How to Trade

Synthetic Indices

by Vince Stanzione

Disclaimer

Information and strategies contained in this guide are intended as educational information only and should not be used as a sole trading guide. Currencies, stock index, or commodity prices can be highly volatile and unpredictable. The past is not a guide to future performance, and strategies that have worked in the past may not work in the future. Digital options trading involves a high level of risk and may not be suitable for all customers. The value of any trade, and the income derived from it, can go down as well as up, and your capital is at risk. Although due care has been taken in preparing this document, we disclaim liability for any inaccuracies or omissions.

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Introduction

This is a step-by-step guide on how to trade synthetic indices, which are unique to Deriv.

Synthetic indices are unique indices that mimic real-world market volatility and liquidity risks which are often seen in other financial markets. They are available for trading 24/7/365, and are based on a cryptographically secure random number generator audited for fairness by an independent third party. Synthetic indices have been traded for over 10 years with a proven track record for reliability and continue to grow in popularity. Deriv offers a transparent and fair platform with continuous two-way pricing and does not second-guess which side of the trade you are going to take.

You will be able to practise trading these markets with a demo account so you can see them in action without risking any money. As you become more confident, you can start using a real trading account.

The great advantage of using Deriv services, which are available for clients above the age of 18, is that you can start trading with just a small deposit. All the same, please remember that trading can be addictive and you need to be aware of its risks. Visit begambleaware.org for more information. To give you more measures of control, Deriv offers you ways to place trading limits or entirely exclude yourself from trading for a certain period of time. To learn more, please visit Secure and responsible trading.

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Why should synthetic indices be in your trading toolbox?

A good trader like a good plumber will have different tools in their toolbox to tackle different jobs. Synthetic indices have a place in your trading as there are many advantages to trading a synthetic index over a currency pair or traditional financial indices such as the FTSE100 or Dow Jones.

These advantages include:

- Synthetic indices on Deriv MT5 offer high leverage and tight spreads.
- You can trade synthetic indices round the clock.
- They’re not affected by world events, real-world market, and liquidity risks.
- Synthetic indices are generated randomly and also audited for fairness by an independent source.
- When trading synthetic indices on Deriv Trader, you’ll know your exact risk at the outset, so no nasty surprises or margin calls.
- There are no negative balances.
- You can start with low trading capital.
- They’re not subject to manipulation or fixing.
- They’re ideal for automated trading with continuous quotes and no gaps.

- You have the ability to choose a range of synthetic markets with lower or higher risk-reward characteristics.
- They're ideal for technical trading on Deriv MT5, Deriv X, Deriv Go and cTrader, and can be traded using MetaQuotes MT5 charting software and chart pattern trading.
- Synthetic indices are ideal for small and large traders alike with deep liquidity and fast order execution at any time of day or night.
- Trading synthetic indices can be regarded as training for understanding real markets, as a first step before graduating to trading more complex instruments like forex and stock indices.
- A stable, regulated, and established online trading service provider offers them.
- New synthetic indices are to be offered as Deriv heavily invests in research and development.

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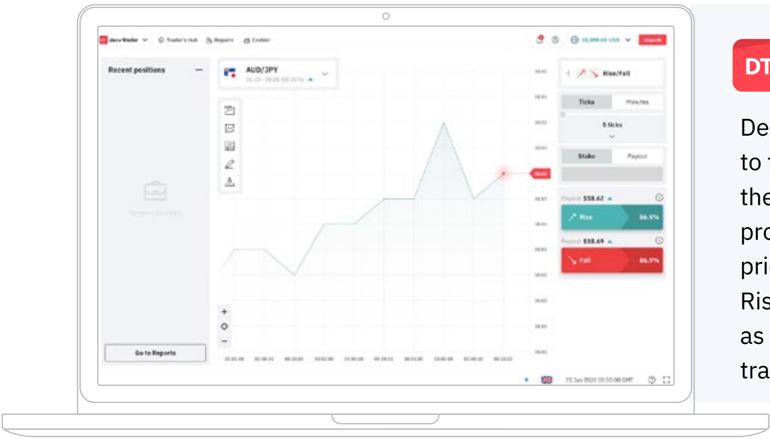
Platforms for trading synthetic indices

Deriv synthetic indices can be traded on various platforms to suit your own trading style and experience. Here, we will start with **Deriv Trader**, which can be accessed via Deriv.app on a desktop or a mobile device on a browser. We will then look at **MT5** (trading platforms may differ depending on the account type and clients' country of residence) which gives you the widest choice of synthetic indices and access to a full suite of professional trading tools.



Deriv Trader

Deriv Trader allows you to trade directly from the live chart. Deriv provides a continuous price feed for trading Rise (UP) or Fall (Down) as well as other ways to trade a synthetic index.

Digital options is not offered to clients residing within the European Union.

Have many choices

There is a range of synthetic indices which you can trade, from lower volatility (Vol 10) to higher volatility (Vol 100). These are continuous indices: they are literally ongoing 24/7/365 with constant deep liquidity, so no large gaps in prices.

Daily Reset Indices reset each day at midnight GMT. These are the Bear Market Index and Bull Market Index.

The Volatility 10 Index has volatility set at 10% so the range of price movements will be lower. At the other end of the spectrum, the Volatility 100 Index is set at 100%, so you will see fairly violent swings in prices which some systems and traders prefer. The Volatility 100 Index is twice as volatile as the Volatility 50 Index, and four times as volatile as the Volatility 25 Index.

Enjoy the thrill and stay safe

Digital options have a fixed payout and a fixed premium; your risk is strictly limited to your premium. In some markets, you can also close a digital option before expiration, which is another advantage that synthetic indices have since you can't, for instance, close a forex digital option before it expires.

Digital options is not offered to clients residing within the European Union.

Be in control

With Deriv synthetic indices, you are in control of not only choosing the rate of volatility but also deciding the length of the contract. This can range from ticks to seconds to days.

With digital options, your trades settle automatically with no need to make a closing trade. If the trade moves according to your prediction, any profit that you make is added to your account balance automatically with no waiting for settlement.

You can also have a number of trades open simultaneously. For example, you could have a Rise (buy) trade on the Volatility 10 Index to settle in 1 hour and also have a Fall (sell) trade on the same index to settle in 1 minute.

Available option trades

When you trade synthetic indices on Deriv Trader, there are many digital option trades that you can choose from, and Deriv is always adding more. Below, you are introduced to those offered on Deriv Trader at the time that this book is being

Rise/Fall

Predict whether the exit spot will be strictly higher or lower than the entry spot at the end of the contract period.

Higher/Lower

Predict whether the exit spot will be higher or lower than a price target (the barrier) at the end of the contract period.

Matches/Differs

Predict what number will be the last digit of the last tick of a contract. The duration of this trade cannot exceed 10 ticks.

Over/Under

Predict whether the last digit of the last tick of a contract will be higher or lower than a specific number. The duration of this trade cannot exceed 10 ticks.

Even/Odd

Predict whether the last digit of the last tick of a contract will be an even number or an odd number. The duration of this trade cannot exceed 10 ticks.

Touch/No Touch

Predict whether the market will touch or not touch a target at any time during the contract period.

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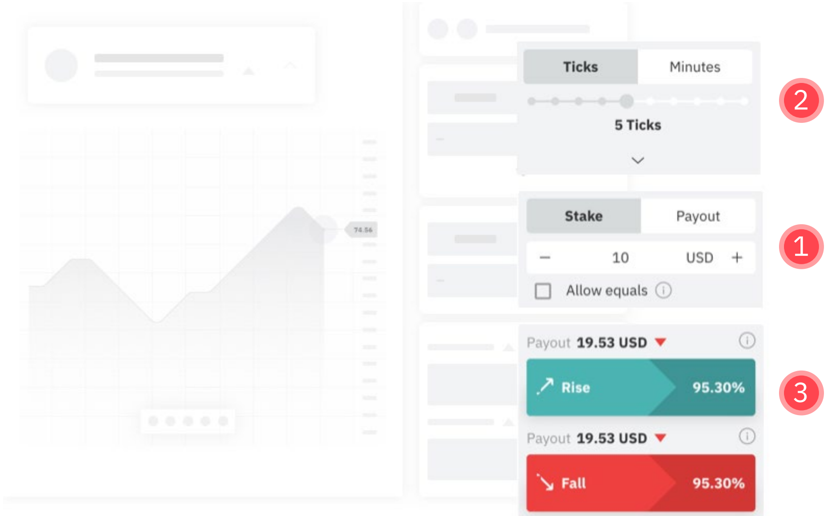
Two digital options trading examples

Let's go through an example of trading synthetic indices as a Rise/Fall digital option:



Here we see the Volatility 10 Index with the price moving higher. We can choose our investment – in this case, **$10** 1 (that is our total risk) – the duration of the trade – in this case, **5 ticks** 2 – and the direction of movement we predict for the market – in this case, **Rise.** 3

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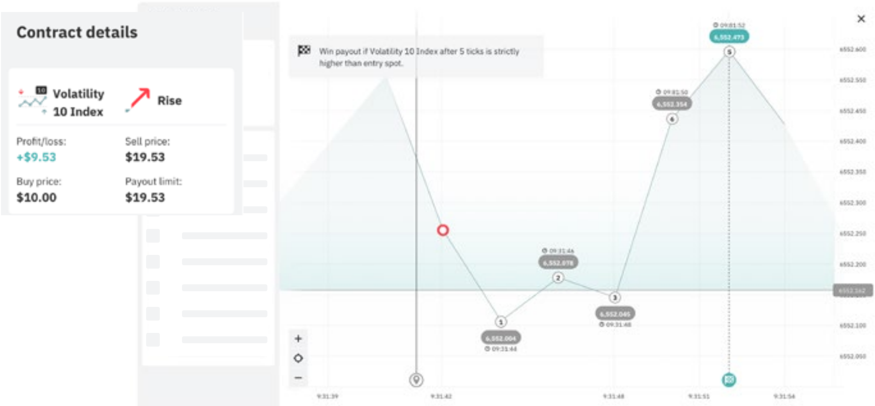
So, let’s see what happened:

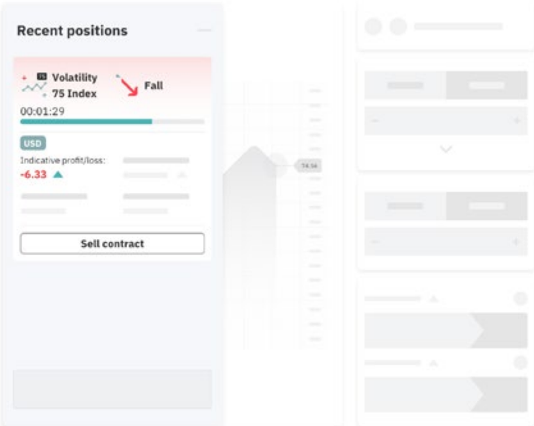


We can see that the index closed higher than the purchase price, and our $10 investment has now gained $9.53 for a profit of 95.3%, which is not a bad return for a few seconds!

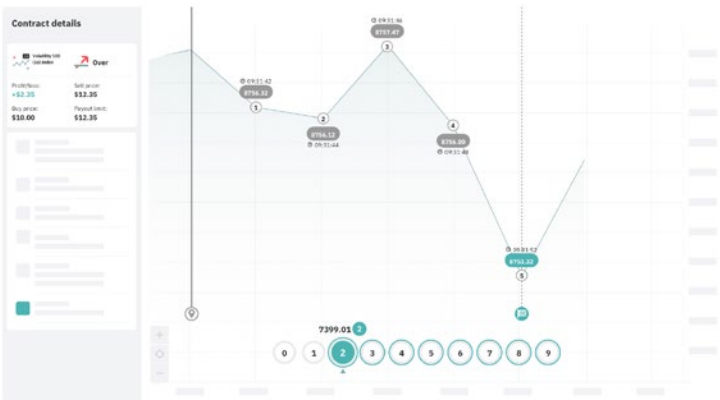
Notice the trade settles automatically after 5 ticks, so we don’t need to sell to close. Also, notice that initially, the trade went against us. However, this does not matter. It’s the closing price that is important. Neither does it matter if the final price is just marginally higher than the purchase price. We are still paid out.

Each trade, even if the trading capital is small, is given a unique reference ID number for the opening and closing. This means that each trade has a full audit trail that can be checked, so there is no way that the outcome can be manipulated either by Deriv or the trader.

You can also close a trade early with some digital options if there is enough time value left. In the image shown, Volatility 75 is still running and trade is going against us. We can sell the contract and salvage some of the price paid for the trade.

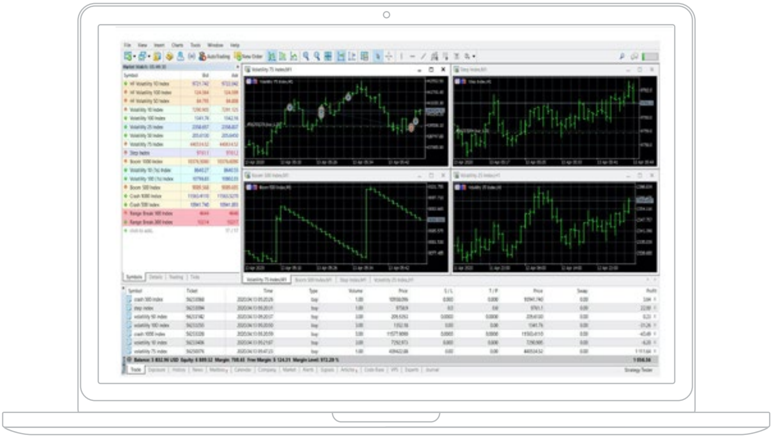


Now, let's take a look at an example of Over/Under. In this example, I predicted that the last digit of the exit price would be above 1 for a 23.5% return. As you can see, it was a winning trade as the end digit was 2.



Digital options is not offered to clients residing within the European Union.

Deriv MetaTrader 5 (Deriv MT5)



MetaTrader 5 (MT5), developed by MetaQuotes Software, gives you access to multiple asset classes — forex, stocks, commodities, and indices — on a single platform. MT5 can be used on Android or iOS mobile devices as well as desktop PC or MAC.

Before we see how Deriv connects with MT5, let's find out more about margin trading, the type of trading you can do on MT5.

Margin trading

Margin trading allows you to make an investment using leverage. Now, what is leverage? Leverage gives you the chance to make an investment which is larger than your actual capital amount. A way to think of it is like a home loan or mortgage where you put up 10%, and the bank provides the rest.

For example, you have $1,000 in your account but would like to buy $10,000 worth of an index. Without leverage, this is impossible. But if a broker offers to boost your purchase power, or in other words, give you leverage, your wish can come true. Deriv offers up to 1:1000 leverage. With global interest rates remaining low, the cost of borrowing money remains low and leverage proves to be cost-effective. Leverage is offered at no extra charge.

Leverage magnifies your gains; of course, it will also magnify your losses. However, with Deriv, it is not possible to go into a negative balance because we can apply stop-out and forced liquidation measures to protect your account against losses that might exceed your equity. All the same, when trading CFDs, it is important to monitor your open positions closely because you may lose more than your initial investment if the price moves against your prediction. You can use stop loss to limit your risk.

Of course, just like a maximum speed limit, you don't have to drive right at the limit, and you don't have to take your account to maximum margin.

Used sensibly, leverage can help to build up your account. Just be aware of the downsides as well.

Now we know that the trading done on MT5 is leveraged. But there's one more thing that we should look at before going back to Deriv MT5 and that is the type of contracts that you can purchase on this platform.

Trading conditions may vary depending on the country of residence

Contracts for difference (CFDs)

A contract for difference is a contract that gives you the chance to earn a payout by correctly predicting the price movement of assets without owning them. CFDs are available on a range of financial and synthetic markets and can be traded via MT5. A CFD gives you exposure to a market and allows you to go long (trade for price to go up) or short (trade for price to go down). The CFD will continue trading until you close it or it gets stopped out. Stop out occurs when your margin level (percentage of equity to margin) reaches a certain level that depends on your account type. Before this, your account will be placed under margin call which also depends on your account type. This does not affect your ability to open new positions; it serves to alert you that your floating losses have added up to a certain level. It is best that you top up your account to keep your positions open. Another option is to close losing positions or set a stop loss to prevent your losses from becoming bigger.

Why access MT5 through Deriv

Whether you're a new or experienced trader, you can easily access the MT5 platform via Deriv MT5. As a Deriv client, you can then trade CFDs on our unique synthetic indices. Select Deriv as your broker to gain access to synthetic indices.

You can use a demo account to practise margin trading or switch to your real account and trade CFDs for a real profit or loss.

Instruments availabe for margin trading

Volatility indices	Volatility 10 (1s) Index, Volatility 25 (1s) Index, Volatility 50 (1s) Index, Volatility 75 (1s) Index, Volatility 100 (1s) Index, Volatility 10 Index, Volatility 25 Index, Volatility 50 Index, Volatility 75 Index, Volatility 100 Index
Crash/Boom	Boom 1000 Index, Boom 500 Index, Crash 1000 Index, Crash 500 Index
Step indices	Step Index
Range break indices	Range Break 100 Index, Range Break 200 Index

Other MT5 features

MT5 also offers a massive selection of plugins that allow automated trading. To see how Deriv makes it easy for you to automate your trades, read Appendix G on Deriv Bot. It also provides a virtual private server (VPS), which means that for a small monthly fee, your trading systems can run on a remote computer without needing to tie up your phone or laptop. This also means you're not relying on your internet connection.

An MT5 trading example

In this example, you can see the volatility 10 chart and the Sell and Buy prices in MT5. We can choose our trade size. In this case, I have $1 a point. In this index, a point is 6,528.00 to 6,529.00. Imagine that I have sold $1 a point at 6,528.086 and the current price is 6,555.740 so I have a running loss of 27.65 points, which in this case equals -$27.65.

As you can see on the left-hand side, the widest selection of synthetic indices and multiple trades can be running concurrently.

Trading synthetic indices with Deriv on the MT5 platform gives you a high amount of leverage.

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Smarter trading of synthetic indices

No need to follow the news for trading synthetic indices

Unlike currencies, commodities, and stock indices which can all be affected by world news, such as a tweet from a president, or get manipulated by governments, synthetic indices are purely mathematical. Therefore, there is no need to follow the news or fundamental data.

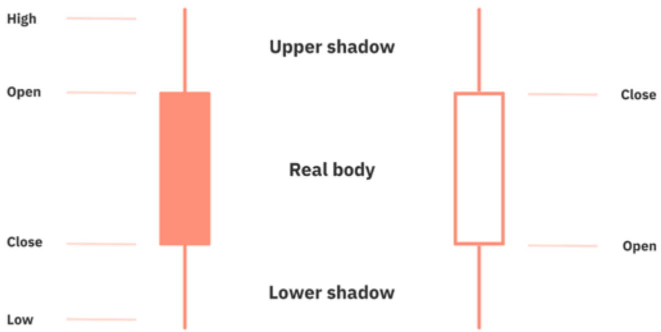
As a result, the best way forward to trade a synthetic index is by observing price patterns which is commonly referred to as technical analysis or charting.

Candlestick charts

There are various types of charts that can be used to analyse synthetic indices. However, to keep things simple we will look at candlestick charts here.

Candlestick charts are said to have been developed in the 18th century by the legendary Japanese rice trader Homma Munehisa. The charts gave Homma and others an overview of open, high, low, and close market prices over a certain period. This method of charting prices proved to be particularly interesting and helpful, due to its uncanny ability to display five data points at a time, instead of just one. The method was picked up by Charles Dow circa 1900 and remains in common use by today's financial market traders.

The basic candlestick



Candlesticks are usually composed of the body, typically shaded in black or white illustrating the opening and closing trades, and the wick, consisting of an upper and lower shadow illustrating the highest and lowest traded prices during the time interval represented.

If the asset has closed higher than it opened, the body is white. The opening price is at the bottom of the body. The closing price is at the top. If the asset has closed lower than it opened, the body is black. The opening price is at the top. The closing price is at the bottom. A candlestick need not have either a body or a wick. Note that in the examples shown throughout this book, we have used red for a down candle instead of black, and green for an up candle Instead of white.

Timeframes

Depending on which timeframe you use in a chart, the trends and patterns will look very different. Many traders examine multiple timeframes for the same currency pair, such as the Volatility 100 index in one-minute, one-hour, and one-day charts. Deriv offers comprehensive charts across different timeframes, ranging from very short-term (i.e. mere ticks, or seconds) to one day.

A short-term timeframe Volatility 100 Index example over a five-hour period

Each candle represents one minute, and we see opportunities to profit from "up" or "down" trades. We can go even shorter term into "ticks"; however, a tick chart can only be displayed as a line chart.

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Three states of a synthetic index market

Now that you've become more familiar with charts and timeframes, you can see that a synthetic index can only be in three states:

- **Trend higher**
- **Trend lower**
- **Sideways range**

We shall now explore each of these states in greater detail.

Trend higher

The lows are becoming higher. The highs are also becoming higher. In other words: whenever the market sells off, it rebounds at a higher price than the previous time. This is considered to be “positive” or “bullish” activity because market participants are willing to pay more than in the past.

Here we see an example of an uptrend.

Of course, no uptrend lasts forever, and we see the price falling outside the trend lines and starting to move sideways in a range.

Trend lower

This is a downtrend: lows become lower, and highs become lower too. Any “up” moves are quickly sold off, as the market is losing energy. A helpful analogy is a boxer being knocked down gradually, taking longer and longer to get up each time.

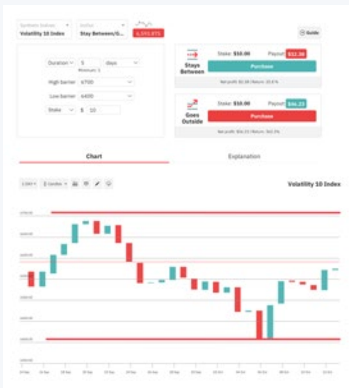
Sideways range

Markets can also be dull or range-bound, with very little movement in either direction. Such periods can last for weeks and sometimes months. Most traders don’t profit from ranging markets. However with Deriv, you can trade and profit from range markets.

Example

Here we see the Volatility 10 Index. We are placing a trade, predicting that the index will stay between 6,700 and 6,400 over the next 5 days with a return of 23.8%. That is a fairly low risk trade.

If you took the opposite view, it would be a high-risk, high-reward trade which would pay 362.3%.



06

Conclusion

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I hope you found this short guide of use and that you will refer back to it in due course. This book has shown the many ways synthetic indices can be traded on Deriv via Deriv Trader, Deriv X, Deriv Go, cTrader and Deriv MT5. But please bear in mind that synthetic indices are generated randomly and trading them is influenced by chance, no matter how knowledgeable and skilful the trader is. Just remember that trading can be addictive. Understand the risks and be in control.

Using Deriv services allows you to trade a great selection of markets. You will find additional resources, charts, and tools on the deriv.com website.”

Wishing you success,

Vince Stanzione

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About Vince Stanzione

Vince Stanzione has been trading markets for over 30 years and is a self-made multi-millionaire. He is the New York Times bestselling author of The Millionaire Dropout and is the author of “Making Money from Financial Spread Trading” course. He has been quoted and featured favourably in over 200 newspapers, media outlets and websites including CNBC, Yahoo Finance, Marketwatch, Reuters.com, Independent, Sunday Independent, Observer, Guardian, The Times, Sunday Times, Daily Express, What Investment, Growth Company Investor, New York Times, Bullbearings, City Magazine, Canary Wharf, Institutional Investor China, and Shares Magazine.

He mainly lives in Mallorca, Spain, and trades financial markets including currencies, stocks, and commodities. For more information, visit www.fintrader.net and follow him on Twitter @vince_stanzione.

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Appendices

General points about trading and Deriv

Appendix A

Why trust Deriv

Any trade or contract is only as good as the “counterparty”. This is also known as “counterparty risk”. Deriv has been in business for over 20 years and is an award-winning online trading service provider which, whilst at the cutting edge, is conservatory managed with zero debt. The company and its synthetic indices are regulated and audited. You can see copies of Deriv licenses on its website.

Unlike some brokers that make it easy to deposit money yet hard to withdraw, Deriv enables you to withdraw easily and securely. Please note that while Deriv processes your withdrawal requests efficiently and quickly, the period it might take banks or other financial institutions to process withdrawals can be longer. Deriv tries to give you an estimate of the total waiting time.

All your money is segregated and held in secure and licensed financial institutions. In this way, in the unlikely event of Deriv becoming insolvent, all your money will be returned to you because it is never merged with Deriv’s.

Deriv has over 1.8 million trading accounts opened with more than 8 billion US dollars of total trade turnover, so you're in good hands.

On a side note, if you place a trade and then for whatever reason, lose internet connection, your trade still continues as it's placed with the Deriv servers. You can still check the outcome once your connection is re-established. I had this happen to me whilst travelling in Thailand.

Appendix B

Opening a real account

If you rehearse and rehearse the curtain will never go up.

Having a demo account is a great way to practise, but for a chance to profit from markets you will need a real account. Rules and regulations will apply depending on the country you are based in. Deriv aims to make the process as simple as possible. If you are requested for a copy of your ID, please provide them as soon as possible to avoid delays in setting up your account.

Once your real account is open, then set yourself a trading goal or plan. Just keep in mind that trading should not be considered as a means to earn a living, to solve financial problems, or to make financial investments. Synthetic indices on Deriv are available round the clock, so you can always come back to trade on Deriv in your leisure time.

Appendix C

Seven top tips for trading on Deriv

1. Start small and build up.

Albert Einstein was once asked what mankind's greatest invention was. He replied: "Compound interest." There's even one claim that Einstein called compound interest the "eighth wonder of the world."

I have been in the trading business for over 35 years, and I started small. It was through the power of compounding that I could build up to where I am now. You need to understand compounding to perceive what a powerful tool it can be. Below is an excerpt from one of my favourite fables which sums this up. The same principle can be used when trading with Deriv.

Excerpt from A Grain of Rice by Helena Pittman

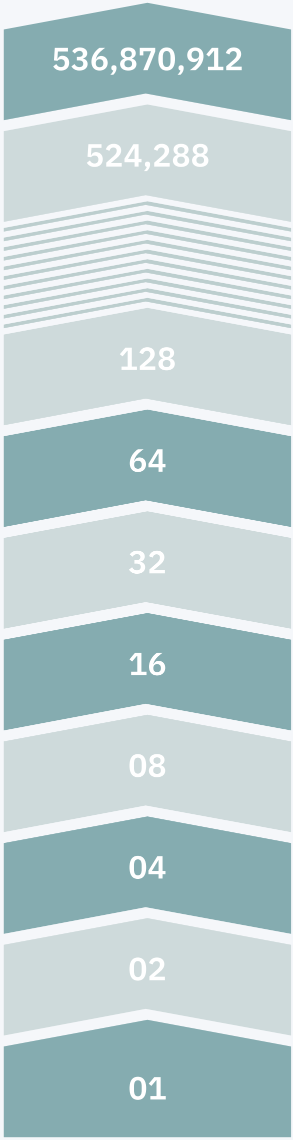
The daughter of the Chinese emperor was ill, and he promised riches beyond compare to whoever could cure her. A young peasant named Pong Lo entered the palace. With his wit and bravery, he restored the Princess' health and won her heart. As a reward, Pong Lo asked for her hand in marriage. The emperor refused and asked Pong Lo to think of anything else he would like.

After several moments of thought, Pong Lo said, "I would like a grain of rice."

"A grain of rice! That is nonsense! Ask me for fine silk, the grandest room in the palace, a stable full of wild stallions – they shall be yours!" exclaimed the emperor.

"A grain of rice will do," said Pong Lo, "but if his majesty insists, he may double the amount every day for a hundred days."

So on the first day, a grain of rice was delivered to Pong Lo. On the second, two grains of rice were delivered; on the third day, four grains; on the fourth day, eight grains; on the fifth day, 16 grains; on the sixth day, 32 grains; on the seventh day, 64 grains; and on the eighth day, 128 grains. By the twelfth day, the grains of rice numbered 2,048. By the twentieth day, 524,288 grains were delivered; and by the thirtieth day, 536,870,912, requiring 40 servants to carry them to Pong Lo. In desperation, the emperor did the only honourable thing he could do and consented to the marriage. Out of consideration for the emperor's feelings, no rice was served at the wedding banquet.



2. Manage your money wisely.

Risk too much, and a few bad trades will make you lose your trading bank. Risk too little, and it's going to be a long time before you see any decent profits. As previously explained, money management does not have to be very complicated, but a simple system will ensure that no single trade can wipe out your trading account. The mistake many new traders make is trying to grow their account too fast.

3. Don't let your emotions overwhelm you.

Trading with a demo account and trading with real money are not the same. As in most walks of life, when real money is at stake, irrational and instantaneous reactions might take over. Since trading can become addictive, it is important to know how to stay in control and remain reasonable especially when trading with real money. Besides reading the following tips, please visit Secure and responsible trading and begambleaware.org for more information.

It may not be possible to trade logically all the time; after all, we are humans, with occasional impulsive decisions. But by using a system and steadily applying practical experience, you can train your reasoning powers to have a more permanent presence. Be careful about taking in too much news and over-monitoring your position. It is easy to overreact to a news story that may cause a short-term spike but is actually not that important in the long run. Of course, news does not affect synthetic indices, but you may also trade other markets via Deriv.

Using mobile devices and apps can cause you to make snap decisions that you may later regret. The same sound judgment should be used with all trade purchase decisions, no matter how or where they're ultimately executed.

4. Profit potential exists in all markets.

Many still believe that in order to make money, the price of a share, market, currency, or commodity must go up. However, this is not true. As I have outlined in this guidebook, you can profit from up, down, and even sideways movements, so don’t see falling markets as a negative.

5. When in doubt, sit it out.

If you watch financial news channels such as CNBC or Bloomberg, it seems that you should always be doing something, since the channels are filled with “breaking news.” Remember: these channels have to fill their airtime, and in many cases, the best trade is, in fact, no trade. If you are not sure, or do not see an opportunity you are happy with, then do nothing and just wait for the next one. With the many markets offered by Deriv, you will likely find plenty of opportunities at any time of the day or night.

6. The higher the returns, the lower the chance of a payout.

Deriv offers a vast selection of trading opportunities ranging from lower-risk trades with returns of 5-10% to those with higher returns of 100% or more. Deriv prices trades based on mathematical probabilities. Of course, unexpected events do happen, but overall, if you are being offered returns of more than 200% for a trade lasting a day or less – just as an example – the reason for such generous returns is that the likelihood of a payout is fairly slim. Keep in mind it’s readily possible to “mix and match” your trades on Deriv.

7. Decide carefully on your approach to trading.

Some people trade casually, and that is perfectly fine. Some approach it with a more serious attitude. While I do not encourage you to view trading as a means to earn a living, to solve financial problems, or to make financial investments, and while I certainly don't deny the role of chance in trading, I do believe there are ways to trade more smartly, especially when it comes to financial indices. See the tips under "Keep your emotions in check and trade wisely". For instance, keep solid records of your winning and losing trades. A diary can help with this to complement the tracking tools you'll find on deriv.com, enabling you to keep tabs on your winnings. Also, stick to a trading system to help minimise emotional decision-making.

Appendix D

Keep your emotions in check and trade wisely

Regardless of how big or small your account is, it is important to trade responsibly and stay in control of your emotions (visit Secure and responsible trading and begambleaware.org for more information). If you react impulsively to market movements when you're trading with real money, chances are that you'll suffer serious losses. It makes sense to slow down a little.

If you're going through a bad run, then take a step back, reduce the size of your trades, or maybe even go back to using a demo account for a while. Deriv does not place a time limit on demo accounts, and you can use your real and demo accounts side by side. In fact, since Deriv is committed to responsible trading, it encourages you to use all of the measures it offers to stay in control at all times.

Let's say you start with a $1,000 account. If you limit your risk on any one trade to 5% of the account, this practice would allow you to keep trading, even with a bad run. Let's observe this simple system in action.

The maximum staked on a single trade should never be more than 5% of your account total. So initially, 5% of your $1,000 account balance would be $50. If your balance goes down, then your trade size is proportionately reduced.

Let's say that – following a few losing trades – your account balance decreases to $900; 5% of this amount would now be $45. If you have had a good run, then your allowance per trade proportionately increases.

Suppose you've had a few winning trades in a row and your account balance has risen to $1,200; your 5% maximum per trade is now $60.

The key is that no one trade should ever blow your trading account.

If your account goes down 50%, how much do you need to put on the line to get back to even? Most will say 50% to make up for the previous losses, but here's the problem: You would need the account to move 100% to make this strategy work. As any trader will tell you, this is a not a wise approach.

Big losses are hard to recoup

The maths of percentages shows that as losses get larger, the returns needed to recover to breakeven point increase at a much faster rate.

A loss of 10% necessitates an 11% gain to recover. Increase that loss to 25%, and it takes a 33% gain to get back to breakeven. A 50% loss requires a 100% gain to recover. An 80% loss necessitates 500% in gains to get back to where the investment value started.

Therefore, it is important to avoid big losses from the get-go. To do so on Deriv Trader, use only a small fraction of your account balance to purchase a trade so that if the market moves against you, your loss would be an amount you can easily afford. For leveraged trading on Deriv MT5, you need to be extra vigilant. Cut your losses at an affordable point. Better still, use Deriv's stop loss feature to make it automatic. Also, follow the tips below. Remember, above all, that synthetic indices are influenced by chance and their patterns are by no

Percent loss	Percent gain	Percent loss	Percent gain
5%	5.3%	55%	122.2%
10%	11.1%	60%	150.0%
15%	17.6%	65%	185.7%
20%	25.0%	70%	233.3%
25%	33.3%	75%	300.0%
30%	42.9%	80%	400.0%
35%	53.8%	85%	566.7%
40%	66.7%	90%	900.0%
45%	81.8%	95%	1900.0%
50%	100.0%		

Tips to help prevent losses from spiralling out of control

While you need to be smart in your approach, remember that there is a difference between synthetic indices and other markets. Synthetic indices are generated randomly and are not predictable, so it is not wise to grow confident in your techniques when you're trading them. You may not be able to control the index price, but you can control the amount of risk you place on any one trade, the amount of margin you use, and the total percentage of your account being invested at any time.

Watch that ego. Don't mistake a lucky run with skill. After a good run, many become overconfident and start taking stupid risks. After a poor run, many attempt to play catchup, trying to make their losses back fast. Both of these slippery slopes are easy ways to lose your trading capital.

Many books have been written on money management with complicated formulas. The key principle is quite simple: no single trade should ever cause you irrecoverable financial or emotional damage. However sure you are that XYZ is going to rocket, only a percentage of your trading bank should ever be risked.

Take care when trading on mobile devices

When real money is at stake, you need to be careful. Technology is wonderful; today, you can carry the power of a supercomputer in your pocket. It's now possible to make trades on the move from a mobile device from anywhere but do take care. Some tend to trade very differently on mobile devices than they do when they are sitting at a laptop or desktop. Be sure to apply the same level of strict discipline to trades purchased on mobile devices as you would on your desktop. It's all a matter of mindset.

Appendix E

Technical analysis

Disclaimer: There is no guarantee that analysing the past performance of the market, whether on financial or synthetic indices, can lead to successfully predicting future market movements. These technical analysis tools merely help to gain a better understanding of how markets move and how such data can be analysed for a better informed decision when trading. Please remember that trading always involves risk and you should consider this when trading. Trading on synthetic indices is a game of chance and skill does not affect the outcome of a trade.

Getting technical

Technical analysis ignores the news and economic data, focusing purely on price trends and volume. It primarily involves studying chart patterns, showing the trading history and statistics for whatever market is being analysed. You would start with a basic price chart which would show the indices trading price in the past and look for a trend or pattern that could help determine future pricing. Let's look at a few tools for technical analysis in more detail.

Three technical analysis tools

This guide doesn't aim to go into the hundreds of possible technical trading tools, patterns, and indicators, but the following can give you an understanding of the main tools available. This brief overview is designed to help you get started in trading via CFDs or digital options so that you can begin to build up your knowledge. Deriv and MT5 offer access to excellent complementary charts and tools with over 30 technical indicators, but we will stick to three of the main ones here:

1. **Moving averages**
2. **Price channels: Donchian channels**
3. **Relative strength index (RSI)**

It's important to keep your trading system simple at the beginning. As you progress, you can add extra tools to further refine your abilities.

1. Moving averages

It's hard to trace the precise origins of the moving average (MA), although this concept is often attributed to Richard Donchian, who was a great pioneer of systematic trading in the 1950's and 60's. The methodologies that he developed over 40 years ago still serve as the basis of many complex systems used by the world's best traders.

The dictionary defines an average as "the quotient of any sum divided by the number of its terms." Let's suppose that you need to work out a 10-day moving average of the following numbers: 10, 20, 30, 40, 50, 60, 70, 80, 90, 100. You would thus add these figures together and divide by 10 (i.e. the total number of items in the set), to arrive at an average of 55. Now when tomorrow's price comes in – let's say 105 – you would remove the oldest number (i.e. 10) and add 105 to the end of the series. The average of this set would now be 64.5.

Every charting software package incorporates the moving average, as it is one of the most basic aspects of trading. You will also find it on the various charts featured on the Internet. You don't need to worry about working it out manually on your own.

- Types of moving averages

Moving averages can be calculated for any data series, including all sorts of different indicators associated with a particular currency (e.g. open, high, low, close, volume, etc.). To start, concentrate on the simple moving average. While some have tried to be clever by deviating from this straightforward standard in various ways, it is best to stick with a simple approach, particularly as you first begin to trade. In software or on the Internet, “simple moving average” is often abbreviated as SMA.

There are five popular types of moving averages:

- Simple/arithmetic
- Exponential
- Triangular
- Variable
- Weighted

- Advantages and limitations of moving averages

Moving averages have their limitations; however, they can be a good place to start in your quest to build a winning system. Here are key considerations to factor in along these lines:

When the price breaks below the moving average, it triggers a sell signal. Some traders also allow some leeway; they wait for one or two days after the moving average breaks before making the trade. If the price moves above the moving average, you would be looking to place bullish bets (up trades) and if it breaks below, you would place bearish bets (down trades).

Using a technical system – such as the moving average – helps to reduce the impact of emotions on trading decisions. Rather than basing your trades solely on what you believe should happen, your trades are factually grounded in what is actually happening with the market data points. A moving average can also prevent you from making stupid mistakes, such as trading against a trend.

Moving averages work best when prices are "moving" either up or down. In a sideways range, the moving average will go flat and give out many false signals.

- Popular trading systems based on moving averages

SMA crossover is a popular strategy based on the simple moving average technical indicator. It triggers if two SMA indicators with different periods[2] are crossing over, and it uses that as a signal to purchase a contract, for example a 20 period (longer MA) crossing a 5 period (shorter MA). You can also use just one moving average as outlined previously.

This strategy is built to run in Deriv Bot (DBot), a free tool for creating and applying your own automated strategies. You can use Deriv Bot to trade using both virtual and real money accounts. For more information on Deriv Bot, see Appendix G.

[2] *Period is either 1 minute, 1 hour, or 1 day, depending on what timeframe you're trading on.*

An example of 2 moving averages crosses

Here we have 1-minute bars with a 5- and 20-period (5 and 20 minutes) MAs.

This is a very simple system that can be programmed to trade automatically using Deriv Bot or an MT5 trade so you would not have to keep monitoring. It's also possible to test a system with a demo account.

You could also use a CFD trade which would remain open as long as the price remains above the moving average (long trade). When it falls below, you close the trade. You can also then open a new trade (short trade).

SMA as a short-term system

For those looking for more signals and quicker trades, a simple moving average can be used, with the timeframe adjusted from daily to much shorter periods, such as one hour or even one minute. Thus, a “20-period simple moving average” becomes the average of the last 20 minutes or hours.

The advantage of this method is quicker results, with the moving average being quite sensitive to price movements. The disadvantage is that you receive more false signals with such a short timeframe selected, so it’s a trade-off but still worth examining.

2. Price channels: Donchian channels

The Donchian channel is an indicator used in market trading, developed by Richard Donchian. It is formed by taking the highest high and the lowest low for a set period, such as 20 days. The area between the high and the low is the Donchian Channel for the period chosen. This tool is available within Deriv charts, with adjustable settings for the period length. Twenty days is the conventional timeframe, which is why the Donchian Channel is often referred to as the "20-Day rule" or the "4-week rule."

In the example below, the chart is set to daily bars and 20-day highs and 20-day lows. The line you see in the middle is the median line.

3. Relative strength index (RSI)

The relative strength index (RSI) indicator measures a share's performance against itself. It is often used to identify buy opportunities in market dips and sell opportunities in market rallies.

The value of the RSI is always a number between 0 and 100.

How to get the hang of trading tools

You can try out new ideas and systems on the Deriv platform or MT5 by using a demo account or by purchasing minimum-size trades with a real account. As little as one US dollar can be staked with your initial test runs until you build up greater confidence in using a particular tool or technique. Sometimes, an idea that seems quite logical on paper does not actually work when applied to the real world of trading. Often, it's best to test out new strategies with actual market prices and your demo account or just a small amount of real money to keep the risk as low as possible. Then, if you're happy with the results, you can increase to bigger trade sizes. Keep in mind that overall, if a system is not working on a small bet size, it's hardly going to start working if you risk more. Use your head; be smart.

Appendix F

Be Deriv affiliate and earn an extra income

Deriv is expanding in many new territories, and it is on the lookout for talented and hardworking partners. You can promote Deriv to your friends and contacts or market Deriv's services. In return, Deriv shall pay you a generous commission. As well as earning commission from Deriv, you can look at developing trading systems and providing education to new traders.

Some of Deriv's best clients are also its best affiliates. To find out more, please visit https://deriv.com/partners/.

Appendix G

Deriv Bot Automated trading

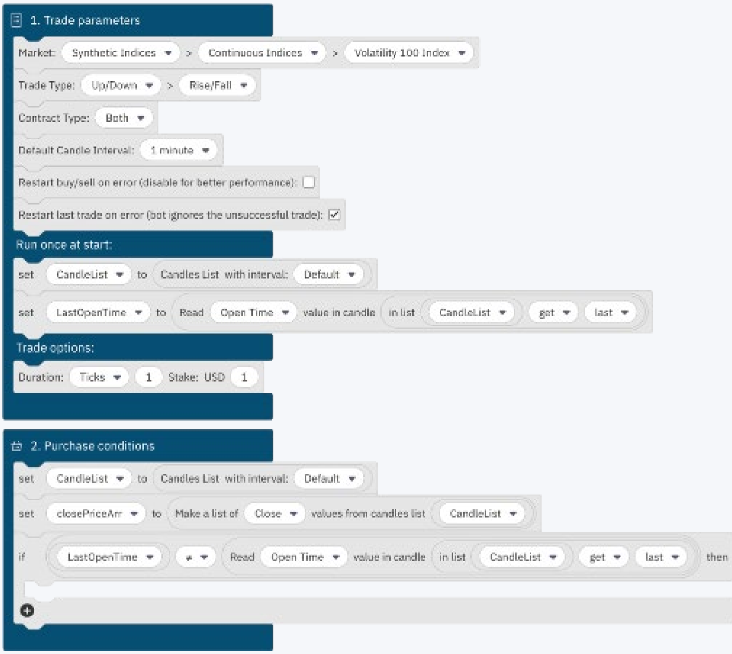
As already stated, synthetic indices trade 24/7 and it is possible to automate your trading strategies, allowing you to profit from movements even while you sleep!

Deriv has a simple trading bot called Deriv Bot which allows you to input your own trading rules with no computer programming skills. You can also import ready-made strategies.

A simple system such as ‘buy when two simple moving averages cross’, or ‘buy after 3 up ticks’ can be easily programmed in.

Examples of Deriv Bot usage

You can use Deriv Bot for trading Deriv synthetic indices too as the trading software that third-party developers offer for Deriv Bot is compatible with synthetic indices.



Appendix H

FAQs

Opening an account

I'm new to trading. Where do I start?
The first step is to open an account. You can apply online in just a few minutes.

Do I need to send any documents?
Deriv works to a high compliance standard as required by its regulators. Know Your Client (KYC) is now required in many countries. Deriv works hard to make this as simple as possible and not cause unnecessary delays.

Do you offer demo accounts?
Deriv offers a demo account so you can get the hang of trading before staking any actual currency of your own. There is no time limit on a demo account, and a real account and demo account can run concurrently.

Will I need to install any software?
Deriv is entirely web-based and requires no software installation. You can also use a tablet or other mobile device. MT5 does not require an app to be downloaded, however, there is also a downloadable app available on the Google Play and Apple App Stores.

How soon can I start trading?
You can open a Deriv account, deposit funds, and begin trading within minutes.

Financial security

How safe is my money with Deriv?
Your money is always safe with Deriv and held in segregated accounts at all times.

How does Deriv make money?
Deriv has thousands of clients taking a variety of positions on financial markets at any time and earns a small margin on these trades. It does not charge clients commission.

If I make too much money, will my account be closed or will I be banned?
No. Deriv encourages successful clients and will not close or limit a winning account. Deriv can hedge trades into financial markets, which means they have no vested interest in the client's final result.

Depositing and withdrawing funds

Do I need to deposit any funds to open an account?
You don't need to deposit any money to open an account, but you need to deposit funds before you can start trading.

How do I fund my account?
Deriv offers a range of common deposit and withdrawal methods, from credit and debit cards to bank wires, e-cash, Bitcoin, and e-wallets.

Is it possible to deposit and withdraw the same funds through different payment methods?
Unfortunately, no. Funds initially deposited through one payment method must be withdrawn through the same system; funds cannot be transferred to an alternate system for withdrawal. However, Deriv offers a wide variety of payment methods to suit your specific needs and preferences.

About Deriv

Deriv offers a wide range of products to its global client base, enabling them to trade forex, stocks, stock indices, synthetic indices, cryptocurrencies, and commodities.

With over 20 years of experience, Deriv's mission is to bring online trading to everyone, everywhere via a simple, flexible, and reliable platforms tailored to fit any trading style.

Today, Deriv has 20 offices worldwide with over 1300 employees from over 50 countries working together to create an effortless online trading experience with diversified, market-leading products.