



ThinkMarkets®

BEGINNER TRADING GUIDE

# HOW TO TRADE CFDs

LEARN WHAT CFDs ARE, WHO PARTICIPATES & HOW YOU CAN TRADE THEM

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## Risk Warning

Trading Foreign Exchange and other Derivatives involves a significant and substantial risk of loss and may not be suitable for everyone. You should carefully consider whether trading is suitable for you in light of your age, income, personal circumstances, trading knowledge, and financial resources. The information in this material and the links provided are for general information only and should not be taken as constituting personal investment advice. Only true discretionary income should be used for trading Foreign Exchange and Derivatives. Any opinion, market analysis, or other information of any kind contained in this material is subject to change at any time. All trade ideas and trading scenarios found in this material are hypothetical. Past performance is not necessarily indicative of futures results. Nothing in this material should be construed as a solicitation to trade Foreign Exchange or Derivatives. If you are considering trading Foreign Exchange or Derivatives, before you trade make sure you understand how the markets operate, understand how ThinkMarkets is compensated, understand the ThinkMarkets trading contract rules, and are thoroughly familiar with the operation of and the limitations of the platform on which you are going to trade. A Financial Services Guide (FSG) and Product Disclosure Statement (PDS) for these products is available from TF GLOBAL MARKETS (AUST) PTY LTD by emailing [compliance@thinkmarkets.com](mailto:compliance@thinkmarkets.com). The FSG and PDS should be considered before deciding to enter into any Derivative transactions with TF GLOBAL MARKETS (AUST) PTY LTD. The information contained in this material and on the ThinkMarkets website is not directed at residents of any country or jurisdiction where such distribution or use would be contrary to local law or regulation. 2013 TF GLOBAL MARKETS (AUST) PTY LTD. All rights reserved. AFSL 424700. ABN 69 158 361 561. Please note: ThinkMarket does not service US entities or residents.

### Overview of CFD Markets

CFDs (Contracts for Difference) are alternative trading instruments that provide opportunities to trade on the price movement of various financial assets such as equity indexes and commodity futures. Unlike traditional future contracts that are settled in either cash or the delivery of the physical commodity; CFDs are always settled in cash. The cash settlement process provides traders with the rewards, and risks, of holding a financial instrument without actually owning it. CFD trading is available in global equities, metals, energy, as well as many other market sectors. Many choose CFD markets as their primary method of trading or as a useful option to diversify their trading alongside Forex, shares or other traditional trading products.



### Range of CFD Markets

CFD products are available in a wide range of markets covering many products and regions of the world. There are three general categories of CFDs, Indices, Commodities and Shares, each consisting of a large variety of CFD offerings. The wide selections of products make CFDs perfect for the active global trader.

#### Indices

Indices reflect the value of a major grouping of stocks and serve as a benchmark for the group's overall performance. Indices can be classified in many ways, such as by the exchange on which they trade, by region, or by a specific sector of the market.

#### Commodities

Commodity CFDs track the market movement of physical commodities such as oil, copper, and platinum. Commodity markets offer opportunities to trade market movements caused by shifting trends in the global demand of physical goods or energy as well as geo-political issues that impact the oil markets.

#### Shares

Share CFDs are based on the stocks of individual companies, providing traders the opportunity to focus in on the price movements of specific companies. This type of CFD is useful to traders as it allows them to trade a company's stock with lower capital requirements without ever having to own it.

### Trading Platform Overview – Desktop, Web, and Mobile

CFD traders have access to trading platforms with feature rich options including tablet and mobile platforms providing traders with a wide variety of devices to execute their trades. While naming conventions may be different from platform provider to platform provider, trading platforms have basic

essential features that all traders need to become familiar with.

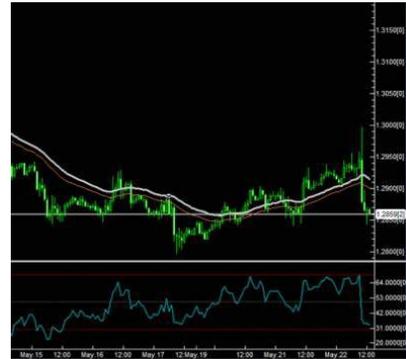
## Market Data

UK100	6761.00	6762.50
US30	15264.0	15267.0
FRA40	3986.50	3988.50
ESTX50	2794.0	2796.0
BRENT	102.33	102.39
WTI	94.11	94.16
GER30	8451.00	8452.50
AUS200	5133.0	5137.0
JPN225	15565.0	15580.0
PLATINUM	1464.10	1467.20
HK40	23210.0	23236.0

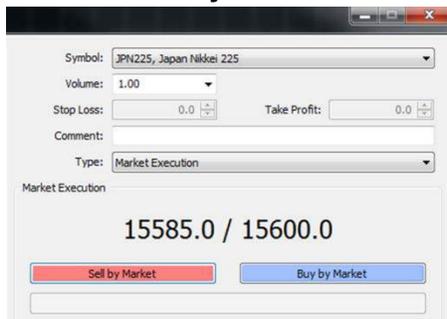
Every platform will have a panel that provides streaming market data. On some platforms it may be called “Market View”, “Market Watch”, “Current Rates” or some other variation. Regardless of the panel name this platform feature provides real-time pricing of CFDs as well as other products such as Forex pairs, Spot Metals, or any other trading products available through your broker. In many cases you can easily access many of the other platform features by simply right-clicking on your preferred trading product listed in your Market Data window then selecting your desired action such as initiating a new trade, opening a new chart, or adding that product to a watch list.

## Charts

The second most common feature of trading platforms is charts. Platform charting packages can range from very simple to highly complex with a large number of features and customizable options. Most if not all platform charting packages provide user friendly features such as a choice of chart type normally Line, Bar, and Candlestick. On most popular trading platforms traders will have the ability to set the color scheme of their charts, select and add a wide variety of technical indicators, move between different time frames, and view multiple charts at the same time. Finally on some platforms you can also create and save full templates to allow the easy transition between one chart grouping and arrangement of indicators to a completely different template to meet the needs of trading a different CFD or trading other products.



## Order Entry Ticket



Symbol: JPN225, Japan Nikkei 225

Volume: 1.00

Stop Loss: 0.0 Take Profit: 0.0

Comment:

Type: Market Execution

Market Execution

15585.0 / 15600.0

Sell by Market Buy by Market

The third and most critical common element of a trading platform is the Order Entry Ticket. This feature is the trader's gateway to the market. Every trade will have an associated order ticket. When submitting a trade the trader specifies on the order ticket the product to trade, the volume of the trade (total order size) the order type (Buy or Sell), the price of the order (market or pending) and in many cases the desired stop-loss and take profit order levels.

## Trade Panel

The trade panel on most platforms serves as a central location that shows all active trades as well as any pending orders or other critical data for your orders such as price, order volume, profit or loss for active trades, margin requirements or other trading data.

Order /	Time	Type	Size	Symbol	Price
26645534	2013.05.22 23:00	buy	1.00	spx500	1654.75
26645535	2013.05.22 23:00	buy	1.00	wti	94.24
26645560	2013.05.22 23:01	buy	1.00	jpn225	15650.0
26645567	2013.05.22 23:01	buy	1.00	aus200	5144.0
<b>Balance: 50 000.00 Equity: 49 962.16 Margin: 461.67 Free margin: 49 500.49</b>					

Some platforms provide additional tabs in the same panel for your account details that include balance as well as your overall profit or loss along with your completed order history.

## Desktop, Web, and Mobile

### Entering and Exiting a Trade

Before a new trade can be submitted a trader must have adequate margin available in his or her trading account. Margin requirements and the role of Leverage are important trading concepts to understand. Margin and leverage together determine your capital requirements to trade as well as your exposure to higher risk.

## Margin and Leverage

With the opening of any trade a small amount of trading account funds will be set aside for each

order. This is known as margin. Margin is the amount required to open a new CFD position. It is not a fee or a charge to your account. It is the amount set aside, from your free equity, for your new trade. Your required margin for each trade is determined by the leverage settings of your account. The leverage of your account is the multiplier of your purchasing power.

Example - For the calculations below we will assume that:

- Your account deposit currency is USD.
- The volume of your trade is 1.
- Leverage is 100 (i.e. 100:1)
- **SPX500**  
**Price:** 1499.50  
**Volume:** 10  
contract **Unites**  
**Per contract:** 1  
**Leverage:**  
100/1

The margin requirement is USD 149.95 for 1 contract.

Following the above example 149.95 USD would be set aside in your account to open your 1 lot SPX500 trade. If you do not have sufficient funds in your account to support the size of your trading you will not have enough available margin to open new trades. With higher leverage comes lower margin requirements and increases your exposure to higher levels of risk and reward as you are now able to trade a larger volume. It is important to select a leverage level appropriate for your individual risk level tolerance.

### **The Order Ticket**

Regardless of the market you are trading each and every order will be placed using a trade order ticket. As indicated before, the Order Entry Ticket is the most critical feature of your trading and it is important to understand the different features and options of your trade order.

**Instrument** – Use this feature to select and confirm the product you wish to trade. On some trading platforms you can change the market you are trading directly on the Trade Order Ticket so it is important to confirm that you are trading the product you intend to trade.

**Volume** – In this field of the Order Ticket you indicate the size of your trade. On some platforms it will be referred to as Lots on others it will be Volume, or Contracts, or other terms that are unique to your selected trading product.

**Order Types** – Orders are available in 1 of 3 types – buy, sell, or close and one of 3 categories

– market, pending entry, and risk/reward orders also commonly known as stop loss or take profit orders. It is also important to understand the difference of order options available for new orders vs. closing orders.

**Buy, Sell, and Close Orders** – An order to buy is placed if the trader believes the market will go up in price. An order to sell is placed if the trader believes the market will go down in price. A close order is simply an order that will completely close the order you indicate. If your original order was a Buy order then the close order will enter a Sell order to close your buy position. Alternatively if your original order was a sell order then the close order will initiate a buy order to close your previous sell position.

**Market or Pending Entry** – A market order is a buy or sell order that will be completed (filled) at the best available market price. A pending entry order is an order to be completed once the market hits a specific price. Once set, this order will wait on the sideline until the market reaches a desired price. If the market never reaches the pending order price then the order will remain unfilled.

**Stop Loss and Take Profit** – Once your new buy or sell order is active in the market you can initiate additional orders to control your risk (stop loss order) or indicate where you wish to exit a trade with a profit (take profit order). Stop loss and take profit orders are a different type of pending order. They will remain on the sideline until the market reaches your stop loss or take profit price, only then will the order be executed to close your position. Some trading platforms will allow you to set your stop loss and take profit levels at the same time you submit your market or pending entry order. Other platforms will require these orders to be entered separately as well as manually canceling them if the associated order is later closed. When using multiple order types it is important to understand and keep track of all of your orders.

## **CFD Opportunities in Many Markets and Both Directions**

CFDs provide traders with unlimited opportunities in a wide variety of markets and market conditions. CFDs are easily traded both long and short allowing traders to execute their strategies in both up and down markets with no restrictions or special requirement. The diversity of CFDs makes them a popular option for hedging exposure to other market positions using traditional investment products. For example an equity index CFD could be used to hedge an investment in stocks that are part of the underlying index. This is just one example of the many ways CFDs can be used for hedging strategies. Additionally groups of CFDs can

be traded together allowing for the creation of custom baskets of CFDs delivering true diversification of trading and expanding the individual traders reach into global markets. Regardless of a traders specific strategy, CFDs make an excellent addition to any traders product choices.

### **Learn More about CFD Trading – Free Webinars**

Take advantage of FREE webinars provided by ThinkMarkets to expand your CFD knowledge as well as webinars on Forex trading and other topics. Webinars are held weekly and provide an excellent opportunity to learn in an interactive environment and have any of your CFD and trading questions answered.