



# BECOME A CFDS TRADER

Learn What is CFD Trading  
and Why you Should Try It



# Content

## Content

1	What is CFD Trading and Why you Should Try It?	3
2	CFD Trading for Beginners: How to Trade Metal Commodities	10
3	How to Trade CFD in 2021's Volatile Market	17
4	Steps to Trading CFD for a Living	24
5	Learn How to Trade CFD Like a Pro	31

## Chapter 1

# What is CFD Trading and Why you Should Try It?

If you're new to financial markets you've probably asked "What is CFD trading?" Let us help you find answers!

CFD stands for contract for difference and is one of the most popular concepts in trading today. It gained popularity in recent years due to features like hedging, leverage, and the structure of contracts. CFD is a concept in which you buy or sell based on the value of an asset, without actually owning the underlying commodity. In CFD trading you can benefit from price movements, but you don't need to buy an asset or sell an asset, you only need to trade the asset.



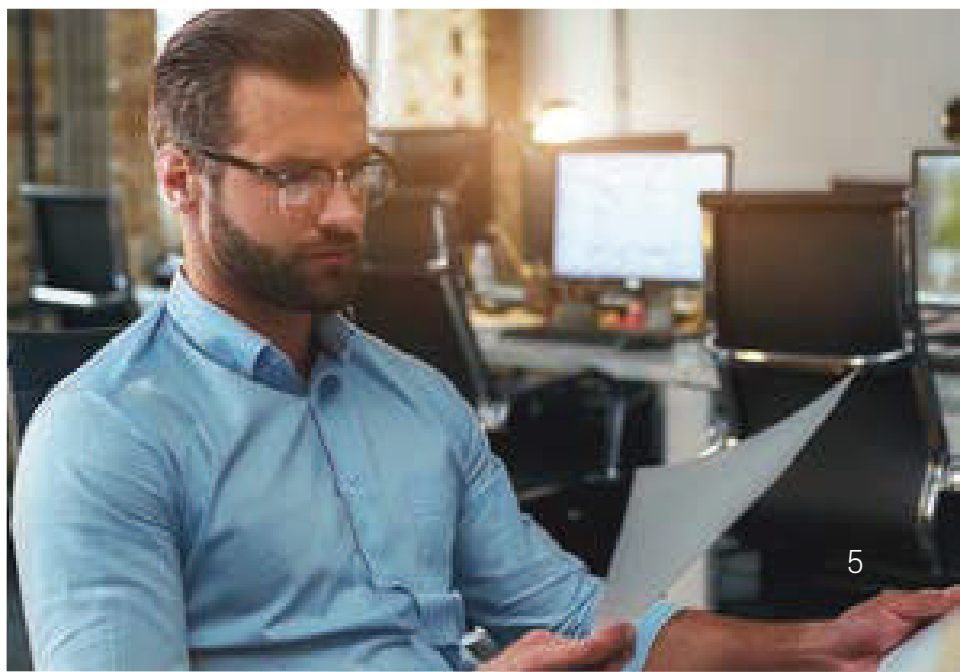
## HOW DOES IT WORK?

As stated above, the core concept behind CFD contracts is that you don't need to own an asset to profit off of its market performance. Unlike the traditional market where you have to own a particular stock or a commodity, with CFD trading you just need to trade the asset and on the basis of price movement you get benefit. Let's take an example from the stock market. If you trade a particular stock you need to own a which means that you now have stake in that company, so you can benefit from this market only in the event that the price of the stock moves up. You can hold your shares and wait for your stock to grow in value, which is not the case in a bear market where the value goes down. Through CFD trading you only need to execute a buy or sell trade depending upon what you want to do with that stock based on the direction of the market. In the CFD market you won't actually own the stock, you will just trade the stock and depending upon the end price of your contract you will get profit or loss.

# PROFIT/LOSS IN CFD TRADING

CFD trading is subject to risk, just like any other financial market in the world. There are opportunities for profit in the market but at the same time there are chances for losses as well. The market moves with massive volatility and movement can bring you profits as well as losses. So how to calculate profit or losses in CFD trading? In a CFD contract when you execute your contract then you calculate the difference between your opening price of the contract and ending price of the contract to calculate your profit/loss. For example, in the case of shares of ABC company, if you executed a buy CFD contract at the price of €200 per share and market moved from €200 to €210, now the ending price of the contract is €210. Based on simple calculation your profit would be  $€210 - €200 = €10$  per share. If you bought 100 shares, then your profit would have been  $€100 * €10 = €1000$ .

But, as we discussed earlier that CFD trading is subject to risks as well, so we need to consider the other side as well. In the case of losses, the formula for the calculation remains the same. Let's discuss the earlier example in which we imagined you executed a buy trade in shares of ABC company at the price of €200 per share. If the market moves in opposite direction, from €200 to €190 then you would bear loss in your CFD contract. Calculation of the loss would remain the same,  $€190 - €200 = -€10$  per share, so for 100 shares, loss would be €1000.





# POPULARITY OF CFD PRODUCTS

Once you answered the question of “What is CFD?” The next step is to figure out what to trade on the CFD market, as there are many trading products in CFD trading. You can select from a range of trading products including stocks, indices, commodities, and recently emerging crypto CFD contracts as well, which are really popular amongst new traders in the market. As a trader you have a choice to select from wide range of CFD trading products.

Three most popular CFD trading products are:

- **Shares**
- **Commodities**
- **Crypto**

**Shares** trading is extremely popular amongst traders around the world. A good CFD trading platform offers trading in global shares. The CFD market has emerged as one of the most popular markets in the world and availability of shares trading in their trading products played a major role in that. Previously, global shares were only available for selected individuals and organizations. Only big banks or big retail traders were able to trade the market but with the passage of time and popularity of CFD contracts, these shares have now become available

for retail traders around the world. The most popular shares around the world are Apple, Google, Facebook, Amazon, Alibaba, Bank of America, and Microsoft. All these shares were available for limited number of people before the emergence of CFD contracts, but now even common retail traders can trade the stocks without any hassle and for that a trader doesn't need to own a stock to be a part of the trading process, they can just take a position on the stock which could be buy or a sell position. This means that a trader can short the stock as well to make money from that.

**Commodities** are also quite popular with CFD traders. All of the major commodities like gold, oil, and silver are available on reputable CFD trading platforms for traders to trade without actually owning the commodity. Let's look at an example of gold to understand what is CFD trading in gold. If you trade gold in a futures market like CME (Chicago Mercantile Exchange) you need to place buy orders and on the expiration date of your contract you need to take the delivery of your order as well. In that situation you can only get a benefit from the contract if price goes up. But in a CFD contract, the first thing to realize is that you don't need to take the delivery of the asset as you are not buying the asset and secondly you can get benefit from price movement in downward direction as well because you can also open a short position in your contract to get profits from a bear market.

**Cryptocurrencies** have emerged as trading instruments with growing popularity in recent times and lot of trading platforms are offering trading in CFD products like bitcoin, ethereum, and other cryptocurrencies. This has made it essential for CFD platforms to include cryptos in their product offerings in order to attract traders who are coming to the market specifically to trade on these new assets. This is why you can now trade cryptocurrencies through your CFD contracts with your existing trading account. As the crypto market is really volatile, it is always recommended that you trade the market with extra caution, because in CFD trading your profitable trades can turn negative if you don't give proper risk management to your trades.

# A HIGHLY LEVERAGED PRODUCT WITH HEDGING FACILITY

CFD products are highly leveraged products with facility to hedge your positions at any point in time. One big facility that CFD trading gives to traders is leverage in the market. In CFD trading you can use your leverage to maximize your trading potential as compared to more traditional forms of trading. CFD trading with leverage helps you trade more as compared to non-leverage situation. But remember that with leverage, there is always risk associated and you need to trade cautiously. Leverage is a double-edged sword, it can bring you big profits but at the same time it can bring you heavy losses as well, so use leverage wisely.

Hedging is a facility in which you buy and sell at the same time in order to hedge your position, to create a no profit, no loss situation. Normally traders do that when they are uncertain about the market conditions or they don't know what they want to do. You can hedge your positions through CFD trading as you can place Buy/Sell trades anytime during market trading hours. In other cases, investors try to hedge their traditional market positions with their CFD market positions. For example, an investor with heavy Buy order of 1000 oil barrels in the commodity market in London might like to hedge their position by placing a sell order in CFD market so that their investment remains protected in case of adverse situations in the market.







# GIVE CFD TRADING A TRY

If you have answered the question “What is CFD trading?” and understood the basic concept of CFD then you should give this market a try because of the features this market offers. You can hedge your positions in this market through CFD contracts; you can take advantage of the leverage system; and you can trade a wide list of trading products including stocks, indices, commodities and crypto products. There are options for beginners in the market as well as advanced traders. Beginners can understand this market quickly and easily, and advanced traders can place their different trading strategies like hedging through CFD contracts. No matter your previous trading experience or your trading style, you can find a place in the CFD market.

# CFD Trading for Beginners: How to Trade Metal Commodities

In this article on CFD trading for beginners, we will introduce you to metal commodities, including the most widely traded metals. Throughout history, metals have played a very important role in human development. By simple definition, metals are hard elements presented in a solid state. Metals are characterised by their shiny appearance, preciousness, and their electrical and thermal conductivity. Generally, there are two types of metal commodities:

✓ **Precious Metals**

✓ **Base Metals**

**Precious Metals** are very rare and have high economic value. People use precious metals as investment instruments. Investors prefer holding metals in their portfolio as these metal commodities have been able to generate high returns in the past. Some of the leading precious metals in the commodities market are gold, silver, platinum, and palladium. Traders in the commodities market consider precious metals to be a form of money with great value.

**Base Metals** are widely used in commercial and industrial applications. These metals are sometimes used in construction projects as well. Some of the leading base metal commodities are aluminium, copper, steel, iron, and zinc. This CFD trading for beginners lesson will discuss the history of both precious and base metals and how they are traded on the CFD market today.



# HISTORY OF TRADING COMMODITIES

The history of commodities trading is as old as human civilization. The commodities have always been there as a medium of exchange. In the old days, people use to trade one commodity for the other, for example copper for silver. But as human civilization grew and changed over time, people started using commodities to buy and sell property and goods. Governments introduced gold and silver coins for commerce. According to history, the first gold coin was launched in about 643 BC by the Lydians, they started using these gold coins as a medium of exchange. By about 560 BC, the Lydians learned how to separate gold from silver which helped them to introduce silver coins as well.

The first one pound coin was introduced under King Henry VII in 1489. Later on, many countries around the world introduced their coins for buying and selling. The modern-day use of paper money was first started in China under Tang Dynasty (A.D 618-



907). In today's economic world, paper money is the widely used as a medium of exchange, but modern-day paper money is also backed by the commodity reserves like gold.

## COMMONLY TRADED METALS

The trading of metal commodities has changed significantly since those early days. These days, metal trading is being



Gold



Copper



Platinum



Silver



Zinc



Palladium

done on different commodity exchanges through futures and derivative contracts. Some of the most commonly traded metals on commodity exchanges are:

- **Gold**

Gold is one of the most precious metal commodities in the world. This precious metal holds the title of safe-haven asset among global investors. Jewellery manufacturers and electronic component suppliers drive the global demand for gold. Most of the emerging economies in the world consider gold jewellery to be a safe form of investment. The history of gold mining goes back to thousands of years ago when people discovered this precious metal and started using it as a medium of exchange.

People use gold as a store of value. They either buy and hold the precious metal or trade through an exchange. The traditional way of trading gold is through a commodity exchange, but there's an innovative way to trade the gold market and take advantage of price fluctuations, through contracts for difference (CFDs). Through CFDs you can open Buy and Sell positions on gold. You can make money when the price is going up and you can also make money when the price is going down. On the MetaTrader 4 CFD platform the trading symbol for gold is XAUUSD.

- **Silver**

Silver is the second most actively traded metal commodity in the world. Silver is another safe-haven asset for investors in economic turmoil. Throughout history, silver has had monetary applications in the market. Silver coins were very popular as a currency and many governments issued silver coins in the past as a medium of exchange. Like gold, silver has been used for jewellery in historic and modern times. Consumer demand for silver is also very high as people use this precious metal as a store of value in the form of silver coins or bars.

Silver has some industrial applications as well such as being used for electrical wiring, so this precious metal continues to

hold great importance in several arenas: investment, art, and technology. Just as we discussed with gold, traders can trade silver through CFDs as well. The MetaTrader 4 symbol of silver is XAGUSD.

## ● **Copper**

Copper is the third most widely used metal commodity in the world. Copper is famous for its industrial usage. It is a great conductor of heat and electricity and is often used for wiring and pipes. These applications drive a greater industrial demand for copper than for other metal commodities. In modern times, copper is also a popular choice for jewellers who cannot afford to work with gold or silver. Copper has always been a great investment vehicle for the investors as global demand of this base Metal has been increasing rapidly. China is the biggest consumer of copper, and any news or economic data from China will affect copper prices on the commodity market. Chile and the United States are the biggest producers of Copper. Traders can also trade Copper through CFDs.

## ● **Zinc**

Zinc is the fourth most widely used metal commodity in the world. The most common use of Zinc in the commercial market is as a coating in order to protect other metals such as steel from oxidization. It's mainly used in the process of galvanization.

## ● **Platinum**

Platinum has wide applications across different sectors, from jewellery to the manufacturing of catalytic converters (more on this below). This metal is one of the most valuable metals in the world and investors hold platinum for the same reasons that they hold gold and silver.

## ● **Palladium**

Palladium is a part of Platinum Group of Metals (PGMs). More than 50% of palladium production goes towards the production of automobile catalytic converters. Palladium could make an



attractive investment as the demand for cars with catalytic converters is rising.

## THE IMPACT OF SUPPLY AND DEMAND

In the metal commodities market, the main rule of supply and demand remains the same. If the demand for a commodity is greater than the supply, then the price will rise. If the demand for a commodity or an asset is less than the supply, then the price will fall. As both supply and demand in the commodity market is driven globally, there is no central authority controlling or manipulating the prices. That said, news from the world's largest suppliers or consumers of a commodity can have a major impact on the price. Let's consider the example of the world's most famous precious metal, gold. The top 5 Gold producing countries are:

- Russia
- United States
- Canada
- Peru
- Indonesia

As Russia and the United States are the two biggest producers of gold, any news regarding the production and supply from these countries can directly impact the price of gold. If the supply from these two countries is high as compared to the demand, then price is likely to fall in the market. Another example is copper. As mentioned previously, China is the biggest consumer of copper in the world. A slowing demand

from China can have negative impact on copper prices. Supply and demand is not the only thing which can impact the price, there are other factors as well, such as global economic events.

# GLOBAL ECONOMIC EVENTS

The global economy can have a great impact on metal commodities, specifically safe-haven assets like gold and silver. In weak economic conditions investors prefer investment in metal commodities. Global economic events like global GDP growth, economic data of particular countries, and announcements from global central banks can have a great impact on the metal commodities market. As a metal commodities trader, you can trade the market to take advantage of price movement. One of the best ways to do that is to use a CFD. If you take the time to learn about CFD trading for beginners, one of the first lessons you'll learn is that you can trade the underlying metal commodity without owning the commodity.

# CONCLUSION

To recap, metal commodities have always been an integral part of commerce, both on a personal, local level and internationally. The top two most actively traded metal commodities are gold and silver. Investors consider these two precious metal commodities as safe-haven investment assets in any economic turmoil. Other important metal commodities are copper, zinc, platinum, palladium, and steel (not covered in this article, but certainly worth learning more about on your own!). CFD trading is an increasingly popular method through which you can buy and sell commodities with leverage and low capital requirements. Another advantage of CFD is that it can be used as a hedging option. If you already own these commodities, you can hedge your positions through a CFD contract. We hope that this CFD trading for beginners lesson helps you understand the basics of this market!



## Chapter 3

# How to Trade CFD in 2021's Volatile Market

CFD trading helps you take advantage of price movement in either direction, up or down.

If you know how to trade CFD then you are here to explore many trading opportunities. One of the most significant opportunities is to take advantage of the market volatility. In financial terms, the basic concept of volatility deals with degree of variation in the price movement of an asset. By simple definition, market volatility refers to how sharply price of an asset goes up or down over a period of time. The market moves in 2 directions, upside or downside, and CFD trading helps you make money in either direction.

# HOW TO TRADE IN 2021?

2021 is here and according to many analysts around the world, this year will be one of the most volatile years for financial markets in the history. There are many factors contributing to this prediction. As of now, equity markets are jittery with no clear direction, and emerging markets are not performing as they were expected to perform. Volatility indexes around the world reached all-time highs in 2020 and the same is expected in 2021 as well. Intensity will be higher as compared to 2020. Uncertain political conditions like Brexit, US-China trade relations, uncertainty from central banks like the Federal Reserve, ECB, and the Reserve Bank of Australia shows the level of expected volatility in 2021.

Some of the key elements which can impact financial markets in 2021 are:

## US-CHINA TRADE RELATIONS

US and China are the two biggest economies in the world and the recent trade war between the two countries escalated uncertainty and volatility in the market. Political leaders gave strong statements against each other in 2020 and the same is expected in 2021 as well. The United States is looking to put more tariffs on Chinese products, and China is looking to do the same in return. This issue will play an important role as the markets react to each and every piece of news regarding these two economies. Whenever there is good news, there is strong positive sentiment in the market, and the markets react negatively to any bad news, so the volatility is always there. It will be interesting to see how the economic relations between US and China shape up in 2021.



# UNCERTAIN POLITICAL CONDITIONS

Uncertain political situations have always had a negative impact on the financial markets. In 2021, political uncertainty will play an important role as political situation in the US, Europe, the UK, and emerging economies is unstable. For example, there is a shutdown in the United States, and France is also suffering from political crisis and markets are reacting to all these situations. "Brexit" is another phenomenon in the global political scene and 2021 will be a decisive year. Brexit can have a great impact on GBP (Great Britain pound), and all GBP traders should pay attention to any developments regarding Brexit in 2021.



# THE ROLE OF CENTRAL BANKS

Central banks will play an important role in market volatility in 2021. The Federal Reserve has already announced plans to raise the interest rate in the United States in 2021. They are expected to raise the interest rate multiple times, but at the same time there is uncertainty regarding the economic growth. Weakness in economic growth can have a great impact on their decision which means it can bring volatility into the market. The Reserve Bank of Australia along with the European Central Bank and Bank of England are poised to take strong steps for economic growth in 2021.

# HOW CAN YOU TAKE ADVANTAGE OF VOLATILITY THROUGH CFD TRADING?

So, we have already discussed several of the most pressing economic events and factors which can have a great impact on the financial markets. Now we will discuss how you can take advantage of the market volatility through CFD trading. If you know how to trade CFD, then you can place your trades according to the market conditions. For example, in the case of US-China trade relations, if there is good news about a potential agreement between the two countries then it will boost the financial markets, through CFD trading you can place buy trades in equity markets like S&P 500 or Dow Jones or Shanghai Composite. An agreement would boost financial markets in both countries. Similarly, in the case of negative news you can actually open a sell trade through a CFD contract to take advantage if the market falls, so CFD can help you in both situations.

In terms of currencies, let's take an example of the US dollar (USD). If the Federal Reserve in the United States decides to raise interest rates in the country, then it will have a direct impact on the US dollar and USD will get stronger which means a buying opportunity for traders. CFD traders can open buy positions to take advantage of a strong US dollar. But as we discussed the buy case, if the Federal Reserve failed to raise the interest rate, then it will have a negative impact on the dollar and USD will get weaker, which means CFD traders can open short positions on USD in order to take advantage of the weak dollar.

# BULLS VS BEARS IN 2021

2021 will be a testing year for the global economy as we discussed earlier in this article. The bull vs bear war is getting more fierce over time, and the global financial markets are at a critical point after recovering from financial crises. One thing is for sure; that volatility will create lot of trading opportunities. If you are a CFD trader, then you are the best one to take advantage of these situations. A CFD contract helps you trade an asset without actually owning, you can simply take advantage of price movement. 2021 will provide lot of opportunities to the bulls as well. Although overall market sentiment still looks pretty bearish but that doesn't mean it will remain bearish throughout the year, there should be some trading opportunities for bulls as well. One example is gold, the safe-haven asset has always been the preferred option for the investors in a bear market. Through a CFD contract you can profit from the reliability of gold.

Bears are eyeing 2021 as their year. Trade wars and uncertainty will help bears to take control of the market. The best thing about trading CFD is that you can take advantage of even the worst bear market to make some money, for example if the oil prices are falling, you can place short positions in oil through a CFD contract and you can make money if price goes down.

## CFD AS A HEDGING TOOL

If you know how to trade CFD, then you can actually hedge your current investments in order to protect them. One of the key advantages of CFD trading is that it can help you protect your physical investments through hedging. For example, if you bought physical gold, let's say 10 ounces of gold, but the prices fell in the market, under normal circumstances it would have been a loss for you as an investor. But with a CFD contract you can hedge your buy position in the physical market with a

sell position in the CFD market. In this case you can open a sell CFD position in gold for the same volume as you did in physical market but the advantage is that you open that position with a smaller investment due to leverage.

CFD is an ideal risk management tool for investors to protect their investments. In order to better understand the role of CFD in hedging, let's imagine a stock market scenario. Mr. A is an investor in Facebook shares, and he bought 1000 shares of Facebook through a broker at the New York Stock Exchange. He is worried about his investment, as he is not sure where the market will go because of uncertain conditions. As a hedging tool, Mr. A opened a sell CFD contract on Facebook with the same amount of shares, so now Mr. A's investment is protected because he used a CFD contract as a hedging tool.

## CONCLUSION

In the end, it is essential for you to understand the importance of CFD trading in market volatility. If the market is volatile, then there are opportunities regarding buying as well as selling because the market is moving in both directions. Through CFDs you can open buy as well as sell positions. 2021 will be a volatile year because of economic uncertainty, and as a trader you need to prepare yourself for all the opportunities in 2021. Take advantage of bullish as well as bearish markets, as you can trade both through CFDs. Some key rules of trading CFD remains the same: prepare a trading plan, use leverage wisely, and control your emotions. Selection of a trading platform is an important factor that traders need to consider. Although there are many online CFD trading platforms, but Trading & Co provides one of best platforms in the market. We invite you to trade 2021's volatile market with us.



# Steps to Trading CFD for a Living

If you are thinking of trading CFD for a living then you must be prepared for challenges as well as success, as this journey is not easy. That is not to say that it is impossible, or even unlikely. You just need to prepare yourself accordingly, so that you can trade the market for better results. Here are the steps through which you can prepare yourself for better results in the market.



Day trading is one of the toughest jobs in the financial industry. If you are looking to trade financial markets for living, then you need to work really hard on different areas to prepare yourself accordingly. In the early days, traders used to trade the market through trading floors or in person through brokers. At that time brokers were individuals and there was no concept of brokerage houses, but with the passage of time financial trading evolved from trading floors to trading platforms. Everything is now online, traders in financial markets can trade over the internet through different trading platforms and they no longer need to visit brokerage houses.

Online trading has continued to evolve in recent years and one of the most interesting emerging concepts in financial trading in the 21st century has been CFD trading. CFD stands for contract for difference, and through CFD trading you can take advantages of price changes in the market without actually owning the underlying asset. CFD trading is different from other forms of trading. For example, in a gold contract if you buy certain amount of gold then at the expiration date of your contract, you need to take the delivery of gold, similarly in the case of an oil contract as well, you need to take the delivery by the end of the contract. But in CFD trading, the contract for difference concept doesn't require you to own the underlying asset, which in these cases are gold and oil. In CFD trading you can just take advantage of a price change. You can place a buy or sell order and you can take advantage of the movement of the market without being required to take the delivery by the end of contract expiration.



## TRADING CFD FOR A LIVING

If you are thinking of trading CFD for a living then you must be prepared for challenges as well as success, as this journey is not easy. That is not to say that it is impossible, or even unlikely. You just need to prepare yourself accordingly, so that you can trade the market for better results. Here are the steps through which you can prepare yourself for better results in the market.

# EDUCATION AND MARKET RESEARCH

Education along with market research is very important for your professional journey in CFD trading. Education in CFD trading is little different from other markets because you need to have a different set of skills in the CFD market as compared to forex or the stock market. As a first step, you need to understand the key concepts of CFD trading so that you can have an idea of the market, but after that you need to understand the skillset that is required to achieve success in CFD trading.

CFD products are highly leveraged and you need to trade them with extra caution in order to avoid any adverse situation in the market. Leverage helps you maximize your trading power which in the end helps you to maximize your profits but at the same time it can maximize your losses as well. This means that it is essential for a trader to know how to use leverage wisely in different trading conditions. Position size is also an important factor. If you are trading with good capital you can utilize a big contract size, but if you are trading with low capital then it will be risky for you to trade with a big contract size. For those new to the market, when we say “contract size”, we’re referring to the number of lots.

Let’s look at an example including both these factors of leverage and position size. If you bought shares of ABC company through a CFD contract, and if the price of the shares at the time of contract was €10 per share and you bought 10,000 shares, by simple calculation you need to have €100,000 in your trading account to place the trade. But with the help of leverage, you can place a buy trade with lower capital. If the leverage of the account is 1:100, then you only need €1000 in your account to place the trade because now the buying power of your €1000 with the help of 1:100 leverage is €100,000. This demonstrates why the concept of leverage really important and fascinating for traders, but one thing to be aware of is that if the market moves against you then you can lose your money as well. Similarly, with a high position size your trading account is at bigger risk as compared to a lower position size.



# CAPITAL MANAGEMENT

Capital management is a key for success in CFD trading. You need to understand your financial resources first in order to trade the market through CFDs. CFD trading possesses risk and if you don't use capital management techniques then your trading account is at high risk. If you are thinking to start trading CFD for a living then you must start with a good amount of initial capital, because if you are thinking of making your bread and butter from CFD trading then it is necessary for you to start with a good amount in order to minimize risk in the market. People in the market have a misconception about the CFD market that with a lower amount invested, the risk is low as well. However, this is wrong: with lower amounts your risk is very high because your account won't be able to sustain against extreme market conditions. The more liquidity you can maintain in your CFD trading account, the lower your risk is of losing everything in one bad trade.

Some other capital management techniques include the usage of stop loss levels. There is a saying in financial markets: "Always trade with caution", because financial markets can move dramatically. This saying is even more important in CFD trading because you are at high risk with high leverage. Obviously you can make more money as well, but at the same time you need to be cautious in case there are some unfavorable moves in the market. Stop loss levels help you cut your losses in adverse market conditions. In order to book your profits in favorable market conditions, you must use Take profit levels so that you can book your profits in winning trades.

# HEDGE YOUR TRADES IN CFD TRADING

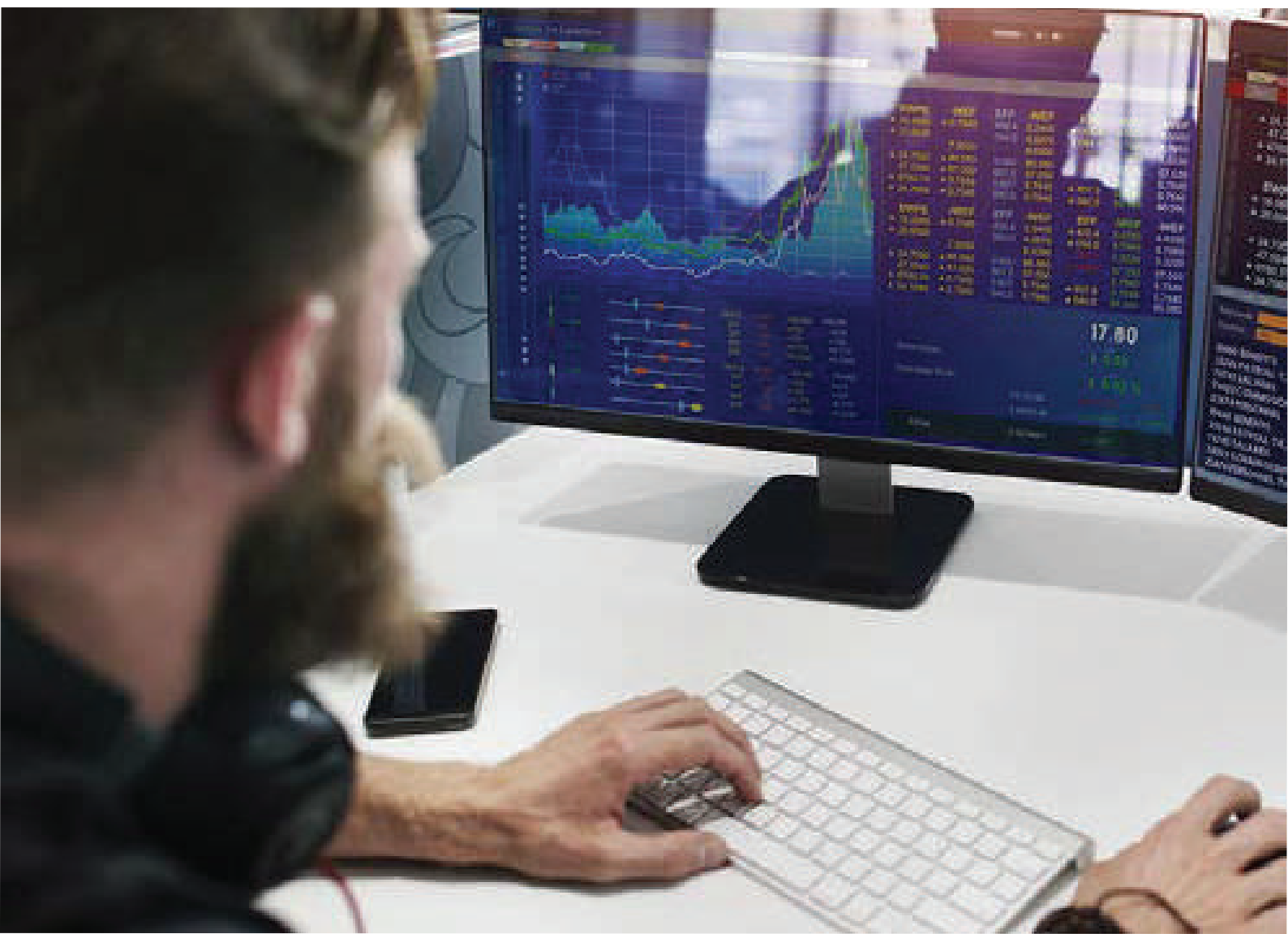
One of the things which makes CFD trading different from other forms of financial trading is that in CFD trading you can actually hedge your positions against other forms of trading. For example, if you bought a contract of 100 barrels of crude oil in the futures market, but unfortunately, the prices went down, instead of selling your buy contract of 100 barrels of oil at loss, you can actually hedge your position by putting a sell contract in CFD market. This feature of CFD trading is really useful in hedging. Hedging protects you from extreme market conditions, and for a day trader who is trading CFD for a living, it is very important to hedge your positions.

# CHOOSE YOUR BROKER WISELY

The selection of a broker is probably the most important step in the professional journey of a trader. For this step you need to do your research and find the option which best suits you. CFD trading is not offered by every broker in the market and it is very important for a trader to understand the CFD trading conditions being offered by the broker so that they can decide if conditions suit their style of trading. For example, low spread is very important for a trader who is trading CFDs in the market. Tight spread, good order execution, and deposit withdraw methods are some of the most important features that you need to look when you are selecting a broker. Regulation and safety of funds should always be the top priority for traders in the market. Beyond that, your decision may be influenced by what trading platforms your broker supports or what educational resources they offer.

# CONCLUSION

There is no doubt about the fact that CFD trading is tough, and may be not suitable for everyone in the market because you need to understand the concept of CFD trading and the risks associated with it. It is not enough to just understand the concept of how to trade CFD, because there are many risks in CFD trading which may not be suitable for certain traders, but fact of the matter is that most traders like CFD trading because of the nature of the product. You can trade without owning underlying asset, you can take advantage of leverage, and you can buy/sell a wide list of trading instruments. All these of features make CFD trading an exciting product to trade in the market. For all those day traders who are looking forward to start CFD trading for living, you should define your trading plan, select trading instruments and do your research on those, use leverage wisely, use CFD as hedging contract, and select a good broker in order to trade the market efficiently and effectively.



## Chapter 5

# Learn How to Trade CFD Like a Pro

CFD stands for contract for difference, and it is one of the most popular forms of derivative trading. In CFD trading you can buy or sell without owning an underlying asset. If you're wondering how to trade CFD to make money, you've come to the right place.



# LEARN HOW TO TRADE CFD LIKE A PRO

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When a trader enters into a CFD contract, he can profit from the price movement without owning an underlying asset. In CFD trading, the difference between the entry and exit point is the profit of the trader. CFD is a contract between the client and the broker and doesn't involve any other party. When you are entering in a CFD contract then you are directly dealing with the broker. There are many advantages of CFD trading and that's why it has emerged as one of the most popular forms of derivative trading in the recent past.

Online trading has seen almost constant innovation in the past 2 decades. Gone are those days when traders used to go to the floor of an exchange to place an order through a broker. These



days online trading is available for anyone, you just need to have an internet connection and a platform, you can even trade from your smart phone with a mobile platform.

The best thing in CFD trading is that you don't need to own an underlying asset, you just enter into the market at a certain level and put in your trade. It's a simple process, you simply select number of units of that asset which you want to buy or sell and when you exit the trade then the difference between your entry and exit price is your profit.

**There are many advantages of CFD trading, some of which are mentioned below:**

- Highly leveraged product
- Flexible market conditions
- Variety of trading instruments
- No commissions
- Hedging tool

## HIGHLY LEVERAGED PRODUCT

CFDs are highly leveraged products. This means that if you want to know how to trade CFD, you need to know how to use leverage properly. Leverage is the amount that you borrow from your broker in order to open a large position from a small amount in your trading account.

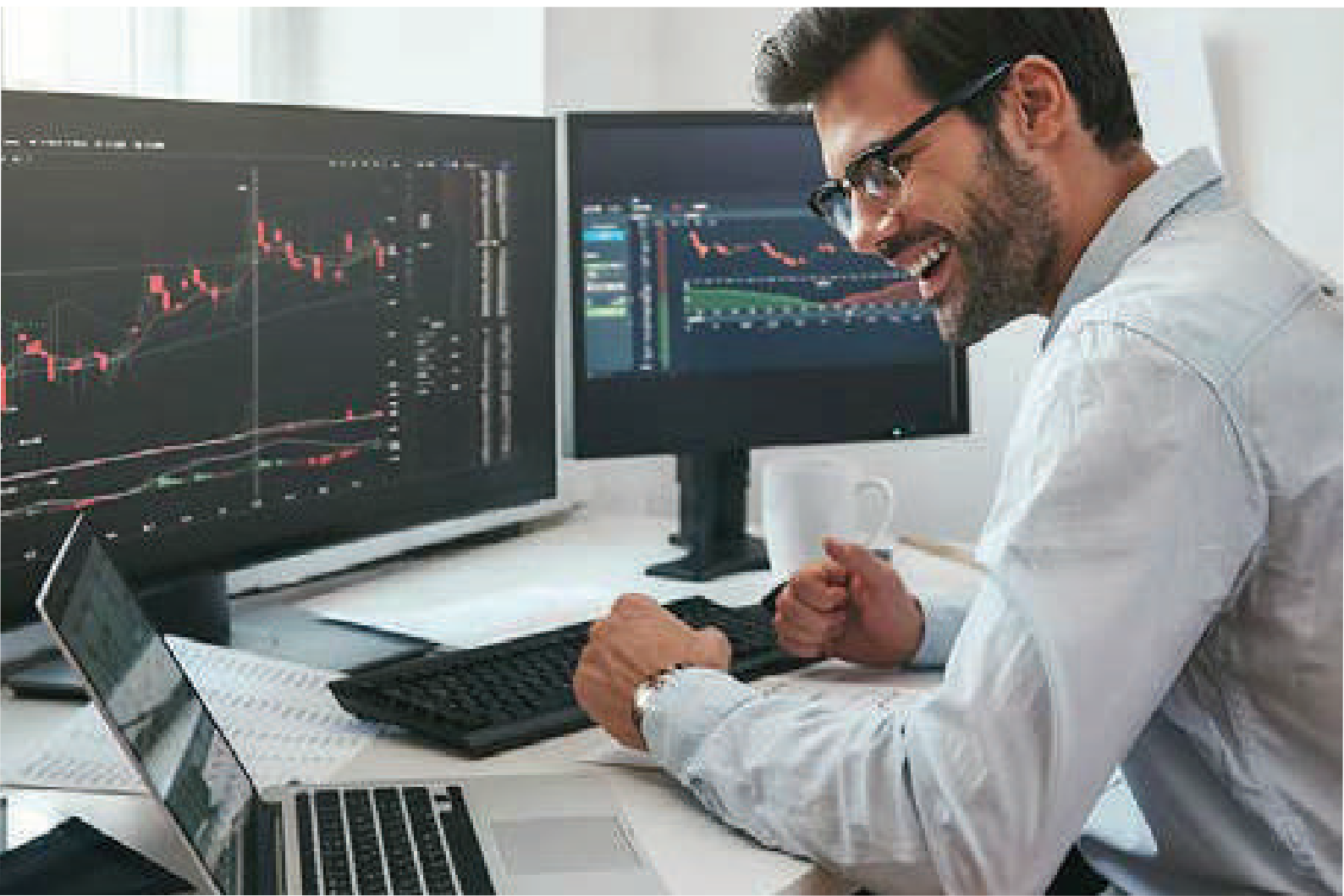
CFD trading gives small traders a chance as well to play big in the market, but at the same time you need to play with cautious. Margin requirements in CFD trading are pretty low, which means that you can trade as asset with a smaller initial investment, which makes this market more attractive. Risk management is especially important if you are using leverage, you need to make sure that you have certain amount in your

trading account to counter adverse market conditions.

One important suggestion for CFD trading is that use leverage in CFD trading with cautious because on one side it can maximize your profits but on the other side it can maximize losses as well if market moves against you.

## FLEXIBLE MARKET CONDITIONS

Market conditions in CFD trading are rather flexible. There are no rules regarding high margin requirements, you can short the market anytime, shorting is not prohibited, and there are no restrictions regarding borrowing which makes these products even better for traders. These days you can make money in the market from movement in either direction, as a trader you don't need to wait for buying opportunity. If you see an opportunity to go short in the market you can do that with CFD trading. If you know how to trade CFD then you can make money whether the market is going up or down.





# VARIETY OF TRADING PRODUCTS

One of the most important features of CFD trading is that you have your choice of different trading instruments like Stocks, Indices, Commodities, Treasuries, and Forex. A good CFD trading platform is a platform with variety of trading products.

Some of the most popular CFD products are indices and shares. In most cases it is pretty difficult for a trader to trade indices like S&P 500 and NASDAQ directly, in this case CFD trading gives them an opportunity to trade these indices through a CFD contract. The most popular indices are S&P 500, Dow Jones, NASDAQ, FTSE 100, GDAX, CAC, NIKKEI 225.

Just like indices you can trade stocks as well in CFD trading. If you are interested in stocks such as Apple, Google, Facebook, JP Morgan, and Bank of America, then you can trade these shares through CFD trading. All these trading products are available through CFDs and you can enter the market to place your buy/sell orders anytime during the market hours.

# NO COMMISSIONS

There are no commissions in CFD trading, because your trade is not routing through a liquidity provider. So, the question is that how does a broker make money from CFD orders? Instead of a commission, your broker makes money from the spread which is the difference between the ask and the bid price. Spreads are mostly variable and spread depends upon how volatile an asset is. The spread can increase or decrease depending the market conditions and condition of the particular asset.

# HEDGING TOOL

CFDs can be used as hedging tool as well. In fact, most of the institutional investors in the market are using CFDs as hedging tool. You can hedge your real physical asset by going short against that through a CFD contract. For example, you bought gold as a physical asset as a long-term investment and now the price of gold is going down, so in order to protect yourself from potential losses you can execute a short CFD contract which will protect you from adverse market conditions. All the losses of value for the real asset could be covered by the CFD contract, which makes CFD trading an effective trading product to be used as a hedging tool.

# HOW TO GET RESULTS

If you want to know how to trade CFD with good results, you need to follow these tips:

- ✓ PREPARE A TRADING PLAN
- ✓ USE CFD LEVERAGE WISELY
- ✓ SET REALISTIC GOALS
- ✓ THINK POSITIVE
- ✓ CONTROL YOUR EMOTIONS

## ● **Trading Plan**

Before you start learning how to trade CFD, you need to prepare a trading plan. Do your research and analyse the market, make a trading plan before you enter into the market, and ask yourself again and again why you want to trade and what you want to achieve. Research is an important component in a trading plan, and as a trader you need to prepare yourself to follow a selected list of trading instruments because the market is too big and you don't have enough time to follow everything. Focus your research on the trading instruments of your interest and follow them for your trading plan.

## ● **Leverage**

CFD products are leveraged products and it can help traders to place trades which they couldn't afford under normal trading conditions. Leverage can be great for traders but at the same time they need to use it very carefully so that they can protect their trading capital because it can maximize their trading losses as well. It's very easy to just increase your trade size when you are winning, but the market can move anytime and if you are using leverage carelessly and with increased trade size then it can harm you. If you are just starting in the market, then you should keep your trade size small and increase it over time.

## ● **Goals**

Trading goals need to be realistic. A moderate approach of trading with caution can help you achieve your trading goals. When you enter into the CFD market, you must set some trading goals that you want to achieve because those goals will keep you motivated to achieve your target but at the same time those goals need to be based in reality. You can't have a goal to make 1000% profit from every trade, and if you set that expectation you will quickly be disappointed. Define your goals and risk levels based on what you can feasibly achieve.



- **Think Positive**

Positive thinking is very important in life and it becomes even more important in CFD trading because in tough situations it's very easy to be negative. When market conditions are rough then it can have a negative impact on you, you must not feel down about your losses. When you enter into a trade, think positively, if you experience success then its great, but if not then you need to learn from your mistakes and move forward.

- **Control your emotions**

In CFD trading, the toughest thing to do is to control your emotions because when the market is moving against you, panic sets in, and panic can have a negative impact on your overall trading. Techniques like stop loss and take profit can help you in that decision making, apart from that you need to try to stay calm in tough situations.

If you follow the tips shared in this article, you will be well on your way to trading CFD like a pro. There's a lot to learn about this market, but it can be very rewarding for those who take the time to develop a plan and make smart use of their leverage.