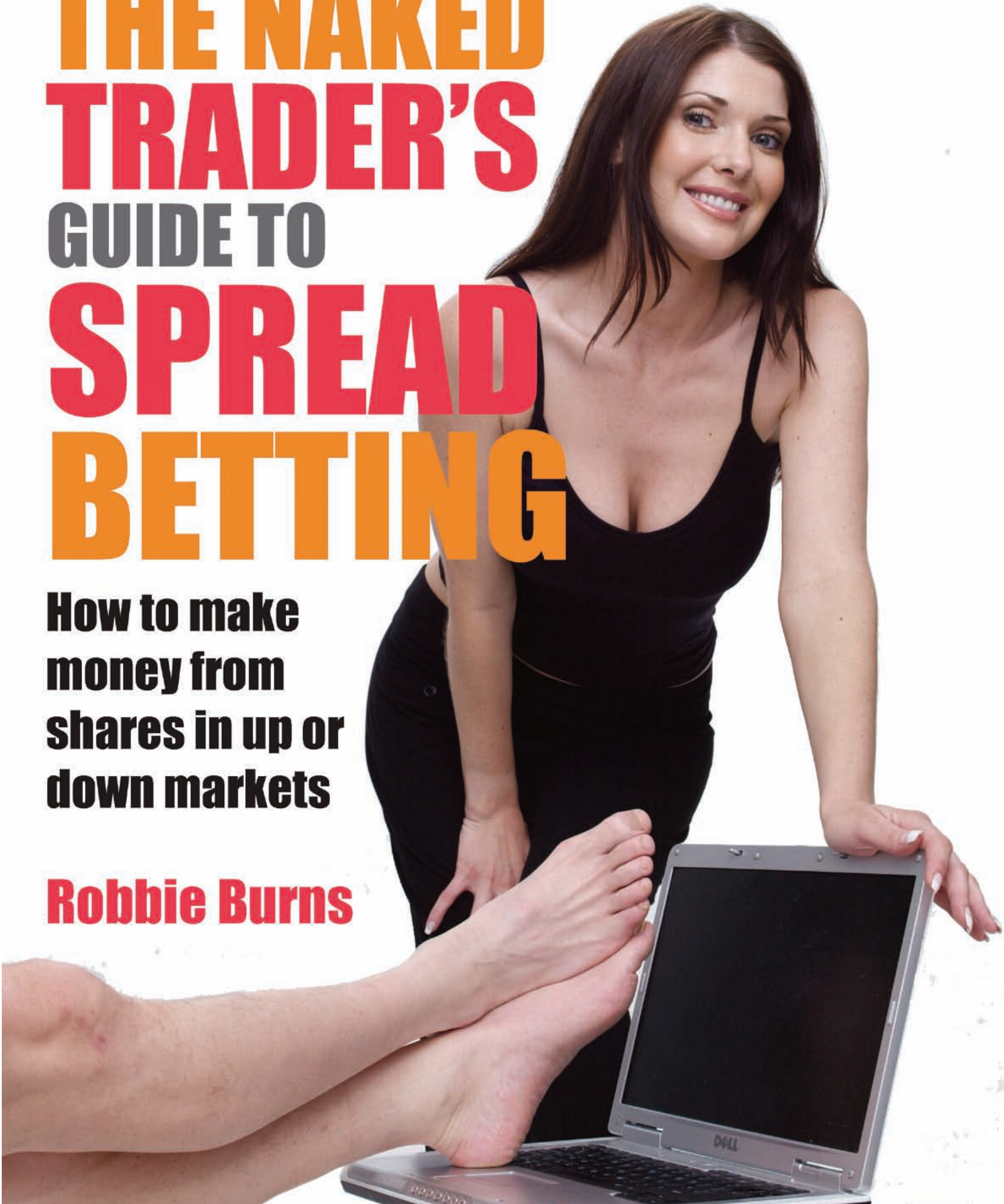
From the author of the bestselling *The Naked Trader*

THE NAKED TRADER'S GUIDE TO SPREAD BETTING

How to make money from shares in up or down markets

Robbie Burns



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The Naked Trader's Guide to Spread Betting

Also by Robbie Burns

The Naked Trader:
How anyone can make money trading shares (2nd edition)

www.nakedtrader.co.uk

The Naked Trader's Guide to Spread Betting

How to make money from shares in up or down markets

by Robbie Burns

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First published in Great Britain in 2010

Author photos by Jim Marks
Cartoons by Peter Dredge and Roy Mitchell
Charts copyright © ShareScope
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Set in Plantin, Clarendon and Eurostile

ISBN: 978-1-906659-23-3

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

Printed and bound in the UK by CPI Antony Rowe, Chippenham.

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About the Author

After starting work as a reporter and editor for various local newspapers, Robbie worked as editor of ITV and Channel 4's teletext services. He also wrote ITV's daily teletext soap opera 'Park Avenue' for 5 years. He then went on to freelance for various newspapers, including *The Independent* and *The Sun*, and also helped set up a financial news service for CNN. In 1997 he became editor of BSkyB's teletext services and set up their shares and finance service. While there he also set up various entertainment phone lines in conjunction with BSkyB, including a *Buffy the Vampire Slayer* phone line.

He left full-time work in 2001 to trade and run his own businesses, which included a café in London that he later sold, doubling his money on the initial purchase.

While at BSkyB, Robbie broadcast a diary of his share trades, which became hugely popular. He transferred the diary to his website, www.nakedtrader.co.uk, which became one of the most-read financial websites in the UK. Between 2002 and 2005 he wrote a column for *The Sunday Times*, 'My DIY Pension', featuring share buys and sells made for his pension fund, which he runs himself in a SIPP (self-invested personal pension). As chronicled in these articles, he managed to double the money in his pension fund from £40,000 to £80,000 in less than three years. By 2009 he had doubled it again, reaching £165,000. Robbie now writes a weekly column for the leading financial website, ADVFN.com.

Robbie has made a tax-free profit of nearly £800,000 since 1999, as chronicled in his twice-weekly website updates, and has made a profit every year, even during the market downturns of 2000-2002 and 2008-2009.

He lives in a riverside apartment on the Thames in London with his wife, Elizabeth, son Christopher and cat Domino. His hobbies include chess, running, swimming, horse racing, listening to rubbish dance music and trading shares from his bedroom, erm … naked. After all, he wouldn't be seen dead in a thong … (though he has been seen in Speedos).

Welcome to the World of Spread Betting

W*hy did I write this book?* For the money? You've gotta be kidding. If you want to get rich, don't write finance books.

I get a lot of emails asking about spread betting, so I took a look at the books that were available and there seemed to be a gap in the market for a beginner's book that wasn't either too complicated or too dull.

Funnily enough, in order to succeed at spread betting you don't actually *have* to be confused and bored all the time! So I decided to write that missing book – a helpful and complete guide that you can dip into and out of, and enjoy without having to scratch your head every other page.

Another reason for writing it is that I believe many new spread bettors are not fully aware of the risks involved and how careful you have to be. This book contains some horror stories – but I hope, because you are reading it, that you won't end up as another one of those stories. It's a fact that more people lose than win at spread betting. A lot more. This book is designed to get you on the right foot and make you one of the few winners.

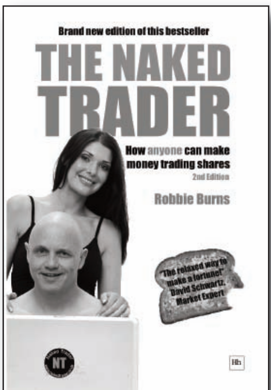
And so I trust with this book you'll not have to give up on it after a few pages because it's too hard to read and full of jargon, and that it'll put you on the path to some happy and stress-free spread betting adventures. A decent, easy-read guide to spread betting has been needed for some time: one written by someone who has actually spread bet for a few years and can cut through all the nonsense, rather than a journalist wanting to make a few extra quid. I have done all I can to make this that book.

It's All About Me – and You

The Naked Trader and spread betting

This book is designed to be read with my other book, *The Naked Trader*. If you're in a bookshop right now, you should be able to find a copy nearby!

The reason for this is not because I want to sell two books instead of one* (you cynic!) but because *The Naked Trader* deals with all aspects of share trading from the beginning, such as how to get share quotes, understand company statements and valuations, my strategies, etc – all of which can be used in your spread betting. This book builds on, rather than repeats, such fundamental advice (which is better value when you think about it).



So this book expects you to have read *The Naked Trader* first! It assumes that you have probably already done some kind of investing or trading in shares, and you know how to buy a share online, but you now want to go further and start spread betting.

Who this book is for

This book is a beginner's guide to spread betting – how to do it, and some ideas and techniques on how to make money from doing it well (or at least on how to not lose too much). Indeed, we will look a lot at how you have to be careful – there are many pitfalls with spread betting.

It's especially for you if you've already traded shares from time to time in the normal way, but have heard about spread betting and are wondering whether it's something you could (or should) be doing. It isn't for you if you've been doing it for years and know all about it. Nor

* Believe me, selling you two instead of one doesn't even get me a cup of coffee at Starbucks.

is it for you if you're looking for technical analysis or strategies involving charts, lines and divergences – there are plenty of other books for you on those topics!

So the book is for you at the *start* of your spread betting journey. If you're sitting there already happily spread betting away, then you probably need to read a more advanced book. But if you've heard about spread betting, thought about it but got too scared to do it, then this book may help. It'll also help if you're a straightforward investor fed up with losing money from markets tanking: here you'll learn how to make money easily from shares going *down*.

Lastly, maybe you've never looked at the markets before, but are intrigued about doing it via spread betting. Well, certainly as part of a broader investing strategy, I think spread betting can be good. And this book will help you, too.

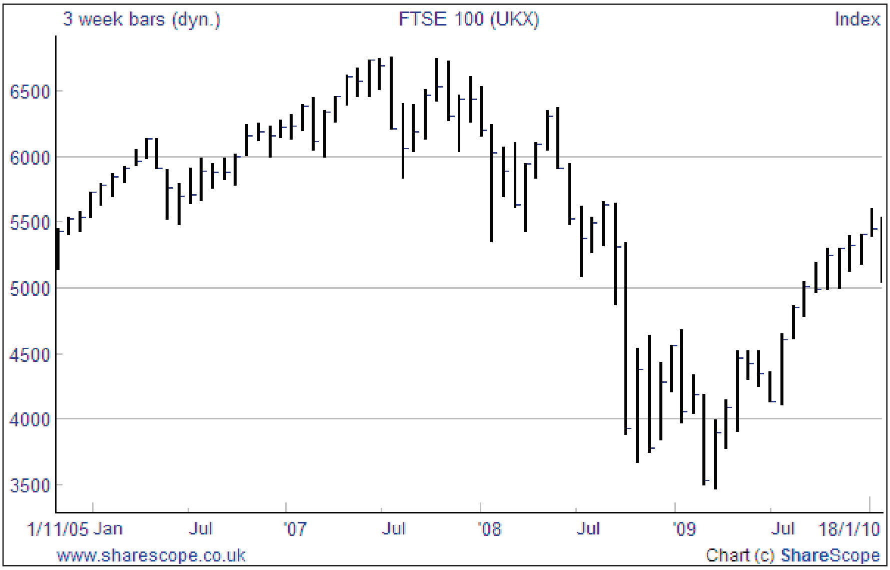
What this book ISN'T about is *very* short-term trading, or how to trade volatile instruments like oil and commodities. For that type of thing you need to look for a different book.

Spread betting

I've given up mentioning spread betting at parties or social gatherings. The moment you say 'spread betting' you've lost the person you're talking to. Their eyes glaze over and immediately you're marked as some kind of boring weirdo. Now I just pretend I own a boarding home for cats, which always seems more fascinating to people I meet. (Though I did have a terrible evening talking to someone who *really did* want to run a cats' home. I had to spend the whole evening inventing stories about it.)

Yet little do they know how fantastic spread betting can be. Far from being boring, it's one of the most exciting tools out there for investors and traders. In fact, it's actually a tool with so many advantages that I think it's crazy that people either ignore it, or, even worse, think it's too complicated (it's actually extremely simple).

For example, without spread betting it would have been hard to make money out of the big FTSE fall in 2008. As you can see from the chart, the FTSE fell for a long time and some spread bet shorts in this year helped me to make some money.



Epic FTSE fall

So, really, that is what this book is all about: explaining how simple it all is, and helping you avoid the pitfalls that are involved.

All about me…

Yes, my name really is Robbie Burns. No, not Scottish. No good at poetry either. Come to think of it, not much good at anything except eating chocolate.

Let me tell you a bit about me. After all, there really is nothing like talking about yourself, is there?

You might think as a trader that I'm some kind of banker (I said "banker"!) in a pinstriped suit and tie… or maybe some kind of wide boy… No. Definitely not the suit. You're more likely to find me in a pair of pyjama bottoms and a t-shirt. Just ask the Tesco delivery guy. Or Waitrose if I'm feeling flush.

You might think I'm like one of those posh blokes you see on the telly, giving their financial forecasts. Wrong again. You also might think I know a lot about economics, commodity pricing, the macro economy and the rest of it. Wrong again! My economic knowledge is limited. And for some reason people think I'm a cockney. No!

Maybe I was a maths genius at school … No. Did I get amazing qualifications? No! Was I left a whole pile of money to trade with? Not at all. I never got left a bean.

None of this matters! I can still trade the markets and make money.

I haven't had a job since 2001. Yippee! I've not had to put on a tie, no tedious journey to the same horrible office every day, no office politics, no fear of redundancy.

I'm not especially good at maths. I've got a low concentration threshold (… umm, what was I doing? Oh yes, writing a book), and am a bit impatient. But it doesn't matter; I have still made a fortune from the markets. It does take some common sense and some understanding of your own brain and psychological makeup. Not much else, though.

Spread betting has long been a valuable part of my market armoury, and it especially helped me to make money during the bear markets (down markets) of 2000-2002 and 2008-2009. But the main thing is that over the years I've used it (and other techniques) to make constant money on the market *whether down or up*, as catalogued twice a week at my website www.nakedtrader.co.uk.

I've been spread betting since 2000. Am I that old now? Never mind, with age comes maturity.

The money from spread betting has been very handy, helping me with house deposits and that kind of thing. I'm more likely to actually use the profits from spread betting than the money I've built up in ISAs.

Admittedly I had a lucky start: when I began trading, the markets were booming and, like everyone else, I bought lots of silly internet stocks that were going through the roof. As history now reveals, of course, it was a massive bubble. But exciting days. A stock could be 50p, then announce it had set up an internet site and in seconds it was 150! If it was tipped by the geezers in the *Daily Mirror* at the time, it could double overnight. Its actual quality didn't much matter.

I was also lucky in that I sold all the rubbish tech stocks I had spread bet on near the top.

For example, I spread bet a company called Scoot – can't even remember what it was supposed to do, something to do with mobiles, I think. Bought at 50p and sold at 320. Lovely!

Then came the downturn, and that's when spread betting really came into its own for me, and I used it to bet on shares to go down. The profits from downbets, also known as 'shorts', for some reason were more rewarding than the upbets.

Since then I've used spread betting constantly, together with my normal share trading.

And you know what? Surprisingly, I'm bored of talking about myself now, so…

What about you?

You're not one of those people who buys a financial book, reads a couple of pages, then puts it on the bookshelf thinking one day you might look at it again, are you? Hey, that's fine by me, I still get my half a cup of Starbucks whether you read one page or the whole lot.

But I would hope you're someone who really is set on getting the most out of this experience. Maybe you want to start branching out with your investing; perhaps you want to make some money when markets fall; or maybe you just to want to make some useful money on the side.

Or maybe you want to be able to, one day, like me, use spread betting to help you make a living – and leave that commute behind.

All this is possible! But though it's possible it's not necessarily easy.

Anyone can do it but…

To be a winner you must have discipline and self-will. I believe we all possess the means to do it, but those who start gambling, overtrading or ignore all the warnings I give in this book will fall by the wayside and lose money.

However, the beauty of spread betting, trading or investing is that it's a great leveller, because as long as you have some money you can afford to lose, you can do it. You don't have to be some pinstriped City type.

It doesn't matter whether you consider yourself to be working class, middle class, upper class or even the Queen. You could be a plumber, dentist, fireman, housewife, unemployed, nanny; it doesn't matter a bean. You can make money using spread betting as a key part of an investment armoury.

However … do be warned! While I have little doubt that anyone with the right discipline can make money spread betting, more people lose at it than win. And that's a fact. If you want to make money, you need to understand what you're doing and have a plan. If you don't, you'll lose.

The winners, in my opinion, are winners because they have a plan. The losers either don't have the right temperament for it, overdo it, start gambling, or commit a lot of other mistakes which we'll discuss later in the book.

If you lose consistently at spread betting, you must quickly consider if you are just not suited for it and, if that's the case, give it up. There is little point throwing good money after bad. So now…

Shall we get started?

(I suppose now I've started this book, like in *Mastermind*, I've got to finish it. Sometime this century. The publisher's been waiting long enough.)

So … spread betting, eh?

You little devil! Thinking of giving it a bash by buying this book.

Okay, well, I hope you've come to the right place. Let's get things straight between us right from the start.

I PROMISE:

- to tell you all about spread betting,
- without using fancy words, or jargon,
- and without boring the knickers off you (hopefully).

YOU PROMISE:

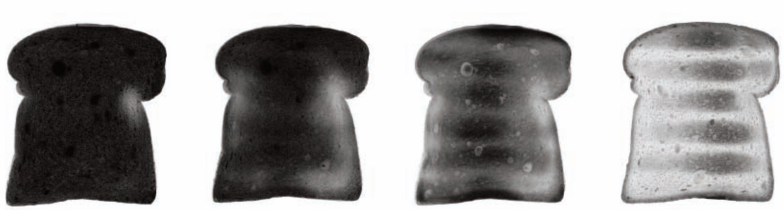
- to try to read the whole thing, and not skip too much,
- not to smear the book with jam or beer. I just won't have it and will be round your house if I find out, and
- not to take the book to bed (it could ruin your love life).

Got that? Right.

Are you sitting comfortably? Then let's begin. (If you're not sitting comfortably there are some rather good creams around – piles of them.)

Robbie
London, 2010

PART I:
LEARNING IT



1. Before We Get to the Detail

The nature of spread betting

There is one thing above all that you must understand before you start spread betting and that is:

> You are not investing by buying real shares in a market. You are BETTING, and you are betting with what, in effect, is a bookmaker!

When you buy or sell anything with a spread betting company YOU DON'T OWN A SINGLE SHARE. You are betting on whether a share price is going to go up or down. And it is so easy. With one click you can be making, or losing, money.

Generally speaking, unlike, say, a normal bookie – which takes your bets on the horses and makes money from you losing – the really good thing about spread betting companies is:

They won't shut you down if you win.

If you start winning a lot on the horses, for example, you'll probably find your account shut down because you are costing the bookie money. But with a financial spread bet, the bookie still makes money off you even if you win a lot! You can win millions and they won't bat an eyelid.

That's because, unlike a normal bookie, it is not necessarily you versus the spread betting firm. The 'bookie' in this case can easily earn money from every trade you make, whether it's a winner or a loser (more on how later) and so the spread-bet firm just wants you to trade.

And best of all – there is no tax to pay!

If you make a mint you can keep it! No sleazy politician can get his or her paws on your winnings. Although, of course, like those irritating ads say, tax laws can change, and it's possible they could tax spread betting in the future. But they don't at the moment, so enjoy.

Spread betting as part of an overall strategy

I do think spread betting should be considered as part of an overall investment strategy, so think twice about only spread betting and nothing else. It should, I think, be seen as an add-on to other investments or trading. For example, if, like me, you have a decent share portfolio but the market goes down for a couple of weeks, you could use spread betting to make money from the short-term downside while keeping your portfolio intact.

> Think of spread betting as a starter, or very tasty side dish, but not necessarily the main course.

So what have we got so far then – have you been paying attention? Just a reminder:

- you are placing bets with the equivalent of a bookie,
- you don't own the shares you bought or sold, and
- you can make as much as you like tax-free.

Before We Go Any Further: a Warning

Are you the right sort of person to spread bet?

Without wanting to sound old fartish about this… [You old fart! – Ed] Remember I just said the spread firms would like you to trade a lot because then they make more money? Good. Well, of course, most spread betting sites are geared to this, and therefore designed to be addictive. There are lots of lovely flashing numbers and different bets all inviting you to come on in and play.

Come on, they shout, don't be an old fart like Robbie. Get stuck in and win!

But you should be really, really cagey about all these promises and invitations. Because spread betting can be addictive.

> Seriously, if you have already lost money playing casino sites, and you constantly lose money on the horses, and think you may already have a gambling problem, *steer well clear.*

It *is* very exciting watching the profits mount up! But you can lose a lot, and really quickly too. Don't just try spread betting because you tried everything else and lost. You'll lose at this too. And the problem here is, if you have any kind of gambling problem deep down inside you, spread betting will bring it out. And quickly. If after a couple of weeks you suddenly realise you made 50 trades, and are losing money – STOP!

Think carefully – have you become a gambler, and do you have a gambling problem? If you suspect you have, know deep down that you have, or possibly *think* that you might have, the wisest thing is to stop. Completely.

I'm not saying stop just because you started losing: it is possible to start with a few losses but then go into profit. I'm saying stop if you feel there is any kind of gambling problem developing. In the crash of 2008 a lot of people lost a lot of money spread betting, and a lot of those were gamblers.

If you do get into any sort of gambling problems with spread betting, or you feel out of control with it, contact Gamblers Anonymous (just Google it). Also take a look at www.gambleaware.co.uk.

Can you afford it?

The message is simple: if you can't afford to spread bet, then don't. If, for example, you fancy putting in a grand but can't afford to lose it – DON'T!!!!! [Robbie, easy on the exclamation marks, ink costs money. – Ed]

Only spread bet with money you really can afford to lose. Because, as I just mentioned, people in the past have lost *lots* spread betting, including their houses. Spread betting debts are enforceable by law. So think carefully before opening an account.

Okay, preaching over (but I do worry about people).

* * *

Now, before London cab drivers can get a licence they need The Knowledge. Without The Knowledge they are likely to get lost and make a tit of themselves. Same with spread betting – if you don't have the knowledge you're likely to make a tit of yourself. So the following few sections cover the knowledge you will need to start spread betting.

2. The Knowledge: I

Spread Betting Compared to Normal Share Dealing

I'm assuming you have bought a share before, either on the phone or more likely online using one of the many execution-only brokers out there. There are many small differences of detail between trading in shares and spread betting, but here are the three main big differences:

1. There is no market

When you trade shares you deal through a stockbroker, who acts as an intermediary to pass your order through to the market (where the market is comprised of other buyers and sellers and market makers). When you spread bet, you deal directly with a spread betting firm – there is no market and the spread betting firm is acting as a principal not as an intermediary. This is important for three reasons:

1. Because the trade does not have to be passed through to a market, orders can be dealt very quickly.
2. You have to take the price made by the spread betting firm, though of course you can shop around between the firms.
3. Because the spread betting firm is acting as a principal you are at risk if the spread betting firm gets into trouble (the risk is very small, but it is still there).

2. Trading on margin

If you buy £5000 of shares and the share price then falls 20% you lose £1000. This is never pleasant, but it is unlikely to be terminal. But if you put up £5000 for a spread bet and the price falls 20% then you could lose £6600 – perhaps more.

The reason is that when you spread bet you are trading on margin, where you only need to put up a fraction of the value of the trade in actual cash. This gives you leverage – which can be great if the market goes your way, and nasty if it doesn't (similar to buying a house with a very big mortgage).

So, the risk associated with spread betting is far greater than when trading shares. And because of this, you have to learn different techniques when spread betting to control that risk. Techniques such as using stop orders. I'll be talking a lot about this later in the book.

3. Shorting

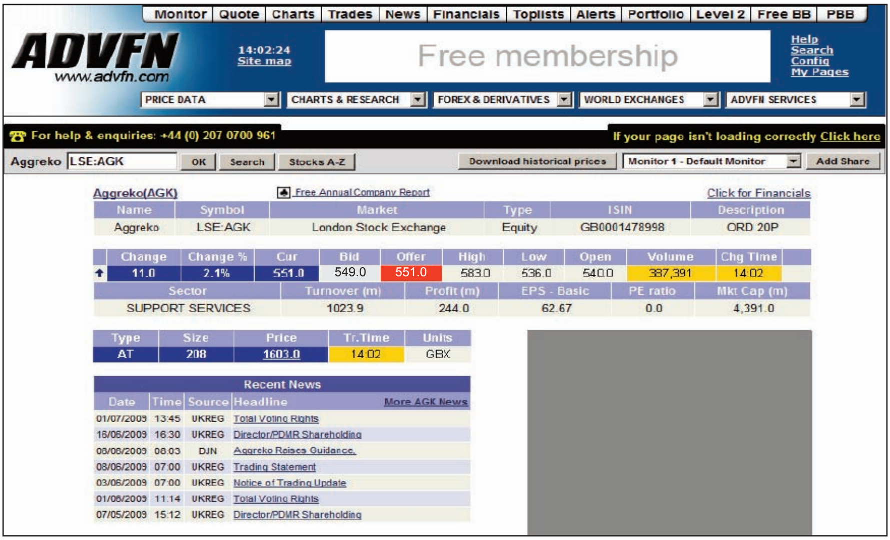
The third big difference with share trading is that with spread betting you can easily short shares – in other words make money when shares fall. As a trader if you don't short shares occasionally (i.e. you always just go long), this is like fighting Mike Tyson with one arm tied behind your back. (Well, naturally I could take on Mike with just one arm – with my patented kick-in-the-balls-and-run-like-hell technique – but I'm assuming that most people would need two arms.)

So, let's get stuck in. First up, what are 'prices' in the spread betting world…?

Spread Betting Prices

Every company listed on the market has a share price. (I know you knew that, but I'm taking this right from the beginning. Don't start heckling me yet.) And you will know that there is a BUY price and a SELL price. Let's take a quote of a share at random – say, Aggreko (AGK).

You can see the real-time price on any number of websites. The data here is from www.advfn.com and shows us, amongst other things, that you can SELL at 549 and you can BUY at 551. This is shown by the Bid and Offer columns.



ADVFN screen showing Aggreko real-time price data

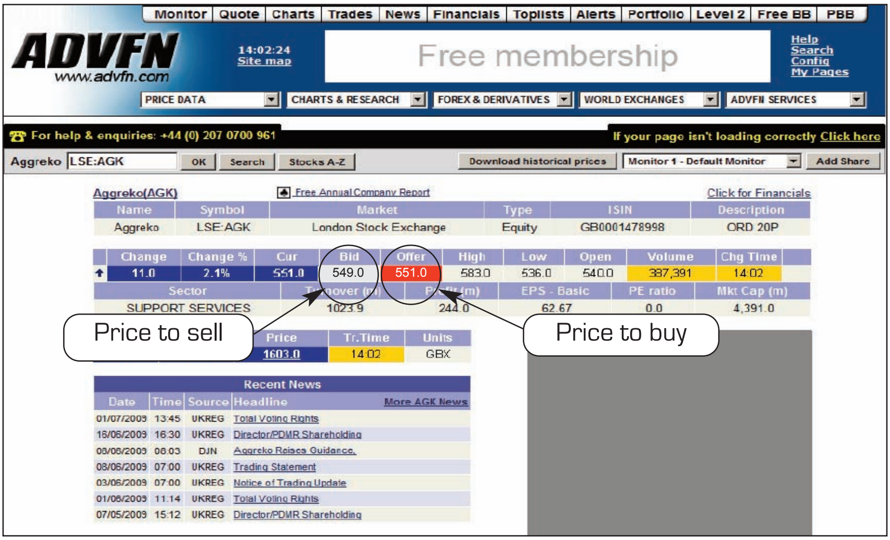
So if you want to buy Aggreko at this moment you would have to pay 551; if you wanted to sell it, it'd go for 549. Okay? Good. (Not okay? Then stop here till you've got it. If you can't get this bit, sell this book on eBay!)

The gap between the sell price and the buy price is called *the spread*. And that's why it's called *spread betting*! The spread betting firm makes money on the spread it charges you – the difference between the buy and sell price (the jargon for this is 'bid' and 'offer'). For example, if you buy Aggreko at 551, but then change your mind and decide to sell it immediately you will sell at 549; you lose 2 points in the trade – which is the profit made by the spread betting firm.

Let's now look at that in more depth.

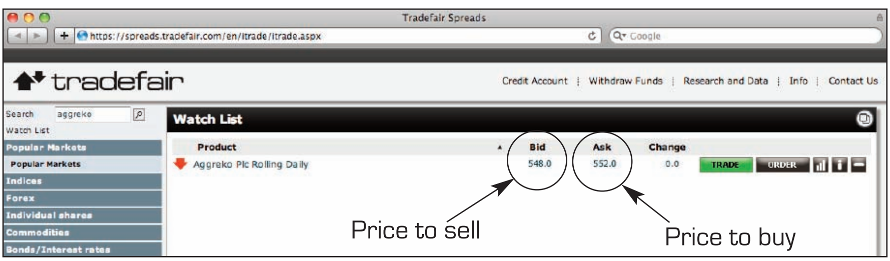
Example

Aggreko's price is 549 to sell and 551 to buy. If you are looking at a real-time live share price, that is the *current market price*. So if you were to buy the share in the normal way it would cost you 551.



ADVFN price, buy and sell prices highlighted by arrows

Now let's see the price the spread betting firm is offering. In this instance, Tradefair:



Tradefair screen, with rolling daily buy and sell prices

Product	Bid	Ask
Aggreko rolling daily	548	552

(Remember that *bid* and *ask* is just jargon for sell and buy.)

With the spread firm, you can see that the buy ('ask') and sell ('bid') prices are different from those offered in the share market – the gap between the spread betting prices is wider. If you want to buy, it will cost you 552p instead of 551p. And when you come to sell it again, you will be charged extra (wide) spread. This teeny little bit extra, going into and coming out of a stock, is a spread firm's constant source of profit.

So, the question is: why would you want to pay extra to 'buy' shares via spread betting, and then receive less when you sell, than with a comparable trade in the share market?

Good question!

The answer is because spread betting offers a number of attractions that outweigh those small extra wide spead costs, including:

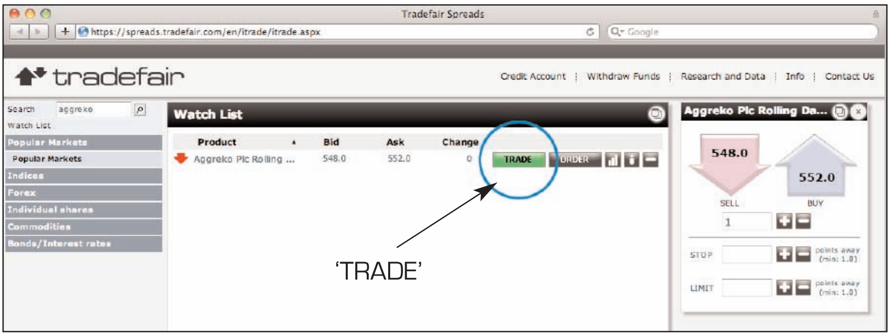
- no commission
- no sales tax paid on purchases
- no capital gains tax
- the ability to short.

Placing a Spread Bet

Let's look now at placing a spread bet.

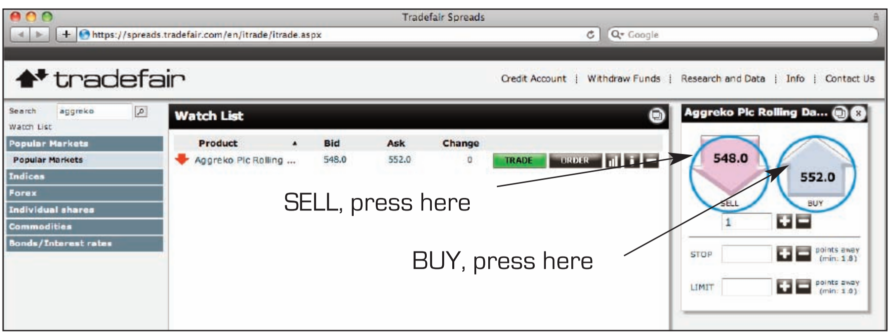
Buy or sell?

Take a look at Aggreko on Tradefair again. Press 'TRADE' next to, let's say, rolling daily.



Tradefair screen, 'TRADE' button on Aggreko rolling daily

Now you can see sell (arrow down) at a price of 548, and buy (arrow up) at 552:



Tradefair screen, up/buy arrow and sell/down arrow

To buy it, you just press the up arrow; and to sell, you press the down one.

Trade size

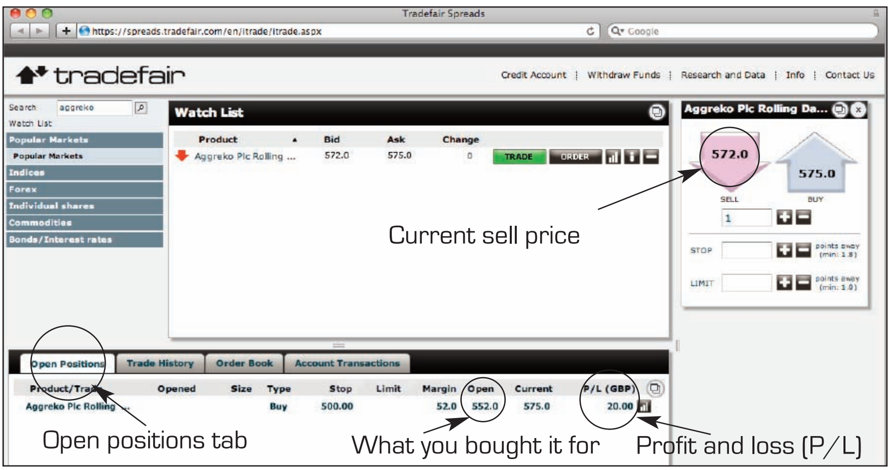
But *before* that you also need to type in the amount you want to buy or sell in pounds per point (I will cover that a bit more in a mo). Once you've put in the amount and pressed buy or sell, a confirmation message will come up. Say you want a quid a point, tap in 1, then press the up arrow buy price and it's done. (You make a pound for every point Aggreko goes up.)

The confirmation message will say something like:

" *Bought £1 Aggreko at 552.* "

Then you're done. You've bought (or sold) and the next decision to make is when to sell your position and take a profit or loss. Which you could do right away if you wanted to, because your bet is now in your account's 'Open Positions' list.

However, let's pretend it's a week later and Aggreko moved up 20p.



Tradefair screen, open position, Aggreko now 20p higher

The Aggreko price is now 572-575. You are up 20 points at the new sell price (of 572). You sell and have made a £20 profit –

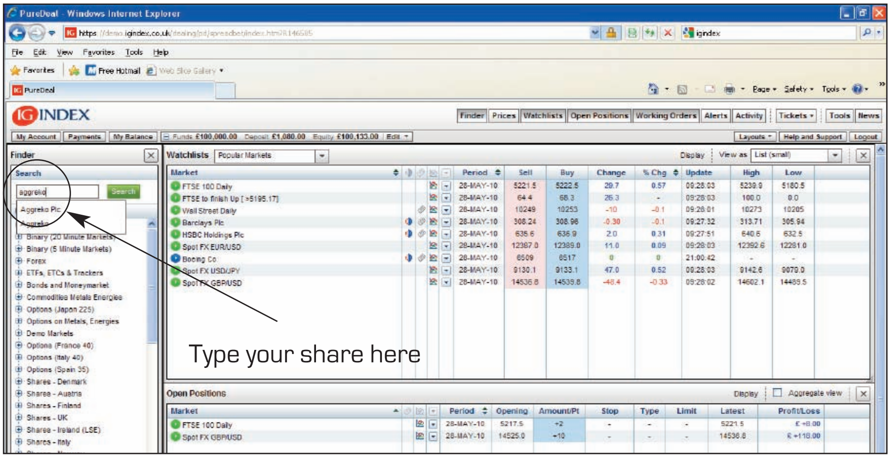
20 points x £1 = £20 profit

You can see this on the screen as your current profit or loss is always shown.

See the 'Trade' button again? Just press that, and then put in the exact opposite order to your original bet in order to close your position. (In this example, that would be *selling* at £1 a point.) The current profit or loss is then taken, and in this case your £20 is now banked!

Most spread-bet firms operate in a similar way, though some have specific 'Close' buttons. Always check you're certain of how to close out before opening a bet, to avoid needless panic or mistakes!

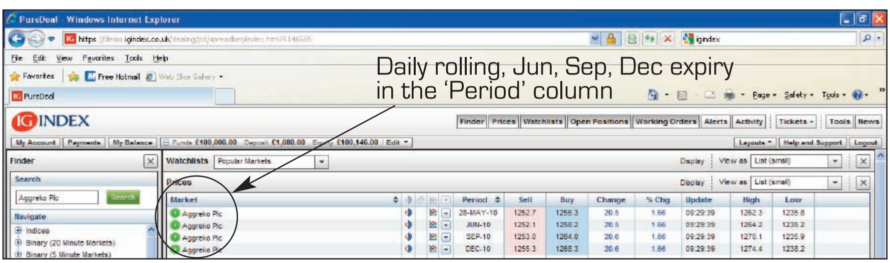
Let's take a look at an IG Index screen.



Standard initial IG screen

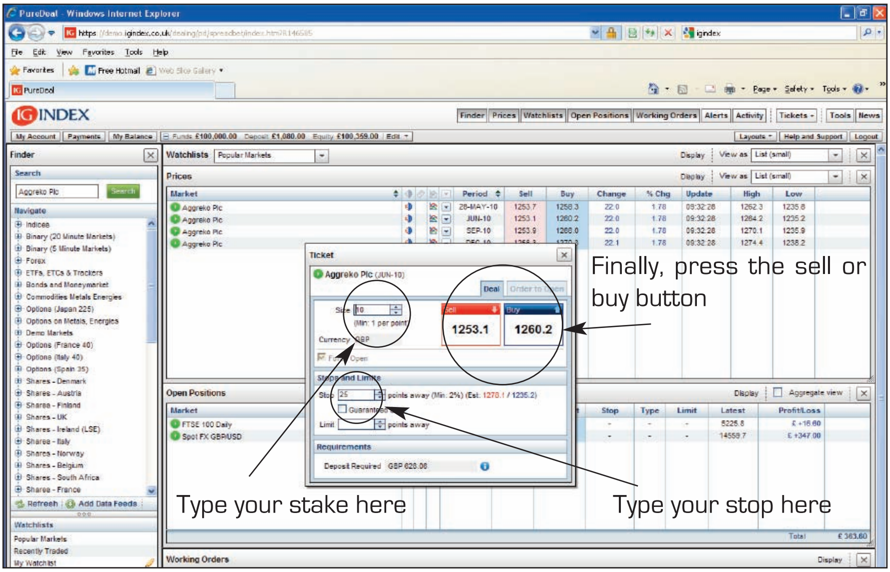
Type in the share you want – let's go for Aggreko again. I've done it here for the same share, but a year on.

This presents four different choices: daily rolling, or expiry over June, September or December. (Look at the 'Period' column.)



Four choices with the share

Click the one you want – let's go for June – and you can see that, like Tradefair, you type in your stake and press the sell or buy button together with your stop (if you want one). I'll explain the differences between a rolling and monthly expiry in a mo.



IG order ticket, Aggreko June expiry

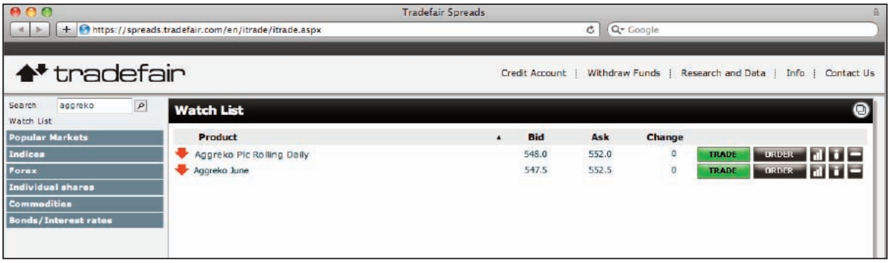
All this expiry malarkey

The spread firm makes money whether your bet is a winner or a loser when it comes to closing it out. But, although you do get charged extra spread over what you would pay buying or selling shares in the normal way, remember: unlike normal trades there is no broker commission to pay, nor any stamp duty. So in the end there is not much in it, cost-wise.

However, **spread bets do tend to cost a bit more the longer you leave them open**, which is why they are usually considered to be for the shorter term; from a few days to a couple of months, maybe a bit longer.

In our earlier example we used a rolling daily bet on Aggreko: 'rolling' means the bet rolls over every day until you close it. The broker charges you a small amount overnight to keep it open (not much, something like 5p for a £1000 bet). Alternatively, most firms offer a 'quarterly expiry' – the spread is a bit wider but there is no daily charge.

So, in our Aggreko example:



Tradefair screen showing Aggreko June expiry and rolling

Product	Bid	Ask
Aggreko rolling daily	548	552
Aggreko June	547.5	552.5

'June' here means a quarterly bet. It's called a 'quarterly bet' because there are four quarterly bets in a year that are introduced in sequence: March, June, September, December. Each of these bets expires in the third week of the month (e.g. June), when the new quarterly bet (e.g. September) will be introduced. So instead of being rolled over every day (as with the rolling bet), with quarterly there is no daily charge and it stays open until the expiry of the bet. However, as you can see, you pay a bit more spread than with the rolling bet.

If you are holding a June bet and want to keep the trade open beyond June, then you have to close the June bet and open a trade in the corresponding September bet. This is called 'rolling over' the bet, and can be done any number of times (e.g. the September bet could then be rolled over to the December bet). Each time a bet is rolled over the trader incurs the cost of the bid-offer spread – by closing one trade and opening another.

If your eyes are rolling and you're thinking, 'This is a bit complicated, why the different bets?' Don't worry, because I'm about to explain all this…

Different Types of Spread Bet

You might have noticed that I've mentioned terms like 'rolling bets' and 'quarterly bets'. (What do mean, you hadn't noticed – have you been paying attention or not?)

These are different type of spread bet. Luckily the difference between the types of spread bet can all be reduced to four little words: *It doesn't much matter!*

Really. It may matter to a 'professional' betting hundreds of thousands on a daily basis, but to you or me, with our small bets of, say, £100 to £500 or something like that, what will amount to a few quid here or there means *very* little. So **don't worry too much about whether you've got a rolling bet or a six monthly or a quarterly expiry**. You don't really need to lose sleep over whether you want a rolling bet or a quarterly expiry; there might be a few pence in it here or there, depending on how long you want to keep your bet open for, but that's it.

In the main, if you expect to keep the bet open for quite a while then you may as well go for the next quarter month, or even six months away (paying a bit more spread). If you intend to keep it open for a couple of weeks or so, go for rolling. Generally, rolling starts to get more expensive after about a fortnight.

> It doesn't matter an awful lot. In fact, right now I am holding onto a rolling spread bet that has continued for nearly a YEAR! So what if it costs me a few pence every night? It's still going up!

Recap

Let's hold on a sec here and recap:

- spread firms add a bit onto the spread, your cost, but there's no commission or stamp duty
- you can 'sell' without having bought first!
- to take your profit or loss just press the 'close' button
- rolling bets incur a small daily charge, quarterly bets have a bit more spread but no daily charge
- .. but don't worry too much about the type of bet unless you're a high roller.

Shorting

Let's assume you have a simple share dealing account with a stockbroker. Now, two questions –

Q1: If you own no shares in Aggreko and you think the shares are going to rise what can you do?

A: Ummm … buy some shares. (Yes, that wasn't a trick question.) OK, now…

Q2: If you own no shares in Aggreko and you think the shares are going to fall what can you do?

A: Errr…

Exactly, errr. With a simple stockbroking account there's not much you can do. There might be a bear market, with nearly all share prices falling for a year or more and there's nothing much you can do about it.

But with super spread betting…

But with a spread betting account you can easily *sell* Aggreko *without* owning the shares, and so make money from it if you think it's going to go down.

Let's look at a quick example.

Example

Aggreko's spread bet price is 548-552, which means you can sell at 548 and buy at 552. You think the shares are going down so you sell at 548 for £5 a point to open a short position.

Two weeks latter the price has fallen to 522-526. To close the short position you must buy the bet back. The buy price is 526, so you buy the bet at that price for £5 a point – which closes the short position.

The result is you sold at 548 and then bought back at 526, making 22 points (548 - 526) which is a profit of £110 (22 points x £5).

What happens if I short a share and it goes bust?

Hey, it's good news! If you go short (bet on a share to go down) and it goes bust, you can burst into song: "We're in the money! We're in the money!" Alternatively, feel free to leap around the room.

But hang on a mo – you might just have to wait for a bit for the cash. The spread firm will want to ensure the share won't come back onto the market.

When administrators are appointed, that usually signifies the end. Spread firms will pay you out at 0! So, say in 2009 you were lucky enough to go short of Aero Inventory at 300 for a tenner a point, you'd be picking up a very nice profit of £3000.

On the whole these things take about two to three months to confirm – in the meantime your bet will just be frozen, but the payout should be worth the wait!

Staking

This is VERY important!

In the Aggreko example we had to decide how much to bet. First thing to remember: you are not buying a set number of shares, you trade in *pounds per point*. £1 per point, or a fiver a point, etc.

That means if you are betting on a share to go *up* at a fiver a point, every point (or one pence) it rises you make a fiver. But every pence it falls, you *lose* a fiver. The total profit or loss is then established when you decide to close the bet.

So say you buy a share at 500 for a fiver a point. It goes to 550 – you make £250, because it has risen 50 points (50 x £5).

Okay, easy enough to understand, but … you MUST understand your *real* exposure to the share and whether or not you can afford to bet in the first place.

Equivalent number of shares

If you place a spread bet at 1p a point on a company, this is the equivalent of owning one share in that company: if the company's share price increases, say, 10p, then the share owner makes 10p and so does the spread bettor (10 points x 1p).

If you place a spread bet at 2p a point on a company, this is the equivalent of owning two shares in that company: if the company's share price increases, say, 10p, then the share owner (of two shares) makes 20p and so does the spread bettor (10 points x 2p). And so on...

The calculation of the equivalent number of shares is simply the number of pence bet per point (because 1p = 1 point).

So, if you place a spread bet at £1 a point on a company, this is the equivalent of owning 100 shares in that company (£1 = 100 x 1p).

And if you place a spread bet at £10 a point on a company, this is the equivalent of owning 1000 shares in that company (£10 = 1000 x 1p). If the company's share price increases, say, 5p, then the share owner makes £50 (5p x 1000 shares) and the spread bettor also makes £50 (5 points x £10).

All fine and dandy, but now we must look at exposure.

Exposure

If you buy 1000 shares in Company A whose share price is 10p, you will pay £100. And if you buy 1000 shares in Company B whose share price is £10, you will pay £10,000. The difference in your exposure is immediately obvious: in the first case you have £100 at risk, in the second case you have £10,000 at risk. If the share price of company A falls 5% your holding will fall £5 in value; while if the share price of company B falls 5% your holding will fall £500 in value. If you are worried that your exposure to company B may be too high, then you would not have bought so many shares in the first place.

All this is straightforward in the share market.

But exposure is not so obvious in spread betting because the full value of the share exposure is not paid up front. Instead one merely places a bet at so much per point. It's as easy to place a £10 per point bet on either Company A or Company B – but the risk exposure is very different!

This can be seen in the following table that compares the varying exposures resulting from a £10 a point bet on four companies with different share prices. The three columns are:

i – the share price of the company (for example, Company D has a share price of £20)

ii – a 10% move in the share price will result in the price moving this amount (expressed in pence)

iii – the profit or loss of a £10 per point bet on this company's share.

	Share price (p)	10% price move (p)	Effect on bet of £10/point (£)
	(i)	(ii)	(iii)
Company A	10	1	10
Company B	100	10	100
Company C	500	50	500
Company D	2000	200	2000

Sample spread bet exposures

If you buy the bet at £10/point on **Company A** and the share rises 10% you make £10, and if the share falls 10% you lose £10.

But if you buy the bet at £10/point on **Company D** and the share rises 10% you make £2000, and if the share falls 10% you lose £2000.

A loss of £10 or £2000 is a big difference – but they both result from the same size bet of £10!

Why?

Referring back to the previous section ('Equivalent number of shares'), when you open a bet at £10 a point, this is similar to holding 1000 shares in the company.

- 1000 shares of **Company A** (share price = 10p) is worth £100
- 1000 shares of **Company D** (share price = 2000p) is worth £20,000.

Looking at it this way, it may be easier to understand the effect of a 10% move in the share prices, and thereby how different exposures can result from the same size bet.

> You MUST work out your exposure *every* time.

Using the earlier Aggreko example, if you bet £10/point when the Aggreko price is 552, then your exposure will be £5520 (£10 x 552).

I get tons of emails saying something like,

" *Oh, I always stick on a tenner a point.* "

But £10 on a 20p share = £200 exposure. On a 1000p share it's £10,000! Beware!

> Tip: You ought to add up the total exposure in your spread bet portfolio. Would you have taken that much exposure in standard trading?

You MUST understand this staking!

Gottit? If not, stop here until you have.

And before you put a bet on ask yourself: can I afford this stake? What if it goes bust (or, if shorting, goes through the roof)? If the worst comes to the worst can I afford to pay the spread firm if I lose?

Say you had bought £10 a point at 1000p a share and the share goes bust – you lose £10,000.

Phew! That's a lot to digest…

If you struggle with the above the bottom line to remember is:

£5 a point = the same as buying 500 shares

£10 a point = the same as 1,000 shares

£20 a point = the same as 2,000 shares.

If you don't quite get all the above yet, keep going through it until you do, especially staking!

Closing Bets

When you 'sell' a spread bet at, say, 70, you may be doing one of two things:

1. selling to close a bet that you have previously bought. For example, you may have previously bought at 50, and now want to sell at 70 and take the 20 profit. Or,
2. you may be opening a new short position at 70.

It goes without saying that it's important to know which of the above you intend!

A way of removing any ambiguity is to always refer to trades that close a position as 'closing trades' or 'closing bets'.

On most spread betting websites, where it displays your open positions, there will usually be a button by the side of each open position labelled 'close'. For example, if you had a long bet on Aggreko, on the web page you'd click 'close' by the side of the Aggreko position details, then a page current price would appear and you would click 'sell' to confirm the trade. This makes it easier for you to ensure you are closing the bet and not opening up a new one!

You don't have to close the whole bet

One thing that's vital to know is that you don't have to close your whole trade.

Let's say Aggreko was up 100 points, and you were in profit £1000 with a tenner per point stake. You think there might be further to go but you're not sure. You could, say, close half the position. To do this, you would put "5" in the close box instead of "10" – you then take £500 profit and keep a fiver a point of the bet running.

But it may be that you don't want to close a bet for a while; you may want to keep it open for some time. In which case, what do you do when the bet approaches expiry? You need to rollover (as the little one said)…

Rollovers

If you want to keep a spread bet open for a number of months, chances are you will have to rollover the bet. For example, if you buy a June bet in April, and want to hold the bet open to August, as the June gets close to expiry you will have to sell it and buy a later bet (e.g. the September bet). This is called *rolling over*.

You have till 4pm on the day of expiry (the third Tuesday in March, June, September, or December) to ask the spread-bet firm to roll your bet over to the next quarter or else your bet will expire.

> Note: Obviously, you don't have to rollover. In fact, it's not such a bad thing to let bets expire on expiry day as sometimes it's nice to clear out an account and take the profits and losses.

To rollover you need to call the spread-bet firm. However, it is best to rollover in the middle of the day rather than at the beginning, because you want the new spread to be as tight as possible. After all, a rollover means you are selling the stock and re-buying it, so the bid-offer spread counts. For example, if you have a share that is 450-456, but you know the spread has a tendency to narrow as the trading day progresses, then wait for it to narrow (perhaps to 455-456) before you call to roll it over.

The firms usually give you a discount on the old and new bet to encourage you to roll, so you do get a cheaper price than if you just sold and then bought it back.

Margin

With a normal sharedealing account with a stockbroker you can only buy shares up to the value of cash you've got in your account. But with spread betting you can bet more than the funds available in your account. This is because when you open a spread bet you don't have to put up the full value of the trade, you just put up a fraction of it. The fraction you put up is called *margin* – although it could equally be called DANGER.

Small margin, big exposure

Let's look at our favourite Aggreko again.

If you buy a spread bet on Aggreko at 552 for £10 per point, then your exposure will be £5520 (£10 x 552). Now, in the ordinary share market, to get an exposure of £5520 you would have to put up… £5520! But in the spread bet here you would only have to put up around £828 (roughly 15% of the trade value of £5520).

You might be thinking: "well, that's very nice, but what about the remaining £4692 (5520 – 828), who's covering that?" The answer is: your spread betting firm. They are in effect providing you with £4692 of credit.

With most top shares, spread firms only expect the funds in your account to cover some of the bet. With a liquid stock like Aggreko, chances are you will only be charged about 15% of the total value, therefore you only need to put about £1500 in your account to enable a £10,000 exposure.

It's slightly different with smaller cap stocks; since smaller companies are more illiquid, the margin rate will be higher. So for a small cap you could easily be charged 50% instead, meaning you'd have to put up £5000 to get exposure of £10,000.

Maintaining the margin

Let's say you buy a bet at 500 for £20 a point. Your total exposure will therefore be £10,000 (500 x £20). And to fund this trade you have to put up £1500 (15% of £10,000). Now, let's look at two cases:

- If the market **rises** 50 points, you make £1000 on the trade (50 x £20), and this £1000 is credited to your account with the spread betting firm. But,
- if the market **falls** 50 points, you lose £1000. This £1000 is deducted from your margin account, leaving just £500 (£1500 - £1000). But your spread betting firm requires you to have £1500 in your account to cover this trade, so they will ask you to deposit another £1000 in your account to make it back it up to £1500. This is called a *margin call* – something that no trader wants to get.

The danger of margin

While trading on margin is a great attraction of spread betting, **treat the margin with care. Otherwise you could get into trouble.**

Let's say, for example, you go over the top and have £50,000 of exposure in your spread-bet account, whilst only putting up £10,000. The market suddenly tanks badly whilst you are away for the day. Your shares bomb, and you don't have enough in your account to cover your losses. The spread firm leaves you messages asking for money – they want £15,000 immediately. You look in your bank account and gulp – you only have £5000 in there and you can't pay them.

This is never a position you want to be in. *Don't ever overexpose yourself.* If you can't afford all the positions at 100% loss in your account, or you could not afford to stump up all the cash if it was suddenly demanded of you, you MUST reduce the size of your positions immediately.

Remember, the spread firms will expect you to wire the money immediately, not tomorrow. If you can't afford to pay them, they can – and just might – start closing out all of your positions immediately.

So use the leverage with care, and don't use all of it unless you have lots of money sitting about to cover possible losses.

More on margin and leverage

I was invited to dinner by an excellent trader, someone who had been successful with spread betting. I asked him why he thought so many people came a cropper with spread betting – and indeed why some people who were reasonably successful trading normal accounts couldn't do the same with spread betting. He said –

“ *That's an easy one, they use the leverage.* ”

Just one sentence, but he summed it up well.

What he means is that when people build up their spread betting accounts and start to make a profit, they have access to bigger and bigger bets.

When things can get nasty…

Let's say someone kicked off by sticking £5000 in a spread betting account – this could give him exposure to £50,000 worth of shares.

So, he uses all the leverage. His £5000 covers trades of value £50,000. And he feels okay about this because he has, say, £15,000 in his bank account that he can afford to lose. He has a good run and, wow, he can now buy around £80,000 of shares and the profits are rolling in! Then there is a sudden downturn – a lot of his shares tumble badly, he panics and buys some more shares with the leverage in order to average down, but they go down too.

Now, suddenly, he is in trouble.

He realises he owes the spread firm £30,000 – that's £15,000 more than he can put his hands on.

The phone rings.

He knows it's the spread firm. He panics again and ignores the call. Shares tumble further; the spread firm starts closing out his trades, as it is entitled to do, because he owes a lot of money. Now he's really getting in trouble. He can't buy any more shares to average down, or to try to get himself out of the mess. The spread firm emails him a few times saying *all* his positions will be closed unless he adds some money to his account.

He goes for it and uses his bank card to wire over the £15,000 that he has in his account. Now he can trade a little more. And he does, with more disastrous consequences, not helped by his state of mind. He now owes £40,000.

> Note: Spread-bet losses are enforceable by law.

The phone keeps ringing.

He knows he can't pay. The spread firm closes down the rest of his trades and now he has to work out how to pay the bill without his wife finding out he lost.

So, you see this is where too much leverage can get you.

The case of Nick Levene, who famously lost £50 million-plus spread betting, shows how big debts can mount up – quickly.

Spread firms have actually put some structures in place to try and stop this happening, and will call and email you very fast if you go over your limit. Even so, the above scenario could still happen.

Here are my thoughts on leverage.

You have £15,000 you can afford to lose and you want to spread bet. Put £5000 into the spread account. This could give you access to £50,000 of shares. But only use a little of that leverage. In this situation, ensure you only give yourself access to £20,000 of shares. Once you have too much exposure, close out some positions or bank profits.

The s**t hitting the fan

In 2008, a lot of trouble happened for spread bettors. Because liquidity in the markets was vanishing, overnight many spread firms cut the amount of margin allowed. So, for instance, instead of allowing your 15% margin on Aggreko, now they wanted 40% – and suddenly you either had to pay up or close the position!

It was worse for small caps. Some firms that had been allowing 30% margin on small caps now called clients and said that they were moving margins to 90%! In other words, clients now had to stump up pretty much all the cash for that position immediately or it would be closed.

I got many emails from stunned spread bettors saying: "How could they do this to me just like that?"

Well, the answer is: because they can!

They don't have to give you margin and they can change their minds at *any time*. The spread firms were changing margins because they were worried that clients were going to end up owing them money, and although spread-bet losses are enforceable by law, they didn't want clients leaving them holding the baby.

They were actually right.

Many spread punters have gone under, in some cases owing huge sums they simply cannot pay back. It's the usual story. If you owe someone £10,000 it's your problem. If you owe someone £1 million it's their problem!

This is from the *Daily Telegraph*:

> “*The Conservative Party treasurer has been forced to inject £70m of his own personal wealth into City Index after traders defaulted on tens of millions of pounds of trades. Accounts filed at Companies House late last week reveal that clients of the spread betting business were unable to cover £43m of losses after share prices collapsed. Just six clients accounted for the majority of the loss, with one client losing £29m betting on a single Spanish property company. Notes to the accounts reveal that another City Index client has lost a further £12m speculating on the markets, since the year end. To-date £4m of that debt has been recovered.*”

Other spread firms reported clients unable to pay, too, with IG Index recording around £16 million of client losses to be recouped.

Do NOT allow this to ever happen to you. Limit your exposure by not leveraging your account to the full amount possible.

> NT Top Tip!
>
> The moral of the story is: *don’t take excessive advantage of the margin;* the margin will soon take advantage of you.

And Finally, the Good Bit – Taking Profits

Take the moolah

It’s exactly how to be a winner.

The worst thing to do is let a winning cash balance just build up, because it will tempt you into bigger and bigger bets – the downfall of so many spread bettors, as I’ve already discussed. So, if you do find yourself in the fortunate position of some nice wins, and therefore have a good positive cash balance in your spread-bet account, consider banking some of that cash. Stick it in a high-interest account or even buy premium bonds! Then you have really and truly banked some profits.

If you continue to leave a big cash balance in your spread betting account, you will be tempted to use some of it – with the consequence that you will at some point overstake or overtrade.

So just think,

> *'I'm a banker.'*

Obviously don't say this out loud too often.

Withdrawing money

Remember: you can only withdraw available cash inside your account. Cash in there that is supporting your positions has to be left in. If you want to withdraw the lot, of course, you need to close all your positions. The spread firms will usually send you the money right away by bank transfer.