

CFD traders want more education

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Australia's high-growth contracts-for-difference (CFD) market is now the world's second most evolved, a research firm says.

However, traders are demanding ongoing education to help them understand the high-risk, leveraged derivatives.

Research firm Investment Trends said 80 per cent of the 39,000 Australians trading CFDs want more seminars and education.

CFDS are considered a niche online trading market that attracts self-directed investors.

"There is a much higher demand for education in the CFD market than in the broader share trading market," Investment Trends principal Mark Johnston said.

Around 15 per cent of stock brokers offer advice on CFDs, and 70 per cent of traders rely on CFD providers' websites for information, he added.

Half used a demonstration account to educate themselves before they started trading, Mr Johnston said.

CFDs are high-risk derivatives that are mostly traded over the counter in Australia and comprise a leveraged bet on future changes in the market price of a particular asset.

They are usually traded by sophisticated traders taking geared, short-term positions in volatile markets, who have traded shares frequently over several years.

"Many of them have traded warrants and exchange traded options in the past," Mr Johnston said.

On average, CFDs comprise 21 per cent of a trader's investable assets, he said. The median is nine per cent.

Attempts by some CFD providers to appeal to less sophisticated retail investors through advertising campaigns caught the attention of the corporate regulator in July.

"Retail investors are confused about how CFDs work, do not understand the significant risks in trading CFDs, do not seek financial advice before investing," the Australian Securities and Investments Commission said at the time.

Trader numbers in Australia grew by 22 per cent to 39,000 over the year to June, according to Investment Trends, which surveyed 9,644 local investors online in April and May.

This represents about six per cent of the 650,000 people who traded shares online in the past 12 months and who intend to continue, up from five per cent the previous year.

Investment Trends surveyed CFD traders in the UK, Singapore and Germany.

Mr Johnston said the UK was the most evolved market because CFDs and spread betting have a more established presence.

"Australia is probably the second most evolved, so for most players it's the second biggest market," he said.

Like the UK market, more traders in Australia are closing out positions the same day that they opened them, he

said.

Of the total traders, 27,000 or 70 per cent, are dormant traders who think they will trade again, and the remainder will not.

IG Markets leap-frogged rival CMC Markets to grab a 29 per cent share of the local market based on the number of traders using the firm as their main provider.

IG Markets chief executive Tamas Szabo said the firm has 10,000 active accounts.

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