Trading & Investing Online Course

Learn to invest the profitable way…
The hands-on, practical 'as long as it takes' workshop for 'beginners'

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Investment Mastery Trading and Investing Online Course Unit 4 of 5

Unit 4

- How to get the most out of your broker
- Practise drawing lines
- Practise Stop vs Limit orders
- Practise Placing Trades
- Vertical Buffalo
- Setting yourself up to win

How to make the most out of your broker - NOTES

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How to make the most out of your broker - NOTES

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Students practise drawing lines - NOTES

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Students practise drawing lines - NOTES

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Students practise Stop vs Limit - NOTES

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Students practise Stop vs Limit - NOTES

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Graduates practise placing trades - NOTES

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Graduates practise placing trades - NOTES

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Vertically Rising Buffalo - NOTES

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Vertically Rising Buffalo - NOTES

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Setting yourself up to win - NOTES

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Setting yourself up to win - NOTES

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Strategy 5:
Trading - Buffalo Leveraged

Making money from Channelling / Rolling/Oscillating/Ranging stocks

10 minutes a day

Aiming for up to 35% a year

CFDs

(Contracts for Difference)

What are CFDs?

- CFDs are a way of making money from share price movements without owning the share itself. You simply own a contract which you buy at one price and sell at another, making (or paying out) the difference - hence the name, Contracts For Difference.

So how's that different from conventional share dealing?

- When buying a contract you do not own the underlying instrument, you are betting on which direction you think the price will move in
- Instead of buying shares, you are purchasing contracts.

The pros of trading CFDs

- You only need to pay a percentage of the stock (known as the Margin Requirement) up front. For stocks the Margin Requirement starts from 5%. That means you could take a €20,000 position and you only need to provide €1,000 initially.
- You can place a Guaranteed stop loss when trading CFDs. Which means if the market were to gap against you, you would still be taken out of that trade at your stop loss price.

Risk Management
CFDs

Example of trading a UK stock (CFD calculation)

- Imagine that you have looked at "BP" as a share you wanted to trade. You want to buy at £4, with a stop loss at £3.
- To work out how many shares you should be trading, you will need to know the following:

1) Account Risk = How much of your account you are risking

2) Trade Risk = Difference between your entry price and stop loss

Then you can work out:

3) Trade Size = How many shares to buy/sell

1) Account Risk

Account Risk = Account Size x % Risk

Calculation:

- Account size: €10,000
- % Risk = 1%
- Account Risk = €10,000 x 0.01(1%) = €100

Account Risk Calculation Cont.:-

- Now you need to convert your account risk in euros into the currency that the share is trading in
- In our example we convert euros into British Sterling as the share is trading on the London Stock Exchange
- EURGBP price is currently at 0.8600, this in turn means €1 = £0.86
- Therefore:
- Account Risk = €100 x EURGBP price

  = €100 x 0.8600 = **£86**

2) Trade Risk

Trade Risk = Difference between entry price and the stop loss

Calculation:

- £4 (EP)- £3 (SL) = **£1**

3) Trade Size

Trade Size = How many shares to buy/sell

Calculation:

- Account risk / Trade risk = Trade size
- £86/£1 = 86 Shares

You need to buy 86 shares in this example

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Traditional Vs CFD Requirements

Traditional Trading:
In order for you to place this trade you would need to buy 86 shares in BP at your entry price

- Amount of shares x Entry price = Margin Requirement
- 86 shares X £4 = **£344**

CFD Trading:
In CFD trading you only need to typically put down 5% of the traditional trading margin requirement.

- 5% X Traditional Margin Requirement
- 0.05 X £344 = **£17.2**

Therefore:

That's a difference of **£326.80**. Which means we have a lot more capital in our account to get into more trades.

WHICH ALLOWS US TO MAKE MORE MONEY!!

Example of trading a US stock (CFD calculation)

Imagine that you have looked at 'Apple' as a stock you wanted to trade. You want to buy at $ USD 380, with a stop loss at $ USD 377.50.

To work out how many shares you should be trading, you will need to know the following:

1) Account Risk = How much of your account you are risking
2) Trade Risk = Difference between your entry price and stop loss

Then you can work out:

3) Trade Size = How many shares to buy/sell

1) Account Risk

Account Risk = Account Size x % Risk

Calculation:

- Account size: €10,000
- % Risk = 1%
- Account Risk = €10,000 x 0.01(1%) = €100

Account Risk Calculation Cont.:-

- Now you need to convert your account risk in euros into the currency that share is trading in
- In our example we convert euros into US Dollars as the share is trading on Nasdaq
- EURUSD price is currently at 1.3100, this in turn means €1 = $1.31
- Therefore:
- Account Risk = €100 x EURUSD price

  = €100 x 1.3100 = **$131**

2) Trade Risk

Trade Risk = Difference between entry price and the stop loss

Calculation:

- $380 (EP) - $377.50 (SL) = **$2.50**

3) Trade Size

Trade Size = How many shares to buy/sell

Calculation:

- Account risk / Trade risk = Trade size
- $131/$2.50 = 52 Shares

You need to buy 52 shares in this example

Traditional Vs CFD Requirements

Traditional Trading:
In order for you to place this trade you would need to buy 52 shares in Apple at your entry price

- Amount of shares x Entry price = Margin Requirement
- 52 shares X $380 = $19,760

CFD Trading:
In CFD trading you only need to typically put down 5% of the traditional trading margin requirement.

- 5% X Traditional Margin Requirement
- 0.05 X $19,760 = $988

Therefore:

That’s a difference of **$18,772**. If you are not using CFDs you can not trade this with €10,000!

Meaning you would miss the potential to make money on this stock !!!

Spread betting
Only in UK

What is spread betting?

- Spread betting is a method of speculating on the price movements of an instrument without actually owning what you are trading
- You do not own what you are trading
- You are betting on which direction you think the price will move in. Instead of buying shares or contracts, you would be betting in £'s per point movement in the price (a point may be 1p, 1c, 100^{th} of a c or a $ depending on the instrument you are trading).

What is spread betting cont.:?

- The spread betting firm makes money through the spread ie. The difference between the buy and sell price
- If the current value of the FTSE is 4524 then a spread betting firm might quote a spread of 4523/4525
- If you buy the FTSE £1 per point at 4525 you would instantly register a loss of £2 as 4523 would be the price that you could sell back at. From then on, for every 1 point change in the quotation, your profit or loss would fluctuate by £1.

Why is it called spread betting?

- The term spread betting is used because there is an additional spread around the market price (they make their money on the spread, hence the word) and the reason it is called a bet is because if that term is used it means you are exempt from all capital gains taxes!
- YES TAX FREE!!!

Is spread betting more risky?

- Spread betting is no more risky than normal trading on stocks
- However, when spread betting you are using leverage, so if you don't have a good risk management, you can lose money quickly
- As well as risk management, you can also do the following:
  - Hedge by buying some stocks and selling short others
  - Use a guaranteed stop loss.

What is guaranteed stop loss?

- Whereas a normal stop might suffer from *slippage*, a guaranteed stop as its name suggests guarantees a certain exit price
- Slippage is the difference from where a stop loss level is placed and where the actual order is filled
- Ex. if you enter a stop (not guaranteed) to sell £2 of the FTSE at 4300 the actual sell price might be 4297 and the 3 point difference is slippage, costing you £6 more than you thought in this example. A guaranteed stop would have prevented this
- On September 11th terrorist attacks on Manhattan, the stock exchange closed for 12 days but a guaranteed stop loss would have guaranteed an exit price, which a normal stop would not have been able to do
- The downside is that you have to pay an upfront fee (extra points on the spread) as you get filled, which cuts into your profit.

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The pros of spread betting

- The profit that you make is currently free from UK and Irish Capital Gains Tax and Income Tax
- Low transaction charges - the only cost being the spread (the difference between buy and sell prices) and the cost of funding. The cost of financing long-term spread betting positions has also been reduced substantially in the last few years which means that
- Many spread bettors are now happy to hold positions for up to six to eight months
- You only deposit a small portion of your market exposure - this gives you leverage which has the potential to increase your returns
- You can still make a profit in falling markets - provided that you predicted the markets were going to fall rather than rise.

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The pros of spread betting

- Another great benefit of using IG is that your trading account is held in your native currency (either GBP or EUR), where this comes as a major benefit is when you trading overseas markets. For example, US stocks, normally you would have to exchange your money into USD before you could trade those stocks, and therefore lose out on a fairly poor exchange rate. Also when bringing back any profits from the US you would once again lose out by once again have to use a poor exchange rate. So being able to trade world wide markets without having to pay an exchange rate is a major benefit.
- Leveraged. You can keep your capital tied up in other investments, without need to liquidate unless you suffer loss.
- An added benefit of trading with IG is the fact that this broker will not let you lose more than you have in your trading account (if you are following our rules on risk management, you will never get to a stage where this could even remotely be possible). So in other words, IG will not give you a margin call (asking you to deposit more money into your account), which other brokers can and will do.

The cons of spread betting

- No dividend payments. As discussed above, we are not holding the underlying stock and therefore we are not a registered shareholder, so no dividend is paid.
- The need to rollover on daily bets. If you roll over on a daily basis, you incur further spreads, although if you tell your broker that you will always roll over automatically at the end of the day, they will charge you less than the entire spread when rolling over that day and every day

Risk Management Spread betting

Account Risk calculation

- **Account Risk = Account Size x % Risk**

Example :

- *Account Size: £10,000*
- *% risk: 1%*
- *The calculation is:*

Account Risk** = £10 000 x 0.01 = **£100

- *This means you will NOT lose more than 1% or £100 on the trade*

Trade Size calculation

- To work out how many £ per point you should be trading with (trade size), you will need to do the following calculation
- Lets imagine that we have a valid trade and your stop loss is 50 points away from the entry price. That means that the trade risk will be 50pts. This gives you the information you need to work out the £ per point
- The calculation is:

Trade Size = Account Risk / Trade Risk

- **Trade Size** = £100 / 50pts = **£2 per point**
- You would now place the order using £2 per point

Example of trading a UK stock (Spread Betting calculation)

- Imagine that you have looked at “BP” as a share you wanted to trade. You want to buy at £4, with a stop loss at £3.
- To work out how many £ per point you should be trading, you will need to know the following:

1) Account Risk = How much of your account you are risking

2) Trade Risk = Difference between your entry price and stop loss

Then you can work out:

3) Trade Size = How many £’s per point

1) Account Risk

Account Risk = Account Size x % Risk

Calculation:

- Account size: £10,000
- % Risk = 1%
- Account Risk = £10,000 x 0.01(1%) = £100

2) Trade Risk

Trade Risk = Difference between entry price and the stop loss

Calculation:

- £4 (EP)- £3 (SL) = **£1**
- **£1 = 100 points**

3) Trade Size

Trade Size = how many £'s per point

Calculation:

- Account risk / Trade risk = Trade size
- £100/100pts = £1 Per Point

You need to buy at £1 Per Point in this example

Traditional Vs Spread Betting Requirements

Traditional Trading:

In order for you to place this trade you would need to buy 100 shares in BP at your entry price

- Amount of shares x Entry price = Margin Requirement
- 100 shares X £4 = **£400**

Spread Betting Trading:

In Spread Betting trading you only need to typically put down 5% of the traditional trading margin requirement.

- 5% X Traditional Margin Requirement
- 0.05 X £400 = **£20**

Therefore:

That's a difference of **£380.00**. Which means we have a lot more capital in our account to get into more trades.

WHICH ALLOWS US TO MAKE MORE MONEY!!

Example of trading a US stock (Spread Betting calculation)

Imagine that you have looked at 'Apple' as a stock you wanted to trade. You want to buy at $ USD 380, with a stop loss at $ USD 377.50.

To work out how many £ per point you should be trading, you will need to know the following:

1) Account Risk = How much of your account you are risking
2) Trade Risk = Difference between your entry price and stop loss

Then you can work out:

3) Trade Size = How many £'s per point

1) Account Risk

Account Risk = Account Size x % Risk

Calculation:

- Account size: £10,000
- % Risk = 1%
- Account Risk = £10,000 x 0.01(1%) = £100

2) Trade Risk

Trade Risk = Difference between entry price and the stop loss

Calculation:

- \$380 (EP) - \$377.50 (SL) = **\$2.50**
- **\$2.50 = 250 points**

3) Trade Size

Trade Size = How many shares to buy/sell

Calculation:

- Account risk / Trade risk = Trade size
- £100/250 = £0.40 Per Point

You need to buy at £0.40 Per Point in this example

Traditional Vs Spread Betting Requirements

Traditional Trading:

In order for you to place this trade you would need to buy 64 shares in Apple at your entry price

- Amount of shares x Entry price = Margin Requirement
- 64 shares X $380= $24,320

Spread Betting Trading:

In Spread betting trading you only need to typically put down 5% of the traditional trading margin requirement.

- 5% X Traditional Margin Requirement
- 0.05 X $24,320 = $1,216

Therefore:

That's a difference of **$23,104**. If you are not using spread betting you can not trade this with £10,000!

Meaning you would miss the potential to make money on this stock !!!

CFD & SPREAD BETTING GAME

What does the game shows us?

Large balls represent traditional trading, where you need to tie up a large portion of your capital to place a trade.

The small balls represent CFDs or Spread Betting, where you are able to place many more trades at the same time because less capital is need to place these trades.

Therefore by using CFDs you are able to control the same amount of money and have the opportunity to have more successful trades, **which means you can make more money!!**

List of Brokers (traditional trading)

- Robomarkets
- Roboforex
- Interactive Broker
- Etoro
- Avanza (ISK)
- Nordnet (ISK)

List of Brokers (Spread betting)

- IG.com

List of Brokers (CFD)

- Robomarkets
- Roboforex
- InteractiveB roker
- Etoro

Getting started

- Open an account
- Fund account (minimum £500 or €500)
- Re – read the rules & risk management
- Familiarise yourself with the trading platform
- Practice placing trades (on a demo account if possible)
- Keep journal of trades
- Stay on demo account until you are making consistent profit
- Go live

Jargon buster – Overview

- **Stock market:** Market for buying and selling shares of a company. If you buy a share of a company, it means you own a tiny part of it. The reason companies sell shares on the market is to rise money for expansion, pay for equipment, fund projects
- **NYSE/NASDAQ:** 2 of America's main stock exchanges.
  New York Stock Exchange
  NASDAQ consists mainly of technology stocks
- **Market Index:** Group of share from which the average movement is calculated to see if the market is generally moving up or down.
- **FTSE 100:** (Financial Times Stock Exchange). Largest 100 companies on the UK stock market (by market cap) When market has moved up down so many points, this is because the FTSE 100 companies have moved up or down by this much.
- **DJ30:** Equivalent to the UK's FTSE, in America Dow Jones Industrial Average / DJ30 = 30 of the largest US companies, represent in value about a 1/5 of US stocks.
- **Fundamental Analysis:** Method use to evaluate the worth of a share by studying the financial data of the company. E.g Looking at earnings / profits, sales, management
- **Technical Analysis:** Uses just the share's price and volume information, and the chart patterns that these form to decide whether the share is likely to go up or down

Jargon buster – General

- **Ask:** The current price for which a security may be bought (purchased)
- **Buying power:** The dollar amount a securities that a client can purchase using only the (special memorandum) account balance and without depositing additional equity.
- **Bid:** The current price at witch you could sell your stock.
- **Initial public offering (IPO):** A company's initial public offering, sometimes referred to as "going public", is the first sale of stock by the company to the public.
- **Fill:** An executed order; the price at which an order is executed.
- **Limit Offer:** An order to buy or sell when a price is fixed.
- **Long:** Establishing ownership of the responsibilities of a buyer of a stock; holding securities in anticipation of a price increase in that security.
- **Margin:** An account in which purchase of stock may be financed with borrowed money.
- **Market Maker:** A broker or bank continually prepared to make a two-way price to purchase or sell a security or currency.
- **Market Order:** Instructions to the broker to immediately sell to the best available bid or to buy for the best available offer.

Jargon buster – General cont.:

- **Open Trades:** Current trades that are still held active in the customer's account.
- **Range:** The difference between the high and low price during a given period.
- **Selling Short:** Selling a security and then borrowing the security for delivery with the intent of replacing the security at a lower price.
- **Stops:** Buy stops are orders that are placed at a predetermined price over the current price of the market. The orders becomes a "buy at the market" order if the market is at or above to the price of the top order.
- Sell stops are orders that are placed with predetermined price below the current price. Sell stop orders become "sell at the market" orders if the market trades at or below the price of the stop order.
- **Stop Loss:** Risk management technique in which the trade is liquidated to halt any further decline in value.
- **Tick:** Minimum fluctuation of a stock.
- **Trailing Stop:** A stop-loss order that follows the prevailing price trend.

Jargon buster – Charting

- **Breakout:** The point when the market price moves out of the trend channel.
- **Channel:** In charting, a price channel contains prices throughout a trend.
- **Resistance:** A price level at which rising prices have stopped rising and either moved sideways or reversed direction
- **Support:** A historical price level at which falling prices have stopped falling and either moved sideways or reversed direction
- **Technical** A form of market analysis that studies demand and supply for **Analysis:** securities and commodities based on trading volume and price studies. Using charts and modelling techniques, technicians attempt to identify price trends in a market.
- **Trendline:** A line drawn that connects either a series of highs or lows in a trend. The trendline can represent either support as in an uptrend line or resistance as in a downtrend line.
- **Trending Market:** Price moves in a single direction, generally closing at an extreme
- **Volume:** Shares trades for a given market or stock.

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