

# HOW TO TRADE **STOCKS**

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*The smart way*



Vince Stanzione

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Vince Stanzione, the author and publisher of this guide, is a Deriv client and affiliate and may receive a commission on financial products offered by Deriv.

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# INTRODUCTION

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# INTRODUCTION

## Financial markets are open to everyone, not just the “financial elite”.

The once closed-off areas, which were once open only to the “financial elite”, are now open to anyone with nothing more than internet access and a small amount of capital. In the past, you would have needed a stockbroker account to buy and sell stocks, and you had to complete complicated forms to do so. You would be charged high commissions, and executing your orders would normally take long.

It would also be very difficult for someone who was a resident of, say, Nigeria or Indonesia to buy

stocks of a US- or Germany-listed company. Not only would you have issues with taxes, but also with settlement currencies, i.e. the currencies in which your funds would be deposited into your business bank account.

Today, you can trade global stocks in your own base currency regardless of where you are. There are no complicated forms to fill, and because you are trading CFDs, you won’t be dealing with the physical delivery of your traded stocks.



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# **THE BASICS OF CFD TRADING**

# THE BASICS OF CFD TRADING

## What is a contract for difference (CFD)?

CFD stands for contract for difference, a derivative product for speculating on the future direction of a market's price. You won't be buying or selling the underlying asset, which in this case is an individual stock. All that changes hands is the money equal to the price difference when the contract is closed. Basically, the price of the asset changes from the beginning to the end of your trade, and this difference will be your profit or loss.



## Why trade CFDs on Deriv

### - Trade less than one share.

The price of one Amazon share at the moment of writing this book is US\$3,000, which many can't afford. Fortunately, Deriv gives you the option to trade CFDs on a fraction of a share.

### - Profit from down moves.

Most brokers will only let you sell a share you own, whereas, with CFDs, you can sell first (also known as short selling) to profit from down moves. I will explain more under the section entitled Trend lower.

### - Enjoy transparent, two-way pricing and instant execution.

During normal trading hours, Deriv will display a Buy/Sell price of the stocks it offers. There is no need to wait for a broker to get back to you.

## - Use leverage.

Deriv allows you to use leverage in trading CFDs on stocks and stock indices. It means you only need to pay a percentage of the stock's value when opening a stock CFD trade on Deriv. The difference between the amount you need to pay and the actual asset price is known as "margin". The margin requirement will be shown to you after you open a trade. It can be as low as 5%, which means you could buy \$100,000 of stocks with as low as \$5,000 of margin.

Of course, the margin can give you bigger gains if the stock behaves as you'd predicted, but it can also work the opposite way and magnify your losses.

Deriv offers ways to protect yourself using stop loss orders. It also has negative balance protection. If a trade goes completely against you, you will not be asked for additional funds, and your account cannot end up having a negative. As we go further through this ebook, I will also explain risk management.

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# **STOCKS AND STOCK INDICES: THE BASICS**

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# STOCKS AND STOCK INDICES: THE BASICS

## What are stocks and stock indices?

### Stocks

If a company's stock belongs to you, you own a piece or a share of that publicly traded company. In CFD trading, the stocks themselves are never purchased and owned. Your chance to make a profit depends on your speculation on their price change, as we shall soon see.

### Stock indices

A stock index, such as the Dow Jones Industrial Average (Wall Street 30) or DAX 40 (the German Index), is an index that measures the value of a basket of stocks. In the case of the Wall Street 30 or DOW 30, it is made up of 30 top US companies, which currently include the following:

<b>AXP</b>	American Express Co	<b>MCD</b>	McDonald's Corp
<b>AMGN</b>	Amgen Inc	<b>MMM</b>	3M Co
<b>AAPL</b>	Apple Inc	<b>MRK</b>	Merck & Co Inc
<b>BA</b>	Boeing Co	<b>MSFT</b>	Microsoft Corp
<b>CAT</b>	Caterpillar Inc	<b>NKE</b>	Nike Inc
<b>CSCO</b>	Cisco Systems Inc	<b>PG</b>	Procter & Gamble Co
<b>CVX</b>	Chevron Corp	<b>TRV</b>	Travelers Companies Inc
<b>GS</b>	Goldman Sachs Group Inc	<b>UNH</b>	UnitedHealth Group Inc
<b>HD</b>	Home Depot Inc	<b>CRM</b>	Salesforce.Com Inc
<b>HON</b>	Honeywell International Inc	<b>VZ</b>	Verizon Communications Inc
<b>IBM</b>	International Business Machines Corp	<b>V</b>	Visa Inc
<b>INTC</b>	Intel Corp	<b>WBA</b>	Walgreens Boots Alliance Inc
<b>JNJ</b>	Johnson and Johnson	<b>WMT</b>	Walmart Inc
<b>KO</b>	Coca-Cola Co	<b>DIS</b>	Walt Disney Co
<b>JPM</b>	JP Morgan Chase & Co	<b>DOW</b>	Dow Inc

Table 1. The basket of stocks measured by the DOW 30 (Wall Street 30)

If the stocks within the DJIA (Wall Street 30) go up, then the index will move higher, and of course, the opposite is also true. DJIA is a price-weighted index, which means its value is derived from the price per share for each stock, divided by a common divisor. A higher-priced stock would have a bigger impact than a lower-priced one.

The stocks in the index change from time to time. In the case of the Dow Jones, a committee decides on the changes. The latest Dow Jones stocks that were added in 2020 included Salesforce (CRM), Amgen (AMGN), and Honeywell International (HON).

<b>STOCK INDICES FULL NAME</b>	<b>STOCK INDICES NAME ON DERIV</b>
ASX 200 Index	Australia 200
Nikkei 225 Index	Japan 225
AEX Index	Netherlands 25
Euro STOXX 50 Index	Europe 50
CAC 40 Index	France 40
Deutsche Boerse AG German Stock Index DAX	Germany 40
FTSE 100 Index	UK 100
IBEX 35 Index	Spain 35
S&P 500 Index	US 500
Nasdaq 100 Stock Index	US Tech 100
Dow Jones Industrial Average	Wall Street 30

Table 2. Stock indices names on Deriv



## What makes a stock price go up or down?

A stock price will go up and down based on changes in supply and demand. If more investors want to buy a stock (demand) than sell it (supply), the price moves up.

If more investors wanted to sell a stock than buy it, there would be greater supply than demand, and the price would fall.

This is a very simplistic view, and in the real world, there are a few twists to this, but basically, if someone sells a stock, then someone else is buying it.

## Which stocks can you trade via Deriv?

Deriv offers a selection of stocks you can trade on. This list is ever-growing. The main stocks that are currently available are listed in the United States, and you can trade them regardless of where you live.

The US remains the most important stock market, with household names like Apple, Microsoft, and Facebook, all having their main listings in the US.

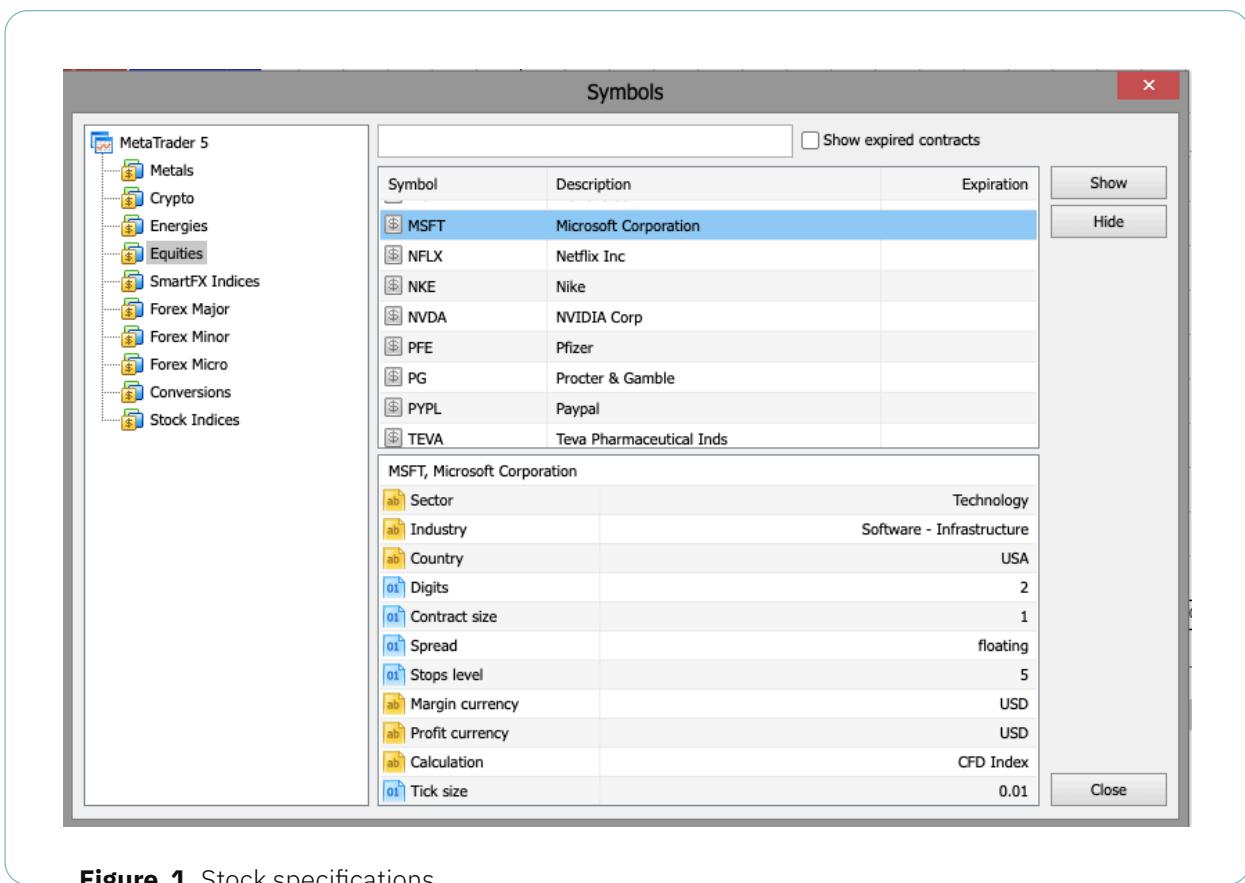
The table below shows the current stocks that can be traded. New stocks will be added to the list regularly, so be sure to check [deriv.com](https://www.deriv.com) often.

TECH	FINANCIAL	CONSUMER GOOD	SERVICE	OTHERS
Alphabet (GOOG)	AIG	Coca-Cola	Alibaba	Pfizer
Amazon	Bank of America	Johnson & Johnson	American Airlines Group	Bayer AG
Apple	Citigroup	Nike	Delta Air Lines	Teva Pharmaceutical Inds
Cisco Systems	Deutsche Bank	Procter & Gamble	Disney	Boeing
FB/META	Goldman Sachs	Adidas	eBay Inc	General Motors
IBM	JPM	McDonald's	Netflix	Tesla
Intel	Mastercard	HP Inc	Uber	Bay Mot Werke (BMW)
Microsoft	PayPal	Pepsi	Walmart	Biogen
Nvidia	Visa	Puma	FedEx	Moderna
Salesforce			Airbnb	Continental AG
Zoom			Fox	Lufthansa
AMD			Home Depot	
Sony			Air France-KLM	

Table 3. Stocks you can trade on Deriv

## Stock specifications

Each CFD listed with Deriv will have its own specifications that can be viewed on Deriv X<sup>1</sup> or MT5. Here we see the example of Microsoft (MFST) on MT5. These specs will tell you the trading hours, minimum trade size, stop distances, and margin requirements. It will also tell you what types of orders are accepted.



**Figure 1.** Stock specifications

## Trading times



The official trading times for US stocks are 9:30 am EST (14:30 GMT) to 4:00 pm EST (21:00 GMT). Please keep in mind that GMT does not change for daylight saving time (DST), but EST, which is the time in the New York time zone, does change for DST.

Some brokers do offer pre-market trading and after-market trading. However, I tend to stick to the main trading times.

A tip: it is often said that inexperienced traders trade at the opening time, whereas smart money trades during the day or towards the closing. Something worth considering is waiting for the first 15 to 30 minutes to pass before making your first trade of the day.

<sup>1</sup> Deriv X is unavailable to clients residing in the European Union

## Swap charges

Whilst Deriv charges no commission, there is a fee for holding a position overnight, namely, swap charges. A swap charge is a daily interest adjustment that will be made to your trading account to compensate for the cost of keeping your position open. To help you work this out, Deriv has a [calculator tool](#) that calculates the swap rate and required margin. As interest rates are at historic lows, it's cheaper than ever to hold positions overnight, but you should still be aware

that costs will build up over time and whether your trade makes a profit or loss, you still have to pay the funding charges.

Swap charges are calculated at the end of the day, now set at 23:59 GMT. Positions held through 23:59 pm GMT on Fridays will be charged for three days to cover the weekend. If you open and close a trade during the trading day, there will be no swap charges.

### Example: a long CFD trade of Apple

You are long \$1 a point shares of Apple (i.e. 10 shares). The current price is \$127.50, which means the value of your shares is \$1275.00. Most probably, you are only putting a fraction of this amount, let's say 10% to keep it simple (\$127.50 paid by you). This means \$1147.50 needs to be financed. Let's say the annual financing rate is 5%. 360 days are normally used for financing. So your daily rate is 5% divided by 360; in other words, 0.0139% per day.

## What if I am shorting a stock via CFD?

When you are shorting a stock via CFD, you will incur a borrow charge. The borrow charge will be accounted for in a daily cash adjustment applied to your account. The charge varies according to the stock. The borrow charge, and the ability to hold a short position, can be changed at short notice.

## Dividends

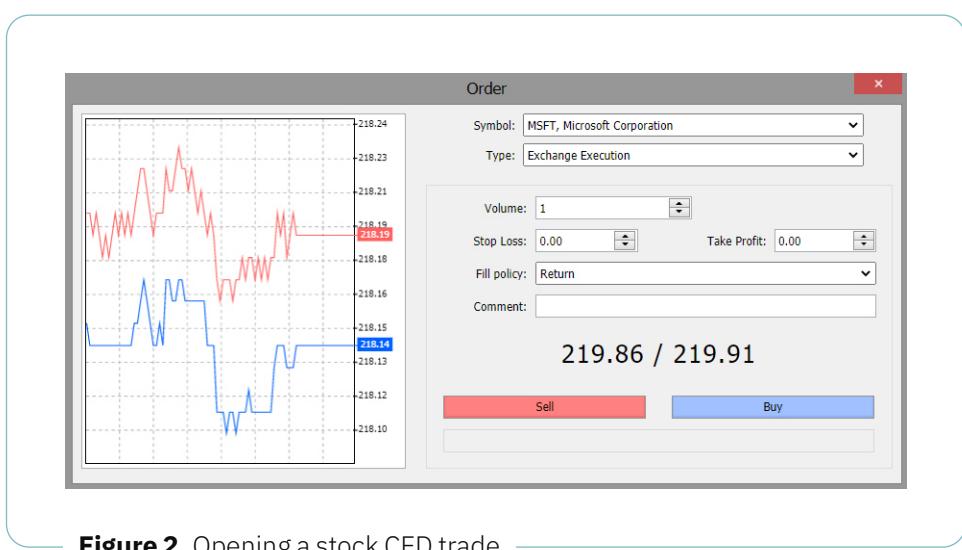
Many companies will pay stockholders a dividend, which is a distribution of their profits. Whilst holding a CFD does not make you a stockholder, in some cases, your trade will still factor in a dividend credit, or if you're short, you will be debited for the dividend. Many companies don't pay a dividend for their stock CFDs, however. It's best to check a company's investor relations website to find out if it pays dividend and learn other related details. For example, Apple presents a [detailed record ↗](#) of such information.



## Example of a stock CFD trade

Imagine that I decided after some research that Microsoft (MSFT) is a good stock to trade, and I come to the conclusion that its price will go higher.

The quote I am given online is \$219.86 bid (sell) and 219.91 ask (buy). As I want to buy MSFT, I will select the ask (buy) price, so I am buying at \$219.91. If I were selling, I would be selling at the bid price of \$219.86.



**Figure 2.** Opening a stock CFD trade

The 5-cent difference is the spread or profit margin. Whenever we are trading, we are always looking for the tightest spread because then it will be easier to break even, as the following example shows. If I buy at \$219.91, I will need to sell at a price 5 cents higher to break even, i.e. at \$219.96. The wider the spread, the more difficult it is to break even.

I decide to go long (buy) at \$0.10 per point<sup>1</sup>. It would be the same as owning 10 shares or \$2199.10 worth of shares. As this is a CFD, you will only need to put up a margin (deposit). Deriv will show you the margin requirement when you open the trade. It could be as little as 5%, so you would only need \$109.55 (5% of \$2199.10).

You can close your position at any time (during normal market hours). You can also partly close your position. For example, if you have \$10 a point on Microsoft, you can close \$5 and keep \$5 running.

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<sup>1</sup> In stock trading, a point is 0.01, so \$0.01 per point equals 1 share.



# CFD TRADING: ORDER TYPES

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# CFD TRADING: ORDER TYPES

## Market orders

If your trade is a market order, it will go straight into the market. This is also known as “At Best”; in other words, you’re asking the broker to buy or sell on your behalf at the best rate currently available on the market. This is the most common type of CFD order. For this trade to be executed, the market needs to be open.

## Pending orders

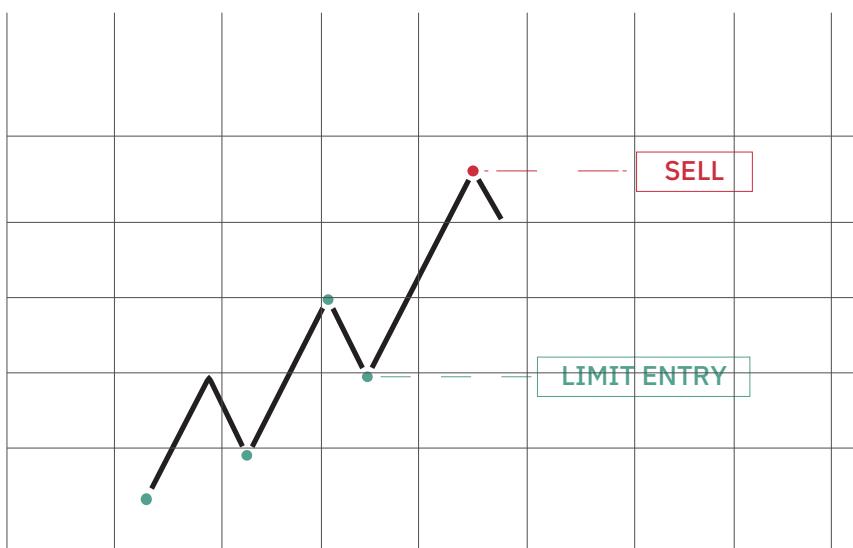
A pending order is the trader’s instruction to the broker to buy or sell a security in future, under predefined conditions, when the price reaches a specific level.

## Limit orders

The most popular pending order is a limit order or “At Limit”, which means if price equals your limit, your trade becomes a market order.

With Deriv as your broker, you can have your order filled at a price that is equal to or better than the limit you’ve set. For example, imagine you want to buy (go long) Apple, but you don’t want to pay more than \$120.00 a share upon entering the trade. However, Apple shares are currently trading at \$122.00. You can place a limit order that tells Deriv to only buy Apple if and when the offer price is \$120.00. This can be “good for the day” (GFD) or “good till cancelled” (GTC), so the order will roll over to the next day. In either case, when the stock price reaches the price you’ve set, you can’t cancel or amend your limit order.

You can also use a stop order to gain more control as explained in the next section.



## Stop orders

A stop order is an instruction that says if X price is reached, then buy or sell. Most traders use a stop order as a safety net, especially if they are not monitoring a stock closely. When this order is executed, the trade is completely closed. A stop order can be set for a limited period or for an indefinite time (a “good till cancelled” or GTC order). In either case, when the stock price reaches the stop price you’ve set, you can’t cancel or amend your stop order.

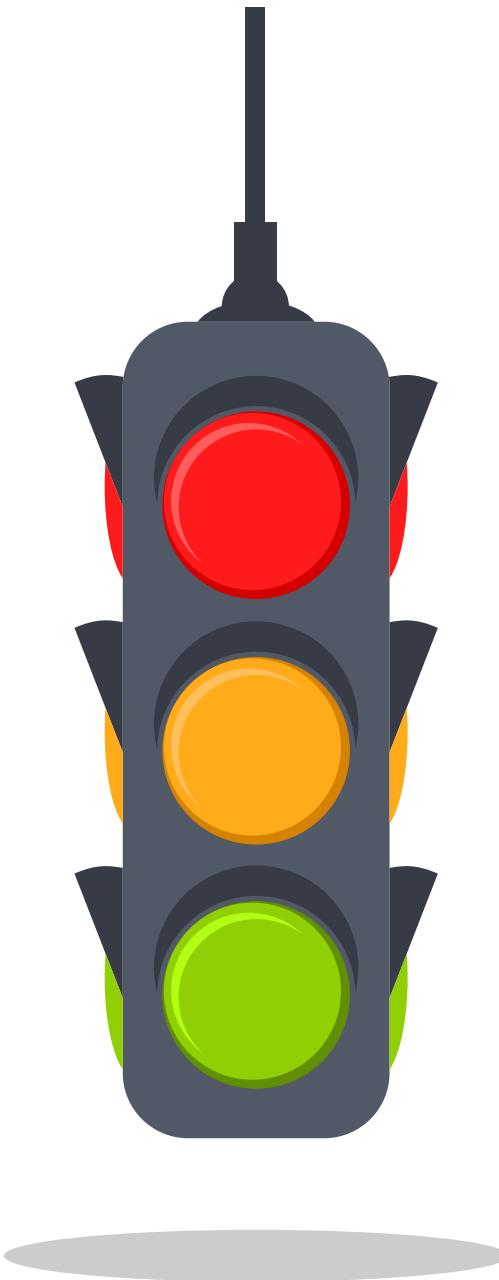
If you set a stop order, the broker will always try to fill your order at the price you’ve set, but if that price is unavailable, your order will be executed at the next available price. In other words, a trade with a stop order is always filled at either the price equal to the specified one or the next available price (slippage). But in any case, the execution of stop orders is guaranteed.

## Where to put a stop?

It is always a trade-off between having a close stop, minimising losses, and giving a trade enough space to breathe at the risk of a larger loss.

A 20-day price channel can give you an idea for stop loss. Here we see Apple with a 20-day high/low chart. Say you were to go long on Apple. You would place your stop at the 20-day low price. As the price moves up, so does the 20-day low, and you are locking in profits. This strategy is also known as trailing your stop. Think of it as a safety net. As long as the stock keeps going higher, you stay with the trade and keep moving the stop up. Of course, at some stage, the trend ends, and your stop will close you out.

Remember, you can do the exact opposite for a short (down) trade, so your stop would be the 20-day high.



Further on, I will show you how you can use these price channels as a trading system.



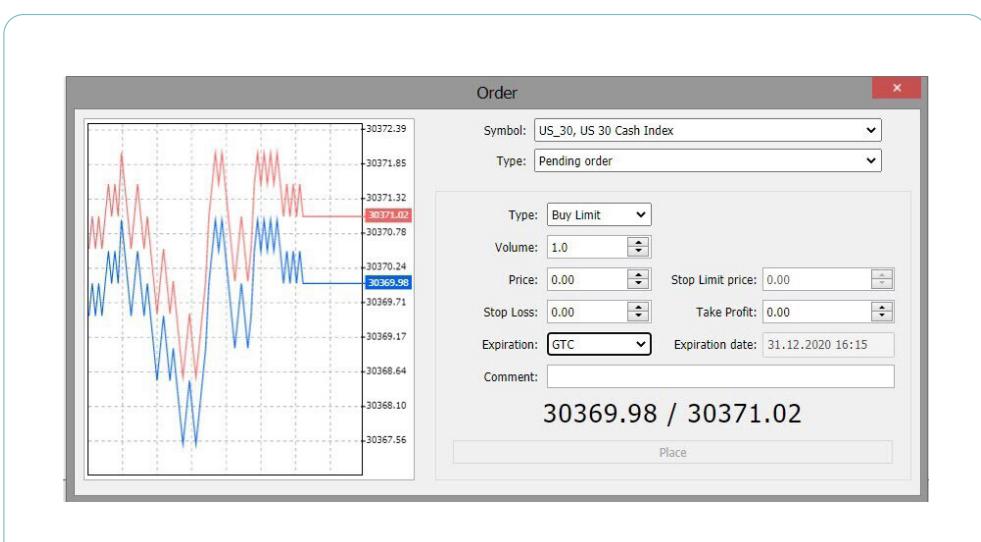
**Figure 3.** Apple's 20-day price channel (Source: ShareScope)

## Stop limit orders

Stop limit orders are a combination of stop orders and limit orders. If the stock price reaches or passes the stop price, a limit order is placed at the set price, and your order will be filled at a price equal to or better than the set price.

## Take profit orders

Take profit orders help you make a profit when the stock price reaches a level of your choice. When this order is executed, your position is completely closed.



**Figure 4.** A limit price, a stop loss price, and a take profit price for the US 30 (Dow Jones or Wall Street 30)

# RISE OR FALL? ASSESSING STOCKS

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# RISE OR FALL? ASSESSING STOCKS



## Fundamental analysis

Fundamental analysis is the study of economic, industry, and company conditions in an effort to determine the value of a company's stock.

Fundamental analysis typically focuses on key statistics in a company's financial statements to determine if the stock price is correctly valued.

I am one of the few traders who actually looks at both fundamental and technical analyses, but technicals are my main focus, and I will cover this style of analysis in more depth further on.

The typical approach to analysing a company involves three basic steps: economic analysis, industry analysis, and company analysis.

### Economic analysis

The economy is studied to determine if overall conditions are good for the stock market. Is inflation a concern? Are interest rates likely to rise or fall? Are consumers spending? Is the trade balance favourable?

Is the money supply expanding or contracting? These are just some of the fundamental analytical questions to determine if economic conditions are right for the stock market.

### Industry analysis

The company's industry obviously influences the outlook of the company. Even the best stocks can post mediocre returns if they belong to a struggling industry. It is often said that a weak stock in a strong industry is preferable to a strong stock in a weak industry.

The US S&P 500 is divided into 11 sectors:

<b>XLC</b>	Communication services	<b>XLV</b>	Health care
<b>XLY</b>	Consumer discretionary	<b>XLI</b>	Industrials
<b>XLU</b>	Utilities	<b>XLB</b>	Materials
<b>XLP</b>	Consumer staples	<b>XLRE</b>	Real estate
<b>XLE</b>	Energy	<b>XLK</b>	Technology
<b>XLF</b>	Financials		

Within these sectors, we will have a number of stocks. For example, in the Energy sector, you will find Chevron Corp (CVX) and Exxon Mobil (XOM).

More information about [each sector](#) is available in detail.

Whether the overall market S&P 500 is going up or down, there will always be leading and lagging sectors.

Of course, one strategy is to make a “pairs” trade where we trade on one stock, for example, Facebook, going up and another, e.g. Delta Airlines, going down.

We could also go long on the S&P 500 but short a few of the individual stocks within the S&P 500. So we may go long on the S&P 500 but exclude (short) energy stocks.



## Company analysis

After determining the economic and industry conditions, the company itself is analysed to determine its financial health. This is usually done by studying the company's financial statements. As I have stated, my style is technical, so I am not going into fundamental data in depth here, but I will give a quick overview.

There is no doubt that fundamental factors play a major role in determining stock price. However, if you form your price expectations based on fundamental factors, it is important to study the price history as well. Otherwise, you may end

**There is an old saying, credited to the famous economist John Maynard Keynes:**

The markets can remain irrational longer than you can remain solvent.

up owning an undervalued stock that remains undervalued. My own view is that fundamentals do matter, especially over the longer term. However, technical trading works better for short-to medium-term time frames. A stock that can appear very overvalued on fundamentals can keep going up and become more overvalued.

At the time of writing this guide, Tesla (TSLA), on most fundamental valuation models, seems very overvalued, yet the stock price keeps going up. In 2020, TSLA was up over 650%, but its fundamental earnings had not improved.

Short selling can be very profitable, but overall most of your profits will come from going long, as a stock can go up exponentially, but it can only fall to zero, and that does not happen that often.

One of the main fundamentals to look at are company earnings. In The US, earnings are reported quarterly, and you will also have an annual report. Investment brokers will try to forecast earnings, and companies can issue guidance. A surprise (better earnings) can lead to a spike in the share price, and negative earnings will lead to a fall. Of course, you need to remember that "markets look ahead". You will often see good earnings, yet the stocks could fall. Why would this be? Well, it's due to expectations. If good earnings are already factored in, the stock price is already fully valued. You may also see negative earnings, and the shares go higher. Again, expectations may have been for worse earnings. Or the earnings could be bad, but a statement that comes out is more positive, and there is evidence that the company is turning around. As you can see, focusing on the fundamentals to predict the future value of stocks is not an easy task.

There is plenty of fundamental data available, such as EPS (earnings per shares) and P/E (price-earnings ratio).

Facebook, Inc.												
Communication Services   Internet Content & Information   USA												
Index	S&P 500	P/E	30.36	EPS (ttm)	10.09	Insider Own	0.62%	Shs Outstand	2.85B	Perf Week	5.31%	statements
Market Cap	860.07B	Forward P/E	22.63	EPS next Y	13.53	Insider Trans	-22.14%	Shs Float	2.39B	Perf Month	15.88%	
Income	29.14B	PEG	1.41	EPS next Q	2.37	Inst Own	80.50%	Short Float	1.17%	Perf Quarter	13.88%	
Sales	85.97B	P/S	10.00	EPS this Y	57.00%	Inst Trans	0.80%	Short Rate	1.33	Perf Half Y	17.82%	
Book/sh	44.95	P/B	6.81	EPS next Y	19.53%	ROA	20.00%	Target Price	338.94	Perf Year	98.64%	
Cash/sh	22.06	P/C	13.88	EPS next 5Y	21.50%	ROE	25.20%	52W Range	158.51 - 310.77	Perf YTD	12.12%	
Dividend	-	P/FCF	36.39	EPS past 5Y	50.80%	ROI	22.20%	52W High	-1.45%	Beta	1.29	
Dividend %	-	Quick Ratio	5.10	Sales past 5Y	36.80%	Gross Margin	80.60%	52W Low	93.21%	ATR	9.37	
Employees	58604	Current Ratio	5.10	Sales Q/Q	33.20%	Oper. Margin	38.00%	RSI (14)	66.42	Volatility	2.41% 3.05%	
Optionable	Yes	Debt/Eq	0.00	EPS Q/Q	74.80%	Profit Margin	33.90%	Rel Volume	0.81	Prev Close	308.91	
Shortable	Yes	LT Debt/Eq	0.00	Earnings	Apr 28 AMC	Payout	0.00%	Avg Volume	21.01M	Price	306.26	
Recom	1.70	SMA20	8.55%	SMA50	12.31%	SMA200	15.20%	Volume	17,335,246	Change	-0.86%	

**Figure 6.** A snapshot on Facebook (FB) –  
source finviz.com

## Problems with fundamental analysis

A problem with fundamental analysis, or trading based on the news, is that, in many cases, the data looks backward, so it only reflects upon what has already happened.

The other problem is that data can be interpreted in many different ways. For example, a higher unemployment number can be seen as negative. A greater percentage of people out of work implies more benefits being shelled out at the government's expense, fewer people paying tax and an overall weaker economy. However, on the positive side, it would also typically mean that wage inflation remains low – since current employees are less likely to ask for a pay raise if others are ready to swoop in and take their jobs.

It would also mean that central banks are less likely to raise interest rates. Major banks produce a vast amount of analysis on economies – much of which is freely available. However, it is questionable how useful this data is to the financial trader, especially in shorter-term trades. For most, technical trading will offer an easier way to follow the stock market and trade individual stocks and indices. Professional tools are now available to all.

On a side note: Deriv's unique synthetics are available for trade round the clock, every day of the week, even on holidays and weekends, and are not affected by the news. You can learn more about them in my new ebook **How to Trade Synthetic Indices**.

## Technical analysis



Technical analysis ignores news items and economic data, focusing purely on price trends and volume. It primarily involves studying chart patterns, showing the trading history and statistics for whatever currency pair is being analysed. You would start with a basic price chart, which would show the stocks trading price in the past, and look for a trend or pattern that can help determine future pricing.

### Price is king

Winning traders trade what they see, not what they think.

If the stock price goes to 60, 61, 65, 70, it is going up, and it doesn't matter what the indicator or news says or what you THINK should be happening. The price tells you the truth and should always be obeyed. Many new traders lose large amounts of money trying to pick the top or the bottom. This is a risky strategy and not essential for success. Unless you have psychic powers, stick to a trading system and don't guess. For example, as stated previously, Tesla (TSLA), by most metrics, looks very overvalued, yet the price is moving higher, so it makes sense to stay with the trend.



**Figure 7.** Tesla's stock movement since 2011 (Source: finviz.com)

## Three possible states for stocks

A stock can only be in three states regarding price movement:

1. Trend higher
2. Sideways range
3. Trend lower

Let's explore each of these states in detail.

## 1. 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.

In this case, we would want to buy (go long) the stock or index CFD.



**Figure 8.** Basic chart of Amazon's bullish activity on a basic chart

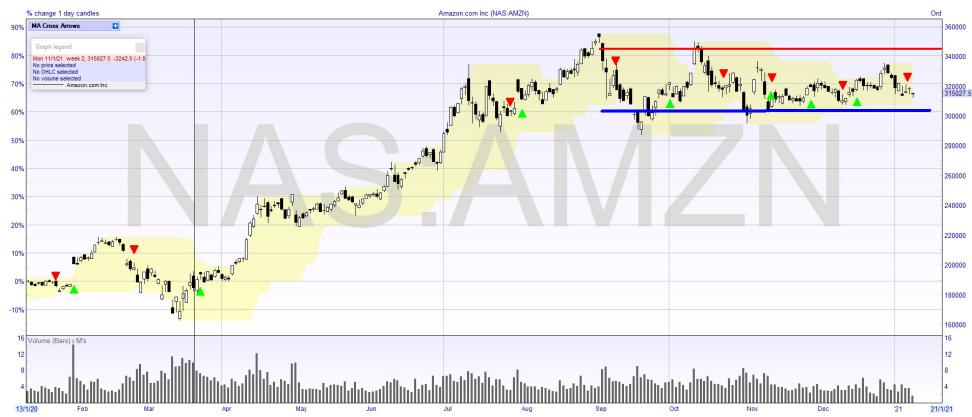
## 2. Sideways range

Prices can bounce between the two levels for a long period of time. At some stage, the equilibrium is broken, and a new trend or range is established. This state is often overlooked, but a stock can stay in a sideways range for weeks or even months. A sideways range is a case in which buyers and sellers are equally matched. In this case, price levels have been formed that attract buyers (or support) and sellers (or resistance).

We can buy a CFD at the bottom of the range, sell it at the top of the range, and keep repeating this. Of course, at some stage, a trading range will break, and a new uptrend or downtrend will emerge.

Sideways range can be a very simple trading system, and you can, of course, replicate it on more than one stock or stock index. You can also manage your risk by placing a stop just outside of the range.

If you look at the Amazon chart in Figure 9, you'll see that it peaked on 3 September 2020 and then went sideways for the rest of 2020 between \$2,948 and \$3,440.



**Figure 9.** Amazon's sideways movement since September 2020

### 3. Trend lower

In this state, the lows are becoming lower, and the highs are also becoming lower. In other words, whenever the stock or stock index sells off, it rebounds at a lower price than the previous time.

This is considered to be a negative or bearish activity because market participants are willing to pay less than in the past. The stock is losing strength. The type of trade you would look to make with Deriv during these market conditions is short selling down trades on CFDs.



**Figure 10.** Exxon Mobile's bearish movement on a basic chart

## Time frames



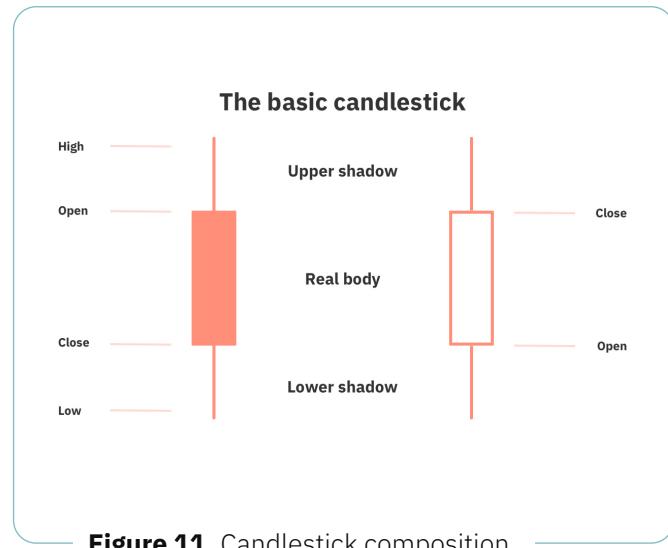
Depending on which time frame you use in a chart, the trends and patterns will look very different. Many traders examine multiple time frames for the same stock, such as Apple (AAPL), in one-minute, one-hour, and one-day charts.

Deriv X<sup>1</sup> and MT5 offer comprehensive charts across different time frames, ranging from very short-term (one minute) to one-day bars, one week, and even one month. You can have multiple time frame charts open.

I would not look at a stock with a shorter time frame than 1 minute, as that becomes almost random. One-minute, one-hour, and one-day are popular time frames.

## Chart formats

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



**Figure 11.** Candlestick composition

Candlesticks are usually composed of the body and the wick: the body is typically shaded in black or white, illustrating the opening and closing trades; the wick consists of an upper and lower shadow showing 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. In the examples throughout this book, we have used red for a down candle instead of black, and green for an up candle instead of white.

<sup>1</sup> Deriv X is unavailable to clients residing in the European Union

## Power tools for stock traders

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<sup>1</sup> so that you can begin to build up your knowledge. Through Deriv X<sup>2</sup> and Deriv MT5, you will have offer access to excellent complementary charts and tools with

over 30 technical indicators, but we will stick to three of the main ones here.

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

**There are three main tools a trader can use: moving averages, Donchian channels, and relative strength index (RSI).**

## Moving averages

This tool has earned and saved me more money than any other.

It's hard to trace the precise origins of the moving average (MA), although this concept is often attributed to [Richard Donchian](#). He was a great pioneer of systematic trading in the 1950s and '60s. 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 add these figures 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 (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 fundamental 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.

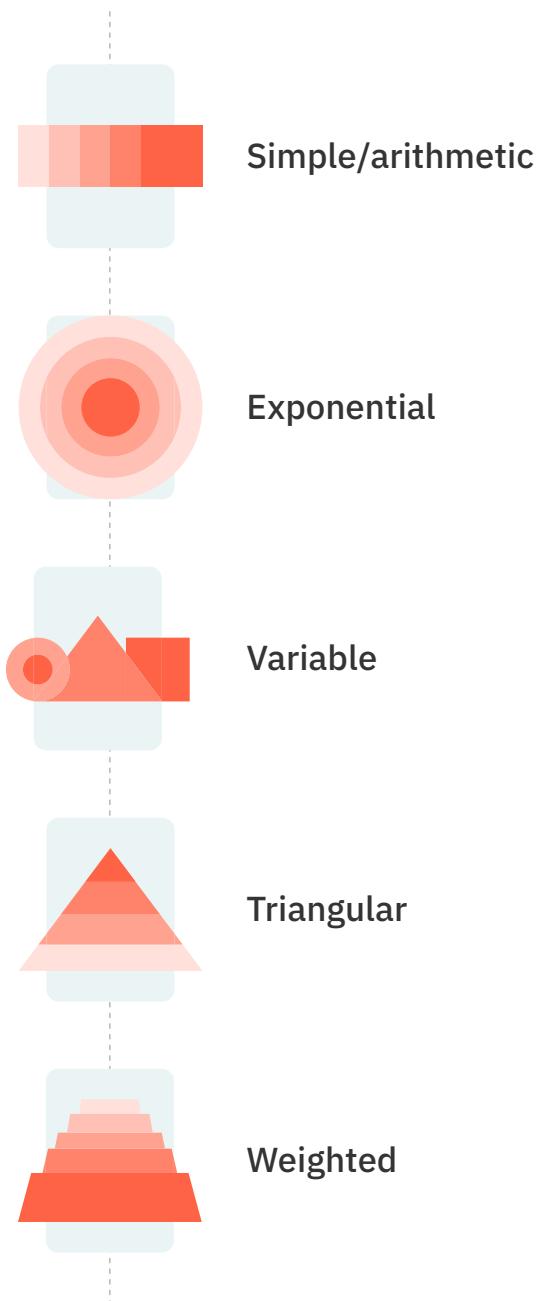
Deriv offers moving averages among its tools, and they are easy to add to any stock or index.

<sup>1</sup> Options trading is unavailable to clients residing in the European Union

<sup>2</sup> Deriv X is unavailable to clients residing in the European Union

Moving averages can be calculated for any data series, including all sorts of different indicators associated with a particular currency (open, high, low, close, volume, etc.). To start, concentrate on the simple moving average. Whilst 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, the **simple moving average** is often abbreviated as **SMA**.

There are five popular types of moving averages:



## Applying moving averages to stock or index

Here's the basic rule of thumb with moving averages in the context of a stock price: when looking at the relationship between time frames and moving averages, the choice of the period you select on the moving average indicator significantly impacts the results.

I have found the 21-day period to be a good all-around moving average. The rationale behind this is there are around 21 trading days a month, once you take out weekends and holidays.

## Moving average crossover system

We can have one or more moving averages on a chart at once. I personally like 2 moving averages with a slower (long-term) MA and a quicker (short-term) one. A buy and sell signal is given when the two cross over. So we could have a 21-day moving average and a 5-day moving average (one week).

We will use 1-hour charts and a 20-period and 5-period MA, so that would be 20 hours and 5 hours. I have used 20 hours, but that could be 20 minutes or 20 days for a longer-term system. There is also nothing to stop you from experimenting with other timeframes, such as using 10 hours.

The chart below shows daily candle charts with the 21-day (green line) and 5-day (purple line) moving averages. I have marked the cross-overs with arrows showing the buy and sell points.



**Figure 12.** Cross-over between a 5-day and a 21-day moving average

## Stock 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 time frame, which is why the Donchian channel is often referred to as the 20-day rule or the 4-week rule.



**Figure 13.** Apple stock daily chart with a 20-day Donchian channel

In this example, we see Apple (APPL) daily chart (each bar is one trading day) with a 20-day Donchian channel. We can see that the price was trending higher before. The current trade is long as the last signal is a buy when the price hits its 20-day high.

We can trade this system long. Then, when we have a sell signal, we can close our long trade and open our short trade.

### The basic trading system could be:

- Enter long when the price hits 20-day high Donchian channel
- Close sell when the price hits 20-day low Donchian channel

### And then the reverse

- Enter short when the price hits 20-day low Donchian channel
- Close buy when the price hits 20-day high Donchian channel

A simple system like this can be programmed into Deriv X<sup>1</sup> or MT5 or applied via DBot<sup>2</sup> to automate trades.

I have used the 20-day chart, but you could go with a 20-hour or 20-minute chart for a shorter-term system.

<sup>1</sup> Deriv X is unavailable to clients residing in the European Union, <sup>2</sup> DBot is unavailable to clients residing in the European Union

### **Whilst basic, this system has some powerful advantages:**

1. Winning trades are left to run.
2. You have an exact exit strategy (no guessing).
3. The system is rule-based.
4. Your risk is always defined.

Even with more losing trades than winning ones, there's a chance that you can still make money as long as the winning trades make more points than the losing ones. You can also profit from down moves as well as up.

## **Relative strength index (RSI)**

The relative strength index (RSI) indicator measures a share's performance against itself. It is often used to identify buying opportunities in market dips and selling opportunities in market rallies. The value of the RSI is always a number between 0 and 100. The indicator was developed and introduced into practice in 1978 by an American engineer J. Welles Wilder, a real estate developer and famous technical analyst. It is still widely in use.

### **How to use the RSI**

The chart on the next page shows an example of the Dow Jones Index (Wall Street 30), in which we can apply this tool to inform trading decisions. A low number (30 and below) indicates a more oversold market. A high value (70 and above) indicates a more overbought market. The higher and lower horizontal lines on the graph are at 30 and 70, i.e. the levels at which markets are often regarded as oversold or overbought.

When the RSI moves to 70, it's a good time to look at "Sell" ("short") trades. When we see the RSI down at 30, it's a good time to look at "Buy" (long) trades. In this example, we can see the RSI is at 60, which is fairly high but not overbought, so the RSI is not providing a clear buy or sell signal. Thus, in this case, it would be best to hold off from placing a trade until clearer signals appear. If we were already in the trade, we would remain long.

If we are using a CFD, we will look to buy (go long) when we see the RSI down at 30, and we would look to sell (go short) at 70 or over.



**Figure 14.** Using RSI to trade Dow Jones (Wall Street 30) (Source: ShareScope)

The 70/30 RSI and a 20-day lookback period are the most common settings; however, there is also another variation worth looking at:

Steady approach – 80/20

Let's examine the smoothing period of 20, oversold level 20%, and overbought level 80%. Risk-averse investors set up the indicator in a way that will make the RSI less sensitive and therefore minimise the number of incorrect signals. With all systems, it's always a trade-off between having too many signals, many of which will be false, or fewer, more accurate signals, but possibly delayed.

Both Deriv X<sup>1</sup> and MT5 are very flexible. You can easily change the settings to any combination you wish. I have used ShareScope for some of my examples.

<sup>1</sup> Deriv X is unavailable to clients residing in the European Union

# STOCK MARKET SEASONALITY

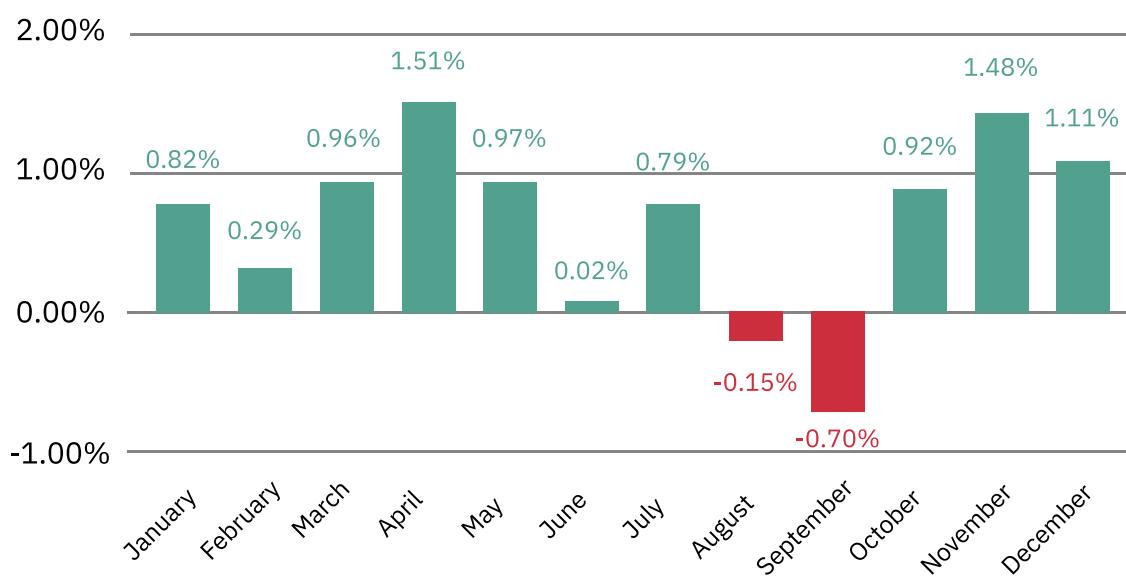
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# STOCK MARKET SEASONALITY

Stock market seasonality is the study of a stock or index price based on the calendar effect or time of year. You may have heard of sayings such as “sell in May and go away”, or “the Santa Claus Rally”. For some, stock market seasonality seems more or less a dark art; however, I have used seasonality in my trading for many years, and I can say there is value in using it.

Before we go further, I would remind you that “seasonality is a guide, not a guarantee”. If, for example, December is a seasonally strong month over the last 20 years, it does not guarantee that this December will see a rise in prices, too. However, statistically, there is a strong chance of the prices going higher.



**Figure 15.** S&P 500 stock market seasonality, 1975-2020

The average monthly S&P 500 stock market returns from 1980 to 2019 were:

JANUARY	+0.82%	JULY	+0.79%
FEBRUARY	+0.29%	AUGUST	-0.15%
MARCH	+0.96%	SEPTEMBER	-0.70%
APRIL	+1.51%	OCTOBER	+0.92%
MAY	+0.97%	NOVEMBER	+1.48%
JUNE	+0.02%	DECEMBER	+1.11%
<b>AVERAGE : +0.67%</b>			

As you can see, there is certainly a stronger and weaker period. You can also look at the seasonality of the individual stocks or even commodities such as gold.

Short term seasonality can also be used. A well-known system is the Santa Claus Rally, which is buying the S&P 500 index (or you could use the Dow Jones, aka Wall Street 30) during the last 5 trading days of the year and selling on the new year's 2nd trading day.

If you're interested in seasonality, check out the blog run by my friend Jeff Hirsch, the editor of the Stock Trader's Almanac.

# **FINAL NOTE**

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## FINAL NOTE

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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 how you can trade CFDs on stocks and indices via Deriv MT5 and Deriv X<sup>1</sup>.*

*Using Deriv services allows you to trade a great selection of markets. You will find additional resources, charts, and tools on the [deriv.com](#) and [MetaTrader 5](#) websites.*

*Wishing you success,*

**Vince Stanzione**

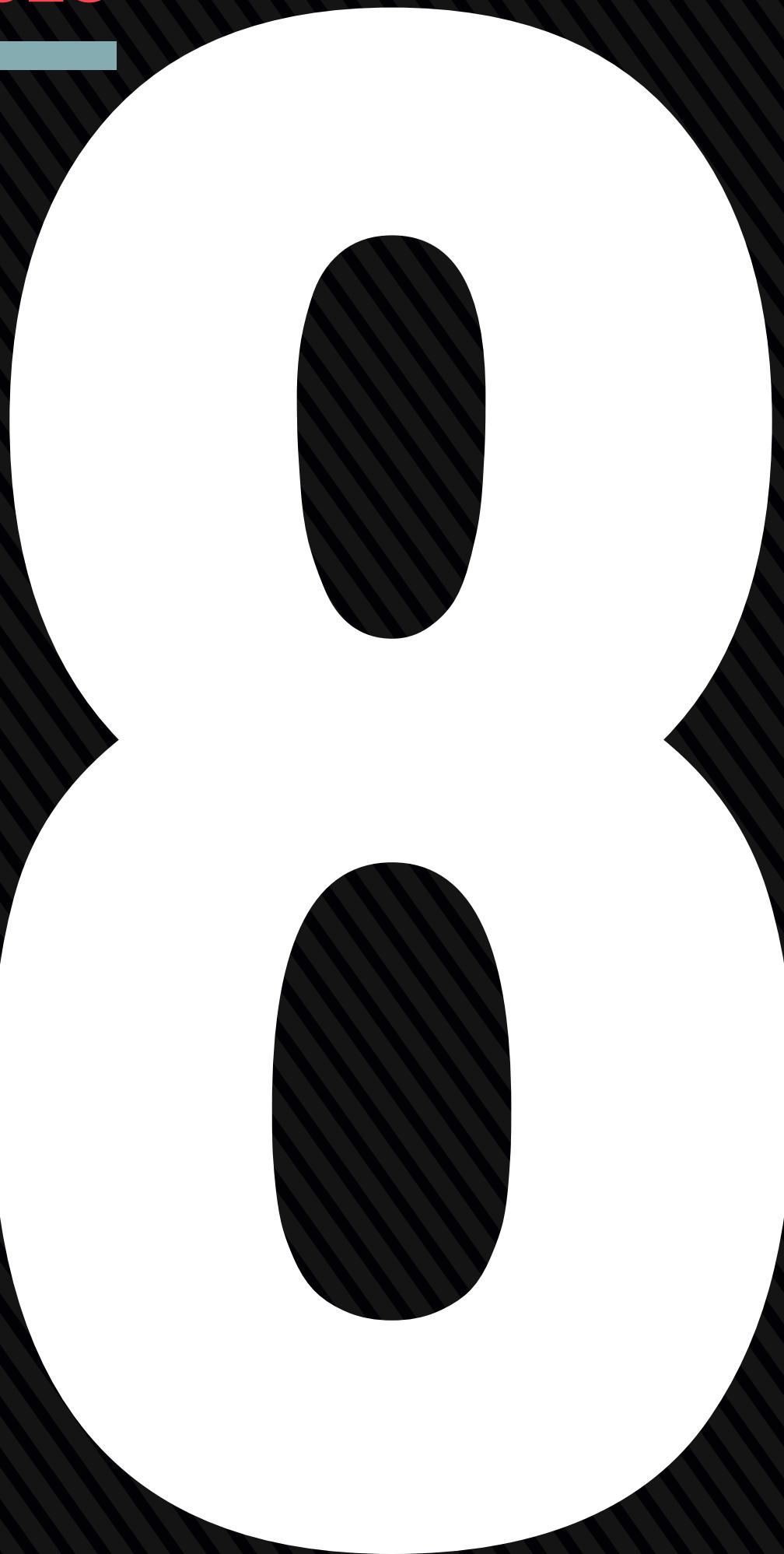
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<sup>1</sup> Deriv X is unavailable to clients residing in the European Union

# APPENDICES

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# APPENDICES

## Appendix A

### Why trade on 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 is licensed and regulated by different authorities. You can see copies of Deriv licences 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.

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.

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 a copy of your ID, please provide it as soon as possible to avoid delays in setting up your account.

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

You can make trades in USD, GBP, AUD, or EUR even if you are based in a country that has a different base currency. For example, if you're based in Indonesia, your home currency is IDR, but you can still trade in USD, which may be more stable than your home currency.

## 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 that 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's 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 accounts 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](#) 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.

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 that 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

# Money Management and keeping your emotions in check

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](#) 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.

There's a practical tip that might help you manage your risks while trading. 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 will allow you to keep trading, even with a bad run. Let's observe this simple system in action.

The maximum stake 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 increases proportionately.

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 not a wise approach.

**Note:** If you had a larger account, say \$10,000, you could reduce the maximum risk to 2%.

### **Big losses are hard to recoup**

The maths of percentages shows that as losses get larger, the returns needed to recover to the 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.

### **Tips to help prevent losses from spiralling out of control**

Simply be smart in your approach: use the money-management principles described in this guide to keep everything within your manageable range at all times. You may not be able to control the stock 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 dealing 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

### **Be a 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 [Deriv's affiliate programme page](#).

## Appendix E

### DBot<sup>1</sup> Automated trading

You can automate your trading strategies, no matter what your underlying asset is. The trading bot you use will keep tabs on the market movement for you and execute your desired strategy whilst you're away from your device.

Deriv has a simple trading bot called DBot, 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 upticks’ can be easily programmed in.



**Figure 16.** DBot

Deriv currency trading is also compatible with third-party vendor trading systems where you can use trading software that would plug into your Deriv account. Deriv X<sup>1</sup> and MT5 have a growing number of plugins and scripts which allow you to trade systematically.

<sup>1</sup> DBot is unavailable to clients residing in the European Union, <sup>2</sup> Deriv X is unavailable to clients residing in the European Union

## Appendix G

# 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. Deriv X<sup>1</sup> and MT5<sup>2</sup> do require an app to be downloaded, and this is available at Google Play Store and Apple App Store.

### **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 any commission.

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<sup>1</sup> Deriv X is unavailable to clients residing in the European Union

<sup>2</sup> Deriv MT5 is currently unavailable on App Store at the time of writing this ebook

**If I make too much money, will my account be closed? 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 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.

# GLOSSARY

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## Bearish

This refers to a market in decline. Someone with a negative view on a market would be a Bear.

## Bear market

A bear market is the condition of a market in which prices are falling or are expected to fall. It typically describes a condition in which the prices of securities fall 20% or more from recent highs.

## Bid price

When trading a CFD, the bid price is the price you can sell. In the pair of quoted prices, the first price is the bid price; for example, 1.2810 (bid)/1.2811 (offer).

## Bullish

This refers to a market that is rising. Someone with a positive view on a market would be a Bull.

## Bull market

A bull market is the condition of a market in which prices are rising or are expected to rise. The term “bull market” is most often used to refer to the stock market. Unlike a bear market, there is no set definition in percentage terms.

## Closing price

An asset’s closing price is the last price at which it was traded on any given day.

With Deriv CFDs, there is no expiration, and the contracts stay open.

## Contract for difference (CFD)

A contract for difference (CFD) is an agreement between an investor and a CFD broker to exchange the difference in the value of a financial product between the time the contract opens and closes. This is how Deriv enables you to trade on stocks and stock indices.

## Contract period

The contract period is the time frame of a trade. It is also called the duration.

## Counterparty

The counterparty is the other party that participates in the trade with you. If you trade CFDs via Deriv, your counterparty will be Deriv.

## Derivative

A derivative is a financial instrument whose value is determined by reference to an underlying market. Derivatives are commonly traded in the inter-bank market, and CFDs are a popular form of derivative. In trading derivatives, you do not purchase the underlying stock.

## Fundamental analysis

Fundamental analysis is a method of quantitative and qualitative analysis used by traders to determine the macroeconomic outlook of a country and currency. Inflation, unemployment, and interest rates are just a few of the considerations in fundamental analysis.

## GMT

GMT stands for “Greenwich Mean Time,” the official time used in the UK during winter. In summer, the UK changes to British Summer Time, which is GMT + 1 hour. All times on the Deriv site use GMT all year round.

## Limit order

A limit order is an instruction to your broker to execute a trade at a particular level that is more favourable than the current market price.

## Long

Being long with regard to a market or CFD means you expect the market to go higher, and you own that CFD. It indicates a bullish attitude.

## Margin requirement – initial deposit

Deposit margin is the amount a trader needs to put up in order to open a leveraged trading position. It can also be known as the initial margin.

## Offer price (ask price)

When trading a CFD, the offer price or ask price

is the price you buy. In the pair of quoted prices, the second price is the offer price; for example, 1.2810 (bid)/1.2811 (offer).

## Pair

In stock trading, we can make 2 separate trades to back a scenario. We could go short on oil and long on solar energy.

## Point

In stock trading, this is normally a cent, so if a stock trading at \$123.10 moves to \$123.11, it will be 1 point.

## Premium (margin)

The premium is the amount that a trader must pay to enter into a trade. These funds must be available in your account.

## Profit

The profit is the difference between the purchase price and the sale on a winning trade. In the case of a short trade, your sale price would be higher than your purchase price to make a profit.

## Short

Short is the opposite position of long. If I am short with regard to a stock or index, I expect its price to drop, so I enter the market with a Sell trade. I will, at some stage, have to buy back to cover my short. To profit, I want to be able to buy back lower than the level I sold at.

## Spot price

This is the current price at which an underlying asset can be bought or sold at a particular time.

## Spread

Spread is the difference between the Bid and the Offer. This is where the broker makes their profit. The tighter the spread, the better for the trader.

## Stock indices

Stock market indices measure the value of a selection of companies in the stock market. For example, in the USA, the S&P 500 would list 500 of the largest companies. In Germany, the Germany 30 has 30 top German stocks. Both indices can be traded via Deriv.

## Stock split

A stock split increases the number of shares in a company. A stock split causes a decrease in the market price of individual shares, not causing a change in the total market capitalisation of the company. Stock dilution does not occur. They are used after a stock has had a strong run to make the share price more manageable.

## Technical analysis

Technical analysis is a system of analysis whereby historical data is examined to predict future trends in the prices of assets. Charts and indicators are often used.

## Tick

A tick is the minimum upward or downward movement in the price of a market. A tick chart is the shortest possible chart time frame.

## Underlying

Each contract of difference is a prediction concerning the future movement of an underlying market, i.e. the specific type of asset involved in a given trade, for example, the DAX 40 Index.

## About Deriv

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

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

**Today, Deriv has offices in 13 countries around the world with over 1000 employees from over 50 countries working together to create an effortless online trading experience with diversified, market-leading products.**