

CFDs

You can't keep a good trader down

Forget the trials and tribulations of the financial markets, CFD activity is far from depressed.

John Wasiliev explains what's developing in this dynamic sector.

If the comments from the major promoters of contracts for difference accurately reflect what is happening in this dynamic derivatives trading sector, then business is not going all that badly, especially in light of current financial market conditions.

Trading interest in CFDs remains high, the head of CMC Markets Australia, Barry Odes, says, because they are versatile. While interest in CFDs over direct shares remains steady, the real focus since about November has been in trading CFDs over commodities – especially gold and oil – as well as CFDs over foreign exchange and sharemarket indices.

In their almost seven-year history in Australia, CFDs have been used mainly to trade shares and, to an increasing extent, trade share indices such as the ASX 200 plus special sector indices. But in recent months they have been traded in markets not usually considered by small traders – commodities and foreign exchange.

For traders, these markets can be just as active and potentially interesting as shares and can be traded using similar techniques such as charts and technical indicators. As more traders have become aware of this, the numbers signing up for CFDs have continued to grow. Over the past three months, says Odes, about 60 per cent of the first trades of new clients has been in indices, commodities or



why he is positive about the prospects for CFDs. Also encouraging has been a recent survey by industry monitoring group Investment Trends that suggests there has been a significant increase in public awareness of CFDs.

The same researcher has also carried out a study that suggests many who have signed up for CFDs intend to use them over the next 12 months.

Interest in trading CFDs is still growing, the head of sales trading in Melbourne with IG Markets, Harley Salt, says – a view confirmed in the latest worldwide new client account numbers for the UK-based IG Group

Break language

Trading is never easy, but there is no need to make it harder with jargon. Here is a brief guide to some of the concepts in our trading compile

Mark Lawson

CFDs – contracts for difference
A CFD is a highly leveraged contract that has been agreed to be like a share with a loan. The trader only has to fund the required deposit to own it. When it is sold the loan is repaid automatically and any profit is credited (or loss debited) to the trader's account. (For more on this created see DMA and M
Risk

This often boils down to a question of whether you will lose money or make money on a given trade, and anyone involved in CFDs will have a hard time about risk: how much should you put in to a given trade and how much should you stop any one time? CFDs are not for the faint-hearted, or for those without a full trading plan.

MM – market maker
A CFD provider, who acts as a securities exchange by creating and destroying CFDs for clients, acting as a market maker. The price of the CFD generated is the price of the underlying asset (Woolworths or ANZ, for example). The provider usually covers the buying and selling shares on the Australian Stock Exchange, trading between client and

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