DISCOVER WHY YOU SHOULD SWITCH TO CONTRACTS FOR DIFFERENCE

CFDS VS SHARE TRADING

LET'S FACE IT. TRADITIONAL SHARE TRADING HAS ITS DISADVANTAGES. WITH NO LEVERAGE AND HAVING TO PAY ADDITIONAL FEES SUCH AS STAMP DUTY,* A LOT OF YOUR MONEY GETS TIED UP WHEN OWNING SHARES.

Good news: there is a more cost-effective way to speculate on stocks and other financial instruments. CFDs are flexible products that allow you to take a view on thousands of stocks from all over the world without many of the costs associated with owning shares.

CFD stands for contract for difference. Essentially, a CFD is an agreement with a provider (such as Tradefair) to exchange the difference between the prices of an underlying financial instrument at the point when you entered the trade and at the point when you exited the trade. Rather than buying and selling that physical market, the CFD mirrors the price and – when the CFD is closed – it is settled in cash.

One of the benefits of CFDs is that they can be used to take advantage of both rising and falling markets. Because a CFD is merely a speculation on the price movement of an underlying asset, it does not require ownership of the asset, and therefore you can enter the market by either buying or selling.

CFDs have been used since the early 1990s by financial institutions to hedge their portfolios against adverse movements in the markets and also to make use of leverage. Around the turn of the century, private investors also began trading CFDs, thanks to online financial dealers helping to make the product more accessible. You can now trade thousands of different markets as a CFD, including equities, indices, currencies, commodities, bonds, and interest rate futures.

*Tax laws are subject to change at any time.

2. HOW CFDS WORK

BECAUSE YOU CAN SPECULATE ON WHETHER A MARKET'S PRICE IS GOING TO MOVE UP OR DOWN, CFDS ARE ALWAYS QUOTED WITH TWO PRICES:

The lower one is called the bid price and the higher one is the offer price. If you expect that the price will fall, you sell at the bid price. If you believe that the price will rise, then you buy by at the offer price.

The difference between the bid price and the offer price is called the spread.

+For equities, one CFD is equivalent to one share. For a shares index or commodity, one CFD is equivalent to one contract of the underlying asset. For example, one CFD on the UK 100 trading at a price of 6000, equals a position size of £6000, and for every one point movement in the UK 100 you make or lose £1.

Tradefair makes it easy to understand what one CFD is worth in each market. When placing orders in our suite of platforms, you will be able to see at a glance exactly what one CFD means in relation to each of the underlying markets.

3. THE BENEFITS

BESIDES BEING ABLE TO TAKE ADVANTAGE OF FALLING MARKETS, CFDS DELIVER ADDITIONAL BENEFITS AS A FINANCIAL PRODUCT.

COST EFFICIENCY

Because CFDs are based on prices and nothing is actually exchanged, you can avoid the costs that come with physical ownership of an asset, such as having to pay stamp duty (under current UK legislation*) and account management fees. With less coming off of the top of each CFD, you can afford to make more trades and move in and out of the markets with relative ease.

CFDs can also be more tax efficient than other forms of trading. Depending on your circumstances, you can use any losses you incur through CFD trading to offset your Capital Gains Tax liabilities.*For more information on this, seek independent investment advice.

*Tax laws are subject to change at any time.

HEDGING TOOL

CFDs can be an effective way to hedge your portfolio. For example, if you are concerned that the stock market is due for a sell-off, you can protect your share portfolio by short selling CFDs. In this way, you can protect yourself without going through the expense and inconvenience of liquidating your stock holdings.

LEVERAGE – TRADE MORE WITH LESS

Leverage allows you to trade larger positions with less money. With a leverage of 100:1, you will receive £100 worth of market exposure for each pound that you invest. If we take our previous UK 100 example, for every CFD that you trade on the UK 100, you only need to cover 0.5% (200:1) as margin, so one CFD on the UK 100, at a price of 6,000, requires an initial margin of £30 (6,000 x 0.5%). This means that you can see a much higher profit gain in a shorter time period compared to other forms of trading. However, trading CFDs can also lead to deeper losses than you would without the use of leverage.**

**CFD trading involves high risks, with the potential for substantial losses and is not suitable for all persons. The high degree of leverage can work against you as well as for you. Past performance is not necessarily indicative of future results.

4. CFD MARKETS

Tradefair Markets has a wide range of CFDs that can help you to diversify your portfolio and minimise your risk or to gain leveraged exposure. The possibilities are virtually endless when it comes to trading CFDs. Tradefair Markets offers leveraged trading on over 3,200 markets in seven different categories.

INDIVIDUAL EQUITIES

CFDs on individual equities are one of the most popular types of CFDs. They offer you the opportunity to trade on the price movements of shares without the costs and restrictions usually associated with ownership. Trade on BHP Biliton, the Rio Tinto Group, and more.

INDICES

Why trade one share when you can buy or sell an entire stock index? Trade the UK100, Germany 30, US30, and many other global indices as either a spot or futures CFD.

COMMODITIES

CFDs on commodity products allow you to take advantage of the price movements of such diverse markets as gold, platinum, oil, cocoa, corn, or sugar. Most commodity CFDs are based on exchange-based futures markets. However, spot contracts are available on gold, silver, and oil.

4. CFD MARKETS

BONDS AND INTEREST RATES

Government bonds are one of the most highly traded financial futures instruments. Interest rate futures are closely linked to government bonds. You can use CFDs on many of the most popular bonds and interest rate futures, such as German Bunds, UK Gilts, and U.S. Treasury bonds, notes, and bills.

FOREIGN EXCHANGE (FOREX)

You can trade over 120 currency pairs with a forex CFD, from majors such as EUR/USD to exotic and emerging pairs such as USD/INR.

5. CFDS VS. SHARE TRADING

IF YOU ARE AN EXPERIENCED SHARE TRADER, YOU MAY BE WONDERING WHAT CFDS HAVE TO OFFER YOU. YOU WILL FIND THAT THE UNIQUE FLEXIBILITY OF CFDS ALLOWS FOR ALL KINDS OF ADVANTAGES OVER SHARE TRADING.

FEATURE	SHARES	CFDs

Leverage	100% of the capital is required upfront to execute your trade	CFDs are a leveraged instrument and some equities require only 5% of the capital to trade (dependent on individual equity)
Commissions	Commissions vary amongst brokers – typical commissions can be £15 - £25 per side of your trade	Commissions are typically lower compared to traditional share trading – as low as 7 basis points (0.07% per side) for non-US equities and 2.5 cents per US equity
Order types	Order types vary between stock brokers	Tradefair offers eight different order types – from the usual direct deal and market orders to limit/stop orders and trailing stops – to help you manage your risk and protect your potential profit
Ownership rights	When owning shares, you can receive dividend payments and have voting rights because you own the underlying asset	With CFDs, you do not own the underlying asset so you do not have voting rights, but you can receive dividend payments if you have bought CFDs
Speed of execution	Electronic platforms typically offer faster execution compared to telephone-based brokers	Most CFD equities are traded electronically and therefore trades can be executed extremely quickly
Liquidity	Liquidity is restricted to availability in underlying exchange	CFDs are derivatives of the underlying exchange and can often provide increased liquidity

6. YOUR FIRST TRADE

NOW THAT YOU KNOW WHAT CFDS ARE AND THE UNIQUE BENEFITS THEY DELIVER, LET'S LOOK AT HOW YOU CAN START TRADING THEM WITH Tradefair MARKETS.

Let's run through a few examples of different markets to illustrate how they work.

TRADING AN EQUITY CFD

Let's say that UK company XYZ has a dealing quote of 124 – 124.1 pence. You would sell at the bid price (124) or you would buy at the offer price (124.1). The spread is the difference between the two prices, which is 0.1 pence in this example.

Let's say you expect the share price to rise and you decide to use CFDs rather than traditional share dealing to back your view. You buy at 124.1.

BUY PRICE -	SELL PRICE =	PROFIT/LOSS
154.1	124.1	30 pence

It turns out that you're correct and the underlying price of the shares does rise. The new quote price is 154.1 (bid) – 154.2 (ask) and you decide to close out your buy trade through selling at the bid price of 154.1. This gives you a gain of 30 pence on each share you held.

For equities, one CFD is equal to one share. If you had bought and sold one CFD, this would be the same as buying and then selling a single share. So, buying and selling one CFD in this example would give you a profit of 30 pence. If you bought and sold 100 CFDs, then your profit would be £30 (equivalent to 100 shares).

TRADING AN INDEX CFD

Using CFDs to trade an index is just as simple as using CFDs to trade an equity. Let's consider the UK 100.

If our UK100 quote is say 5802 – 5803, then this means you can sell the index at 5802 or buy it at 5803. Let's say you buy one CFD at 5803 as you expect the index to rise. This time, things don't go as expected, and the index falls to 5783 – 5784.

You decide to close your trade by selling one CFD at the bid price,

5783. In this case, your loss is calculated as follows:

OPENING LEVEL -	CLOSING LEVEL =	LOSS IN POINTS
5803	5783	20

Because one CFD is equal to £1 per UK100 point, your loss is £20.

Remember: with CFDs, you realise your profit or loss in the same underlying currency that the index is traded in. For instance, if you buy or sell CFDs on a U.S. index such as the US 30 (Dow Jones Industrial Average),
Then your profit or loss would be in U.S. dollars.

Many commodities, such as gold, are also traded in U.S. dollars. This also means that your profit or loss is calculated in U.S. dollar terms. Your profit or loss, however, is automatically settled in your account's base currency, at no cost.

7. UNDERSTANDING RISK

EXPERIENCED TRADERS KNOW THAT UNDERSTANDING RISK AND FINDING EFFECTIVE WAYS TO MANAGE IT ARE FUNDAMENTAL PARTS OF A SUCCESSFUL TRADING STRATEGY.

While the risk of loss is embedded within the very nature of trading, keeping potential risk factors towards the front of your mind as you consider your options can greatly reduce the possibility of placing an unsuccessful trade.

With CFDs, there are two major risk factors to consider: volatility and leverage.

VOLATILITY

Markets can move quickly and unexpectedly. Major earnings announcements, political upheavals, or natural disasters are some of the events that can impact equities, bonds, and commodities. While volatility can provide trading opportunities, it can also pose significant risks. There is no way to completely avoid volatility in the market, but you can learn to manage the risks it poses to your trading.

Tradefair's trading platform can help you to manage your CFD positions. You can use order types, such as trailing stops, to exit trades at an acceptable price before the market goes too far against you. For more on order types, check out the Managing Risks section.

LEVERAGE

CFDs are traded on leverage, which can be both a benefit and a risk. Leverage allows you to take a larger position with less capital, but a high degree of leverage can work against you as well as for you. When you trade, keep in mind that the leverage on your CFD is a significant factor that can magnify both positive and negative outcomes. You may end up losing more than your initial deposit.

8. MANAGING RISK

NOW THAT YOU KNOW ABOUT SOME OF THE RISK FACTORS INVOLVED WITH TRADING CFDS, LET'S LOOK AT SOME OF THE ORDER TYPES THAT MAY HELP MANAGE THOSE RISKS.

MARKET ORDER

A market order is a request to buy or sell at the current market price guaranteeing execution, but not price. As such, a market order may be filled at a different price than the price submitted by the customer.

LIMIT

A limit order specifies that a trade must be executed at a specific price or better. Traders typically use limit orders in an attempt to capture profits and exit a position – however, they can also be used to enter a position.

STOP

A stop order is used to enter or exit the market at a particular price. Depending on market volatility, execution and price are not guaranteed. Stop orders are commonly used to set an exit point for a losing trade to try to limit risk.

TRAILING STOP

Like a regular stop order, a trailing stop is set a specific number of pips away from the current market price. When the market moves with your position, the stop setting automatically changes so that it 'trails' the current price by the number of pips you set. When the market moves against your position, the stop remains set at the last trailing price reached when the market was moving your way. You can use this to protect profits without limiting potential gains.

ORDER-CANCELS-ORDER (OCO)

An OCO allows you to set both a stop and a limit order at the same time. When market movements cause either order to be filled, the unfilled order is automatically cancelled. Traders often use this to protect a market order.

PARENT & CONTINGENT (P&C) ORDER

A P&C order allows you to set up an entire trade – including stops and limits – in just one step. You can select this order type in the Tradefair platform. P&C orders are a great strategy and are commonly used on Tradefair to protect potential profit and guard against potential loss.

When market movements cause the parent order to be executed, the contingent orders become active until one is filled. P&C Orders are often set as OCO orders so that when one of the contingent orders has been filled, the other is automatically cancelled.

GUARANTEED STOP ORDER

These orders guarantee execution at your specified price when you place a P&C order. Available on Tradefair, this order type requires an extra charge and is not available for all markets.

SCALE-OUT ORDER/PARTIAL CLOSE

On Tradefair, you can use a scale-out order to exit (as well as enter) a trade in increments. When you select this order type, you can place multiple OCOs to open or close a multi-lot order.

*Slippage on all stop orders is possible during times when Tradefair is closed, around fundamental announcements, and times of extreme market volatility. Slippage relates to orders being filled at a price which is worse than the stop price requested by the customer.

GLOSSARY

CONTRACT FOR DIFFERENCE (CFD)

A trading vehicle that gives you the opportunity to speculate on the price movement of a particular financial market or instrument.

CONTRACT SIZE

The contract size represents a minimum amount that can be traded. Contract sizes may vary based on the underlying market being traded.

LEVERAGE

This offers the trader the opportunity to control a larger position with a fraction of its actual value.

LONG POSITION

To enter a market by buying, in anticipation of making a profit.

MARGIN REQUIREMENT

A fractional deposit made to the dealer to maintain a market position. With CFDs, you are only required to put up a percentage of the contract value, yet can trade the full amount of the contract. Some markets, for example, only require .5% of the contract value. One note: Trading on margin can create losses as well as gains, so it is very important to identify your risk comfort level before you trade.

SHORT POSITION

To enter a market by selling, in anticipation of making a profit.

SPREAD

The difference between the buying and the selling price of a financial

instrument.

NOT OPEN A CFD ACCOUNT or OPEN a demo account and get started.

'Tradefair Financials' ("Tradefair") is a trading name of GAIN Capital UK Limited whose head and registered office is Park House, Finsbury Circus, London EC2M 7EB. GAIN Capital UK Limited are authorised and regulated by the Financial Conduct Authority in the UK FRN 113942 for details visit www.fca.org.uk. Registered in England and Wales No: 1761813. Vat no: 524837435.

Tradefair® is fully owned by the Betfair Group . TRADEFAIR® and the TRADEFAIR LOGO are trademarks of The Sporting Exchange Limited. Data on all Betfair Group website(s) (including pricing data) is protected by © and database rights. It may not be used for any purpose without a licence. Parental supervision (e.g. using NetNanny, CyberPatrol) is advised and encouraged.

Apple, IPad and IPhone are trademarks of Apple Inc., registered in the U.S. and other countries. App Store is a service mark of Apple Inc.