

Comprehensive Guide to CFDs

Before you begin trading ensure you are familiar with the mechanics of CFDs. In this guide we explore various trading examples and potential trading scenarios.

CFDs, spreadbetting and spot FX are leveraged products & can result in losses exceeding your initial deposit. They are not suitable for everyone, so please ensure that you understand the risks. Accendo Markets Ltd is Authorised and Regulated by the Financial Conduct Authority (FCA) No. 475285.

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CFD Trading Examples

Before you begin trading CFDs with Accendo markets, we'd like to ensure that you are familiar with the mechanics of CFDs and take the time to look through some trading examples which demonstrate some potential trading scenarios.

In these comparisons with trades involving physical/traditional shares, we assume that stop losses are only available for the CFD trades.

Going Long

The investor has a positive view on the direction of Sky's shares and wishes to go Long (Buy) £10,000 worth.

In this example, Accendo Markets offers Sky CFDs on a 5% margin (CFD margins vary between 5% and 25% depending on the stock), meaning a deposit of only £500 (£10,000 x 5%) would be required in order to gain the full £10,000 exposure.

Note that the Initial outlay for a position in traditional shares would of course be the full £10,000.

Let's assume that Sky's shares are currently priced at 1,000p (£10), meaning that you would be buying 1,000 CFDs for £10,000 exposure (1,000 CFDs x 1,000p). Let's now **open** this position using both CFDs and traditional shares:

Opening Trade	CFDs	Calculation
Initial value of CFDs	£10,000	1,000 CFDs x 1000p
Initial outlay/deposit	£500	£10,000 x 5% margin
Stamp Duty	-	-
Commission*	£25	£10,000 x 0.25%*

Opening Trade	Shares	Calculation
Initial value of shares	£10,000	1,000 shares x 1000p
Initial outlay/deposit	£10,000	£10,000 x 100%
Stamp Duty	£50	£10,000 x 0.5%
Commission*	£25	£10,000 x 0.25%*

To open this position using shares requires a £10,075 outlay, while to do the same using CFDs requires just £525.

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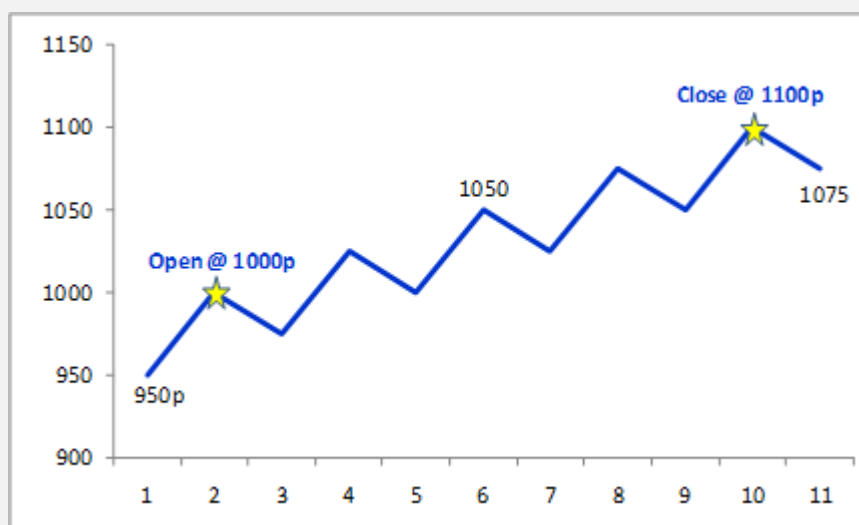
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CFD Trading Examples

Example 1 - LONG Trade Results in a Profit

After 8 days, Sky's shares have risen by 10% to 1,100p (£11). You decide to close the trade and realise the 100p profit per CFD/share.



Let's compare our positions post-close:

Closing Trade	CFDs	Calculation
Closing value of CFDs	£11,000	1,000 CFDs x 1000p
Change in value	£1,000	£11,000 - £10,000
Commission (0.25%)*	£27.50	£11,000 x 0.25%*
Financing**	£8.05	See last page**
Total Costs	£60.55	£25 + £27.5 + £8.05
Total Profit/Loss	£939.45	£1,000 - £60.55
% Return	187.9%	£939.45 / £500 * 100

Closing Trade	Shares	Calculation
Closing value of shares	£11,000	1,000 shares x 1000p
Change in value	£1,000	£11,000 - £10,000
Commission (0.25%)*	£27.50	£11,000 x 0.25%*
Financing	-	-
Total Costs	£102.50	£50 + £25 + £27.5
Total Profit/Loss	£897.50	£1,000 - £102.5
% Return	9.0%	£897.5 / £10,000 * 100

Lower costs make the CFD position more profitable.

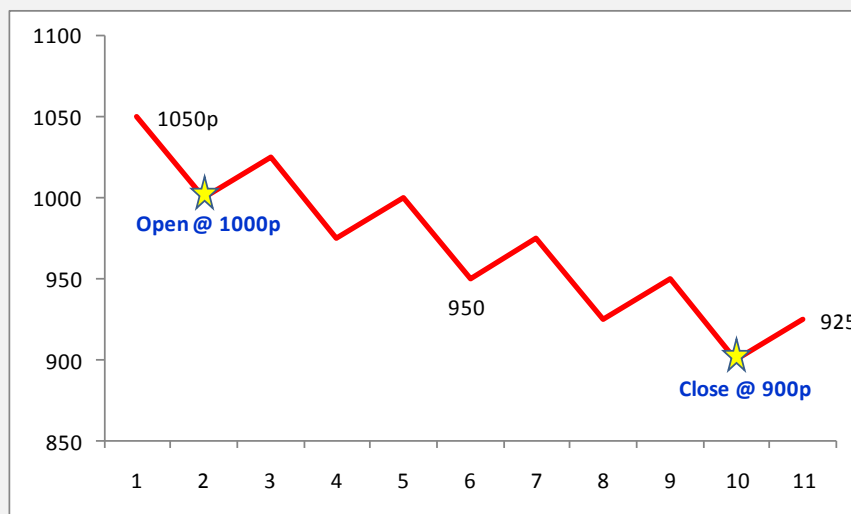
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CFD Trading Examples

Example 2 - LONG Trade Results in a Loss

Alternatively, after 8 days, Sky's shares have fallen by 10% to 900p. You decide to close the trade and realise the 100p loss per CFD/share.



Similarly, comparing our two position post close:

Closing Trade	CFDs	Calculation
Closing value of CFDs	£9,000	1,000 CFDs x 900p
Change in value	-£1,000	£9,000 - £10,000
Commission (0.25%)*	£25	£9,000 x 0.25%*
Financing**	£7.29	See last page**
Total Costs	£57.29	£25 + £25 + £7.29
Total Profit/Loss	-£1,057.29	-£1,000 - £57.29
% Return	n/a	n/a

Closing Trade	Shares	Calculation
Closing value of shares	£9,000	1,000 shares x 900p
Change in value	-£1,000	£9,000 - £10,000
Commission (0.25%)*	£25	£9,000 x 0.25%*
Financing	-	-
Total Costs	£100	£50 + £25 + £25
Total Profit/Loss	-£1,100	-£1,000 - £100
% Return	n/a	n/a

While both trades resulted in a loss, with traditional shares the loss is greater.

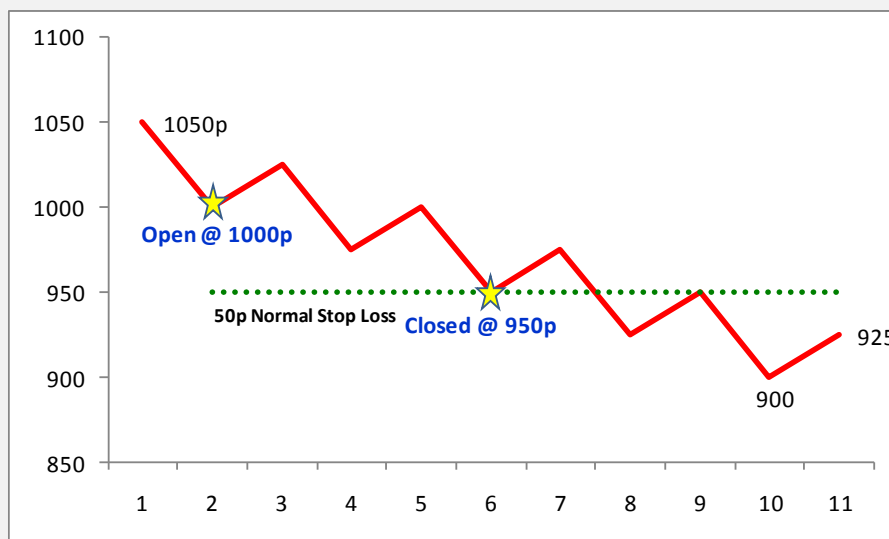
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CFD Trading Examples

Example 3 - LONG Trade Results in a Loss, with Normal Stop Loss (1)

Stop losses can be used to limit losses or to protect running profits. If, after 10 days, Sky's shares have fallen by 10% to 900p, a stop loss placed at 950p could limit the loss to 50p per CFD/share.



Closing Trade	CFDs	Calculation
Closing value of CFDs	£9,500	1,000 CFDs x 950p
Change in value	-£500	£9,500 - £10,000
Commission (0.25%)*	£25	£9,500 x 0.25%*
Financing**	£3.74	See last page**
Total Costs	£53.74	£25 + £25 + £3.74
Total Profit/Loss	-£553.74	-£500 - £53.74
% Return	n/a	n/a

Closing Trade	Shares	Calculation
Closing value of shares	£9,000	1,000 shares x 900p
Change in value	-£1,000	£9,000 - £10,000
Commission (0.25%)*	£25	£9,000 x 0.25%*
Financing	-	-
Total Costs	£100	£50 + £25 + £25
Total Profit/Loss	-£1,100	-£1,000 - £110
% Return	n/a	n/a

Stop losses on traditional shares are generally not available to retail investors. They are readily applied to CFDs, however.

(1) Standard stops cost nothing, but are subject to slippage/gapping.

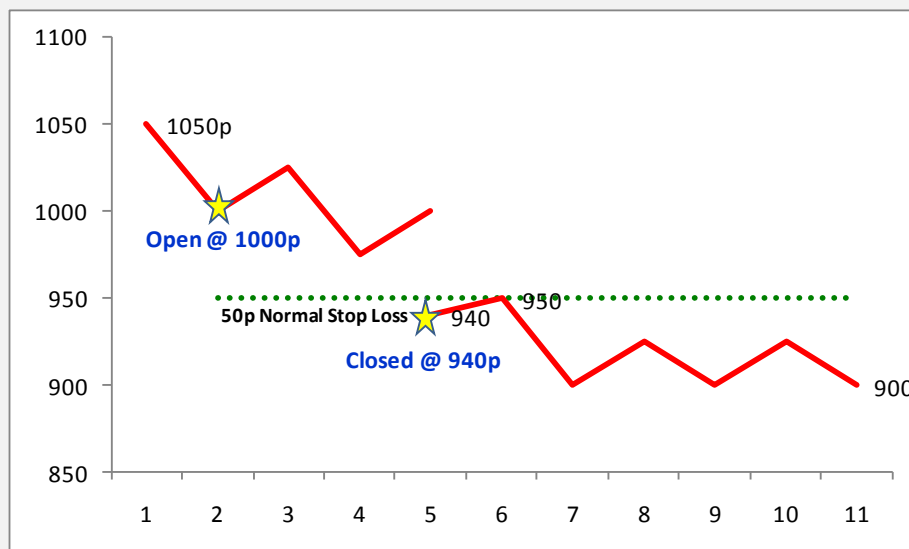
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CFD Trading Examples

Example 4 - LONG Trade Results in a Loss, with Normal Stop Loss (2) and Gapping

Taking Example 3 a step further, should the shares be particularly volatile and gap (trade straight through) the 950p stop loss, the position would be closed out at the next available price, in this example at 940p, resulting in a loss of 60p per CFD, while stop losses are not generally available to retail share investors.



Closing Trade	CFDs	Calculation
Closing value of CFDs	£9,400	1,000 CFDs x 940p
Change in value	-£600	£9,400 - £10,000
Commission (0.25%)*	£25	£9,400 x 0.25%*
Financing**	£2.79	See last page**
Total Costs	£52.79	£25 + £25 + £2.79
Total Profit/Loss	-£652.79	-£600 - £52.79
% Return	n/a	n/a

Closing Trade	Shares	Calculation
Closing value of shares	£9,000	1,000 shares x 900p
Change in value	-£1,000	£9,000 - £10,000
Commission (0.25%)*	£25	£9,000 x 0.25%*
Financing	-	-
Total Costs	£100	£50 + £25 + £25
Total Profit/Loss	-£1,100	-£1,000 - £110
% Return	n/a	n/a

The CFD trade still limited the loss, even though shares traded straight through the stop level.

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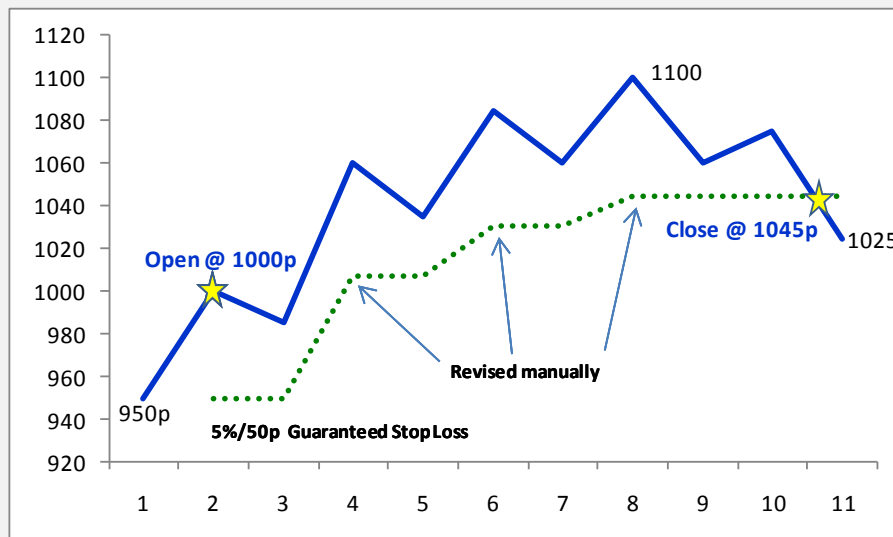
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CFD Trading Examples

Example 5 - LONG Trade Results in a Gain, with Guaranteed Stop Loss

Let's get back to talking about profits! After 8 days, Sky's shares had risen as high as 1,100p before falling back to 1025p. A 5% Guaranteed Stop Loss was initially set at 950p (1,000p x 5% = 50p distance), however, when the share price rose to 1,100p, you were able to manually revise your stop to remain 5% away and lock in a gain of 45p per CFD/share.

An additional cost (0.3%-1.0% of initial value) is payable for the peace of mind of a guaranteed stop. The nearest a guaranteed stop can be is 5%; in some cases it cannot be as near as this, and in others it will not be available at all. When revising a Guaranteed Stop, the initial distance is subject to change by IG Markets, depending on volatility/liquidity.



Closing Trade	CFDs	Calculation
Closing value of CFDs	£10,450	1,000 CFDs x 1045p
Change in value	£450	£10,450 - £10,000
Commission (0.25%)*	£26.13	£10,450 x 0.25%*
Financing**	£7.84	See last page**
Limited Risk Premium	£30	£10,000 x 0.3%
Total Costs	£88.97	£25 + £26.13 + £7.84 + £30
Total Profit/Loss	£361.03	£450 - £88.97
% Return	72.2%	£361.03 / £500 * 100

Closing Trade	Shares	Calculation
Closing value of shares	£10,250	1,000 shares x £1,025p
Change in value	£250	£10,250 - £10,000
Commission (0.25%)*	£25.63	£10,250 x 0.25%*
Financing	-	-
Limited Risk Premium	-	-
Total Costs	£100.63	£50 + £25 + £25.63
Total Profit/Loss	£149.38	£250.0 - £100.63
% Return	1.5%	£149.38 / £10,000 * 100

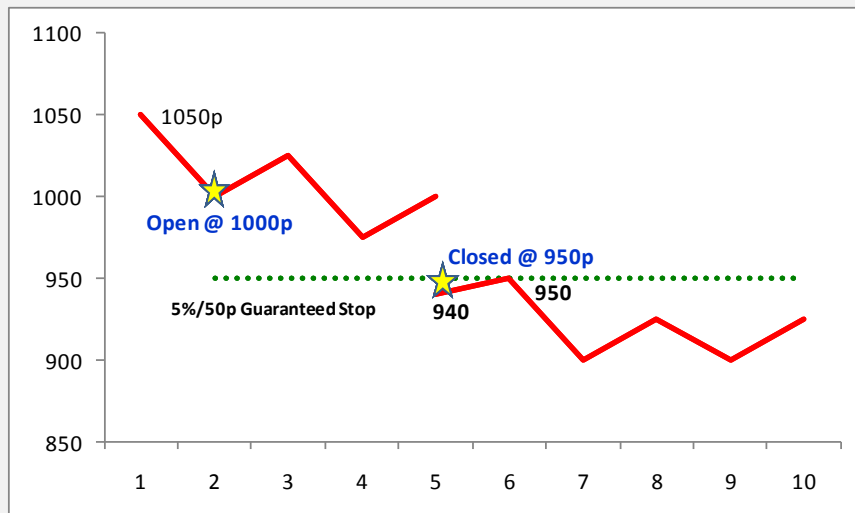
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CFD Trading Examples

Example 6 - LONG Trade Results in a Loss, with Guaranteed Stop Loss(5)

After 10 days, Sky's shares have fallen by 10% to 900p. A Guaranteed stop loss was placed at 950p (5%/50p away) in order to reduce the potential loss to 50p per share. While the shares gapped through 950p and down to 940p on day 4, the position was closed at 950p resulting in a loss of only 50p per CFD/share. An additional cost (0.3%-1.0% of initial value) is payable for the peace of mind of a guaranteed stop. The nearest a guaranteed stop can be is 5%; in some cases it cannot be as near as this, and in others it will not be available at all(6).



Closing Trade	CFDs	Calculation
Closing value of CFDs	£9,500	1,000 CFDs x 950p
Change in value	-£500	£9,500 - £10,000
Commission (0.25%)*	£25.00	£9,500 x 0.25%*
Financing**	£2.80	See last page**
Limited Risk Premium	£30	£10,000 x 0.3%
Total Costs	£82.80	£25 + £25 + £2.80 + £30
Total Profit/Loss	-£582.80	-£500 - £82.8
% Return	n/a	n/a

Closing Trade	Shares	Calculation
Closing value of shares	£9,000	1,000 shares x 900p
Change in value	-£1,000	£9,000 - £10,000
Commission (0.25%)*	£25.00	£9,000 x 0.25%*
Financing	-	-
Limited Risk Premium	-	-
Total Costs	£100.00	£50 + £25 + £25
Total Profit/Loss	-£1,100.00	-£1,000 - £100
% Return	n/a	n/a

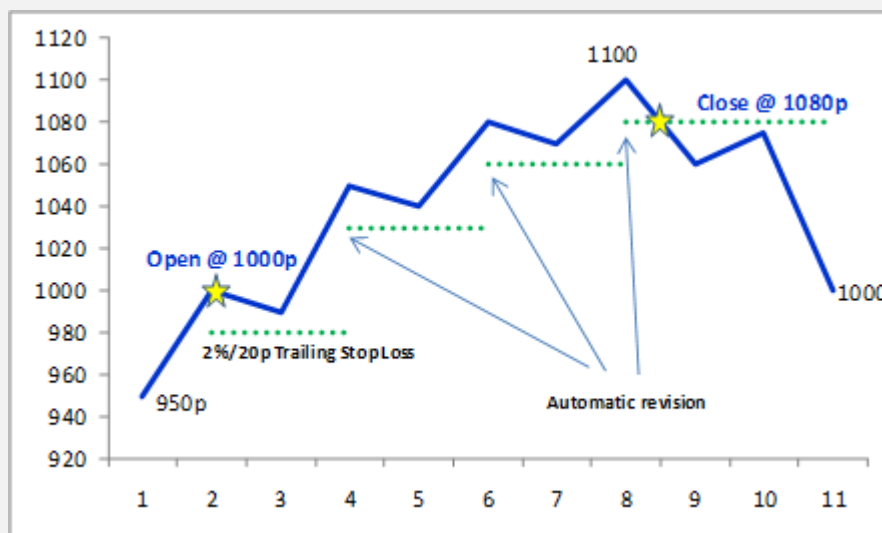
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CFD Trading Examples

Example 7 - LONG Trade Results in a Gain, with Trailing Stop Loss(7)

After 8 days Sky's shares had risen as high as 1,100p and then fallen back to 1,000p. Given that a 2% Trailing Stop Loss had been placed when the trade was opened, the initial stop at 980p followed the shares up to the high of 1,100p and revised the stop to 1,080p, locking in a gain of 80p per CFD/share. Note, as in the example of a Normal Stop Loss, the possibility of slippage remains and the position could be closed out below the revised stop depending on where the order can be executed. Trailing stops incur no additional cost. Trailing stops can never be placed nearer than 1% from the current share price(8).



Closing Trade	CFDs	Calculation
Closing value of CFDs	£10,800	1,000 CFDs x 1,080p
Change in value	£800	£10,800 - £10,000
Commission (0.25%)*	£27.00	£10,800 x 0.25%*
Financing**	£5.98	See last page**
Total Costs	£57.98	£25 + £27 + £5.98
Total Profit/Loss	£742.02	£800 - £57.98
% Return	148.4%	£742.02 / £500 * 100

Closing Trade	Shares	Calculation
Closing value of shares	£10,000	1,000 shares x £1,000p
Change in value	£0	£10,000 - £10,000
Commission (0.25%)*	£25	£10,000 x 0.25%*
Financing	-	-
Total Costs	£100	£50 + £25 + £25
Total Profit/Loss	-£100	£0 - £100
% Return	N/A	N/A

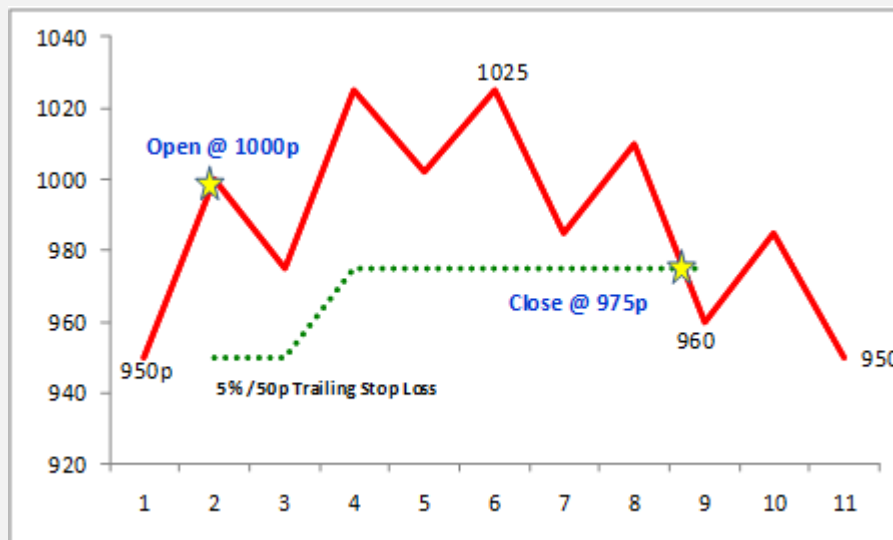
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CFD Trading Examples

Example 8 - LONG Trade Results in a Loss, with Trailing Stop Loss(9)

After 10 days Sky's shares had risen as high as 1,025p and then fallen back to 950p. Given that a 5% (50p) Trailing Stop Loss had been placed when the trade was opened, the initial stop at 950p followed the shares up to the high of 1,025p and revised the stop to 975p, reducing the potential loss to 25p per CFD/share. Note, as in the example of a Normal Stop Loss, the possibility of slippage remains and the position could be closed out below the revised stop depending on where the order can be executed. Trailing stops incur no additional cost. Trailing stops can never be placed nearer than 1% from the current share price(10).



Closing Trade	CFDs	Calculation
Closing value of CFDs	£9,750	1,000 CFDs x 975p
Change in value	-£250	-£9,750 - £10,000
Commission (0.25%)*	£25	£9,750 x 0.25%*
Financing**	£5.68	See last page**
Total Costs	£55.68	£25 + £25 + £5.68
Total Profit/Loss	-£305.68	-£250 - £55.68
% Return	n/a	n/a

Closing Trade	Shares	Calculation
Closing value of shares	£9,500	1,000 shares x £950p
Change in value	-£500	£9,500 - £10,000
Commission (0.25%)*	£25	£9,500 x 0.25%*
Financing	-	-
Total Costs	£100	£50 + £25 + £25
Total Profit/Loss	-£600	-£500 - £100.0
% Return	n/a	n/a

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CFD Trading Examples

CFD Trading Examples - Shorting

Before you begin short-selling CFDs with Accendo markets, we'd like to ensure that you are familiar with the mechanics involved and take some time to look through a few trading examples demonstrating potential trading scenarios you may come experience.

Given that the short selling of physical/traditional shares is not usually available to retail investors, in the examples we offer no comparisons.

Going Short

You, the investor, have a negative view on the direction of Sky's shares and wish to go Short (Sell) £10,000 worth.

In this example, Accendo Markets offers Sky CFDs on a 5% margin (CFD margins vary between 5% and 25% depending on the stock), meaning a deposit of only £500 (£10,000 x 5%) would be required in order for you to gain the full £10,000 exposure.

Let's assume that Sky's shares are currently priced at 1,000p (£10), meaning that you would be selling 1,000 CFDs for £10,000 exposure (1,000 CFDs x 1000p)

Opening Trade	CFDs	Calculation
Initial value of CFDs	£10,000	1,000 CFDs x 1000p
Initial outlay/deposit	£500	£10,000 x 5% margin
Stamp Duty	-	-
Commission*	£25	£10,000 x 0.25%*

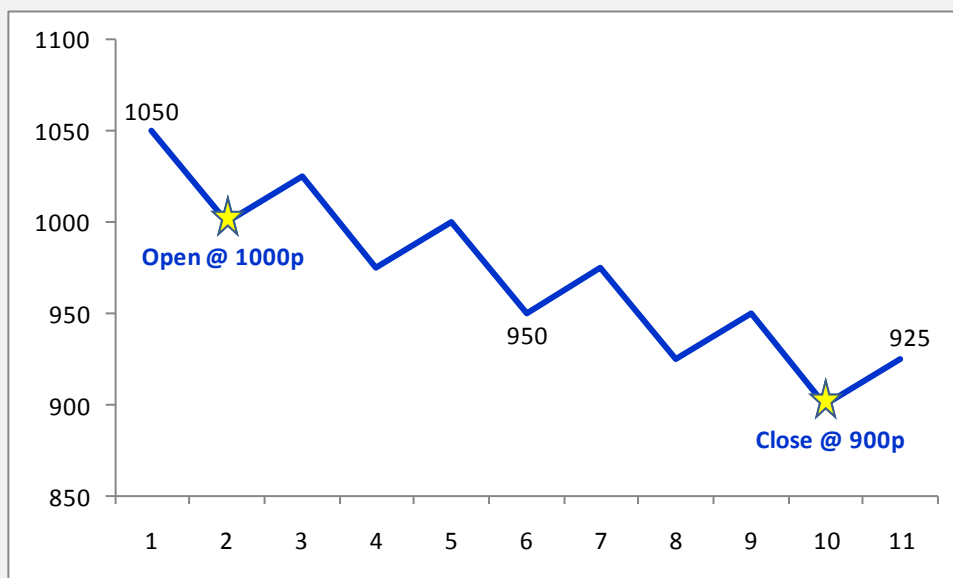
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CFD Trading Examples

Example 1 – SHORT Trade Results in a Profit

After 8 days, Sky's shares have fallen by 10% to 900p (£9). You decide to close the trade and realise the 100p profit per CFD/share.



Closing Trade	CFDs	Calculation
Closing value of CFDs	£9,000	1,000 CFDs x 900p
Change in value	-£1,000	£9,000 - £10,000
Commission (0.25%)*	£25	£9,000 x 0.25%*
Financing**	£7.29	See last page**
Total Costs	£57.29	£25 + £25 + £7.29
Total Profit/Loss	£942.71	-£1,000 - £57.29
% Return	188.5%	£942.71 / £500 * 100

NB: Shorting without using Stops (normal, trailing, guaranteed) means trade carries risk of unlimited losses

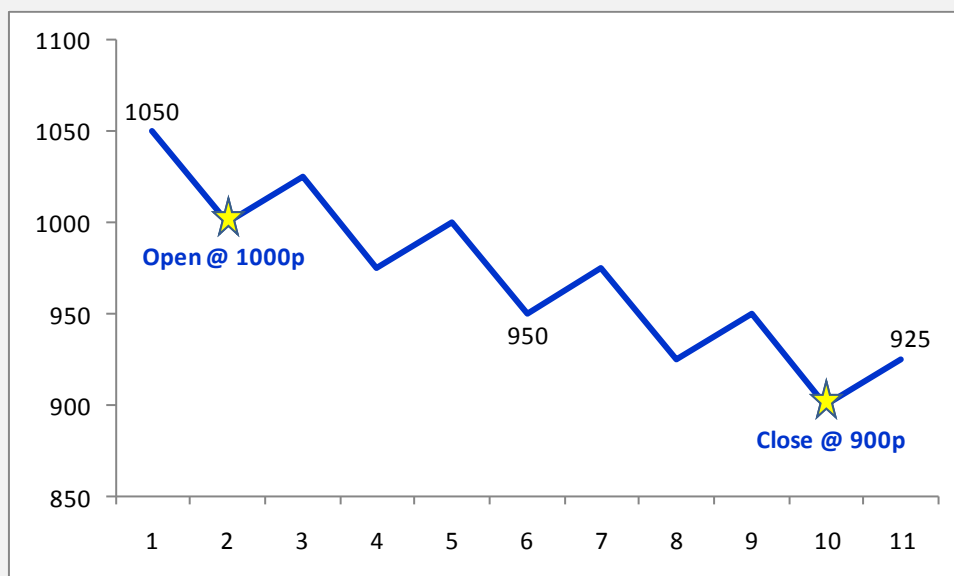
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CFD Trading Examples

Example 1 – SHORT Trade Results in a Profit

After 8 days, Sky's shares have fallen by 10% to 900p (£9). You decide to close the trade and realise the 100p profit per CFD/share.



Closing Trade	CFDs	Calculation
Closing value of CFDs	£9,000	1,000 CFDs x 900p
Change in value	-£1,000	£9,000 - £10,000
Commission (0.25%)*	£25	£9,000 x 0.25%*
Financing**	£7.29	See last page**
Total Costs	£57.29	£25 + £25 + £7.29
Total Profit/Loss	£942.71	-£1,000 - £57.29
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