

Report argues trading CFDs is on the increase

1

Like

Share

0

Tuesday, 12th April 2011

UK traders claim to profit more from CFDs than financial spread betting

Philip Salter

ACCORDING to a report from Investment Trends, contracts for difference (CFD) trading is on the rise, with trader numbers increasing from 18,000 to 25,000 in the year to October 2010. The figures are based on a large online survey of UK traders. As well as showing that the number of CFD traders rose by almost 40 per cent last year, the report projects further growth of around 36 per cent this year. The report also claims that CFD traders outperform spread betters, that spread betting is preferred when trading forex and that IG is still the provider to beat.

Pawel Rokicki of Investment Trends says "with regulatory changes impacting their business at home and in Japan, US-based forex providers cast their eyes across the Atlantic – and to be competitive, they have expanded their product set to include CFDs." In consequence, "the large local players have responded by shifting their advertising focus to CFDs, driving an increase in trader numbers." The report expects growth to 34,000 CFD traders this year. Manoj Ladwa of ETX Capital says he has "certainly seen a marked increase in CFD trading in the last year."

The report also suggests that CFD trading is more profitable than spread betting. Half of active spread betters claim that they made money in the last twelve months, 38 per cent said they were losing and the average reported return among all active spread betters was 9 per cent. In contrast, 62 per cent of CFD traders claim gains in the last twelve months, while 28 per cent claim losses. Claimed gains averaged 20 per cent. Michael Hewson of CMC Markets suggests that CFD traders might do better because of the higher initial capital requirements resulting in a slightly more sophisticated and experienced trader, while Ian O'Sullivan of Spread Co says that "CFD traders tend to be an older, more mature, more long-term trader and are more patient, giving themselves more chance of turning a profit than more short term traders that are spread betting."

The report also reveals that 51,000 of the 67,000 active forex traders choose spread betting over CFDs. Hewson thinks this is because of the slightly cheaper transaction costs, which becomes a more important factor with the higher turnover in forex. Forex comprised 42 per cent of spread bets in 2010, up from 36 per cent. The report also says that IG Index and IG Markets still lead the UK financial spread betting and CFD markets respectively, with the former up 9 per cent to 39 per cent of the market share, and the latter up 5 per cent to 27 per cent. However, strong competition and a substantial churn – almost a quarter of spread betters having changed providers within twelve months – will keep them on their toes. A number of smaller spread betting companies and CFD providers are expected to have a good year.

CFD trading is doing well. With the stiff and innovative competition across the sector – from the smallest provider all the way up to the giants of the industry – this is a trend that looks set to continue.