



Olsson
Capital

COMPLETE GUIDE TO
CFD Trading

[OLSSONCAPITAL.COM](https://www.olssoncapital.com)



Introduction

This Contract for Difference (CFDs) trading guide is intended to provide readers with a background to CFDs; how they are being traded; as well as the risks associated with trading them. Enjoy the Complete Guide to CFDs Trading.

What are Contracts for Difference?

If you are reading this guide then you will be interested to know that CFDs can be a useful risk management tool as well as an alternative investment vehicle.

Happy CFD trading!



CHAPTER 2

Introduction to CFDs



CFDs are essentially a legal contract between 2 parties to agree to pay each other the difference between an underlying financial asset's opening price and its closing price. As their value is based on an underlying asset, CFDs are classified as derivatives. Derivatives are a kind of financial instrument which allows investors to trade on an underlying asset's price movements, without having to own the underlying asset. As CFDs are traded on leverage, they allow investors to trade the markets by placing a deposit on the positions that they take in the market. In short, this enables investors to gain a much larger market position without having to risk the full invested amount. Because of their flexibility,

CFDs have become the instrument to trade with for traders who are aiming to profit from the financial markets on a short-term basis.

Conceptualized in the 90s, CFDs were initially traded among institutional traders and private investment funds. Within a few short years, CFDs also became available to high net worth clients who use them to hedge their investment portfolios. By the turn of the new millennium, the CFDs market had expanded to encompass retail trading as well. Many retail investors can see the trading benefits that CFDs offer and have wholeheartedly embraced this new form of financial investment.

A close-up photograph of a person's hand holding a black smartphone. The person is wearing a dark blue suit jacket and a white shirt with a small blue pattern. The background is a light-colored, textured concrete surface. The overall image has a professional, business-oriented feel.

CHAPTER 3

CFDs Trading Essentials

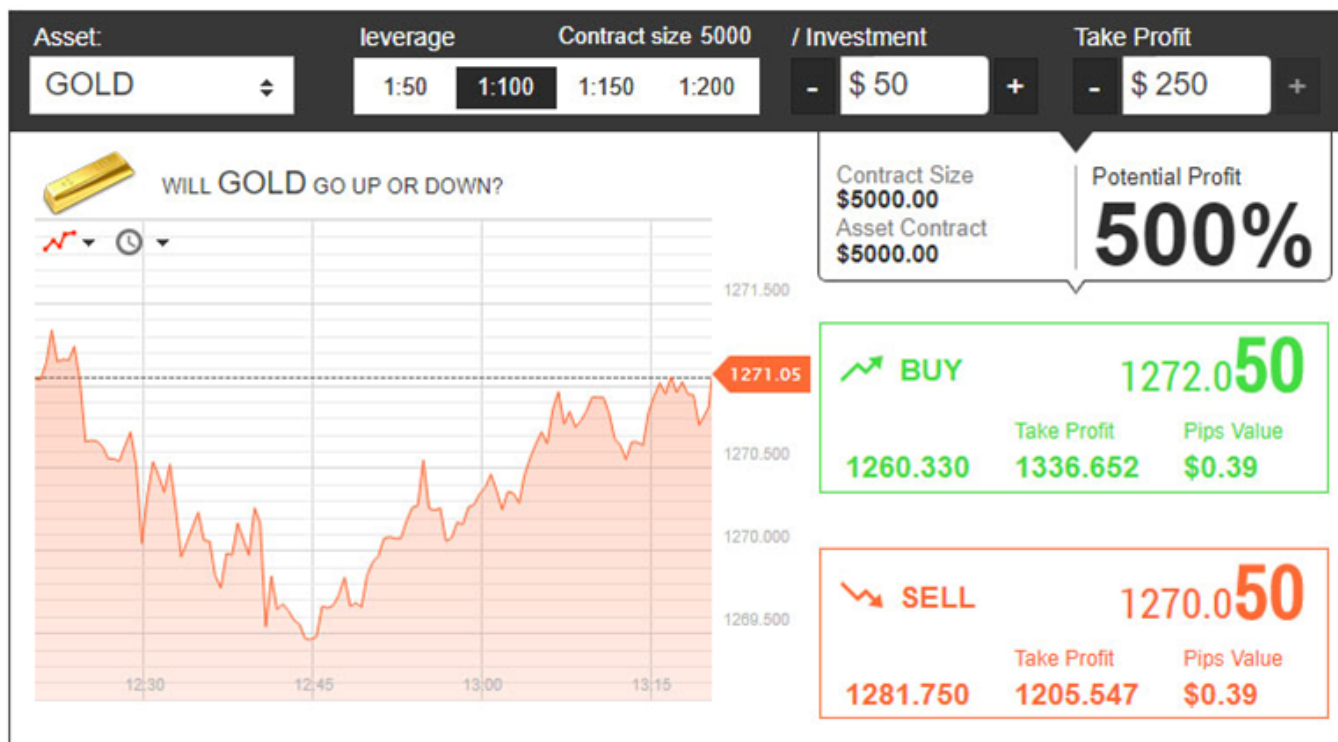
A CFDs trader when taking out a market position is counting on the change of an underlying asset's value over a period of time. He is basically speculating if the price of an underlying asset will be higher or lower as compared to the current price of the underlying asset. The fact that you can go "Long" or "Short" with a CFDs trade means that you can profit from either a rising market or a falling one. If you are expecting prices to rise, you would go long on your CFDs trade. However, if you are expecting prices to fall, you will go short. Thus regardless of whether you are going long or short, your trading objective is to profit from the difference between the

contract opening price and its closing price.

Unlike other forms of contracts such as Futures and Options, CFDs contracts have no expiry date. In order for a CFDs trader to close a position, he will have to same second trade that is a reserve of his initial trade. Let's say that you think the price of Gold is going to go above \$1272.050 in the near future. In this situation, you will go Long on your trade, that is to Buy.

However, if you feel that the price of Gold will fall below \$1272.050 in the near future, you will go Short on your trade,

Crypto **Commodities** Indices Stocks Pairs





that is to Sell. If the price of Gold does rise above \$1272.050 when you close your CFDs trade, then the CFDs broker acting as the counterparty to the trade will give you the difference between the contract's opening price and the contract's closing price.

On the other hand, if the price of Gold

falls below \$1272.050 in the near future on your Long market position, then you will be liable to the broker for the difference between the contract's opening price and the contract's closing price. So if you are trading on leverage, your losses will easily exceed the actual amount that you invested. In our example above, the invested amount was \$50.

CHAPTER 4

Advantages of Trading CFDs

For CFDs traders in the UK, there is no stamp duty payable on a CFDs trade. Unlike stock trading, every stock transaction will incur a stamp duty of 0.5% on both sides of the trade. This is due to the fact that there is an actual transfer of an asset (stocks). With CFDs, there is no physical transfer of any property, thus no stamp duty is payable. In other words, it is cheaper to trade in stocks CFDs as opposed to the actual stocks. While the cost saving of 0.5% may seem like a small amount to some traders, these savings, could easily translate into a significant amount if the trader is an active trader.

• *Ability to Trade on a Falling or Rising Market*

As mentioned earlier, CFDs traders are able to go long or short on their trades. Hence, this will enable the trader to profit even from falling markets by short selling.

• *Leverage Trading*

With CFDs, retail investors are able to make more efficient use of their investment capital. Most CFDs brokers only require their traders to have a small balance in their trading accounts to cover

the margin deposit on their trades. This margin requirement varies from broker to broker and can range from 5% to 10% of the investment amount.

EXAMPLE

Let us assume that you want to trade on the price movements of Google stock which is currently trading at around \$950. A purchase of 1 lot (1000 shares) Google stock will cost the trader a total of \$950,000. On the other hand if the investor were to invest in Google CFDs, his total investment will be significantly less. For example, if the CFDs broker only requires 10% on all stocks CFDs, the total investment will only amount to \$95,000 for 1000 shares. With both scenarios, the amount of profits earned by the investor is the same.

• *Risk Management*

With CFDs trading, the investor will also have access to all the risk management tools that are available to other traditional forms of investing such as

spot forex and equity trading. Tools such as the “Stop Loss” order will enable the investor to limit his trading risk to a level that is manageable. For example with a \$100,000 market position, the investor may decide that he is able to shoulder up to 5%. This means his risk is only up to \$5000. However, in times of high volatility, there is a danger of slippage. This means the trader might not be able to exit his trade at the specified stop loss level.

• *Diversity of Markets*

With CFDs trading, there is a diversity of the markets traded. Nowadays, it is common for CFDs brokers to offer their traders a wide selection of markets such as currencies, commodities, ETFs, equities, market indices, and Bonds.



CHAPTER 5

CFDs Risk Considerations



One of the main attractions of trading CFDs is the fact that you are able to trade with leverage. As mentioned earlier, this allows you to multiply your profit potential. At the same time, it should be noted that leveraged trading is a double edge sword. So while you might be able to multiply your profits, you could also be multiplying your losses should the market fail to move in the way that you predicted. The more highly your trade is being leveraged, the greater will be your trading risks. To get a clearer picture of the danger of leveraged trading, let us look at the examples below:

Cash Covered Trades

For example, a trader has \$50,000 balance in his trading account. At 10% margin requirement, a \$50,000 CFDs trade will only require an investment of \$5,000. But if the trader is able to cover his entire trade without using any leverage, his trading risk will be exactly the same as when he is trading with the actual underlying asset. Hence if the price of the asset drops by 15%, the CFDs investor will run a loss of \$7500, the same as when he is trading with the actual asset.

Leveraged Trade

Now let us look at a scenario where the CFDs trade is highly leveraged. Let's say that the CFDs trader has decided to fully utilize his leverage facility. Now with the \$50,000 balance in his trading account, he can afford to trade on a position as large as \$500,000. Let us assume that the price of the underlying asset drops by 15%, this means that the CFDs investor will now suffer a loss of \$75,000 as opposed to \$7500 in the above example. In this case, the entire trading balance of \$50,000 is wiped out with the trader still liable for an additional \$25,000.

Hence in order to avoid having all your trading capital being wiped out by an adverse price movement, proper risk management is crucial. The good news is most CFDs brokers today support a wide range of market orders such as:

- ***Stop Loss***

With the stop-loss order, the trading loss is limited to a specific level. The stop-loss order can also be used to lock in your trading profits if it is set to run with the profit level.

• **Guaranteed Stop-Loss**

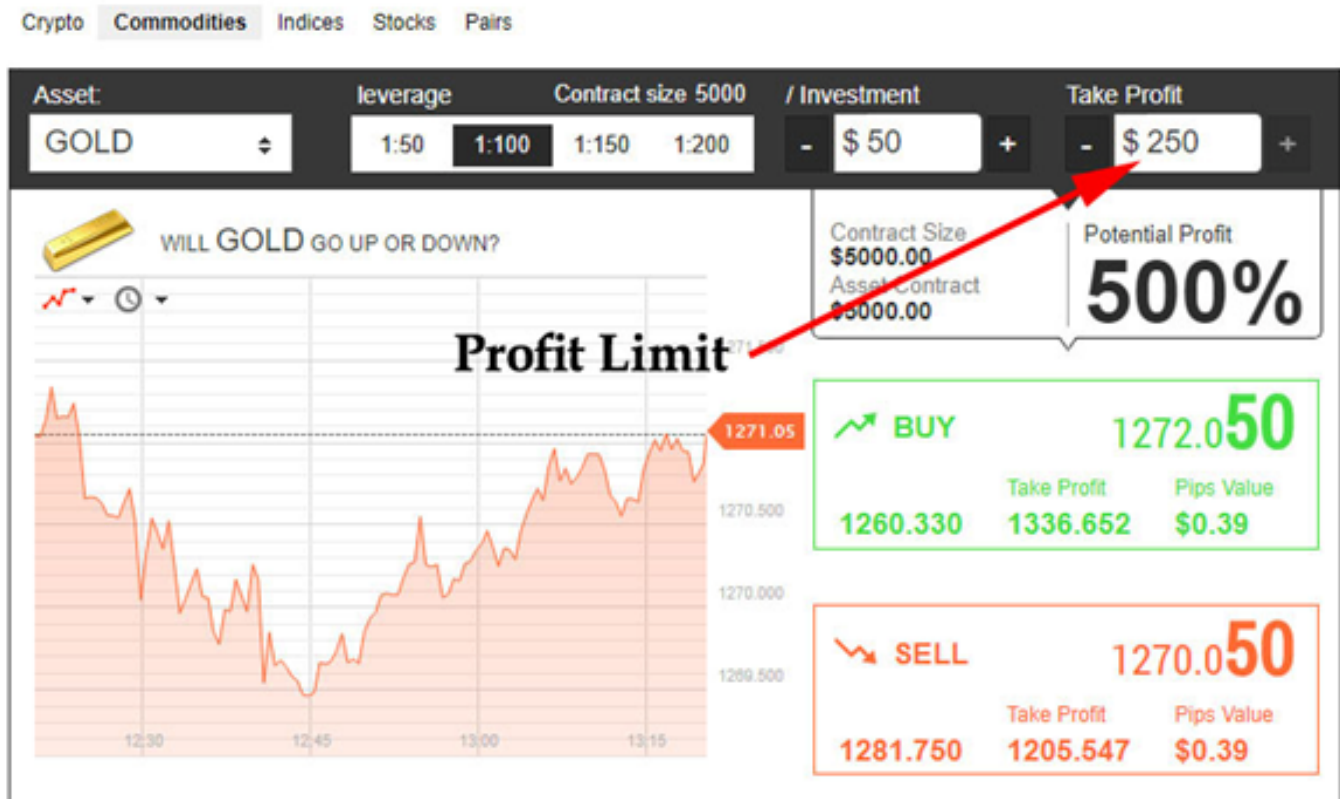
In times of high volatility in the market, there is the risk of slippage. This means your stop-loss might not be triggered at the level that you want it but beyond it. To avoid slippages, some CFDs brokers also offer “Guaranteed” Stop-Loss order for an extra premium. With the guaranteed stop-loss order, you can expect your stop-loss to be filled at the level that you specified.

• **Profit Limit Order**

With the profit limit order, the trading platform will automatically bank your profit once it has reached the level

specified by you. In the figure below, you can see that the profit level is set at \$250. This means that once your trade has made a profit of \$250, your position will be automatically closed.

When trading a high-risk instrument such as CFDs, it is always important to cut your losses early and let your profits run for as long as possible. Always ensure that the trading risks for each trade can be balanced with the amount of funds that you have available for trading.



Suitability

Apart from investment and leverage trading risks, there are other types of risks that you should be aware of when trading CFDs. For example, there are also risks such as client money risk, counterparty risk, and liquidity risk to grapple with. All these incidental risks can also produce unexpected losses for you as a trader. Ultimately, you need to take into consideration if the returns from trading CFDs will justify the effort and time that you put into your trading endeavor.

CHAPTER 7

So is CFDs trading the right fit for you?

Many beginner traders have the tendency to be influenced by the free seminars and slick advertisement that they see on the internet, especially with the theme of getting rich quickly. The truth is trading with CFDs may not be entirely suited for everyone. Only consider trading CFDs if you have sufficient trading experience and are fully aware of the kind of risks involved. In addition, you must only

trade with money that you can afford to lose. Finally, you must have the emotional aptitude to handle stress under highly volatile trading conditions.

To give you a clearer picture of what to expect, we have compiled a table showing the expectations of beginner traders as compared to the reality of CFDs trading.

Expectations

Reality

Easy to trade with minimal effort

Regular monitoring required

Easy to achieve high returns

Losses are as common as wins. Occasional large wins are usually counterbalanced by small frequent losses.

Similar to trading stocks online

The similarities end with the trading platforms. The nature of the risks is very much different.

Can acquire all the trading knowledge through trading education seminars

Trading education seminars will only provide the foundation to get started. The CFDs trader has to constantly upgrade his trading skills to stay on top of the game.



CHAPTER 8

Tips and Traps

CFDs Broker's Financial Standing

In order to be a successful CFDs trader, you not only need to be able to pick the right trades but also require the cooperation of your CFDs broker. The roles of your CFDs broker is not limited to providing you with the trading platform and processing your trades. It also extends to making payments such as “notional dividends” and your trading profits upon a withdrawal request.

That's where OlssonCapital.com comes in. We are a solid and transparent CFDs broker that is well capitalized and takes the matter of security seriously.

If your CFDs broker has weak financials, they may be unable to fulfill all the above-mentioned roles. In short, even if you have been able to trade successfully and accumulate profits along the way, it's important to know that you can quickly claim your withdrawals and see your profits in a matter of hours or days. You should always check the financial standing of your CFDs broker to ensure it is able to fulfill its financial and contractual obligations.

CFDs Broker's Client Base

Ensure that the CFDs broker that you are dealing with has a wide clientele base instead of its business being concentrated among a few large and active clients. This is because if the broker clientele base is not wide enough, its business operation can be adversely affected when these clients suffer losses and are unable to cover their losses. Needless to say, this will result in cash flow problems for the broker and ultimately can affect the ability of the broker to meet its obligations to other clients.

CFDs Broker's relationship with other companies

Most CFDs brokers have specific arrangements with other companies in order to protect themselves from counterparty risks. Hence if one of these companies were to run into financial difficulties, this will invariably affect the way the CFDs broker deals with you.

For example, when you place a trade with your CFDs broker, your broker will “hedge” your trade with one of their counterparty partners as one of their risk management measures. Hence, if

one of these “partner” companies is unable to fulfill its obligations, then your CFDs broker may be forced to close your position without any warning or compensation. Thus, it is crucial that you check with your CFDs broker about its hedging arrangement with other companies. If your broker deals with several strong companies, then this will lessen the risk of things going wrong for you.

Be sure to watch out for “white labeled” brokers. White-labeled CFDs brokers have very little financial resources by themselves. Instead, these white-labeled brokers rely heavily on the principal broker to offer all the services and CFDs products. The white-labeled broker also tends to be totally reliant on the principle broker to provide hedging services. In such a situation, you will be exposing yourself to the risk of the white-labeled broker failing as well as running the risk of having the principal broker failing as well.

CFDs Broker Business Model

There are several business models which a CFDs broker can follow. As a trader, it is important that you find out which business model your broker is using as the business model dictates how the

CFDs are priced and structured. In the CFDs trading industry, brokers can be categorized as one of the following:

- ***Market Maker***
- ***Direct Access Broker***
- ***Exchange-Based Broker***

Market Maker

With a market maker model, the broker will decide the range of the CFDs products as well as their pricing.

Direct Access Broker

For a direct market access broker, your orders are routed directly to the underlying market. The price that you will receive is decided by the market forces in the underlying market.

Exchange-Based Broker

The exchange-based broker is unique to Australia. CFDs traded are listed on the Australian Stock Exchange (ASX) and trades are conducted through ASX authorized brokers.

It should be noted that both the Market Maker business model and Direct Market access model are dealt through the over-the-counter (OTC) market and is the prevalent business models for the CFDs trading industry.

CHAPTER 9

Open an Account at Olsson Capital

REGISTRATION

First Name *	Last Name *	Email *
<input type="text"/>	<input type="text"/>	<input type="text"/>
Password *	Repeat Password *	Country *
<input type="text"/>	<input type="text"/>	United Kingdom ▾
Phone Number *	Currency *	Enter The Code *
<input type="text" value="44"/> <input type="text"/> <input type="text"/>	Select currency ▾ <small>Currency cannot be changed later.</small>	<input type="text"/> <input type="text" value="793bc2"/> Refresh
<input type="checkbox"/> Please Accept Our Terms *	* Required Field	<input type="button" value="SUBMIT"/>



In order to open an account with Olsson Capital, visit our website at www.OlssonCapital.com, click on either the orange or black Open an Account buttons and fill out the registration form. Once you have selected your payment method and placed a deposit, you can be up and trading within a matter of minutes!