Learn to Trade

CITYINDEX
TRADE Whatever, Wherever, Whenever

Contents

1. What is Spread Betting?
2. What is CFD trading?
3. About City Index
4. Why use spead betting and CFDs?
5. Our Global Markets
6. Risk and Margin
7. How to manage risk
8. What kind of Trader are you?
9. Strategies for success

1. What is spread betting?

1. What is spread betting?

Over the last few years, spread betting has become one of the most popular ways to trade on financial markets. Providing investors with the chance to trade on movements in both directions on a huge range of markets around the world, for just a fraction of the commitment required for direct investment, spread betting attracts investors of all sizes, ranging from institutional professionals to small-scale dabblers.

Investors speculate on the price of an asset moving one way or the other, and the profit or loss depends on the size of that movement, whether in the investor's favour or against it. Profit is simply the size of the stake multiplied by the number of points the asset moves in the right direction, and loss is the size of the stake multiplied by the number of points it moves the other way.

A great appeal of spread betting is that it offers access to global financial markets at a lower cost than direct investment in the underlying assets. With spread betting, investors are not required to commit the entire value of the underlying asset, but instead deposit only a fraction of the total value, allowing potential earnings (and losses) to be magnified beyond what could be achievable through direct investment. This low-cost access allows investors to spread their investment into a range of different trades, or to use spread betting as just one form of investment in a mixed portfolio.

Please remember that spread betting and CFD trading are leveraged products and can result in losses quickly exceeding an initial outlay. They are not suitable for everyone and you should make sure you fully understand the risks involved. You must be over 18 and a resident in the UK.

Different types of bets

City Index offers a variety of spread betting options, enabling investors to structure their trading to suit their own needs and providing as much flexibility as they require.

Daily Funded Trade

A Daily Funded Trade (DFT) is a spread bet where Our Price is based on the current market price of the Underlying Instrument. Daily Financing and dividends are not included in the calculation of Our Price but appear as separate charges or credits to your account. There is no overnight crystallisation of open profits or losses, financing charges or dividends until the Daily Funded Trade is closed or partially closed. Daily Funded Trades typically have a long term settlement date (as specified in the Market Information).

Quarterly Bets

Quarterly Bets have a set expiry date, based on a specific quarter of the year. Investors can make a trade at any point in the three months before the end of the quarter, and close the contract earlier than the expiry date if required. They allow investors to make a trade and then sit back and see where the market goes, providing a more fixed, longer-term view of the market.

Binary Bets

Binary Bets are a simple form of trade involving a choice between one of two outcomes. The investor decides whether a particular figure, such as the 100, will end up or down on the day, City Index sets a price based on the level of the figure at the time of the trade, and the investor's profit or loss depends on which outcome occurs and the level of the original price.

Why spread bet?

Spread betting offers an accessible way to tap into movements on the financial markets, which you can tailor to fit both the amount you have to invest and the time you have to devote to actively monitoring your investment.

Compared with direct trading in the underlying assets, particularly share trading, spread betting is cost-effective, fast-moving and accessible. Spread betting with City Index provides access to worldwide markets and enables investors to trade on those markets at a fraction of the cost of direct investment.

Spread betting also offers substantial tax advantages, being liable to neither UK stamp duty nor Capital Gains Tax, however tax laws are subject to change and depend on individual circumstances. Unlike direct investment, there is also no broker's commission with City Index, instead earning its income on the spread between the buy and sell prices it offers.

Trading examples

Index trading

You expect the UK 100 to rise from its current level of 6950. City Index is quoting a spread of 6949/6951 (selling at 6949, buying at 6951) on the Daily Funded Trade (DFT). You open a long position at £10 per point, buying at 6951.

Outcome 1	Outcome 2
The UK 100 rises. When it reaches 7000, you take your profits. The City Index spread is now 6999/7001, so you sell at 6999..	The UK 100 falls. When it reaches 6900 you cut your losses. City Index is now quoting a spread of 6899/6901, so you sell at 6899.
Result	
You bought at 6951 and sold at 6999, an increase of 48 points, which at £10 per point gives you a profit of £480.	You bought at 6951 and sold at 6899, fall of 52 points, which at £10 per point produces a loss of £520.

Equity trading

In your opinion, British Airways shares are overvalued at 250p. The City Index spread on the shares is 249p/251p, so you open a short position at 249p at £10 a point.

Outcome 1	Outcome 2
The shares fall. When they reach 200p you decide to take your profits. City Index is now quoting a spread of 199p/201p, so you close your position at 201p.	The shares rise. When they reach 300p you decide to cut your losses. City Index is now quoting 299p/301p, so you close your position at 301p.
Result	
You sold at 249p and bought at 201p, a fall of 48p, which at £10 a point gives you a profit of £480.	You sold at 249p and bought at 301p, a rise of 52p, which at £10 a point produces a loss of £520.

Please note: For the sake of simplicity, financing charges and payments have been omitted from these examples. Holding long positions overnight incurs financing charges, while holding short positions overnight allows you to benefit from financing payments. These payments will need to be considered to reach the precise level of your final profit or loss.

2. What is CFD trading?

2. What is CFD trading?

Trading in Contracts for Difference (CFDs) has grown rapidly over recent years, and CFD trading is now a popular form of investment for both individual investors and institutions. CFDs offer access to worldwide financial markets at a fraction of the cost of direct investment in those markets, and are not only useful investment tools in their own right but are also widely used for hedging purposes.

A CFD is an agreement between an investor and a provider such as City Index to exchange the opening and closing values of a specific trade. Investors can open CFDs on particular assets, either going long if they expect the price of that asset to rise, or going short if they expect it to fall. City Index offers a price on the trade and the investor deposits just a fraction of the total value of the underlying trade, but has access to the full benefits of movements in the price of that asset, without needing to own the asset.

Trading in CFDs is a dynamic and cost-effective way to access global financial markets, offering investors the chance to earn the same total profits as traders in the underlying markets but with a much smaller investment, thus potentially producing a higher rate of return. However your potential losses are also magnified

Please remember that spread betting and CFD trading are leveraged products and can result in losses quickly exceeding an intial outlay. They are not suitable for everyone and you should make sure you fully understand the risks involved. You must be over 18 and a resident in the UK.

Why trade CFDs?

CFD trading with City Index provides investors with access to a huge variety of worldwide markets without the cost and complication of direct trading in those markets, offering a cost-effective route to investment in a wide range of trading opportunities. Investors can invest as much or as little as they require and structure their CFD trading to suit their specific needs.

The range of markets available and the chance to go either long or short on all of those markets make CFDs an ideal tool for all kinds of investors, whether they're seeking a simple leveraging opportunity or a hedging tool as part of a complex and integrated investment portfolio.

CFD trading also offers tax advantages. Trading in CFDs is exempt from UK stamp duty. Unlike spread betting, however, profits from CFD trading are liable to Capital Gains Tax (CGT) in the UK. However, losses from CFD trading can be used to reduce an investor's CGT liability. However it should be noted that tax laws are subject to change and depend on individual circumstances. Investors also incur no broker's commission when trading CFDs with City Index, which instead earns its income on its spread between buying and selling prices.

Trading examples

Index trading

You expect the UK 100 to rise from its current level of 5950. City Index is quoting a spread of 5948/5952 (selling at 5948, buying at 5952). The value per index point on the UK 100 is £1, so you open 5 long CFDs at 5952, making £5 a point.

The total value of your position is 5 x £1 x 5,952 = £29,760. City Index requires a margin of 5 per cent on index CFDs, so the margin requirement is £29,760 x 5 % = £1,488.

Outcome 1	Outcome 2
The UK 100 rises. When it reaches 6000, you take your profits. The City Index spread is now 5998/6002, so you close your position at 5998.	The UK 100 falls. When it reaches 5900 you cut your losses. The City Index spread is now 5898/5902, so you close at 5898.
Result	
You opened your position at 5952 and closed at 5998, a rise of 46 points, which, at £5 a point, produces a profit of £230.	You opened at 5952 and closed at 5898, a fall of 54 points, which at £5 per point produces a loss of £270.

Equity trading

In your opinion, British Airways shares are overvalued at 350p. The City Index spread is 348p/352p, so you open a short CFD on 1,000 shares at 348p.

The value of your position is 1,000 x £3.48 = £3,480. City Index requires a margin of 10 per cent, so the margin requirement is £3,480 x 10% = £348.

Outcome 1	Outcome 2
BA shares fall. When they reach 300p you take your profits. The City Index spread is now 298p/302p, so you close your position at 302p.	BA shares rise. When they reach 400p you cut your losses. The City Index spread is now 398p/402p, so you close your position at 402p.
Result	
You opened your short position at 348p and closed at 302p, a fall of 46p, producing a profit of £460.	You opened your position at 348p and closed at 402p, a rise of 54p, producing a loss of £540.

Please note: For the sake of simplicity, financing charges and payments have been omitted from these examples. Holding long positions overnight incurs financing charges, while holding short positions overnight allows you to benefit from financing payments. These payments will need to be considered to reach the precise level of your final profit or loss.

3. About City Index

3. About City Index

City Index is one of the world's leading providers of financial derivative trading services. Established in 1983, City Index now serve tens of thousands of traders every day from offices in London, Singapore, Shanghai, Sydney, Boston and New Jersey.

Our growth has been based on a consistent focus on innovation and customer service. Our products have been designed to meet the needs of retail and small institutional clients, providing a cost-effective way to trade on price movements in equities, indices, currencies, precious metals and commodities.

City Index's experience, research and trading platform making us the ideal partner for any investor wanting to gain the best possible access to the world of spread betting and CFD trading. We are committed to providing a market-leading service based on transparent prices, up-to-the-minute technology and the best possible customer support.

City Index is part of City Index Group, which transacts more than 1.5 million trades every month on behalf of its clients. As well as offering spread betting and CFD trading through City Index, the group provides services through international foreign exchange brokers FX Solutions and IFX Markets, and through UK spread betting provider Finspreads.

4. Why use spread betting and CFDs?

4. Why use spread betting and CFDs?

Spread betting and CFD trading with City Index offer substantial advantages over other kinds of investment, particularly in terms of cost and tax benefits. City Index provides unrivalled price transparency and highly competitive spread and margins, while the range of markets on offer will satisfy even the most sophisticated or adventurous investor.

Margins

Both spread betting and CFD trading are forms of margin trading, offering investors the chance to leverage their positions and providing greater potential returns (loss is also possibly greater) than would be available through direct investment in the underlying assets. Investors need only deposit a small percentage of the total value of the position, giving them access to potentially large returns for a relatively small investment. However you will need to provide further margin if your positions move against you.

Tax advantages

Both spread betting and CFD trading offer substantial tax benefits to investors. Spread betting is exempt from UK stamp duty and Capital Gains Tax. CFD trading is liable to Capital Gains Tax but is exempt from Stamp Duty. However, please note tax laws are subject to change and depend on individual circumstances.

Global markets

City Index provides investors with access to equity, index, currency and commodities markets around the world. Expert dealers and customer service specialists are constantly available to provide trading support.

Leveraging opportunities

The ability to take long or short positions on a wide range of assets at a fraction of the cost of the underlying investment allows investors to make profits (or losses) whatever the direction of the markets. To astute investors, these leveraging opportunities are always useful, but they are particularly important when credit markets are tight and the economic outlook is uncertain.

Hedging

CFDs and spread betting are ideal for investors seeking a highly cost-efficient method of hedging against other investments. Possible reversals on direct investments can be easily and cost-effectively offset by relatively small investments in the opposite direction through spread betting or CFD trading.

Immediate access

City Index offers a state-of-the-art trading system that provides investors with instant access to their accounts. Market-leading tools ensure that investors are kept up to the minute with firm quotes, accurate tracking of price movements in the underlying assets and all the latest news from the markets.

5. Our global markets

5. Our global markets

Spread betting and CFD trading with City Index offer investors immediate access to thousands of different markets around the world. Our state-of-the-art trading platform enables investors to take positions on a huge range of markets that would usually be out of reach for most investors. This access opens up all kinds of investment possibilities, allowing investors to make their trading as simple or sophisticated as required.

Equity trading

Spread betting and CFD trading is available through City Index on thousands of individual stocks in UK, US and European markets. Equities on offer include the entire UK 350, US stocks on the NYSE and US TECH 100 with a market capitalisation of more than $1 billion, and European equities quoted on the major exchanges with capitalisation of more than 1 billion.

Stock index trading

Prices are available on the overall stock indices for markets in the UK, Europe and the US. Markets covered include the UK 100, the Dow Jones, US TECH 100, Hong Kong 34 and the Germany 30.

Trading in UK market sectors

Prices are also available on more than 30 individual sectors of the UK market. Sectors quoted include banks, pharmaceuticals and biotechnology, oil and gas, and media.

Currencies

Spread betting and CFD trading is available through City Index on a wide range of currencies including sterling, the euro, yen, Swiss franc and the US, Canadian and Australian dollars.

Precious metals and commodities

Precious metals and commodities markets are also on offer. City Index provides prices on gold, silver and other precious metals, oil prices and on the main commodities markets, including cocoa, coffee, sugar, pork bellies, wheat and soyabean oil.

6. Risk and margin

6. Risk and margin

Unlike direct trading in the underlying markets, both spread betting and CFD trading are derivative products that investors trade on margin. This means you need to deposit only a small fraction of the value of the underlying investments, but still have access to the full benefit of movements in the price of those assets. By contrast, if you were investing directly in the underlying market you would need to provide the total cost of the investment to benefit from movements in its price.

Margin trading enables spread betting and CFD trading to provide far higher returns on investment than would be provided by direct investment in the underlying asset. Equally, spread betting and CFD trading can leave investors exposed to a different degree of risk to that faced by direct investors.

Margins

The margin is the deposit required for a particular trade. Investors need to have at least the margin required for a particular trade in their accounts in order to open a position. The margin for each trade depends on the type of market, and is set according to the volatility of that market. Margins are usually between 5 and 10 per cent.

The margin is determined by the value of the underlying trade and the margin factor for that type of trade. For example, if an investor opened a spread bet of £10 per point on a particular share, that would be the equivalent of buying 1,000 shares, because each penny movement in the price would be worth £10. If the share was worth 500p, then the bet would be the equivalent of a position in shares worth £5,000 (1,000 x 500p). If the margin requirement were 10 per cent, then £500 (£5,000 x 10%) would be required in the investor's account to open the position.

If the price moves in the investor's direction, the initial margin plus the increase in the value of the position ensures that the margin requirement is covered. But if the price moves the other way, the investor will be required to add funds to the account to cover the margin requirement.

So if an investor has opened a long position on the shares in the example above, at £10 per point, and the shares fall by 10p to 490p, there will be a loss of £100, leaving the account showing £400. The margin requirement of the position will now be £490 (490p x 1,000 x 10%), so the investor would be required to deposit a further £90 to cover the total position.

Risk

Investors in spread betting and CFDs face different kinds of risks to those faced when investing in direct markets. For example, if in the direct market an investor bought 200 shares in a particular company at 500p a share, the limit of the risk on that investment would be £1,000. So if the value of the shares fell to nothing, the maximum potential loss would be £1,000. However, if the same investor opened a long spread bet on those shares at £10 per point, the potential risk would theoretically be much larger. Just a 20 per cent fall in the share price, by 100p, would see the loss reach £1,000. A further 20 per cent fall would lose a further £1,000, and a complete collapse in the price to nothing would result in a loss of £5,000, five times the loss of the direct shareholder from the same market movement.

Even in the case of less dramatic share price movements, the risks of spread betting and CFD trading can be higher than with direct trading. To take the shares mentioned above, if the price fell by just 5 per cent to 525p, the value of the direct investor's position would fall by only £50, whereas the spread better would be down by £250.

These potential losses are the flip side of the much higher potential profits from spread betting and CFD trading than from direct investment. City Index offers a range of risk-management tools to keep those risks under control and keep potential losses to a level with which individual investors are comfortable.

Your risk appetite

Potential returns from spread betting and CFD trading far outweigh potential returns from direct investment given the same price movements, and so do the potential losses. So before committing to spread betting or trading in CFDs, investors should have a clear idea of their appetite for risk. City Index offers effective tools for limiting risk, but investors still need to understand what will happen if prices go against them.

Those whose approach to investment is limited to low risk and low return should perhaps think twice before opting for spread betting or CFD trading. But investors prepared to accept the risk of larger losses due to the potential of large returns from spread betting and CFD trading may well be suited to this dynamic and fluid kind of investment.

7. How to manage risk

7. How to manage risk

As with investors in any other area, the most successful spread betters and CFD traders are the ones who understand and manage their risks. Risk-management tools available through City Index can ensure that investors limit the risk in every trade they place and never lose more than they can afford to. The potential profits from spread betting and CFD trading are amplified, but so are the potential losses, and the use of risk-management tools will help investors control the downside without affecting the potential gains. These tools are simple to use and available to all investors.

Stop loss

A stop loss is an order to close an open position when the market reaches a certain level. The potential loss is limited by requesting that the trade is closed when the price reaches that level.

Guaranteed stop loss

A guaranteed stop loss order guarantees that the level at which an order will be executed is the exact level that the investor sets, regardless of any gapping in the market or trading hours. An additional spread or charge is applied in connection with a guaranteed stop loss order. Guaranteed stop losses are particularly useful in volatile markets, when prices can move suddenly and may not hit the exact level at which a stop loss is set. However, please note that this is not available for every market

Limit orders

Limit orders are placed at a better price than the prevailing price. For a purchase, a limit order would be set at a price below the current price, and for a sale it would be set at a price above. They can either be set independently or attached to an open position. Limit orders are useful if the investor believes the price of the underlying asset will move to a more favourable level in the future, but does not want to watch the market until this happens to make a trade.

Stop orders

Stop orders are placed at a worse price than the prevailing price. An order to buy would thus be placed at a higher level than the prevailing price, and an order to sell at a lower level. Stop losses and guaranteed stop losses are stop orders used to limit downside potential, but a stop order can also be used to open a new position when a market reaches a point at which an investor believes it may reverse direction.

One cancels the other orders

One cancels the other orders are used to link a stop loss order and linked limit order to an open position. They are generally used to set maximum profit and loss levels. If one of the orders is executed the open position is closed and the remaining order is automatically cancelled.

8. What kind of trader are you?

8. What kind of trader are you?

As in any market, in spread betting and CFD trading defining your approach is an essential part of becoming a successful trader. Investors can adopt one of a number of trading styles, all of which can result in successful trading, although most traders find that one style suits them best and that using that approach produces the best results.

Finding which kind of trading best suits a particular investor is an important step in becoming a successful trader, enabling the investor to target his or her trading activity more precisely. It usually takes some experience of the markets for investors to identify the style that suits them best. Each type of trading has its benefits and disadvantages. Each also contains its own types of risk, prompting successful traders to use the risk-management tools best suited to each type.

Day trading

Day traders work on movements in markets within a single day. They tend to make a comparatively large number of trades each day, moving rapidly in and out of positions and, because they are usually trading on smaller price movements. Day traders need to commit a lot of time each day to trading.

Swing trading

Swing traders take longer-term positions than day traders, but still for only a few days at a time. They trade primarily on short-term directional moves in markets, holding fewer positions than day traders.

Position trading

Position traders hold a small number of positions, or perhaps just one, for time periods ranging between a few days and several weeks. Their aim is to profit from longer-term trends in the market, which are of no use to day and swing traders. They are unaffected by daily or even weekly price fluctuations, focusing instead on the longer-term picture. They run fewer trades than others.

Making trading decisions

In all financial markets there are two main approaches to making trading decisions. All traders use either one approach or the other, or a combination of the two.

Fundamental analysis

Fundamental analysis aims at finding the intrinsic value of an asset in order to calculate its correct market price. It involves studying a wide variety of factors at a range of different levels, from broad economic conditions down to individual company management.

Economic data, monetary and fiscal policies and consumer trends are all taken into account in fundamental analysis, as well as all kinds of data related to the performance and prospects of individual companies. From this mass of data, fundamental analysts produce a picture of the outlook for a particular asset and make their trading decisions accordingly.

Technical analysis

Instead of evaluating an asset by its intrinsic value, technical analysis involves the use of statistics generated by market activity to anticipate price movements in that asset. For technical analysts, the past performance of an asset in the market is the best guide to its future performance. The premise of technical analysis is that price movements are patterned and cyclical, and they use a huge range of techniques to track the movements of markets in order to predict where prices will go next.

9. Strategies for success

9. Strategies for success

Spread betting and CFD trading can be used in all kinds of sophisticated ways. Many highly experienced traders use them regularly as part of their overall portfolios for a variety of purposes.

Speculating

The opportunity for cost-efficient speculation is one of the simplest reasons for investors to become involved in spread betting and CFD trading. These tools provide access to a huge variety of markets that would otherwise be beyond the reach of the ordinary investor, and allow investors to earn potentially large returns from relatively small investments, providing maximum leverage. Both small-scale investors and seasoned professional traders regularly use spread betting and CFD markets for the leveraging opportunities they offer.

Hedging tools

Hedging against the risk of falls in other investments is another reason many investors engage in spread betting and CFD trading. An equity holding in a particular company can, for example, be hedged with a short spread bet or CFD on that company's shares, protecting the investor against a fall in the price of the shares at just a fraction of the cost of the shares themselves. The same approach can be taken in the currency, commodity and other markets, regardless of the direction of the main investment, providing a cost-effective way to protect the value of the overall portfolio. Both spread betting and CFD trading are exempt from stamp duty, and spread betting is also exempt from Capital Gains Tax, adding to the appeal of these tools as hedging instruments. However tax laws are subject to change and depend on individual circumstances

Pairs trading

Pairs trading is a strategy in which an investor aims to profit from one asset outperforming another, and is perfectly suited to spread betting and CFD trading. An example of pairs trading is where an investor opens a long position on the stronger of two companies in the same sector and a short position on the weaker. This is based on the view that if the overall sector rises the price of the stronger company will rise faster than the price of the weaker, and that if the sector falls the weaker company will fall faster, leading to a profit in both cases. The same approach is often used with companies in different sectors but with other kinds of relationships, such as being involved at different points in the same supply chain.

Replicating or replacing equity positions

Spread betting and CFD trading are commonly used to replicate equity trading positions or replace those positions entirely. Low margin requirements for spread bets and CFDs offer investors the chance to invest in their preferred markets at a fraction of the cost and with lower tax liability than in direct trading, prompting many investors to either replace portions of their equity portfolios completely with spread bets or CFDs on the same assets, or use spread bets and CFDs as a low-cost method of increasing their investment in those assets.

Tax efficiency

Spread betting and CFD trading provide substantial tax benefits, and many investors use these tools for that reason alone. Direct investments in the underlying assets are liable to Capital Gains Tax and Stamp Duty, while spread betting is liable to neither and CFD trading is exempt from Stamp Duty, making this form of investment a way of making substantial returns with a substantially lower tax bill. However tax laws are subject to change and depend on individual circumstances.

10. Support and back-up

10. Support and back-up

City Index provides the highest levels of customer support and research resources to its clients. Investors have at their disposal sophisticated market information and insight from experienced market experts, regular market updates, analyst comment and charting guidance, plus regular free seminars and trading guides covering everything they need to know to make the most of their trading.

City Index's support services have been recognised in awards from Investors Chronicle and Shares magazine. Our dealers and customer service advisers are always available to offer support to investors, answering questions by phone, email or live chat.

As well as personal support, City Index's trading platform ensures that investors can make the most of their trading opportunities, providing streaming of tradeable prices, firm quotes, accurate tracking and a professional charting package. Our online accounts also provide mobile, Blackberry and PDA access, ensuring that our clients can trade when they want to and take full advantage of the opportunities offered by spread betting and CFD trading.