MATI TRADER

HOW TO TRADE, SURVIVE & THRIVE

CFDS AND SPREAD BETTING

BEGINNER'S GUIDE

Timon Rossolimos

MATI Trader is an online training solutions company offering products and services to help anyone learn how to trade and make a success from the markets.

– Contents –

Introduction

Dear excited trader,

Thank you for downloading your free copy of:

"How to Trade, Survive & Thrive:
CFDs & Spread Betting Beginner's Guide".

Ah yes… Derivatives trading!

What I believe has been the absolute market revolution since shares.

Derivatives might sound complicated and something you would hear from a professor or a know-it-all businessman – but they're really not.

I am no academic or even remotely one of the smartest guy's in the world.

And if I can grasp the idea and understanding of derivatives, I pretty much guarantee you will too.

Also, if you want to take trading seriously and really make a living with it, you'll need to understand derivatives trading sometime in your career.

That's where this book comes in.

In this illustrated guide, we'll tackle everything you'll need to know about CFDs and spread trading derivatives.

But before we do that, we need to start at the very beginning…

Trade well,

TimonR

Timon Rossolimos
Founder, ***MATI Trader***

WHAT IS A Derivative?

DEFINITION:

When it comes to trading, a derivative is a financial contract between two parties whose value is 'derived' from another (underlying) asset.

EASIER DEFINITION:

- **A derivative** is a
- **Financial contract** (CFDs, Spread Trading, Futures, Forwards, Options & Warrants)
- **Between two parties** (the buyer and seller)
- **Whose value** (the market's price) is
- **Derived** from (depends on or comes from) another
- **Underlying asset** (Share, index, commodity, currency, bond, interest-rate, crypto-currency etc…)

EASIEST DEFINITION:

'A derivative is an investment that depends on the value of something else.'

You'll find that the derivative's market price mirrors that of the underlying asset's price.

The beauty about trading derivatives is that they are a cheaper and a more profitable way to speculate on the future price movements of a market without buying the asset itself.

The Downside

What's probably important to note with derivatives, is this.

When you buy a derivative's contract, you're not actually buying the physical asset.

You're simply making a bet on where you expect the market's price to go.

EXAMPLE:
Trading shares vs derivatives

When you buy actual shares of a company, means you'll be able to attend AGMs (Annual General Meetings), vote and claim dividends from a company.

When you trade derivatives on the underlying share, means you'll only be exposed to the value of the shares and the price movements – and that's it!

As a trader, when you buy or sell a derivative, you're not actually investing in the underlying asset but rather just making a bet (speculation) on where you believe the market's price will head.

Remember when I said it was cheaper and more profitable?

You can thank margin.

MARGIN TRADING

And how it works

With derivatives, you'll normally **pay a fraction of the price** of the total sum and **still be exposed to the full value** of the asset (share, index, currency etc…)

The fraction of the price paid is called 'margin'.

EXAMPLE:
Margin

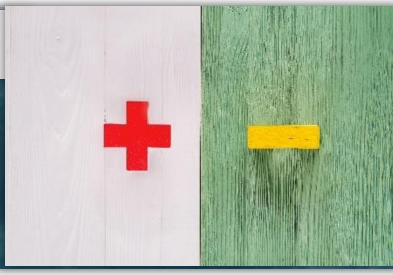
To buy and own 10 Anglo shares at R390 per share will cost you R3,900 (R390 per share X 10 shares).

To buy and be exposed to 10 Anglo shares using derivatives, and the margin of the contract is 10% per share, means you'll only pay R390 (R390 per share X 10% margin per derivative X 10 shares).

I'm sure you can see that with derivatives, you'll be exposed to more and pay less which will gear up your potential profits or losses versus when trading shares.

This is why we call derivatives, geared financial instruments – which we'll cover later in the book.

PROS & CONS



Transparency is everything with trading.

The good and the bad.

Here at MATI Trader, we want to expose you to the realities of trading.

Let's start with the ADVANTAGES and DISADVANTAGES of trading.

DERIVATIVE TRADING - ADVANTAGES

#1: PRO
Minimal costs

Whenever you take a derivative trade, remember you're only buying a contract and making a bet on the direction of the underlying market, rather than owning anything physical.

This means, you won't have to worry about paying high brokerage and other trading costs like:

- STT (Securities Transfer Tax)
- Stamp duty
- Settlement and clearing fees
- Investor Protection Levy
- VAT
- STRATE

#2: PRO
Profit from up or down markets

You can make a profit by buying low (going long) and selling at a higher price. Or by selling (going short) and buying the borrowed shares at a lower price for a profit.

#3: PRO
Get paid dividends

When you buy a derivative of the underlying share, which pays dividends, you'll be entitled to the full amount when you buy the market.

#4: PRO
Instant access to world markets

Your broker will most likely offer you a large range of markets from local to international shares, commodities, currencies or indices, the world is virtually your trading oyster.

DERIVATIVE TRADING - DISADVANTAGES

#1: CON

Gearing – Magnified losses

Gearing unfortunately is a double-edged sword. If the trade goes against you, you could wind up losing more money than what you deposited.

#2: CON

Commitment

Trading is an active business. You'll need to commit more time to your trades than you would with investing.

#3: CON

No shareholder privileges

When trading a derivative, you won't be able to vote, attend AGMs or have any say in helping with the underlying companies.

#4: CON

Pay dividends when you're short

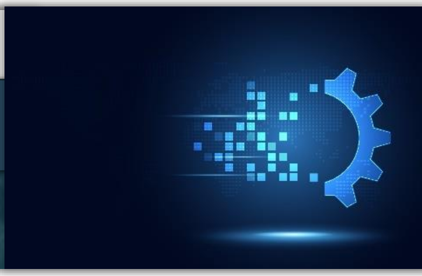
If you sell (go short) a trading derivative, with the underlying share which pays dividends, you'll then have to pay the portion of the dividend instead.

Let's keep it simple…

In this guide, we'll stick to the two most popular and profitable instruments to trade using: CFDs and through spread trading…

CFDs & SPREAD TRADING

And what they are



Spread trading (or spread betting) and CFDs are financial instruments that allow us to do one thing.

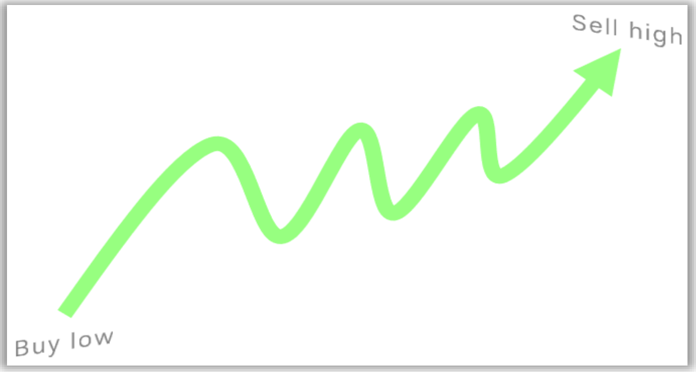
To place a bet on whether a market will go up or down in price – without owning the underlying asset.

If we are correct, we stand a chance to make magnified profits and vice versa if wrong.

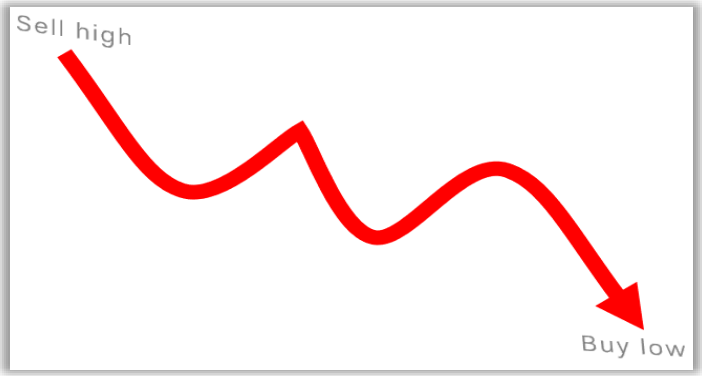
Both CFDs and spread trading, allow us to buy or sell a huge variety of markets including:

When you have chosen a market to trade, there are two types of CFD or spread trading positions you can take.

You can buy (go long) a market at a lower price as you expect the price to go up where you'll sell your position at a higher price for a profit.



You can sell (go short) a market at a higher price as you expect the price to go down where you'll buy your position at a lower price for a profit.



EXPLAINED:
CFDs for Dummies

DEFINITION:

A CFD is an unlisted over-the-counter financial derivative contract between two parties to exchange the price difference between the opening and closing price of the underlying asset.

Let's break that down into an easy-to-understand definition.

EASIER DEFINITION:

A CFD (Contract For Difference) is an:

- Unlisted (You don't trade through an exchange)
- Over The Counter (Via a private dealer or market maker)
- Financial derivative contract (Value from the underlying market)
- Between two parties (The buyer and seller) to
- Exchange the
- Price difference (the opening and closing price) of the
- Underlying asset (Instrument the CFD price is based on)

EASIEST DEFINITION:

Essentially, you'll enter into a **CONTRACT** at one price, close it at another price **FOR** a profit or a loss depending on the price **DIFFERENCE** (between your entry and exit).

Moving onto spread trading.

EXPLAINED:
Spread Trading for Dummies

DEFINITION:

Spread trading is a derivative method to place a trade with a chosen bet size per point on the movement of a market's price.

EASIER DEFINITION:

Spread trading is a:

- Derivative method (Exposed to an underlying asset) to
- Place a trade (Buy or sell) with a chosen
- Bet size per point on where you expect a
- Market price will
- Move (Up or down)
- In value

EASIEST DEFINITION:

Spread betting allows you to place a **BET** size on where you expect a market to move in price.

Each point the market moves against or for you, you'll win or lose money based on their chosen **TRADING** bet size (a.k.a Risk per point or cent movement).

The higher the bet size (value per point), the higher your risk and reward.

COSTS

CFDs & Spread Trading

Both spread trading and CFDs are geared-based derivative financial instruments.

As their values derive from an underlying asset, when you trade using spread trading or CFDs, you never actually own any of the assets.

You're just making a simple bet on whether you expect a market price to rise or fall in the future.

If you decide to go with the broker or market maker who offers CFDs or spread trading, there are certain costs you'll need to pay.

Costs you'll PAY with Spread Trading

With spread trading, you'll only have one cost to pay – which are all included in:

<u>The Spread</u>

The spread is the price difference between the bid (buying price) and the offer (selling price).

EXAMPLE: Let's say you enter a trade and the bid and offer prices is 5,550c – 5,610c.

The spread, in this case, is 60c (5,610c – 5,550c).

This means your trade has to move 60c to cross the spread in order for you to be in the money-making territory. Also, if the trade goes against you, the spread will also add to your losses.

Why the spread you ask?

The spread is where the brokers (market makers') make their money.

With spread trading (betting), you don't own anything physical.

Costs you WON'T pay with Spread Trading

When you take a spread trade, you're simply making a financial bet on where you expect the price to move and nothing else.

This means, there will be no costs to pay as you would with shares including:

- **NO** Daily Interest Finance charges
- **NO** Stamp Duty costs
- **NO** Capital Gains Tax
- **NO** Securities Transfer Tax
- **NO** STRATE
- **NO** VAT
- **NO** Brokerage (all wrapped in the spread).

Costs you'll PAY with CFDs

Brokerage

With CFDs, it can be different.

Depending on who you choose to trade CFDs with, you may need to cover both the spread as well as the brokerage fees – when you trade.

These brokerage fees can range from 0.2% – 0.60% for when you enter (leg in) and exit (leg out) a trade.

NOTE:
If the minimum brokerage per trade is R100, you'll have to pay R100 to enter your trade.

Daily Interest Finance Charge

The other (negligible) cost, you'll need to cover is the daily financing charges.

If you buy (go long) a trade, you'll have to pay this negligible charge (0.02% per day) to hold a trade overnight.

However, if you sell (go short) a CFD trade, you'll then receive this negligible amount (0.009%) to hold a short trade overnight.

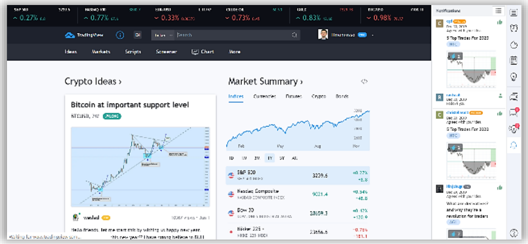
Costs you WON'T pay with CFDs

With CFDs, you'll notice that there are similar costs with spread trading that you won't have to pay including:

- **NO** Stamp Duty costs
- **NO** Securities Transfer Tax
- **NO** Settlement and clearing fees
- **NO** VAT
- **NO** STRATE

24-Hour Dealings

The great thing about spread trading or CFD trading is that, you can trade the markets 24/5.



I'm talking about currencies, commodities and indices.

And with Crypto-currencies you can trade them 24 hours a day seven days a week.

We'll now go over the power of gearing, how it works in real life and how it can lead to magnified returns…

GEARING

What you need to know

This is the most important concept you'll need to understand to accelerate your account and thrive as a trader.

During your trading experience, with gearing, you'll learn how to multiply your profits.

But you can also multiply your losses, if you don't know what you're doing.

So listen up.

DEFINITION:

Gearing also known as leverage or margin trading, is the function that allows you to pay a small amount of money, in order to gain control and be exposed to a larger sum of money.

There is a very simple calculation you'll use to calculate the gearing for both CFDs and spread trading.

$$\frac{\text{Exposure}}{\text{Initial margin}}$$

In order to understand this formula, let's use three gearing examples with shares versus CFDs and spread trading.

We'll break it up into three steps for CFDs and spread trading:

1. Calculate the entry market exposure
2. Calculate the initial margin (Deposit)
3. Calculate the gearing

We'll also exclude costs to help simplify the gearing concept better.

EXAMPLE 1:
Buying shares with NO Gearing

Buying shares: AAS Ltd

Portfolio value: R100,000

Company: AAS Ltd

Share price: R109.00

No. shares to buy: 100

If you buy one share at R109 per share, you'll be exposed to R109 worth of one share.

If you buy 100 shares at R109 per share, you'll be exposed to R10,900 worth of shares (100 shares X R109 per share).

We know that to be exposed to the full R10,900 worth of shares, we needed to pay an initial margin (deposit) of R10,900.

If we plug in values into the gearing formula, we get:

Gearing = (Exposure ÷ Initial Margin)

= (R10,900 ÷ R10,900)

= 1:1

This means, there is NO gearing or a gearing of 1 times, with the share example as, what we paid is exactly as what we are exposed to.

Easy enough? Let's move onto CFDs.

EXAMPLE 2:
Buying AAS Ltd CFDs WITH gearing

Portfolio value: R100,000

CFD of the underlying Company: AAS Ltd CFD

Share price: R109.00

Margin % per CFD: 10%

NOTE:
Find out on your trading platform or ask your broker for the margin % per CFD

No. CFDs to buy: 100

Step #1:
Calculate the entry exposure of the CFD

Entry exposure

= (Share price X No. CFDs)

= (R109.00 X 100 CFDs)

= R10,900

NOTE:

1 CFD per trade, you'll be exposed to the value of one share.

100 CFDs per trade, you'll be exposed to the value of 100 shares.

Step #2:
Calculate the initial margin of the CFD trade

Initial margin

= (Exposure X Margin % per CFD)

= (R10,900 X 0.10)

= R1,090

This means to buy 100 CFDs, you'll need to pay an initial margin (deposit) of R1,090.

Step #3:
Calculate the gearing of the CFD trade

Gearing = (Exposure ÷ Initial margin)

= (R10,900 ÷ R1,090)

= 10 times

With a gearing of 10 times, this means two things…

#1: For every one CFD you buy for R10.90 per CFD, you'll be exposed to 10 times more or the value of one AAS Ltd share.

#2: For every one cent the share price rises or falls, you'll gain or lose 10 cents.

EXAMPLE 2:
Buying AAS Ltd through Spread Trading

Portfolio value: R100,000

Underlying Company: AAS Ltd

Share price: 10,900c

Value per point: 100c (R1.00)

Margin % per spread trading contract: 7.50%

NOTE:
Find out on your trading platform or ask your broker for the margin % per share contract

Step #1:
Calculate the entry exposure of the spread trade

Entry exposure

= (Share price X Value per point)

= (10,900c X 100c)

= 1,090,000 (R10,900)

NOTE:

1c value per point per spread trade – you'll be exposed to one AAS share

100c value per point per spread trade – you'll be exposed to 100 AAS shares

Step #2:
Calculate the initial margin of the spread trade

Initial margin

= (Exposure X Initial margin)

= (1,090,000c X 0.075)

= 81,750c (R817.50)

This means, you'll need to pay an initial margin (deposit) of R817.50 to be exposed to R10,900 worth of AAS Ltd shares.

Step #3:
Calculate the gearing of the spread trade

Gearing = (Exposure ÷ Initial margin)

= (1,090,000 ÷ 81,750c)

= 13.33 times

This means, by depositing R817.50 you'll be exposed to 13.33 times more or R10,900 (R817.50 X 13.33 times) worth of AAS Ltd shares.

You now know how gearing works with CFDs and spread trading, next you'll need to know how to never risk more than 2% of your portfolio for each trade you take whether you BUY (go long) or SELL (GO SHORT).

2% RULE

CFDs vs Spread Trading

The rule is very easy to understand.

Whether you trade using CFDs or spread trading, the rule is the same.

Never risk more than 2% of your portfolio on any one trade.

It's one rule that you can use whether you have a R1,000 account or a R10,000,000 account.

You see, trading is a forever business.

This means, as a trader you should risk as little of your portfolio as possible in order to survive in the game longer.

How to enter your CFD trade using the 2% Rule

Here are the specifics for the trade

CFD of the underlying Company: TIM Ltd CFDs
Portfolio value: R100,000
2% Max risk per CFD trade: R2,000
Entry price: R400.00
Stop loss price: R380.00

To calculate the no. of CFDs you'll buy per trade, you'll need the:

~ Max risk per trade
~ Entry price and
~ Stop loss price

Next, you'll need to follow two steps:

Step #1:
Calculate the risk in trade

The 'risk in trade' is the price difference between where you enter and where your stop loss is:

Risk in trade = (Entry price – Stop loss price)
= (R400 – R380)
= R20

Step #2:
Calculate the no. of CFDs to buy

No. of CFDs to buy = (2% Risk ÷ Risk in trade)
= (R2,000 ÷ R20)
= 100 CFDs

In your platform you'll type in 100 TIM CFDs to buy, place your entry price at R400 and your stop loss price at R380 to risk only 2% of your portfolio.

NOTE:
1 CFD = 1 Share exposure
100 CFDs = 100 Shares exposure

How to enter your Spread Trade using the 2% Rule

With spread trading you trade on a 'value per 1 point' basis.

You'll choose either: R0.01, R0.10, R1 or any other amount per 1 point movement in the underlying market.

If you choose R0.10 value per 1 cent movement, for a South African share, for every 10 cents the market moves against or for you, you'll lose or gain 100 cents (10 cents value per point X 10 cents movement).

Here are the specifics for the spread trade.

Contract of the underlying company: TIM Ltd
Portfolio value: R100,000
2% Max risk per spread trade: 200,000c (R2,000)

Entry price: 40,000c (R400.00)
Stop loss price: 38,000c (R380.00)

To calculate the 'Value Per Point' to enter your long (buy) trade, you'll need the:

~ Max risk per trade
~ Entry price
~ Stop loss price

Next, you'll need to follow two steps:

Step #1:
Calculate the risk in trade

Risk in trade = (Entry price – Stop loss price)
= (40,000c – R38,000c)
= 2,000c (R20.00)

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Step #2:
Value per 1 cent movement

Value per 1 cent movement
= (2% Risk ÷ Risk in trade)
= (200,000c ÷ 2,000c)
= 100c (R1.00)

This means, with a 'Value per point of 100c' every 1 cent the TIM Ltd share price moves, you'll make or lose 100 cents.

Every 2,000c the market moves, you'll make or lose 200,000c or R2,000 of your portfolio (100c Value per 1 cent movement X 2,000c movement).

NOTE:
1 Cent per 1 cent movement = 1 Share exposure
100 Cents per 1 cent movement = 100 Shares exposure

Final words

Thank you for taking your time out of your day to read this guide.

I trust that this will help you level up your trading skills and success.

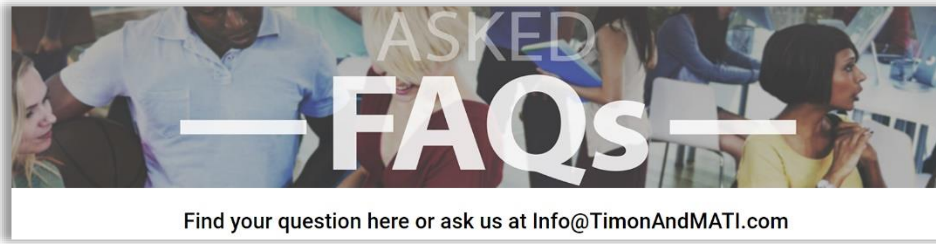
Print it and use it until you get used to and feel comfortable trading CFDs or spread trading.

Trade well,

TimonR

Timon Rossolimos
Founder, *MATI Trader*

PS: If you found this CFDs and spread trading guide helpful, I'd love to hear your thoughts by e-mailing timon@timonandmati.com or click the link in our ▸ MATI Trader chat room.



Click Here to hear what MATI Traders are asking us

ABOUT THE AUTHOR

Timon Rossolimos – professional trader, author, speaker and entrepreneur – brings you what he has had the honour of sharing to over 257,000 people since 2003, everything you need in one place to trade for a living.

OUR GOAL

We understand learning to trade the markets is not only an overwhelming experience, but is also a timely and costly practice without the right information and tools.

We are inspired to work alongside you using a four-pillar step-by-step blueprint, to help kick-start and maintain your successful trading career.

Our aim is to empower, create and grow a life-time community of the most passionate and aspiring MATI Traders. This way we can all look for high probability trades to profit and live a lifestyle of financial-freedom from the MATI Trader System.

CONTACT US

If you have a trading question, suggestion or you'd like to share your feedback, you are more than welcome to contact us by emailing our team at Info@TimonAndMATI.com.

WHAT WE OFFER AT MATI TRADER

Here at *MATI Trader* we offer a number of FREE and VIP trading resources through means of:

– ARTICLES

– BREAKING TRADE SIGNALS

– VIDEOS

– TOOLS

– BOOKS

– PROGRAMMES.

These resources will show you:

~ The best markets and times to trade.

~ A proven 20 year old trading strategy that works on any market.

~ When to enter and exit each trade with precision.

~ How to increase your win rate and prolong your winning streaks.

~ How to gain confidence and develop a successful trading mindset.

~ How to work anywhere in the world and live life on your terms.