The Key to Succeed in FX Margin Trading: The Role of Investment Strategy and Behavioral Biases

Kentaro Iwatsubo
Kobe University

Marc Oliver Rieger
University of Trier

Abstract
In a large-scale survey on the Japanese FX market, we measure several classical behavioural factors as well as investment style, trading behaviour, and performance of more than 1100 private investors. We find that among these factors, behavioural biases have the largest impact on performance. Among the behavioral factors, in particular overconfidence leads to a significantly lower performance, but also theory of mind, time discounting, and ambiguity avoidance play a significant role. We also identify several trading strategies and behaviors that are detrimental to performance, in particular short-term investment, high leverage, reference to other people's rates, lack of a consistent trading style, and low expertise. The effect of behavioral factors is still strong after controlling for investment strategy and trading behavior. This suggests that recognizing and modifying one's own behavioral biases is the most effective way to improve investment performance.

Keywords: FX trading; behavioural biases; trading strategies; trading behaviour; overconfidence; theory of mind; time discounting; ambiguity avoidance.

JEL classification: