InvestorDaily

Appetite for CFD trading slows

Focus on the volatility, risks key factors

Kate Kachor

Wed 17 Aug 2011

The number of Australian Contracts for Difference (CFD) traders has slowed with ongoing high levels of volatility, heightened focus on the risks and a shift in client appetite key factors for the slow-down.

Figures from the Investment Trends May 2011 Australia CFD Report found while few people stopped trading CFDs, the number contemplating maiden CFD trades has fallen.

"Growth in the number of Australian CFD traders has slowed, both as a result of ongoing high levels of volatility, plus heightened regulatory and media discussion of the risks involved in leveraged trading," Investment Trends Principal Mark Johnston said.

The report also found in the 12 months to May 2011, there was a shift in the underlying trading mix away from shares and towards foreign exchange (FX) trading.

"FX trades accounted for 27 per cent of all trades in the 12 months to May 2011. CFDs over Australian blue chip shares, which made up the largest proportion of trades a year before, made up just 21 per cent of CFD trades," the report said.

Conversely, the report found the number of active Australian CFD traders rose slightly from 39,000 to 41,000 in the 12 months to May 2011.

The report said among current CFD traders, client satisfaction overall with their main CFD provider was relatively steady compared to last year.

Johnston said it will be interesting to witness the evolution of the market going forward.

"At around 7 per cent of the online share trader population, adoption of CFDs in Australia is a little under half the level of adoption of CFDs and/or financial spread betting in the UK," he said.

"We've also seen a lot of development in the Australian CFD industry this year, with the regulators tightening up on disclosure of risks to ensure people enter with their eyes open, and the introduction of variable leverage meaning people can potentially more actively manage the risks they take."

"We've also observed an increasing proportion of new CFD traders saying that guaranteed stop loss orders are a must-have feature for them - which is again about limiting potential exposure on the downside."

The report was based on a survey of 15,317 investors conducted in May 2011.
