

## Benefits of trading CFDs

### Trade on Margin

CFDs are traded on margin, from 3% for Shares and 1% for indices. This is a more efficient use of your capital because you only have to allocate a small proportion of the total value of your position to secure a trade, while maintaining full exposure to the market. This enables you to magnify the returns on your investment.

As of writing the margin requirements for share CFDs on the Australian market are as follows (could be subject to change). The margin rates listed below are also the lowest for any CFD provider in Australia.

Share CFD	Margin required	On a \$10,000 position you require...
<b>Top 20</b>	3%	\$300
<b>21-200</b>	5%	\$500
<b>201-305</b>	10%	\$1,000
<b>Index CFDs</b>	1%	\$100
<b>Sector CFDs</b>	1%	\$100
<b>Foreign Exchange</b>	1%	\$100

### Magnifying your returns...

The chart below of Woodside Petroleum shows a large green candle several from the right where the price on the day went from \$39.47 to \$40.75 which is a gain of 3.24 percent.

When you consider how much margin you require to fund your position on Woodside you begin to see how magnified your returns can be. For example you only need 3% margin as Woodside is a top 20 share CFD. Therefore if Woodside rises 3% in a day then you have just made 100% return on your initial outlay.



## **Benefit from rising and falling markets**

To go short means to open a position by first selling a CFD with the aim of profiting from a fall in its price. It is just as easy to sell short a Share, Index or Sector CFD as it is to buy.

Establishing a short position using a CFD is far easier than using physical shares. This is largely due to the Exchange regulations present in the physical market which do not apply in the CFD market. These regulations restrict the ways in which a physical share transaction can be executed. In particular, the "down-tick" rule prohibits an investor from selling a physical share into a falling market. With a CFD provider you have the ability to execute a short trade on any published price.

Going short in the physical market may also require a higher margin on the value of the position. CFD providers do not usually distinguish between a long and a short position in this regard.

Therefore, on this basis alone, a CFD is a more effective means for a trader to profit from falling markets (and short term intraday movements) and can also be used more easily to hedge long positions in the physical market.

Here is a selection of the key benefits of trading CFDs.

- Commissions are lower than the physical share market with CMC Markets charging as little as \$10 minimum or 0.1% for parcels over \$10,000.
- Sectors and Indices are available with zero commission and 100 times leverage.
- 24 hour dealing desk and help desk.
- Lowest margin requirements with the ASX top 20 being offered at 3% margin.
- Free software that includes over 40 indicators, live data and backtesting software.
- Trade on the internet or over the phone and pay the same low brokerage (no additional costs for dealing over the phone).
- Open an account for as little as \$1,000 (conditions apply).
- Place your stop and limit orders 24 hours a day online or over the phone.
- Low financing rates for all long positions allowing you maximum use of your cash.

## **Learn how to hedge your existing share portfolio using CFDs**

One of the keys with CFDs is the ability to hedge an existing share portfolio and here we'll show you how to do that.

Let's say for example you have 5,000 AMP shares and your purchase price and current price is \$7. If the price were to fall to \$5 then your shares would have lost \$2 each times 5,000 which equals a \$10,000 loss.

With CFDs you can still own your 5,000 AMP shares but let's say you decide to hedge your shares in the market with CFDs then your investment will be protected. Here is how it works...

	<b>AMP Price \$7</b>	<b>AMP Price \$5</b>	<b>AMP Price \$3</b>
<b>Long 5,000 AMP Shares</b>	Breakeven	Loss = \$10,000	Loss = \$20,000
<b>Short 5,000 AMP Share CFDs</b>	Breakeven	Profit = \$10,000	Profit = \$20,000

As you can see in the above table for every cent or dollar movement in AMP, if you take an equal short position with the AMP share CFD then you are perfectly hedged. This means one will offset the other for as long as you keep that hedge open. Should the AMP price move back above \$7 then you can look to take that hedge off. Also remember that for every day you hold a position short with CFDs you will get paid the overnight cash rate minus 2% per year worked out as a daily rate.

So as you can see there are many, many benefits associated with trading CFDs over traditional shares with mainly relate to lower transaction costs (or in some cases no transaction costs) and better leverage with your money.