DAVID JONES

SPREAD BETTING THE FOREX MARKETS

An expert guide to spread betting the foreign exchange markets

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An expert guide to making money spread betting the foreign exchange markets

by David Jones

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First published in Great Britain in 2010 by Harriman House.
Reprinted in 2011.

978-1-906659-51-6

British Library Cataloguing in Publication Data
A CIP catalogue record for this book can be obtained from the British Library.

Printed in the UK by CPI, Antony Rowe.

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About the Author

David Jones started working in the City as a currency analyst after passing the Society of Technical Analysts diploma. He later moved into the spread betting industry where, most recently, he has been Chief Market Strategist at IG Index.

Part of his role in the industry has been providing market commentary and analysis to various media and he makes regular appearances in the mainstream press and on financial news channels such as the BBC and CNBC.

He has also been actively involved in client education. Over the years he has spoken to thousands of spread betting clients and has devised educational programmes on a wide range of subjects. This book was a natural development of that activity, drawing on his experience and his extensive knowledge in forex and technical analysis.

David would welcome any comments or questions about this book and can be contacted via email at **forex@jonesdc.com**.

Preface

What the book covers

First of all, this is not a book that explains the mechanics of spread betting in minute, mind-numbing detail. There is a brief overview of how spread betting works, but the various spread betting companies already do an excellent job in educating clients on the mechanics of this form of trading.

The book covers the basics of the foreign currency markets ("forex") and looks at what makes forex markets move. There is a detailed section on the important topic of risk management, and a brief overview of technical analysis from the perspective of studying forex markets.

The major part of the book presents some straightforward strategies for trading forex.

Who this book is for

The intended audience for this book are those who are interested in spread betting forex. But that is a very wide range of people with a wildly varying experience of trading.

Most of my own professional life within the industry has been spent educating those who are relatively new to spread betting, or those who may have been spread betting for some time but have not ventured away from their particular favoured market (e.g. shares). That is the sort of person I had in mind when writing the book.

I have endeavoured to make all sections of this book as accessible and useful to as many people as possible, regardless of previous experience. As I mentioned earlier, it is not designed to be an exhaustive introduction to spread betting, because there is more than enough information out there on that already. But if spread betting *is* completely new to you, the first chapter will, in my opinion, cover all you really need to know.

(If you are already making vast fortunes spread betting forex I would still hope there is the odd nugget for you in the book, and I hope it proves to be a useful and entertaining read for you in between dating supermodels.)

How the book is structured

When I sat down with the publishers to plan this book, it was straightforward enough to come up with logical sections that the book should be broken down into. I have based this on my experiences of talking to many clients over the years – there does seem to be a natural order to the questions on spread betting and forex so it seemed obvious that this book should follow that.

The first section is a recap on spread betting – just to make sure that we are all happy with the mechanics and terminology. Like a lot of things in life, spread betting is something that can sometimes be unnecessarily overcomplicated. I have tried to cut through the jargon and explain simply how it works (after all, it really is very straightforward).

The next section deals with the forex market itself. Like spread betting, this is something that can appear intimidating and complicated – but it really does not have to be. After reading this section you will be comfortable with various aspects of forex, such as what the quotes mean, what makes this market move, and why people trade it.

The following section is all about risk and how to manage it. By the end of this book I hope you are thoroughly fed up with me banging on about risk! If you are, I will consider it a job well done. This is the subject that we all give too little attention to in the beginning. However, it is absolutely critical, which is why there is a whole section on it. Managing risk sensibly helps us in so many different ways: it should ensure we do not get wiped out from a string of small losses, it helps us to figure out how much money we should be trading, and it should mean that trading is relatively low-stress.

The rest of the book looks at trading strategies. I have outlined some tried and tested approaches to forex trading with detailed examples of how they would have worked in real markets. I am a big fan of keeping things simple and these are the sorts of strategies that you should be able to put in practice for yourself straightaway.

Introduction

The purpose of this book is to get you started trading the forex markets using spread betting. These are both subjects that have really moved into the mainstream over recent years.

There are many reasons why forex continues to grow in popularity. I would argue that the huge size of the market makes it difficult for it to be affected much by single trades or a rogue piece of news. This can mean that trends in forex are more durable than those in many other markets – which is Good News for chartists. The size of the market also means the costs of trading are low.

And forex is seldom dull. On a quiet day in stock markets watching the short-term movements of many shares can be a mind-numbing experience. Whereas the often spectacular volatility in forex is what provides the opportunity for traders to make profits. Of course, it should be realised that this volatility does add additional risk – which is why there is a whole section on managing risk later in the book.

The final part of the equation has been the evolution of spread betting over recent years which, among many of its advantages, allows beginner traders to get involved in markets at a very low exposure (for example, trading at less than £1 per point). No longer do you need tens of thousands of pounds to dip your toes in the forex market.

Forex and spread betting are both subjects close to my heart. I've worked in and around the spread betting industry for the best part of the last ten years. I placed my first spread bet back in 1995, when the industry was very different to how it is today. My first proper job associated with finance was with a software company that supplied investment banks with real-time charting for the foreign exchange market. This is when I took the Society of Technical Analyst's exam and later went on to work as a forex technical analyst. It's fair to say that the vast majority of my approach to technical analysis and trading was learnt in the currency markets.

I've tried to bring all this experience together for this book and structure it so I can get across what I feel to be the important points to consider when spread betting the forex market.

There is a lot of rubbish out there about both of these topics. When Harriman House contacted me about this book, I was very keen to blow away some of the myths and misinformation. This book will explain the ins and outs of how to spread bet forex and give you some strategies to get you started trading.

I hope you enjoy reading it!

Part One

The Basics

Spread Betting

Spread betting has been around since the early 1970s, but it is the last ten years or so that has seen it really evolve and become, in my opinion, the best way for the vast majority of retail clients like me and you to trade financial markets.

It has grown in popularity for three reasons:

1. The advance of the internet and broadband has made it possible to provide real-time data direct to your desktop – wherever you are. Spread betting companies were amongst the first financial companies to offer online trading platforms and additional tools such as charting, stop losses, etc.
2. The dot com bubble and, of course, the subsequent bursting of this bubble at the beginning of this century, and then the financial crisis sparked off by sub-prime loans, has pushed financial markets onto the front pages. This has made people more aware of some of the wild gyrations seen in financial markets and perhaps more sceptical about the talents of professional financial managers. This in turn has led many people to want to take more control of their own investments, and also to see if they can profit from some of this shorter-term volatility.
3. And finally, as the spread betting industry has grown and competition has increased, the spreads have been driven down very sharply, which has meant it has evolved into a very cost-effective way of trading.

But to the new spread betting client, it can still look confusing and may be a bit daunting at first glance, so let's clear that up before we get into some of the other topics.

The spread bet price

Let's get one thing out of the way from the start. Spread betting companies do not predict where the price is going to go. There is no crystal ball hidden from public view at the back of the dealing room. The spread bet price you see is the market price, with usually a bit added on either side of the bid and the offer. It may be worth at this point taking a step back because, to some people, the notion of a 'two way price' is somewhat confusing.

If you check the daily paper and look at, for example, the price of Vodafone, it may show that it closed at 120p – so you think the price of Vodafone is 120p. However, there is more to it than that. If you called your stock broker you would discover there are actually two prices for Vodafone: a price if you are selling and a price if you are buying. So the broker may quote you 119.9p/120.1p, meaning:

- you can *sell* Vodafone shares at 119.9p, or
- you can *buy* Vodafone shares at 120.1p.

This is called the *bid/offer spread*. All markets have a spread – and spread betting is no different.

So let's get back to the topic of the book, the forex market.

Assume we are looking at the price of the British pound against the US dollar; the spread bet price will depend on where the forex market is trading at that particular time. The bid/offer quote may be something like this: 1.6300/1.6303. If you are buying, then you pay the higher price and if you are selling your trade gets done at the lower price.

At least once a month a customer will ask me why can't he buy at the lower price and sell at the higher price. The quick answer to this is that spread betting companies are not charities! The spread represents – as it does in all financial markets – the profit for the institution acting as market maker (in this case the spread betting company). Market makers take on the risk of providing prices across a range of markets and their reward for taking this risk is the spread.

So, the spread bet price will move around as the underlying market moves.

Figure 1.1: Twelve hour chart of GBP/USD daily spread bet contract

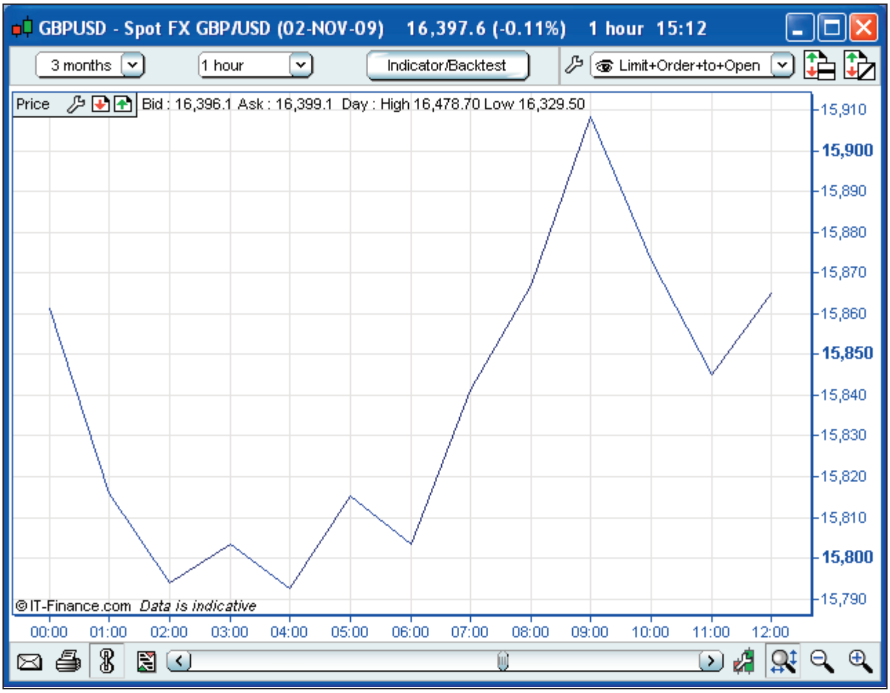


Figure 1.1 shows how the price of the spread bet will change as the underlying market moves around. This chart represents the first 12 hours of trading on 28 September 2009. The market is GBP/USD – the British pound/US dollar exchange rate. All the spread bet does is move up and down as the exchange rate changes; it is just mimicking the moves in the forex market of this particular currency pair.

Another thing worth clearing up (if you haven't figured it out already) is that spread betting is not a market on its own. Many people seem to think that there is a whole new set of rules that need to be learnt when trading using spread betting. There really isn't. Spread betting is not a more complicated product, unlike products such as options or covered warrants where factors such as volatility, time to expiry and strike prices need to be taken into account.

Spread betting is transparent

A reason for the appeal of spread betting is the *transparency* of the prices. Spread betting is simply the mechanism you use to carry out your trade. This transparency has increased vastly in recent years with the introduction of the *daily* spread bet contract [more on this later]. All of the analysis is applied to the underlying market, because all the spread bet price does ultimately is mirror this.

Key point:

All markets have a two way price – the bid and the offer. Spread bet companies do not forecast where a market is going to go, the spread bet price moves up and down as the underlying market moves.

Time frames for trading

This is a very important topic (and one we will cover in more detail when we look at trading strategies) but it is worth a quick mention right here at the beginning.

Probably the most common mistaken assumption about spread betting – and trading in general – is that it has to be very short term. You have to be in front of your screen before eight in the morning when UK markets swing into action, right through till nine at night when the US shuts up shop.

Let's take this one step further.

Forex is a true 24-hour market so surely you should be in front of your screen in the wee small hours, coffee in hand, just keeping an eye on what is happening in the Asian session?

And isn't trading all about clicking "buy" and "sell" all day long, jumping in and out for a few points profit (hopefully) every time?

You don't need to be stuck to your screen

Don't get me wrong, if I ran a spread betting company I would love it if all the clients traded this way, because every time they trade they are paying spread, which is a little bit of profit for me – thanks very much. But the reality is for most of us as clients we don't have the time to sit there and watch every tiny change in price around the clock. I am sure there are people out there who make money from scalping the markets in this way, but it is not the only way.

Personally, I think markets are easier (I would never say *easy*) to predict over the medium term (days/weeks/months) than over the very short term (seconds and minutes).

I think one of the things that puts people off trading is that they think they do not have the time. But you do not need to be tied to a screen, watching prices for all your waking hours.

Let's look at an example from the real world that we should all be familiar with.

Say you thought the UK stock market index, the FTSE 100, was going to rise from 4500 to 5000 over the next two weeks. You decide to buy. Now, if you sit there and watch it around the clock for the next two weeks is it going to go up any faster? Of course it isn't. So by using tools, such as stop losses, you can place your trade, place an order to manage your risk and then get on with something far more productive away from the screen.

The point I am making here is that trading does not have to be just about day trading. Trading this way is a baptism of fire for anyone who is new to the markets. And it is something that many who have been involved with markets for some time (again, me included) have very little interest in.

We will be examining some slightly more relaxed approaches to trading in the strategies part of this book.

Key point:

Spread betting, and trading in general, does not necessarily have to be about the very short term. You do not have to be glued to the markets for hours at a time to trade forex.

Trading in terms of pounds per point

As I said earlier, spread betting just reflects what is going on in the underlying markets – whether that is a share price, a stock market index, a commodity or a currency pair.

The main thing you need to get your head around when it comes to understanding how spread betting works (and this should hopefully only take you a few minutes to grasp) is that you trade in terms of *pounds per point*. This is the same across all markets that you trade using spread betting, it is particularly relevant when trading forex, as changes in price in these markets are traditionally quoted in points (or pips) anyway.

So the first thing to understand is: what is a one point movement in the market in question?

> Some charting packages – including the one I use – do not show the decimal place when showing forex. While this can take some getting used to because, for example, 1.6100 gets represented as 16,100, it is one of those things that you do not notice after a short while.

Again, let's start with an example we are all hopefully familiar with, the FTSE 100 index. If this goes from 4000 to 4100, that is a one hundred point move. So going back to spread betting, if you had bought, say, £2 per point at 4000 then sold when the FTSE hit 4100, then the market has moved 100 points in your favour, you have traded £2 per point, therefore it represents a £200 profit on this particular trade.

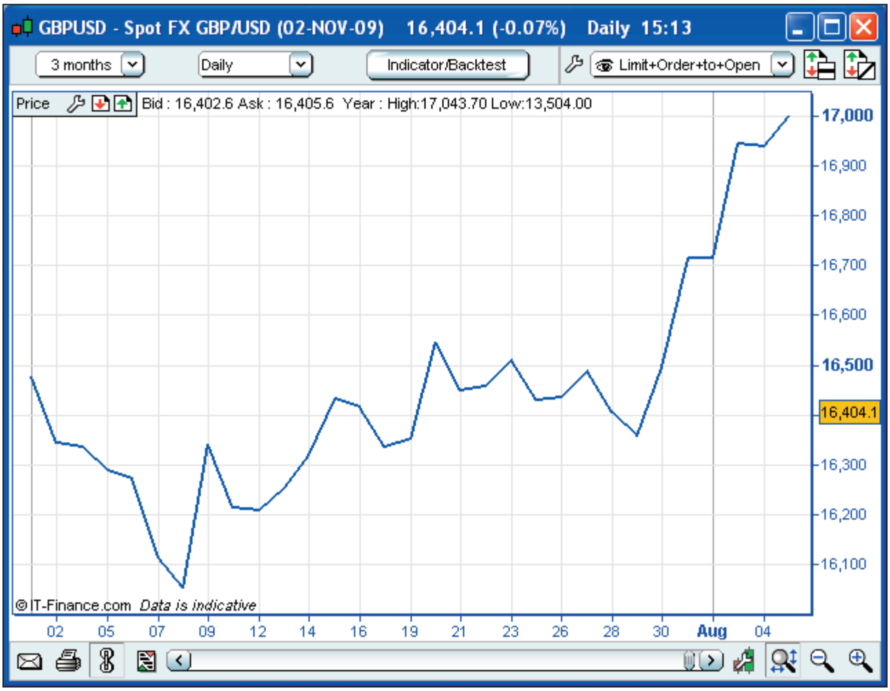
When it comes to forex markets, the way the currency pair is quoted can vary slightly from one spread bet company to the next, but one-point moves in popular currency pairs are as follows.

GBP/USD (British pound/US dollar)

Traditionally quoted to four decimal places, a GBP/USD price would look something like this: 1.6100. This example price means a pound is worth one dollar and 61 cents. If the market were to move up by one point the quote would then be 1.6101.

The following chart shows July to early August 2009 for GBP/USD where the price moved from 1.6050 on 8 July to as high as 1.7000 by 5 August. This is a 950 point move (1.7000 – 1.6050).

Figure 1.2: GBP/USD

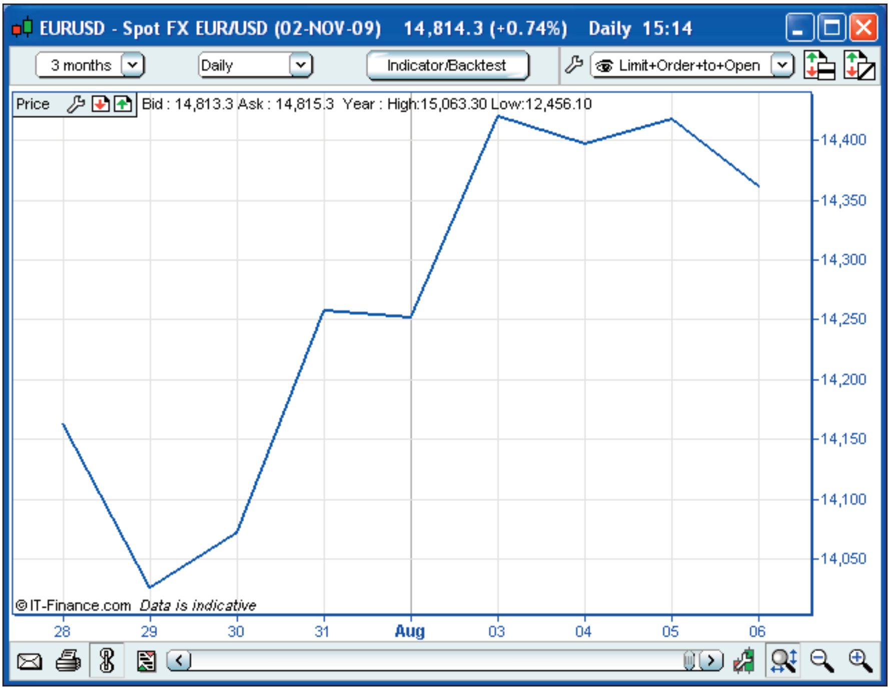


EUR/USD (euro/US dollar)

Like GBP/USD, this pair is also traditionally quoted to four decimal places, so a typical price looks something like this: 1.4100. Again, if EUR/USD moves down, for example, to 1.4000 then that is a 100 point move.

The following chart shows EUR/USD from the end of July 2009 to the first week of August. It has moved from 1.4000 on 29 July to 1.4430 by 5 August – a move of 430 points.

Figure 1.3: EUR/USD

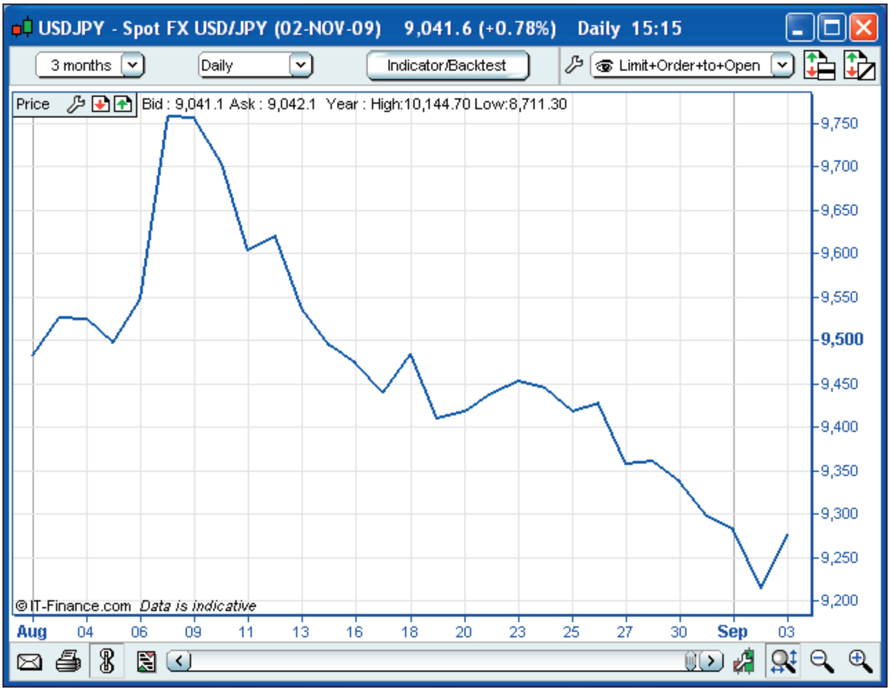


USD/JPY (US dollar/Japanese yen)

The market convention for this one is to quote it to two decimal places, for example, 95.00. If USD/JPY were to rise by 50 points, the quote would become 95.50.

The following chart shows USD/JPY from August to early September 2009. USD/JPY peaks at 97.60 on 7 August and finishes up at 92.35 at the end of the chart, 3 September. This chart therefore represents a fall of 525 points.

Figure 1.4: USD/JPY



If you are not sure what a one point move is for the particular currency pair you are following, do not be afraid to contact your spread bet company. It is a source of constant bafflement to me how some people will let confusion over little things like this put them off placing a trade – when the answer can be explained in a matter of seconds. There are more important things to worry about when trading!

We will be coming back to this idea of point movements time and again when we get into the fundamentals of how forex works and look at some trading strategies.

Key point:

When spread betting you are trading in terms of pounds per point, which makes it easier to calculate your potential risk and profit on a trade, and size your trade accordingly.

The different contracts available and margin trading

If we wind the clock back ten years, the only spread betting contracts available were similar to the futures markets. So if you wanted to trade GBP/USD and it was currently May, you could have a choice of trading a GBP/USD June contract, a September contract and maybe even a December contract.

This would be the first point of confusion: did this mean you were locked into your trade until the expiry of the contract, regardless of what happens? No – you can trade out whenever you want to (assuming the market is open of course). If you bought GBP/USD September and changed your mind ten seconds later, you could sell out to close your position.

The second confusing thing about the various contracts available would be the prices quoted. They would all be slightly different, and would also normally be different from where GBP/USD was trading in the cash market. Many new to this form of trading would take this as meaning that the spread betting company was skewing its price to reflect where it thought GBP/USD was going to be trading at some point in the future. This is not the case – as I mentioned earlier, spread betting companies are not in the business of forecasting where a market is going.

So why the difference in price for these different contracts?

Margin trading

With spread betting, you are trading on margin. This means you do not need to tie up the full value of your trade – just a portion of your overall total trade value. In effect, a smaller sum of money controls a much bigger financial position.

An example is the quickest way to explain this. We'll look at how it works for shares first and then currencies.

Forgetting about spread betting for a moment, let's say you wanted to buy 1000 shares of, say, BT which was currently trading at 100p. If you were going to buy actual shares then usually you would need the £1000 in your stock broking account, plus of course a little bit more to cover stamp duty and commission.

Using spread betting, you could have the same exposure to BT Group by buying BT at £10 per point. Your total position is £1000 (£10 per point x 100p entry price). But you do not need to have £1000 in your account to do this trade. With spread betting, and other products that trade on margin, you only need to have the initial margin deposit as specified by your spread betting company (and of course any additional funds to cover any potential running losses). So if we assume that the initial margin requirement for BT Group is 10%, then in this example all we would tie up on our account is £100. That £100 controls the £1000 overall position. This is the whole principle of trading on margin – a small sum of money controls a much bigger overall position.

Margin trading the forex markets

When it comes to trading forex, most spread bet companies don't express that margin required as a percentage of your overall exposure, but as a multiple of the amount you are buying or selling per point. Let's assume your spread betting company's margin requirement for GBP/USD is quoted as "300 times stake". This means that if you buy £1 per point when GBP/USD is trading at, for example, 1.6000, then the margin required for this trade is £300 (£1 per point x 300 deposit requirement).

If you are interested in how big your actual position is, when trading £1 per point at 1.6000, this is easily calculated. The "per point" part of the trade refers to the fourth decimal place of the GBP/USD price. So when calculating the overall size of the trade, we forget the decimal place. The size of your overall position is £1 x 16000 (entry point) which translates into a £16,000 position in GBP/USD. So, once again, a small amount of money is controlling a much bigger financial position; in this example a £300 initial deposit has allowed us to open a £16,000 trade on GBP/USD.

This is how it works for all markets in spread betting, with varying deposit amounts from one market to another, set by the spread betting company and normally dependant on factors such as volatility for that market and the liquidity available.

You can see that by trading on margin, the spread betting company is effectively letting us borrow a significant part of the value of the trade. But as we all know, there is no such thing as free money and this is why you will see the slightly different values of the future contracts for the various future expiries. Because we are, in effect, borrowing money from the spread betting company to trade, there is an interest charge built into the price, reflecting the cost of carry for that trade into the future. Apart from the spread, which is of course present in all markets, this finance charge is the only compulsory cost of spread betting.

The daily contract

What really changed spread betting over recent years was the introduction of the daily spread bet contract. This is a spread bet that *technically* expires at the end of every day, so there is no cost of financing built into the price. This is always the contract that more closely reflects the prevailing price in the underlying market (the *cash price,* or *spot price* as it is often referred to, particularly in the forex market).

Although strictly speaking these daily contracts expire at the end of the day, in practice the majority of clients choose to have them *rolled over* into the next day (assuming their trade is still open, i.e. it hasn't been stopped out or manually closed by the client).

It is when the trade is rolled over that a financing charge is made. This can be a source of confusion to the new spread betting client, so let's look at how it works.

Spread betting companies usually express the financing cost as LIBOR, plus a percentage. LIBOR stands for London Inter Bank Offered Rate and is a widely used financial markets interest rate. If we assume your spread betting company charges LIBOR plus 2.5% for financing, and LIBOR is currently 3%, then the cost of financing is 5.5% (3% LIBOR + 2.5% the additional cost). This is an *annual* charge, so the pro-rata daily amount using these numbers would be 0.015% (5.5% / 365).

Let's look at how that works in practice for a couple of small trades on daily contracts.

FTSE 100 example

In the first example let's use another popular market, the FTSE 100. Our trader buys £2 per point when the FTSE is at 4000, trading the daily contract. The total exposure, or size of the position, is £8000 (£2 per point x 4000 entry point). The trade is still open at the end of the day and the market is still at 4000. The spread betting company rolls the position over into the next day, applying the financing charge. Based on the numbers in the previous paragraph, a charge of 0.015% will be applied, which comes out at £1.20 (£8000 total position size x 0.015%).

GBP/USD example

Let's now apply it to our forex trade on GBP/USD. In the earlier example, we bought £1 per point of GBP/USD at 1.6000. Assuming a daily contract was used, the trade gets rolled into the next day so financing applies. This would be £2.40 (£16,000 total position size x 0.015%). Any profit or loss achieved on that day gets realised and credited or debited into the client's account.

So in both these examples there would be a financing charge for every day the trade was left running if the trade was done using a daily contract.

Financing charges not a significant cost

While the above numbers are for illustration purposes only, and it can vary slightly from one company to another how financing gets calculated and applied, it can be seen that in the great scheme of things, while it is a cost to trading, it is not a significant one. The charges are equivalent, with interest rates so low in 2009, to barely a couple of points or so every day – this really is a drop in the ocean when we are dealing with markets that regularly move in excess of 100 points a day.

Of course, financing is still a real cost to trading on margin so, although it may be negligible on a day-to-day basis for short-term traders, it could end up being a sizeable amount for a long-term trade. This is why products such as spread betting that use margin are particularly suitable for what I would call medium-term trades (two to three months or less). You can, of course, run a trade for as long as you want but you need to bear in mind that even if the market does not move much in that time, there is still the financing aspect to take into account.

At the time of writing this book, interest rates around the world were at record low levels, so this has become an even smaller cost than usual when spread betting. I have seen many people get bogged down in worrying about the financing aspect, but there are bigger things to concern ourselves with when it comes to trading. When you actually start trading, I don't think you will give a second thought to it because we are talking about such small sums in comparison to the typical movements in forex markets.

Key point:

There are usually different contract expiries available when spread betting. Typically, the daily (or rolling) contract price does not include a financing cost – this will be applied separately. Other contracts will usually have the financing cost built into the price. This is why different contracts will have different prices – it is not the spread betting company forecasting a market is going to rise or fall.

Example of a trade

Let's walk though an example of a trade, just to demonstrate how all this ties together.

- We'll stick with **GBP/USD** and a **daily contract**.
- We will assume we have told our spread betting company we want the contract to be **rolled over** at the end of the day (assuming we are still in the trade). With some spread bet companies the default setting for your account is to roll over all contracts automatically. With other companies you need to let them know this is what you want to happen – but usually you only need to tell them once.
- We will assume the **deposit requirement** by the spread betting company is 300 x stake and that our account balance is currently £1000, with no other trades open.

Okay, we're ready to go.

Placing the trade

We bring up the dealing ticket and the price is shown as 1.6000/1.6003. We have decided to buy, and the size we are going to trade is £1 per point. We input the appropriate information on the dealing ticket and click buy. The trade is executed and we buy £1 per point GBP/USD on a daily contract at 1.6003.

We now have £300 of our account tied up against this trade as initial margin. This leaves us £700 available for other trades (although of course we would be well advised to leave some of this spare to cover any potential running losses on this trade).

As the day goes on, GBP/USD edges higher. By the close of the day it is trading at 1.6053/1.6056.

Rollover at close

We have already set up daily contracts to be rolled over via the trading platform.

So what happens now at the close?

The trade will be automatically rolled over into the next day. This is done by effectively closing out the position and opening a new one (this is all done for us automatically by the spread betting company).

As we saw above, the GBP/USD contract is 1.6053 to sell (we bought earlier in the day at 1.6003). So this profit of 50 points is realised – which translates into a £50 profit because we bought £1 per point. This £50 is credited to the balance of our spread betting account.

Because we are rolling the trade over, finance is due. There are assumptions to make here and I am going to assume the financing charge is LIBOR + 2.5%, with LIBOR currently at 3%. So the daily finance cost is around 0.015%. Our exposure at the close is £1 x 16053 = £16,053. So the amount due as finance would be approximately £2.41 (£16,053 position size x 0.0015% financing charge).

> The term "close" is a bit of a misnomer of course as the forex market is a 24-hour one. But spread betting companies need to choose an arbitrary time when the contract expires or rolls over. This can vary from one company to another, but for the purposes of this example we will assume the spread betting company chooses 8 p.m. UK time as its notional close for the forex markets.

This £2.41 finance charge will be applied in a slightly different way depending on which spread betting company we are trading with.

1. One way it will be applied is as a straightforward debit from our account, which we will see on the daily statement. This is usually applied at the time the spread betting company chooses as their 'close' for forex. So, in this example, all of this will happen at 8 p.m. We will then be in the trade at £1 per point from the new level of 1.6053, where the position was rolled over.
2. Alternatively there may not be a debit from the account, but the trade will be opened for the next day at an adjusted level to reflect the financing charge. We know the financing is £2.41 and this trade has been done at £1 per point. So to express the financing in points terms, £2.41/£1 equates to 2.41 points. The position would be closed at 1.6053 and then immediately re-opened at 1.6055.41 (1.6053+2.41).

However your spread betting company does it, the net result is still the same – financing has been charged and the trade is still open.

Of course, don't forget that the trade can be closed out whenever desired (assuming the market is open). In this example all we would need to do is to sell £1 per point to realise our profit or loss and close the position. We could get out of this trade ten seconds after we got in if required – I used an example of a position running overnight to highlight how rolling over a daily contract works.

It is a surprisingly long-winded process to explain!

In practice, placing the trade is a matter of seconds and the rollovers will happen automatically. But I think it was worth walking through it to explain the process because I have found many new spread bet clients will end up tying their brain in knots worrying about how things like margin and rollovers work, and the costs of finance, when there are much more important things to be exerting our mental energy on.

Spread betting summary

Let's summarise what we have covered so far:

1. Spread betting is a very efficient way of trading a wide range of financial markets – and is particularly well suited to forex.

2. With spread betting you trade in terms of pounds per point. A concept we will come back to time and again when looking at strategies.

3. Apart from the bid/offer spread (which is present in all markets) the only other charges for spread betting, because you are trading on margin, are the financing costs associated with this. This applies to both running a daily spread bet contract overnight, or trading on one of the quarterly contracts. With daily contracts, this financing charge is applied every day the trade is open. With quarterly contracts the costs of financing for the trade is reflected in the price quoted.

   Importantly, while the financing aspect is a cost to trading, in the great scheme of things it is a negligible one for most short to medium term trades as you will have experienced when you have placed your first few trades.

As this book is about spread betting forex, it is time to look at this particular financial market in more detail.