CFD

CFD stands for **contract for difference** this is a popular form of derivatives trading.

CFD trading allows you to speculate on rising or falling prices in rapidly changing global financial markets, such as forex, indices, commodities, stocks and own stocks.

BENEFITS

One of the biggest advantages of trading with CFDs is that you can make predictions about price movements, so your profit or loss will depend on whether your predictions are correct (or not). But remember that you cannot predict the market, you can only make estimates.

Furthermore, CFDs offer the opportunity to operate on the bullish and bearish markets, therefore also to invest in short.

In fact, in the event that Apple shares depreciate, you can sell CFDs on shares with profits greater than a base sale. You will always be able to trade the difference in price between opening and closing the position, but you will only make a profit if the stock price goes down or, conversely, make a loss if the market value goes up.

HOW DO CFDs WORK?

The 4 Key Concepts Of CFD Trading

1.Spread and commissions

CFD prices have two types of quotes: the 'buy' price and the 'sell' price.

• The sell price (or bid / bid price) is the price at which it is possible open a short position with CFDs

• The buy price (or ask / ask price), is the price at which it is possible open a long position with CFDs

Selling prices will always be slightly lower than market prices, while purchase prices will always be slightly higher. The difference between the two prices is the spread. The spread in trading is the difference between the quoted buy (ask) and sell (bid) price for an asset. This is an essential element of CFD trading, as it determines the price.

2. Size (or number) of contracts

CFDs are traded in standard contracts (called lots). The size of a single contract varies according to the value of the underlying asset.

For example, silver is traded in the commodity market in 5,000 troy ounces lots and the equivalent in CFD contracts is equal to 5,000 troy ounces. For shares in CFDs, the number of contracts usually equates to a share of the company in which you are investing. To open a position equivalent to 500 HSBC shares, a trader must purchase 500 HSBC CFD contracts.

3. Duration

CFD transactions generally do not have a specific expiration date, in fact, the position is closed by entering an order opposite to that used for its opening. For example, a buy position on 500 gold contracts is closed with a sell order for 500 gold contracts

4. Profits and Losses

Suppose, for example, that a trader wants to buy 50 contracts on the FTSE 100 index when they are trading at 7500 points per share. A single FTSE 100 contract equates to € 10 for each single point movement in the underlying index. Therefore, if he opens a long position, for each upward movement point, he will make a profit of € 500 while for short positions he would lose € 500 (50 contracts multiplied by € 10).

CFDs are a dangerous financial instrument and that is not an expert on the subject risks generating only losses, in fact, online trading platforms always report that over 60% of users lose money by trading in CFDs.
Always act with caution or refer to those who have more knowledge.

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