities market is divided in two: the Main Market which consists of 823 companies and the Ace Market which has 117 Companies. Market capitalisation for the main equities market stood at \$429 billion on 31 March 2011. In addition, investors can trade in REITs, ETFs, TSR/Warrants, Loans and Bonds.

Malaysia has a historic capital market structure. Until recently, two stock exchanges (Kuala Lumpur and Singapore Stock Exchange) existed as one under the same group; however, after Singapore's independence the two exchanges started operating as separate entities. The Kuala Lumpur exchange was re-branded as Bursa Malaysia in 2004 and now offers a wide range of cash and derivatives products to retail and institutional investors.

Bursa Malaysia has introduced a range of futures products as a natural progression into the derivatives market. Currently the exchange offers derivative products including Commodity fu-

tures, Equity futures, Equity options and Financial futures. The bourse also provides electronic trading to market participants. The Bursa has average daily trading volume in the range of \$1.5 to \$2 billion. Overall it is considered liquid and efficient, however, although being stable and reliable as a whole, there have been quite a few memorable glitches during 2008 which caused trading to stop.

On the commodities side, Malaysia is the largest producer and exporter of palm oil, offering futures trading on this popular product. Bursa Malaysia teamed up with CME to dual list the contract and price it in USD, thus increasing global market trading. Palm oil is traded on two other Asian exchanges: the Dalian Commodity Exchange and India's first commodity exchange - the NCDEX (National Commodity and Derivatives Exchange).

Malaysia is regarded as the pioneer in Islamic financial trading with well regulated and structured institutions offering religion-compliant products. In August 2009, Bursa Malaysia launched Bursa Suq Al-Sila', the world's first internet commodities trading platform, with Shariah-compliant crude palm oil (CPO) as its underlying asset.

Retail Participation in Equities Market place

Retail participation in the Malaysian market is only around 24-37%, which the government and Bursa Malaysia would like to raise to 50% in line with countries like Japan and the US. Most Malaysian investors are over 40 and only 12% of Malaysia's retail investors are in the 20-29 age group.

Deputy Finance Minister Donald Lim Siang Chai says the government will encourage banks to appeal more to youth and educate them about stock market procedures and benefits. The OSK Investment Challenge (Oskic) sponsored by OSK Investment Bank Bhd will provide computers to universities in Malaysia and Indonesia with trading simulation programs, and operate separate virtual investing competitions for students and working professionals in the youth age bracket.

Setting up a Stock Brokerage Account

Over 10 million Malaysians have investments in the equity markets, and most stock brokers now offer online trading terminals with live pricing, research and charting. Investors can open accounts online or in branches across the country with-

Increase your revenue with **Exotic Options**

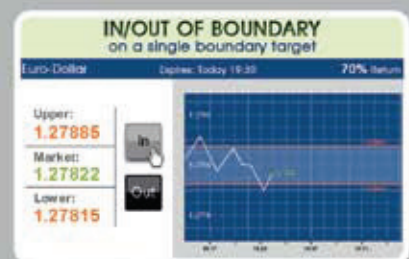


Exclusively in the ORCA+ Trading Platform:

- > A wide variety of trading instruments
- > Two- sided trading on a single target price
- > A TRUE real-time pricing engine

The Advantages of the ORCA+ Trading Platform:

- > Easy API integration solution
- > **Single wallet solution**
- > More instruments to trade with
- > Additional tools to monetize your traffic



SpotOption: The Feature Dream Land

The team at SpotOption likes to describe themselves as the pioneers in the binary options scenery. Established in 2008, it has managed to accumulate over 70 white labels. With its colorful and feature-full customer experience offer, the team at SpotOption has surely made it their goal to create a binary playground, for their hungry customers.

All in all, it offers the client an end to end solution: Front End, Trading Engine, Risk Management, Payment Processing, Customer Relations Manager and Content Management System. SpotOption also has a Retention team that aids operators in maximizing their conversions. These professional Retention Managers train operators in how to sell the easy to explain and easy to understand product, and how to reach all those potential traders who would normally be too intimidated to start trading on the traditionally sophisticated forex platforms.

Key Figures:

Lifetime Deposit Average: \$2,000
 Lifetime Value: \$1,600
 Average Lifetime: 5 months
 Conversion: 1:7 approx.
 Withdrawal Average: 20%
 Average # of Trades per Lifetime: 220
 Average of 5 Month Cash Flow Split: 40%, 20%, 20%, 10%, 10%

Keeping up a good Front

With numerous apps, features and layouts, SpotOption prides itself on starting a few of the famous industry trends.

“We have definitely paved the road for others to come”, says Tammy Levy, Director of Marketing, “strictly a B2B operation, SpotOption doesn’t compete with clients and focuses only on providing the best solution for operators and not only that, but we offer traders a simplified platform, which is dynamic and exciting”.

When asked what their hook is, in terms of their go-to-market approach, she answers, eminently, “We offer a stepping stone into traditional forex, with our simple yet multi-featured product. Binary Options simplified brings new traders, and converts them into full

SPOTOPTION

Providing Platforms that Profit

traders, as well as gives existing traders a new way to trade and hedge. We do our utmost to ensure user satisfaction, and that is why after submitting the trade, they have 3 seconds to cancel. They also have the sell option, which allows them to sell the option back and get an instant payout before the option expires, and roll over, which allows the trader to delay expiry time. This kind of experience creates user loyalty.”



The platform’s key features include the Option Builder, 60 Seconds, Floating Platform, SpotFX, and more. While the Binary Options industry is starting to conduct commercial relationships with the largest platforms, SpotOption already integrated with Leverage and Metaquotes and is in integration process with some of the largest names in the industry.

Risk Management – Increased P&L

“We offer a synergetic risk management solution, which is known to bring the highest P&L in the industry with our own in-house RM managing the odds”, Tammy says, “Our in-house Risk Management eliminates the need for hedging, and if you are keen on offering traders a world full of features while knowing you’re 100% safe, SpotOption is the classic provider. We give operators the opportunity to offer up to 15,000 Euros per option, limiting trades to up to 2 minutes before expiry time (except for the 60 seconds which is of course, in 60 seconds). However, the highlight is the P&L, which reaches 12% through the techniques and technology of the platform. “



Major News of the Quarter

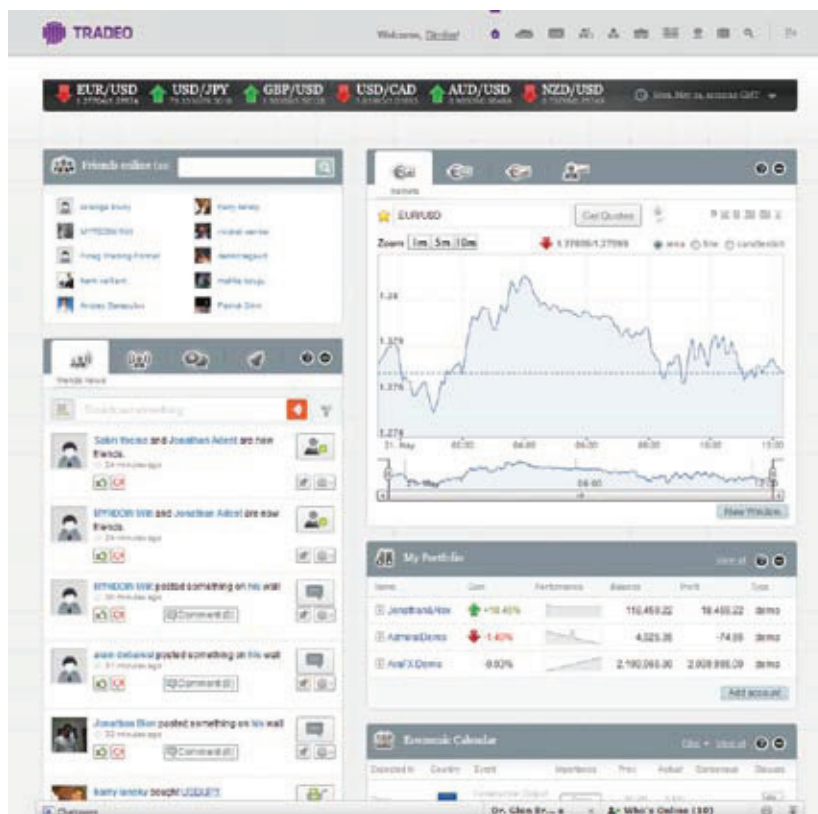
April

Tradeo launches a new exciting forex social network

“The most important point to remember about Tradeo is that we’re not a broker and never will be. We provide an ideal third party solution to traders around the world, wherever they’re located geographically and in whatever markets they’re currently trading. Tradeo also makes available a wide range of essential financial data, including charts, quotes, news, and an economic calendar. This is all on top of the usual range of social features, such as messages, groups, chats, and polls.” Tradeo raised \$1M at the end of 2011 and appointed Gigi-Levy (former CEO of 888 Holdings) as Chairman of the Board.

Tradeo (formerly known as marketsbook) joins the likes of Currensee, FxStat and fxjunction.

For the full article [click here](#).





CFTC Chairman, Gary Gensler

CFTC puts an end to NADEX's political binaries

As if this wasn't a fact already – CFTC officially announced that it won't allow NADEX to issue political binaries citing their gaming nature.

Washington, DC – The Commodity Futures Trading Commission (CFTC) issued an order pursuant to Section 5c(c)(5)(C)(ii) of the Commodity Exchange Act and CFTC Regulation 40.11(a)(1), prohibiting the North American Derivatives Exchange (Nadex) from listing or making available for clearing or trading a set of self-certified political event derivatives contracts. The contracts are binary option contracts that pay out based upon the results of various U.S federal elections to be held in 2012.

For the full article [click here.](#)

CME announces Q1 2012 results – fx volume was lower

CME Group, the world's leading and most diverse derivatives marketplace, announced that first-quarter 2012 volume averaged 12.3 million contracts per day, up 5 percent from fourth-quarter 2011, but down 11 percent from first-quarter 2011 – which posted exceptionally strong average daily volume due to the impact of significant unrest in the Middle East and a natural disaster in Japan within the quarter. March 2012 volume averaged 12.5 million contracts per day, down 13 percent from March 2011. Total volume for March was more than 275 million contracts, of which 84 percent was traded electronically.



CME Group foreign exchange (FX) volume averaged 846,000 contracts per day, down 12 percent from first-quarter last year, but up 3 percent sequentially, reflecting average daily notional value of \$108 billion.

For the full article [click here.](#)

OANDA launches fxUnity – its own forex social networking platform

OANDA Corporation, provider of innovative online foreign exchange trading, has launched OANDA fxUnity, a new spot forex trading platform for aspiring currency traders.

OANDA fxUnity represents a new approach to trading currencies. The platform has an engaging interface that integrates social networking so traders can share their experiences with friends and the fxUnity community. OANDA fxUnity is accessible on the Web or via mobile devices, and is designed to provide a more intuitive way to learn about, and act on, currency movements.

"With fxUnity we've reinvented spot forex trading to incorporate community and social sharing in a highly visual, user-friendly platform," says Alex Case, Product Manager for OANDA fxUnity. "Our goal is to appeal to the next generation of traders by providing the modern, clean, mobile-friendly interface expected in today's market." OANDA joins eToro in being the only second forex broker with its own proprietary social network, other brokers are using third party solutions.

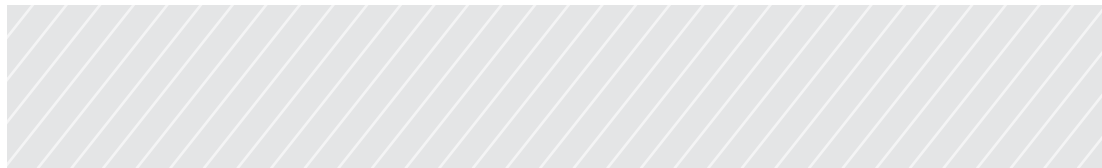


For the full article [click here.](#)



Detailed broker information for the largest brokers in terms of volume

FXCM,
Saxo Bank,
Alpari,
OANDA,
IG Group,
Gain Capital,
FxPro,
GFT,
GMO Click Securities,
DMM.com,
CyberAgent FX,
Money Partners,
Gaitame.com



Status: Public (NYSE:FXCM)

Year Established: 1999

Shareholders and Funding: Publicly owned, list of shareholders [here](#).

Investments and M&As: data at the end of the report.

Reported Net Income in 2010: \$100,161 million

Reported Net Income in 2011: \$58,781 million

Reported Net Income in Q1 2012: \$14,006 million

Market Cap: \$866 million

Reported monthly retail volume: \$297 billion (March, April, May 2012)

Reported monthly institutional volume: \$134 billion (March, April, May 2012)

Number of active clients: 172,751

Regulation: NFA/CFTC, UK FSA, HK SFC, ASIC

FXCM news in the past quarter:

- FXCM to acquire 50% Lucid Markets for \$176 million. [Read more here.](#)
- FXCM positive trade volumes in May 2012. [Read more here.](#)
- FXCM officially launches App store for traders. [Read more here.](#)
- FXCM snatches DIF Broker from Saxo Bank. [Read more here.](#)
- FXCM's April trading volumes slide, quarterly trade volumes up YoY. [Read more here.](#)
- FXCM reports March 2012 metrics – retail volume down, accounts up. [Read more here.](#)
- FXCM launches apps for android and iPad. [Read more here.](#)

FXCM's share price in past three months:





Recommended Service Providers

Saving you Google time

Forex liquidity bridges and customized development

- **Boston Technologies** — BT is one of the largest bridge and technology providers in the forex market. Its prominence arrived after introducing the first-ever functioning MT4 bridge. Founded by George Popescu and later joined by Kevin Millien, it is now found at many large brokers offering MT4. BT offers to fully outsource all MT4 functions — server, maintenance, bridge, liquidity, etc. BT is now also offering a FSA regulated prime brokerage service through Boston Prime. **Clients include:** Autobahn DB, MF Global, Citi Bank, GFT, Squared Financial, FXAll
- **Leverate** — Leverate is one of the largest MT4 broker solution providers in the world. In 2011 it received a major investment from Saxo Bank. It is able to offer prime brokerage services through its CySec regulated prime brokerage subsidiary. Leverate offers an end to end solution including MT4 server management, bridge, back office, CRM, social trading plugin and other products. The company has grown from 4 founders to over 100 employees. **Clients include:** dozens of Middle Eastern, European and Asian brokers.
- **oneZero** — Andrew Ralich retired from Boston Technologies to develop his own project. oneZero aggressively established itself in the bridges market and with the help of the likes of Stephen Leahy (a notable figure in the US Forex market, formerly

STRATEGY & PLANNING



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Promote Your Brand with Re-Marketing

Through a large network of leading websites and portals in the Forex and other retail financial industries, we promote your brand with advanced technology through an effective re-marketing model aimed at an industry concentrated audience to build a large dynamic network of highly targeted and relevant users.

Increase Conversions

Reach out and recapture lost conversions by re-targeting potential customers all across the web.

Remind your previous visitors of your high quality products and services.

Fact: daily brand exposure to lost visitors boosts conversion rates and ROI!

Brand Awareness

Keep your brand fresh in the mind of potential customers throughout their buying cycle.

One of the most powerful ways to create awareness is simply being visible at the right time.

Customer Relationship

Stop potential clients passing you by because they don't know or trust your brand. Remarketing can help you build brand trust by delivering targeted impressions on a daily basis to visitors who have come and gone.

Engaged Messaging

Target previous visitors with customized messaging in your Ads and boost Ad engagement by up to 400%!

conversionPROS

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Forex Industry Biggest M&As and Investments

Broker	Type	Amount	Value		
OANDA	Investment Investment Acquisition	\$100m \$17m		Legg Mason, Cascade Investment, T. Rowe Price Index Ventures Japanese broker MyGaika	09/2007 09/2005 08/2011
Gain Capital	Investment Acquisition Acquisition IPO Acquisition Acquisition Acquisition	 \$8m+15% \$9.7m \$12m	 \$279m \$32m \$55m \$12m	\$175 million invested in the company in total Fortune Capital Japan its white label Acquisition of MG Financial's retail Forex business IPO NYSE:GCAP Acquisition of retail Forex business of CMS Forex Acquired the client base of dbFX which exited US Open E Cry from Charles Schwab	-2010 03/2009 05/2010 12/2010 01/2011 05/2011 06/2012
City Index	Acquisition Acquisition	 \$100+m	£57.9m \$300m	IFX Markets acquisition, including insreads FX Solution acquisition in 20%/100% share swap including Francisco Partners stake buyout	08/2006 02/2008
Interbank FX	Investment	\$40m		Investment from Spectrum Equity Investors Acquired by TradeStation for \$17m	07/2007 11/2011
IG Group	Acquisition Acquisition Acquisition	\$6m \$207m	 \$236.6m	Nadex (HedgeStreet) 87.5% stake acquisition in FXOnline Japan IdealCFD with 2000 traders and \$450k income	2007 09/2008 09/2010