LET'S GET TO KNOW

SPREAD BETS

Spread bettingis pretty cool. Here are three reasons why.

Even if you've never traded before, you probably know how the financial market works—buy in and hope it goes up. But that's only for people with lots of cash and know-how, right? Not always.

Spread betting offers a simple, tax-free*method of trading the markets, whether you've traded before or not. However, when trading spread bets you can lose more than your initial deposit.

* While spread bets are currently tax-free, tax laws can change at any time.

1. Rules? What rules?

Let's say you think a certain financial market is going to decline in value. You'd like to enter the market to take advantage of this, but there are two problems in traditional markets:

1. This market is restricted to "buy" trades only, so you can only take advantage of a rise in value.
2. Even if you could get into the market, you don't have enough money to cover the position.

Fortunately, there's a trading method that can help you avoid the "rules" of other financial markets: spread betting.

Spread bets are a mix between traditional betting and contracts for difference or CFDs.

With financial spread bets, you can speculate on whether a specific financial market will increase or decrease in value. So, unlike traditional financial products, which typically only allow you to buy, spread bets can be entered as either buy or sell trades. You trade stakes of the underlying instrument price, but never actually own any part of that instrument.

Because of this, you can leverage your trades, or put up a small portion to cover a larger position. However, leverage can cause substantial losses as easily as it can help produce substantial profits, so make sure you are always managing your risk. You also avoid any additional commissions and fees, as these are included in the spread. Now let's take a quick look at how spread bets differ from other financial instruments.

Taxes	Spread Bets	CFDs
	Profits exempt from Capital Gains tax.	Pay Capital Gains tax on profits.
Analysis	spread Bets	typical Bets
	through market analysis, can make a more informed decision of which way a market might go	educated (or not) guess on how it will turn out
Profit Potential	spread Bets	traditional Markets
	trade when value rises or falls; use leverage* to trade a larger position	trades only profit when the value rises; have to put up the full value of the position

Spread bets have become one of the most popular instruments among traders in the UK.

While some of this can be credited to advances in online trading technology, spread betting has attracted all kinds of traders, from individuals transitioning from traditional markets to those who enjoy the thrill of speculation. In fact, recent estimates of the number of spread bettors in the UK are in the hundreds of thousands.

2. Say goodbye to CGT.

Trade over 12,000 markets, whether they're up or down, tax-free.* Avoid Capital Gains tax

with spread bets, not only do you avoid the Capital Gains tax placed on profits in other financial markets, you
Also avoid paying income tax and stamp duty. However, while spread bets are currently tax-free, tax laws may change at any time.

Pay Fewer Fees

Most financial instruments require you to pay a variety of fees—commission fees, clearing fees, exchange fees, spread fees, government fees, platform fees and charting fees. With spread bets, the commission is built into the spread. All you pay is the low, competitive spread you see. Keep in mind that spread bets involve a finance adjustment, which may be a credit or debit to your account.

Seek Profits in Rising or Falling Markets

Most markets place heavy restrictions on the types of trades you can place, which means most traders can only seek profits in rising markets. With spread bets, you can find profit potential whether the markets are rising or falling.

Do More with Your Money Using Leverage

In share trading, you buy and own—the market you are trading. With spread bets you are just speculating on the market's value, so your money is not tied to the underlying instrument. Plus, you can trade with leverage, putting up a small amount of money to control a much larger amount. Remember, trading on leverage can magnify losses as well as profits, so you should manage risk accordingly.

Choose the Market You want to trade

When a financial product is hot, you want to be where the action is. With spread bets, you can trade some of the most popular equities, indices, commodities, bonds, currencies and event interest rates on the market all from one account.

Trade at Almost Any time

You can immediately spread bet on over 2,900 different global markets, 24 hours a day, five days per week, with minimal time outages.

3. Name a market, any market.

The financial instruments you can spread bet vary depending on your dealer. We offer over 12,000 products to spread bet in the following markets.

Equities

Trade on the price movements of individual equity shares, like British Airways or the Royal Bank of Scotland, without the costs and restrictions usually associated with purchasing those shares.

Commodities

Take advantage of price fluctuations in some of the most popular commodity markets without paying added commission. Speculate on the future price of metals, such as gold, platinum, or silver, oil, and other commodities like cocoa, coffee and sugar.

Currencies (Forex)

Think a currency pair is going to rise or fall but not sure by how much? Speculate on the direction of pairs, like the EUR/USD, USD/JPY and GBP/USD, without the need to identify a specific price.

Stock Indices

Speculate on the price movements of a market segment like the UK 100 or EU stocks 50, and trade the price of a group of companies in one market. You can even trade some stock indices when the underlying market is closed.

Bonds and Interest Rates

Interest rate futures are closely linked to government bonds. Take advantage of up and down price movements of bonds like the UK Gilt and euro Bond, and take or close a position without timeframe restrictions.

Inflation

Make the most of rising or falling rates with inflation futures—an original product. Inflation futures enable you to speculate on short to mid-term inflation rates for the UK Consumer Price Index, manage your exposure to inflation and help protect your portfolio.

Did you know?

The markets you can trade depend on your dealer, and finance adjustments apply to several of the above markets.

Walking the Walk: How to place Your First trade

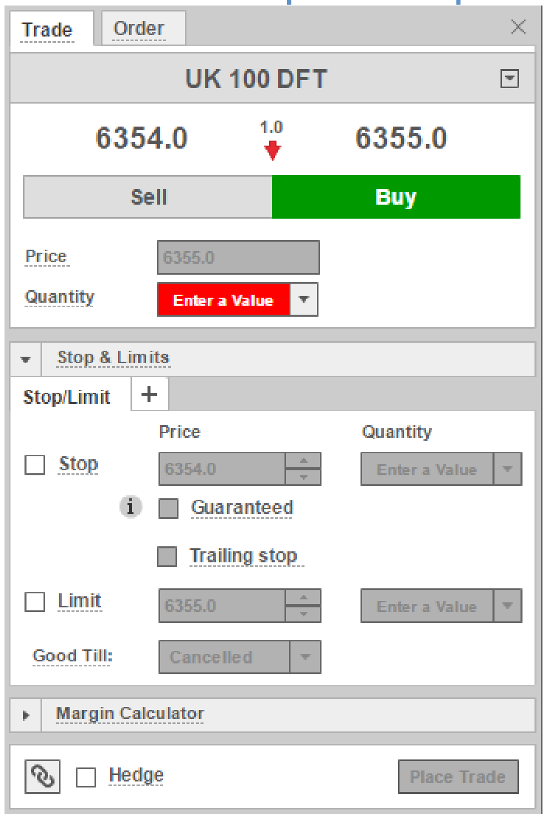
Now that you know more about spread bets, let's talk about how you would actually place a spread bet trade.

Choosing a position

Restrictions on most financial products limit traders to speculate on one position: whether your product will rise in value. With spread bets, however, you can choose:

- A buy position or "to go long"
  This means you enter the market thinking the price of the instrument will rise.
- A sell position or "to go short"
  This means you enter the market thinking the price of the instrument will fall.

How do I read a spread bet quote?



If you want to BUY, you would enter the position at the buy price. In this example, it's 6355.0.

If you want to SELL, you would enter the position at the sell price. In this example, it's 6354.0.

The STAKE is how many pounds you bet per point the market moves. For example, a stake of 1 means for every point the market moves in your favour, you make £1. (And conversely, if it moves against you, you lose
£1.) If your stake was 10, you would gain (or lose) £10 per point.

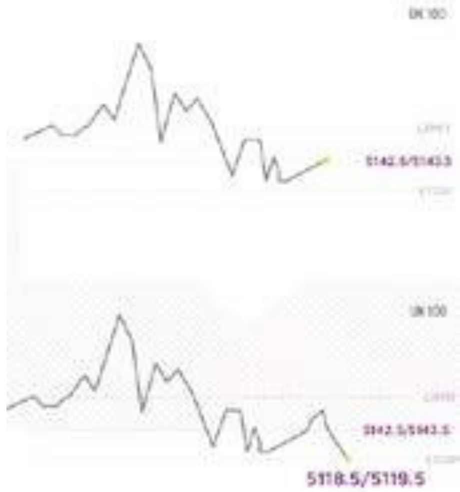
Why are the prices in the quote different?

The difference between the first and second rate is called the spread. This is the dealer price for entering the trade. The value of the spread varies depending on the financial product you use in your spread bet. When you enter a spread bet, all you pay is the spread—no additional fees apply.

To give you a better idea of how these work, let's see these positions in action.

Buy position

Patterns in the UK 100 chart indicate that the stock index may continue its upward move, so you decide to "go long" and enter a buy position. You set a stop 25 pips below and a limit that's 25 pips above the buy level and stake 10 on the UK 100; the index value has a buy price of 5143.5.



Let's say you check on the stock index later and learn that the UK 100 now has an index value of 5118.5/5119.5, which means it hit the stop you set earlier. Your position closes and you take your loss of £250.

Your loss is £250.

Sell position

Let's say that after you exited your buy position, you suspect the UK 100 will drop further. So after doing some analysis, you re-enter the market, but decide to "go short" by entering a sell position. You set a stop 23 pips above and a limit 23 pips below the buy level and stake 10 on the UK 100; the stock index has a sell price of

5126.5.

Again, you check on the stock index later and learn that the UK 100 now has an index value of 5102.5/5103.5. This hits your limit, so your position closes and you gain a profit of £230.

Your profit is £230.

Don't Let risk run You Out of the Market

As you can see from the buy example, making a spread bet trade can be risky. Like doing anything that takes risk, however, you can take precautions to help minimise its impact.

In spread betting, there are many skills you can develop to help cut down your trading risk. Here are a few to get you started.

1. Take Advantage of Volatility

It doesn't take much for market prices to move quickly and unexpectedly. A major (or even minor) economic announcement, a breaking news story, natural disaster, or other event can cause markets to move. Volatility can provide trading opportunities but it can also bring significant risks.

2. Manage Leverage

As you saw in our spread betting example, leverage can help produce substantial profits as easily as it can cause substantial losses. Always keep this in mind when you trade.

3. Protect Your Position with order types

Market orders

Place an order from the chart, dashboard or quoteboard at the market price.

Stop and Limit orders

Protect your potential profit or help minimise loss by setting a stop or limit at a certain price. When the market hits your price, the order is triggered.

Parent & Contingent orders (P&C)

Set up an entire trade start to finish: when to get in and when to get out.

Automated trailing stop

Set your stop to trail the market price to help capture additional profits while minimising losses.

Scale-out orders

Exit the market in fractions of your original order. Like a P&C, you can set up an entire trade, but the order is applied if you're trading more than one contract.

Guaranteed stops

Most orders do not guarantee prices or, with stops, execution. For an extra charge, This type of order guarantees execution at your specified price. (However, remember to check your market before you use this type of order as it is not available for all markets.)

Set Proper Levels

You might say that setting a stop is an art—you need to make sure that your stop is set so that your trade can handle smaller jumps and drops in price while protecting you from losing your shirt if the market doesn't go your way. A stop that's too narrow may lead you to re-enter the market, causing you to get stopped out again. That can cause more damage to your account balance than if you entered a stop that was too wide.

4. Check Your emotions

Sometimes, the factor that determines how successful your trade will be isn't the amount of research you did, but your mind set at the time. As you trade, try to stay objective and calm. Even if you have a losing trade, resist the urge to enter another trade immediately just to win your losses back.

5. Practice

Almost every spread bet dealer offers practice accounts— take advantage of them to test your trading strategies and learn different platforms.

6. Create a trading Plan and stick to It

A good trading plan is crucial to your success as a trader. Face it without a plan and a rules-based approach to trading, you are simply trading by the skin of your teeth. It may seem to work for a while, but self-doubt and/or greed will ultimately get in the way of being consistently successful. The good news is, it's fairly easy to create. The following steps may help you get started.

A. When constructing a trading plan, ask yourself:
   a. Will I trade only one specific market or many?
   b. Will I trade on a daily basis or hold my positions for days or longer?
   c. How much do I want to make?
   d. How much am I willing to lose per trade?
   e. If I trade on a daily basis, how many consecutive losses will I tolerate before I stop for the day?
   f. How will I analyse the markets? Will I look at news and other events? Will I examine charts and price movements?
   g. How will I use stops to help control my risk?
   h. Will I have one profit target or multiple targets?
   i. What kind of profit can I reasonably expect to gain?
B. Using your answers, write out a short but detailed plan of action plan.
C. Now, comes the hardest part—sticking to your plan. Try keeping a diary of every one of your trades. It will force you to follow your rules and avoid impulsive trading as much as possible.

Let the Market Clue You in on When to trade

You've learned what spread betting is, the different kinds of trades you can make, how to make a trade and risks to watch for.

But one question may have you scratching your head: "How will I know when to trade?" the answer: analyse the markets. Let's look at some analysis tools and types.

What are price charts?

Price charts plot the recent prices of a market on a graph and provide a snapshot of market movements over a particular period of time.

Line Charts

Line charts are one of three common chart types that most traders use. They provide a quick way to view the changes in price movements over a period of time.

Bar & Candlestick Charts

Bar and candlestick charts provide an easy-to-analyse appearance that displays detailed information about the price movements of a market.

Bar chart

Candlestick chart

Each bar or candle on the chart is defined by four price points (high, low, open and close). The length of the bar or candle represents the level of trading activity for a specified period. For example, on a chart with a ten-minute time scale, a bar or candle would represent all of the trading activity of the market in a ten-minute period. When the price of a particular market rises, the bar or candle appears one colour (usually green) and when the price of that market drops, the bar or candle appears another (usually red).

Most traders switch between different time frames so that they can compare market movements and verify trends. For example, in the trading platform, you can select to view charts with time frames as small as a tick all the way up to one year.

What is technical analysis?

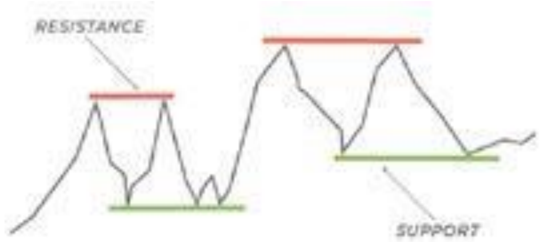
If you're familiar with trading other financial products, you know that traders tend to hold on to their positions for as long as the market moves their way. When they lose confidence in the market, they tend to reverse or close their positions quickly.

Technical analysis is the study of repeating patterns and movements in the market caused by the pattern-like behaviour of traders. Technical analysis is used to monitor the current and historical price movements of a market, help determine market trends and forecast potential entry and exit points for their trades.

Because no two traders are alike, there are hundreds of technical analysis tools and methods to choose from. Some of the most common are:

Support and Resistance Levels

Support levels are points that market prices drop to but don't frequently break through. Conversely, resistance levels are points that market prices rise to but don't frequently break through. Prices usually continue to hit these levels until they break out, forming new support and resistance levels. Tracking these levels can give you an idea of where to set stop and limit points.



Indicators

These display trend lines either over the recent market movements on a chart or in a separate area below the chart. Bollinger Bands, Average Directional Index (ADX) and Moving Averages are all examples of indicators. In- dicators can be either lagging (analyse past market price movements) or leading (forecast future price move- ments) and can help you see market direction.

Patterns

A chart pattern is a series of price points that move in a particular arrangement and, once completed, forecast market movements. Some common patterns are flags, channels and triangles. You can also plot more complex patterns, such as ABCD patterns or Fibonacci levels.
Charts patterns can help you see trends in the market.

What is fundamental analysis?

Whether or not you've traded before, you probably know that the value of a market can change in response to news, interest rate changes, government decisions and other events. As you watch the charts, you'll notice that events and news on a particular country's or region's economy can cause markets to shoot up or down dramatically.

Fundamental analysis traders track these political, social and economic forces to forecast whether the value of a currency will go up or down.

Many new traders will develop their fundamental analysis skills by following news events and tracking scheduled economic announcements. But there will be times when the price movement of a market won't behave as your fundamental analysis may indicate. That's where it becomes important to incorporate technical analysis into your strategy as well.

Did you know?

As you begin to follow economic announcements, you may understand why some events—like the consumer price index—may cause markets to move. But you may wonder why it's important to follow lesser events, like the food price index. Usually, a major event provides an indication of the state of the economy. But traders follow lesser events because they provide an indication of upcoming major announcements. For example, a jump in food prices may mean the consumer price index will jump as well.