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Introductory Guide to CFDs



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INTRODUCTION

It's easy to see why contracts for difference (CFDs) are one of the world's fastest-growing trading instruments. CFDs (also known as swaps or waves) suit most trading strategies and can complement your existing trading plan. As you read through this guide, you'll see that CFDs may offer active traders significant benefits over other trading products.

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WHAT IS A CFD?

A **contract for difference (CFD)** is an agreement between an authorised, regulated dealer and a trader to exchange the difference between the opening and closing price of a particular financial instrument. Both the dealer and trader are speculating on a financial product, such as an equity share, stock index, currency pair, or other trading instrument, and whether the value will rise or fall.

Unlike typical trading instruments, neither the trader nor the dealer actually owns the financial product – they only own the **speculation contract**. Because of this, traders can avoid the usual duties and restrictions associated with most financial products.

BRIEF HISTORY OF THE CFD

This degree of ownership, and the flexibility that comes with it, is one of the reasons why financial firms began offering CFDs in the late 1980s. At first, CFDs were only available to large corporations, but by the early 1990s, they became popular with hedge-fund traders who wanted to take advantage of the ups and downs of the market. By the end of the decade, CFDs became widely available in the U.K.

Over the last few years, CFDs have continued to grow in popularity, not only in the U.K. but in Australia, New Zealand, South Africa, Hong Kong, Singapore, and in numerous countries throughout Europe.

BENEFITS OF CFD TRADING

Why are CFDs so popular? Aside from being widely available and free of many of the usual restrictions associated with most financial products, CFDs also have a variety of benefits that appeal to traders.



Trade More with Less

CFDs offer a degree of leverage that offers traders the opportunity to take a position in the market at a fraction of the price.*

**Trading on leverage can magnify losses as well as profits and carries a high degree of risk.*

Find Profit Potential in Rising or Falling Markets

With CFDs, traders may seek profit by either buying (going long) or selling (going short). That way, traders may profit from both rising and falling markets as well as short-term intraday movements.

Trade Financial Products in a Wide Range of Markets

When a particular financial product is hot, traders want to be where the action is. Traders can use CFDs derived from the latest financial products to seek profits from the market movements. Trade CFDs in gold, FTSE 100, EUR/USD, and others all at the same time on one trading platform.

Manage Risk through Diversification

Because there are so many financial products to trade, many traders use CFDs to help diversify their portfolios, selecting a wide range of markets to help minimise their risk exposure, across multiple asset classes.

Execute Immediate Trades at Almost Any Time

Traders can immediately execute CFD trades in over 2,900+ different global markets, 24 hours a day, 5.5 days per week, with minimal time outages.

MAKING YOUR FIRST CFD TRADE

Now that you know a little more about CFDs, let's take a closer look at how they work.

Let's say you opened a £25,000 account with GFT and are interested in trading a CFD of a fictitious company called ABC Corp. (ABC).

ABC has created an innovative new mobile phone that may turn the company into a market leader and cause their stock price to rise. Naturally, you hope to take advantage of this opportunity. Like any experienced trader, however, you decide to do a little research first.

Making Your First CFD Trade

You learn that ABC Corp. stock is trading at £5 per share. If you were to buy 500 shares of stock, you would have to pay £2,500.

At the same time, you learn that an individual equity CFD based on 500 shares of ABC Corp. stock has a margin requirement, or required minimum deposit, of 10%. This means that the outlay of the CFD is only £250.

Choosing a Position

Normally, when you trade stocks, you can only speculate on one position: whether your stock will go up. With CFDs, you can choose:



A buy position or "to go long"

This means you enter the market in anticipation that the price of the individual equity (in this case, the ABC stock) will rise.



A sell position or "to go short"

This means you enter the market in anticipation that the price of the individual equity will fall.

Because you anticipate that the stock will rise, you decide to "go long" with a CFD in ABC stock. However, if before your order is executed you discover information that leads you to believe that the price may fall, you may choose to go short instead.

Using Leverage

Now, let's say the price of ABC jumped from £5 to £7.25 per share. If you had bought the 500 shares of stock, you would receive £2.25 per share multiplied by 500 – or £1,125. Not bad, but what would your earnings be with a CFD?

Competitive Margins: GFT offers some of the most competitive margins available in the market, starting at **0.5%** for index CFDs and **1%** for forex CFDs.

Remember, with shares trading you had to use a large portion to buy the shares, but because you purchased the CFD using leverage, you control a larger portion of the contract for a fraction of its actual value. In this case, the leverage was 10:1. So, even though you only put up an initial amount of £250, you still earned £1,125 before commissions. Your position with the CFD in the market was the same as if you purchased the stock – £1,125. Alternately, if the price had moved the same distance against you, you would have lost £1,125.

NOTE: Trading on margin is a significant risk that can magnify both positive and negative outcomes; while a trade may generate significant profit, it can also create a significant loss.

UNDERSTANDING RISK

Trading any financial product is a skill (and some say an art), but even the best traders lose money. While CFD trading has its advantages, there is always a level of financial risk involved.

That's why GFT recommends that traders of all levels:



Understand the risks

It is important to recognise that CFD trading carries inherent risks.



Find ways to manage risks

All your trades should be considered carefully and weighed in relation to your own trading strategy and risk appetite before execution.

Before you trade a CFD, you should consider and anticipate the following risk factors.

Volatility

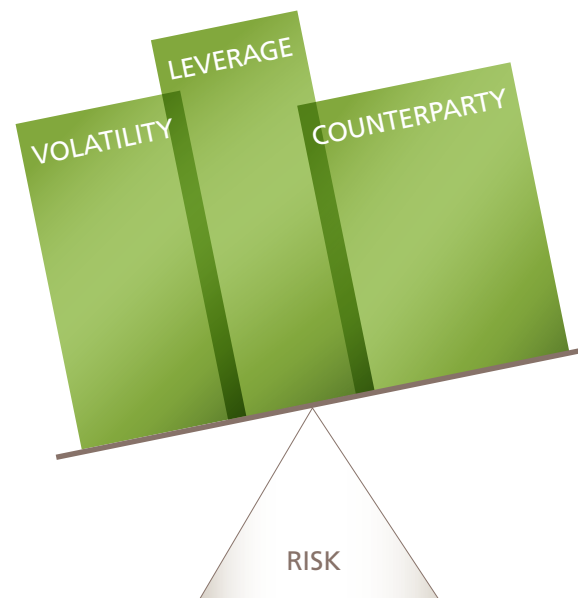
Sometimes, prices can move quickly and unexpectedly due to a number of factors, including major earnings announcements or material changes, market uncertainty or natural disasters. While volatility can provide trading opportunities, it can also bring significant risks. There is no way to avoid volatility in the market, but you can learn to manage the risks to your trading.

Counterparty

Whenever you trade with a financial dealer, you must consider the possibility that the other party may default on their obligation. You can limit this type of risk by investigating your dealer to make sure they are a well-established company that is properly regulated everywhere they do business.

Leverage

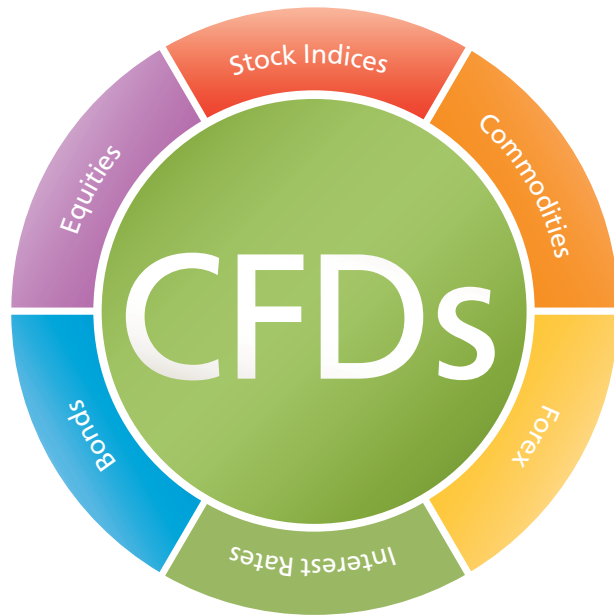
As you learned with our example of ABC Corp., leverage can produce substantial profits as easily as it can cause substantial losses. When you trade, keep in mind that the leverage on your CFD is a significant risk factor that can magnify both positive and negative outcomes.



IN WHICH MARKETS CAN I TRADE CFDs?

GFT offers CFDs in over 2,900 financial markets. That means you have more opportunities to trade with a vast array of markets.

At GFT, you can trade CFDs in any of the following markets, some with margins as low as 0.5%*.



Individual Equities

Individual equities are the most commonly traded types of CFDs. As you saw in our example, individual equity CFDs offer you the opportunity to trade on the price movements of stock shares without the costs and restrictions usually associated with purchasing shares.

Stock Indices

Like individual equity CFDs, stock index CFDs enable you to speculate on the price movements of the stock market. With this type of CFD, however, you are trading a market segment (usually between 30 to 500 stocks), not just a share.

Commodities

A commodities-based CFD enables you to take advantage of price movements on the future price of metals, such as gold, platinum, or silver, oil, or other commodities like cocoa, coffee and sugar.

Bonds and Interest Rates

Government bonds are regarded as the most highly traded financial futures instruments. Interest rate futures are closely linked to government bonds. With both of these, you can take advantage of up and down price movements and take or close a position without timeframe restrictions.

Foreign Exchange (Forex)

With a forex CFD, you can trade 60 major and exotic currency pairs. Unlike a regular forex trade, the position you take with your CFD is not subject to daily rollovers. The position remains open at the price you trade at until the position is closed and any profit/loss is immediately credited/debited to your account.*

**Subject to finance adjustments.*

Inflation

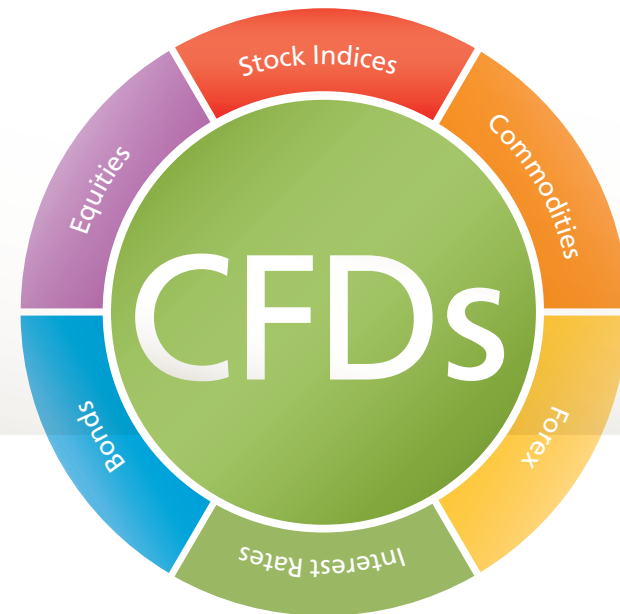
CFD inflation futures are an original product exclusively from GFT that offer you the opportunity to speculate on short to mid-term inflation rates and manage your own exposure to inflation.

For more information on each type of CFD, please refer to the Market Information Sheets on our website, www.gftuk.com/cfd/market-info.asp.

**NOTE: Trading on margin is a significant risk that can magnify both positive and negative outcomes; while a trade may generate significant profit, it can also create a significant loss.*

WHAT TYPES OF CFDS ARE AVAILABLE?

Equities	Stock Indices	Commodities	Bonds	Interest Rates	Forex
<ul style="list-style-type: none"> Australia Austria Belgium France Germany Italy Netherlands Spain Switzerland UK US 	<ul style="list-style-type: none"> Australia European Hang Seng Nikkei UK US <p>New Contracts:</p> <ul style="list-style-type: none"> Austria Canada China India Korea Mexico Singapore Sweden 	<ul style="list-style-type: none"> Crude Oil (US & UK) Platinum Gold Silver High-Grade Copper Sugar Palladium London Coffee London Cocoa London Gas/Oil 	<ul style="list-style-type: none"> Europe UK US 	<ul style="list-style-type: none"> Europe UK US 	<ul style="list-style-type: none"> 60 currencies








BASIC CFD TERMS YOU SHOULD KNOW

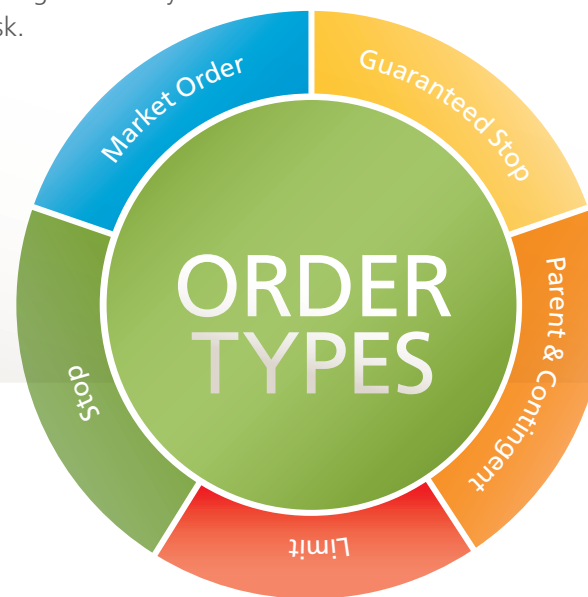
You may have noticed a number of terms throughout this guide. See the definitions below for more information.

TERM	DEFINITION
Contract for Difference (CFD)	An agreement between an authorised, regulated dealer and a buyer to trade the difference between the opening and closing price of a particular financial instrument.
Contract Size	The contract size, which is determined by dealers, represents a minimum amount that can be traded. Contract sizes may vary based on the underlying market being traded and the risk appetite of the trader.
Diversification	To select a wider range of markets to trade in an effort to minimise risk exposure all in one particular instrument.
Guaranteed Stop	An order that dictates exactly at what price you will exit the market. This may require an extra charge, but may protect against market volatility.
Leverage	Leverage offers the trader the opportunity to control a larger CFD contract with a fraction of its actual value.
Long Position	To enter a market by buying in anticipation of making a profit.
Margin Requirement	An amount of money that must be paid to the CFD provider to maintain your positions.
Short Position	To enter a market by selling in anticipation of making a profit.
Spread	The difference between the buying and the selling price of a financial instrument.

AVAILABLE ORDER TYPES

GFT offers a wide variety of order types to fit your trading strategy and help manage risk and protect potential profits.

Market Order 	Guaranteed Stop 	Stop 	Limit 	Parent & Contingent (P&C) 
<p>A market order is a request to buy or sell at the current market price, guaranteeing execution, but not price. As such, a market order may be filled at a different price than the price submitted by the customer.</p>	<p>Guaranteed stop orders guarantee execution at your specified price. However, this order type requires an extra charge and is not available for all markets.</p>	<p>A stop order is used to enter or exit the market at a particular price. However, depending on market volatility, execution and price are not guaranteed. Stop orders are commonly used to set an exit point for a losing trade to try to limit risk.</p>	<p>A limit order specifies that a trade must be executed at a specific price or better. Traders typically use limit orders in attempt to capture profits and exit a position; however, they can also be used to enter a position.</p>	<p>A P&C order allows you to easily place an entire trade, including stops and limits, in just one step. The contingent orders will not be filled until the parent is executed, allowing traders to set up the entire trade, including entry, exit and risk management, based on specific market prices. P&C Orders are often set as OCO orders so that when one of the contingent orders has been filled, the other is automatically cancelled.</p>



CHOOSING A CFD DEALER

Before you begin trading CFDs, we recommend that you take the time to ask your dealer a few questions.

Are you regulated?

A reputable dealer will be registered with the proper regulatory agencies of the nations in which they do business and adhere to the laws and regulations of those governing authorities. When researching a CFD provider, you want to ask with whom they are registered and then check with the regulatory agency to verify that information.

GFT adheres to strict regulatory guidelines and principles of integrity. Globally, GFT is regulated by the Financial Services Authority (FSA) in the U.K., the Australian Securities and Investment Commission (ASIC) in Australia, the Financial Services Agency (FSA) in Japan, the Monetary Authority of Singapore (MAS) and soon to be regulated by the Dubai Gold & Commodities Exchange (DGCX) and the Dubai Multi Commodity Center in the Middle East*.

**Pending license.*

What are your spreads?

Spreads are the difference between the buying and selling price of a CFD, and they may vary among CFD providers.

What type of accounts do you offer?

Dealers should offer a practice account to help you learn to trade before you start trading with a live account. Why? While it's not required that you open a practice account before trading with real capital, it's highly recommended.

GFT offers free practice accounts to help new traders learn the basics of trading in a real-time market environment without risking real capital.

What is your margin requirement?

Anytime you trade a CFD from a dealer, the broker will ask for a particular percentage of margin. At GFT, we offer CFD margins as low as 0.5%*.

**Note: A high degree of leverage can magnify losses as well as gains.*

Ask About:	1	Regulation
	2	Spreads
	3	Account Types
	4	Margin Requirement
	5	Services & Resources

CHOOSING A CFD DEALER

What other trading services and resources do you provide?

In addition to the previous questions, you should see if the dealer offers other trading resources like:

+ Free trading software

Most CFD providers offer a software platform that is fully integrated with real-time prices and charting, trade-from-the-charts capability, technical indicators, live news feeds, and analytical tools.

GFT's DealBook® suite of trading platforms features all of these options and more. We proudly offer three different versions – DealBook® 360 for home, DealBook® WEB to access your account from the internet, and DealBook® Mobile to access from your mobile device. Best of all, you can choose to use any or all of them absolutely free.

+ Free technical and fundamental tools

Technical tools offer traders the opportunity to access real-time analysis of market trends and other data to provide insight into possible trading opportunities.

DealBook® 360 offers over 100 free technical tools and indicators*, including Fibonacci retracement, MACD, Gann Fan, ABCD tool and more. In addition to the free tools, GFT offers a variety of subscription-based technical tools, such as Dynamic Trend Profile, DiNapoli D-Levels™, and more to help you determine potential high-probability trends.

Fundamental traders will enjoy real-time streaming news from Dow Jones Newswires* and Informa Global Markets, as well as the ability to add customised RSS feeds.

**Account minimums apply.*

+ Individualised training

The dealer you choose should offer free practice accounts, training resources, and helpful customer support.

At GFT, we believe in making sure that our traders have the knowledge and experience to enter the markets. We offer a variety of introductory guides and free tutorials on our DealBook® software. Then, turn your knowledge into experience by signing up for a free practice account.

+ Helpful technical support, customer services, and dealing desk

When you have a problem, you should be able to speak to a knowledgeable person by telephone, email or online chat.

Our knowledgeable, professional team is ready to help you. GFT offers Live Help, a way to chat with a sales support, technical support, or customer service team member, from our website. We are also available by phone or email.

At GFT, we're pleased to offer all of these services and resources and more. We are always looking for ways to ensure our products and services meet the highest standards of excellence and integrity.

BENEFITS OF TRADING WITH GFT

GFT is a global derivatives provider offering software and services to customers trading in more than 100 countries, as well as brokerage firms and institutions in more than 40 countries.

GFT Benefits:	1	Low or No Commissions
	2	Award-Winning Software
	3	24-Hour Support, 5.5 Days per Week
	4	Free DealBook® Tutorials

When you choose to trade CFDs with GFT, you'll enjoy:

Low or No Commission Charges

GFT offers low commission charges for individual share CFDs from 7% or 2.5 cents for U.S. equities with no minimum fee.* We also provide a cost-effective way to trade stock index CFDs on 0.5% margin.

You can also trade commission-free CFD futures on commodities, metals, bonds and interest – all on a single account through our DealBook® suite of trading platforms.

**Subject to account minimums, standard charge is 1% or 2.95 cents per share for U.S. equities with a minimum of £7, \$10 or €10.*

Customisable, Real-Time Trading Software

Trade your way with our DealBook® suite of trading platforms. Whether you're trading from home, from the office or on the go, we offer applications to fit your needs. Choose from DealBook® 360, DealBook® WEB or DealBook® Mobile – or use all three.

Helpful Dealing, Technical and Customer Support

GFT customers can contact our experienced and professional customer and technical support and dealing help desk 24 hours a day, 5.5 days per week via telephone (at +44 (0) 207 170 0770) or via live chat on www.gftuk.com.

Professional and Personal Service

At GFT, we recognise that your success is our success. Our market specialists undergo specialised training so they can deliver top-quality assistance and training on all of our software and services.

GFT is here to answer any of your questions and provide you with the tools you need – regardless of your trading skill or experience level.

GET STARTED NOW

“...we encourage you to learn more about how GFT can help you maximise your trading potential.”

This guide is intended to be a starting point to help provide you with a clearer understanding about the fundamentals of CFDs.

Before you take the next step in trading, we encourage you to learn more about how GFT can help you maximise your trading potential. We are happy to answer any of your questions.

For more information about the opportunities available in online CFD or spot forex trading with GFT, or to obtain a free practice account, visit www.gftuk.com or call +44 (0) 207 170 0770 or 0800 358 0864 to speak with GFT account executives.

RISK WARNING: CFDs, spot forex and spread betting are leveraged products and may not be suitable for everyone as it is possible to lose more than your initial investment. Please ensure that you fully understand the risks involved. GFT Global Markets UK Ltd. is authorised and regulated by the Financial Services Authority. CD04UK.016.112008