MYTRADING SKILLS

SPREAD BETTING GUIDE

A comprehensive introduction to financial spread betting for new traders.

Learn why people spread bet, what spread betting is and how you might make money doing it.

Learn the skills you need to make money trading the markets with My Trading Skills.

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Learn the skills you need to make money trading the markets with our programme of live courses.

For new traders, we've got the Trading for Beginners Course. For those ready to fast-track their development we've got our 100 days Trading Foundations Programme.

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We've got lots of seriously insightful free materials: dozens of free on-demand courses, 100+ expert insights, an extensive trading glossary, the MYTS Forex Trading Guide and our market analysis posted on YouTube – subscribe to our channel to get notified when new videos are released.

Expert Community

The MYTS Community is a revolutionary online platform for new and experienced traders looking to share ideas and make profits.

Guide Chapters

Foreword

From MYTS Head Tutor, Phillip Konchar

If you're interested in financial spread betting and want to learn more about it, then you've come to the right place. We pulled together this extensive guide to provide new traders with all the basic information they need to know about spread betting the financial markets.

It contains everything from information on how spread betting works and the markets you can trade – to different bet types and strategies – to answering questions such as "How do traders make money spread betting?" and "Can you make a living from spread betting?".

Every day, large numbers of new traders start trading for the first time on the financial markets.

More often than not, new traders are attracted to spread betting because they believe trading is an easy way to make fast profits, diving right in without first educating themselves about how it actually works. Don't make the same mistake.

Even if you think you know or have an idea, of how spread betting works, it's still important to get the best trading education possible. Even experienced traders keep learning and bettering themselves. Why? Because the financial markets are constantly evolving, and trading knowledge can always be improved upon.

We've packed this guide full of fantastic insights and nuggets of valuable information to set you on the right course, so please take the time to read it in full.

We've tried to go into as much detail as possible but if there are topics we cover more extensively in our free or premium courses we'll tell you where you can find out more.

Happy trading!

Phillip Konchar
MYTS Head Tutor

Chapter 1 – Why Spread Bet?

Financial spread betting is one of the fastest growing areas of financial trading, particularly in the UK where there are many spread betting companies with thousands of customers.

There are a number of reasons why financial spread betting has become the most popular form of financial betting in the UK. Spread betting offers several advantages over more traditional forms of financial investing and trading.

A wide range of markets with maximum flexibility

One of the major advantages of spread betting is that you have the opportunity to bet on a very wide range of financial assets or events. Spread betting enables you to speculate on whether the price movements of an asset will rise or fall.

You can find spread bets on everything, including:

Indices
These are collections of company shares, like the FTSE100, Dax, DJIA, Nasdaq 100 or sectors.

Individual company shares
There are thousands of companies with a share price that can be spread bet, including Apple, Amazon and Facebook.

Currencies
Where there is a currency being exchanged a spread bet can be struck. The popular currency pairs are Cable, EURUSD and USDJPY.

Commodities
The prices of commodities like oil, gold, timber, copper, silver, wheat can all be spread bet.

Interest rates and bonds
Interest rate futures like bund, bobl and long gilts can all be speculated on using spread bets.

Sports
The number of runs scored, yellow cards in a game and position in the league can all be spread bet.

Anything with a price
If it has a verifiable price, and spread bet providers think it's popular enough to offer it, it can be spread bet. You can spread bet on property prices, political events, even e-sports.

This large amount of innovation within the industry means spread betters can look across the whole gamut of financial markets worldwide to find the best opportunities each and every trading day.

Some spread betting companies registered in the UK offer betting on more than 20,000 financial instruments.

Spread betting can allow you to trade faraway markets such as Australia and Hong Kong, markets you may not have previously had access to, just as easily as share trading local London stocks. You can trade all these markets - including gold, oil and bonds - from just a single trading account.

Spread bettors can also trade either side of the markets. It is just as easy to bet on the price of an asset going down – effectively, selling short – as it is to bet on it rising.

Many spread betting firms also offer the additional flexibility of being able to trade in smaller sizes than standard share or market contract sizes.

Open to small investors

Another major draw of spread betting is that it can be done with a very small amount of trading capital. This is due to the fact that with spread betting you don't actually buy the underlying financial asset that you want to trade.

Instead, you simply take a trading position by entering a trade on a spread betting company trading platform that only requires a small margin deposit, speculating on whether the market price of the underlying asset will rise or fall.

The margin required to hold a spread betting trade is only a small amount of capital because spread betting is a highly leveraged product.

Did you know?

The margin required to place a spread bet can be very small. If you want to spread bet FX in the EU then you only need to put up 3.33% of the underlying asset. Indices is 5%. Company shares is 20% of the total value of the underlying asset.

This means, for example, that a spread bettor could hold a trading position equivalent to buying £1,000 of stock shares by only putting up a margin deposit of £200.

Opportunity for big profits

Because of the high leverage offered, spread betting offers traders with just a limited amount of money the opportunity to make potentially very large profits with just a small investment.

For example
By putting up a 10% margin to place a spread bet would mean a change of only 2% in the underlying asset you're betting on would give you a 20% return on your investment.

High amounts of leverage make for the ability to generate sizeable profits – substantially more than the amount of margin you put down to place your spread bet. However, traders need to keep in mind that leverage affects both profit or loss in equal measure.

While it is quite possible to make more money than your investment in a spread bet, if you're wrong in the way you bet, you may end up losing money - even more money than your original deposit. It is possible to manage your potential losses with a stop-loss order.

The stop-loss order will automatically close out your bet if the market moves a specified amount against your spread bet position. Please ensure you understand the risks of spread betting before placing any trades.

Learn more: Take our free Margin Trading Demystified course.

Tax-free trading

Spread betting offers one huge advantage over other types of financial trading – it's tax-free! Spread betting gains are not normally subject to either capital gains taxes or income taxes and are also free from stamp duty charges. These tax savings can substantially increase your net profits on spread betting.

Spread betting is tax-free because, unlike making a traditional investment such as purchasing stock shares, spread betting is simply a bet between the spread bettor and the company that offers spread betting. The only tax that applies to spread betting is a 3% betting tax which is charged to the spread betting company, and that is absorbed by the spreads.

Commission-free trading

There are no broker commissions charged in spread betting. All the costs are instead built into the bid-ask spread (also known as the point spread) offered to spread bettors. The buy price for a spread bettor is the ask price, and the selling price is the bid price. Tight spreads are to the trader's advantage.

Not having to pay commissions getting in or out of trades is especially an advantage when one is frequently trading in small trade sizes, as most spread bettors do.

Thus, although traditional stock investing with commissions works fine for someone investing with a large account who wants to buy and hold long term rather than engage in short term day trading, spread betting can be more cost-effective for a trader looking to do multiple small trades per day or per week.

Tight spreads are to the trader's advantage.

No currency exchange risk

Trading in foreign stock shares, CFDs (contract for difference), or other financial instruments usually involves the additional risk of foreign currency exchange rates.

Did you know?

If your capital is in pounds sterling and trade CFDs of a stock traded on a US exchange, then fluctuations in the GBP/USD exchange rate can affect your profits. This is because you are trading a contract denominated in dollars.

In contrast, currency risk is not applicable to spread betting, which means that you can do all your trading – even spread betting on foreign financial instruments – in pounds per point, without ever having to worry about currency exchange rates.

With all the above advantages, you can create your own home business as a spread bettor, and – if you're a good spread bettor – it can provide you all the income you want or need.

Chapter 2 – Who Should Spread Bet?

Spread betting is not appropriate for everyone. Trading psychology is extremely important for successful spread betting, and not everyone has the right personality or psychological mindset for it.

Traders who consistently make profits through spread betting have developed the right psychological mindset and possess character traits that enable them to be successful.

Most spread bettors are day traders – traders who place multiple trades during any given trading day, looking to profit by speculating on short term price movements in the markets. There's a vast difference between day trading and making long term "buy and hold" investments that you may only look at a few times a year.

Consider your day trader personality

To be a successful day trader takes more than just a solid understanding of the markets. It requires having a day trader personality that, for example, enables you to handle the ups and downs of winning and losing trades, and includes the self-discipline to stick with a trading plan and avoid letting your emotions rule your trading decisions.

Key day trader traits and psychological characteristics for spread bettors include:

- Self-confidence
- The ability to accept financial risks
- Trading discipline
- Enjoying the process of trading
- The ability to react quickly to changing market conditions

Let's examine each of these in turn in order to provide you with some day trading psychology tips.

Self-confidence

Successful day traders have the mindset of an entrepreneur and all share one-character trait: confidence in their ability to be successful at the work of trading.

It's nearly impossible to be a successful spread bettor if you approach the markets with an attitude of thinking you are probably going to make bad trades and lose money.

Having such a negative attitude toward trading tends to become a self-fulfilling prophecy. Your expectation influences you to make bad trading decisions, which results in your negative expectation becoming a reality. On the other hand, having confidence in your ability to trade profitably can also become a self-fulfilling prophecy.

Confidence in their ability to trade successfully is what enables the best day traders to pull the trigger on opening or closing a spread bet without hesitation – a key factor in profitable trading.

Self-confidence is also key in being able to bounce back from losing trades and continue trading toward ultimate profitability.

Ability to accept risk

Losing trades are a part of the business of spread betting – not every trade is going to be a winner. Therefore, one of the fundamental rules of spread betting is you have to be able to afford losing any money you commit to it.

Spread betting is a speculative venture. If you're not a risk taker, if you can't accept taking a loss now and again, then spread betting is not for you.

Some individuals are simply not comfortable with any level of financial risk. The only investments they are comfortable with are those with a guaranteed positive return, such as a savings account, government bond, or certificate of deposit (CD). In spread betting, the only "guarantee" comes from your betting ability.

If you're not a risk taker, if you can't accept taking a loss now and again, then spread betting is not for you.

To be a successful spread bettor, you have to be able to accept the fact that some of your spread bets will be profitable and some will lose money. Successful spread bet traders are able to accept the inherit of loss in trading. They are able to handle losing trades without losing their cool or their focus.

Trading discipline

Self-discipline in trading is the key to overall profitability – the ability to stick with your chosen trading strategy.

The major cause of losing money in the markets is not a faulty trading strategy, but the faulty execution of one's trading strategy. Unless you just happen to be the luckiest person in the world, you will not make money at spread betting unless you have the ability to calmly and coolly execute your betting strategy, even when market conditions are rapidly changing.

Self-disciplined spread bettors approach trading the markets with a specific trading strategy that includes strict rules of money management and risk management, such as the practice of using stop-loss orders to limit their potential losses to acceptably low levels.

Such practices are essential to good trading. They don't let themselves be thrown off by the occasional losing trade and begin "revenge trading" (trying any bet at all – regardless of whether it fits your trading strategy – to immediately win back lost money) or other emotionally-driven trading actions.

Instead, they carefully analyse market opportunities and implement their chosen strategy in a calm, rational manner. They don't get angry over losses, nor overly excited about wins. They merely take proper professional pleasure in having accurately implemented their trading strategy to the best of their ability.

Here are some specific tips on practising good trading discipline:

- Feel good about your spread betting regardless of whether a bet wins or loses.
  As long as you have properly followed your chosen betting strategy.

- Keep in mind hesitating and missing out on a trade your strategy tells you to take.
  If it turns out that it would have been massively profitable – it will probably bother you a lot more than taking a trade that results in a manageable loss.

- Spread betting is rational speculation on price movements – it isn't reckless gambling.
  Don't forget you're playing with real money, not casino chips. Most market trading is driven by one of two trading emotions – fear and greed – and most market traders are unprofitable.

- Learn how to control emotions when trading, whether those emotions be positive or negative.
  The more you can trade free of emotion and guided by rational market analysis, the more likely you are to succeed.

- **Don't let a string of wins make you overconfident in your ability.**
  Sure, you should be thankful for the profits, but don't fall into the trap of starting to think you've suddenly gained some magic ability to bet infallibly. A popular trading axiom is, "Like gasoline and matches, optimism and leverage are things you should keep far apart from each other". Just stick with your trading strategy.

- **Always maintain the attitude that you are solely responsible for your trading decisions.**
  This includes both buying and selling, and your profits or losses.

- **Don't go blaming the market or your broker for losing trades.**
  Analyse your losing trades to improve your trading strategy.

Enjoying the process of trading

Day trading as a spread bettor is, as previously noted, a completely different business to that of long-term investing.

In order to succeed at it, you have to have the type of personality that enjoys the day trading process of evaluating opportunities and managing spread bets from one moment to the next throughout at least part of each trading day.

This is true regardless of whether you practice a fundamental or technical analysis method, do stock trading, commodity trading, or sports betting, whatever time frame you trade, and whether you practice trend trading, do swing trades, or use a scalping strategy. There are a multitude of day trading strategies to choose from.

The most successful spread bettors enjoy working at becoming better at spread betting and developing their own trading style, personally crafted from different types of trading.

They view spread betting as a craft or skill to be mastered over time, and they realise that there is no such thing as perfect trading. Even when they experience a string of losing trades, their concentration is not on their daily profits or losses, but instead on improving their trading skills day to day with the goal of being profitable over time.

> **Don't get angry over losses, nor overly excited about wins.**

If you don't enjoy a day trader's work of trying to learn from every trade and constantly improving your skills, then you're not likely to enjoy the practice of spread betting.

But if you enjoy the work of seeking out good spread betting opportunities each and every trading day, of analysing the markets and speculating on a price move, then spread betting may be the perfect occupation for you.

The best spread bettors tend to be self-reliant traders who enjoy doing their own market analysis.

A worthwhile practice is the study of market psychology, the things that drive the vast majority of traders to act in one way or another.

> **Consider this**
> The stock market psychology of many traders who hear one market "expert" after another recommend buying a stock is to call up their broker and buy it.
>
> In contrast, the wisest traders realise that if every market analyst out there is recommending buying the stock, then it's likely that just about everyone has already bought it, and therefore, there isn't going to be a sufficient number of buyers left to drive the stock price significantly higher.

The ability to react quickly to the markets

Market conditions can change rapidly.

The best spread bettors carefully monitor the markets for signs of a shift in buying or selling pressure and adjust their bets accordingly.

Losing traders make the mistake of getting "married" to their trades. Once they put on a trade, they ignore any market data indications that they might be in the market the wrong way and instead only pay attention to things that confirm their original view of the market as being correct.

Smart traders know that market conditions and price movements are subject to frequent change, and they also know that any given bet they make on the markets is just as likely to be wrong as to be right.

They continually analyse the market to see whether current conditions still favour their trading position. If they see a clear indication that their trade isn't going to work out, they cut it loose immediately, thereby cutting their losses as short as possible.

The most successful spread bettors enjoy working at becoming better at spread betting.

Good spread bettors also act without hesitation, immediately putting a bet on whenever they see good trade setups suddenly appear in any of the markets they trade.

They are patient in waiting for good opportunities, but they don't let the fear of loss keep them from taking carefully calculated risks when there's a solid opportunity to make money in the markets.

When all is said and done

Trading psychology is essential to winning spread betting.

The consistent winners at spread betting are those who practice strict trading discipline and approach the markets with a professional, rational attitude, not one of reckless gambling. You can't control the markets, but you can control yourself, your trading plans, and your actions in trading.

Learning to master your emotions and maintain a proper attitude toward trading the markets is learning your way to making money.

Chapter 3 – How Does Spread Betting Work?

Some traders and investors are a bit reluctant to venture into the world of financial spread betting, simply because it's a financial product that they're unfamiliar with.

However, the fact is the spread betting process is one of the simplest types of financial trading there is, much less complex than, for example, the practice of writing options.

We're moving on to Part II of the guide where we explain what spread betting is and how it works. In this chapter, we're going to show you exactly how spread betting works, complete with examples of spread bets.

Before we get into that though, let's briefly recap exactly what spread betting is.

What is spread betting?

> *"Spread betting refers to speculating on the direction of a financial market without actually owning the underlying security. It involves placing a bet on the price movement of a security."*
>
> *- Investopedia*

Profits are made from betting correctly on which direction the price of a given financial asset will move – up or down.

You do not have to predict an exact price the asset will attain – just the direction the market price will move in.

Learn more: Take our free Margin Trading Products Course.

Its advantages

Small amount of capital to start

The primary attraction of financial spread betting is the opportunity to generate large profits with only a small investment. This is because spread betting is a highly leveraged product. In order to place a spread bet, you only need to put up a small margin deposit, as little as about 3% of the value of the underlying financial asset.

Range of markets

You can pretty much spread bet any financial market out there so long as it has a verifiable price.

No commission

Spread bets do not incur any commission fees. The majority of the costs to trade are included in the spread.

No base currency risk

Because traders stake in their base currency they do not have to assume the currency risk of the instrument they are speculating on. This is a bit technical for this part of the guide but trust us, it's a big advantage.

Tax-free

Profits from spread betting do not normally attract stamp duty, income tax or capital gains tax in the UK. Spread betting is tax-free because it's considered by the tax man to be betting, not investing.

This tax-free treatment has made spread betting very popular in the UK, where it is authorised and regulated by the Financial Conduct Authority (FCA).

Market	Sell / Buy			Daily Change		Low / High	
Wall Street 30 - Rolling Cash	23991.0	23992.0	↑	+359.8	+1.52%	23520.2	24025.8
US 500 - Rolling Cash (Per 1.0)	2888.98	2889.12	↓	+45.74	+1.61%	2831.07	2894.54
Germany 30 - Rolling Cash	10720.3	10721.3	↑	+187.2	+1.78%	10489.1	10759.6
UK 100 - Rolling Cash	5932.9	5933.3	↑	+117.9	+2.03%	5795.5	5942.5
EUR/USD - Rolling Spot	1.07804	1.07810	↓	-0.00142	-0.13%	1.07663	1.08168
GBP/USD - Rolling Spot	1.22806	1.22814	↑	-0.00625	-0.51%	1.22657	1.24188
USD/JPY - Rolling Spot	106.537	106.544	↑	+0.435	+0.41%	105.989	106.661
Gold - Rolling Spot (per 0.1)	1698.2	1698.9	↑	+12.0	+0.71%	1683.5	1701.5

An example of a web-based trading platform

First things first – open an account

The first move required to begin spread betting is to open an account with one of the many spread betting brokers. If you're new to spread betting and want to try out some of your trading strategies before risking real money, you can open a spread betting demo account to practice trade in.

Because spread betting is so highly leveraged, you can start betting with just a small amount of capital. Therefore, many financial spread betting brokers only require a minimal deposit to open an account and begin trading.

However, you should set your expectations of a reasonable rate of return – remember the best traders at hedge funds are probably happy with a 25% annual return on capital.

You can open a spread betting account at some financial spread betting brokers with as little as £100. Although it only takes a small margin deposit to place a spread bet, you may want to place several spread bets at the same time. In those instances, you'll need more margin money in order to be able to place and hold your spread bets.

You can open a spread betting account at some financial spread betting brokers with as little as £100

In short, you'll probably be in a better position to begin trading if you open your spread betting account with more than just the minimum required initial deposit.

Keep in mind that spread betting is speculation, so you should be sure to fully understand the risks involved and only spread bet with money that you can afford to lose.

Learn the trading platform

Spread betting companies offer a variety of spread betting platforms for you to place your bets through.

The most common types of betting platforms are as follows:

Web-based trading platforms

With a browser or web-based platform, you trade through a direct internet/web connection, usually through the spread betting company's website.

Downloadable trading platforms

These trading platforms are software programs that you download. They frequently offer a number of advanced features beyond what's available through most web-based trading platforms – such as the ability to access more technical analysis charting tools and templates.

Mobile trading apps

Because more and more traders want the ability to bet "on the go", using their smartphone, more and more spread betting firms offer a mobile trading app. Although mobile trading apps typically offer a limited number of features, they can easily be used to enter, modify, or close trades, and to access price, market news, and other information.

It's very important to familiarise yourself with how your chosen trading platform works – how to enter and exit bets, how to use available research and trading tools, how to modify your bets (e.g. change your stop-loss price), and how to calculate your margin requirement for a bet.

You don't want to be caught in a rapidly moving market, fumbling around trying to figure out how to enter or exit a bet. To be an effective spread bettor, you need to be able to react quickly to changing market conditions.

You sometimes have literally only seconds to exit a trade with a profit before the market turns sharply against you and hands you a loss.

In addition to providing the means to enter, modify, and exit spread bets, spread betting companies also provide a number of other services to their clients, including the following:

- The latest market news, such as important economic data releases.
- Fundamental market research fundamental and technical analysis and commentary from market analysts.
- Live price quotes, along with fully customisable charts and technical indicators.
- Access to your account information, and the ability to make deposits, withdrawals, or money transfer from one account to another.

Spread betting – picking your market

There are thousands of possible spread bets available at any moment within the trading day. Spread betting offers a very wide range of financial markets to choose from. Most spread betting brokers offer other types of financial trading as well, such as trading CFDs. Among the most popular markets to spread bet on are:

- Individual company shares, like Amazon and Apple.
- Indices, such as the FTSE 100 or the S&P 500 index.
- Commodities, such as gold, oil, soybeans, wheat and cotton.
- Foreign currency exchange, such as EURUSD, USDJPY and GBPUSD.
- Bonds and interest rates, such and Bobl and Gilts.
- ETFs (exchange-traded funds).
- Cryptocurrencies, like Bitcoin and Ripple.

Spread betting offers you access to global financial markets – you can spread bet on stocks and other financial assets traded on exchanges in New York, Hong Kong, or Tokyo just as easily as trading on local London trading exchanges.

Since it's impossible to be an expert on every financial market, or to keep up with the latest information on every traded asset, most spread bettors specialise in betting on just one or two types of financial instrument. You can use your spread betting broker's research tools to find the markets that you're most interested in and most comfortable betting on.

You might be particularly good at stock share trading, or you might prefer spread betting forex.

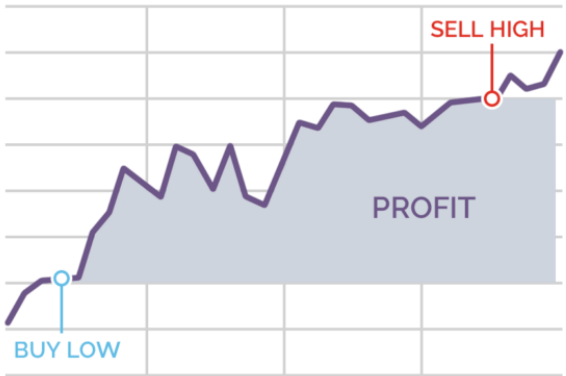
Spread betting explained – placing your spread bet

For any traded asset, the market price is always quoted showing the spread, which is the difference between the buy price (the ask, or offer, price) and the sell price (the bid price).

Going long (bullish)

If you are betting on the price of an asset going up, then you buy or 'go long' the asset at the buy/ask price, which will always be the highest of the two prices quoted as the spread.

You are trying to profit from an increase in price, but you can also lose from a fall in price.



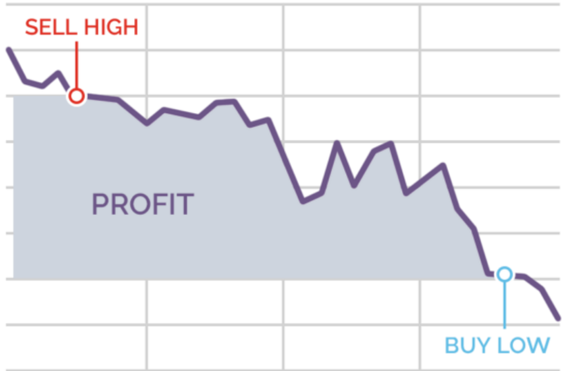
Buying Low, Selling High

Buying High, Selling Low

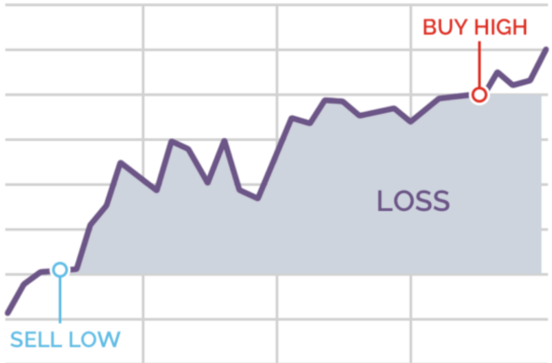
Selling short (bearish)

If you are betting on the price of the asset going down, then you sell short at the sell/bid price, which will always be the lower price quoted in the spread.

You are trying to profit from a fall in price, but you can also lose from an increase in price.



Selling High, Buying low

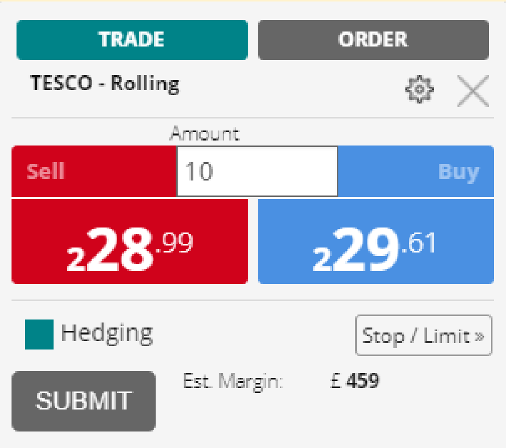


Selling Low, Buying High

Let's look at an example to see how spread betting works in practice.

For example: a spread bet on a stock price

Let's say you want to place a bearish spread bet on Tesco Plc's stock price – i.e. you expect the stock price to fall. When you open up your trading platform, find the spread bet for Tesco and open a deal ticket:



The current bid/sell price for the stock is 228.99 pence (£2.2899).

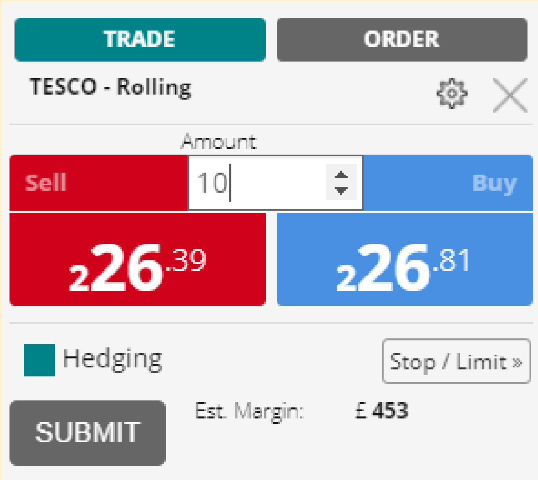
The ask/buy price is 229.61 pence (£2.2961). This means the spread is 0.62 pence (£0.0062)

You decide to bet £10 per point, a point is one penny. The £10 is your stake amount (see next section, "Stake amount")

Since you are selling short, you must sell at the lower price of the spread – the bid/sell price of 228.99 pence.

You place your spread bet by clicking submit on the deal ticket – sell £10 a point of Tesco. You are required to put up a margin deposit equal to whatever margin percentage the broker requires on the trade, this is 20% of the underlying value of shares bet on – £459 as shown on the deal ticket.

After about an hour of trading, the stock price has declined by a couple of pence: the bid/selling price is 226.39 pence, and the ask/buying price is 226.81 pence. (Note that the spread has narrowed to 0.42 pence. The spread may narrow or widen during the trading day.) You decide to close out your bet and take your profit.



Since you put the bet on selling the stock short at the bid price, you must now close it out at the ask price of 226.81 – you are effectively buying back £10 per point. Note that the spread is to your disadvantage both opening and closing your bet. You will always have to buy at a higher price in the spread and sell at the lower price in the spread.

The profit on your bet is £21.80 – the 2.18 point difference between your entry and exit prices (228.99 – 226.81 = 2.18 pence) multiplied by your bet amount of £10 per point.

With the bet closed, the profit and the margin the broker asked you to put up gets released immediately and is available for you to withdraw or use on another trade.

Stake amount

Whenever you place a spread bet, you have to choose your stake size. Your stake size is basically how much you're willing to bet per point of price movement of the asset you're trading. If your stake size is £5, then you make a £5 profit for every point the market moves in your favour.

Likewise, you'd lose £5 for every point the market moves against your position.

Your stake size also determines how much margin you must put up to place your spread bet.

To place your spread bet, you have to put up the required margin percentage (which, of course, varies depending on what financial asset you're trading and your broker, for the Tesco trade it was 20%) multiplied by the notional value of the underlying asset. The larger your bet, the more margin required for the trade.

Daily-funded and rolling bets

There are two types of spread bets, in terms of how long the bet is good for:

Daily funded bets

These are quite rare nowadays. A daily funded bet expires at the end of the trading day; if you have not already closed out your bet before then, it will be closed out at the closing price of the day.

Daily rolling bets

Now the standard and the one used in the Tesco example (you'll see it specified in the deal tickets above after the name of the market), a rolling daily bet does not expire at the end of the day. It "rolls over" to the next trading day, and will remain open until you close it out, you are stopped out of the trade, your bet is closed out by the spread betting company due to insufficient margin, or the trade is closed out by hitting a chosen "take profit" level. The spread betting company charges an overnight funding fee.

You can control your risk level and set take-profit levels with the use of stop-loss orders and limit orders. Learning to manage your bets well once you have them in place is a key part of learning how to spread bet successfully.

Stop-loss orders explained

You place a stop-loss order at a price level that represents a certain amount of loss, in case the market moves against you. This will limit your potential loss on the bet to an amount you are comfortable with. With a standard stop-loss order, if the market hits your stop price, then your bet will automatically be closed out at the best available market price.

So, for our Tesco example, when going short the stop-loss order is set above the market price – a ten-point stop loss would be set at 238.99 pence. We staked £10 per point, so if the trade moved against us, the stop loss triggered and filled at that level it would be a £100 loss.

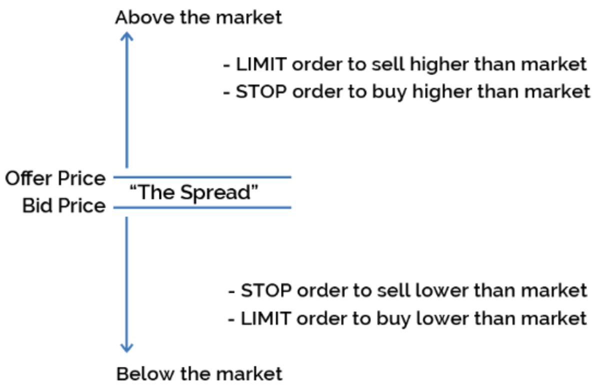
This does not guarantee that your order will be filled at the exact price level of your stop-loss, only that it will be filled at the best price available. If the market is moving rapidly or is closed but reopens at a price that then triggers your order, your bet might be closed out at a substantially different price. This fluctuation in order fill price is known as "slippage".

If you want to be assured of avoiding market slippage, then you can pay a small premium to place a "guaranteed stop-loss order". With a guaranteed stop-loss, you are guaranteed to have your bet closed at the exact stop-loss price level you specified in your order.

Limit orders explained

You can set a limit order to automatically close out your spread bet if the asset you're trading reaches a certain level of profitability. In the example above of selling short Tesco, you could have set a limit order to close out your stock spread bet at, for example, 210.00. If the ask price fell to at least that level, your spread bet would automatically be closed out, thus locking in 19.61 points of profits – or in monetary terms £196.10. In our example, we closed the trade out before the limit order level was reached.

If you ever get confused with the terminology, here's how to remember how limit and stop orders work:



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And that's how spread betting works

1. You open an account with a spread betting broker and fund it.
2. You decide what market(s) you want to trade and whether you want to buy or sell.
3. You use a trading platform to enter your bet and open your position, modify your position, and close your position.
4. You can use stop-loss orders to limit potential losses, and limit orders to take profits.
5. Your profit/loss on any bet is the number of points the market moves, multiplied by your stake size.

The process of spread betting is simple…it's making sure you bet the right way that's the challenging part.

Chapter 4 - History of Spread Betting

Spread betting was born, as are most great new ideas, from the mind of an entrepreneur who saw an opportunity to provide people with a service that was unavailable elsewhere.

In 1974 it was illegal for individuals in the UK to trade gold as a speculative investment. That didn't mean there wasn't any gold trading – it only meant that there was then no legal way to do it.

Enter Stuart Wheeler. Mr. Wheeler, who came up with a way to get around the ban on trading gold. His solution was a deceptively simple one: rather than actually trading physical gold, he would offer investors the opportunity to make trades based on the price of gold.

The law was satisfied since gold itself was not actually being traded. And the desire of traders to speculate on gold prices was satisfied by being able to make a bet on which way the price would go - up or down.

The founding of IG Group

Spread betting was created with Wheeler's founding of IG Index, now IG Group. Following the London gold fix every trading day, which set the buy and sell prices for the day, Wheeler created his own bid and offer spread (the difference between the buy price and the sell price) and christened it the "Investors Gold Index". IG Index was born, starting an industry that today is worth billions.

Traders who believed the price of gold would rise could bet on the index going up, while those who thought the price would fall could bet on the price going down. This was one of the great innovations of spread betting – the fact that one could just as easily bet the sell side as the buy side.

Spread betting gold prices with the gold index was a hit with traders – enough so that it soon encouraged IG to offer other financial instruments as well.

Spread betting was ahead of its time

Following the success of Wheeler and IG Group, other spread betting companies, such as City Index Group and Currency Management Corporation, now CMC markets, began to enter the industry. However, at the time, the take up of spread betting was limited by two major factors:

- Lack of Investor knowledge.
- Lack of adequate technology.

Although spread betting was available on an increasingly wide range of financial instruments, most of those instruments – such as foreign currency exchange, commodities, and options – were traded in markets that the vast majority of investors were unfamiliar with and therefore leery of.

The second handicap was inadequate technology. Personal computers were just starting to be seen in the 1980s and connection speeds to this mysterious new thing called the "internet" were as slow as watching paint dry. Spread betting is inherently a fast-paced trading endeavour.

For everything to work smoothly, traders have to be able to access real-time price spreads and be able to enter an order before the spread changes. The trading platforms that provide real-time market information and lightning-quick execution of orders, that are commonplace today, simply didn't exist in the 1980s.

The internet boom of the 1990s

Where the 1980s were lacking for spread bettors, the 1990s and beyond the turn of the century seem almost like they were tailor-made for the successful boom in spread betting.

In the 1990s, technology advanced quicker than most people could keep up with. You could buy a computer with the fastest processor and the maximum amount of RAM available…and twelve months later it was hopelessly slow compared to the latest models.

Advances in technology were adopted in the financial markets more rapidly than other areas, and electronic trading began to become increasingly the norm. Brokers began to develop sophisticated trading platforms that offered real-time pricing, instant order execution, up-to-the-minute market news, and charting with every conceivable technical analysis tool.

The financial markets expanded in two key ways that fed the growth in popularity of spread betting:

- ✓ The expansion of derivatives trading.
- ✓ An increasingly global financial market.

Derivatives trading

Derivatives trading - the trading of securities whose price is based on an underlying asset - grew exponentially across all of Finance in the 1990s.

As derivative instruments, spread betting and contracts for difference (CFDs) began attracting the attention of more and more traders. More traders became aware of, and attracted by, the tax-free nature of spread betting (CFDs, in contrast, are typically subject to capital gains taxes).

A global financial market

As the new century dawned, the financial markets increasingly became global markets. This spurred an increased interest in some of the most popular spread betting markets, such as foreign currency exchange.

The new century also saw a downturn in most major stock indexes and a bull market in commodities. Such a market shift was Heaven-sent for spread betting companies, as more and more traders began to explore new financial markets and instruments that were ideal for spread betting.

Spread bet firms were hard-pressed to keep up with bettors demands for more instruments to bet on.

The many advantages of spread betting

The simplicity of trading and other advantages of spread betting continued to attract novice traders and small investors, as well as savvy veteran traders who could appreciate the advantages offered by spread betting.

The leverage offered in spread betting gives spread bettors access to markets - such as basic commodities like oil and gold - that were previously the trading province of only the most well-heeled investors.

The fact that spread bettors can trade virtually any financial instrument worldwide from a single trading account - and with no currency exchange risk - gives spread bettors a significant advantage over more traditional investors.

Contrast that with more traditional trading avenues that - to accomplish the same range of investing access - would require an individual to have separate accounts set up with a stock market broker, a commodity futures broker, a forex broker, a financial services firm, a cryptocurrency exchange, and two or three sportsbooks.

The Continuing Growth of Spread Betting

The spread betting industry, and its close relation CFD trading, continues to grow worldwide, with no signs of slowing down. When spread betting becomes legal in the US, as it almost certainly will, that will open up the floodgates with millions of new spread bettors to write a new chapter in spread betting history.

Betting apps for mobile phones means spread betting is getting easier and more accessible all the time.

Stuart Wheeler’s innovative solution for traders being denied access to gold trading has grown to become one of the largest retail financial industries in the world. The continuing expansion of spread betting – with spread betting companies constantly coming up with new things for traders to bet on – translates to more and more people opening spread betting accounts every day.

Chapter 5 - Markets You Can Spread Bet

One of the primary advantages that spread betting offers individual retail investors is the ability to make money trading a wide range of financial markets.

This is because spread betting doesn't involve actually buying or selling the underlying security. Instead, it's just making a bet on whether the price will rise or fall.

Therefore, you can spread bet a wide range of markets including foreign stocks, global indices, commodities, currency pairs, and bonds, all from the convenience of a single trading account, and without having to worry about currency exchange risk or opening and managing different accounts in different countries.

There are literally thousands of different spread bets available each trading day, so it would be impossible to name them all, but here is a rundown on the main markets you can spread bet.

Learn more: Take our free Financial Instruments Explained course.

1. Stocks

Trading stocks is, of course, one of the most popular forms of investing.

When you purchase equities - stock shares, you obtain an ownership interest in a company and therefore have the ability to share in its profits. When you spread bet on stock shares, you're simply betting on whether the price of the stock will rise or fall.

Since you don't actually own any shares, you are not in a position to directly receive dividends that the company may issue or vote in AGMs. However, your spread betting provider, depending on when and how long you have a spread bet on a stock in place, may make an adjustment to your account to effectively replicate dividend payments.

Through your spread betting provider, you can also spread bet on stocks traded on foreign exchanges.

2. Market indices

Rather than spread betting on individual stocks, you may prefer to spread bet on market indices such as the FTSE 100, S&P 500, or DJIA that reflect the overall performance of the equity markets. One of the advantages of spread betting is that you can place spread bets on foreign market indices just as easily as placing spread bets on stock indices in your own country.

In addition to major market indices, there are sub-indices that reflect the performance of various market sectors, such as technology, real estate, or healthcare.

3. ETFS

Exchange traded funds (ETFs) are similar to mutual funds in that they are a portfolio of related investment assets, such as stocks of companies in certain sectors or commodities such as precious metals. However, ETFs offer an advantage over mutual funds in that they are freely traded on exchanges.

That fact, and the fact that ETFs offer access to investing in a wide range of assets, has made them an increasingly popular investment vehicle. Just as with betting on a particular stock or market index, you can easily place a spread bet on whether the price of an ETF will rise or fall.

4. Commodities

Commodities are natural resources such as precious metals, oil, coal, agricultural products, and other products such as cotton. They're traded on various exchanges just as stocks are.

The factors that affect commodity prices can vary significantly from those that affect stock prices. For example, commodity prices can be significantly affected by weather and natural disasters. When spread betting commodities, it's important to be aware of how they are priced.

For example

Oil is priced in dollars per barrel while agricultural products are priced in dollars per metric ton. In addition to spread betting on the price of individual commodities, you can also spread bet on commodity market indices such as the:

- Bloomberg Commodity Index (BCOM – formerly the Dow Jones-AIG Commodity Index)
- S&P GSCI (formerly the Goldman Sachs Commodity Index)
- Rogers International Commodity Index (RICI)

The Rogers index tracks the largest number of commodities worldwide. It is composed of 38 commodities selected to reflect a "balanced, representative international" selection of raw materials.

The commodities contained in the index are weighted based on their perceived significance in relation to international trade. There are also three sub-indices of the Rogers index – agriculture, energy, and metals.

5. Forex

Foreign exchange (forex) trading has become one of the most popular trading markets since the turn of the century. Forex trades the relative values of one currency against another. For example, the price of the currency pair GBP/USD represents the value of the Great British Pound relative to the US Dollar.

There are numerous currency pairs that you can place a spread bet on, just like any other spread bet – betting on whether the price of the currency pair will rise or fall. If you buy the spread, you are betting that the first currency listed in a currency pair will rise in value relative to the second currency listed in the pair.

Conversely, if you sell short the spread, you are betting that the first currency will decline in value relative to the second currency.

6. Bonds and interest rates

It's also possible to place spread bets on bonds and interest rates. You can place a spread bet on whether the price of a certain bond will go up or down. There are a multitude of different bonds issued in different countries that you can spread bet on. It's also possible to simply place a spread bet on whether a certain interest rate, such as the Prime Lending Rate in the UK or the US Prime Rate, will rise or fall.

7. Sports

Spread betting on sports doesn't involve taking odds as traditional sports betting does. Instead, sports spread betting, like all other spread betting, is betting relative to the spread offered on a specific outcome in a sporting event.

For example

There might be a spread bet of 3 to 5 offered betting on the total goals that will be scored in a football game.

If you believe that more than 5 goals will be scored, then you would "buy" the spread; if you believe that fewer than 3 goals will be scored, then you would "sell" the spread.

Sports spread betting offers virtually as much variety as financial spread betting. Not only can you place bets on all types of sporting events – football, tennis, golf, boxing, etc. – but there are also any number of spread bets that may be available relative to a single sporting event.

8. Cryptocurrencies

A relatively new addition to spread betting is cryptocurrencies. Digital currencies are operated away from a central bank, and run on decentralised ledgers. Because they have a price that can be externally verified, they can be spread bet on.

Other spread bets

The spread betting markets continue to expand, always offering new instruments or events to place spread bets on.

It's possible to spread bet such things as political elections, housing prices, and even the weather. Spread betting providers constantly strive to expand their offerings of spread bets to give their clients the widest possible range of spread bets to choose from.

Specialise in a market

Spread betting offers a virtually unlimited number of things to potentially place spread bets on. Spread betting firms give their clients thousands of possible market bets to choose from. Most spread bettors end up specialising in spread betting one market or another.

For instance, one spread bettor may choose to only spread bet on stock prices, while another chooses to spread bet on commodities, and another strictly places sports bets.

You can choose your favourite spread betting market based either on your knowledge about that particular market or on having an interest in learning about the market.

Feel free to pursue spread betting a market that you're already familiar with or learning how to trade a new market.

Chapter 6 - Types of Spread Bet

One of the major advantages of financial spread betting is the wide variety of bet and order types that spread betting companies offer their clients.

There are not only a large number of financial markets to choose from, but also different types of spread bets that you can place.

When buying, you're betting on the price of whatever you're betting on rising above the spread. Selling the spread, you're betting on the price going lower. Beyond that, different types of spread bets can be separated into:

- bets on various time frames; and
- different types of spread bet orders.

Spread betting across different time frames

Spread bets can be placed that cover different time frames. The primary time frame spread bets are as follows:

Daily spread bets

These are bets made by intraday bettors. They are good only for the trading day when they are made. Daily bets typically offer much tighter spreads. You can close your daily bet any time you like prior to the end of the trading day. Otherwise, it will automatically be closed out at the market price at the end of the trading day.

Rolling Dailies

Daily rolling bets are the most common type of spread bet nowadays. Rolling daily bets differ from daily bets in that they don't expire at the end of the trading day. Instead, unless closed out, they roll over to the next trading day. Because they are normally priced using the underlying asset's cash market the trader will incur a fee for rolling the bet each night - this is wrapped up in a small overnight funding charge.

Futures spread bets

Futures spread bets are popular among bettors who like taking medium-term positions. Unlike cash markets, which is for immediate delivery of an asset, a futures contract is for delivery at a specified point in the future. Most futures have standardised expiry or delivery dates - e.g. March, June, September, December. However, like dailies, you don't have to wait for the expiration date to cash in a winning bet. You can close out your bet at any time prior to expiration.

This is a bit technical, but because the price is for delivery at a future point in time there is no overnight funding charge on a futures spread bet. However, this 'cost of carry' is factored into a spread bet through a wider spread.

How to spot a futures bet

Below is a typical trading platform, we've highlighted the futures spread bets which sit alongside the rolling dailies. Note the wider spreads for the futures.

Market	Sell / Buy	
Dollar Index (Jun) (per 0.01)	97.21	97.26
US 2000 - Future (Jun)	1460.55	1460.85
US 2000 - Rolling Cash	1460.15	1460.29
US 500 - Future (Jun) (Per 1.0)	3113.48	3113.78
US 500 - Rolling Cash (Per 1.0)	3116.33	3116.47
US Tech 100 - Future (Jun)	9662.9	9665.9
US Tech 100 - Rolling Cash	9669.2	9670.0
Wall Street 30 - Future (Jun)	26142	26148
Wall Street 30 - Rolling Cash	26161.2	26162.2

If you leave your futures bet in place, then the price of the underlying security you're betting on at the time of expiration determines whether your bet is a winner or a loser and the amount of your profit or loss. You can let it expire, but nowadays your broker will ask you if you want to roll it into the next futures contract for a small fee.

For most financial futures bets, there are typically at least two quarters at a time open for trading.

Therefore, you can place a spread bet for either the nearest expiring quarter or a quarter further out in the future.

Daily rolling vs future?

Traders often aren't sure whether they should be trading the future or the rolling daily bet.

To figure this out you need to know how long you are likely to hold the bet for. When you have estimated this, take the tighter spread x stake amount paid on a daily bet and add in the cumulative overnight funding charges, which will be charged each night you have the daily rolling bet open.

Then, compare this to the wider spread of the future x stake amount, remember the futures bet doesn't incur overnight funding.

Whichever has the lowest cost to trade is your answer.

Binary Bets

Binary bets differ from regular spread bets in that, rather than the profit or loss being calculated on how many points the market moves for or against your spread entry price, binary bets are an "all or nothing" bet. If your binary bet is a winner, your profit equals the full amount of your bet. If your binary bet loses, then you lose your total bet amount.

Binary bets are now prohibited in the UK and EU because the regulators couldn't see the benefit for investors and felt the marketing of them was getting too aggressive.

Types of spread bet orders

Besides placing spread bets on different time frames, you can also use a variety of order types to either enter or exit a spread bet on your spread betting brokers trading platform. The following are the order types commonly offered by most spread betting companies.

Learn more: Take our free [How Traders Interact with the Markets course].

1. Market orders

Market orders are the most commonly used type of order in spread betting. Market orders are executed immediately after being placed, at the best available spread price. When you press submit on your deal ticket, and the trade confirmation pops up straight away, that is a market order being executed very quickly.

Therefore, there is no guarantee of getting a specific price, although the price will usually be either the same as, or close to, the price quoted just before entering your order.

2. Limit orders

We introduced limit orders in chapter 3 but to recap, limit orders specify a certain price and are only filled if they can be executed at the specified price or better.

For example

The spread quoted on a stock maybe 48-50. A spread bettor can enter a buy limit order to buy the spread on a stock only if the buy price (which is the asking price in the spread – the higher price) is 47 or lower.

If the spread drops to 45-47 or lower, then the order will be filled. If the ask price on the spread never falls as low as 47, then the order will not be filled.

Limit orders are often used to exit an existing spread bet, taking profits. If we look again at the example above, if you had bought the spread on a stock at 48-50, then you might enter a sell limit order to close out your position at 55.

If the bid price of the spread (the lower price) rises to 55 or higher, then your bet will be closed out at that price or better.

3. Stop orders

Stop orders are used to manage risk and limit potential losses on an existing spread bet. They are also sometimes used to enter a spread bet. When used to manage exposure and potential loss on an existing spread bet, stop orders are referred to as stop-loss orders.

Let's say you are only willing to risk losing five points on a spread bet that you buy at a price of 50. You can enter a stop-loss order to close out your bet if the spread drops to 45 or lower. If it does, then your stop-loss order will automatically be triggered, and your spread bet will be closed out at the best available market price at that time.

As it effectively becomes a market order when triggered, a stop-loss order does not guarantee having your order filled exactly at your stop price. In a volatile market, your stop order may be filled at a price substantially worse than your specified stop loss.

4. Trailing stops

You can also enter a stop-loss order known as a trailing stop. A trailing stop moves a set distance inline with the price when it is moving in your favour. If the market backtracks then the trailing stop won't backtrack with it. If the market backtracks enough it will trigger at the distance you've specified.

For example

You might buy a spread of 50-55 and enter a trailing stop of 15 points. That will put your stop loss at 40 when you first buy the spread at 55. But if the price then advances to 60, your stop loss will automatically be moved up to 45.

If it advances to 75, your stop loss would automatically be adjusted to 60, 15 points back from that high. Using a trailing stop can help you both minimise risk and lock in a certain amount of profit.

Stop orders can also be used to enter a spread bet. You can place a buy stop to trigger buying the spread only if the spread price advances to a certain level, or a sell stop to sell short the spread only if the spread price declines to a certain level.

5. Market on close (MOC) order

A market on close order is just what it sounds like – a market order that only goes into effect just before the close of the trading day.

You can use a market on close order to either initiate a spread bet or to close out an existing spread bet. Market on close orders are filled at the best available market price, sometime within the last two minutes of the trading day.

6. One cancels the other (OTO)

An OTO order is used when a spread bettor wants to enter either a buy or sell spread bet, but only if the market's price movement is going in the direction in favour of their bet.

For example

Assume that the spread on a financial instrument is 35-37. A bettor can enter an OTO order to buy the spread with a buy stop order at 40 or sell the spread with a sell stop order at 32.

If the spread is advancing, then the bettor's buy order will be triggered, and their sell order cancelled. Conversely, if the market declines so that the sell order is triggered, then it will be filled, and the buy order will be cancelled.

In summary

There is a wide range of bet types and orders to help traders trade the way they want to. Different spread betting brokers offer different types of orders, so be sure to check with your personal spread betting firm to see which spread bet types are available to you.

Chapter 7 - Risk Management Tools

Spread betting is an inherently risky enterprise. The huge opportunities for profits that spread betting offers only comes with a commensurate level of risk.

A large part of the inherent risk comes from the fact that spread betting is a highly leveraged investment product (meaning that it amplifies profits greatly but can also expose bettors to potentially large losses).

Therefore, in order to be a successful spread bettor, it is critical that you practice good risk management in your trading. This chapter covers the basic risk management principles, as well as risk management tools - trading tools - that spread betting companies make available to you.

Learn more: Take our free course: Mastering Trading Risk

The risks of spread betting

The first step in managing your spread betting risk is understanding clearly what the risks of spread betting are. There is a more extensive list in chapter 15 - The Risks of Spread Betting - but here's a rundown of the main inherent risks associated with financial spread betting:

Leverage

Leverage is a great trading tool that enables small investors to make significant profits trading the financial markets. But leverage can work against you just as easily as it can work for you. Highly leveraged trades carry the possibility of incurring losses that exceed your deposits.

Unexpected Economic Events

In an increasingly global economy, unexpected economic news, even from thousands of miles away, can create sudden volatility and trigger massive market price movements within just a matter of minutes – or even seconds.

Be aware

The monthly Non-Farm Payroll (NFP) report in the United States, a key economic announcement, is notorious for creating instant volatility in the forex market and moving the price of major currency pairs 100 to 200 pips or more within the space of a couple of minutes.

For forex traders trading standard lot sizes with a pip value of $10, that can mean sudden profits or losses of $1,000 or more.

Market Gaps

Trading gaps – where a security such as a stock opens much higher or lower than its closing price from the previous trading day – happen frequently in the financial markets. If you hold spread bets overnight, you must be aware of the increased risk this poses to your trading positions.

Trading gaps are particularly common in stock trading because the markets close at 16.30 and don't reopen until the following morning.

Be aware

Earnings reports, released after the market close, can result in the price of a stock gapping higher or lower on the open the next trading day.

You can protect yourself against market gapping price action with the use of risk management tools such as guaranteed stop loss orders (discussed later in this chapter).

Basic principles of spread betting risk management

There are certain basic principles to follow for effective risk management, in addition to specific spread betting tools for managing risk that are provided through your betting firm's trading platform.

Know the markets you bet - Every financial market is different. Stock shares don't trade the same way that commodities do, and commodities don't trade the same way as the forex currency exchange market. Becoming familiar with the market you want to spread bet before ever deciding to trade is the first-step to good risk management.

Learn the times of day when your market tends to be most active - when significant price changes are likely to occur. Know the average daily trading range of any financial instrument you trade.

And of course, make sure you know the minimum price movements and what kind of profit/loss each point represents.

Understand pertinent economic data - Learn which economic reports are most likely to significantly impact the instruments or markets you trade. Generally speaking, the most important (high risk) economic reports to watch are the following:

- Gross Domestic Product (GDP)
- Central bank interest rate announcements
- Employment/unemployment figures
- Retail sales
- Producer Price Index (PPI)
- Consumer Price Index (CPI)

Earnings reports - especially when they come out significantly higher or lower than expected - are major movers of stock prices and may determine the overall price trend for some time (at least until the next earnings report).

If you're spread betting individual stocks, keep track of when the company releases its quarterly and annual earnings reports.

For the convenience of their clients, spread betting firms publish a daily economic calendar showing all the data releases scheduled for that day.

Have a definitive trading strategy

Financial spread betting is not meant to be blind gambling.

It's a form of investing. Your spread bets should always be based on careful market analysis - fundamental analysis, technical analysis, or some combination of the two.

Learn more: Take our free Building the Evidence course.

Part of your market analysis should include calculating the risk/reward ratio for any spread bet you're considering. What is your reasonable potential loss vs. your reasonable potential profit?

For example
Assume you're thinking about buying a spread bet on the stock shares of a mining company. The current spread is 96-98. The stock's high and low prices for the month are 140 and 80, respectively. You decide to use those numbers to figure your maximum potential gain/loss.

It is reasonable to estimate the potential loss is 18 points and your potential gain is 42 points. That's a favourable risk/reward ratio because the potential profit is more than twice the potential loss. Remember, it could be more either way – it is just an estimate.

On the other hand, if the highest price you could reasonably expect the stock to reach was 105, then the bet would not be attractive from a risk/reward analysis, as you'd be risking 18 points against a potential gain of only 7 points.

Whatever your trading strategy is, it's critical that you exercise the necessary self-discipline to follow it, to abide by its rules, even during times when it's not performing well.

Many studies have found that "not following your trading strategy" is a much more common cause of losing trades than "using a flawed trading strategy". A good trading strategy has clear rules for entry and exit, employs stop-loss orders to minimise risk, and is well-suited to the market you're trading.

Understand leverage and margin requirements

Because spread bets and CFD (contracts for difference) trading offer extremely high leverage, it's essential to understand how leverage and margin requirements work.

Know the amount of leverage that you're betting with, because that enables you to calculate how much you are leveraging up your capital.

The margin requirement for a spread bet is the amount of money you have to put up to initiate and hold your spread bet position. Use bet sizes that are commensurate with the amount of trading capital you have.

Make sure you always have enough money in your account to cover the required margin for your spread bet(s) – and don't forget to allow for the market to temporarily move against you, which will increase the margin required to hold the position.

If you lack the necessary margin money, your spread betting firm will automatically close out your bet. This may result in you losing money when – had you been able to maintain the position – you would have ended up with a winning bet.

Use bet sizes that are commensurate with the amount of trading capital you have

Specific risk management tools for spread betting

Spread betting companies offer their clients several tools to help them limit and manage risk.

1. Stop-loss orders

We introduced stop loss orders in Chapter 3 – How does spread betting work? – the order type is one of the most basic risk management tools. A stop-loss order is designed to help keep any trading losses at an acceptably low level. Keeping your losses small and manageable is key to being overall profitability of your spread betting enterprise.

Example: How a stop-loss order works

Assume that you place a buy spread bet with the spread at 70-72, perhaps based on that price level being one of the daily pivot points where price may find support.

Now assume that technical analysis indicates that if you are correct in your price forecast, then the price should not drop back below 60. If the price does decline to below 60, then that would indicate that your market analysis is probably incorrect, so you wouldn't want to hold your bet and risk further loss. You handle this situation by placing a stop-loss order at 58.

If the bid price – the first, lower number quoted in the spread – drops to 58 or lower, then your stop-loss order is triggered, and your bet automatically closed out at the best available market price.

Note: When triggered, a stop-loss order effectively becomes a market order. Therefore, it is not guaranteed to be filled at a specific price - only at the best available market price at that time.

You can further manage risk by adjusting your stop-loss price when the market moves in your favour. You can move your stop-loss price to a level that further reduces your risk – or if the market has moved substantially in your favour, you can move your stop loss to lock in some profit.

For example, if you bought a spread of 30-32, and the price advanced all the way to 56, then you might adjust your stop-loss price up to 45, thereby locking in 13 points (45-32=13).

2. Guaranteed stop-loss orders

By paying a slight premium, you can get a guarantee that your stop-loss order will be filled at exactly your specified stop price. This is true even if the market gaps past your stop price level from the market close on one day to the market open the next.

For example

Assume you placed a spread bet buying the FTSE 100 stock index at 7600, at £1 per point. Now assume that you don't wish to risk any more than £100 on your bet. You can place a guaranteed stop-loss order at 7500.

Even if the FTSE closes on Friday at 7550 and then some significant economic event over the weekend causes the index to gap lower on the Monday open – opening at 7450 – your bet would still be closed out at 7500 – thus saving you from a 50-point additional loss.

Using guaranteed stop-loss orders is worth considering if you (A) regularly hold bets overnight, or (B) are trading extremely volatile markets.

3. Limit orders

Limit orders are only filled if they can be filled at the price that you specify, or better.

Limit orders can be used to manage your risk by making sure you take profits when possible.

A common scenario for traders

They buy into a market at 50, hoping to sell – close out their spread bet – at 75.

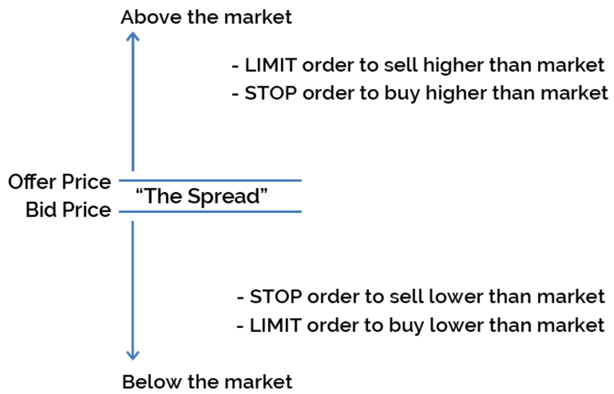
After watching the market trade uneventfully, mostly between 55 and 60, for a couple of hours, the bettor has to go out to run some errands.

Upon returning a couple of hours later, they discover, much to their dismay, that the market price had briefly spiked up as high as 80, but is now trading back down around 57.

Basically, they missed their chance to get out at their desired profit level!

The way to avoid this scenario is to place a limit order to close out your spread bet at 75. When the market, even just momentarily, traded as high as 80, the limit order closing out your bet for a hefty 25-point profit would have been filled.

Here's the stop and limit order terminology diagram we showed you earlier in the guide as a reminder:



Stop and limit order terminology

4. Portfolio diversification

By betting on a variety of financial instruments, you may not succeed in absolutely maximising your potential profit, but you will obtain significant additional protection against losses from unsystematic risk factors.

This is because having a diversified portfolio of investments usually means that when some of your spread bets are losing money, others are showing profits.

Conclusion

There is an inherent level of risk in spread betting, so it may not be suitable for everyone. Whether it's right for you will depend on your risk tolerance and investment objectives.

Fortunately, spread betting companies offer a range of risk management tools to help you trade. You can use trading tools such as limit orders, stop-loss orders and guaranteed stop-loss orders to either lock in profits or protect yourself against unacceptably large losses.

You should only spread bet with money that you can afford to lose. Before deciding to trade, make sure that you understand the risks, the market you plan to trade, and how to use the various risk management tools offered by your spread betting provider.

Learn more: Take our free Mastering Trading Risk course.

Chapter 8 - Sports Spread Betting

Sports spread betting is the other half of the spread betting markets that is offered along with financial spread betting.

Examples of available sports spread bets include:

- The time the first goal will be scored in a football match.
- How many lengths separate the winning and second place horse in a race.
- The total number of runs scored in a cricket match.
- The number of aces served in a tennis match.
- How many field goal tries there will be in an American football game.

The difference between sports spread betting and traditional sports betting

In traditional sports betting - also known as fixed-odds betting - you place a bet, with stated odds - such as 3:1 - on the outcome of a sporting event, such as a tennis or boxing match.

The bet is then an all-or-nothing bet: you either win a specific amount, based on the odds at which you placed your bet, or you lose whatever the amount of your bet was.

In contrast, sports spread betting offers a wide variety of bets on whether a specific variable in a sporting event will end up being above or below the spread stated by your sports betting firm. The outcome is not win-lose, it is variable.

...sports spread betting offers a wide variety of bets

Looking at the examples of sports spread bets given above, a traditional, fixed odds horse racing bet is a bet on which horse will win the race, while a spread bet can be on something like the number of lengths the winning horse beats the second-placed horse by.

The spread on such a bet might be quoted 3 to 6. If you think the winning horse will win by more than six lengths, then you would "buy" the spread. Conversely, if you think the winner will only win by less than three lengths, then you would "sell" the spread.

Profit and loss in sports spread betting

Your profit or loss on a sports spread bet is not a fixed amount as in traditional sports betting.

Instead, it varies based on:

- How much you bet - your stake for the bet, and
- By how much you beat or lost to the spread.

Still using the example of a spread bet placed on how many lengths the winning horse will win by, here are some possible outcomes with a spread bet of £50:

- If you bought the three to six spread, and the winning horse won by 10 lengths. You would win £200 - your £50 bet stake times the four "units" over the spread the horse won by
  If the horse won by eight lengths. Your win would be £100 - your £50 bet times two units the spread was beaten by
- If you bought the spread and the winning horse only won by four lengths. You would lose £100 - your £50 betting stake times two

units less than the six units that you bought the spread at

- If the winner only won by a length. Your loss would be £250 - your £50 bet times five units below the buy spread number of six lengths

- If you sold the three to six spread. You would be selling the spread at three, betting that the winner wins only by less than three lengths - If the winner won by two lengths, your win would be £50 - your bet times one unit below the spread If the winner only won by a single length. You'd have a two-unit win of £100

- If you sold the three to six spread and, God forbid, the winner won by 10 lengths. Your loss would be a whopping £350 - your £50 betting stake times seven units If you bought the spread and the winner bested the second-place horse by exactly six lengths. Your bet would be a scratch - £50 times zero. Likewise, if you sold the spread and the winner won by three lengths, that bet would also be a scratch.

What makes the difference in winning or losing sports spread betting

What's all-important in sports spread betting is…the spread!

Obviously, the tighter the spread is, the better your odds of correctly betting on whether the outcome of a bet will be above or below the spread. A spread bet of three to five is obviously easier to bet against than a spread bet of three to seven.

Like in financial spread betting, sports spread bettors benefit from tighter spreads

Like in financial spread betting, sports spread bettors benefit from tighter spreads. The sports spread betting companies benefit from wider spreads. Therefore, it's worth your while to look for a sports spread betting firm that usually offers tighter spreads.

You may want to set up accounts with more than one sports spread betting company because one betting firm may, for example, usually offer tighter spreads on football match related bets, while another typically offers tighter spreads on tennis match related bets.

Should you sports spread bet – how good a spread bettor

Whether or not sports spread betting is right for you basically depends on how good a bettor you are. This is because of the basic difference in bet structure between traditional sports betting and spread betting.

With traditional fixed odds betting, you're simply rewarded (or penalised) a flat amount, based on whether your bet is right or wrong. But with sports betting, your profit or loss goes beyond just being right or wrong - it also depends, quite significantly, on by how much you are right or wrong.

Keep in mind that your win or loss with a sports spread bet is calculated by multiplying the amount of your bet - your stake - by the number of units, or "points", that the outcome of an event is above or below the spread.

In sports spread betting, not just the overall outcome, but every point, counts. This fact means that sports spread betting increases both your opportunity to rack up profits, but also the level of risk with losing bets. Unlike the case with traditional sports bets, you can lose more than your original bet stake.

The advantage of sports spread betting

One advantage that sports spread betting offers over traditional sports betting is that many sports spread betting firms are willing to offer their clients credit for betting. The amount of credit offered, if any, is, of course, based on the creditworthiness of the individual spread bettor.

If you've had good success with financial spread betting, then you may also do well with sports spread betting, since the betting format is the same.

The difference is simply that of what you're betting on – sports related outcomes vs. financial instrument related outcomes. Then again, it's possible that one could be very good at predicting movements in the financial markets, but much less talented at predicting the happenings in sports events.

> **...many sports spread bettors specialise, focusing their bets in one area**

As with financial spread betting, many sports spread bettors specialise, focusing their bets in one arena. A financial spread bettor might only place bets on gold, or precious metals markets, while a sports spread betting punter might only place bets on football matches.

How is sports spread betting regulated?

Sports spread betting in the UK is regulated by the same authority that governs financial spread betting – the Financial Conduct Authority (FCA). This is because of the similarities between financial spread betting and sports spread betting.

There are similar levels of risk, and some sports spread betting firms offer credit just as financial spread betting companies do.

Just as with financial spread betting, you should do your due diligence when choosing a sports spread betting firm. Make sure that that the sports spread betting company you choose to go with is a regulated one.

Your choice of a sports spread betting firm may depend on the range of betting markets the firm offers. The range of betting markets varies greatly.

- Some sports spread bet companies only offer sports spread betting.
- Some offer both sports spread betting and traditional fixed odds sports betting.
- Some offer traditional and sports spread betting, and also offer financial spread betting.
- And some offer all of the above, plus casino gambling, all through one betting company.

How to improve your sports spread betting game

Approach sports spread betting with the same attitude as you would financial spread betting - as a business. Because of the level of risk (you can lose more than you bet) involved in sports spread betting, it's important to practice good money management and limit your risk.

Just like with financial spread betting, you can limit your risk by using tools such as stop loss orders that will automatically close out your spread bet if your loss reaches a certain number of points in the bet.

Aim to learn and utilise sports betting strategies.

Most spread betting firms offer plenty of free education on sports spread betting, so take advantage of it and learn all that you can prior to risking money.

Chapter 9 - Spread Betting Regulation

The spread betting industry in the UK is primarily regulated by the Financial Conduct Authority (FCA). The FCA oversees and licences spread betting firms.

In addition, it prosecutes firms or individuals that engage in fraudulent or unfair business or trading practices. The FCA is one of the most respected regulatory authorities worldwide, providing strict oversight and regulation of investment and trading firms.

It has oversight of virtually all financial markets, including - in addition, to spread betting - stocks, commodities, forex, binary options, and CFD trading (contracts for difference).

Since spread betting originated in the UK, the FCA is the original regulatory authority of spread betting. If you want to learn more about how regulation works in other parts of the world we've got a whole lesson on it the following course:

Learn more: Take our free Understanding Brokers course.

Spread betting regulation – the players

The FCA is the primary, overarching regulator in charge of spread betting in the UK. However, it is supported in its work by several other institutions.

The following are the four major UK bodies involved in overseeing spread betting companies and the practice of spread betting:

- The Financial Conduct Authority
- The Prudential Regulation Authority
- The Financial Ombudsman Service
- The Financial Services Compensation Scheme

Below is a detailed description of the function and authority of each regulatory organisation.

Financial Conduct Authority (FCA)

The FCA is an independent regulator of more than 50,000 financial services companies and financial markets in the UK. The organisation, which is funded by member fees, licences, oversees, and regulates investment firms, including spread betting companies. It reviews companies' business plans, financing, operational systems and internal controls, and verifies the qualifications of senior management personnel to operate a financial services firm.

The FCA's enforcement authority extends to regulatory, civil, and/or criminal proceedings to protect investors when companies violate the FCA's established operational standards for investment companies. Enforcement actions may include cancelling a firm's licence to operate, suspending a company or certain individuals within a company from engaging in specific investment-related activities, levying fines, and criminal prosecution.

The Financial Services Register in the UK is a public record, maintained by the FCA, that provides information on companies and individuals that are licensed participants in the financial services industry and under the purview of either the FCA or PRA.

Prudential Regulation Authority (PRA)

The PRA, formed as part of the Financial Services Act of 2012, operates as part of the Bank of England, the UK's central bank. Its main role in regulating investment companies is to help ensure that the companies are financially sound and sufficiently capitalised to manage market risk. In times of market volatility or uncertainty, the PRA may require firms to maintain higher levels of cash reserves.

Financial Ombudsman Service (FOS)

The Financial Ombudsman Service, or FOS, was created by the Financial Services and Markets Act of 2000. It helps to settle disputes between financial services firms and retail clients. A spread bettor might, for example, contact the FOS if it has a problem with withdrawal requests made to a spread betting company.

Financial Services Compensation Scheme (FSCS)

Spread betting firms are required to contribute to the FSCS, which was also created by the Financial Services and Markets Act 2000. The FSCS provides investors who trade with licensed firms financial compensation – up to a maximum of £50,000 – in the event that the firm ceases operations or is otherwise unable to meet its financial obligations to clients and segregation of client funds has been neglected.

Licensing and authorisation by the FCA

In order for a spread betting firm to be licensed and authorised by the FCA to operate in the UK, it must abide by several key regulations that govern trading firms in the financial services industry.

Some of the primary requirements of authorised spread betting companies are as follows:

- **Betting companies have to keep client funds separated from their own money.**

  They cannot hold or commingle client funds in its business bank accounts.

- **They must operate using business methods that reflect fundamental fairness for clients.**

  This covers things like honestly reporting the fill prices for client orders and using systems (such as trading platforms) designed to execute client orders with optimum efficiency and in a way that favours the client rather than the trading firm.

- **Spread betting companies must participate in the Financial Services Compensation Scheme (FSCS).**

  This regulatory body is a sort of "fund of last resort" that compensates clients of trading firms if they have lost money as a result of the firm going out of business.

- **Investment firms must be adequately capitalised to ensure financial soundness.**

  The financial health of companies that offer spread betting is reviewed and evaluated by the FCA. Through capital adequacy rules the FCA looks at how much capital firms have and evaluates it in relation to the risks taken by the firm.

- **To obtain a licence, a prospective spread betting company must submit an application to the FCA.**

  They must demonstrate that it has a solid business plan and that its principals have the necessary knowledge and experience required to operate a trading firm.

- **Spread betting firms must advertise their services using clear and honest language.**

  For example, all FCA-authorised firms that offer leveraged trading must present both existing and potential clients with clear statements explaining the risks involved in spread betting and the specific risks inherent with leveraged investments.

Spread betting with an authorised vs unauthorised company

You can choose to do business with an unlicensed, unregulated trading company, based in a jurisdiction which does not regulate financial services firms but doing so is not considered a wise decision. There is, unfortunately, widespread financial fraud within the unregulated trading industry. Many traders have lost huge sums of capital to unscrupulous trading firms.

You can easily check and verify that any spread betting company you're considering opening an account with – or already have an account with – is a licensed company, authorised by the FCA. All authorised companies will have their licence number displayed on their website.

However, just checking the company's website may not be sufficient, as some unauthorised companies have been caught posting the licence number of an authorised company on their site, trying to pass as an approved investment firm.

Therefore, the safest course is to check with the Financial Services Register to make sure the company is listed. The Register maintains a list of all companies regulated by either the FCA or the PRA.

Be aware

If you choose to do business with an unlicensed company, then you have no protection against fraud, theft, or simply unscrupulous business practices that cause you to lose money as a spread bettor.

In contrast, doing business with a regulated firm assures that the company conducts business in a proper manner.

It also offers you financial protection if your chosen spread betting company goes out of business or if you become involved in a dispute with the company over your trading account and funds.

Recent developments in spread betting regulation

In the summer of 2018, the European Securities and Markets Authority (ESMA) – the European Union's authority which oversees financial services – moved to tighten trading restrictions on many types of financial markets, including spread betting. The new rules primarily concern how brokers offer their services to retail traders, the biggest change being the amount of leverage they will henceforth be able to access and the banning of binary options.

ESMA's focus is on the level of risk that high leverage carries for individual retail traders who trade instruments such as CFDs and forex currency pairs, and the new, lowered leverage limits will definitely impact traders who make financial spread bets.

ESMA's new rules cap leverage as follows:

- 30:1 for major currency pairs
- 20:1 for non-major currency pairs, gold and major indices
- 10:1 for commodities other than gold and non-major equity indices
- 5:1 for individual equities and other reference values
- 2:1 for cryptocurrencies

Prior to this, some firms offered leverage as high as 500:1 on FX. The FCA adopted the proposed rules in full.

The new regulations are controversial, in part because the lowered leverage limits are only being applied to individual retail traders – "professional traders" are exempted.

The new regulations are controversial

Market analyst, Justin Bates, of investment bank, Liberum Capital, sees the new regulations as threatening to squeeze both small investors and small trading firms from the markets at the expense of professional traders and firms who can easily put up any additional margin required.

It's ironic that the traders who can most easily afford the increases in margin requirements will instead be allowed to continue enjoying the benefits of having access to high leverage.

In addition to the changes in leverage requirements, ESMA is also imposing stricter marketing rules, including a requirement for increased risk warnings from trading and betting firms, a standard margin closeout rule at 50%. negative balance protection and restrictions on incentives to open an account.

…sometimes out of sight is out of mind

The jury is out on whether the rules have achieved what the regulators wanted – lowering the risk for retail traders in the EU.

What has tended to happen is traders wanting leverage have offshored to either the well-regulated jurisdictions like Australia (ASIC) or worse, unregulated jurisdictions elsewhere in order to obtain the leverage previously offered in Europe…. sometimes out of sight is out of mind.

Conclusion

The UK's spread bet markets are regulated by the FCA and its partnering regulatory bodies, such as the PRA and FOS. The FCA has followed ESMA's instructions and recently implemented new restrictions on spread betting.

However, the FCA has traditionally maintained a relatively friendly attitude toward the "home-grown" spread betting industry, working closely with major spread betting firms in designing and implementing regulations.

The times are changing but what isn't in doubt is experienced retail traders will gravitate towards the best balance of regulatory protection and commercial offering, wherever in the world that may end up.

Even with its new protections (or restrictions), the FCA is still one of the best places in the world to trade from. Spread bettors can best protect themselves and their investments by doing business with reputable firms authorised by the FCA. Regulatory bodies provide important, often unseen, protection for investors in many ways.

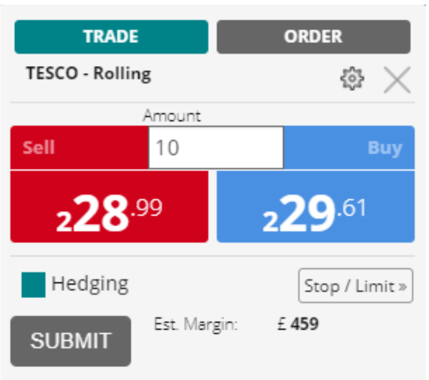
Chapter 10 - How Spread Bets are Priced

To be a successful spread bettor, it's important to understand exactly how spread betting works. Part of that is understanding how spread bets are priced and spread bet costs.

Understanding the spread – the basics

The spread is the difference between the bid price and the offer price quoted for any financial security. All spread betting companies quote a bid-offer spread for all the markets they offer.

Spread betting companies, the brokers, get these prices from their liquidity providers or exchanges, these are super-fast data feeds with very accurate prices - the broker cannot afford to quote a price that is out of date by even a second or two.



Deal ticket

The bid price is the lower price quoted in the spread - the price at which sell orders are filled. The offer price is the higher price quoted in the spread and the price at which buy orders are filled.

The spread in spread betting is basically the cost of trading because the spread is where spread betting firms make their money. There are no commission charges for spread betting. The "fee" for trading is instead built into the spreads quoted.

The spread betting firm makes most of its money by market making - this means having lots of traders coming together in a particular market, lots going long at the offer price, lots going short at the bid price. So long as this flow of business doesn't become too lopsided the broker isn't that fussed about whether its clients go long or short. By quoting a spread the broker knows **on average** it will make a bit of money each time anyone trades.

What if it does become too lopsided?

If too many of its clients go short or too many go long in a particular market then the broker will go out to its liquidity providers - big financial institutions like investment banks or exchanges that don't deal directly with retail traders - and hedge the risk with a big wholesale trade.

How the spread is calculated

The size of the spread offered on a spread bet is ultimately a commercial decision for the broker. Most spread betting firms just add a mark-up to the bid-ask spread of the underlying financial asset.

The mark-up has been carefully calculated to provide the spread betting company with a net profit on all the spread bets made on a given asset.

Learn more: Take our free Breaking Down Trading Costs course.

Fixed vs variable spreads

You tend to be able to group spread betting companies by whether they offer fixed or variable spreads.

A broker offering variable spreads will change its spread

The bid-ask spread in the underlying financial security changes constantly. A spread betting broker offering variable spreads will change its spread in line with these changes. The spread will be narrower when betting on securities that are heavily traded, where the trading is very liquid, such as the most popular stocks or currency pairs in the forex market. More thinly traded markets will be reflected by a wider bid and offer spread.

A fixed spreads broker will keep its spreads fixed during set market hours, no matter what is happening in the underlying market for the financial asset. It fixes its spread by market and these will be published on its trading platform. **Traders get greater transparency of the costs of trading if trading with a fixed spread broker.**

Like all commercial decisions, traders need to find the right balance for them and get value from the broker they choose. It really pays to do your research here and not just go for the broker with the biggest marketing budget – it has to be paid for somehow and its normally through a wider spread.

Learn more: Take our free Understanding Brokers course.

The time element

Time is also a factor in calculating the spread.

Daily spread bets will have a narrow spread reflecting the brief period of time the bet is priced for. Remember, traders will pay a fee to roll the bet overnight – this is discussed later.

The widest bid and offer spreads will be those for futures spread bets with the further away delivery dates. For futures, the 'cost of carry' is included within the spread. The cost of carry includes all costs for holding that asset from now until delivery/expiry.

There are some exceptions but for most futures the biggest cost of carry is the cost of borrowing the money to finance the position. Other costs of carry include transport, storage and security.

Spread bettors do not need to worry about managing these costs or taking delivery of an asset – a spread bet is only on the price of an asset and the costs of carry are accounted for in the wider spread quoted.

A note on an index and individual company spread bets

The prices quoted for equity spread bets also reflect dividend adjustments, where applicable. If a company goes ex-div everyone owning the share then will receive a dividend payment – normally at that point, the company's share price will fall to reflect the transfer of wealth from within the company to the shareholders.

When spread betting, dividend adjustments are made to compensate for this. With a spread bet on a stock, you don't actually own the underlying shares. Therefore, if you are long a spread bet you won't directly receive any dividends that shareholders are paid during the time you hold your spread bet.

To make up for this, the spread betting company will credit a dividend adjustment to your trading account if you're long, if you're short a debit entry will be made.

Other main costs of spread betting

For an active trader, the cost of spread will likely be by far their biggest cost. However, there are other costs that spread betting companies charge in addition to the spread.

Overnight funding charges on rolling daily bets

In practice, this is two charges wrapped into one - a fee to roll your daily bet and the interest charge for the leverage to fund the position overnight.

While an interest charge is built into the spread for futures, interest is an extra charge applied to rolling daily bets, based on how many days you keep your spread bet open.

The interest charge reflects the overnight cost of using leverage whenever you hold a spread bet open overnight. This a bit technical, but you are being charged the interest on top of the spread because the original bet was a daily bet, priced off the underlying asset's cash market – this assumes immediate delivery and therefore no financing. You've chosen to extend it, so a fee is applied.

If you are selling short in your spread bet you will receive, rather than be charged, the overnight interest element. The overnight interest is calculated using a benchmark interest rate, like LIBOR.

Example: How its calculated

Your broker will take the underlying notional value of your position and, depending on whether you are long or short a market will calculate the charge as follows:

Long: 2.5% rolling fee + LIBOR.

Short: 2.5% rolling fee – LIBOR.

The charge (or credit if you're short and LIBOR > 2.5%) will be annualised to reflect the daily nature of the charge.

LIBOR has been very low for years, so in practice, most spread bettors will be charged overnight funding regardless of whether they are long or short.

Please note: the 2.5% rolling fee is used as an example. Again, these charges can vary from one spread betting provider to another but they are not a big area of commercial differentiation.

Special order fees

Spread betting firms also charge a small fee for using guaranteed stop-loss orders. These are stop-loss orders that guarantee an order fill at your specified stop-loss price, regardless of the current market price.

Effectively, the trader is paying the broker to take on the slippage and gapping risk of their trading.

Futures rollover cost

For the same reasons you're charged to roll a daily position overnight, if an open spread bet on a futures price is nearing expiration, then you can choose to roll your spread bet over to the next futures expiration period.

The rollover charges vary by broker but typically the cost is half the prevailing spread. This makes rolling your futures bet over half the cost of closing your existing spread bet and opening a new spread bet for the next futures expiration period.

Learn more: Take our free Breaking Down Trading Costs course.

Conclusion

To make a profit spread betting, it's critical to understand how trading costs are built into the spread and how this potentially affects your profit margin on each spread bet. The basic points to keep in mind are as follows:

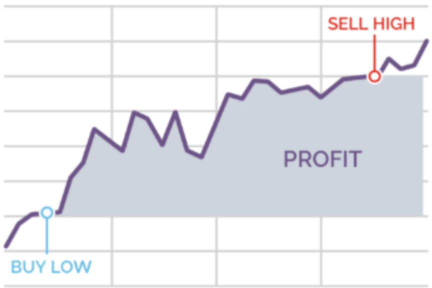
- ✓ Every spread betting provider will charge a spread. This is what enables the spread betting company to make money.
- ✓ Spread betting companies offer either fixed or variable spreads. Variable spreads tighten and widen in line with the bid-offer in the underlying market, fixed spreads don't and can offer greater transparency of trading costs.
- ✓ The width of a spread is determined by your broker's commercial offering, underlying market and time frame of the bet.
- ✓ The other main costs of trading include overnight funding, special order fees and futures rollover fees.
- ✓ The spread is by far the biggest cost of trading for an active trader. Spreads can vary significantly from one broker to the next, so it pays to look around for good value.

Chapter 11 - Spread Bet Examples

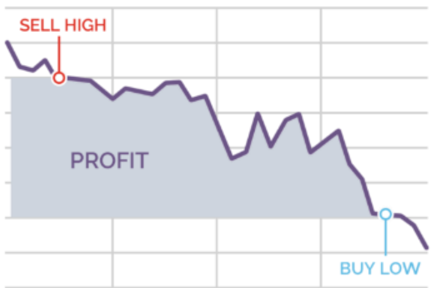
A couple of financial spread bet examples will help you clearly understand just how spread betting works.

Although there are different types of financial spread bets – daily funded, rolling daily bets and futures – a trader is entering them with a single, clear objective: to make a profit.

If the price of the security that you're making a spread bet on moves in your favour beyond the spread price at which you entered the market, then your bet will be profitable.



Buy low, sell high



Sell high, buy low

But if the market price moves in the opposite direction, against your bet, it will result in a loss.

Buy high, sell low

Sell low, buy high

You can control your level of risk in a spread bet with a stop-loss order which will close out your spread bet trade if the market moves a specified distance against you. You can exit your trade, locking in a profit if the price goes in your favour with a limit order.

Since one of the advantages of spread betting is that you can just as easily sell short – anticipating a decline in price – as you can buy long – looking for price to rise, we'll look at examples of both a long/buy spread bet trade and a short/sell spread bet trade.

Margin and stake

There are two considerations you have to take into account with each spread bet you make. First, there is the margin requirement. Spread betting is a leveraged investment, which means you do not have to put up the entire value of the underlying security that you're betting on in order to place a trade.

Rather, you only need enough trading capital to put down a margin deposit to place a spread bet, which may be as little as a few percent of the total value of the underlying security.

You also have to decide the amount you want to stake on your spread bet. The amount of your stake will determine how much of the underlying asset you are trading and therefore how much margin is required for your spread bet. Your profit or loss in points on a spread bet trade will be multiplied by your stake amount.

Learn more: Take our premium Trading for Beginners course.

For example
If you wanted to place a spread bet on the FTSE 100 index (called the UK 100 in spread betting) for £1 a point, and the price was 6300, you could place a spread bet with a margin deposit of £315 (5%).

That means you are getting £6,300 of total exposure to the underlying asset for a deposit of £315.

The margin requirement

The formula for calculating your margin requirement is as follows:

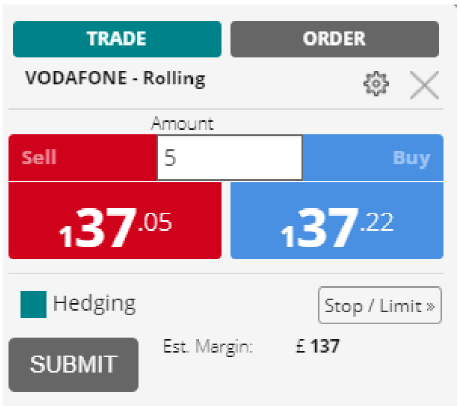
Notional value of the asset x the required margin percentage

Keep in mind that you must have enough trading capital in your account to cover the required margin, and also to be able to withstand the market even temporarily moving against your position.

A spread bet example – buy trade

Let's look at an example of how a buy rolling daily spread bet on the share price of UK telecoms company Vodafone would work.

You've done your research and decide the price is going to go up. You log in to your broker's platform, find the market and open up a deal ticket. The price quoted is **137.05 - 137.22**.



Deal ticket

If you went ahead and placed the trade, then you would buy at the asking price of 137.22. In order for your spread bet to be profitable, the bid price - the lower price in the spread - must rise above 137.22.

Company shares like Vodafone are quoted in pence when you spread bet (so a Vodafone share is actually trading at about £1.37 on the exchange) and you double-check the market information tab to remind yourself that the **trade per** is **1 unit**.

You decide to stake £5 a point, this is the amount you will make or lose per 1 penny move in the price.

You can also see from the market information tab that the margin required is 20% of the notional value of the trade.

Margin = 137.22 points x £5 = £686.10 total notional value x 20% = £137

You can also confirm this on the trade ticket where is states estimated margin is £137. You will need to make sure you have sufficient cleared funds on deposit with the broker to place this trade.

You place the trade - buy £5 a point of Vodafone at 137.22.

You normally get a confirmation through from the broker almost immediately confirming the trade has been placed.

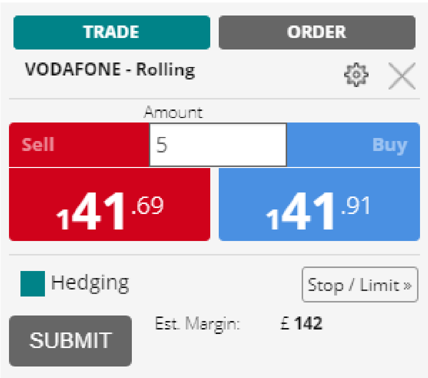
The market barely moves that day and you haven't closed the trade by the time the market closes at 16.30 UK time, so that means you're going to incur an overnight funding charge at 10pm that evening. When you check back into your account the following morning you see a funding charge of 6 pence.

Overnight funding charge = (rolling charge +/- LIBOR)/365 x notional at the close

(2.5% + 0.5%)/365 x £686.10 = £0.06

By mid-morning the next day the price has risen, you're in profit and you decide to exit the trade.

You open up a deal ticket and see the price quoted is **141.69 - 141.91**. In order to exit your £5 a point long position, you need to sell back £5 a point at the sell/bid price of 141.69.



Deal ticket

You place the trade - **sell £5 a point of Vodafone at 141.69** - and like your opening order it is confirmed immediately - you're flat and out of your Vodafone position, the broker will release your margin and any profit (or loss) on the trade will be available in your account.

How much profit did you make?

You went long and the price rose so you've made a profit. To work this out take the number of points the market went up and multiple this by the pounds per point bet.

141.69 - 137.22 = 4.47 points x £5 per point bet = £22.35 trading profit

Minus funding costs of £(0.06)

Total profit on the trade: £22.29

Conversely, if the price had fallen while you held the position you would be booking a loss calculated using the same method.

Learn more: Take our free Margin Trading Products course.

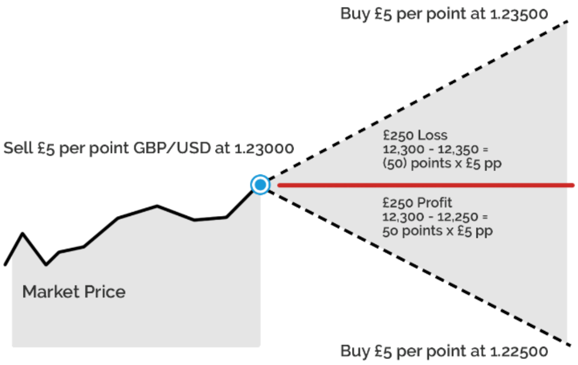
A spread bet example – selling short

If you believe the price of a security that you want to spread bet is going to fall, then you would want to place a spread bet selling short in order to profit from a decline in price.

For our short sell example, let's consider a spread bet on a currency pair. GBP/USD, also known as cable, is the exchange between the British pound and the US dollar.

- You are quoted 1.23000 - 1.23008. This means £1 is worth about $1.23 in the underlying spot forex market.
- The bet per is 0.0001, this means a change from 1.23000 to 1.23010 is a one point move.
- You decide you want to sell £5 per point. This means the notional value of the trade would be £61,500. 12,300 points x £5.
- The margin required is 3.33% (30:1 leverage), so £2,048 is needed as a deposit for the trade.

You go short £5 a point GBP/USD at 1.23000, these are the scenarios if the trade moves 50 points in your favour (down) or 50 points against you (up).



Selling short example

Let's say you set a limit order to buy if the price fell to 1.22500 and the spread your broker was quoting ticked down to 1.22492-1.22500 it would get filled, **locking in a £250 profit on the trade**.

If you're selling short with your spread bet, you do not want the price of the underlying security to rise. If the spread quoted on GBP/USD had risen to 1.23492-1.23500, then you would be showing a loss of fifty points times your £5 stake amount – £250.

You could, however, have limited your loss to, say, £100 by placing a stop-loss order at 1.23200 when you opened the trade. If you had done so, then as soon as the spread advanced to 1.23192-1.23200, your trade would automatically have been closed out.

If you hold a currency daily rolling spread bet overnight you pay the charge to roll it, you will also be charged something called the tom-next rate - this is paying the interest charge off the long currency netted of against receiving the interest rate of the currency you are short multiplied by your notional position.

Summary

There are three primary facts to keep in mind when spread betting:

1. The margin requirement for your spread bet depends on -

- The price of the underlying security
- The amount of your stake
- The margin percentage required for that specific security

2. In order for your spread bet to be profitable, the price must move enough to overcome the spread. You buy at the higher spread price, the ask price, but sell at the lower spread price, the bid price.

3. The amount of your profit or loss on your spread bet will be your stake amount times how many points the price has moved in your favour or against your position.

Chapter 12 – Spread Betting Strategies

Using smart spread betting strategies dramatically increases your odds of being a consistently profitable trader.

We're now moving onto Part III of the guide where we'll show you how you might get good at trading. In this chapter, we'll cover the importance of trading strategy.

Every good, solid spread bettor relies on one or more good, solid spread betting strategies. Using a specific trading strategy - a spread betting system - accomplishes a number of important goals for a trader engaged in financial spread betting.

- A trading strategy provides a logical reason for entering a trade - rather than just betting randomly "up" or "down".
- A trading strategy identifies and helps to pinpoint for the trader both entry and exit points - such as "take profit" targets - for a trade, helping them to structure the trade.
- Using a well thought out trading strategy is an essential part of risk management in trading.
- A trading strategy also helps traders decide on their stakes for trades - how much they are betting on each trade.
- Having a trading strategy gives traders a framework, or reference point, for market analysis.

To note

If the strategy a trader employs is a trend following system, then the trader can focus his or her market analysis on identifying or confirming the market trend - and also on keeping a watchful eye out for signs of a possible upcoming trend reversal.

Learn more: Take our free Reversal Price Patterns course & How Traders Find Opportunities course.

Popular trading strategies

It's impossible to list all the different types of trading strategies that a trader might use. That said, these are some of the most common types of trading strategies, along with some spread betting tips on how best to use them to your advantage.

Trend Following Strategies

Trend following strategies are popular with long-term traders, those who might place futures spread bets to take advantage of major market moves. Trend following strategies are also referred to as "buy and hold" strategies since they usually involve holding a market position for an extended period of time.

Trend following strategies are typically guided either by fundamental analysis or by technical analysis that focuses on longer-term charts - such as the daily or weekly charts. Moving averages are a popular technical indicator used by trend followers.

Food for thought

In the stock market, a bullish trend is generally thought to be in place as long as a stock's price remains above its 200-day moving average.

Learn more: Take our free Trading Theories Explained course.

Breakout Trading Strategies

Many traders look for an opportunity to trade "breakouts" because such trades may afford the opportunity to make substantial profits while strictly limiting potential losses.

A bullish breakout occurs when the price of a financial asset breaks above an identified resistance level, such as a price level that a security has previously turned back to the downside from.

Many traders look for an opportunity to trade "breakouts"

Traders buy into such a price breakout on the theory that if the asset's upward price momentum is sufficient enough to break through a significant resistance level, then there is likely to be enough buying pressure to carry the price of the security substantially higher.

A downside, or bearish, breakout occurs when the market price drops below an identified major price support level.

Learn more: Take our free Simple Breakout Strategy course.

Breakouts may also occur to the upside or downside after a security has traded for some time within a fairly defined price range, with no clear trend one way or the other. In such cases, the price breakout is seen as establishing a new trend which should control the market for some time to come.

Trading breakouts is appealing not only for the profit opportunity, but also because breakout trading strategies are relatively simple to execute.

On the bullish version traders simply place a "buy stop" order above the identified resistance level – the order is triggered and filled only if a price breakout occurs.

Expert tip

False breakouts – where price temporarily moves above the resistance level, but then promptly falls back below it - frequently occur. In order to avoid suffering losses from trading such false breakouts, many traders use a momentum indicator such as the ADX or MACD to confirm the existence of a solid trend.

Market Reversal Strategies

Some traders focus on using trading strategies designed to catch market reversals – when a trend change occurs from an uptrend to a downtrend, or from a downtrend to an uptrend. Market reversal strategies are often employed by day traders looking to trade off a market's intraday high or low.

Japanese candlestick reversal patterns are a popular technical indicator used to identify market reversals. Shooting star or hammer (also known as "pin bar") patterns often indicate a pending market reversal.

Learn more: Take our free Japanese Candlestick Decoded course.

Example of a Hammer – a Japanese candlestick pattern

Some traders look for price/momentum divergence indications from momentum indicators such as the RSI or MACD as signals of potential impending market reversals. A reversal is usually confirmed when the price crosses over a major moving average, such as the 10- or 50-period moving average.

Swing Trading Strategies

Swing trading – also referred to as position trading, range trading, or pullback trading – is really just a shorter time frame form of trend following. Swing traders look to enter multiple trades in order to take advantage of the interim highs and lows that occur in the course of a longer-term overall trend.

Price movements, either up or down, of a security do not usually occur in a straight line. Rather, there are "waves" of price movement.

For Example

The price of a stock might advance five points per share, then retrace back downward two or three points, then advance upward another four or five points, followed by another downside retracement…and on and on.

Swing traders aim to buy the interim lows that occur with a temporary downside pullback or retracement, and then sell the next interim high that occurs.

In order to identify probable highs and lows in order to take advantage of swing trading opportunities, spread bettors who swing trade often use a number of technical indicators.

These include:

- Moving averages
- Momentum indicators
- Various chart patterns – such as ascending or descending triangles
- Identified support and resistance levels
- Specific technical indicators such as Fibonacci retracements

Choosing a financial spread betting strategy that suits you

There is a virtually limitless variety of spread betting techniques, or strategies, for a trader to choose from.

When examining various spread betting strategies and deciding which one(s) to use, it's important to select a trading strategy that suits you personally. Here are some factors to consider in picking a strategy that fits your personal trading style:

Factor 1 – Risk tolerance

You must have a clear idea of your risk tolerance in order to select a proper trading strategy – i.e. one that you're comfortable with. If, for example, you have a very low risk tolerance, then you will want to use a trading strategy that places strong emphasis on limiting risk.

Also, a low risk tolerance makes you more well-suited for trading longer term time frames rather than engaging in day trading, which typically involves taking higher risk trades.

Factor 2 – How much time you have to devote to trading

The time you have available to commit to market analysis and trading is another important factor in choosing a trading strategy. If you are retired, or work at home and are relatively free to choose your own work hours, then you may have the available time to monitor the market continually. Therefore, if you wish, you can utilise day trading strategies where you enter and exit a trade within just a matter of hours, or even minutes.

If, on the other hand, you do not have the free time available to watch the market throughout the trading day, then the only strategies that will be appropriate for you to use are those that only require "end of day" market analysis – and that can be implemented by entering orders prior to, or around the time of, the market open, and that does not require constant monitoring of the market in order to manage.

Factor 3 – Your choice of asset class and market

Financial spread betting offers you the opportunity to profit from betting on hundreds of different financial instruments in the following asset classes: stocks, indices, bonds, commodities, forex, etc.

Most spread bettors concentrate their efforts on betting on the financial instruments of just one asset class, such as stocks or a stock market index. Many trading strategies are specifically designed to be used in placing bets on just one type of underlying asset. In other words, there are specific forex spread betting strategies and specific stock or index trading strategies.

Factor 4 – The type of market analysis you use

Do you prefer to use technical analysis or fundamental analysis? Obviously, spread betting strategies designed for use with fundamental analysis differ significantly from those that employ technical analysis.

Factor 5 – The kind of trading strategy you prefer

Trading strategies vary in any number of ways. Ultimately, you just want to find a trading strategy that feels comfortable for you. If you're not comfortable with your chosen trading strategy, then it's unlikely that you will be very good at executing it. Therefore, it helps to think about just what general types of betting strategies you prefer using.

Choose your strategy

Are you more comfortable with using simple strategies that are easy for beginners to use – or do you prefer utilising more advanced strategies that employ trading techniques such as hedging or arbitrage?

There are many things that may influence your choice of a spread betting strategy.

In the end, the most important thing is to select a trading strategy that you like and that you're comfortable using (and, of course, that's profitable!).

Of course, you should feel free to try out different strategies, and you may find that your strategy preference changes as you become more experienced at spread betting.

A final point

Whichever spread betting strategy you settle on, make sure to follow the rules of the strategy with strict discipline. Studies of traders have found that many of them had a trading strategy that should have proved profitable overall, but that the traders lost money because they failed to strictly abide by the rules for implementing the strategy.

Interestingly, most traders erroneously believed that their trading strategy was flawed – failing to realise that it was their faulty execution of the strategy that caused them to have unnecessary losing trades.

Chapter 13 - Make a Living

Can you make a living spread betting? – Indeed, you can.

Hugely successful spread bettors include Simon Cawkwell, who has made countless millions with spread bets on stocks. Simon Smith is a bit cagey about exactly how much money he's made from spread betting on housing prices, but confesses that it's been at least enough for him to pay off his mortgage.

Yes, the majority of spread bettors will make mistakes and lose money but a minority are profitable, this is evident from a review in 2016 when the FCA found 82% of retail traders lost money, this means the 18% balance must either breakeven or be profitable – **about 1 in 5**.

In this chapter, we're going to go over some practical steps to get you onto the right side of this divide.

Learn more: Take our premium Trading for Beginners course.

Approach spread betting like a business

If you plan to make a living from spread betting, then you are, in effect, starting your own business as a spread bettor. As such, you should approach it like starting a business. Most businesses take a couple of years to become firmly established and consistently and significantly profitable. Your spread betting business is likely to be no different.

Having sufficient capital to start your spread betting business is actually likely to help you succeed

Therefore, you should either have sufficient funds to carry you, to cover your living expenses, for at least a year before planning to draw out any money from your spread betting business – or you should start your spread betting business as a part-time endeavour while you still have a steady income from another source.

Having sufficient capital to start your spread betting business is actually likely to help you succeed, as it will free you up from feeling pressure to be profitable on every spread bet trade right from the beginning.

Devise a business plan

Next, you need a good business plan. Part of creating a business plan for spread betting is going to involve finding and adopting a profitable spread betting trading strategy.

It may take some time spent experimenting with various trading strategies before you find one that is (A) profitable and (B) that you're comfortable with using.

Choose the correct spread betting firm

Your choice of a spread betting firm is another important part of your spread betting business plan.

Different spread betting firms offer different spreads, different trading platforms, different markets, and different margin requirements. It pays to take the time to research the available spread betting companies thoroughly so that you can find the one that best suits your trading needs.

Learn more: Take our free Understanding Brokers course.

Picking your spread betting market

At the beginning of this chapter, we made reference to a number of spread betting success stories. You may have noticed that each one of the successful spread bettors named specialised in trading a certain market – Cawkwell, the stock market, and Smith, the housing prices market.

Most successful investors of any stripe concentrate their trading efforts on trading the financial instruments of a specific market. Therefore, it makes sense to focus your own trading efforts in the same way.

The reason for this is two-fold:

1. There are simply too many financial instruments to trade to make it practical for any one trader to keep up with all of them, much less become proficient at trading them all.
2. Assets in each financial market trade in different ways. Stocks do not trade in the same manner that commodities do, and commodities do not trade in the same manner as forex or interest rates.

If you already have experience in, for example, trading stocks or forex, then you may want to take whatever skill and expertise you already have in one of those markets and apply it to spread betting.

Alternatively, you may want to blaze a trail as a spread bettor in a market that you haven't previously traded. Either way, it's important to find a market that fits your style and then learn all that you can about trading that particular market.

Two calculations to make for making a living spread betting

There are a couple of important calculations you need to make in planning out your spread betting business.

Set Income Expectations

If you're planning to make a living from spread betting, then how much annual income from betting do you need to live comfortably or at whatever level you desire.

Set Return Expectations

What kind of return from your spread bets do you need on a daily, weekly, or monthly basis in order to generate that level of annual income. That calculation has to take into account what type of trader you are - a day trader, a long-term trader, or something in between.

However, depending on how much money you have available to fund your spread betting business, you may have to start out betting at that level and then gradually increase the size of your bet stake as your trading account grows.

In that case, you also need to try to estimate how long it will take you to amass sufficient trading capital to be able to bet at the level you need to in order to make a living from your trading.

Accept early loosing trades – practice makes perfect

Just like fine-tuning any business, successful financial spread betting takes time, practice, and effort. Don't expect to be a market wizard right from the start. Instead, be realistic and just accept the fact that it takes time and learning to become a really good spread bettor.

Be realistic and just accept the fact that it takes time and learning to become a really good spread bettor

Don't let early losing trades discourage you.

First of all, no matter how adept you become at spread betting, you're going to still have losing trades from time to time. Even the very best spread bettors don't win every bet. Second, every losing trade can be a learning experience that helps you have more winning trades in the future.

The best attitude is to simply view losing trades as part of the cost of operating your business. There aren't any businesses out there that operate with a 100% profit margin, so why expect yours to be any different?

Take advantage long and short

One of the many advantages that the spread betting industry offers is that you can make money from financial spread trading just as easily selling short as buying long. In fact, Simon Cawkwell amassed the bulk of his spread betting fortune by making short selling spread bets – betting on stock prices to drop rather than to rise.

Learning to be just as comfortable and ready to bet on prices going down as on prices rising will enable you to take full advantage of all the opportunities in financial spread betting, not just half of them. Most investors are more naturally inclined toward buying rather than selling.

It may take some practice to get comfortable enough with selling the spread so that you are equally ready to buy and sell the market at any time. You can speed up your learning and trading skill in this area by making a conscious effort to be on the lookout for selling opportunities, and by always making sure to examine the markets from both sides, both buyers and sellers.

Keep in mind that the only reason one trader is able to buy is because another trader is equally willing to sell – and that selling trader is just as convinced that the market price is going down as the buying trader is that the price is going up.

It's certainly possible to make money from spread betting

And if it's possible to make money from it, then it's also possible to engage in financial spread betting for a living.

All that's necessary are the same ingredients that make for any successful business:

- ✓ Sufficient capital to fund your business for the first year or two
- ✓ Creating a solid business plan and a strategy for executing the plan
- ✓ Taking the time and effort to make your business optimally profitable

All profitable businesses are the result of work, regardless of whether that work is manual labour or spread betting.

As long as you're prepared to do the necessary work to make your spread betting business a success, there's no reason that you can't be the next spread betting success story.

Chapter 14 - Spread Bettor Mistakes

New spread bettors are prone to making some very common spread betting mistakes. Of course, every trader makes mistakes from time to time, but new traders naturally tend to make more.

This is especially problematic because of the fact that new spread bettors likely have much less ability:

- To withstand significant financial losses, and
- To easily recover from a series of losing bets

Therefore, if, as a new spread bettor, you can manage to avoid the most common newcomer mistakes, that will greatly enhance your chances of being a profitable and successful spread bettor over the long term.

In fact, just being aware that you will be more prone to making mistakes at the beginning of your career as a spread bettor gives you a significant advantage over other novice spread bettors.

Here are five of the most common spread betting mistakes made by new spread bettors. It's worth noting that these mistakes are common among novice financial traders of any type.

Mistake 1: Failure to create a solid trading plan

This is an easy one.

Don't make the common mistake of just jumping into the financial markets, making random bets just because you think, well, they might work out. Before ever risking your money, it's well worth the time and effort to learn about trading and create a solid trading plan – a strategy with which you will approach financial spread betting.

That includes such things as deciding on what method - technical or fundamental - you will use to analyse market opportunities and enter a trade, deciding on your initial betting stake size, and clear direction on at what price points you will enter and exit each trade. That's the approach that experienced, successful traders use.

Learn more: Take our free Technical Analysis Explained course.

The approach that new spread bettors unfortunately often take is either failing to have a trading plan or failing to stick to their trading plan - making unwise moves such as, if the market moves a couple of points against them, suddenly abandoning their strategy and reversing their position in the market. That kind of move usually results in two losing bets.

Mistake 2: Trading too frequently

Another common mistake of new spread bettors stems from impatience. Traders who are new to financial spread betting are prone to making the mistake of betting much too frequently.

They are impatient to start making money, and rather than wait for a good, solid opportunity to make a bet in line with their trading strategy, they decide to just "take a flyer" on something.

This is almost a sure-fire way to lose money.

Experienced spread bettors realise that there will always be plenty of good opportunities to make a profitable bet, but there may not be any of those opportunities available right at the moment. Or even at any time during one particular trading day.

They have the self-discipline to refrain from trading when they don't see any truly good betting opportunities.

Traders who are new to financial spread betting are prone to making the mistake of betting much too frequently

Even if they see no promising bet opportunities within the space of several hours, or even for an entire trading day, they are content to stand aside from the markets and simply do nothing. By taking that path, they preserve their capital for the next time that a golden opportunity arises.

In contrast, new spread bettors get uncomfortable sitting and watching a trading monitor where nothing is really happening in the market.

They have difficulty in letting any significant length of time pass without placing a bet, much less going an entire trading day without doing so. Such impatience nearly always leads to bad betting decisions, and such bad decisions rarely result in winning bets.

Mistake 3: Failing to cut your losses

More than one savvy trader has made the observation that if you can simply manage to avoid losing your capital, eventually a solid gold winner that returns you a huge profit will come along.

Unfortunately, by the time such an opportunity to make a huge winning spread bet materialises, many spread bettors new to the game have lost most, or all, of their trading capital, and therefore aren't in a position to take advantage of the really great opportunity.

Cutting your losses short and thereby preserving your betting capital and ability to place more bets in the future is crucial to successful spread betting.

The easiest way to preserve your trading capital is with the use of stop-loss orders that strictly limit the amount of money that you are risking on each bet. Wisely limiting your losses keeps you in a position to continue making potentially winning bets.

It's important to realise and accept the fact that you are likely to not only have occasional losing trades, but occasional strings of several losing trades in a row.

The remedy to that problem is to carefully manage how much you bet and risk on each individual spread bet so that you can withstand a string of small losing trades and still have plenty of money left to bet with.

Learn more: Take our premium Trading for Beginners course.

Mistake 4: Adding to a losing bet

This is one of the most common trading mistakes of financial traders everywhere, but it is particularly common among new traders. An example of how this scenario plays out is as follows:

- ✓ You place a "buy" bet on a stock trading with a spread of £50-£52, placing a stop-loss order at £46.
- ✓ The market price falls, approaching the £46 level, but instead of simply accepting a small loss, you either pull your stop-loss order altogether, or move it further down, say, to £38.
- ✓ The price of the stock continues to decline, down to £40; if you had left your original stop in place, you would have already been out of the market with a small, manageable loss; instead, you are still in the market, and your loss is now twice as big as it would have been if you hadn't moved your stop-loss order.
- ✓ Rather than accepting the fact that you were simply wrong about the stock price going up, now that it has fallen to a lower price, you are "sure" that it will turn to the upside now from this lower price. So you place a second buy bet with the spread at £40-£42, and put stop-loss orders for both of your bets down at £34.

✓ The market price of the stock drops to £34 and you are stopped out of both bets. But now, instead of the small loss of £6 (assuming your stake size was a minimal £1 per point) you would have incurred by accepting being stopped out of your initial bet at £46, you now have a total loss of £26 - £18 on your first bet, and another £8 on.

Don’t make losing spread bets worse by adding to them and making them bigger.

You will fare much better by simply accepting the fact that you were wrong in your analysis on this one bet and that it cost you a small - but completely manageable - amount of money.

Move on to the next good betting opportunity, congratulating yourself on doing a good job of managing your betting money.

Mistake 5: Chasing a missed opportunity

A mistake common to new spread bettors is that of chasing betting opportunities that have already come and gone. This type of mistake usually unfolds when you are thinking about placing a bet.

For example

You see an index such as the FTSE100 rising - but do not feel confident enough to place the bet. Perhaps it has not yet met the requirements of your trading strategy for placing a buy bet.

A little while later, you see that the index has indeed risen - and immediately start mentally berating yourself for not having placed a bet on it. While you’re doing that, you watch the index continuing to rise.

Now firmly convinced that you are missing out on the bet of the century - that the index is going straight to the moon - you place a buy bet on the index at a level that is much higher than the level at which you originally thought about betting on it.

Sure enough, the market seems to stall out almost as soon as you place your bet, and then begins to decline.

Instead of a winning bet, you end up with a losing bet.

This is yet another common mistake that typically stems from inexperience and impatience. More experienced traders realise the simple fact of trading that they aren’t going to catch every market opportunity that rolls along.

If one passes them by - sure, they regret missing out - but rather than foolishly chasing a market that has already made its move, they are content with the fact that there will always be more excellent betting opportunities in the future.

In summary

Being aware of the kind of mistakes that are most commonly made by new spread bettors can help you avoid them - and that will help you avoid losing money unnecessarily.

It’s wise to be cautious when you are first starting out in spread betting.

Your betting skill is most likely to improve with time. The best path you can take is trying to make sure that you at least survive your “beginning spread bettor” phase with your capital intact - and perhaps even some profits.

Stay aware of common betting pitfalls, and thereby escape them.

Chapter 15 - Risks of Spread Betting

With the opportunities that come with spread betting comes risk. For those who ask, "Is spread betting gambling?" – the answer is "No".

But that doesn't mean that there's no risk of losing money.

One of the most important factors in putting together a good spread betting game, one that will generate profits for you, is practising careful risk management.

There are risks to engaging in any sort of business. Here's a rundown on the primary risks to be aware of in financial spread betting.

Learn more: Take our free Mastering Trading Risk course.

The risk of trading with high leverage

Financial spread betting is highly leveraged.

While this offers the major advantage that it gives you the opportunity to make a lot of money with just a small amount of starting capital, it also involves risk. Many traders not familiar with leveraged trading take on positions too large and, as a result, unfortunately, end up losing money rapidly.

Be sure that you fully understand leveraged trading before risking real money spread betting the financial markets.

For example

You might place a spread bet that only requires a margin deposit of 10% of the full value of the financial asset that you're betting on.

If the price of the asset moves by 20% in your favour, then you will have doubled your money! However, should the asset's price move 20% against your bet position, you will have lost double your margin deposit.

Leverage can be a critical advantage for you, but you also have to be aware of the potential risk for loss that it poses. In trading with high leverage, it's important to make certain that you have sufficient trading capital to hold any spread bet position that you take.

Otherwise, you risk having bets closed out because your account doesn't have enough funds in it to hold the position in the event that the market moves temporarily, but significantly, against your bet position.

The risk of market/price volatility

Market volatility is another major potential risk for spread bettors.

The financial markets may move dramatically following certain economic events or releases of economic news, such as a change in interest rates. A market that you're spread betting on can gap, or jump, to a much higher – or lower – price level even in just the matter of a few seconds.

This poses three possible dangers, all of which can translate to large trading losses:

If you do not have a stop-loss order in place, a sudden, severe market move may result in your holding a position with a huge open loss.

Even with a stop-loss order, you may sustain losses much larger than expected, as your stop-loss order may be filled at a price level far beyond that noted on your order. There is a way to avoid this: by paying a small fee you can secure a guaranteed stop-loss order. For example, if you have a stop-loss order on a certain stock bet at £48, even if the stock's price suddenly drops from £55 to £35 with no intervening trades, your stop-loss order will still be filled at the specified price level or £48.

If you lack sufficient funds in your spread betting account to enable you to hold your bet position when the market makes a large move, your spread betting firm will automatically close out your trade at a loss even if you wished to hold onto it.

As a spread bettor, you must maintain awareness of the fact that financial markets are ultimately unpredictable and that there can be rapid price changes, which may or may not be in your favour.

Be sure to monitor when major economic reports are due to be released and consider whether or not you want to risk holding your spread bet during such a news release that can potentially result in huge price swings in the market you're trading.

The risk of trading costs

Although spread betting does offer substantial financial advantages – such as not having to pay stamp duty or capital gains tax - that doesn't mean it's free. Spread betting firms don't charge commission. Instead, spread betting companies make their money through the spread itself.

For this reason, you're smart to shop around the various spread betting firms to find one that typically offers the lowest spreads. Trading with narrow spreads versus wider spreads can make a huge difference in your profitability over the long term.

It's especially important to be aware of trading costs if you're a spread bettor who holds bet positions for extended periods of time. Depending on the positions you hold, you may incur funding costs on a daily basis.

If you hold a bet position for a long period of time, even if the market gradually moves in your favour, it may turn out that the total funding costs add up to more than your profits or at least significantly reduce your net profit.

Trading with narrow spreads versus wider spreads can make a huge difference in your profitability over the long term

In the case of holding onto a losing bet over a length of time, funding costs alone can eventually eat up the margin you've put down for the bet and require the deposit of additional funds if you want to continue to hold your bet.

Learn more: Take our free Breaking Down Trading Costs course.

Handling spread betting risks – risk management

The fact that there are some identifiable risks to spread betting doesn't mean that you can't make money spread betting. It simply means that you need to exercise appropriate caution. Through the use of good risk management, you can minimise the dangers of financial of spread betting.

Good risk management doesn't start with a specific financial move – it starts with having a good trading strategy for spread betting. Rather than trading impulsively (a common mistake of new spread bettors), you should approach the financial spread betting markets with a specific trading strategy that helps you to identify such things as low-risk entry points, profit targets, and where to place stop-loss orders.

Keeping losses to a minimum is another key aspect of good risk management.

The best way to accomplish this is two-fold:

- Carefully calculate how much you are willing to risk on any given spread bet.
- Place stop-loss orders in order to avoid exceeding your calculated risk level and potentially incurring a much larger loss. If you spread bet in markets that tend to be especially volatile, consider using guaranteed stop-loss orders that will ensure that you don't incur any loss beyond your specified stop-loss price level.

Make certain that you know the financial markets that you want to spread bet on thoroughly. It is not wise to spread bet on a market that you're not familiar with. Some financial assets that are available for spread betting are very complex instruments.

Get familiar with the price movements of a particular financial asset before you ever risk real money by betting on the asset. In particular, get to know how the market price of the asset generally tends to move, how volatile price movements typically are, and what economic announcements, events, or other factors tend to drive price movements of the asset.

It can be helpful to use charts to review both recent and long-term, historical price movements of the asset in order to get a good idea of how price movements tend to unfold.

Learn more: Take our free Getting Started with Charts course.

Summary

You need to be aware of the inherent risks that are as common to spread betting as they are to any sort of financial trading. Such risks, as detailed above, include trading with high amounts of leverage, market volatility, and the risk of trading costs eroding your profits.

As long as you know the risks and practice good risk management in order to minimise them, you're improving your chances of being successful.

Chapter 16 - Beginners Recommendations

So, you want to know how to start spread betting?

As with most financial enterprises, it's important to get off on the right foot. What's that old adage? – "Well begun is half done."

Before you actually start placing spread bets, there are a number of things that you can do to make yourself better prepared to be successful as a spread bettor right from the beginning – and hopefully generating profits rather than losing your money.

Learn more: Take our premium Trading for Beginners course.

1. Assess your financial situation

Spread betting is a financial enterprise.

Therefore, it only makes sense that, before entering into it, you should take the time to assess your individual circumstances and current financial situation in regard to how you can fit spread betting into your life, and do some real thinking about what you want to get out of spread betting.

Spread betting offers excellent opportunities to make money, but there is also the risk of losing money

For instance, are you just hoping to make a little extra money, or are you planning to make spread betting your "job"?

Spread betting, just like any other type of trading in the financial markets, involves risk. Spread betting offers excellent opportunities to make money, but there is also the risk of losing money.

It's recommended that you never spread bet with money that you can't afford to lose. Therefore, one of the first things you need to determine before you start spread betting is: **How much money do I have that I can afford to lose?**

A more important question to ask yourself may be: **How much money am I comfortable with risking on spread betting?**

Think about this in terms of both how much money you have right at the moment that you're willing to risk (that will tell you what kind of opening deposit you can make with a spread betting company) and also in terms of how much money you expect to have that you're willing to spread bet with each week, month, or year.

2. Approach spread betting like a business

Regardless of whether you plan to just place a few, small spread bets each month or you aim to make spread betting your career, you should approach spread betting as you would starting any business. This goes right along with assessing your financial situation.

Let's say that you want to eventually make spread betting your career, your primary source of income, but you only have a couple of hundred pounds to get started with.

...you should approach spread betting as you would starting any business

If that's the case, then it's unlikely that you're going to be able to generate the equivalent of a full-time income from spread betting right away.

That's okay, and it shouldn't discourage you from pursuing a career as a spread bettor.

It just means that you probably want to do a bit of thinking about things such as:

- How much money can I realistically hope, with the amount of starting capital I have for initial deposited funds, to make from spread betting each month?
- How much trading capital will I need to be able to bet at a level that can generate a full-time income?
- How long will it probably take me until I have that much money available for trading?

By asking yourself those kinds of questions, you can begin to craft a business plan designed to take you from your current situation to the point where you can work full-time on operating your spread betting business.

Calculating how much money you want to be able to make from spread betting each week or month will help you figure out how much money you need to start spread betting.

3. Find a spread betting partner

Before you can start spread betting, you need to find a spread betting company to place your bets with.

Spread betting companies differ in a number of important ways, such as:

- Which financial markets and assets they give you access to spread bet on
- Margin requirements (the amount of money you have to put up to initiate and hold a spread bet); the lower the margin requirements, the bigger you're able to bet
- Trading costs; this includes the average kind of spread they offer, as well as other fees they charge, such as overnight holding costs
- The trading platform they provide for placing your bets; you want to make sure that your spread betting provider's trading platform is reliable (that it won't "lock up" or crash right in the middle of your trading), and that it's one that you're comfortable using

Before opening an account with a spread betting provider, don't forget basic issues such as checking to make sure that the company is authorised and regulated by the FCA (the Financial Conduct Authority) to offer spread betting services.

Also, check out what other kinds of services they offer besides just the ability to place a bet. For example, are they a good source of market news? Do they offer market analysis and commentary?

Learn more: Take our free Understanding Brokers course.

4. Learn all you can about spread betting

Before you start spread betting, take advantage of all the free education to help you learn spread betting.

Make sure you understand the subject thoroughly, including understanding how leverage can work both for you and against you, and the different types of orders that you can use in spread betting.

...take advantage of free education to help you learn spread betting

If you plan to be placing sports bets as well as bets on the financial markets, be sure that you're clear on the difference between spread betting and regular, fixed-odds betting. The main difference is that fixed-odds betting pays off (or loses) a specific amount, whereas spread betting offers virtually unlimited potential profit (or potential loss).

5. Pick your betting market

Before you start financial spread betting, you need to decide which financial markets you want to spread bet on.

Are you mostly interested in spread betting on the stock market, or are the commodity markets or the forex market more your style?

The price movements of different financial assets are driven by different factors. The factors that drive the prices of stocks are not usually the factors that drive major price changes in commodities or foreign exchange.

You are more likely to have success in spread betting if you focus your betting on just a few financial assets that you can develop expert knowledge of.

6. Get a trading strategy

Before you ever place your first spread bet with real money, you should have a betting strategy in place that will guide your betting. It can be a strategy drawn from fundamental analysis or from technical analysis, but in either case it should fulfil the following requirements:

- Have set parameters, or rules, that determine whether and when you should enter the market
- Provide a method for determining ideal entry points, profit targets, and stop-loss levels
- Suits your personal risk tolerance level

It's a good idea to always double-check before placing a bet to see if, in fact, the bet meets all of your betting strategy's criteria. A common mistake of traders is to enter a trade that looks attractive, but that doesn't really meet all the requirements of their chosen trading strategy.

Then, when the trade results in a loss, traders have the tendency to fault their trading strategy, when the fault was actually in failing to follow their strategy.

7. Become familiar and comfortable with the betting platform

When you're engaged in spread betting, you don't want to be slowed down in taking action to either open or close a bet.

This includes making an error in entering an order, just because you have trouble using the betting platform provided by your spread betting company.

Study the betting platform thoroughly to make sure that you can smoothly and easily navigate your way around in it, bring up information that you need, and enter and exit your spread bets.

Many spread betting firms offer multiple types of trading platforms:

- A standalone software program
- A web-based platform
- A mobile trading app

There are typically significant differences between the various platforms. Unless you know for a fact that you will only be using one platform all the time, it's a good idea to familiarise yourself with all three.

What if, for example, you're using the software trading platform, but it suddenly freezes up just when it's urgent that you enter a new order? – In such a situation, you may need to utilise either the company's web-based platform or enter a trade with your phone through a mobile app.

8. Practice with a demo account

Practicing with a demo account (virtually all financial trading firms provide these, free of charge) before you risk betting with real money can be one of the smartest moves you make as a beginning spread bettor.

Practicing spread betting in a demo account can do much more for you than just giving you the opportunity to get comfortable with the whole process of spread betting.

It will help you monitor the markets, opening and closing spread bet positions, and managing your bets and making adjustments to orders.

Practicing spread betting also gives you the opportunity to test out your betting strategy and perhaps make some adjustments to it.

You'll also get a feel for what it's like to actually have a position in the markets, even if it's just with "play" money. This can help you avoid being overly nervous when you start placing spread bets for real money.

9. Know the risks

Spread betting offers the opportunity to make a lot of money even starting out with just a little bit of money.

But with potential high rewards also comes high risk. You need to have an honest awareness of the risks involved in spread betting, such as the fact that since you're trading with high amounts of leverage, you can potentially sustain a loss greater than your original investment.

Manage your risk exposure by deciding beforehand how much money you are willing to risk on any one spread bet. Set your leverage level with your spread betting company in alignment with both your trading goals and your risk tolerance.

Know how to carefully manage your betting positions so that you don't become financially over-committed to the point where you don't have enough trading capital in your account to maintain whatever spread bets you have open at any given time.

Learn more: Take our free Mastering Trading Risks course.

10. Have the attitude of a professional

Professional financial traders don't jump up and down for joy every time they have a winning trade. Nor do they become a bundle of nerves or start crying whenever they experience a losing trade. Approaching the markets with a professional, objective, rational attitude - rather than being ruled by your emotions - is a critical part of being a profitable financial trader and learning to spread bet successfully.

You may want to take a look at books such as Jack Schwager's "Market Wizards" series to get a clearer idea of the mindset that super-successful, professional traders have.

In Summary

There are a lot of things that go into becoming a successful, consistently profitable spread bettor - things such as knowing your market, understanding how leveraged products work, using a solid trading plan, and managing risk.

Fortunately, you can get started doing the things you need to do to make money spread betting before you actually start placing spread bets and risking any real money.

The better prepared you are before you enter the world of spread betting, the less work you'll need to do when you do start spread betting for real.

Chapter 17 – Next Steps

We hope this guide has been an informative and helpful introduction to the world of financial spread betting.

In it, we've covered many of the basics and some of the more detailed topics related to spread betting, including:

- Why Spread Bet the Financial Markets
- How Spread Betting Works
- Which Markets You Can Spread Bet On
- Basic Spread Betting Risk Management Tools
- Spread Betting Regulation and Protections
- How Traders Make Money Spread Betting

We've even delved into how to go about creating and developing trading strategies for spread betting.

Assuming you have a sincere interest in pursuing spread betting – or at least in learning more about it – we'd like to invite you to join us.

My Trading Skills offers:

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We've got lots of seriously insightful free materials: dozens of free on-demand courses, 100+ expert insights, an extensive trading glossary, the MYTS Forex Trading Guide and our market analysis posted on YouTube – subscribe to our channel to get notified when new videos are released.

Expert Community

The MYTS Community is a revolutionary online platform for new and experienced traders looking to share ideas and make profits.

Reflect and commit

We've come to the end of the MYTS Spread Betting Guide. Thank you for taking the time to study it, we hope you found it useful. Take some time to reflect on spread betting and how you might start approaching the opportunity with the benefit of the information we've provided.

Then, if it is for you, really commit to developing your skills and making it a reality.

Learn more: Take our premium Trading for Beginners course & Trading Foundations course.