

CFD investors ignore warnings

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A growing number of Australians are investing in highly leveraged derivatives despite the high-profile collapse of a firm that offered the products, and warnings they are dangerous.

New figures show the number of people using contracts for difference has risen to 39,000 over the past year, up markedly from 32,000 the year before.

The popularity of CFDs has soared despite a crackdown by the Australian Securities and Investments Commission, which warns many users don't understand that relatively small investments can lead to hundreds of thousands of dollars in losses.

CFDs are leveraged investment products that allow traders to take bets on the direction of share prices, currencies and commodities.

In June, ASIC kicked off a campaign targeting misleading advertising by CFD providers, with a report that showed an outlay of just \$5000 could lead to a \$200,000 loss.

ASIC commissioner Greg Medcraft said at the time that CFDs could be riskier than "going to the bookies".

Concerns about the \$350 million CFD market have grown since the collapse of Melbourne-based provider Sonray Capital in June, leaving around 4000 investors stranded with frozen accounts.

A report into the sector released yesterday by research group Investment Trends showed Sonray held 2 per cent of the CFD market in Australia before its collapse

Two firms – IG Markets and CMC Markets – dominate the sector, counting 76 per cent of people who trade CFDs as their clients.

The number of people using CFDs has grown by 30,000 in five years, according to Investment Trends.

Two-thirds of people who use CFDs do so to trade blue-chip stocks, while 40 per cent trade foreign exchange markets and about a third invest in commodities.

"We expect the market will continue to grow, but the pace of that growth may slow down a bit," Investment Trends principal Mark Johnston said. "In Australia, the two main drivers for using CFDs are the leverage and the ability to go short."

The Australian Financial Review

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