FX & CFD TRADING

ABOUT QUESTRADE

Headquartered in Toronto, Canada, Questrade Inc. (Questrade) provides Canadians with high-speed, direct access trading in the U.S. and Canadian stock and options markets through its IQ trading platforms, as well as derivatives trading in FX and CFDs. Since 1999, the company has led the industry in delivering outstanding service, exclusive products and services, and competitive pricing. This commitment to innovation has appealed to independent investors, and for the past two years, the company has ranked as Canada's fastest growing online brokerage. In February 2012, Questrade also earned the designation as one of Canada's 50 Best Managed Companies.

Questrade launched CFD trading in April 2013. Edward Kholodenko, President and CEO of Questrade, said "CFDs present our clients with an opportunity to trade in a wide variety of markets and instruments including indices, metals, energy, and agriculture. This enables traders to diversify their trading portfolio."

Questrade is a Canadian investment dealer and online discount brokerage regulated by the Investment Industry Regulatory Organization of Canada. Customers' accounts are protected by the Canadian Investor Protection Fund within specified limits. A brochure describing the nature and limits of coverage is available upon request.

CONTACT US

Questrade
5650 Yonge St., Suite 1700
Toronto, Ontario, M2M 4G3
Phone: 416.227.9876
www.questrade.com

Online FX and CFDs
Toll free: 1.866.980.9591 option 2
Fax: 1.888.767.1731
fxcfd@questrade.com

DISCLAIMER

Before deciding to participate in trading derivatives, including foreign exchange contracts (FX) and contracts-for-difference (CFDs), you should carefully consider your investment objectives, level of experience, and risk appetite. Most importantly, do not invest money you cannot afford to lose.

There is considerable exposure to risk in any FX and CFD transaction including, but not limited to, leverage, creditworthiness, limited regulatory protection, and market volatility that may substantially affect the price, or liquidity of an FX or CFD instrument.

FX and CFD trading is leveraged, meaning that a small price movement in your favour can result in a high return on the deposit requirement placed for the bet, but a small price movement against you may result in substantial losses. This could result in being required to deposit additional funds to maintain your position. If you fail to meet margin requirements, your position may be liquidated, and you will be responsible for any resulting losses. Risk-reducing strategies such as stop-loss or limit orders will help manage your exposure, but they will not eliminate the risk from trading. It is important to note that when trading, increasing your leverage will increase your risk. Additionally, contingent orders are not guaranteed and will not necessarily minimize your risk.

To learn more about the risks of trading FX and CFDs, please review **Appendix B – Risk information document for derivatives**.

All information contained in this eBook is provided as general commentary, and does not constitute investment advice. Questrade has taken reasonable measures to ensure the accuracy of the information in this eBook and will not be held liable for any loss or damage, including without limitation, any loss of profit, which may arise directly or indirectly from use of or reliance on such information.

Contracts-for-difference are subject to regulatory approval for Quebec residents. Alberta residents must be accredited investors to trade FX and CFDs.

CHAPTER 1
INTRODUCTION TO FX AND CFDs

Foreign exchange contracts (FX) and contracts-for-difference (CFDs) are derivative products traded in the over-the-counter (OTC) market. These products, collectively known as FX and CFDs, derive their value from an underlying asset such as a currency, a commodity or an index that is traded in either the spot or futures market. FX and CFDs are generally traded on an internet-based platform between the client and the dealer, and there is neither the option nor the obligation for either party to make or accept delivery of the underlying asset.

An FX or CFD trade is represented by an agreement between the client and the dealer to exchange the difference between the opening and closing price of an FX or CFD position. There is no need to acquire ownership of the underlying asset on entering a long position, and similarly, there is no need to deliver the asset with a short position. With Questrade FX and CFDs, one can speculate on the future price movement of a variety of products including currencies, metals, energy, grains, soft commodities, and indices.

FX

In 1971 President Nixon abandoned the gold standard to fight inflation and a deteriorating balance of payments. This move ended the convertibility of U.S. dollars into gold at the price of $35 an ounce under the Bretton Woods system established after the Second World War. Without the U.S. dollar pegged to the price of gold, flexible exchange rate regimes were adopted in many countries ushering in the global FX markets with participants that include central and commercial banks, governments, multinational corporations, insurance companies, investment funds, pension funds, hedge funds, and individuals.

Using various types of transactions, speculators, investors, and hedgers acquire, manage, and mitigate the desired exposure to particular currencies. Traditional FX trades in the OTC market are primarily for spot and forward settlement, while more sophisticated trades in options and swaps are widely used by institutional investors. In a typical FX and CFD account for the retail investor, an FX trade requires no settlement of currencies bought and sold. Instead, the difference between the opening and closing price of the FX position is credited (if positive) or debited (if negative) to the client.

CFDs

Introduced to the U.K. in the 1980s as an alternative to exchange-traded products, CFDs are leveraged derivative securities that allow investors to speculate or hedge on the underlying security without the need for ownership and physical settlement. Like FX, CFDs are traded OTC, and investors may take long or short positions to take advantage of rising or falling markets. The CFD's economic performance is determined by its reference pricing in relation to the pricing of the underlying security, which may be common shares listed on a stock exchange, foreign currencies, commodities, bonds, or indices.

Some CFDs follow an expiration calendar like futures contracts, while other CFDs don't expire but are rolled overnight subject to a financing charge on the leveraged amount of the position. Subject to the features of the particular CFDs, the services of the CFD provider and the regulatory regime that governs their distribution, the advantages of CFDs may include:

1. Lower margin requirement than a comparable exchange-traded contract
2. Flexible contract sizes
3. Lower execution costs
4. Stamp duty exemption
5. No physical settlement

6. No borrowing costs for short share CFD positions
7. Participation in corporate action
8. Exposure to international markets
9. Asset diversification
10. The ability to carry a hedged (long and short) position in the same CFD
11. Risk management tools for monitoring risk and liquidating losing trades

Conversely, the risks and disadvantages of CFD trading must also be considered carefully prior to committing funds for trading in a live account. These factors will be examined in detail in **Chapter 4 – Leverage and risk**:

12. Counterparty or default risk of the CFD provider
13. Market risk of leveraged trading
14. Liquidation risk of thinly traded CFD products
15. Expiration risk of certain contracts
16. Financing or rollover charges
17. Limited access to some issues via share CFDs
18. No voting rights via share CFDs

To learn about the risks of trading derivatives such as FX and CFDs, please refer to **Appendix B – Risk information document for derivatives**.

CHAPTER 2
RANGE OF PRODUCTS

The universe of FX and CFD products includes the following:

1. Currency (major and emerging market spot currencies) CFDs
2. Spot gold and silver CFDs quoted in major currencies
3. Commodity CFDs of:

Energy products	Agricultural products	Metals
Crude oil	Grain and oilseed	Base
Natural gas	Livestock	Precious
Refined products	Lumber and pulp	
	Softs	

4. Bond and interest rate CFDs
5. Share CFDs
6. Exchange-traded-fund (ETF) CFDs
7. Index CFDs

Currently Questrade offers FX and CFD trading in currencies, metals, energy, grains, soft commodities, and indices. See **Appendix A – CFD product details**.

FX

Technically speaking, all FX trades in a typical FX and CFD account are currency CFDs. Questrade offers trading in 50 FX pairs consisting of all the major currencies and emerging market currencies, trading in lot sizes of 1, 0.1, and 0.01contract that correspond to 100,000 units, 10,000 units, and 1,000 units of the contract currency:

Group	Description	Currency (or FX) CFD symbols
U.S. dollar against major currencies		
	Euro against U.S. dollar	EUR/USD
	U.S. dollar against Japanese yen	USD/JPY
	British pound against U.S. dollar	GBP/USD
	U.S. dollar against Swiss franc	USD/CHF
	U.S. dollar against Canadian dollar	USD/CAD
	Australian dollar against U.S. dollar	AUD/USD
	New Zealand dollar against U.S. dollar	NZD/USD
U.S. dollar against Asian currencies		
	U.S. dollar against Chinese renminbi	USD/CNH
	U.S. dollar against Singapore dollar	USD/SGD
	U.S. dollar against Hong Kong dollar	USD/HKD

U.S. dollar against European currencies		
	U.S. dollar against Russian ruble	USD/RUB
	U.S. dollar against Swedish krona	USD/SEK
	U.S. dollar against Danish krone	USD/DKK
	U.S. dollar against Norwegian krone	USD/NOK
	U.S. dollar against Czech koruna	USD/CZK
	U.S. dollar against Hungarian forint	USD/HUF
	U.S. dollar against Polish zloty	USD/PLN
U.S. dollar against other currencies		
	U.S. dollar against Mexican peso	USD/MXN
	U.S. dollar against Turkish lira	USD/TRY
	U.S. dollar against South African rand	USD/ZAR
Major Euro crosses		
	Euro against Japanese yen	EUR/JPY
	Euro against British pound	EUR/GBP
	Euro against Swiss franc	EUR/CHF
	Euro against Canadian dollar	EUR/CAD
	Euro against Australian dollar	EUR/AUD
	Euro against New Zealand dollar	EUR/NZD
Minor Euro crosses		
	Euro against Swedish krona	EUR/SEK
	Euro against Danish krone	EUR/DKK
	Euro against Norwegian krone	EUR/NOK
	Euro against Czech koruna	EUR/CZK
	Euro against Hungarian forint	EUR/HUF
	Euro against Polish zloty	EUR/PLN
	Euro against Turkish lira	EUR/TRY
British pound crosses		
	British pound against Japanese yen	GBP/JPY
	British pound against Swiss franc	GBP/CHF
	British pound against Canadian dollar	GBP/CAD
	British pound against Australian dollar	GBP/AUD
	British pound against New Zealand dollar	GBP/NZD
Swiss franc cross		
	Swiss franc against Japanese yen	CHF/JPY
Canadian dollar crosses		
	Canadian dollar against Japanese yen	CAD/JPY
	Canadian dollar against Swiss franc	CAD/CHF

Australian dollar crosses		
	Australian dollar against Japanese yen	AUD/JPY
	Australian dollar against Swiss franc	AUD/CHF
	Australian dollar against Canadian dollar	AUD/CAD
	Australian dollar against New Zealand dollar	AUD/NZD
New Zealand dollar crosses		
	New Zealand dollar against Japanese yen	NZD/JPY
	New Zealand dollar against Swiss franc	NZD/CHF
	New Zealand dollar against Canadian dollar	NZD/CAD
Exotic crosses		
	Singapore dollar against Japanese yen	SGD/JPY
	South African rand against Japanese yen	ZAR/JPY

Gold and silver

At Questrade, spot gold and silver are traded in the same manner as currency pairs where the precious metal is quoted in a number of major currencies. Gold trades are available in flexible contract sizes starting at 0.1 contract (1 oz) or 1 contract (10 oz). Your position sizes in gold trading can be scaled up in either increment (0.1 or 1) or a combination of both. Silver trading lot sizes are also 1 and 0.1 contract. With silver, 1 contract corresponds to 500 oz, and 0.1 contract corresponds to 50 oz:

Group	Description	Gold and silver/currency symbols
Gold against major currencies		
	Gold against U.S. dollar	XAU/USD
	Gold against Euro	XAU/EUR
	Gold against British pound	XAU/GBP
	Gold against Swiss franc	XAU/CHF
	Gold against Japanese yen	XAU/JPY
	Gold against Australian dollar	XAU/AUD
Silver against major currency		
	Silver against U.S. dollar	XAG/USD

As an attractive jewellery option, a hedge against inflation, a “safe-haven” investment, or an anti-U.S. dollar trade, gold has gained popularity in the past decade as an alternative to fiat currencies. Gold is affected by the actions of the largest central banks, particularly by news of bullion purchases or sales, and the adoption of easy or tight monetary policy. In response to greater demand for product diversification, it also trades against other currencies. Questrade offers trading in XAU/USD, XAU/EUR, XAU/GBP, XAU/CHF, XAU/JPY, and XAU/AUD.

Silver is also a precious metal accorded the “safe-haven” status although it primarily benefits from industrial demand. As a “high beta” asset, it usually outperforms gold both on the upside and downside. As such, the gold/silver ratio is a proxy for risk sentiment, with “risk-on” expressed through a lower ratio and “risk-off” or risk aversion suggested by a higher ratio.

CFDs

Questrade provides asset diversification and foreign market exposure with its CFD products through the singular access point of the Questrade FX and CFD account. In addition to currency CFDs represented by 50 FX pairs, other CFD products based on a diverse range of underlying assets such as energy, metals, grains, soft commodities, and indices are also available for trading during the hours of operation for the underlying exchange markets.

Energy

Group	Description	CFD symbols	Contract size	Pricing	Underlying exchange
Crude oil					
	Brent Crude	UK_OIL	100 barrels	U.S. dollar	ICE – London
	WTI Crude	US_OIL	100 barrels	U.S. dollar	NYM – New York
Natural gas					
	NatGas	US_NATG	2,500 BTUs	U.S. dollar	NYM – New York
Refined products					
	Heating Oil	HTG_OIL	3,000 gallons	U.S. dollar	NYM – New York

Crude oil is extracted as a hydrocarbon and processed into refined products such as diesel, gasoline, motor oil, heating oil, and jet fuel, etc. It's also a raw material for derivatives products such as plastics, fertilizer, cosmetics, detergent, and medicine, etc. Oil prices are influenced by global supply and demand conditions that are reflected in changes to production and inventory data, which in turn are impacted by consumer demand and the relative strength of the major economies.

Metals

Group	Description	CFD symbols	Contract size	Pricing	Underlying exchange
Base					
	Copper	COPPER	2,500 lbs	U.S. dollar	CMX – Chicago
Precious					
	Platinum	PLAT	10 oz	U.S. dollar	NYM – New York
	Palladium	PALLAD	10 oz	U.S. dollar	NYM – New York

Grain

Group	Description	CFD symbols	Contract size	Pricing	Underlying exchange
Grains					
	Soybean	SOYBEAN	1,000 bushels	U.S. dollar	CBT – Chicago
	Wheat	WHEAT	1,000 bushels	U.S. dollar	CBT – Chicago
	Corn	CORN	1,000 bushels	U.S. dollar	CBT – Chicago

Softs

Group	Description	CFD symbols	Contract size	Pricing	Underlying exchange
Softs					
	Cotton	COTTON	5,000 lbs	U.S. dollar	ICE – New York
	Sugar	SUGAR	28,000 lbs	U.S. dollar	ICE – New York

Indices

Group	Description	CFD symbols	Contract size	Pricing	Underlying exchange
U.S.					
	DOW30	US30	Index price X 1	U.S. dollar	CME – Chicago
	S&P500	SPX500	Index price X 10	U.S. dollar	CME – Chicago
	NASDAQ100	NAS100	Index price X 5	U.S. dollar	CME – Chicago
Europe					
	EURO STOXX50	ESTX50	Index price X 3	Euro	Eurex – Frankfurt
	DAX30	GER30	Index price X 1	Euro	Eurex – Frankfurt
	FTSE100	UK100	Index price X 1	British pound	NYSE LIFFE – London
	CAC40	FRA40	Index price X 1	Euro	NYSE LIFFE – Paris
APAC					
	ASX200	AUS200	Index price X 1	Australian dollar	SFE – Sydney
	NIKKEI225	JPN225	Index price X 100	Japanese yen	CME – Chicago
	HSI40	HK40	Index price X 3	Hong Kong dollar	HKFE – Hong Kong

The US30 is based on the DOW30 or Dow Jones Industrial Average (DJIA), one of the most recognized stock market indices. The index tracks the thirty largest companies in America, representative of many different sectors of the economy including finance, telecom, energy, industrial, information technology, pharmaceutical, etc. The US30 is influenced by the performance of its constituent companies, as well as macroeconomic factors such as the unemployment rate, consumer price index, retail sales, GDP, and FOMC decisions, etc.

The GER30 is based on the DAX30 and consists of the thirty biggest German companies traded on the Frankfurt Stock Exchange. The index is dominated by financial, automotive, healthcare and chemical companies. Germany is the largest economy in the Eurozone and since it is also an export based economy, the index is sensitive to the economic well being of its trading partners.

The UK100 is based on the FTSE100, which is the benchmark financial index of the UK economy. The index is comprised of the largest one hundred companies in the UK by market capitalization, representing sectors of mining, energy, media, and financial services. The performance of UK100 is closely linked to European economies through trade and can be influenced by investor sentiment towards other regional equity markets in Europe.

CHAPTER 3
MARGIN AND LEVERAGE

Margin and leverage are related concepts in trading where the trader is able to acquire or control financial assets worth more than the available cash in the account. In equities trading this is done with funds borrowed from the broker, and the trader is charged interest on the borrowed capital. In derivatives trading, the trader's own funds are allowed to be leveraged or geared up subject to a maximum factor, which is the inverse of the margin rate. The purpose of leverage is to increase the potential return on investment although there is also a significant risk that losses could exceed original investments.

Brokers who offer derivatives trading in Canada are regulated by the Investment Industry Regulatory Organization of Canada (IIROC) and as such are required to follow its margin rules. Visit FX and CFD margin for the list of current margin rates applicable to FX and CFD trading at Questrade. Margin rates are a function of volatility and are set by Questrade subject to IIROC's minimum margin rates.

Margin

In an FX or CFD trade, the broker does not lend the client any funds. When approved for a new account, the client is required to post the **margin deposit** before trading is allowed to proceed[1]. This is a good faith deposit in the account to cover the **margin requirement** for opening a trade and maintaining the position. It is calculated by applying the **margin rate** to the **notional value** of the contract, which is the contract value in the contract currency (as opposed to the quote currency)[2]. The margin rate depends on the product and is determined by the dealer or broker who may set it at or above the minimum margin rate stipulated by the regulator. For the convenience of the trader, this amount of margin requirement is expressed or translated in real-time into the currency denomination of the account[3]. Consider this example:

Client has margin deposit of US$10,000 in his FX and CFD account. He opens the following trades:
FX trade - Buy three contracts of EUR/USD @ 1.3000
CFD trade - Buy two contracts of UK100 @ 6,500

	Buy 30,000 EUR/USD	Buy 2 UK100
Notional value	€10,000 X 3 = €30,000	£6,500 X 2 = £13,000
Margin rate	3%	15%
Margin requirement	€900	£1,950
Exchange rate	EUR/USD@1.30	GBP/USD@1.50
Margin requirement in account denomination currency	€900 X 1.30 = $1,170	£1,950 X 1.50 = $2,925
Total exposure expressed in account denomination currency (U.S. dollars)	= (€30,000 X 1.30) + (£13,000 X 1.50) = $39,000 + $19,500 = $58,500	
Total margin requirement	= $1,170 + $2,925 = $4,095	

Leverage

The inverse relationship between margin and leverage is better understood as a trading concept when a single margin rate applies to all products traded in an account. For example, if every FX and CFD product were margined at 2%, then it could also be said that the maximum leverage on the account is 50 times. However, with different margin rates applicable to the wide range of FX and CFD products under Canadian margin rules, the maximum leverage would depend on the composition of open positions in the account.

The table below includes six different scenarios that illustrate the changes to effective leverage depending on the products traded. There is assumed to be no unrealized P/L. Going back to the prior example of an FX and CFD account that has been funded with a margin deposit of $10,000, it is clear that the concept of maximum leverage is more readily apparent in a single product account under Canadian margin rules.

$10,000	EUR/USD		UK100							
Scenario	Position	MR@3%	Position	MR@15%	Total MR	Total exposure	Maximum leverage	Effective leverage	Free margin	Used margin / equity
A	€255,000	€7,650	N/A	N/A	$9,945	$331,500	33.15		$55	99.45%
B	N/A	N/A	£39,000	£5,850	$8,775	$58,500	5.85		$1,225	87.8%
C	€30,000	€900	£13,000	£1,950	$4,095	$58,500		5.85	$5,905	41%
D	€40,000	€1,200	£19,500	£2,925	$5,947.50	$81,250		8.13	$4,052.50	59.5%
E	€50,000	€1,500	£26,000	£3,900	$7,800	$104,000		10.4	$2,200	78%
F	€60,000	€1,800	£32,500	£4,875	$9,652.50	$126,750		12.7	$347.50	96.5%

Scenario A

It assumes that EUR/USD margined at 3% is the only product available for trading. Since the inverse (or reciprocal) of 3% is a leverage ratio of 33.33 to 1, technically the trader could leverage his margin deposit (or account equity) to a maximum of 33.33 times to open a trade in EUR/USD worth $333,333 or €256,410. However, a maximum position size of only €255,000 is allowable given factors such as minimum lot size, bid-ask spread, and pip value:

1. With the EUR/USD exchange rate at 1.30, the amount of $333,333 is equivalent to €256,410. However, since the smallest lot size of EUR/USD is 0.01 of a full or standard contract consisting of 1,000 units (or €1,000), the maximum exposure to EUR/USD with a 3% margin requirement would be €256,000. The margin requirement would be €7,680 or $9,984.
2. However, given that the pip value of a €256,000 position is $25.6, the free margin of ($10,000 - $9,984 =) $16 is not sufficient to cover one full spread of 1.7 pip of ($25.6 X 1.7 =) $43.52 under normal market conditions, which may further increase beyond 1.7 pip during announcements or periods of increased volatility.
3. Given the above considerations, technically (but not practically) the maximum possible exposure to EUR/USD with a 3% margin requirement would be €255,000. The margin requirement would be (€255,000 X 0.3% X 1.30 =) $9,945. The ($10,000 - $9,945 =) $55 free margin available is sufficient to barely cover the spread of 1.7 pip or $43.35 albeit at the risk of an imminent margin call. Given the constraint of the minimum lot size and having to make an allowance for the bid-ask spread, the maximum exposure of €255,000 or $331,500 translates to a maximum leverage ratio of 33.15 to 1.

Scenario B
It is similar to scenario A with the assumption that UK100 margined at 15% is the only product available for trading. Since the inverse (or reciprocal) of 15% is a leverage ratio of 6.67, technically the trader could leverage his margin deposit (or account equity) to a maximum of 6.67 times to open a trade in UK100 worth $66,667 or £44,444. However, given the contract size of UK100, a maximum position size of only £39,000 (six contracts X index value of £6,500) is allowable. The free margin of $1,225 will provide a greater buffer against a margin call than Scenario A:

1. With the GBP/USD exchange rate at 1.50, the amount of $66,667 is equivalent to £44,444. Since UK100 trades only in full contract sizes, the maximum exposure to UK100 with a 15% margin requirement would be six contracts at a value of £39,000. The margin requirement is £5,850 or $8,775.
2. Given that the point value of a six UK100 contract position is £6 or $9, the free margin of $1,225 will buffer a drop of the index by ($1,225 ÷ $9 =) 136 points to (6,500 – 136 =) 6,364.
3. Given the above considerations, the free margin of $1,225 available in the account on taking the largest possible position in UK100 will sustain a (136 ÷ 6,500 =) 2.1% drop in value before triggering a margin call. Given the constraint of the contract size, the maximum exposure of six contracts or £39,000 or $58,500 translates to a maximum leverage ratio of 5.85 to 1.

Scenario C, D, E and F
Each is comprised of a combined exposure to EUR/USD and UK100 of varying amounts. The account's maximum leverage would depend on the composition of the exposure. In each of these four scenarios there is excess margin (or free available margin) in the account, so instead of maximum leverage, it is the effective leverage that will determine the account's risk profile.

When used margin/account equity[4] = 100%
Maximum leverage = effective leverage

Monitoring effective leverage, which is leveraged risk exposure divided by account equity, is an important risk management technique. The account equity is the available cash in the account, net of unrealized profits or losses (assumed to be zero in the scenarios). In jurisdictions where leverage ratios of 100 to 1 and even 200 to 1 are permitted, conservative traders generally keep the effective leverage on their accounts at about 10 to 1.

Used margin/account equity

Another measure of leverage risk on the account is the used margin or margin requirement on open positions as a percentage of account equity. This reflects the margin of safety and many conservative traders maintain their margin usage below 50% of account equity. As margin usage approaches 100% of account equity, the risk of a margin call also increases.

[1] FX and CFD account funding is subject to the client's approved risk capital limit. To learn more about risk capital limit, go to section titled "Risk capital" in Chapter 10 – Risk management.
[2] A currency pair is made up of the contract currency and the quote currency. For example, the Euro is the contract currency, and the U.S. dollar is the quote currency in EUR/USD.
[3] On futures exchanges, such as the Chicago Mercantile Exchange (CME), customer margin requirements are expressed in the amount (in U.S. dollars) of performance bond required for initial and maintenance margin requirements.
[4] Account equity is the cash balance adjusted for unrealized profit/loss. A margin call is issued when account equity drops below margin requirement.

CHAPTER 4
LEVERAGE AND RISK

Trading FX and CFDs on margin carries a high degree of risk because it allows you to speculate on currencies, commodities, and indices on a highly leveraged basis. A small adverse price change to the underlying asset can magnify the impact on the funds in your account, potentially resulting in the total loss of your initial investment and any additional funds that you may deposit to meet margin calls.

Leveraging an FX position

You have $2,000 cash in your FX and CFD account. You buy 30,000 units of EUR/USD at 1.3000. The U.S. dollar value of this FX position is ($1.3000 x 30,000=) $39,000. At a margin rate of 3%, the margin requirement is ($39,000 x 3% =) $1,170. This is the amount of margin deposit that must be maintained in your account to support the open position. Assuming there is zero P/L, you have leveraged your:

a. margin requirement of $1,170 by a factor of 33.33, **or**

b. initial margin deposit (account equity) of $2,000 by a factor of 19.5 to control an FX position of $39,000.

Scenario A: EUR/USD rises 300 pips to 1.3300
If the market rises to 1.3300 and you liquidate your position, you will realize a profit of 300 pips or $900. This represents a return of 45% on your initial margin deposit of $2,000.

Risk of leveraging an FX position

Scenario B: EUR/USD falls 300 pips to 1.2700
If the market falls to 1.2700 and you have not liquidated your position, you will have an unrealized loss of 300 pips or $900. Since your unrealized loss of $900 has exceeded the available free margin of $830[1], you will be required to deposit additional funds of at least ($900 - $830 =) $70 to cover the margin shortfall.

The risks associated with margin trading are primarily over-leveraging and a lack of risk management. Trading in such a manner can quickly lead to significant losses and even account liquidation.

In scenario B, you will face a margin call when EUR/USD has fallen to 1.27233. Here's why: with a margin deposit of $2,000 and a margin requirement of $1,170, the amount of available free margin is $830. The position size of 30,000 units of EUR/USD means that each pip is worth ($1 x 3 =) $3. Therefore, an adverse (lower) move of ($830/$3 =) 276.67 pips will exhaust the available free margin of $830 and trigger a margin call when the market reaches (1.3000 - 0.027667 =) 1.27233.

If you do not meet the margin call within the specified deadline, Questrade will liquidate your position. You could also face immediate liquidation even before the specified deadline if your unrealized loss has depleted 90% of the margin requirement[2].

A loss of 90% of your margin requirement will occur when EUR/USD has fallen to 1.23723.

Here's why: with a margin deposit of $2,000 and a margin requirement of $1,170, the amount of available or free margin is $830. An adverse (lower) move that exhausts the available margin of $830 and depletes 90% of the margin requirement of $1,170 will create an unrealized loss of ($830 + ($1,170 X 90%) =) $1,883. Since each pip of a 30,000 EUR/USD position is worth $3, we can calculate that immediate liquidation will occur after an adverse (lower) move of about ($1,883/$3=) 627.67 pips from the opening price of 1.3000, or when the market reaches 1.23723.

Immediate liquidation at this point will leave ($2,000 - $1,883 =) $117 in your account. You will have lost $1,883 or 94% of your initial investment (initial margin deposit) of $2,000. Potential slippage in live trade execution may increase losses. See section titled Slippage in **Chapter 6 – Costs of trading**.

Please review Questrade's margin call procedure in section titled Margin policy in **Chapter 5 – Margin requirement and policy**.

Leveraging a CFD Position

You have $2,000 cash in your FX and CFD account. You buy two contracts of SPX500 at 1,500. The U.S. dollar value of this CFD position is (1,500 x $10 X 2=) $30,000. At a margin rate of 4%, the margin requirement is ($30,000 x 4% =) $1,200. Assuming there is zero P/L, you have leveraged your:

a. margin requirement of $1,200 by a factor of 25, or
b. initial margin deposit (account equity) of $2,000 by a factor of 15 to control a CFD position of $30,000.

Scenario A: SPX500 rises 50 points to 1,550
If the market rises to 1,550 and you liquidate your position, you will realize a profit of 50 points or $1,000. This represents a return of 50% on your initial margin deposit of $2,000.

Risk of Leveraging a CFD Position

Scenario B: SPX500 falls 50 points to 1,450
If the market falls to 1,450 and you have not liquidated your position, you will have an unrealized loss of 50 points or $1,000. Since your unrealized loss of $1,000 has exceeded the available margin of $800[3], you will be required to deposit additional funds of at least ($1,000 - $800 =) $200 to cover the margin shortfall.

In scenario B, you will face a margin call when SPX500 has fallen to 1,460[4]. Furthermore, similar to the FX illustration, your account will be flagged for immediate liquidation if you have lost, on a realized or unrealized basis, 90% of the margin requirement. This will occur when SPX500 reaches 1,406[5], at which point you will have lost $1,880 or 94% of your initial investment (initial margin deposit) of $2,000.

Potential slippage in live trade execution, inability to access markets when underlying exchanges are closed, and illiquidity in some products may increase losses.

Managing risk

Understand your market

It's important to understand the different characteristics and drivers behind the volatility for each market. A number of resources are available from the **Trader Toolkit** in the Questrade MT4 trading platform. You can gain valuable insight from reading the commentary on **FOREXInsider**, and monitor the economic calendar and news to stay informed about market events. You should also pay attention to the CFD product details and the contract expiration calendar.

Understand your risk tolerance

You should understand your risk appetite and your emotional response to profit, loss, and volatility. FX and CFD trading is not suitable for risk-averse individuals seeking security of capital.

Monitor your positions

Be diligent in monitoring your open positions and closely observing the impact of volatile market conditions on the equity in your account. Adjust your position sizes accordingly.

Risk-reducing strategies

Seasoned traders generally advocate lower leverage in trading. However, leverage on its own does not capture the entire risk profile of the trader. Technically, leverage and margin are flip sides of the same coin, but in practice they are not necessarily related to each other in a linearly reciprocal fashion (See **Chapter 3 – Margin and leverage**). Regulators argue that high leverage is bad for traders because it allows greater exposure, which could lead to greater losses, while traders insist that low margin requirement is good because it ties up less equity in used margin and allows a bigger buffer zone or safety margin.

Both arguments have merit. A novice trader is likely to fully utilize the maximum permitted leverage as he is unlikely to resist the temptation of a high payout with a small down payment. An experienced trader, however, sees high margin requirement as an unnecessary intrusion into his risk management. He prefers the flexibility of the permitted high leverage, which he will only keep in reserve as a buffer against any unforeseen volatility.

Leverage is only one component of the overall risk picture. Limiting leverage by itself does not mitigate risk. Only stops or draw down limits can control risk. Stop and limit orders, trailing stop orders, contingent orders, and the ability to hedge are risk management tools to help you manage the risk of your market exposure. See **Chapter 10 – Risk management**. You should note that risk-reducing strategies can help you manage risk but not eliminate risk, and such strategies may not be effective under extreme market conditions.

Next steps

Before trading FX and CFDs in a live account, novice traders should practice with a demo account to become familiar with market conditions and trading tools without risking real funds. When ready to go live, novice traders should test their strategies and methods by trading smaller contract sizes where possible. This will provide you with valuable experience and exposure to live market conditions before taking on more risk or graduating to more complex products and markets. Please contact Questrade for information on available training courses offered by third-party providers. To learn about the risks of trading derivatives such as FX and CFDs, please refer to **Appendix B – Risk information document for derivatives**.

[1] Margin deposit minus margin requirement equals available or free margin, i.e. $2,000 - $1,170 = $830.
[2] An unrealized loss that leaves insufficient equity in an FX and CFD account to cover margin requirement will trigger a margin call. Questrade will provide a reasonable amount of time for making additional deposits on a best effort basis. The account is flagged for immediate liquidation when remaining equity falls below 10% of margin requirement.
[3] Margin deposit minus margin requirement equals available free margin, i.e. $2,000 - $1,200 = $800.
[4] Since each point of a $30,000 SPX500 position is worth $20, an adverse (lower) move of ($800/$20 =) 40 points will exhaust the available free margin of $800 and trigger a margin call when the market reaches (1,500 – 40 =) 1,460.
[5] With a margin deposit of $2,000 and a margin requirement of $1,200, the amount of available free margin is $800. An adverse (lower) move that exhausts the available free margin of $800 and depletes 90% of the margin requirement of $1,200 will create an unrealized loss of ($800 + ($1,200 X 90%) =) $1,880. Since each point of a $30,000 SPX500 position is worth $20, we can calculate that immediate liquidation will occur after an adverse (lower) move of ($1,880/$20=) 94 points from the opening price of 1,500, or when the market reaches 1,406.

CHAPTER 5
MARGIN REQUIREMENT AND POLICY

FX margin

FX margin rates

As an investment dealer regulated by the Investment Industry Regulatory Organization of Canada (IIROC), Questrade complies with Rule 100.2(d) Unhedged Foreign Exchange in margining customer and dealer member (inventory) positions and transactions that result in exposure to foreign exchange risk. Each unhedged foreign exchange position is margined on a currency by currency basis according to four currency groups defined in Rule 100.2(d)(v) at the margin rates displayed in the table below, subject to an adjustment to the margin rate of a Group 1, 2, or 3 currency by a margin surcharge when the volatility of the currency exceeds the volatility threshold set out in Rule 100.2(d)(v)(B)(a).

Currency group			
Group 1	**Group 2**	**Group 3**	**Group 4**
U.S. - Dollar	Euro	Czech Republic – Koruna	China – Yuan
	U.K. – Pound	Denmark – Krone	South Africa – Rand
	Japan – Yen	Poland – Zloty	Turkey – Lira
	Switzerland – Franc	Hungary – Forint	Russia – Ruble
	Australia – Dollar	Singapore – Dollar	
	New Zealand – Dollar	Hong Kong – Dollar	
	Mexico – New Peso	Malaysia – Ringgit	
	Norway – Krone		
	Sweden – Krona		

Excess volatility in a currency is measured and tracked as an offside day. An offside day is triggered when the percentage change in the exchange rate of the currency over five-day intervals, through a period of 60 trading days, exceeds the margin rate for the currency group. When the number of offside base days during the period reaches four, a margin surcharge is applied. Conversely, the spot risk margin rate is reduced when a minimum of 30 trading days has passed since the currency's spot risk margin rate increase and the currency's volatility no longer exceeds the volatility threshold.

FX margin rates determined by Questrade are displayed here. They are subject to the minimum requirement in the List of Foreign Exchange (FX) Spot Risk Margin Rates for Canadian and U.S. Base Currency Accounts published by IIROC.

Questrade's margin rate for each currency pair applies to both the initial and maintenance margin requirement, and all margin rates are subject to change without notice.

FX margin rate methodology

The margin requirement for an FX position or transaction is expressed in the currency denomination of the account. Therefore, if you have a U.S. dollar trading account, the margin requirement is calculated by applying the margin rate of the currency pair to the U.S. dollar value of the position.

The FX margin rate for a currency pair is equal to, or higher than, the aggregate of the respective IIROC foreign exchange spot risk margin rate applicable to the contract currency and quote currency. The margin requirement for a currency pair is based on a percentage of the trade value when the trade is initiated.

The contract currency or quote currency is exempt from margin in cases where either currency is also the account denomination currency.

Example A – EUR/JPY traded in a U.S. dollar account:

- Currency pair = EUR/JPY
- Contract currency = Euro
- IIROC spot risk margin rate for Euro = 3%
- Quote currency = Japanese yen
- IIROC spot risk margin rate for Japanese yen = 3%
- Account denomination currency = U.S. dollar
- Contract currency ≠ account denomination currency
- Quote currency ≠ account denomination currency

Since neither the contract currency (Euro) nor quote currency (Japanese yen) is the account denomination currency (U.S. dollar), both are marginable and EUR/JPY is margined at a minimum of: EUR margin (3%) + JPY margin (3%) = EUR/JPY margin (6%)

Example B – GBP/USD traded in a U.S. dollar account:

- Currency pair = GBP/USD
- Contract currency = British pound
- IIROC spot risk margin rate for British pound = 3%
- Quote currency = U.S. dollar
- IIROC spot risk margin rate for U.S. dollar = 1.6%
- Account denomination currency = U.S. dollar
- Quote currency = account denomination currency

Since the quote currency (U.S. dollar) is also the account denomination currency (U.S. dollar), it is exempt from margin, which means that only the contract currency (British pound) is marginable and GBP/USD is margined at a minimum of: GBP margin (3%) + USD margin (N/A) = GBP/USD margin (3%)

Gold and silver margin rates

Gold and silver paired with spot currencies are margined according to Dealer Member Rule 100.2(i). Precious Metal Certificates and Bullion:

- Gold: 20% of market value
- Silver: 20% of market value

The margin rate applicable to gold or silver traded against a spot currency is determined by Questrade and displayed here.

Gold and silver margin rate methodology

Precious metal (gold and silver) derivatives are quoted in a number of major currencies on the Questrade FX and CFD platform, Questrade MetaTrader 4. The margin rate applicable to gold or silver traded against a spot currency is equal to or higher than the aggregate of the bullion margin rate and the foreign exchange spot risk margin rate applicable to the quote currency, both set by IIROC. Questrade's margin rate for each precious metal/spot currency pair applies to both the initial and maintenance margin requirement, and all margin rates are subject to change without notice.

The quote currency is exempt from margin in cases where it is also the account denomination currency.

Example A - Gold (XAU) quoted in Euro (EUR) in a U.S. dollar account:

- Precious metal / quote currency = XAU/EUR
- Precious metal = gold
- IIROC bullion margin rate for gold = 20%
- Quote currency = Euro
- IIROC spot risk margin rate for Euro = 3%
- Account denomination currency = U.S. dollar
- Quote currency ≠ account denomination currency

Since the quote currency (Euro) is different from the account denomination currency (U.S. dollar), gold and the quote currency (Euro) are both marginable and XAU/EUR is margined at a minimum of: XAU margin (20%) + EUR margin (3%) = XAU/EUR margin (23%).

Example B - Silver (XAG) quoted in U.S. dollar (USD) in a U.S. dollar account:

- Precious metal/ quote currency = XAG/USD
- Precious metal = silver
- IIROC bullion margin rate for silver = 20%
- Quote currency = U.S. dollar
- IIROC spot risk margin rate for U.S. dollar = 1.6%
- Account denomination currency = U.S. dollar
- Quote currency = account denomination currency

Since the quote currency (U.S. dollar) is also the account denomination currency (U.S. dollar), it is exempt from margin which means that only silver is marginable and XAG/USD is margined at a minimum of: XAG margin (20%) + USD margin (N/A) = XAG/USD margin (20%)

CFD margin

Margin rates of CFDs distributed by Questrade comply with the IIROC rules and regulations as well as the relevant sections of the CFD paper, Regulatory Analysis of Contracts for Differences (CFDs), published by the Investment Dealers Association (now IIROC) in 2007.

Commodity CFD margin rates

Margin rates for CFDS derived from underlying commodity futures contracts traded on recognized exchanges are based on the requirements set out in Rule 100.8. The margin rates for commodity CFDs displayed on the FX and CFD margin page are determined by Questrade and are subject to the margin rates required by the commodity futures exchange for the futures contracts of the underlying assets on which the commodity CFDs are based. Questrade's margin rate for each commodity CFD applies to the initial and maintenance margin requirement[1], and all margin rates are subject to change without notice.

Index CFD margin rates

Margin rates for Index CFDs derived from qualifying Canadian and U.S. index futures are based on the floating rate margining methodology set out in Rule 100.9(a)(xii) and the floating and tracking error margin rates published monthly by IIROC in the List of Floating and Tracking Error Margin Rates for Qualifying Canadian and U.S. Index Products.

A minimum margin rate of 15% is set for Index CFDs derived from index futures traded on recognized foreign exchanges.

The margin rates for index CFDs are determined by Questrade, and they are subject to the minimum margin rates required by IIROC. Questrade's margin rate for each index CFD applies to the initial and maintenance margin requirement, and all margin rates are subject to change without notice.

CFD margin rate methodology

The margin requirement for a CFD position or transaction is expressed in the currency denomination of the account. Therefore, if you have a U.S. dollar trading account, the margin requirement is calculated by applying the margin rate of the CFD instrument to the U.S. dollar of the position. The margin requirement for a CFD position is based on a percentage of the trade value when the trade is initiated. It is the amount required to open and maintain a position.

Where the CFD instrument is priced in a currency other than the account denomination currency, the margin requirement is converted from the CFD pricing currency into the account denomination currency at the time when the trade is initiated.

Margin policy

FX and CFD margin rates determined by Questrade are subject to the minimum IIROC requirements. They vary according to the product and are subject to change at any time without notice.

Margin call procedure

If your margin balance drops below the total margin required for all your open positions, a margin call will be issued for your account. The margin call will communicate the need to deposit additional funds and/or reduce positions. Questrade will give you the opportunity to satisfy the deficiency on a best efforts basis only. Questrade may liquidate your positions if you fail to comply with the terms of the margin call[2].

The terms of a margin call are determined at the discretion of Questrade. If you do not fully understand the terms of your maintenance margin call, promptly contact the Questrade FX and CFD department at 1.866.980.9591, option two.

The margin and account liquidation policies are provided in accordance with the FX agreement under section 16 and the obligation to maintain margin under section 1.14 of the Questrade account agreement and disclosure documents.

[1] Initial and maintenance margin requirements for commodity CFDs are based on the performance bond requirements for initial margin established by the exchange where the futures contracts of the underlying assets are traded.
[2] If your margin balance falls below 10% of your total margin requirement at any time, your account will be flagged for immediate liquidation of all open positions regardless of whether a margin call has been previously issued.

CHAPTER 6
COSTS OF TRADING

Trading fees

Although Questrade does not charge a commission for FX and CFD trading, part of the costs of trading are embedded in the spread of the FX or CFD instrument. Since there is one price for buying (ask price) and another lower price for selling (bid price), once the trade is opened the spread must be overcome to at least break even on the trade. Questrade is compensated for its services through the bid/ask spread.

Bid/ask spread

Questrade offers competitive pricing on 50 currency pairs, gold and silver quoted in six major currencies, twelve commodity CFDs and ten index CFDs. Pricing for gold and silver is based on the spot price of the precious metal and the quote currency, while CFD pricing for commodities and indices is derived from the reference futures price of the underlying asset. The current spreads for all FX and CFD instruments can be viewed by downloading a Questrade MT4 demo account.

Example of FX bid/ask spread:
Trade – Buy 30,000 EUR/USD
Quote – 1.30102/1.30119
Bid/ask spread of quote – 1.7 pip
Bid/ask spread of trade – (1.7 X $1 X 3 =) $5.10
Bid/ask spread of trade in account denomination currency (USD) = $5.10

For this trade to be profitable, the trader must overcome the cost of the spread which means the bid of the quote has to be higher than 1.30119, the entry price. A wider spread contributes to higher costs of trading.

Example of CFD bid/ask spread:
Trade – Buy 2 UK100
Quote – 6500.00/6501.50
Bid/ask spread of quote – 1.5 point
Bid/ask spread of trade – (1.5 X £1 X 2 =) £3
Bid/ask spread of trade in account denomination currency (USD) = (£3 X 1.50 (exch rate of GBP/USD)) = $4.50

For this trade to be profitable, the trader must overcome the cost of the spread which means the bid of the quote has to be higher than 6501.50, the entry price. A wider spread contributes to higher costs of trading.

Widened bid/ask spread

In fast markets, or during and immediately after news announcements, bid/ask spreads can temporarily widen and increase the costs of trading. Widened bid/ask spreads not only increase the cost of buying or selling, they are also responsible for triggering stop orders early and missing or delaying the execution of limit orders.

A. Impact of widened spreads on stop orders

A stop order on a long position is triggered when the bid price reaches the stop sell price. Conversely, a stop order on a short position is triggered when the ask price reaches the stop buy price. A widened bid/ask spread would trigger the stop order sooner than if the spread had not widened.

Example of stop order on long position:
A long position in EUR/USD is protected with a stop order at 1.2975. Under normal market conditions where the live spread matches the target spread of 1.7 pip, the stop order will not trigger until the bid/ask spread is 1.29750/1.29767, with the mid-price being 1.297585. If the live spread is widened to 5 pips, the stop order will trigger 1.65 pip sooner with the mid-price at 1.29775 (bid/ask spread of 1.2975/1.2980). If the live spread is further widened to 10 pips, the stop order will trigger another 2.5 pips sooner, with the mid-price at 1.2980 (bid/ask spread of 1.2975/1.2985). Progressively widened spreads can trigger the stop sell order early without the requisite adverse market move (lower) to justify the execution of the stop order.

Example of stop order on short position:
A short position in EUR/USD is protected with a stop order at 1.3075. Under normal market conditions where the live spread matches the target spread of 1.7 pip, the stop order will not trigger until the bid/ask spread is 1.30733/1.30750, with the mid-price being 1.307415. If the live spread is widened to 5 pips, the stop order will trigger 1.65 pip sooner with the mid-price at 1.30725 (bid/ask spread of 1.3070/1.3075). If the live spread is further widened to 10 pips, the stop order will trigger another 2.5 pips sooner, with the mid-price at 1.3070 (bid/ask spread of 1.3065/1.3075). Progressively widened spreads can trigger the stop buy order early without the requisite adverse market move (higher) to justify the execution of the stop order.

B. Impact of widened spreads on limit orders
A limit buy order is triggered when the ask price reaches the limit buy price. Conversely, a limit sell order is triggered when the bid price reaches the limit sell price. A widened bid/ask spread could result in the limit order not being executed or delayed in its execution than if the spread had not widened.

Example of impact on limit buy order:
A limit buy order in EUR/USD is placed at 1.3010. Under normal market conditions where the live spread matches the target spread of 1.7 pip, the limit buy order will trigger when the bid/ask spread is 1.30083/1.30100, with the mid-price being 1.300915. If the live spread is widened to 5 pips, the limit buy order will not trigger until the mid-price has lowered to1.30075 (bid/ask spread of 1.3005/1.3010). If the live spread is further widened to 10 pips, the limit buy order will not trigger until the mid-price has again lowered to 1.3005 (bid/ask spread of 1.3000/1.3010). Progressively widened spreads will delay the execution of the limit buy order, which is evident from the mid-price lowering from 1.300915 to 1.30075, and then 1.3005 as the spread is widened from the target 1.7 pip to 5 pips, and then 10 pips before the limit buy order is filled.

Example of impact on limit sell order:
A limit sell order in EUR/USD is placed at 1.3050. Under normal market conditions where the live spread matches the target spread of 1.7 pip, the limit sell order will trigger when the bid/ask spread is 1.3050/1.30517, with the mid-price being 1.305085. If the live spread is widened to 5 pips, the limit sell order will not trigger until the mid-price has risen to 1.30525 (bid/ask spread of 1.3050/1.3055). If the live spread is further widened to 10 pips, the limit sell order will not trigger until the mid-price has again risen to 1.3055 (bid/ask spread of 1.3050/1.3060). Progressively widened spreads will delay the execution of the limit sell order, which is evident from the mid-price rising from 1.305085 to1.30525, and then 1.3055 as the spread is widened from the target 1.7 pip to 5 pips, and then 10 pips before the limit sell order is filled.

Rollover fees

Currency positions, including gold and silver, left open at 5 p.m. ET are subject to daily rollover that will incur an interest credit or debit depending on the direction (long or short) of the position. The full value of the leveraged position is subject to automatic rollover shortly after 5 p.m. ET. This is a necessary procedure for the positions held overnight as an FX and CFD account does not provide the option, nor does it impose the obligation, to make or accept delivery of the underlying asset. Therefore, rollover allows a position to be held open indefinitely in an account, as long as there is sufficient margin, without ever having the delivery of the full value of the currency position taking place.

Whether interest is paid or charged on the rollover depends on the interest differential between the currency bought and the currency sold. If the interest rate on the currency bought is higher than the interest rate of the currency sold, rollover is earned, resulting in a credit or positive roll. If the interest rate on the currency bought is lower than the interest rate on the currency sold, then rollover is paid, resulting in a debit or negative roll.

Rollover is not an interest charge for leverage or borrowed funds. However, the actual credit or debit related to the rollover is subject to a fixed rollover fee that is liable to reduce the amount of credit and increase the amount of debit applied to the account. Rollover fees can add a significant extra cost to your trades.

Industry convention dictates that the rollover on Wednesday accounts for the interest credit or debit on Saturday and Sunday when the market is closed, so a typical Wednesday rollover is three times the amount on a normal trading day. There is no rollover on holidays, but an extra day's worth of rollover is added two business days before the holiday. Typically, holiday rollover happens if any of the currencies traded has an official holiday.

The daily rollover credit or debit for each currency pair including gold and silver are displayed in the **Trader Toolkit** of the Questrade MT4 platform.

Hedging

The Questrade MT4 platform is by default hedging-enabled, meaning that long and short positions in the same FX or CFD product can be held simultaneously in one account. The opposite trades in a hedged position consisting of an equal number of long and short lots are margined at 50% of the margin requirement.

A fully hedged position has no exposure to market volatility except from widened spreads. The additional bid/ask spread paid to hedge positions increases the costs of trading.

Slippage

Slippage in online electronic trading is defined as the difference between the execution price and the requested order price of a particular transaction. Slippage can affect the execution of a market order, limit order, or stop order. The execution speed can be compromised for a variety of reasons, including market volatility, platform latency, limited liquidity, and network speed.

Although sometimes positive slippage can result in price improvement, negative slippage that results in price deterioration will increase the costs of trading. Negative slippage is common in fast markets when a trade request sent to the server of the broker comes back confirmed with an execution price that is different from the order price. The discrepancy between the order price and execution price of a limit or stop order is tracked through the order history available from the trading platform. However, such variances are not recorded with market orders, and fractional pricing makes it more difficult for traders to keep a scorecard on whether they have experienced more instances of positive or negative slippage.

CFD expiration

Questrade CFDs are derivatives contracts tracking the performance of underlying assets traded in futures contracts listed on recognized exchanges. These derivatives contracts follow an expiration calendar similar to the futures expiration calendar that governs the expiration of futures contracts on which the derivatives contracts are based.

Traders who speculate with CFDs should be mindful of contract expiration that would prevent the CFD position from being held indefinitely. CFD positions held up to expiry date will be closed automatically by Questrade at the prevailing market price on the day of expiry. Traders who wish to maintain exposure to the underlying asset have the option to re-establish the CFD position for the next contract expiry date.

Index CFDs are futures-based and expire each quarter in March, June, September, and December. The CFD expiry takes place a few days before the futures contract expiry to avoid expiry-related price volatility. Upon expiry, all open trades and orders for the expiring contract will be closed. When trading resumes post expiry, the price of the new CFD contract will be based on the next-nearest expiring futures contract price. Traders can re-establish the CFD position with a new trade entry when the next CFD contract is available for trading. However, since the expiring contract is not automatically rolled over into the next contract, there is a risk that the difference between the closing price of the expiring contract and the opening price of the next contract will increase the costs of trading, along with the additional spread paid for the new trade entry.

Currency conversion charges

Where the deposit currency is not the account denomination currency, the client deposit is subject to conversion to the account denomination currency at an exchange rate plus applicable fees determined at the discretion of Questrade. Currency conversion will increase the costs of trading when funds are converted for deposit and withdrawal.

An example is Canadian dollar deposits made to U.S. dollar trading accounts, and U.S. dollar funds converted back to Canadian dollars for withdrawal when requested. Contact the Questrade FX and CFD department at 1.866.980.9591, option 2 to inquire about the cost of currency conversion.

Deposit and withdrawal fees

Questrade does not charge any fees for crediting your deposit[1] to your FX and CFD trading account when the deposit currency does not require conversion to the account denomination currency. However, you should be aware of the fees that may be charged by your financial institution for facilitating fund transfers. Such fees will increase your costs of trading.

The following is a list of charges for withdrawing funds from your FX and CFD trading account. You should be aware that additional conversion charges apply when you request withdrawal in a currency other than the account denomination currency. Contact the Questrade FX and CFD department at 1.866.980.9591, option 2 to inquire about the cost of currency conversion. Conversion and withdrawal fees will increase your costs of trading.

Method of withdrawal	Cost
CAD$ electronic fund transfer (EFT) up to $25,000.00[2]	Free
USD$ electronic fund transfer (EFT) up to $25,000.00[3]	Free
CAD$ wire transfer	$20.00
USD$ wire transfer	$30.00
International wire transfer	$40.00
CAD$ and USD$ uncertified cheque	$35.00
Deposit charges against non-payment	**Cost**
Stop payment	$25.00
NSF cheque/returned items	$30.00

[1] Except in cases of stop payment or NSF cheques.
[2] In order to send an EFT, a void cheque from a bank account is required.
[3] A courier fee of CAD $25.00 within Canada or $30.00 to the U.S. applies if the cheque is not picked up in person. Certified cheques cannot be sent by regular mail.

CHAPTER 7

ANALYZING THE MARKETS

Analyzing the market is a critical component of the overall strategic trading plan for successful traders before the execution of a trade. Thorough research and analysis of the market to collect information about currencies, commodities and indices can be categorized into two distinct methods: fundamental analysis and technical analysis. Many traders focus on one method over the other, but a combination of both types of analysis can prove useful.

Fundamental analysis

Fundamental analysis examines the value of a currency by comparing the relative economic performances of countries and their trading partners. The strength of a country's economy as measured by its economic output, employment, interest rate, inflation, productivity, trade balance, debt and deficit, and political stability all have an impact on the country's currency. Over the long run, fundamental factors lend support to the sustainable and reliable price trends that govern the direction of currency markets.

In commodities, fundamental analysis evaluates the interaction of supply and demand to estimate a market equilibrium price based on all the different factors that impact production, consumption, and inventory levels. The economy, weather, and politics can alter supply and shift demand over the short term causing temporary price disruption, while more subtle and long-term factors such as demographics, substitution effect, super cycles, urbanization, industrialization, and new technology can exert more profound impacts on future pricing. When trading commodity CFDs, it would be helpful to study the Commitments of Traders (COT) reports published by the Commodity Futures Trading Commission (CFTC) that provides weekly data on sales and purchases of futures contracts by commercial hedgers and large speculators.

Market drivers

The 21st-century markets are driven by analysis of economic indicators regularly disseminated by governments and private entities recording activity in particular economic sectors, in specific industries or in an entire economy. Most indicators are statistical, anecdotal or subjective, and are used by traders to assess the strengths or weaknesses of an economy, to predict future activity, to judge effectiveness of central bank policy, and to provide insight into the multiple variables that drive an economy.

Indicators are either leading or lagging. Leading indicators track economic factors that change before the general economy and can help predict future economic conditions. Lagging indicators record past economic activity that is part of the historical trend, but they cannot be relied upon to predict a continuation or change in the trend.

With China overtaking Japan as the world's second largest economy, Chinese economic indicators are now closely watched by traders and economists for signs of continuing growth or gradual slowdown. In the U.S., the quantitative easing (QE) by the Federal Reserve has drawn a lot of market speculation on when it might end, and the marker appears to be an improvement in employment as measured by the monthly non-farm payroll.

The sovereign debt crisis and contracting economies in many European countries have put the spotlight on the results of government bond auctions, central bank monthly reports and economic indicators like GDP and PMI.

Here is a list of some of the closely watched economic indicators and announcements:

U.S.

USD			
Trade Balance	Current Account Balance	Initial Jobless Claims	Retail Sales Ex Auto & Gas
Business Inventories	Total Net TIC Flows	Capacity Utilization	Industrial Production
U. of Michigan Confidence	Consumer Price Index	Producer Price Index	DOE U.S. Crude Oil Inventories
Unemployment Rate	Change in Non-farm Payrolls	Leading Indicators	Existing Home Sales
Housing Starts	Consumer Confidence	Personal Consumption	Personal Income
Gross Domestic Product Price Index			

China

CNY			
Producer Price Index	Consumer Price Index	Money Supply – M2	New Yuan Loans
Industrial Production	Retail Sales	Trade Balance (USD)	Exports
Imports	HSBC Services PMI	HSBC Manufacturing PMI	China Property Prices
Conference Board China Leading Economic Index	MNI Flash Business Sentiment Indicator		

Europe

EUR			
Euro-Zone Trade Balance	Euro-Zone ZEW Survey (Economic Sentiment)	German ZEW Survey (Economic Sentiment)	Euro-Zone Producer Price Index
Euro-Zone Purchasing Manager Index Composite	Euro-Zone Consumer Confidence	European Central Bank Rate Decision	Euro-Zone Gross Domestic Product
Euro-Zone Consumer Price Index - Core	German Unemployment Rate		

Canada

CAD			
Gross Domestic Product	Consumer Price Index	Retail Sales	Manufacturing Shipments
Bank of Canada Rate Decision	Unemployment Rate	Capacity Utilization Rate	New Housing Price Index
Existing Home Sales	International Merchandise Trade		

Technical analysis

Technical analysis uses past market data, including price and volume, to forecast future price movements. Whereas the fundamental analyst would be preoccupied with the intrinsic value of the financial instrument, a technical analyst would attempt to make a prediction on the future price of the instrument by collecting and analyzing historical price pattern or activity.

Despite the warning on financial literature that says past performance is no guarantee of future results, technical analysis has been credited with valid price projections that can help investors make better informed trading decisions over time. Technical analysis uses a wide variety of charts and analytical tools to identify patterns that can suggest future activity, based on the assumption that the historical performance of securities and markets can be repeated and provide indication of future performance.

Charts

The exponential increase in computing power of desktop PC has popularized technical analysis for retail traders with affordable charting tools. Charts can be populated with historical and live data and configured in multiple timeframes to display price action, and the tug of war between buyers and sellers. Technical analysis helps traders identify chart patterns and formulate probable scenarios of future price trends based on these three assumptions:

1. Prices discount all available information
2. Prices occur in repeatable patterns
3. Prices tend to trend

There are three chart types on the Questrade MT4 platform – bar chart, candlestick chart, and line chart. Each chart type offers nine time frames: one minute, five minutes, 15 minutes, 30 minutes, one hour, four hours, one day, one week, and one month.

Basic charting tools include:

- Lines (vertical line, horizontal line, trend line, trend line by angle)
- Channels (Fibonacci, linear regression, equidistant, standard deviation)
- Gann (Gann line, Gann arc, Gann fan)
- Fibonacci (retracement, time zones, fan, arc, expansion)

Basic chart patterns

Most chart patterns in technical analysis are either a reversal pattern or a continuation pattern. A reversal pattern suggests that a prior trend is about to run its course and reverse itself. A continuation pattern suggests that the existing trend is likely to continue until there is a signal of reversal.

Charts that illustrate the price action of stocks and futures trading can be enhanced with volume indicators as reliable volume data can be obtained from the exchanges on which these securities are traded. Over-the-counter (OTC) FX and CFD markets are fragmented and unable to provide independently verifiable data because of the absence of central clearing facilities.

Traders should familiarize with simple concepts of trend lines, channels, support, and resistance before exploring the more advanced chart patterns. Here is a brief description of several simple chart patterns illustrated by Investopedia[1]:

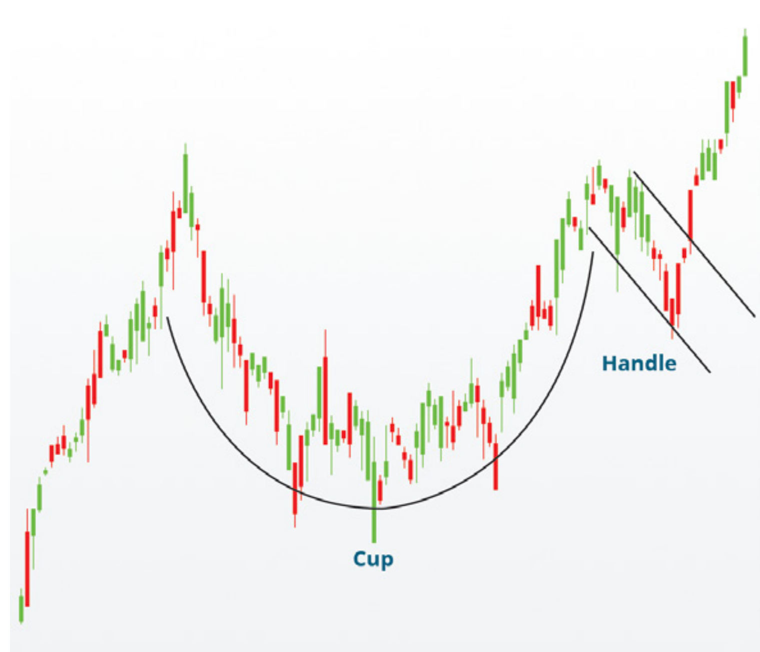
Head and shoulders

This is a reversal pattern showing a potential topping formation that is confirmed when price action falls below the neckline.

Inverted head and shoulders

This is a reversal pattern showing a potential bottoming formation that is confirmed when price action rises above the neckline and volume increases on the breakout.

Cup and handle
This is a bullish continuation pattern that has paused, traded lower, then continued in an upward direction upon completing the pattern.



Double top and double bottom
Double tops and double bottoms are reversal patterns.

A. Double top
A double top is a reversal pattern at the top of an uptrend where price action fails to exceed, but instead comes close to or closely matches, the prior top. The reversal of the uptrend is confirmed when price action moves below the prior support level.

B. Double bottom

A double bottom is a reversal pattern at the bottom of a downtrend where price action fails to exceed, but instead comes close to or closely matches, the prior bottom. The reversal of the downtrend is confirmed when price action moves above the prior resistance level.

Symmetrical triangle

A symmetrical triangle is potentially either a continuation or reversal pattern that is undergoing a period of consolidation before the future price direction is resolved by:

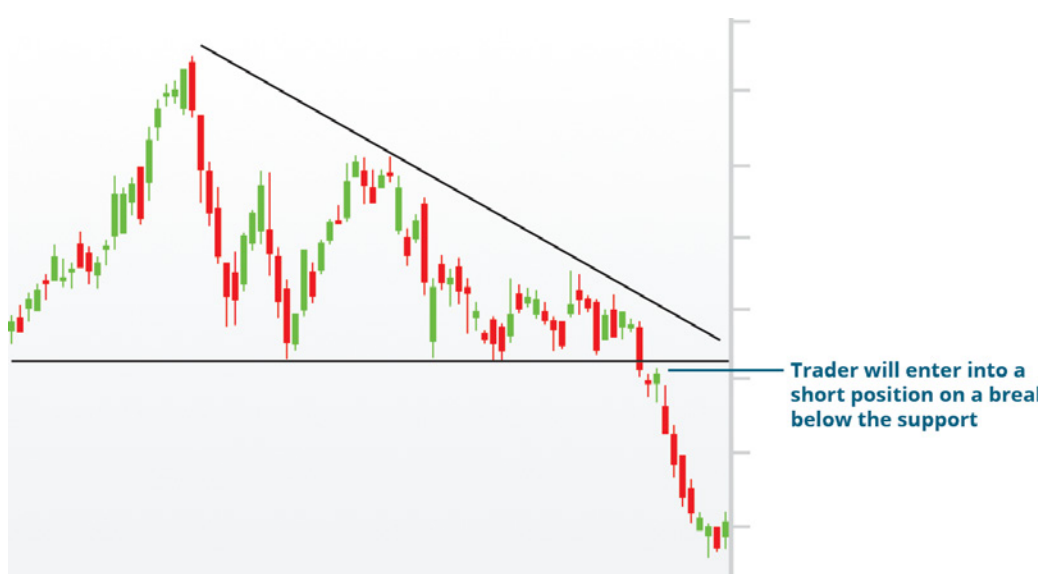
i. A break below the ascending support line – this is a continuation of the downtrend or a reversal of the uptrend.
ii. A break above the descending resistance line - this is a continuation of the uptrend or a reversal of the downtrend.

Ascending triangle

The ascending triangle is a bullish continuation pattern indicating that price action will head higher upon completion of the pattern and breaking out of the horizontal resistance. The pattern is formed by an ascending support trendline and a horizontal resistance line.

Descending triangle

The descending triangle is a bearish continuation pattern indicating that price action will head lower upon completion of the pattern and breaking below the horizontal support. The pattern is formed by a descending resistance trendline and a horizontal support line.



Analytical tools
There are five types of technical indicators to support a wide range of analysis in Questrade MT4. The technical indicators are:

Trend	Oscillator	Volume	Bill Williams	Custom
Average directional Movement index	Average true range	Accumulation/distribution	Accelerator oscillator	Accelerator
Bollinger bands	Bears power	Money flow index	Alligator	Accumulation
Commodity channel Index	Bulls power	On balance volume	Awesome oscillator	Alligator
Moving average	DeMarker	Volumes	Fractals	ATR
Parabolic SAR	Envelopes		Gator oscillator	Awesome
Standard deviation	Force index		Market facilitation index	Bands
	Ichimoku Kinko Hyo			Bears
	MACD			Bulls
	Momentum			CCI
	Moving average of oscillator			Heiken Ashi
	Relative strength index			Ichimoku
	Relative vigor index			Exposure
	Stochastic oscillator			MACD
	Williams' percent range			Momentum
				MA
				OsMA
				Parabolic

Expert Advisor

The Expert Advisor (EA) is an automated trading software written in the MQL4 programming language. The Questrade MT4 platform has several built-in EAs with preset technical indicators and trading parameters. Experienced programmers familiar with MQL4 can build their own EAs that analyze markets and execute orders when certain predefined conditions of the selected technical indicators have been met.

Questrade does not guarantee the performance of any EA or other third-party software application that provides you with trading programs, signals, risk management, or other trading assistance. By providing you with access to EA strategies on the Questrade MT4 platform, Questrade does not imply that you will make a profit and will not be held responsible for verifying the accuracy of prior trading performance records. You agree that you will perform all necessary due diligence and consult with a qualified, independent financial advisor to determine if the use of all third-party trading systems is appropriate and suitable based on your investment objectives, risk tolerance, and overall financial condition.

[1] Investopedia

CHAPTER 8
DEVELOPING A STRATEGY

To be successful at trading, one must develop a sound trading strategy and be able to afford the risk capital. Risk capital is the amount of funds that a trader can afford to risk when the loss of these funds would not have a significant impact on the financial and overall well-being of the trader.

In addition to financial resources, a trader must also invest in time and education and experiment with various strategies by trial and error, since no strategy is foolproof and the effectiveness of each strategy evolves with time and changing market conditions. Developing a strategy can begin by answering the following questions:

What is my risk tolerance?
A trader must define the level of acceptable risk and adhere to a strict discipline of risk management in order to seek the maximum return with minimal risk.

What is my level of experience?
FX and CFDs are sophisticated trading products, and their pricing is influenced by a host of factors that may not be readily apparent to the novice trader. To gain experience and build confidence, a beginner trader should regularly visit online resources offered by major financial websites and learn about the functioning of capital markets. The next step would be to practice demo account trading with virtual funds. The beginner could migrate to a live account trading real funds when sufficient confidence is built up. However, the difference between a practice and live account is significant in terms of the psychological impact on the beginner. It would be prudent to start trading micro or mini contracts in order to acclimatize to the market volatility, emotional impact of a fluctuating P/L, and limit exposure.

How much time can I invest in trading?
Part of the strategy would include deciding how much time can be allocated to monitoring and markets and trading. A day trading strategy would not be suitable for a trader who can only afford one hour a day to devote to trading. An amount of prep time has to be set aside to review the economic calendar and overseas market action, plus to identify trading opportunities on charts, in addition to the actual hours of trading. The time of day that the trader can trade will also influence a trader's choice of markets and products. For example, a trader on the west coast will have to stay up late to trade the active cross over between the European and North American markets.

What product do I want to trade?
Particularly for beginners, the FX and CFD markets can offer a wide array of choices. However, where one is faced with limited time, knowledge, financial resources, and attention span, it would be prudent to restrict one's interest to a short list of products. Narrowing the focus to a select number of products enhances a trader's ability to stay abreast of relevant news and price levels to make more informed trading decisions.

Do I have any expertise in technical and fundamental analysis?

Technical traders use charts and analytical tools to identify buy and sell levels, fundamental traders study economic indicators and monitor news releases to make trading decisions. Being knowledgeable in both technical and fundamental analysis will help a trader make better decisions as sometimes technical analysis may be a better tool for shorter timeframes, while the underlying economic factors may have greater impact in the long run.

Do I have the discipline to adhere to my strategy?

Even before making a profit, a trader should learn how to preserve his capital. Setting up a stop loss order for every open position is a must. Secondly, one must avoid the temptation to react opportunistically to random news events and sidestep a proven strategy. One should only enter a trade on the best analysis available at the time. One should not hesitate from taking a loss if the trade doesn’t work out despite one’s best efforts. The merit of averaging up or down on a losing position has to be assessed as a unique situation every time. In a ranging market it may work, in a trending market it can be disastrous.

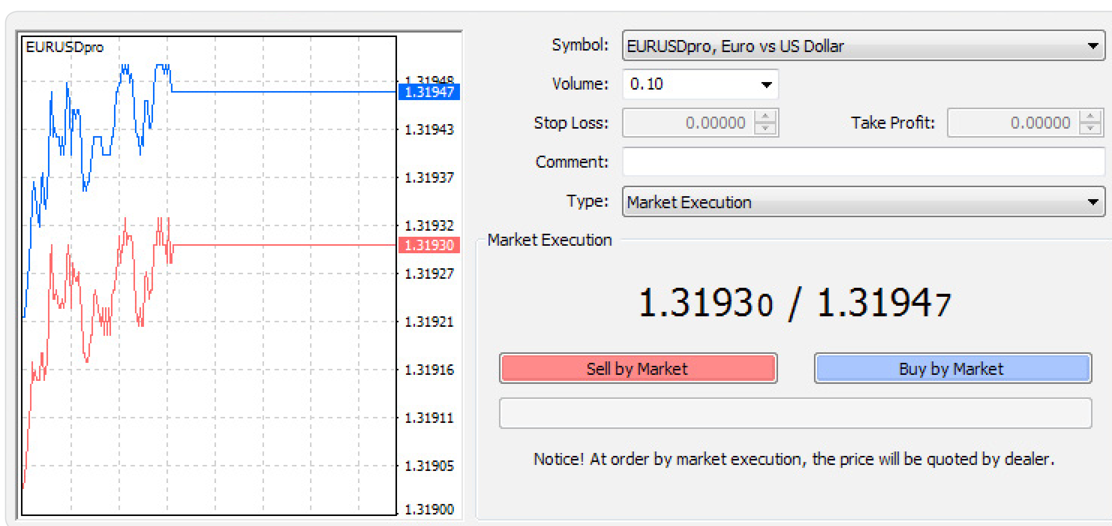
CHAPTER 9
PLACING A TRADE

Order types

The Questrade MT4 platform provides sophisticated order entry and tracking. Orders may be entered using the following order types. The rate that you can enter these order types varies according to the currency pair that you are trading.

Market execution

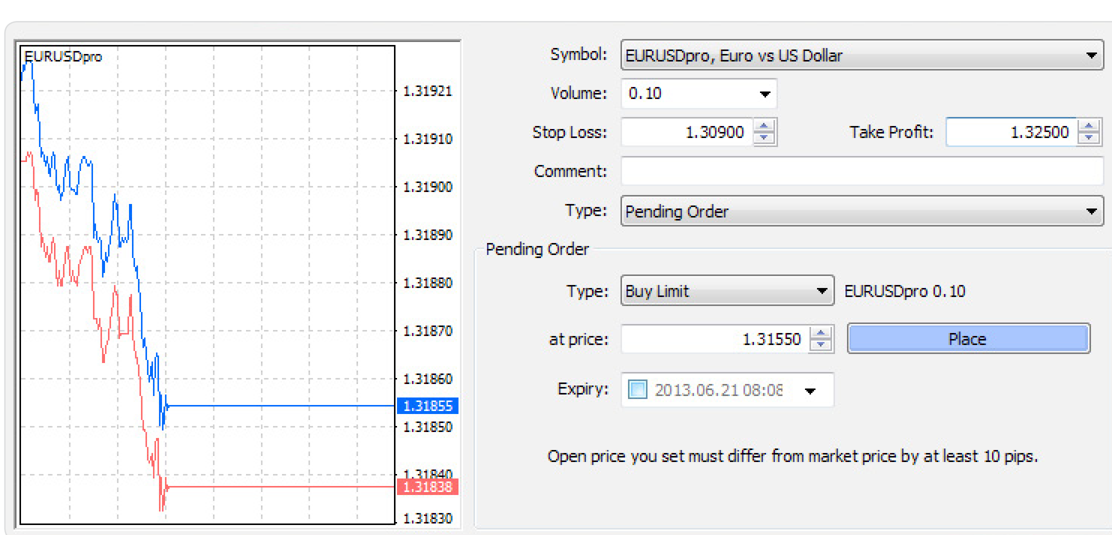
Market execution is a market order to buy or sell an FX or CFD product at the best price currently available. A buy-by-market order is executed at the ask price and a sell-by-market order is executed at the bid price. Stop-loss and take-profit orders can be attached to an open position.



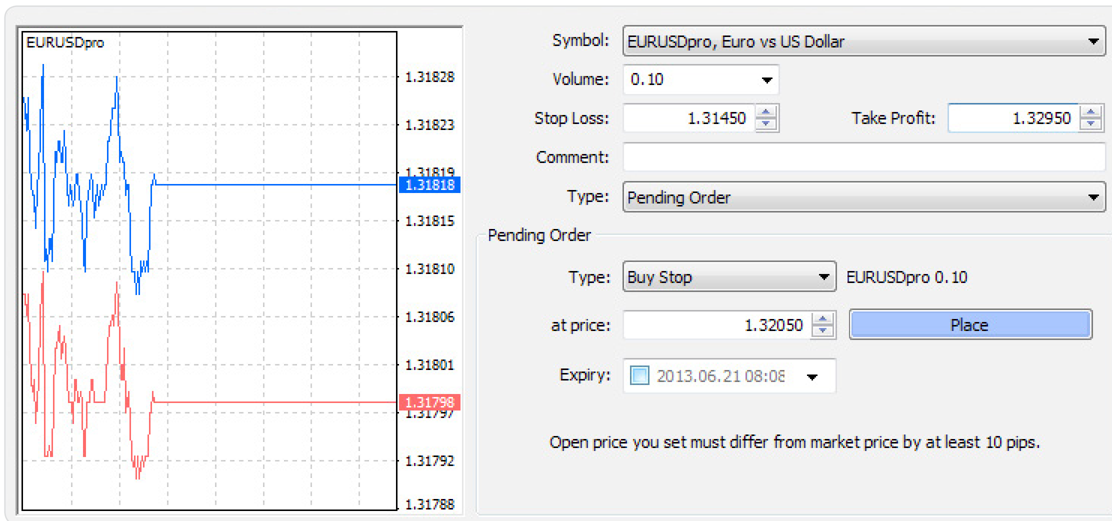
Pending order

A pending order is an order to buy or sell an FX or CFD product at a predefined price. This order is used to open a new position provided the future price reaches the predefined price. There are four types of pending orders available in the trading terminal.

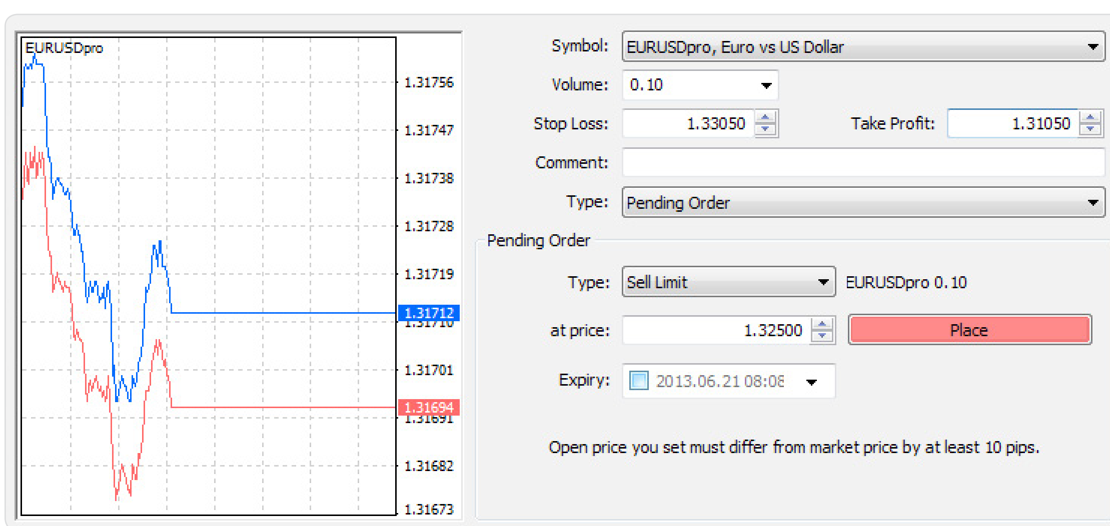
Buy limit: the buy limit order would be filled, provided that the future ask price is equal to the predefined price. The current price is higher than the predefined price requested in the placed order. This type of order is usually placed in anticipation that the price of an FX or CFD product, having fallen to a certain level, will rise.



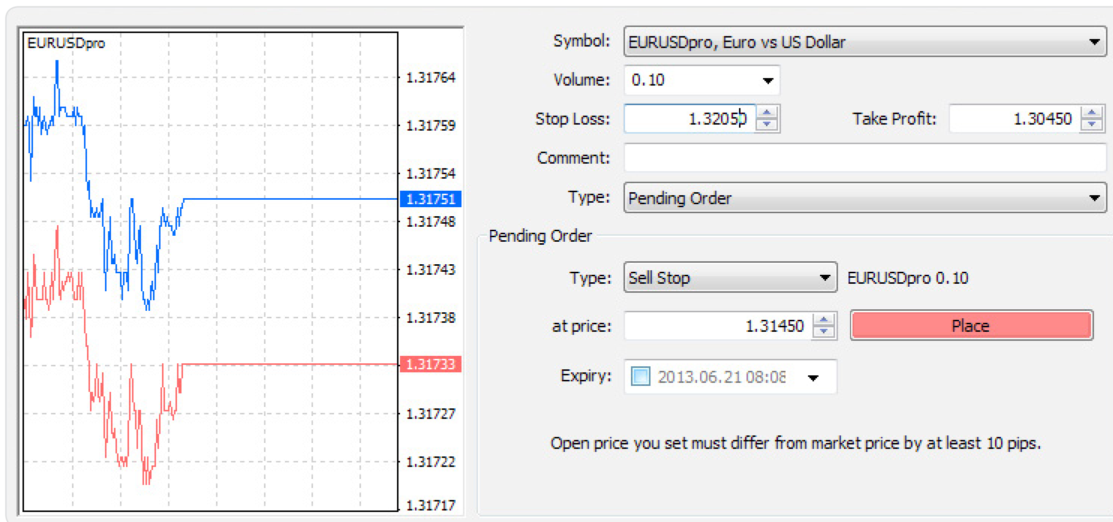
Buy stop: the buy stop order will be filled, provided the future ask price is equal to the predefined price. The current price is lower than the predefined price requested in the placed order. This type of order is usually placed in anticipation that the price of an FX or CFD product, having reached or exceeded a certain level, will continue to rise.



Sell limit: the sell limit order will be executed, provided the future bid price is equal to the predefined price. The current price is lower than the predefined price requested in the placed order. This type of order is usually placed in anticipation that the price of an FX or CFD product, having risen to a certain level, will fall.



Sell stop: the sell stop order will be executed, provided the future bid price is equal to the predefined price. The current price is higher than the predefined price requested in the placed order. This type of order is usually placed in anticipation that the price of an FX or CFD product, having reached or fallen below a certain level, will continue to fall.



Take profit

A single order where the price specified must be lower than the price currently quoted when buying, or higher than the current price when selling. A take-profit is often used in conjunction with a stop-loss as a one-cancels-other order (OCO) to close an open position. The OCO order is a contingent order in which one part of the order is cancelled when the other part is executed.

Stop loss

A single order where the price specified must be higher than the price currently quoted when buying, or lower than the current price when selling. A stop loss is often used in conjunction with a take-profit as an OCO order to close an open position. The OCO order is a contingent order in which one part of the order is cancelled when the other part is executed.

New order

A new order can be entered via market execution or pending order to open a new trade or create a new position.

Close order

Close order allows the user to close an open position by market execution or by modify order to attach a take-profit and/or stop-loss. Please note that an open trade cannot be closed by a trade in the opposite direction, as that would simply create a hedged position. Hedging allows long and short, or offsetting, positions to be held simultaneously in the same FX or CFD product in one account.

Modify or delete order

This allows the user to modify a pending order or the take-profit and/or stop-loss attached to an open position.

Trailing stop
Despite its name, a trailing stop on the Questrade MT4 platform is more akin to a take profit than a stop loss order. The trailing stop is automated and only activated once a position becomes profitable by the number of points (ten points = one pip) predefined by the user. Once activated, a stop loss is set at the predefined distance from the current market price, and this stop loss will trail the market price to protect the unrealized profit should it continue to move in a favourable direction.

If the market price changes direction, the stop loss will not be modified. The unrealized profit on the position will be captured when the market price reaches the price of the stop loss and the position is closed. It is important to remember that the trailing stop is not activated until the market price has moved in a favourable direction by the predefined distance from the entry price.

The trailing stop can be used in conjunction with a stop loss attached to the open position. The remaining order will cancel automatically once the position is closed by the triggered order. Each FX or CFD product has a minimum trailing distance from the market price. The trailing stop is designated in the Questrade MT4 platform underneath the trade tab via a small T to the left of the order/ticket ID, but it will not be displayed on the chart.

Example: A short trade is entered in EUR/USD at 1.31500 and a trailing stop of 120 points is placed. When the market price has moved in a favourable direction so that the number of points in the profit column in the trading terminal displays 120, a stop loss order will be automatically set to the entry price of 1.3150. However, if the market price (ask price) fails to reach 1.31380, the trailing stop does not activate and the position remains exposed without a protective order.

Important: trailing stop orders on the Questrade MT4 platform do not reside on Questrade servers. Trailing stops will only be active while the user is logged on to the Questrade MT4 Platform. Once the user logs out of the Questrade MT4 platform, the trailing stop order will no longer be active.

Hedging

The Questrade MT4 platform is by default hedging enabled, meaning that long and short positions in the same FX or CFD product can be held simultaneously in one account. The opposite trades in a hedged position consisting of an equal number of long and short lots are margined at 50% of the margin requirement. The following additional order types are available for a hedged position:

Close by: this order allows the user to close any single pair of open trades in a hedged position. The user can first identify the trade to be closed and then assign a corresponding opposite trade to offset the first trade.

Multiple close by: this order allows the user to close more than two opposite open trades in a hedged position at the same time. Please note that in this situation the open trades will be closed according to FIFO.

Rollovers

A rollover is the simultaneous closing of an open position for today's value date and the opening of the same position for the next day's value date. The purpose of a rollover is to prevent delivery of the notional amounts of foreign currency that you are trading. Questrade automatically rolls forward all open currency (including gold and silver) positions to the next day's value date following the close of North American trading at 5 p.m.ET. Online trading may be unavailable for five minutes starting at 6 p.m. ET, but phone orders will be accepted.

You may earn or pay interest on rollovers, depending on the direction of your position and the interest rate differential. However, there is also a minimum fixed rollover charge which may result in you paying interest regardless of the direction (long or short) of your position.

Rollover debit or credit is applied to the net open position of each currency pair (including gold and silver) in a separate entry under **Closed Transactions** in the daily confirmation. Fully hedged positions are not eligible for rollover debit or credit. Questrade is not liable if you were unaware that your position required the payment of interest.

Rollover Rates are displayed in MT4i on the platform and may be subject to change from day to day. To view rollover costs, please sign up for a free demo account. Then, from the **Navigator** menu, select **Expert Advisors**. The rollover rates are found in the **Trader Toolkit** under **Profile**.

CHAPTER 10
RISK MANAGEMENT

Managing risk is an essential component of any trading strategy. A trader must learn to limit downside risk, i.e. to minimize potential losses while simultaneously seeking opportunities to maximize potential profits. In other words, given the risk tolerance of the trader, what is the most optimal trade-off between risk and reward?

Risk capital

Risk capital is a uniquely Canadian regulatory concept for traders of highly speculative, leveraged products such as futures and FX and CFDs. It is the amount of funds that a trader can risk in the market, which, if lost, will not have a significant impact on the trader's financial well being and lifestyle. A trader is asked to provide a risk capital limit upon account opening. The risk capital limit will specify the maximum amount of deposit to the trading account. The risk capital limit request must be approved during account opening by Questrade and is subject to a determination of the trader's financial condition, trading experience, and investment knowledge, among other factors.

The risk capital limit should not be confused with the stop loss order to limit losses on an open position. It is the maximum amount of risk funds that the trader, subject to Questrade's approval pursuant to its policies and procedures, can deposit to his trading account on a cumulative basis over the lifetime of the account. The risk capital limit may be revised at the request of the trader and at the discretion of Questrade based on changes in your financial condition. A financial update form has to be completed and approved by Questrade before the risk capital limit can be increased.

Drawdown limit

This is a risk limit that the trader imposes on the funds in the trading account by setting a maximum loss limit that will trigger a halt in trading so that the trading strategy can be reviewed for flaws. Sometimes market conditions undergo changes that nullify strategies that have worked in the past. Under these circumstances, the trader must realize the need to re-evaluate his strategy without further risk to capital. Drawdown limits of 25% to 40% are common for experienced traders.

Risk per trade

This is a risk limit assigned to each trade and is usually expressed as a fixed dollar amount or a percentage of the funds in the account. This risk limit works in tandem with a stop loss order on the open position that usually coincides with, and is confirmed by, price action trading through support or resistance levels.

Stop loss and take profit

Since it is impossible to monitor markets 24 hours a day, a trader must utilize the important risk management tools of a stop loss and take profit order to protect an open position. Standing entry orders triggered can also be protected in a similar manner.

Trailing stop

This type of stop order is actually designed to protect the unrealized profit of an open position. It should be noted that the trailing stop will not activate until the open position has become profitable by a minimum number of pips specified by the trader when setting the order. The trailing stop order available on the Questrade MT4 platform will not trigger or afford any protection if the open position has not achieved the minimum defined profit. See the section titled **Trailing stop** under **Order types** in **Chapter 9 - Placing a trade**.

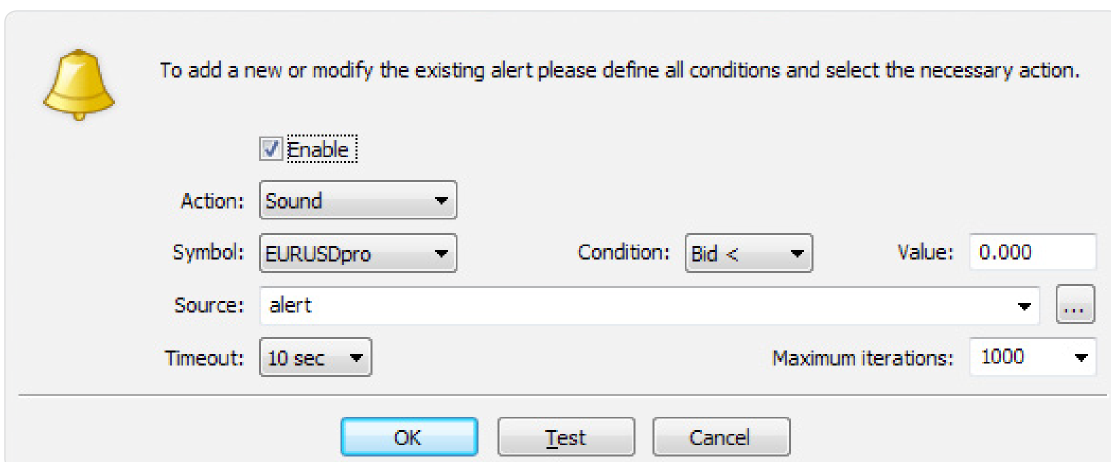
Hedging

Traders sometimes use hedging strategies to limit risk. This is done by taking a trade in the opposite direction to an open position for an identical amount. Although some may argue this is equal to paying an additional spread to eliminate the exposure without closing the open position, some traders view this differently. During fast markets after major news events, traders may wish to temporarily shield open positions from extreme volatility while updating their analysis of the latest technical chart pattern before making the next decision. Hedging the open positions can achieve that purpose by providing the breathing room.

Another use for hedging is an example where the trader has taken a long-term position, which has become profitable, but is encountering temporary counter-trend price action. The hedging feature allows the trader to take a trade in the opposite direction without closing the long-term position, and this provides the opportunity to capture a short-term profit with the counter-trend trade. See the section titled **Hedging** under **Order types** in **Chapter 9 - Placing a trade**.

Price alert

Traders can set audible price alerts on the Questrade MT4 platform to receive notification of price action reaching the pre-defined level.



APPENDIX A
CFD PRODUCT DETAILS

CFD trading hours and contract expiry months are listed below.

For front month expiries please log into your Questrade MT4 platform:

- Open the **Trader Toolkit** inside the **Navigator** window
- Click on **Support**, then **CFD product details**

Product	Trading hours — city refers to time zone	Units per lot	Contract expiry (months of expiry)	Contract value	Max units	Min tick	Min tick value	Underlying exchange
Energy								
UK oil	0100 – 2300 (Fri close 2200) London	100 barrels	Second business day prior to the 15th day before the first day of the contract month (every month).	$1.00 per min tick movement	50,000 barrels	0.01	$1.00	ICE – London
US oil	1800 – 1715 (Fri close 1700) New York	100 barrels	Fourth business day prior to the 25th calendar day of the month proceeding the delivery month. If the 25th calendar day of the month is a non-business day, trading ceases on the fourth business day prior to the last business day preceding the 25th calendar day (every month).	$1.00 per min tick movement	50,000 barrels	0.01	$1.00	NYM – New York
Natural gas	1800 – 1715 (Fri close 1700) New York	2,500 BTUs	Four business days prior to the first of the contract month (every month).	$2.50 per min tick movement	250,000 BTUs	0.001	$2.50	NYM – New York
Heating oil	1800 – 1715 (Fri close 1700) New York	3,000 gallons	Second to last business day prior to the contract month (every month).	$0.30 per min tick movement	300,000 gallons	0.0001	$0.30	NYM – New York
Indices (US)								
US30	1700 – 1515 & 1530 – 1630 Chicago	1	Third Friday of the contract month (Mar, Jun, Sep, Dec)[1].	$1.00 per index point movement	200	1.0	$1.00	CME – Chicago
SPX500	1700 – 1515 & 1530 – 1630 Chicago	10	Third Friday of the contract month (Mar, Jun, Sep, Dec)[1].	$10.00 per index point movement	5,000	0.25	$2.50	CME – Chicago
NAS100	1700 – 1515 & 1530 – 1630 Chicago	5	Third Friday of the contract month (Mar, Jun, Sep, Dec)[1].	$5.00 per index point movement	1,000	0.25	$1.25	CME – Chicago
Indices (Europe)								
ESTX50	0800 – 2200 Frankfurt[2]	3	Third Friday of the contract month (Mar, Jun, Sep, Dec)[1].	€3.00 per index point movement	600	1.0	€3.00	Eurex – Frankfurt
GER30	0800 – 2200 Frankfurt	1	Third Friday of the contract month (Mar, Jun, Sep, Dec)[1].	€1.00 per index point movement	200	0.5	€0.50	Eurex – Frankfurt
UK100	0800 – 2100 London	1	Third Friday of the contract month (Mar, Jun, Sep, Dec)[1].	£1.00 per index point movement	200	0.5	£0.50	NYSE LIFFE – London
FRA40	0800 – 2200 Paris	1	Third Friday of the contract month (every month)[1].	€1.00 per index point movement	200	0.5	€0.50	NYSE LIFFE – Paris

Indices (APAC)								
AUS200	1710 – 800 & 0950 – 1630 Sydney	1	Third Thursday of contract month (Mar, Jun, Sep, Dec).	A$1.00 per index point movement	200	1.0	A$1.00	SFE – Sydney
JPN225	1700 – 1515 & 1530 – 1630 (Fri close 1515) Chicago	100	Business day preceding the second Friday of the contract month (Mar, Jun, Sep Dec).	¥100 per index point movement	20,000	5.0	¥500.00	CME - Chicago
HK40	0915 - 1300 & 1300 - 1615 Hong Kong[2]	3	Business day preceding the last business day of the contract month (every month).	HK$3.00 per index point movement	600	1.0	HK $3.00	Hong Kong Futures Exchange
Metals								
Copper	1800 – 1715 (Fri close 1700) New York	2,500 lbs	Two business days prior to the first day of the contract month (every month).	$1.25 per min tick movement	250,000 lbs	0.0005	$1.25	CMX – Commodity Exchange Inc
Palladium	1800 – 1715 New York	10 oz	Two business days prior the first day of the contract month (Mar, Jun, Sep, Dec).	$0.50 per min tick movement	3,000 oz	0.05	$0.50	NYM – New York
Platinum	1800 – 1715 New York	10 oz	Two business days prior to the first day of the contract month (Jan, Apr, Jul, Oct).	$1.00 per min tick movement	2,000 oz	0.1	$1.00	NYM – New York
Grains								
Soybean	1800 – 0715 & 0930 – 1315 Chicago	1,000 bushels	Two business days prior to the first day of the contract month (Jan, Mar, May, Jul, Aug, Sep, Nov).	$2.50 per min tick movement	100,000 bushels	0.0025	$2.50	CBT – Chicago Board of Trade
Wheat	1800 – 0715 & 0930 – 1315 Chicago	1,000 bushels	Two business days prior to the first day of the contract month (Mar, May, Jul, Sep, Dec).	$2.50 per min tick movement	100,000 bushels	0.0025	$2.50	CBT – Chicago Board of Trade
Corn	1800 – 0715 & 0930 – 1315 Chicago	1,000 bushels	Two business days prior to the first day of the contract month (Mar, May, Jul, Sep, Dec).	$2.50 per min tick movement	100,000 bushels	0.0025	$2.50	CBT – Chicago Board of Trade
Softs								
Cotton	2100 – 1430 New York	5,000 lbs	Six business days before the first business day of the contract month (Mar, May, Jul, Oct, Dec).	$0.50 per min tick movement	500,000 lbs	0.0001	$0.50	NYB – ICE Futures US Softs
Sugar	0330 – 1400 New York[2]	28,000 lbs	Second to last business day of the month preceding the contract month (Mar, May, Jul, Oct).	$2.80 per min tick movement	2,800,000 lbs	0.0001	$2.80	NYB – ICE Futures US Softs
Gold (XAU)								
XAU/USD	Sunday 1700 – Friday 1700 New York	1 lot = 10 oz 0.1 lot = 1 oz	No expiry. Contract is subject to automatic roll.	$0.10 per lot per min tick movement	10,000 oz	0.01	$0.10	Interbank spot prices
XAU/EUR	Sunday 1700 – Friday 1700 New York	1 lot = 10 oz 0.1 lot = 1 oz	No expiry. Contract is subject to automatic roll.	€0.10 per lot per min tick movement	10,000 oz	0.01	€0.10	Interbank spot prices
XAU/GBP	Sunday 1700 – Friday 1700 New York	1 lot = 10 oz 0.1 lot = 1 oz	No expiry. Contract is subject to automatic roll.	£0.10 per lot per min tick	10,000 oz	0.01	£0.10	Interbank spot prices
XAU/CHF	Sunday 1700 – Friday 1700 New York	1 lot = 10 oz 0.1 lot = 1 oz	No expiry. Contract is subject to automatic roll.	SFr0.10 per lot per min tick movement	10,000 oz	0.01	SFr0.10	Interbank spot prices

XAU/AUD	Sunday 1700 – Friday 1700 New York	1 lot = 10 oz 0.1 lot = 1 oz	No expiry. Contract is subject to automatic roll.	A$0.10 per lot per min tick movement	10,000 oz	0.01	A$0.10	Interbank spot prices
XAU/JPY	Sunday 1700 – Friday 1700 New York	1 lot = 10 oz 0.1 lot = 1 oz	No expiry. Contract is subject to automatic roll.	¥10.00 per lot per min tick movement	10,000 oz	1.0	¥1.00	Interbank spot prices
Silver (XAG)								
XAG/USD	Sunday 1700 – Friday 1700 New York	1 lot = 500 oz 0.1 lot = 50 oz	No expiry. Contract is subject to automatic roll.	$0.50 per lot per min tick movement	250,000 oz	0.001	$0.001	Interbank spot prices

[1] Or previous business day if the third Friday is a holiday.
[2] Denotes Monday open.

Product details are subject to change and updated on a best efforts basis only. Contact Questrade FX and CFD dept to confirm details.
Trading in derivatives, including FX and CFDs, is highly speculative and not suitable for all investors.

APPENDIX B
RISK INFORMATION DOCUMENT FOR DERIVATIVES

This brief document does not disclose all of the risks and other significant aspects of trading in futures contracts, options or other derivatives. In light of the risks, you should undertake such transactions only if you understand the nature of the contracts (and contractual relationships) into which you are entering and the extent of your exposure to risk. Trading in derivatives is not suitable for many members of the public. You should carefully consider whether trading is appropriate for you in light of your experience, objectives, financial resources and other relevant circumstances.

Futures contracts

1. Effect of leverage or gearing

Transactions in futures contracts carry a high degree of risk. The amount of initial margin is small relative to the value of the futures contract so that transactions are “leveraged” or “geared”. A relatively small market movement will have a proportionately larger impact on the funds you have deposited or will have to deposit: this may work against you as well as for you. You may sustain a total loss of initial margin funds and any additional funds deposited with the firm to maintain your position. If the market moves against your position or margin levels are increased, you may be called upon to pay substantial additional funds on short notice to maintain your position. If you fail to comply with a request for additional funds within the time prescribed, your position may be liquidated at a loss and you will be liable for any resulting deficit.

2. Risk-reducing orders or strategies

The placing of certain orders (e.g. “stop-loss” order, where permitted under local law, or “stop-limit” orders) which are intended to limit losses to certain amounts may not be effective because market conditions may make it impossible to execute such orders. Strategies using combinations of positions, such as “spread” and “straddle” positions may be as risky as taking simple “long” or “short” positions.

Options

3. Variable degree of risk

Transactions in options carry a high degree of risk. Purchasers and sellers of options should familiarize themselves with the type of option (i.e. put or call) which they contemplate trading and the associated risks. You should calculate the extent to which the value of the options must increase for your position to become profitable, taking into account the premium and all transaction costs.

The purchaser of options may offset or exercise the options or allow the options to expire. The exercise of an option results either in a cash settlement or in the purchaser acquiring or delivering the underlying interest. If the option is on a futures contract, the purchaser will acquire a futures position with associated liabilities for margin (see the section on Futures Contracts above). If the purchased options expire worthless, you will suffer a total loss of your investment which will consist of the option premium plus transaction costs. If you are contemplating purchasing deep-out-of-the-money options, you should be aware that the chance of such options becoming profitable ordinarily is remote.

Selling (“writing” or “granting”) an option generally entails considerably greater risk than purchasing options. Although the premium received by the seller is fixed, the seller may sustain a loss well in excess of that amount. The seller will be liable for additional margin to maintain the position if the market moves unfavourably. The seller will also be exposed to the risk of the purchaser exercising the option and the seller will be obligated to either settle the option in cash or to acquire or deliver the underlying interest. If the option is on a futures contract, the seller will acquire a position in a future with associated liabilities for margin (see the section on Futures Contracts above). If the option is “covered” by the seller holding a corresponding position in the underlying interest or a futures contract or another option, the risk may be reduced. If the option is not covered, the risk of loss can be unlimited.

Certain exchanges in some jurisdictions permit deferred payment of the option premium, exposing the purchaser to liability for margin payments not exceeding the amount of the premium. The purchaser is still subject to the risk of losing the premium and transaction costs. When the option is exercised or expires, the purchaser is responsible for any unpaid premium outstanding at that time.

Additional risks common to derivatives

4. Terms and conditions of contracts

You should ask the firm with which you deal about the terms and conditions of the specific futures contracts, options or other derivatives which you are trading and associated obligations (e.g. the circumstances under which you may become obligated to make or take delivery of the underlying interest and, in respect of options, expiration dates and restrictions on the time for exercise).

Under certain circumstances the specifications of outstanding contracts (including the exercise price of an option) may be modified by the exchange or clearing house to reflect changes in the underlying interest.

5. Suspension or restriction of trading and pricing relationships

Market conditions (e.g. liquidity) and/or the operation of the rules of certain markets (e.g. the suspension of trading in any contract or contract month because of price limits or “circuit breakers”) may increase the risk of loss by making it difficult or impossible to effect transactions or liquidate/offset positions. If you have sold options, this may increase the risk of loss.

Further, normal pricing relationships between the underlying interest and the derivative may not exist. This can occur when, for example, the futures contract underlying the option is subject to price limits while the option is not.

The absence of an underlying reference price may make it difficult to judge “fair” value.

6. Deposited cash and property

You should familiarize yourself with the protections available on the money or other property you deposit for domestic and foreign transactions, particularly in the event of a firm insolvency or bankruptcy. The extent to which you may recover your money or property may be governed by specific legislation or local rules. In some jurisdictions, property which had been specifically identifiable as your own will be prorated in the same manner as cash for purposes of distribution in the event of a shortfall.

7. Commission and other charges

Before you begin to trade, you should obtain a clear explanation of all commissions, fees and other charges for which you will be liable. These charges will affect your net profit (if any) or increase your loss.

8. Transactions in other jurisdictions
Transactions on markets in other jurisdictions, including markets formally linked to a domestic market, may expose you to additional risk. Such markets may be subject to regulation which may offer different or diminished investor protection. Before you trade you should inquire about any rules relevant to your particular transactions. Your local regulatory authority will be unable to compel the enforcement of the rules of regulatory authorities or markets in other jurisdictions where your transactions have been effected. You should ask the firm with which you deal for details about the types of redress available in both your home jurisdiction and other relevant jurisdictions before you start to trade.

9. Currency risks
The profit or loss in transactions in foreign currency-denominated derivatives (whether they are traded in your own or another jurisdiction) will be affected by fluctuations in currency rates where there is a need to convert from the currency denomination of the derivative to another currency.

10. Trading facilities
Most open-outcry and electronic trading facilities are supported by computer-based component systems for the order-routing, execution, matching, registration or clearing of trades. As with all facilities and systems, they are vulnerable to temporary disruption or failure. Your ability to recover certain losses may be subject to limits on liability imposed by the system provider, the market, the clearing house and/or member firms. Such limits may vary; you should ask the firm with which you deal for details in this respect.

11. Electronic trading
Trading on an electronic trading system may differ not only from trading in an open-outcry market but also from trading on other electronic trading systems. If you undertake transactions on an electronic trading system, you will be exposed to risks associated with the system, including the failure of hardware and software. The result of any system failure may be that your order is either not executed according to your instructions or is not executed at all. Your ability to recover certain losses, which are particularly attributable to trading on a market using an electronic trading system, may be limited to less than the amount of your total loss.

12. Off-exchange transactions
In some jurisdictions, and only then in restricted circumstances, firms are permitted to effect off-exchange transactions. The firm with which you deal may be acting as your counterparty to the transaction. It may be difficult or impossible to liquidate an existing position, to assess the value, to determine a fair price or to assess the exposure to risk. For these reasons, these transactions may involve increased risks.

Off-exchange transactions may be less regulated or subject to a separate regulatory regime. Before you undertake such transactions, you should familiarize yourself with applicable rules.

Additional risk disclosure for trading in contracts for difference (CFDs)

CFD (as with futures and margined foreign exchange) trading carries high level of risk to your capital. A key risk of leveraged trading is that if a position moves against you, the customer, you can incur additional liabilities far in excess of your initial margin deposit. Only speculate with money you can afford to lose. CFD trading may not be suitable for all customers, therefore ensure you fully understand the risks involved and seek independent financial advice if necessary.

Before making a decision to trade CFDs, you should carefully consider all of the disclosure provided to you upon account opening and in the documents incorporated by reference herein and, in particular, you should evaluate the risk factors listed below. The list below does not cover every possible risk associated with CFD trading. It does however list some of the most common risks.

a. Increased leverage
If you incorrectly forecast the movement in the stock price then the risk of loss increases proportionately if the stock moves against you. If you are paying 15% margin, for example, a move greater than 15% against you will deplete your initial security deposit, while you will still remain liable for any additional loss incurred.

b. Trading suspended
Occasionally trading in a stock is suspended. In these cases it is likely that you would be unable to trade out of your CFD contract and could be subject to an increased margin demand.

c. Margin
In times of increased volatility or perceived risk the margin of a stock can change on short notice. If you are unable to meet the increased margin you will be forced to close your position.

d. Selling short
If you were to sell short and it were impossible to borrow the stock to cover your position, then you would be forced to buy back the stock.

e. Foreign markets
Foreign markets will involve different risks from Canadian markets. In some cases risks will be greater. The potential for profit or loss from transactions on foreign markets or in foreign currency denominated markets will be affected by fluctuations in foreign exchange rates.

f. Off-exchange transactions
When trading CFDs and other financial derivative products with Questrade, you will be entering into off-exchange (OTC) derivative transactions. All positions entered into with Questrade must be closed with Questrade and cannot be closed with any other entity.

g. Counterparty risk
There is a risk associated with the solvency of Questrade, the counterparty to each CFD. An investor may lose part or all of their unrealized gains in an open position or funds held on account due to the solvency, bankruptcy or liquidation of Questrade. Questrade is not a reporting issuer in Canada.

h. Margin rules and IIROC membership
Questrade is a member of the Investment Industry Regulatory Organization of Canada (IIROC) and therefore must comply with its rules and regulations pertaining to CFD trading (IIROC CFD Rules) including the margin percentage applied to CFD positions and the types of underlying instrument. Such IIROC Rules may have a materially adverse effect on the scope or attractiveness of CFDs offered to customers resident in Canada.

IIROC leverage disclosure

As a member of the Investment Industry Regulatory Organization of Canada (IIROC), Questrade is required to provide the following disclosure to customers seeking to trade in products that involve leverage:

Using borrowed money to finance the purchase of securities involves greater risk than using cash resources only. If you borrow money to purchase securities, your responsibility to repay the loan and pay interest as required by its terms remains the same even if the value of the securities purchased declines.