Warning of Fully Hedged Stop out

Trademax Global Limited

Company Number 40356, Authorized and regulated by VFSC

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1. Definition

Fully hedging happens when traders realise that their open positions might be at risk and may result in the loss of some assets and money at the time the market becomes volatile, thereby, opening a new equal-sized position on the same trading instrument, but in the opposite direction, in order to decrease exposure and the probability of suffering loss.

TMGM Group means Trademax Australia Limited, Trademax Global Limited, Trademax Global Markets (NZ) Limited and their associated entities.

2. Fully Hedged Stop Out

Stop-out could also occur even though the client has already fully hedged all positions. This is due to there being certain costs like the cost of spread and swaps that the client has to pay even when all positions are fully hedged. When the market experiences bouts of volatility, including but not limited to, economic uncertainty, monetary or fiscal policy changes, financial contagion and geopolitical tension, prices can move extremely fast, and spreads can become easily bigger even for major pairs. Widening spreads are a warning because it is associated with a decrease in equity.

The **examples below** show how the changes in spread will impact the equity.

<u>The data included in the examples below is for illustrative purpose only.</u>

Example 1: Widening spread

Current locked positions in XAUUSD:

Order Number	Type	Open Price	Lot Size
01	Buy	1700.00	1
02	Sell	1705.00	1

Market price (when spread is 1.5)

Ask Price	1717.00
Bid Price	1715.50

Order Profit/Loss:

Order Number	Type	Open Price	Lot Size	Market Price	Profit/Loss
01	Buy	1700.00	1	1715.50	1550
02	Sell	1705.00	1	1717.00	-1200
				Total Profit/Loss	350

Market Price (When spread widen to 10)

Ask Price	1720.00
Bid Price	1710.00

Order Profit/Loss:

Order Number	Type	Open Price	Lot Size	Market Price	Profit/Loss
01	Buy	1700.00	1	1710.00	1000
02	Sell	1705.00	1	1720.00	-1500
				Total Profit/Loss	-500

Conclusion: For large spread moves, profit will be reduced (from 350 USD to -500 USD). Decrease in profit will reduce the amount of equity as Equity = Account Balance + Floating Profit/Loss.

Example 2: Narrowing spread

Current locked positions in XAUUSD:

Order Number	Type	Open Price	Lot Size
03	Buy	1700.00	1
04	Sell	1705.00	1

Market price (when spread is 4.5)

Ask Price	1720.00
Bid Price	1715.50

Order Profit/Loss:

Order Number	Type	Open Price	Lot Size	Market Price	Profit/Loss
01	Buy	1700.00	1	1715.50	1550
02	Sell	1705.00	1	1720.00	-1500
				Total Profit/Loss	50

Market Price (When spread narrowed to 0.8)

Ask Price	1717.50
Bid Price	1716.70

Order Profit/Loss:

Order Number	Type	Open Price	Lot Size	Market Price	Profit/Loss
01	Buy	1700.00	1	1716.70	1670
02	Sell	1705.00	1	1717.50	-1250
				Total Profit/Loss	420

Conclusion: Narrow spreads will increase the total profit (from 50 USD 420 USD) and the amount of equity as Equity = Account Balance + Floating Profit/Loss.

As Margin Level = Equity / Total Margin Requirements, the decrease of the amount of equity will lower the Margin Level of the client's account. When the Margin Level reaches or fall below the Stop Out Level applicable to the client's account, we may close all or some of the open positions without notice to the client (**Stop Out**).

3. Disclaimer

We will not be liable for any losses incurred by clients that are in connection with, including but not limited to, economic uncertainty, monetary or fiscal policy changes, financial contagion, or geopolitical tension when clients have a hedged position.

We will not be liable to compensate any losses arising from, including but not limited to, economic uncertainty, monetary or fiscal policy changes, financial contagion, or geopolitical tension when clients have a hedged position.

We shall be entitled or have the right of recourse against the negative equity incurred by wholesale clients due to, including but not limited to, economic uncertainty, monetary or fiscal policy changes, financial contagion, or geopolitical tension when clients have a hedged position.

4. Risk Warning

It is impossible to predict the actual time a stop-out occurs on a trading account, as it is impossible to estimate the price or spread at any time in the fast-moving currency market.

Thereby, the client should prepare enough funds in their trading accounts as client orders are not necessarily executed at the last-traded price, especially during the release of news during important events. During this equity markets could inevitably experience occasional bouts of heightened volatility and widened spreads could possibly adversely affect all positions in an account.

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