

## Spread bet groups scout for punters

By Rose Jacobs and Patrick Jenkins  
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Gianfranco Zola may have been footballer of the year a few times and one of Chelsea's greatest players, with 35 caps to his name for the Italian national team. But that, apparently, is not enough success for the 44-year-old, who stepped down as manager of West Ham four months ago.

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This week, Mr Zola spent several hours immersed in the technicalities of foreign exchange derivatives trading as the guest of **BNP Paribas** in London. Mr Zola, word has it, is mad about FX, trading at home whenever he can.

"He's like a lot of middle-class men at the moment. It's the craze of the moment," said one City trader. "They like to think they have a view on the outlook for the world economy and trade and exchange rates. And then they lose a load of money."

**Spread betting groups** said they saw a sharp increase in foreign exchange trading in recent months as investors switched from a stagnant equities market. Recent exchange rate volatility was giving investors more opportunity for big gains, having risen sharply during the recent sovereign debt scare in Europe.

"Forex volatility this year has doubled compared with last year," said one trading expert at IG Index. "That's where the action is."

Lisa Baum at Cantor Fitzgerald Europe says FX trades at Cantor Index rose nearly threefold in the past two years, from 51,000 in the first half of 2008 to 135,000 in 2010.

"Our clients are not City workers but people interested in current affairs," she said. "Everyone's got an opinion these days."

Indeed, industry experts say the customer base for financial spread betting widened following the credit crisis – although it can be hard to pin down numbers of active spread betters, since many open accounts and then drop out after losing money.

According to research by Investment Trends, 93,000 UK residents used financial spread betting products and "contracts for difference" – derivatives contracts that work like spread bets – last year, but one in three active betters switched platforms.

Anecdotal evidence from regular users suggests that churn rates are even higher, and as many as nine in 10 new starters soon quit.

The need to attract new customers explains companies' heavy spending on advertising and marketing, with IG Group spending 10 per cent of revenues worldwide. Adverts have migrated from specialist publications to consumer magazines and daily newspapers.

FxPro, a Cyprus-based platform that announced plans this month to float on Aim, sponsors Fulham and Aston Villa football clubs, and backs Virgin's Formula One racing team.

Questions have been asked about whether it is right to target sports fans with such a highly-leveraged product where losses can be unlimited. Spread betting lies in a grey area between

### IG Group bets on its success and comes out a winner as market leader

IG Group, market leader in spread betting, has taken occupancy of 87,000 sq ft of gleaming new offices off Cannon Street, **writes Roger Blitz.**

"It was a great deal," says Tim Howkins, chief executive. "We caught the bottom of the property market."

Did IG monitor its own spreads to predict the bottom? "No, we just got lucky," he says.

You need more than luck to be a spread better. "This is a product that isn't meant for the masses," Mr Howkins says.

"You need to have a reasonable understanding and interest in the movement of financial markets, and you need some surplus risk capital."

People such as students who think it's a get-rich-quick scheme will fail IG's "appropriateness" test.

Still, access to broadband and what Mr Howkins says is the growth of professional classes taking charge of their own financial affairs has transformed IG's client base from City workers to doctors, accountants, dentists and IT specialists.

The business, which was set up by Stuart Wheeler in the

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gaming and financial trading. It is regulated by the Financial Services Authority, so escapes rules about posting information about gambling addiction on websites.

But winnings are not subject to capital gains tax – in common with winnings from gambling. One analyst says: "People say, 'I'm not betting, I'm taking a position'."

Meanwhile, the most recent British Gambling Prevalence Survey suggests that while the number of problem gamblers in Britain is 0.6 per cent, among spread betters, prevalence is more than 14 per cent.

Alex Dahmen, a 31-year-old who started spread-betting full time six years ago, says: "All beginners tell you the same few things – that in one hour you can lose days of profits; that their brokers are cheating them; and that it is highly addictive."

More than with sport betters, Mr Dahmen observes an overlap with online poker and casino players.

"It's like poker in that it's money management," he says. Companies are eager to cash in, with groups such as Cantor Gaming & Wagering providing financial products to bookmaker Ladbrokes, and Goldman Sachs linking up with Betfair to offer a platform for retail trading of contracts for difference.

Mr Dahmen sees many new users in search of high returns, but without the money you need to make them. "I say no one should start with less than £7,000."

back room of his house in 1974, achieved revenues of £298.6m in the year to May 31 and pre-tax profit of £157.6m. It has offices in 11 countries.

Recalling IG's first flotation in 2000, Mr Howkins says the group's ambition was to expand its client base from 5,000 to 15,000. "We always thought the UK would run out of steam."

IG last year hit 50,000 clients in the UK – 30,000 of them actively trading – and 120,000 worldwide.

But Mr Howkins doubts there will be a rash of new spread betting companies. Technology is one barrier to success – of IG's 900-plus staff, 230 work in IT.

It also takes time to achieve scale, as clients' enthusiasm can be short-lived.

Among those who open spread betting accounts, up to 30 per cent never trade, says Mr Howkins.

Another 20 per cent give up in the first month.

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