BLACKWELL GLOBAL

CFDs

YOUR STARTER KIT

What is a CFD (Contract for Difference)?

Contract for difference is an agreement between two parties to exchange the difference between the opening price and the closing price of a contract. The contract is then setted in cash when the trades are closed. CFDs trace the price movement of the actual underlying assets such as currencies, commodities, indices or shares etc. Due to this feature, **CFD trading allow investors the freedom to trade multiple asset classes using one single trading account.**

In return, investors save the hassle of remembering several sets of account details, and are able to centrally manage and hedge their trading positions.

Upon entering a CFD trade, investors do not physically own the assets. Instead they trade on whether the value of the asset goes up or down. **Investors can go short (sell) and profit from falling prices or go long (buy) and gain from rising prices. Profit or loss of an investor is determined by the differences between the buy prices and the sell prices of the instrument that is traded.** There is unlimited potential to profit from both directions. However, prices can also move against investors, causing them to incur losses.

*Image for illustration purposes only.

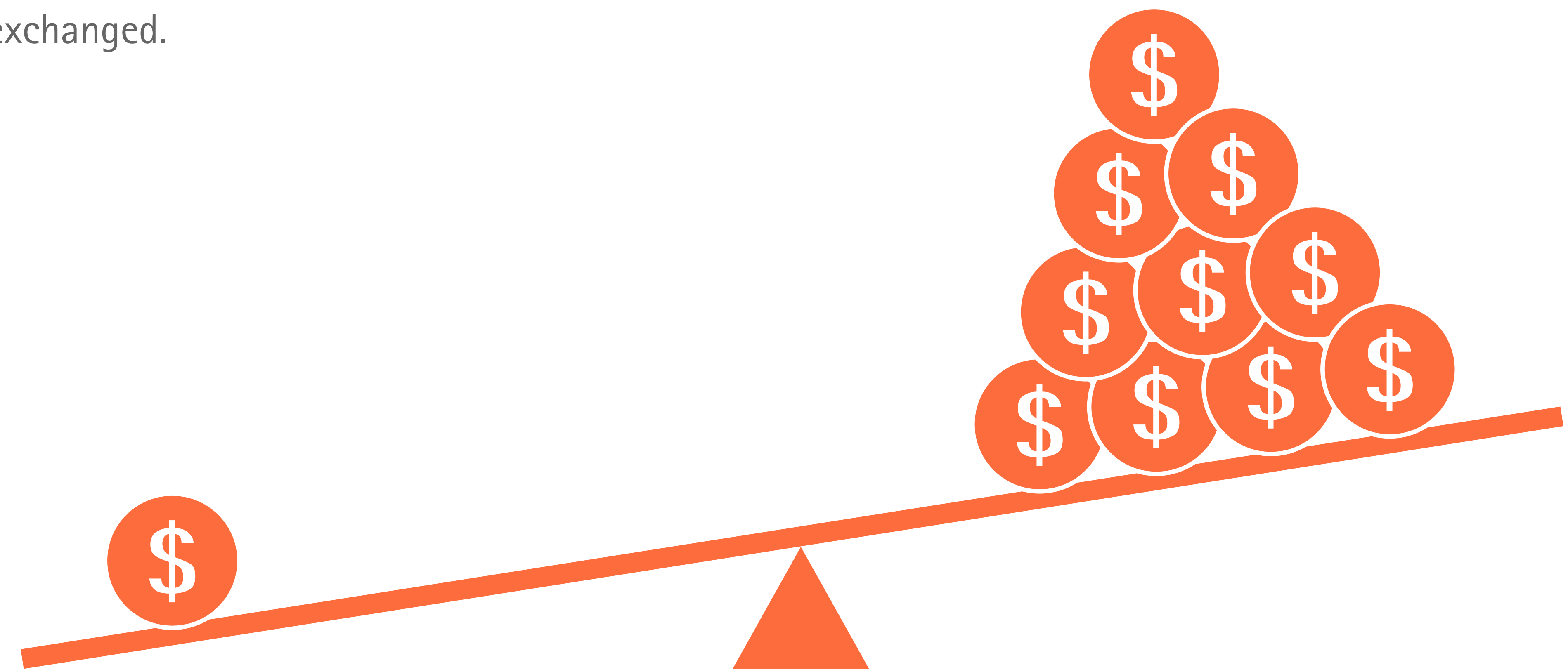
History of CFDs

CFD trading was first developed in the 1990s to allow hedge funds and institutional traders to hedge their exposure in stocks in a cost-effective way. During the IT boom of the late 1990s, companies at the forefront of technology developed trading platforms to allow private investors to take advantage of online trading themselves, without having to rely on a telephone broker.

CFD trading is cost-effective due to the following:

- CFD trading requires a small initial capital to trade large positions.
- CFD trading is able to avoid stamp duty tax as no physical shares are exchanged.

In turn, retail traders realised the benefits of CFDs, which is the ability to trade on leverage on any underlying instrument. CFD providers quickly expanded their product offering from just shares to a wide range of financial instruments including indices, commodities, bonds and currencies.



Benefits of using CFD trading

No Taxes

CFDs are not subjected to taxes or exchange house clearing fees. Due to the fact that no exchange of physical shares has taken place, traders can avoid paying stamp duty tax or tax associated with the appreciation of assets.

Access to leverage

CFDs allow investors to gain access to leverage trading, by investing in financial products without having to deposit a large sum of their own funds. Investors simply need to deposit a small percentage of the sum that is required to purchase the underlying asset and the remaining sum would be considered as taking a loan from the broker at an agreed interest rate. Trading on leverage can greatly help traders effectively allocate their own funds.

Profit from rising and falling markets

Traders have the opportunity to make money from rising as well as falling markets. If the traders expect the market to rise and wish to profit from it, they would long the CFDs. If the traders have negative sentiment towards the market, they would short the CFDs to profit from a falling market.

Cross market opportunities

CFDs offer thousands of different products to invest in all the major investment instruments globally.

Fast speed trade execution

Traders can expect trade execution to be almost instantaneous as most CFDs are usually executed within milliseconds.

No delivery of underlying products

Traders do not need to worry about the underlying asset being delivered to them. As such, they do not need to be concerned about the storage cost of the underlying products.

Transparent

Market information is known to the public. The pricings are transparent as there are no hidden charges or cost involved.

Risks of CFD trading

Overnight financing charges

As CFDs are traded on leverage, most of the sum required to purchase the CFDs is borrowed from the brokerage. The brokerage will charge interest on the amount of capital borrowed from them. Hence overnight financing charges will be incurred if positions are kept until the next trading day.

Risk involved in using leverage

Leveraged trading can be a double-edged sword. While profit can be greatly boosted, losses can be greatly magnified by the same amount.

Expiry date

CFDs have an expiry date, of which you can check regularly at:
www.blackwelltrader.com/Product-CFDs-Contract-Specification.asp

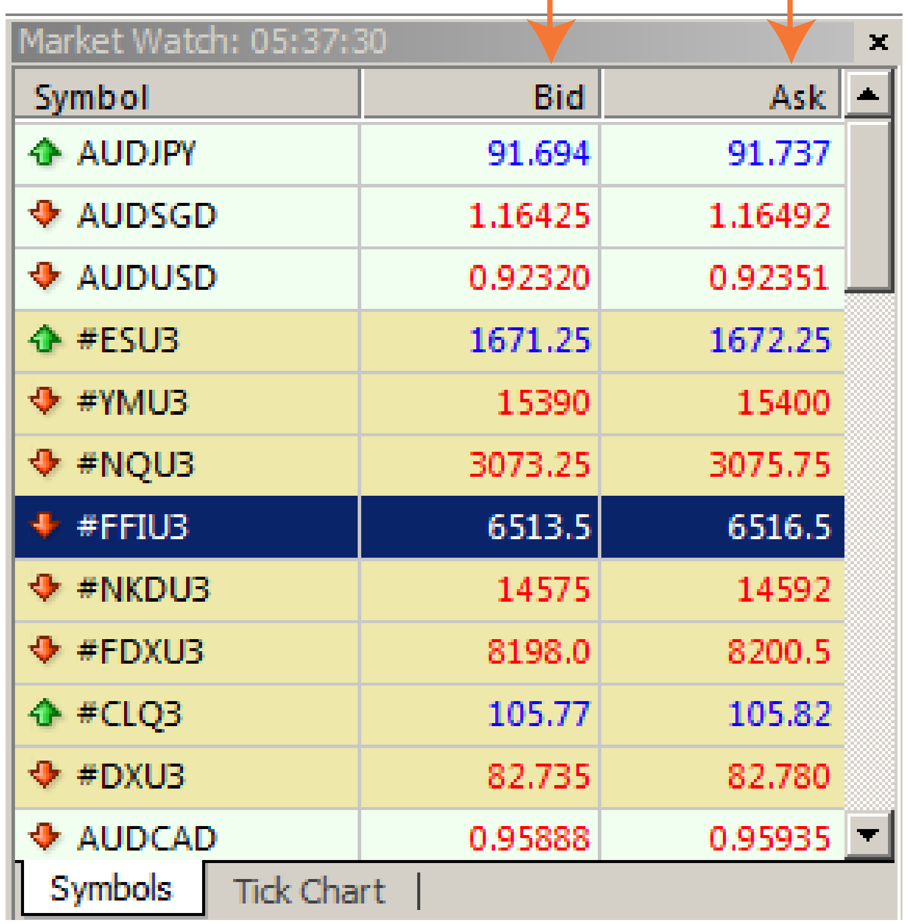
How CFDs work (buying and selling)

CFDs involve trading on the price movement of a particular underlying asset. Traders can trade on the price moving up or down. Traders will always get quotes of Bid Price (price they can sell at) and Ask Price (price they can buy at). The prices of the CFDs generally follow the underlying market prices. The difference between Bid price and Ask Price is called the spread.

Bid Price: (price they can sell at)

Ask Price: (price they can buy at)

Spread = Ask price - Bid price


Market Watch: 05:37:30

Symbol	Bid	Ask
AUDJPY	91.694	91.737
AUDSGD	1.16425	1.16492
AUDUSD	0.92320	0.92351
#ESU3	1671.25	1672.25
#YMU3	15390	15400
#NQU3	3073.25	3075.75
#FFIU3	6513.5	6516.5
#NKDU3	14575	14592
#FDXU3	8198.0	8200.5
#CLQ3	105.77	105.82
#DXU3	82.735	82.780
AUDCAD	0.95888	0.95935

Symbols | Tick Chart

Contract sizes

On the platform, the Bid and Ask prices are only indicative of the prices of one unit of the underlying asset. However, one CFD contract can contain more than one unit of the underlying asset.

Name	Symbol	No. of Units/Lot	Tick Size	Tick Value	Margin Requirement
Light Sweet Crude Futures	#CL	1000	0.01	$10.00	1500 USD
US Dollar Index Futures	#DX	1000	0.005	$5.00	1500 USD
S&P 500 Futures (E-mini)	#ES	50	0.25	$12.50	800 USD
DJI 30 Futures (E-mini)	#YM	5	1	$5.00	1000 USD
NASDAQ Futures (E-mini)	#NQ	20	0.25	$5.00	800 USD
DAX Futures	#FDX	25	0.5	$12.50	2000 USD
FTSE 100 Futures	#FFI	10	0.5	$5.00	1000 USD
Nikkei 225 Futures (USD)	#NKD	5	5	$25.00	2000 USD

The tick price is the smallest increment by which the specified CFD instrument can move.

Tick Value = tick size x no. of units per lot

Try out a CFD trade – Going Long

An investor believes that the S&P 500 futures **(#ES)** will rise.

Price of S&P 500 futures at the current moment:

Bid Price: 1685.50
Ask Price: 1686.50

Buying a CFD contract for 5 lots of S&P 500 futures:

Type of Contract	Number of Lots	Price (Ask)	No. of units/lot	Contract Value	Leverage	Required Margin
Long	5	1686.50	50	USD 421,625	1:100	USD 4,000

Contract Value:

5 (lots) X 50 (lot size) X 1686.50 (Ask Price) = USD 421,625

Margin Requirement (Capital Outlay):

USD 800 (margin used per lot) x 5 (lots) = USD 4000

The investor needs to maintain a sum of USD 4000 in order to maintain his contract of 5 lots of S&P 500 futures.

Price of S&P 500 futures, 5 hours later:

Bid Price: 1690.50
Ask Price: 1691.50

Closing off the 5 lots of S&P 500 futures:

Type of Contract	Number of Lots	Price (Bid)	No. of units/lot	Contract Value	Leverage
Closing Contract	5	1690.50	50	USD 422,625	1:100

Contract Value:

5 (lots) X 50 (lot size) X 1690.50 (Bid Price) = USD 422,625

Profit:

Increase in contract value = 422,625 – 421,625 = USD 1,000

With a traditional trading style, the investor would require an initial outlay of USD 421,625 to earn USD 1,000.
However with CFD trading, the investor only needs USD 4000 to earn USD 1000.

Note: Alternatively, if the investor had shorted at the same price, he would have lost the same amount gained from going long.

If the investor wishes to hold his position for several days, he will be charged with daily interest due to overnight lending rates.

Try out a CFD trade – Going Short

An investor believes that the price of Light Sweet Crude Oil **(#CL)** will drop.

Price of Light Sweet Crude Oil at the current moment:

Bid Price: 106.11
Ask Price: 106.80

Selling a CFD contract for 8 lots of Light Sweet Crude Oil:

Type of Contract	Number of Lots	Price (Bid)	No. of units/lot	Contract Value	Leverage	Required Margin
Short	8	106.11	1000	USD 848,880	1:100	USD 12,000

Contract Value:

8 (lots) X 1000 (lot size) X 106.11 (Bid Price) = USD 848,880

Margin Requirement (Capital Outlay):

USD 1,500 (margin used) x 8 (lots) = USD 12,000

The investor needs to maintain a sum of USD 12,000 in order to maintain his contract of 8 lots of Light Sweet Crude Oil.

Price of Light Sweet Crude Oil, the next day:

Bid Price: 105.95

Ask Price: 105.20

Closing off the 8 lots of Light Sweet Crude Oil:

Type of Contract	Number of Lots	Price (Ask)	Contract Size	Contract Value	Leverage
Closing Contract	8	105.20	1000	USD 841,600	1:100

Contract Value:

8 (lots) X 1000 (lot size) X 105.20 (Ask Price) = USD 841,600

Rollover interest due to overnight lending:

8 (lots) x 1000 (lot size) x 106.11 (closing price for that trading session)

x [-1.37% (swap short) / 100] x [1(overnight) / 365] = -USD 31.86

Profit:

USD 848,880 - USD 841,600 - USD 31.86 = USD 7,248.14

FAQ

Where do the prices for CFDs come from?

CFD prices are derived from the underlying index or spot product from the various exchanges.

CFD Symbol	Underlying Instrument	Exchange
#CL	WTI Crude Oil	CME
#DX	US Dollar Index	ICE
#ES	E-mini S&P 500	CME
#YM	E-mini DJI 30	CME
#NQ	E-mini NASDAQ	CME
#FDX	DAX	EUREX
#FFI	FTSE 100	NYSE Liffe
#NKD	Nikkei 225	CME

What markets can I trade CFDs on?

Please refer to this link: http://www.blackwelltrader.com/Product-CFDs-Contract-Specification.asp

What is rollover interest and when is interest charged?

An interest charge paid to the broker for holding positions overnight. Interest is calculated and charged daily. Positions left open after 2259* on Wednesdays will be charged the 3 times interest.

*Our server time is GMT+1 during non daylight saving, GMT+2 during daylight saving period.

How to calculate rollover interest?

Rollover interest = No. of lots x Contract size x Closing price x [interest / 100] x [no. of days / 360]

FAQ

Why are there slippages?
Like most markets, traders can experience slippage when trading CFDs. The level of slippage experienced will depend on liquidity in the market and the position size.

What is the liquidity like in CFDs?
Liquidity for CFDs is comparable to the underlying asset. Different indices and commodities experience different levels of volatility and liquidity.

Is CFD trading limited to certain hours? Can I place trades when the market for a specific CFD is closed?
CFDs follow their respective underlying product for their trading period. To see the trading hours for each asset, please refer to this link: http://www.blackwelltrader.com/Product-CFDs-Contract-Specification.asp

Are there expirations for CFDs?
Yes. Please refer to this link for the updated expiry dates:
http://www.blackwelltrader.com/Product-CFDs-Contract-Specification.asp

Are multiple accounts required to trade different types of CFDs?
No. A single trading account provides access to the various underlying instruments.

What is margin?
Margin is the minimum deposit that is needed to maintain open positions. This is not a fee or a transaction cost, it is simply a portion of your account equity set aside and allocated as a margin deposit.

Do margin requirements change?
Please refer to this link for the margin requirements:
http://www.blackwelltrader.com/Product-CFDs-Contract-Specification.asp

Can I lose more money than deposited?
Yes. Under extremely high market volatility conditions, you may lose more money than deposited.

Founded in 2010, the Blackwell Global companies ("Blackwell Global") were established to offer brokerage solutions for private and institutional clients, along with other investment products. Blackwell Global is a straight through processing ("STP") brokerage providing superior liquidity and price feeds from top international banks, 24-hour technical support, market research tools, educational material, professional partnership programmes, and a fully-integrated Blackwell Trader platform for its clients. Blackwell Global has a global presence in over 20 countries, with main offices in Auckland, Beijing, Hong Kong, Limassol, Lagos, London, Melbourne, Shanghai and Singapore.