Binary Betting

An introductory guide to making money with binary bets

John Piper

Hh

Binary Betting

An introductory guide to making money with binary bets

by John Piper

HARRIMAN HOUSE LTD

3A Penns Road
Petersfield
Hampshire
GU32 2EW
GREAT BRITAIN

Tel: +44 (0)1730 233870
Fax: +44 (0)1730 233880
Email: enquiries@harriman-house.com
Website: www.harriman-house.com

First published in Great Britain in 2007
Copyright: © Harriman House Ltd

The right of John Piper to be identified as the author has been asserted in accordance with the Copyright, Design and Patents Act 1988.

ISBN: 1-905641-23-0
ISBN 13: 978-1-905641-23-9

British Library Cataloguing in Publication Data
A CIP catalogue record for this book can be obtained from the British Library.

All rights reserved; no part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise without the prior written permission of the Publisher. This book may not be lent, resold, hired out or otherwise disposed of by way of trade in any form of binding or cover other than that in which it is published without the prior written consent of the Publisher.

Printed and bound by CPI, Antony Rowe

No responsibility for loss occasioned to any person or corporate body acting or refraining to act as a result of reading material in this book can be accepted by the Publisher, by the Author, or by the employer of the Author.

Contents

About the Author v

Acknowledgements vi

Preface vii

Who should read this book vii
Why you need this book vii
How this book is structured viii

Introduction ix

1. A Quick Overview of Betting 1

Betting 3
Types of betting 4
Summary 8

2. What is a Binary Bet? 9

Comparison with other fixed-odds betting 15
Complementary binary bets 17
Risk and reward 20
Binary bets – the market today 23
Summary 24

3. Trading Binary Bets 25

Binary betting prices are continually changing 27
Closing out a bet early 30
Trading bets 37
Summary 41

4. Different Types of Binary Bets 43

IG Index – financial bets 45
IG Index – sports bets 53
Betfair – financial 58
Betfair – sports 59
BetOnMarkets – financial only 60

BetsForTraders – financial only 63
HedgeStreet Inc – financial only 66
ChoiceOdds – financial only 67
Summary 68

5. Getting Started 69

Choosing a binary betting company 71
Opening an account 73
Logging in 73
Viewing charts 75
Funding your account (margining) 75
Placing a bet 77
Closing a bet 79
Telephone 84
Bet size 84
Limits and stops 85
Monitoring positions 88
Dealing times and times to trade 89
Spreads 90
Tax free 91
Regulation and compliance 91
Commissions 92
Taking profits 93
Summary 95

6. Real-Life Trading Examples 97

Six trades 100
Summary 127

7. Ten Binary Betting Tips 129

Appendices 133

I. Directory of binary betting companies & cash incentives 135
II. Differences between spread betting and binary betting 138
III. Different ways of expressing fixed-odds bets 141

Index 145

About the Author

John Piper has been trading financial markets since the mid 80s, mainly options and futures. His trading career has included trading right through the '87 Crash, annual turnover exceeding £2m of option premiums on his personal account, managing money in excess of $1m, winning a TV trading contest, and generally spending far too much time glued to screens. Some years ago he started The Technical Trader, which has become one of the leading trading newsletters in the UK.

Over the years John has developed a number of trading techniques but summarizes his approach as Psycho-Trading – meaning getting into the mind of the market.

John spends his time in the Surrey hills but makes frequent trips to warmer climes with the Hash House Harriers – a club for those who like a drink but who have a running problem.

Other books by John Piper:

• *The Way to Trade*

• *The Fortune Strategy*

If you would like to receive John's free news bulletin send a blank email to jptt@aweber.com

Acknowledgements

This book is for Zena who has helped enormously in its creation and for my daughter Hannah who made money on her first binary bet, much to her, and my, amazement.

I must thank Sally Nicoll who introduced me to binaries in the first place.

I must also thank the betting companies, primarily IG Index for permission to use their charts and screenshots throughout the book.

Finally, I owe a big thank you to Stephen Eckett, my publisher, who put an enormous amount of work into this book - improving it vastly in the process.

Preface

Who should read this book

This book has been written for:

- Anyone who is **completely new to betting or trading**.
- Those who have been **struggling with spread betting** or other forms of betting and trading and who want to find a better way – you've found it!
- **Experienced traders** who should also find value within these pages. (I have traded futures and options for 20 years and there are some very good reasons why I now use binary bets.)
- Those who **do not like paying commissions**.
- Those who **do not like paying tax** – because your profits from binary bets will be tax free!

Why you need this book

Do you want to make money?

If the answer is yes, you are holding the right book in your hands! This book explains everything you need to know about binary bets and binary betting. I want you to be able to understand all the key features of this new trading vehicle so that once you have read this book you will be in a position to place bets and win.

Why binary bets?

Binary bets offer those who bet on sporting events and trade financial markets some of the best deals available.

Whatever you do in life there is a risk, and there is a potential reward. When you place a bet you want the maximum reward for the minimum risk. That

is a magic formula, a winning formula – and it is a formula which binary bets offer. But only if you handle them correctly – this book tells you how to do just that.

There are many different ways of trading and betting – but all these other methods should step aside, there is a new kid on the block: *binary betting*.

How this book is structured

The book consists of seven chapters:

1. **A Quick Overview of Betting** – in the first chapter we look at the basics of betting and examine the two principal types of bet – spread betting and fixed-odds betting.
2. **What is a Binary Bet** – we then move onto binary bets which are a form of fixed-odds betting. We examine the pricing structure in detail and explain the effects of both buying and selling bets.
3. **Trading Binary Bets** – in this chapter we learn how to trade the bets. We look at how the prices of binary bets are changing all the time and that they can be closed before the game is over, be it a sporting event or a financial market.
4. **Different Types of Binary Bets** – the leading companies offer over 500 financial bets and there are new services coming on line with new bets all the time. There are also many sporting bets as well as those on political events and reality TV shows. This is a dynamic sector!
5. **Getting Started** – this chapter is concerned with the nitty gritty of opening an account, logging in, monitoring prices and charts, taking positions and everything you need to know to get started.
6. **Real-Life Trading Examples** – we look at six trading examples and show how binary prices move and how you can make money. One of these examples is a bar-by-bar account and shows every twist and turn as market action unravels.
7. **Ten Binary Betting Tips** – finally we give you ten key tips forged in the heat of the market itself. Follow these and you will be well set to win.

Introduction

In the 1980s I made my first trade. I bought an option on the FTSE100 Index and then watched as its price slowly fell. Despite that inauspicious start, a few years later I started to trade full time. I developed winning systems and went on to manage money. In the years since, my trading experience has encompassed pretty much everything going.

Then, not yet a year ago, I was put in touch with Sally Nicoll, who was developing her spread betting trading skills. At that point she had only been trading for a few months and wanted help to make money. I was happy to help out and suggested she develop her own system. You can read all about it in her excellent book *Bets and the City*.

System development is always a key step and I had made the same suggestion to other would-be traders many times before. Often with little result. Sally was different. It takes time to develop a trading system, but two weeks later Sally was back with one!

This was a key moment – her new system was based on binary bets.

I had never looked closely before at binary bets, but once I realised how they worked I was hooked. The total risk control they allow allied with the very rapid price moves that can be seen give the punter an unprecedented opportunity to make money. In my first week of serious trading I was up over 50%!

Binary bets, as we know them now, were only introduced in 2003, but they offer many benefits over other forms of betting and gambling. Here is a brief summary of those benefits. Only one of these is exclusive to binary bets, but no other form of betting offers the same powerful combination:

- the ability to bet on both sporting events and financial markets
- fixed-odds betting allowing tight control of risk
- constantly updated prices which can move very quickly
- the option of opening a bet at any time
- the option of closing a bet at any time – you don't have to wait until the

game is over

- low minimum bets so you can cut your teeth without risking the ranch
- high maximum bets so you can rake it in once you know what you are doing
- the ability to place bets on the internet, via suitably equipped mobile phones (PDAs), and (sometimes) by telephone
- the availability of some unique bets giving unrivalled flexibility

Up to now, the betting world has been largely unaware of these benefits. It is my belief that binary bets are destined to play a much bigger role in the gambling of the future.

John Piper

July 2007

1

A Quick Overview of Betting

A Quick Overview of Betting

This is an introductory guide and so I will start right at the beginning.

Betting

What is a bet?

A bet is when money is put at risk in the hope of receiving more cash if a particular event occurs. If the bet is won we get that additional money; if we lose, we usually lose all of the money put at risk.

For example, we may want to place a bet on a horse race. If our horse is offered at 4 to 1 and we stake £5, then we would win £20 if the horse wins plus we get back our £5 stake. If the horse loses we lose the £5 stake.

Bets can use stakes other than money, you can "bet the ranch", or offer up your car, and even husbands and wives have been put up as stakes. But this book is only concerned with bets using money as both the stake and the reward.

Placing a bet

A bet is placed when we agree with another person or company the terms of the bet and both parties agree that the bet is on. In years gone by, all bets were placed face to face and this is still the case on racecourses and by those who visit betting shops. But as the telephone became more popular this became dominant and now the growing trend is to place bets over the internet.

With a binary bet prices are quoted on the internet and you usually place the bet by clicking on a button confirming your agreement, although some companies also allow bets to be placed by telephone.

An event

All bets are based on an event. Usually, it is an event in the future and the outcome of the event is unknown. It is possible to bet on an event in the past where there is disagreement on what actually happened, but this book is only concerned with future events.

Examples are: the winner of a horse race, the winner of a football match or whether London share prices (in the form of the FTSE 100 Index) will close up or down on the day.

Although all bets are based on an event it is not always the case that the bet is a simple win/lose situation. Betting on a football match may involve a simple bet for team A to win, but it might also be a bet on the number of goals with increasing profits if there are more goals and increasing losses as less goals are scored.

Types of betting

This takes us onto the two main types of betting available:

1. in the sporting world, **fixed-odds betting** is the most common; and
2. in the financial world, it is **spread betting**.

One of the key aspects of betting in the modern world is the crossover of fixed-odds betting to the financial world and spread betting to the sporting world. This has transformed the bets available for both sports fans and financial traders.

We'll now briefly look at these two different types of betting.

1. Fixed-odds

Fixed-odds betting gives you the opportunity to risk a fixed sum, known as the *stake*, in return for a fixed reward.

The example given at the start of this chapter, which I repeat below, is a fixed-odds bet:

We back a horse at 4 to 1 and we stake £5. We would win £20 if the horse wins, plus we get back our £5 stake. If the horse loses, we lose the £5 stake.

Price quotation

There are three ways in which a fixed-odds bet can be quoted by a betting company. The three types may seem very different, but they are all exactly the same, they just employ different terminology.

The three types (including binary bets which are a form of fixed-odds betting), with sample quotes are:

- **fractional bet**: 3 to 1
- **decimal bet**: 4.0:1
- **binary bet**: 20/25

All of the above are the same bet to the person backing for a win.

But they are like different languages. When I meet friends from the sporting world we have difficulty understanding each other – despite the fact that the bets we work with are pretty much the same thing!

Don't worry if you're not familiar with any of these forms of betting, I will be explaining them later in the book and showing you how to convert from one to the other.

The main advantage of a fixed-odds bet is its simplicity. You know exactly how much you are risking, which is the amount you put down as your stake, and you also know exactly what you might win. Neither of which is the case with the other form of betting: spread betting, which we will now look at.

2. Spread betting

As this book is about binary betting (which is a fixed-odds form of betting), I won't go into extensive detail about spread betting here. But a quick overview is useful. The best place to start is with a simple example.

Example 1.1: spread betting

At one point on Wednesday, 31 January 2007, the FTSE 100 Index was at the level 6210. At the time the spread betting price on the FTSE 100 was 6208-6212. You thought the stock market was going to rise in the following few days, and so you placed an "up" spread bet by buying at 6212.

By the following Monday, 5 February 2007, the FTSE 100 Index had risen to 6315. At this time the spread price was 6313-6317. You decided to take your profits by closing your position. To do this, you sold at the prevailing price, which was 6313. (You always buy at the higher price, and sell at the lower price.)

Over the few days, you bought at 6212 and sold at 6313 – making a profit of 101 points.

When you placed the bet at the beginning, you would have been asked how much money you wanted to bet per point.

- If you had bet **£1 per point**, then your eventual profit would have been £101 (£1 x 101 points).
- If you had bet **£10 per point**, then your eventual profit would have been £1010 (£10 x 101 points).

The following tables summarise this spread bet example.

Wednesday, 31 January 2007	
FTSE 100 Index level	6210
Spread betting price at the time	6208-6212
Up spread bet bought at	6212
Amount bet per point	£1

Monday, 5 February 2007	
FTSE 100 Index level	6315
Spread betting price at the time	6313-6317
Up spread bet sold at (to close the position)	6313
Points made	101 (6313 – 6212)
Profit	£101 (£1 x 101)

Notes on the example

1. If, instead of rising, the FTSE 100 Index had fallen to, say, 6120, and the spread price was then 6118-6122, and you closed the position at 6118, then you would have lost 94 points (6118-6212).

2. If the market had collapsed to 5730 (with a spread price of 5728-5732), and you closed the position at 5728, you would have lost 484 points. Your loss would have been £484 if you had bet £1 a point; or £4840 if you had bet £10 per point.

3. If at the beginning, on 31 January 2007, you had thought that the market was going to fall, you would have placed a "down" spread bet by selling at 6208. If you had then closed the position on 5 February (when the spread price was 6313-6317), by buying at 6317, you would have lost 109 points (6208-6317).

Don't worry if you didn't follow all of the above, it's not necessary for binary betting. It was a *very* quick run through of spread betting! However, the key characteristics of spread betting – that are useful to know – are:

- The above example was based on the FTSE 100 Index. But spread betting is theoretically possible on **any value that can fluctuate**. For example, the price of gold, or the number of goals that will be scored in a football game, or the number of seats that Labour will win at the next election.

- You can place the bet at any time, and – importantly – **close the bet at any time**.
- Your **profit (or loss) is unknown at the time you make the bet**.

It is this last point, the unpredictable profit or loss, which is the main difference between spread betting and fixed-odds betting.

Summary

The essence of a bet is that a sum of money is put at risk in the hope of winning further sums.

The two main types of betting are:

- **fixed-odds** – where the potential profit or loss is known when the bet is placed;
- **spread betting** – where the potential profit or loss is unknown (and, to some extent, unlimited).

The betting world has gone through an upheaval as fixed-odds betting – previously only available to sports betters – is now available on financial markets, and sports betters can now use spread bets.

Note: The Appendices at the end of this book gives some more details about spread betting and the different pricing methods of fixed-odds bets.

2

What is a Binary Bet?

What is a Binary Bet?

Let's look straight away at a simple example.

Example 2.1: a simple binary bet

The bet is:

Bolton will beat Arsenal in their next match

The binary bet price quoted by a betting company is 20/25.

We'll now look at the bet from the perspective of two different punters.

The Bolton supporter

The Bolton supporter thinks that Bolton will beat Arsenal and so "buys" the bet at 25. (The price quoted is 20/25, which means 20 to sell and 25 to buy – one always buys at the higher price and sells at the lower price). This bet then has two possible outcomes:

1. **Bolton beats Arsenal**: in this case the punter *wins*, the bet settles at 100, and his profit is 75 points (100-25).
2. **Bolton loses or draws with Arsenal**: in this case the punter *loses*, the bet settles at 0, and his loss is 25 points (0-25).

> Binary bets generally have just two possible settlement prices:
>
> - **100**: if the event happens
> - **0**: if the event doesn't happen.
>
> Because the settlement prices is usually 100 or 0, this type of betting is called *binary betting*. There are some exceptions to this, which we will cover later in this book, but these are rare and can be ignored for now.

Let's now look at this bet from the perspective of the Arsenal supporter.

The Arsenal supporter

The Arsenal supporter thinks that Arsenal will win, so he wants to bet against the betting event:

Bolton will beat Arsenal in their next match

So the Arsenal supporter will "sell" the bet at 20. (Remember: the quoted price is 20/25, and one always buys at the higher price and sells at the lower price). The two possible outcomes are:

1. **Bolton beats Arsenal**: in this case the punter *loses*, the bet settles at 100, and his loss is 80 points (20-100).
2. **Bolton loses or draws with Arsenal**: in this case the punter wins, the bet settles at 0, and his profit is 20 points (20-0).

Note: Usually the Arsenal supporter would be more interested in the betting event "Arsenal to beat Bolton in their next match", but my concern here is to examine one simple bet from both sides and we will look at alternative and complimentary bets later in this chapter.

Buying/Selling

If a binary price is given as 20/25:

- if you think the event **will happen**: you would *buy* the bet at 25
- if you think the event **will not happen**: you would *sell* the bet at 20

Show me the money

When the Bolton or Arsenal punters first placed their bets, they would have been asked three things:

1. What market are you betting on? (Answer: "Bolton will beat Arsenal in their next match".)
2. Are you buying or selling? (Do you think the event will happen?)
3. How much money are you betting per point?

We'll now look at this third question – the matter of money.

Considering just the Bolton supporter, if he had bet £1 per point, then if:

1. **Bolton beats Arsenal**: the punter wins £75 (75 points x £1).
2. **Bolton loses or draws with Arsenal**: the punter loses £25 (25 points x £1)

Alternatively, if the Bolton supporter had bet £10 per point, then if:

1. **Bolton beats Arsenal**: the punter wins £750 (75 points x £10).
2. **Bolton loses or draws with Arsenal**: the punter loses £250 (25 points x £10)

The possible betting outcomes in this example are summarised in the tables below.

Situation when placing bet	Bolton Supporter	Arsenal Supporter
Bet	"Bolton will beat Arsenal in their next match"	
Binary bet price quoted	20/25	
Action	buying the bet	selling the bet
Price bought at	25	
Price sold at		20
Amount bet per point	£1	£1

Outcome 1: Bolton beats Arsenal	Bolton Supporter	Arsenal Supporter
Settlement price	100	
Points made	75 (100-25)	-80 (20-100)
Cash profit/loss	£75 (75 x £1)	-£80 (-80 x £1) i.e. a loss
Result	Jubilation	"The ref was biased"

Outcome 2: Bolton loses or draws with Arsenal	Bolton Supporter	Arsenal Supporter
Settlement price	0	
Points made	-25 (0-25)	20 (20-0)
Cash profit/loss	-£25 (-25 x £1) i.e. a loss	£20 (20 x £1)
Result	"The ref was biased"	Jubilation

Calculation of points made

It should be noted in the above tables that the calculation of points made for the two supporters is different. This is because one supporter *bought* and the other *sold* the bet. To summarise:

- if the **bet is bought**: points made = result minus price *bought* at
- if the **bet is sold**: points made = price *sold* at minus result

Asymmetric returns

With reference to the above tables it can be seen that the returns on the bet are asymmetric by:

1. **Outcome**

   If Bolton wins, then a relatively large amount of money is won (or lost). Whereas, if Arsenal wins, then a relatively small amount of money is won (or lost). This is because the binary bet price reflects the expected probability of Bolton winning (which is fairly low). If the general expectation was for the match to be fairly even, then the binary price would be something like 48-52.

2. **Supporter and the betting company**

   If Bolton wins, then the betting company makes £5 (as the Bolton supporter makes £75, and the Arsenal supporter loses £80). And if Bolton loses, the betting company still makes £5 (as the Bolton supporter loses £25, and the Arsenal supporter makes £20). The betting company therefore makes £5 – whatever the outcome (in the case where buying and selling bets are equal). This is a result of having quoted a price of 20/25, with a 5-point spread between the buying and selling prices.

Comparison with other fixed-odds betting

I mentioned in the previous chapter that a binary bet is another form of fixed-odds betting, but expressed in a different format.

Example 2.2: comparison with other fixed-odds betting

Let's quickly look at an example of a traditional fixed odds bet on the same market as the previous example, i.e.

Bolton will beat Arsenal in their next match

Let's say a bookmaker is offering odds of 3/1 on this market, and our Bolton supporter puts £25 on Bolton at these odds. The possible outcomes are:

- **Bolton beats Arsenal**: in this case the punter *wins*, and makes a profit of £75 (3 x £25).
- **Bolton loses or draws with Arsenal**: in this case the punter *loses*, and makes a loss of £25 (his stake).

The profit/loss profile in this case is identical to that in the binary betting example above. In both cases, if Bolton wins, the punter profits by £75, but if Bolton loses or draws, then the punter loses £25. This is summarised in the following tables.

Situation when placing bet	Binary bet	Traditional fixed-odds bet
Bet	"Bolton will beat Arsenal in their next match"	
Quoted price	20/25	3/1
Money bet	£1 per point, bought at 25	£25 bet at 3/1

Result	Binary bet	Traditional fixed-odds bet
Bolton beats Arsenal	£75 profit	£75 profit
Bolton loses or draws with Arsenal	£25 loss	£25 loss

As can be seen, the profit profile is the same for both bets. So, the binary bet price of 20/25 is equivalent to 3/1, it's just a different way of expressing it.

The advantages of binary pricing

It may seem that the way in which the price of a binary bet is expressed takes away some of the simplicity of other fixed-odds bets. However, the great advantage of the binary style of price quotation is that it makes it very simple to work out your profit or loss.

For example, if I buy a binary bet at 25 and the sale price then goes up to 33 I know immediately that I have a profit in hand of 8 points. It is usually possible to take a profit (or a loss) on a binary bet at any time, and therefore being able to quickly calculate the profit or loss on a position at any time is important.

Note: The way in which binary bets are priced is far easier to understand by those with a financial background. It was for this reason binary bets were introduced in the first place.

[Further information on pricing – comparing fractional, binary and decimal pricing – can be found in the Appendices.]

Complementary binary bets

Many binary bets have "mirror" bets that complement them. For example, if there is a market:

Liverpool will beat West Ham in their next game

there will also be a market:

West Ham will beat Liverpool in their next game

The two bets are opposites of each other. The following example looks at such bets in some detail.

Example 2.3: opposite bets

Liverpool is playing West Ham and you can place a binary bet for Liverpool to win, the quote is 66/70. This means that you can:

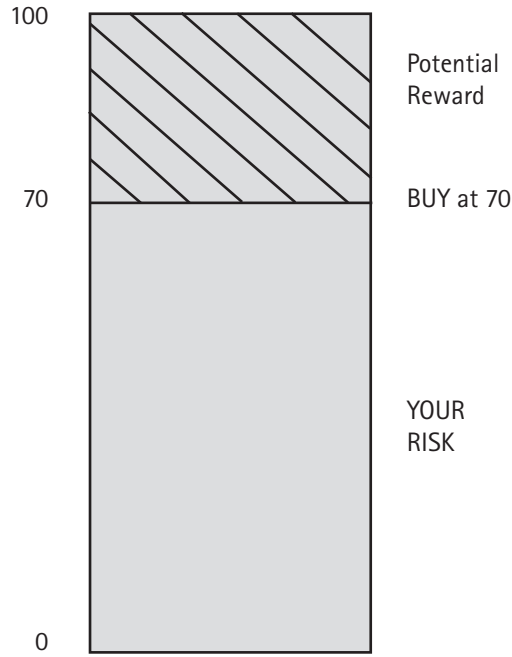
- *buy* the bet at 70 (which you would do if you are expecting Liverpool to win).
- *sell* the bet at 66 (if you think that Liverpool will lose).

If you buy at 70:

- your **maximum risk** is 70 points: if Liverpool lose, the settlement price is zero and you lose 70 (70 – 0) points
- your **potential profit** is 30 points: if Liverpool win, the settlement price is 100, and your profit is 30 (100-70) points

The illustration overleaf illustrates the profit profile.

Figure 2.1: profit profile when buying a binary bet



But there also exists a bet:

West Ham will beat Liverpool

That is obviously opposite to the previous bet. The price on this bet is 30/34. This means that you can:

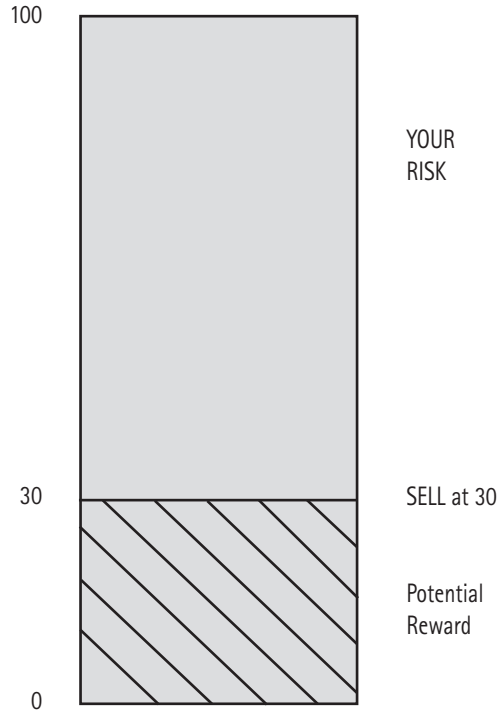
- *buy* the bet at 34 (which you would do if you think West Ham will win).
- *sell* the bet at 30 (if you think that West Ham will lose).

If you sell at 30:

- your **maximum risk** is 70 points: if West Ham win, the settlement price is 100 and you lose 70 (30-100) points
- your **potential profit** is 30 points: if West Ham lose, the settlement price is zero, and your profit is 30 (30-0) points

The illustration below illustrates the profit profile.

Figure 2.2: profit profile when selling a binary bet



Notice how the opposite sides of both quotes add up to 100. The two quotes are 66/70 and 30/34.

- If we add together the *sell* price on Liverpool (66) and the *buy* price on West Ham (34) we get 100.
- Similarly, if we add the *buy* price on Liverpool (70) and the *sell* price on West Ham (30) we get 100.

This will always be the case as they are, in effect, the same bet.

If you think that Liverpool will win:

- you can **buy at 70** on the first bet: where you risk 70 to make a profit of 30, *or*
- you can **sell at 30** on the second bet : where you risk 70 to make a profit of 30

> *Note*: I must also add that in the real world there would be three bets associated with this game, the two above, and a binary bet priced on a draw. To keep it simple at this stage I have ignored the draw.

So, they are the mirror image of one another and it makes no difference which you trade.

However, personally, I find it easier to buy the bet I want to win, rather than sell the bet I want to lose. But some times this is not possible as not all binary bets come in pairs.

In financial markets you will find pairs such as *"FTSE to close up"* and *"FTSE to close down"*. If you look at these pairs you will again see how the opposite side of both bets total 100.

Risk and reward

All betting and trading instruments have a different risk/reward profile. For example:

- **fixed-odds betting** has limited risk and limited profit potential
- **spread betting** has (broadly) unlimited risk and unlimited profit potential

The art of betting and trading – including binary betting – is finding the right balance to minimise potential risk and maximise potential profit.

If you buy a binary bet your total risk (and therefore your maximum loss) is the price you paid. Conversely your potential profit is limited by your buying price deducted from 100 – as that is as far as the binary can go. If you:

- **buy at 20** your maximum profit is 80 (100 less 20): you can make a *400% profit* on your buying price
- **buy at 80** your maximum profit is 20 (100 less 80): you can make a *25% profit* on your buying price

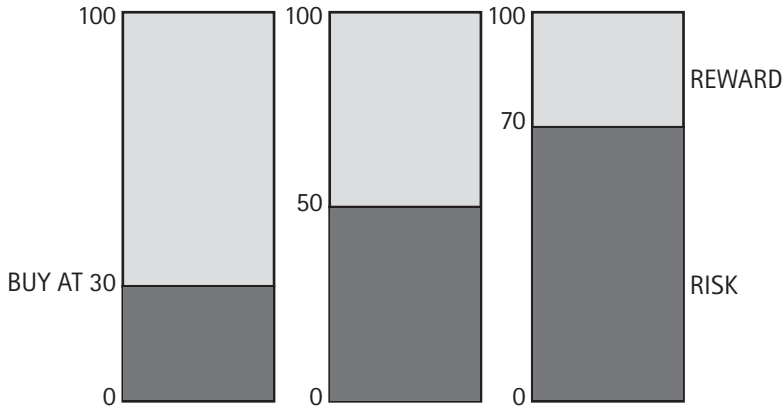
So, if you buy at 20 you have a much higher potential reward than buying at 80.

Risk/reward profiles at different prices

Buying the bet

The illustration below shows the risk and potential reward when buying at certain prices. These prices are 30, 50 and 70.

Figure 2.3: risk/reward profiles for buying a binary bet



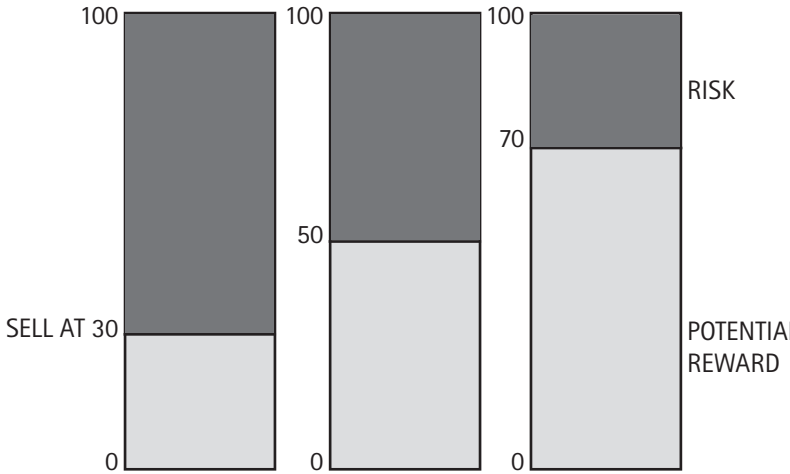
Selling the bet

You may decide to sell the binary rather than buy it. If so, your total risk is not the selling price but the difference between the selling price and 100. If you sell a binary at 80 your risk is 20 (100 - 80). If you sell a binary bet your risk is much higher if you sell cheaply. So, for example, selling at 25 would involve a risk of 75 (100 - 25).

Conversely, when you sell a binary bet your potential profit is the sale price and if the binary goes to zero you get to keep it all. So if you sell at 80 your maximum profit is 80. If you sell at 20 your maximum profit is only 20.

The illustration below shows the risk and potential reward when selling at certain prices. These prices are 30, 50 and 70.

Figure 2.4: risk/reward profiles for selling a binary bet



Binary prices reflect the event probabilities

But the binary price can be said to reflect the probability of an event occurring. If a binary bet is priced at:

- **20**: the market is saying that there is a *20% chance* that the bet will win

- **80**: the market is saying that that there is an *80% chance* that the bet will win

I find many people are attracted to the higher priced binary bets as they prefer to make profits with most of their trades. Such traders find paying 70, or 80, or even 90 acceptable. Others prefer to get in at 50 or 30, or even 10, and see more trades lose money. But when they win, they win a larger sum.

Binary bets – the market today

History of binary betting

Before binary bets were introduced it was possible to bet on financial instruments using traditional fractional or decimal bets. However the form of these bets is not readily comprehensible by those used to the pricing of financial instruments. Then in 2003 IG Index introduced the first binary bets and set up www.binarybet.com. By expressing a binary bet in terms familiar to the financial world IG created a demand which would otherwise have been lacking.

Although IG Index were the first to introduce binary bets as they are known today the concept was not original and in particular www.betonmarkets.com pre-dated IG's offerings by some years.

Other companies followed these leads and there are now a range of companies who offer binary betting in one form or another. At this point IG Index (and their subsidiary company www.binarybet.com) are clear leaders in the field, but I expect more determined competition to evolve over time. In fact this is already happening.

There is now a large range of different bets available on many different markets (the full range is set out in Chapter 4).

Binary and digital options

You may also come across the terms binary options or digital options but these are just different terms for binary bets – they all appear to be the same

thing. Binary futures are a somewhat different animal and are available on www.hedgestreet.com but these are outside the scope of this book.

There is news that the CBOE (Chicago Board Option Exchange) and HedgeStreet Inc. (www.hedgestreet.com) have entered into a joint alliance for the development of new products. HedgeStreet Inc is a newly designated US exchange for binary options and futures. This is a clear indication that this area will continue to grow.

Summary

In this chapter we have learnt:

1. Binary bets are a form of fixed-odds betting.
2. Following from the fact that they are a form of fixed-odds betting, binaries always have limited (and predictable) risk and profit.
3. Binary bets are so called because they settle at either zero or 100.
4. If you think the betting event will happen, you *buy* the bet, if not you *sell* the bet.
5. You always buy at the higher price, and sell at the lower price. For example, if the quoted price is 72-76, you could buy at 76, and sell at 72.

In this chapter we've covered the basics of binary betting. In the next chapter we'll look at the best feature of binary bets – that they can traded.

3

Trading Binary Bets

Trading Binary Bets

This is where things get exciting!

In this chapter we're going to look at three related features of binary betting:

1. binary prices are changing all the time
2. binary bets can be closed out at any time
3. binary bets can be traded, bought and sold many times before the result

Many readers may believe that betting is a matter of placing a bet and then waiting to see what the result is. For example, a punter backs a horse in a horse race, and then waits to see if the horse wins. If, during the race, the horse that the punter has backed starts slipping back down the field, then all the punter can do is stare glumly at what's happening.

But binary betting is different.

Binary betting allows punters to trade their bets (e.g. close out a position early) before the event is over. What this means and how it can be done is the subject of this chapter.

> *Note*: The idea of trading bets will be familiar to anyone with a knowledge of trading in the financial markets.

Binary betting prices are continually changing

Up to expiry the price of a binary bet is constantly varying between zero and 100, depending on the likely probability of the event taking place. Take the example of the bet,

Labour will win the next election

The price for this market will change constantly as sentiment changes affected by the news flow. At one moment, the price might be 52-56, but if a news story breaks that the leader of the Conservatives has been in found in bed with X (where X – depending on the mores of the day – might be his

wife, somebody else's wife, his wife *and* somebody else's wife etc. etc.) then the binary price will change reflecting this new information.

Every second the price can potentially change.

In general, the price will reflect the normal laws of supply and demand in the market. If people become more positive on Labour's chances at the next election, then money will come into the market backing Labour, and this weight of money will drive the price of the market up.

Example 3.1: "Footsie will end up on the day"

To illustrate the continual movement of binary prices we'll look at the bet "FTSE 100 Index will end up on the day".

[I'll henceforth refer to the FTSE 100 Index simply as "FTSE".]

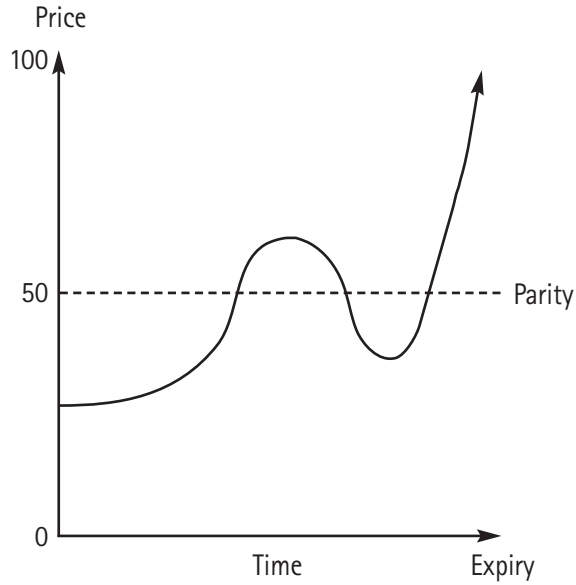
This bet has a result of:

- **100**: if FTSE ends *higher* today than it closed yesterday
- **Zero**: if FTSE ends *lower* today than it closed yesterday

> *Note*: Usually if FTSE is unchanged on the day (i.e. no loss and no gain) this is counted as FTSE ending higher and the bet has a result of 100.

Opposite is a diagram of how the binary price might move over a day's trading, from first thing in the morning to when FTSE closes for the day (16h30).

Figure 3.1: intra-day chart of the binary price on *"FTSE will end up on the day"*



Note: The above chart shows the binary bet price, not the actual FTSE 100 Index.

In this type of bet, I often refer to the point where the underlying market is unchanged on the day as *parity*. At parity the binary bet will usually be priced at around 50 whatever the time of day. This is because the odds of the market being up or down when the bet closes are similar. If a binary is priced below 50 it means that the expectation is that the event will not occur. Similarly if the bet is priced above 50 the expectation is that the event will occur.

The key features of the chart are:

- Initially it seemed less likely that FTSE would end up on the day – this is reflected in a binary price below 50 at the beginning of the day.

- As the underlying market (the FTSE 100 Index) moves up the binary price increases. You can see this happen twice on the chart.
- On the second of these occasions the price goes all the way to 100 as it becomes increasingly likely that FTSE will close up and finally does just that.
- You will also see that the price of the bet was above 50 at one point only to fall back below 50 before the final rally came in. At this point FTSE would have been up but fell back below parity and into negative territory.
- When FTSE was up (i.e. above the prior close) the pricing reflected this fact in a price above 50. But as FTSE moved into negative territory so the binary price fell below 50.

In this example FTSE did end up on the day, resulting in a final price of 100.

Closing out a bet early

Let's look at an example of a binary bet in politics.

Example 3.2: closing out a bet early

The bet is:

Conservatives will win the next election

At the beginning of March 2007 the binary price is 46-52. You think the Tories will win the next election and so buy the bet at 52 for £10 a point.

As we saw in the previous section, although you bought at 52, when the quoted price was 46-52, the price is continually changing. Fortunately, over the following three months news flow for the Tories is good and the price trends up to 50-56. And then news breaks that there are rumours of John Prescott becoming leader of the Labour Party. This results in the price on Labour winning the next election plummeting, and the price on the Tories surges from 50-56 to 64-70.

Life is good.

Although you are very pleased that the Tory price is so high, you feel that this might just be a flash in the pan, and that after the rumour is found to be false the Tory price could fall back again. And the election is still far off, during which time anything might happen.

So, you decide to sell the Tories at 64 (remember: the quoted price is now 64-70) for £10 a point.

When you close a bet in this fashion it is the end of the matter. You no longer have any bets running and you have no further financial interest in the outcome.

The situation is summarised in the table below.

	Bet 1
Bet	"Conservatives will win the next election"
Quoted price (2 March 2007)	46-52
Price bought at	52
Quoted price (2 June 2007)	64-70
Price sold at	64
Price bet per point	£10
Points made	12 (64 – 52)
Cash profit	£120 (12 x £10)

You may decide to close the bet via another betting company. I do this from time to time when I find there are better prices available elsewhere. Here is an example of how this would work.

Example 3.3: closing out a bet early using a different betting company

You open the bet as before at 52, but when it comes to closing (remember, from the above the quoted price was 64-70) you find that another betting company is quoting 66-72 and you decide, very sensibly, to take the extra 2 points.

Once you have sold this new bet at 66 you now have two open bets (with two different betting companies) that the "Conservatives will win the next election":

- Bet 1: bought at 52
- Bet 2: sold at 66

There are two possible outcomes to the bet: the Tories win (in which case the settlement price is 100), or the Tories lose (in which case the settlement price is 0).

The profit profile of these two bets is shown in the tables below.

Tories win	Bet 1	Bet 2
Settlement price	100	
Points profit/loss	48 (100-52)	-34 (66-100)
Profit/loss (£)	£480 (48pts x £10)	-£340 (-34 pts x £10)
Net profit	£140	

Tories lose	Bet 1	Bet 2
Settlement price	0	
Points profit/loss	-52 (0-52)	66 (66-0)
Profit/loss (£)	-£520 (-52pts x £10)	£660 (66 pts x £10)
Net profit	£140	

We can see from the above that the profit made in either outcome is the same: £140. In the case that the:

- **Tories win**: you win £480 on your first bet, and lose £340 on your second
- **Tories lose**: you lose £520 on your first bet, and win £660 on your second

Whatever happens, you make £140.

This means that as soon as you sold your second bet at 66, you had **locked in a profit** of £140, that was secure *regardless of what the final outcome was*.

You were effectively, "out of the market" (to use the jargon), as every point you made in profit on one bet was offset by an equal profit on the other bet.

In this case, you were lucky as, after you initially bought the bet at 52, the price on the Tories rose. What would have happened if the price had fallen? We'll look at this in the next example.

Example 3.4: closing out a bet early II

As before, the bet is:

Conservatives will win the next election

And again the price quoted at the beginning of March 2007 is 46-52. You think the Tories will win the next election and so buy the bet at 52 for £10 a point.

This time, however, over the following few months, the Tories fall out of favour with the public and their binary prices falls to 42-48. At this point, you get worried about your bet and the prospects for the Tories. You have lost confidence in the Tories and think things will get worse. So, at the beginning of June you sell the Tories at the prevailing selling price (42).

In this example we will just look at the simple case where the bet is closed with the same betting company and you have no further financial interest in it.

	Bet 1
Bet	"Conservatives will win the next election"
Quoted price (2 March 2007)	46-52
Price bought at	52
Quoted price (2 June 2007)	42-48
Price sold at	42
Price bet per point	£10
Points lost	10 (52 – 42)
Money lost	£100 (10 x £10)

Quick calculation

The quick way to calculate your profit/loss in any situation where you might consider closing out early is to subtract your buying price from the current selling price and multiply by the money per point you bet. So, for example 3.2 (on page 30):

```
Profit/loss = (current selling price – price bought at) x
money per point
            = (64 – 52) x £10
            = £120
```

While, for example 3.4:

```
Profit/loss = (42 – 52) x £10
            = -£100
```

Rationale

With traditional betting a punter places a bet and then waits to the end of the event to see if he wins or not. We have seen above that things are different with binary betting. Because binary betting has *two-way prices* (i.e. a buying and a selling price) it is possible for the punter to close out a bet before the event has finished (or even started in some cases).

What are the attractions of this?

Lock in a profit

We saw in example 3.2 that the market had moved quickly in favour of the punter's bet. The punter then had two choices:

1. Leave the bet alone, and stand to make £480 if the Tories won at the next election, or lose £520 if the Tories lost.
2. Lock in his current profit of £120 (by selling at the prevailing price).

There is no correct choice here, but many people would take the guaranteed profit of £120 rather than wait to the still far-off election – when anything might happen!

Limit a loss

Example 3.4 is a little different. In this case, the punter has the choice of:

1. Leave the bet alone, and stand to make £480 if the Tories won at the next election, or lose £520 if the Tories lost.
2. Lock in his current loss of £100 (by selling at the prevailing price).

Again, there is no "correct" choice here, but many professional punters would rather take a loss of £100, in a market that they can see getting worse, rather than hold on and hope that things get better.

> *Note*: The above illustrates the difference between amateur punters who tend to hold on to losing positions, and experienced traders who have the discipline to cut all losses.

Here is a quick summary of why you may want to close out a position early:

- You have a good profit in hand and you want to take it.
- You have a good profit but the price is now moving against you and you want to take the profit while you still can.
- You are down and you don't want to lose your full stake.
- You placed the bet for certain reasons and something has now changed so you want out, quickly.
- You have a hunch.
- By taking your profit now you end up with an overall profit on the day and you find this gives you a boost for betting tomorrow.
- You were attracted by the low risk/high profit opportunity when you bought the bet (below 20) but now it is well up (above 70) you don't want to risk all that for a limited reward.

This facility to close out bets early is common in financial markets, but is unusual in the betting world – which adds greatly to the attraction of binary betting.

Advanced betting – when to take the profit

I must make one critical point which is very relevant to this section. Although being able to close your bet early is clearly a huge advantage, it does pose a significant challenge: you have to decide whether to do this, whether to get out early. This can be a very difficult decision.

In trading binary bets my biggest problem is how much profit to take.

I have no real problem taking my losses, and I make sure that my losses are *always* small. But there is a significant difference between taking 20 points of profit out of the market or 60 points, and that comes down to how you manage the trade once you have placed your bet.

I think the best advice I can give you is that once the bet is going your way and it continues to look good – stick with it! It may feel like a bucking bronco but if a bet goes all the way, and they often do, your profits may increase exponentially.

Trading bets

So far in this chapter we've learnt that:

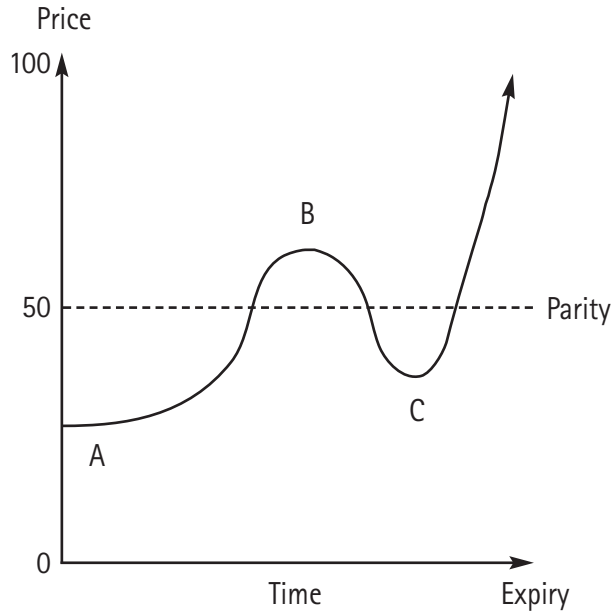
1. binary betting prices are continually changing, and
2. betting positions can be closed out early.

In this final section we'll look at putting the above two together to get at the essence of what advanced binary betting is all about.

Example 3.5: trading bets

Let's look again at the illustration from the beginning of this chapter.

Figure 3.2: intra-day chart of the binary price on the bet "FTSE will end up on the day"



This time the chart has three points marked at various times throughout the day. The binary betting prices at these three times were:

A: 30-34

B: 62-66

C: 38-42

Given the above we can see that a punter at the beginning of the day (point A) could have bought the market at 34 (when the quoted price was 30-34). A little later, at point B, the price quoted was 62-66, and the punter could have sold the bet at 62. This would have locked in a profit of 28 points (62 less 34).

The price then decreased to 38-42 at point C. At this time the punter could have bought the bet again (this time at 42). If the bet had been held to expiry (end of the day), then the profit would have been 58 points (100 less 42).

In total, the punter would have made 86 (28+58) points profit from the two trades.

But it gets better.

If the punter had been really clever then at point B, after having closed his first betting position, he could have (additionally) sold the bet at 62. Then, when the market had fallen to point C, he could have closed that betting position by buying back the bet at 42. This would have netted a profit of 20 points (62-42). Giving a total profit for the day of 106 points.

The three bets are summarised in the table below.

	Quoted Price	Action	Profit (points)
Point A	30-34	Buy at 34 (Bet #1)	
Point B	62-66	Sell at 62 (Bet #1)	28
Point B	62-66	Sell at 62 (Bet #2)	
Point C	38-42	But at 42 (Bet #2)	20
Point C	38-42	Buy at 42 (Bet #3)	
Expiry	100	Settles at 100	58
Total			106

Note: In this example, the punter traded three times in the one day. But there is nothing to stop him trading far more. He could have traded every five minutes if he had wanted – each time opening a bet or locking in a profit or loss, or moving on to a new bet.

Trading notes

Trading frequency will be determined partly by the volatility of the binary price

Every time that the punter buys at 34, when the quoted price is 30-34, the binary price has to move up at least five points, to 35-39, for the punter to make a profit (in this case, selling at 35 will make a 1 point profit: 35-34). If the price doesn't move up to, at least, 35-39, then there is no incentive for the punter to sell and close out the position (because there's no profit to take).

Conversely, if the punter first sells the bet at 30 (when the quoted price is 30-34), then he cannot take a profit on that until the price has fallen to at least 25-29 (at which point he can buy the bet at 29 and make a 1 point profit).

So, the binary price needs to move at least enough to cover the spread, before a position can be closed out at a profit. For example, if a quoted price has a 4-point spread (as was the case above, 30-34), then the price needs to move at least 5 points before a profit can be taken.

Therefore, in practice, the number of times that a punter can trade depends on the volatility of the binary price. If the price does not fluctuate very much, then it is likely that active trading will not be attractive.

Catching the highs and lows

In the above example, the trader was able to identify the highs and lows of the price throughout the day. So, having bought at the open, the punter timed his trade perfectly by selling at point B, and then, again, perfectly caught the next low to reverse his position and buy the bet. In real-life, no trader could trade like that – managing to correctly buy and sell at the highs and lows throughout the day, although I would be delighted to be proven wrong!

Are we traders or are we placing bets?

Binary bets are a bridge between the betting world and the financial world which is why it is necessary to sometimes talk about *betting* and sometimes talk about *trading*. If there is a difference between these two terms perhaps it is because usually a bet cannot be closed before the event is over, whereas a trade can be.

But when it comes to binary bets, they are called bets but you can close them before the event is over. When you place your bet (and this is also known as *opening your position*) you can call it either trading or betting and if you run the bet to expiry then it again makes little difference. But if you close before expiry then I would say you are trading. In fact there is a case for saying these bets should be known as *binary trades*.

Therefore, throughout this book, the terms *bet* and *trade* are used interchangeably; as are the terms *punter* and *trader*.

Summary

In this chapter we have seen that the prices of binary bets are changing all the time and that they can be closed before the game is over, be it a sporting event or a financial market. We have looked at the simple case where the bet is closed absolutely and at a more complex example where we decide to open another bet (with a different betting company) which *effectively* closes the first bet.

In other words, in this chapter we have learnt how to *trade* the bets.

4

Different Types of Binary Bets

Different Types of Binary Bets

Now that I have introduced the concept of binary betting I am going to tell you about all the different types of bet you can make.

There are a vast range of binary bets, and the list here may not be exhaustive as new bets are being added all the time.

There are principally two types of binary bets:

1. those based on **sporting events**, for example, *team X will win a football game*, and
2. those based on **financial markets**, for example, the *UK FTSE 100 will end up on the day*.

The various binary betting companies offer different binary bets. Some of these are fairly universal – for example daily up/down bets on FTSE and the Dow.

It is also worth mentioning Betfair (www.betfair.com) which allows you to state your own odds and then offer them to other users. But there is no guarantee that your offers will be accepted so you will not always succeed in betting if you use this route. But when you do succeed you will generally get a better price.

I list the variety of bets in six sections and each section relates to a particular betting company. The first two sections are then sub-divided into financial and sports betting:

IG Index – financial bets

Market to close up or down at a specified time or at the close

In financial markets this is the vanilla bet – any company offering any bets at all offers this one. You can find this bet on many market indices, for example the UK FTSE 100 Index or the US Dow Jones 30. There are also currencies and some commodities, for example gold, silver, and oil. Time frames vary from weekly closes to hourly to 20 minute and even 5 minute

closes (known as Frenzies). In between there are daily closes and specified times (i.e. 12:00, and 3:00). Some bets are "handicapped" – meaning up or down more than x points. A fairly small move by the underlying index (say FTSE) can see a large swing in the binary, maybe from 10 – 90 or vice versa) but you would only see such a move if the underlying market moved from positive territory to negative, or vice versa.

There is an example of this type of bet in Chapter 3 and very detailed trades in Chapter 6.

Here is a list of just some of the bets available

- FTSE to finish up at the close
- FTSE to finish up at 12:00
- FTSE to finish up at 3:00
- FTSE to finish down at the close
- FTSE to finish down at 12:00
- FTSE to finish down at 3:00
- FTSE to finish up 0 – 10 points at the close
- FTSE to finish up 10 – 20 points at the close
- FTSE to finish up 20 – 30 points at the close
- FTSE to finish up 30 – 40 points at the close
- FTSE to finish up 40 – 50 points at the close
- FTSE to finish up over 50 points at the close
- FTSE to finish down 0 – 10 points at the close
- FTSE to finish down 10 – 20 points at the close
- FTSE to finish down 20 – 30 points at the close
- FTSE to finish down 30 – 40 points at the close
- FTSE to finish down 40 – 50 points at the close
- FTSE to finish down over 50 points at the close

All of the above 18 bets are also available based on prices at 12:00 and 3:00

If you find 10 point ranges too tight you can also bet in 30 point ranges:

• FTSE to finish up between 9am and 10am

• FTSE to finish down between 9am and 10am

• FTSE to finish up/down every other hour of the day

• FTSE to finish up/down on the week

Frenzies which allow you to bet on whether FTSE will be up or down over a 5 minute period. Frenzies are so called because of their very short time frame and the frenzied action that can ensue.

Wall Street (based on the Dow) to do the equivalent of all of the above (and more!)

There are hourly bets on Brent Crude and the Aussie (ASX) Index:

• S&P 500 to finish up/down at the close

• NASDAQ to finish up/down at the close

• Italy 40 to finish up/down at the close

• Sweden 30 to finish up/down at the close

• £/$ to end up/down at 20:00

• Euro/$ to end up/down at 20:00

• $/Yen to end up/down at 20:00

You can also bet on a number of currencies to be above or below certain levels by 20:00.

Etc, etc…

(For the remainder of this section I have used IG (or www.binarybet.com) screen shots to show the bets available – it was not possible with the up/down bets because there are so many!)

Market to stay within a specified range (tunnels)

If the market touches the outer limits of the range the bet goes to zero. If it stays in the range the bet goes to 100 when the index closes. At this point I have only seen tunnels on FTSE and the Dow but I expect others will be introduced soon.

Trading a tunnel is a play on *volatility* meaning the speed of market action. If you buy a tunnel (hoping it will go to 100) then you are going short of volatility which means you do not want to see much action. If you sell a tunnel (hoping it will go to zero) you are buying volatility and you want to see some action to take out the range. The range in question is based on the prior day's close.

For example, if you feel that FTSE is going to have a quiet day you may look at the various tunnels on offer. These range from those with very tight bands, 10, 15, 20, or 25 points either side of the prior close, to those with very large bands, 60, 65 or 75 points either side of the prior close and including bands in the middle range as well. The bigger the band the more expensive the bet as there is more probability of FTSE remaining within a wider band than a narrow one. Also as time goes by the bets tend to get more expensive unless FTSE is very active.

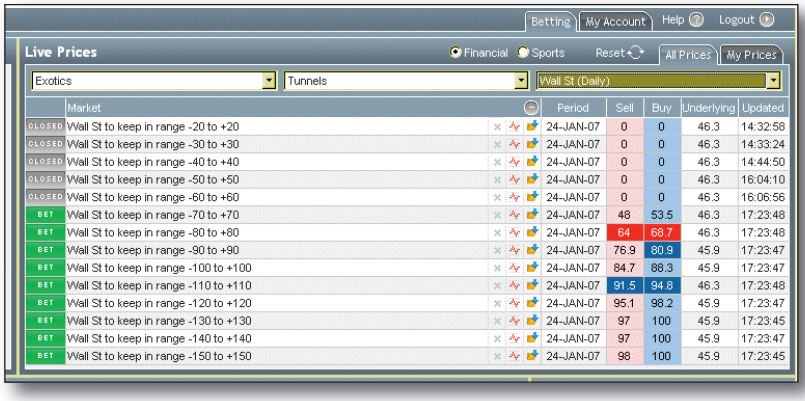
Lets say you decide to buy the +40/-40 tunnel and you pay 65. This would mean that as long as FTSE stays in that range the bet will go to 100 and you will win. If we assume that the prior close was at 6145, the key levels would be at 6105 (6145 – 40) and 6185 (6145 + 40). The slightest touch on either of these levels would send the bet plunging down to zero.

If, in the event, FTSE does have a quiet day, you keep your winnings of 35 points (100 less the buying price of 65). At £10 per point that would be a £350 profit.

If you want to buy these at lower prices wait until FTSE does see some action and the prices will tend to come down.

There is an example of this type of bet in Chapter 6.

Figure 4.1: screen shot of the bets available on the Dow



	Market	Period	Sell	Buy	Underlying	Updated
CLOSED	Wall St to keep in range -20 to +20	24-JAN-07	0	0	46.3	14:32:58
CLOSED	Wall St to keep in range -30 to +30	24-JAN-07	0	0	46.3	14:33:24
CLOSED	Wall St to keep in range -40 to +40	24-JAN-07	0	0	46.3	14:44:50
CLOSED	Wall St to keep in range -50 to +50	24-JAN-07	0	0	46.3	16:04:10
CLOSED	Wall St to keep in range -60 to +60	24-JAN-07	0	0	46.3	16:06:56
BET	Wall St to keep in range -70 to +70	24-JAN-07	48	53.5	46.3	17:23:48
BET	Wall St to keep in range -80 to +80	24-JAN-07	64	68.7	46.3	17:23:48
BET	Wall St to keep in range -90 to +90	24-JAN-07	76.9	80.9	45.9	17:23:47
BET	Wall St to keep in range -100 to +100	24-JAN-07	84.7	88.3	45.9	17:23:47
BET	Wall St to keep in range -110 to +110	24-JAN-07	91.5	94.8	46.3	17:23:48
BET	Wall St to keep in range -120 to +120	24-JAN-07	95.1	98.2	45.9	17:23:47
BET	Wall St to keep in range -130 to +130	24-JAN-07	97	100	45.9	17:23:45
BET	Wall St to keep in range -140 to +140	24-JAN-07	97	100	45.9	17:23:47
BET	Wall St to keep in range -150 to +150	24-JAN-07	98	100	45.9	17:23:45

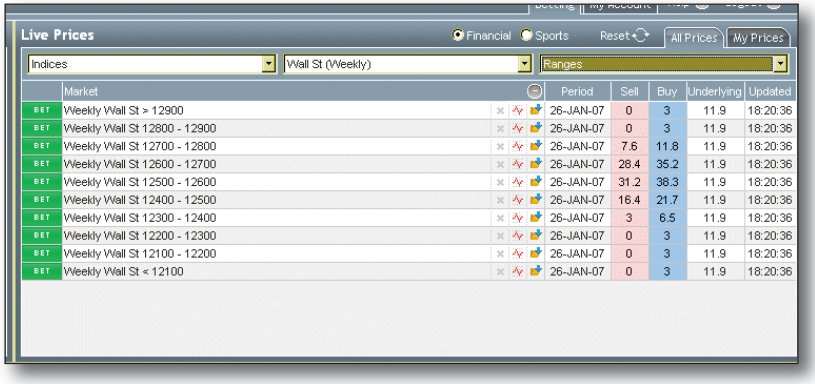
If you look at the prices above you will see that the first five bets are noted as “closed” with prices at zero. This is because the Dow had rallied around 66 points up to that point and thus had “touched” those first five tunnels driving their price down to zero.

Market Targets

You can bet that the market will end within a specified range, and do this either on an hourly, intraday, daily or weekly basis. These bets are included in the up/down bets on the previous page but they can also be considered a separate category which is why I have also included this section.

The bets available will change based on the prior close. Here is a screen shot giving a few examples on the weekly Dow:

Figure 4.2: screen shot of the bets available on the weekly Dow, market targets



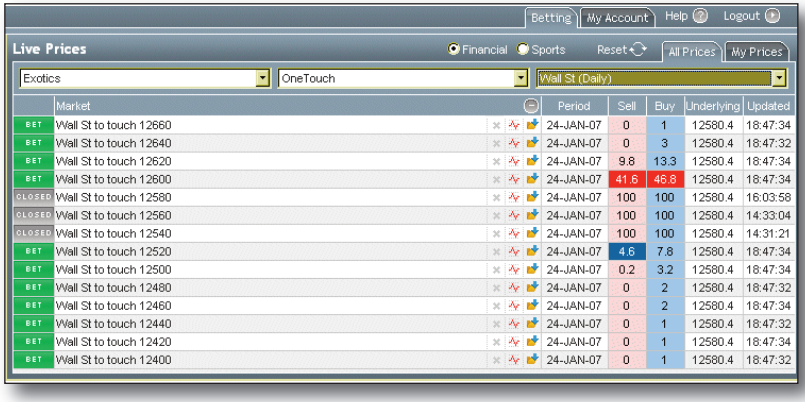
	Market	Period	Sell	Buy	Underlying	Updated
BET	Weekly Wall St > 12900	26-JAN-07	0	3	11.9	18:20:36
BET	Weekly Wall St 12800 - 12900	26-JAN-07	0	3	11.9	18:20:36
BET	Weekly Wall St 12700 - 12800	26-JAN-07	7.6	11.8	11.9	18:20:36
BET	Weekly Wall St 12600 - 12700	26-JAN-07	28.4	35.2	11.9	18:20:36
BET	Weekly Wall St 12500 - 12600	26-JAN-07	31.2	38.3	11.9	18:20:36
BET	Weekly Wall St 12400 - 12500	26-JAN-07	16.4	21.7	11.9	18:20:36
BET	Weekly Wall St 12300 - 12400	26-JAN-07	3	6.5	11.9	18:20:36
BET	Weekly Wall St 12200 - 12300	26-JAN-07	0	3	11.9	18:20:36
BET	Weekly Wall St 12100 - 12200	26-JAN-07	0	3	11.9	18:20:36
BET	Weekly Wall St < 12100	26-JAN-07	0	3	11.9	18:20:36

OneTouches

If the market touches the designated level the bet is worth 100. If it fails to do so the bet goes to zero. These are available at the close or at 12:00 on FTSE, at the close or at 18:00 on the Dow, and at the close on the ASX (Australian cash 200).

Here are a few of those available, but these will change as the indices move – as a general rule you will have 100 points either side of the prior close on FTSE and equivalent bets on Wall Street and the ASX. The following bets were available based on a prior close on the Dow at 12533.80.

Figure 4.3: OneTouches



	Market	Period	Sell	Buy	Underlying	Updated
BET	Wall St to touch 12660	24-JAN-07	0	1	12580.4	18:47:34
BET	Wall St to touch 12640	24-JAN-07	0	3	12580.4	18:47:32
BET	Wall St to touch 12620	24-JAN-07	9.8	13.3	12580.4	18:47:34
BET	Wall St to touch 12600	24-JAN-07	41.6	46.8	12580.4	18:47:34
CLOSED	Wall St to touch 12580	24-JAN-07	100	100	12580.4	16:03:58
CLOSED	Wall St to touch 12560	24-JAN-07	100	100	12580.4	14:33:04
CLOSED	Wall St to touch 12540	24-JAN-07	100	100	12580.4	14:31:21
BET	Wall St to touch 12520	24-JAN-07	4.6	7.8	12580.4	18:47:34
BET	Wall St to touch 12500	24-JAN-07	0.2	3.2	12580.4	18:47:34
BET	Wall St to touch 12480	24-JAN-07	0	2	12580.4	18:47:32
BET	Wall St to touch 12460	24-JAN-07	0	2	12580.4	18:47:34
BET	Wall St to touch 12440	24-JAN-07	0	1	12580.4	18:47:32
BET	Wall St to touch 12420	24-JAN-07	0	1	12580.4	18:47:34
BET	Wall St to touch 12400	24-JAN-07	0	1	12580.4	18:47:32

Similar bets are also available at 18:00 on the Dow, on FTSE at 12:00 and at the close, and on the ASX on the close.

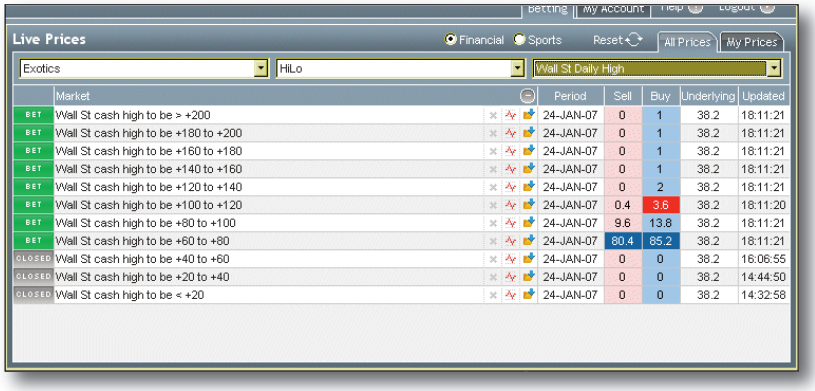
You will notice that the bets to touch 12580, 12560, and 12540 are marked as “closed” and this is because the Dow has “touched” those levels sending the bets to 100.

Hi/Los

These allow you to bet where the high/low of the day will fall. They can become more interesting when we have already seen a high or low formed.

Here is a screen shot list of the "high" bets available on the Dow (Wall Street):

Figure 4.4: Hi/Los



	Market	Period	Sell	Buy	Underlying	Updated
BET	Wall St cash high to be > +200	24-JAN-07	0	1	38.2	18:11:21
BET	Wall St cash high to be +180 to +200	24-JAN-07	0	1	38.2	18:11:21
BET	Wall St cash high to be +160 to +180	24-JAN-07	0	1	38.2	18:11:21
BET	Wall St cash high to be +140 to +160	24-JAN-07	0	1	38.2	18:11:21
BET	Wall St cash high to be +120 to +140	24-JAN-07	0	2	38.2	18:11:21
BET	Wall St cash high to be +100 to +120	24-JAN-07	0.4	3.6	38.2	18:11:20
BET	Wall St cash high to be +80 to +100	24-JAN-07	9.6	13.8	38.2	18:11:21
BET	Wall St cash high to be +60 to +80	24-JAN-07	80.4	85.2	38.2	18:11:21
CLOSED	Wall St cash high to be +40 to +60	24-JAN-07	0	0	38.2	16:06:55
CLOSED	Wall St cash high to be +20 to +40	24-JAN-07	0	0	38.2	14:44:50
CLOSED	Wall St cash high to be < +20	24-JAN-07	0	0	38.2	14:32:58

You will also find similar bets on the "Low" and there are also equivalent bets on FTSE.

The prices above reflect a solid rally on the Dow and the final three bets had gone to zero as the high is already outside their range. Similarly the first four bets have gone to 0/1 reflecting that a high in their range is now considered highly unlikely. Of course, you may disagree with the probability of a high in those ranges.

For an example of this type of bet see Chapter 6.

Settlements

This particular bet is not one of my favourites but you can bet on the final digit of the close or whether it is odd or even. This bet is available on FTSE, the NASDAQ and the Hang Seng. I intend to say no more about this bet and if you go for it – Good luck!

Seasonal and other bets

At Christmas time IG introduced a couple of "festive" bets based on FTSE and the £/$. You can expect similar additions from time to time and there will also be other bets added. Sometimes you also see bets removed and this tends to be because they are not popular.

IG Index – sports bets

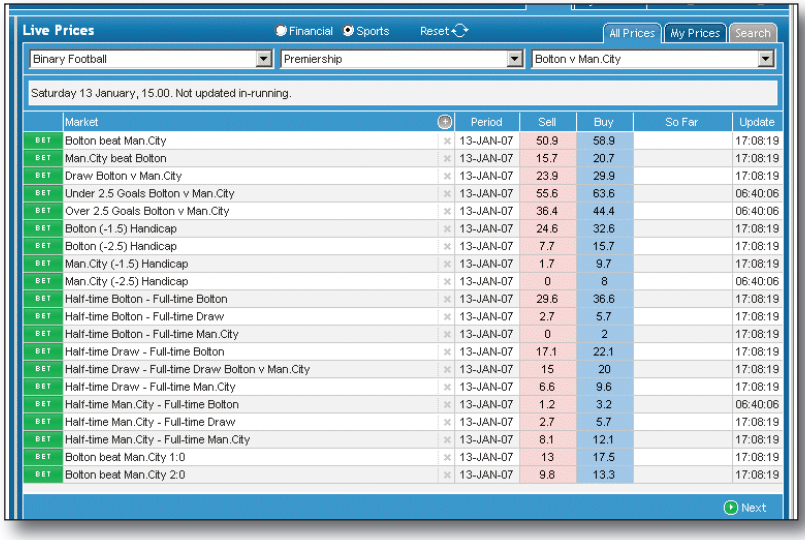
Football

There is a wide range of choice in football bets including the Carling Cup, FA Cup, League 2, Johnstones Paint Trophy, Tennents Scottish Cup, Long Term Premiership, Long Term Coca-Cola, Long Term Champions league, plus Spanish and Italian matches.

These categories will vary as championships are won and others come on line.

Below is a screen shot showing the bets available on just one game – Bolton versus Manchester City in the Premiership.

Figure 4.5: range of football bets



	Market		Period	Sell	Buy	So Far	Update
BET	Bolton beat Man.City	×	13-JAN-07	50.9	58.9		17:08:19
BET	Man.City beat Bolton	×	13-JAN-07	15.7	20.7		17:08:19
BET	Draw Bolton v Man.City	×	13-JAN-07	23.9	29.9		17:08:19
BET	Under 2.5 Goals Bolton v Man.City	×	13-JAN-07	55.6	63.6		06:40:06
BET	Over 2.5 Goals Bolton v Man.City	×	13-JAN-07	36.4	44.4		06:40:06
BET	Bolton (-1.5) Handicap	×	13-JAN-07	24.6	32.6		17:08:19
BET	Bolton (-2.5) Handicap	×	13-JAN-07	7.7	15.7		17:08:19
BET	Man.City (-1.5) Handicap	×	13-JAN-07	1.7	9.7		17:08:19
BET	Man.City (-2.5) Handicap	×	13-JAN-07	0	8		06:40:06
BET	Half-time Bolton - Full-time Bolton	×	13-JAN-07	29.6	36.6		17:08:19
BET	Half-time Bolton - Full-time Draw	×	13-JAN-07	2.7	5.7		17:08:19
BET	Half-time Bolton - Full-time Man.City	×	13-JAN-07	0	2		17:08:19
BET	Half-time Draw - Full-time Bolton	×	13-JAN-07	17.1	22.1		17:08:19
BET	Half-time Draw - Full-time Draw Bolton v Man.City	×	13-JAN-07	15	20		17:08:19
BET	Half-time Draw - Full-time Man.City	×	13-JAN-07	6.6	9.6		17:08:19
BET	Half-time Man.City - Full-time Bolton	×	13-JAN-07	1.2	3.2		06:40:06
BET	Half-time Man.City - Full-time Draw	×	13-JAN-07	2.7	5.7		17:08:19
BET	Half-time Man.City - Full-time Man.City	×	13-JAN-07	8.1	12.1		17:08:19
BET	Bolton beat Man.City 1:0	×	13-JAN-07	13	17.5		17:08:19
BET	Bolton beat Man.City 2:0	×	13-JAN-07	9.8	13.3		17:08:19

You will notice that not only can you bet on either side to win and the draw but you can also bet on the number of goals, different scores, the half-time result, and either side to win by certain margins. There should be plenty there to satisfy the most ardent enthusiast!

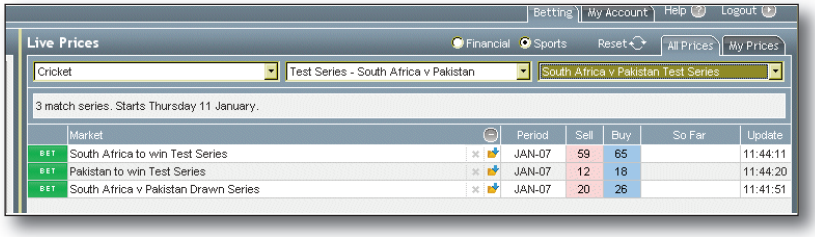
Cricket

As I write we have four categories listed and these are:

- 1st Test – South Africa v. Pakistan
- Twenty 20 – Australia v. England
- Test Series – South Africa v. Pakistan
- Commonwealth Bank Series

Here is a screen shot of the prices shown on the South Africa/Pakistan game.

Figure 4.6: range of cricket bets

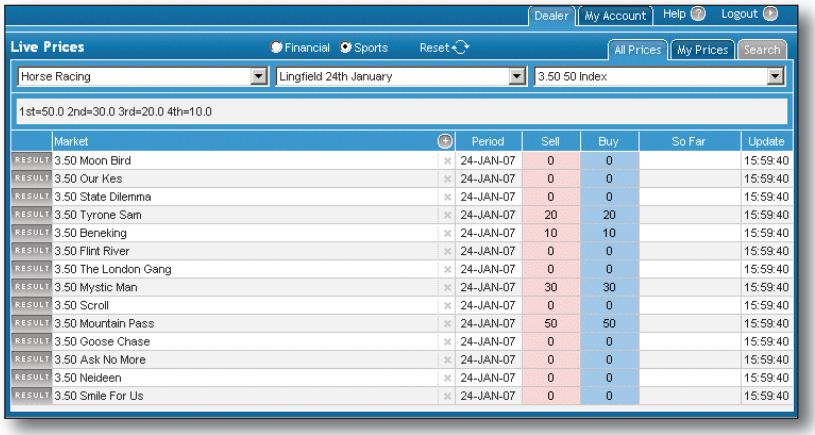


You will notice there are three bets available, either side to win and the draw.

Horse Racing

There are bets available on each day's racing and the screen shot below shows the prices *after* this race has been run.

Figure 4.7: horse racing



	Market	Period	Sell	Buy	So Far	Update
RESULT	3.50 Moon Bird	24-JAN-07	0	0		15:59:40
RESULT	3.50 Our Kes	24-JAN-07	0	0		15:59:40
RESULT	3.50 State Dilemma	24-JAN-07	0	0		15:59:40
RESULT	3.50 Tyrone Sam	24-JAN-07	20	20		15:59:40
RESULT	3.50 Beneking	24-JAN-07	10	10		15:59:40
RESULT	3.50 Flint River	24-JAN-07	0	0		15:59:40
RESULT	3.50 The London Gang	24-JAN-07	0	0		15:59:40
RESULT	3.50 Mystic Man	24-JAN-07	30	30		15:59:40
RESULT	3.50 Scroll	24-JAN-07	0	0		15:59:40
RESULT	3.50 Mountain Pass	24-JAN-07	50	50		15:59:40
RESULT	3.50 Goose Chase	24-JAN-07	0	0		15:59:40
RESULT	3.50 Ask No More	24-JAN-07	0	0		15:59:40
RESULT	3.50 Neideen	24-JAN-07	0	0		15:59:40
RESULT	3.50 Smile For Us	24-JAN-07	0	0		15:59:40

I mentioned in Chapter 2 that some binary bets use a different pricing system and horse racing is one of those. This screen shot illustrates what happens after the race. The binaries do not go to 100 but the winner's goes to 50, the horse placed 2nd goes to 30, 3rd goes to 20, and 4th to 10. Whether we can strictly call this a binary bet is a mute point. A binary price has two possibilities, win or lose, here we have five possibilities! The five possibilities consist of the four winning positions and unplaced when the bet goes to zero.

Despite this point these bets behave like binary bets in all other ways.

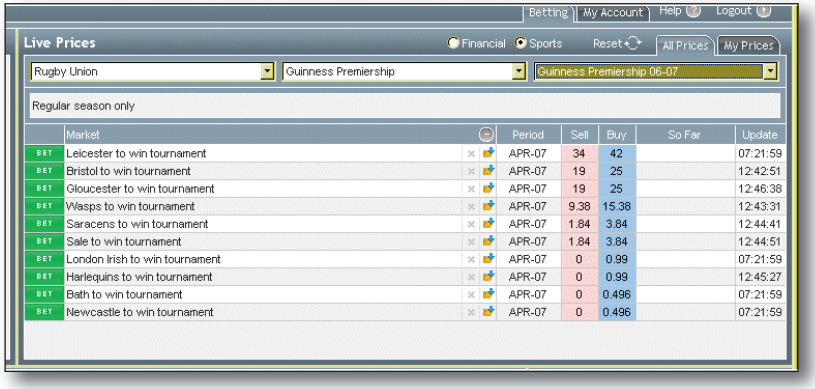
Rugby Union

Three categories are available:

- Heineken Cup
- Guinness Premiership
- Magners League

Here is a screen shot of the Guinness premiership.

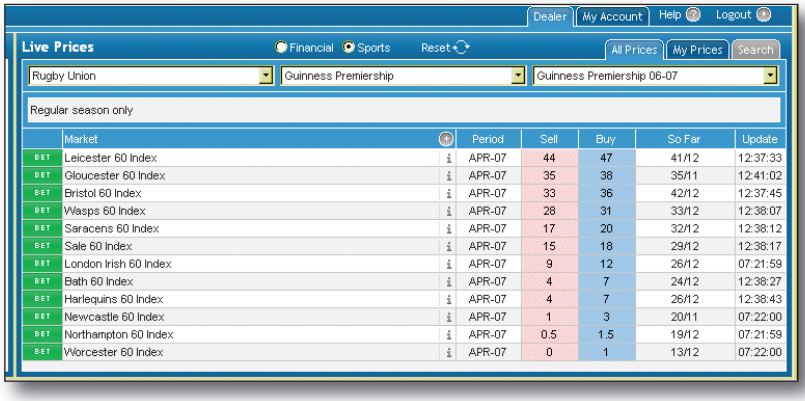
Figure 4.8: rugby union



	Market	Period	Sell	Buy	So Far	Update
BET	Leicester to win tournament	APR-07	34	42		07:21:59
BET	Bristol to win tournament	APR-07	19	25		12:42:51
BET	Gloucester to win tournament	APR-07	19	25		12:46:38
BET	Wasps to win tournament	APR-07	9.38	15.38		12:43:31
BET	Saracens to win tournament	APR-07	1.84	3.84		12:44:41
BET	Sale to win tournament	APR-07	1.84	3.84		12:44:51
BET	London Irish to win tournament	APR-07	0	0.99		07:21:59
BET	Harlequins to win tournament	APR-07	0	0.99		12:45:27
BET	Bath to win tournament	APR-07	0	0.496		07:21:59
BET	Newcastle to win tournament	APR-07	0	0.496		07:21:59

The bet on the winning team will go to 100, all the others go to zero. The above screen shot is from www.binarybet.com and now contrast this with the screen shot from www.igindex.com opposite.

Figure 4.9: prices based on a 60 Index



	Market		Period	Sell	Buy	So Far	Update
BET	Leicester 60 Index	i	APR-07	44	47	41/12	12:37:33
BET	Gloucester 60 Index	i	APR-07	35	38	35/11	12:41:02
BET	Bristol 60 Index	i	APR-07	33	36	42/12	12:37:45
BET	Wasps 60 Index	i	APR-07	28	31	33/12	12:38:07
BET	Saracens 60 Index	i	APR-07	17	20	32/12	12:38:12
BET	Sale 60 Index	i	APR-07	15	18	29/12	12:38:17
BET	London Irish 60 Index	i	APR-07	9	12	26/12	07:21:59
BET	Bath 60 Index	i	APR-07	4	7	24/12	12:38:27
BET	Harlequins 60 Index	i	APR-07	4	7	26/12	12:38:43
BET	Newcastle 60 Index	i	APR-07	1	3	20/11	07:22:00
BET	Northampton 60 Index	i	APR-07	0.5	1.5	19/12	07:21:59
BET	Worcester 60 Index	i	APR-07	0	1	13/12	07:22:00

These prices are interesting as they are a binary bet but based on a "60 index" and it is not only a bet on the winning team which may give some profit. In fact the winning team's bet goes to 60 but second place goes to 40, 3rd place to 30, 4th to 25, 5th to 20, 6th to 15, 7th to 10 and 8th to 5 points. This is similar to the bets on a horse race.

Before placing bets it does make sense to look around and see what alternative bets might be available.

Golf

Here again we have plenty of choice with the following championships available:

- Sony Open
- Joburg Open
- 2007 US Masters
- 2007 European Order of Merit

Again these will change as championships end and others come "on line".

Others

There are also binaries available on darts, snooker, american football, tennis, boxing, politics, *Celebrity Big Brother, I'm a Celebrity Get Me Out Of Here, the X-Factor* etc, etc… I will let you decide whether these latter items are sports or not!

The actual bets available will vary depending on what's on.

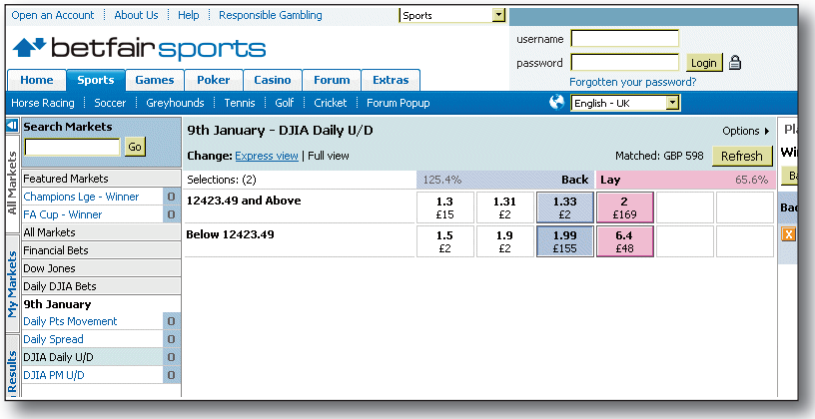
Betfair – financial

Betfair is a betting exchange and you will be betting against other users. The big advantage is that you get better prices – *there is no spread*!

Currently Betfair is very *liquid* for sports bets and very *illiquid* for financial bets. The result of this is that sports betters rarely use anything else, which is why Betfair is so successful, but financial betters have little choice but to go elsewhere. This may well change and there is nothing to stop you placing bets on Betfair at the odds you decide. The more people who do that the more useful the site will become to financial betters generally.

Here is a screen shot of the bet "*DJIA Daily up/down*":

Figure 4.10: Betfair, DJIA up/down



For those used to seeing binary prices this may be totally confusing as the prices are in decimal format. But conversion is simple: you just divide 100 by the decimal price to get the binary price. With a decimal bet you want to go for the highest price when buying (which sports betters usually call "backing") and so the best prices are 1.33 for the up bet and 1.99 for the down bet. Divide those into 100 and you get 75 and 50 respectively. This form of pricing is set out in greater detail in the appendices.

Laying a bet means you are selling it and for that the lower the price the better which I find a particularly confusing aspect of this form of pricing. But, in fact there is no choice – we are stuck with 2 and 6.4. These convert into binary prices at 50 and 15.6.

So the spread on the up bet is 50/75 and on the down bet 15.6/50 – such a huge spread is a sure sign of illiquidity. I said earlier that there was no spread and this is another aspect you may find confusing. There is a difference between the odds to lay or bet (sell or buy) but when you put your price onto Betfair that is what you will get, if accepted by another user. Betfair themselves do not charge you a spread, instead they charge a commission if you win.

As well as the Dow, Betfair covers FTSE, the DAX on a daily and weekly basis plus some currencies and a few interest rates.

This site is worth watching as the liquidity situation may change.

Betfair – sports

On sports it is a completely different matter, with a huge range of sports bets and very tight spreads. Technically, Betfair do not charge for spreads as they are an exchange – they merely allow users to put up their own prices, but there is invariably a spread between the best bids on both sides. What I would call buy/sell and a sports better would call back/lay.

As these are not technically binary bets (same thing but with a different pricing mechanism) I am not going to cover all the details but if you want to bet on sports then this may be the place to do it – you will tend to get better prices than on the spread betting websites.

BetOnMarkets – financial only

Strictly we do not see binary bets on this website but we do see financial bets expressed in a unique format. This is in the form "I wish to win £x if…" You are then told the price of the bet and that price is a binary price of sorts.

You have three categories to choose from and these are:

- Indices
- Forex
- UK stocks

Here are the bets available under indices.

Doubles

These are up/down bets on FTSE, Wall Street, eight other indices and Forex, over 1, 3, 4 or 7 days and the price is always half of what you want to win. So if you want to win £100 the cost is £50 and this cost is not returned if you win. The company charges commission through the medium of "handicapping" each bet so if you bet for FTSE to be up it has to be above the relevant close by a certain number of points.

Intraday Doubles

As above, but available on 10 minute and hourly time frames during the course of a day.

Super Doubles

Two doubles in one, so you get four times your money back. You have to bet on two consecutive periods (segmented in 20 minute units) with handicapping to pay the company's commission.

Expiry Bets – bull/bear

These bets allow you to bet that FTSE, the Dow, etc. will be above or below a chosen level (your choice) x days ahead. There is a lot of choice here. Not

only can you choose your own level for the bet but it can be for any day 2 or 3 weeks hence (but not the near week) or at 5 day intervals up to around 50 days, 10 day intervals up to around 100 days then 120 days and finally 182 days, ie 6 months. The precise number of days and the intervals will vary to avoid weekends and holidays.

Expiry Bets – range

These bets are similar to the above except you can choose a range rather than being above or below a certain level.

OneTouch

Similar to those offered by IG Index but on longer time frames – the same time frames as for expiry bets as above. You can also choose your own levels.

No Touch

The opposite of the above.

Barrier Range

Similar to IG's Tunnels but you can specify the levels and get the usual longer time frames. With these bets the tunnel range can be different on either side of the current price. So rather than a +40/-40 Tunnel as per IG you could choose a +100/-75 Tunnel with BetOnMarkets.

Double Touch

A sort of Tunnel in reverse in that the market must touch both extremes to win.

Up or Down

A Tunnel in reverse in that you specify two levels then you win if the market hits either one.

Fun Corner – Run Bets

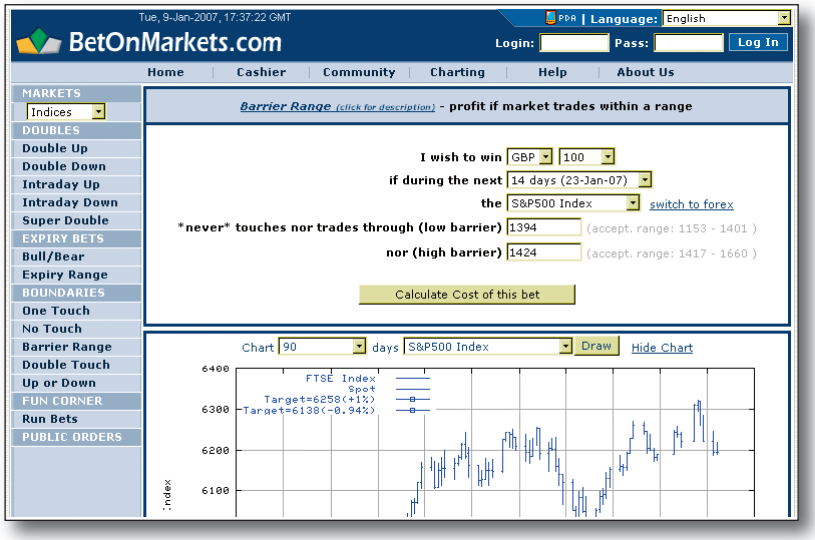
The Running Runbet is all about guessing the last digit of a tick – odd or even. – the longer you fail to get it right the more you get back plus other fun bets.

You get the same categories of bet under the other two headings.

One good feature of www.betonmarkets.com is that they will open virtual accounts and credit you with £10,000 (virtual pounds that is) so you can play with their bets and find your way.

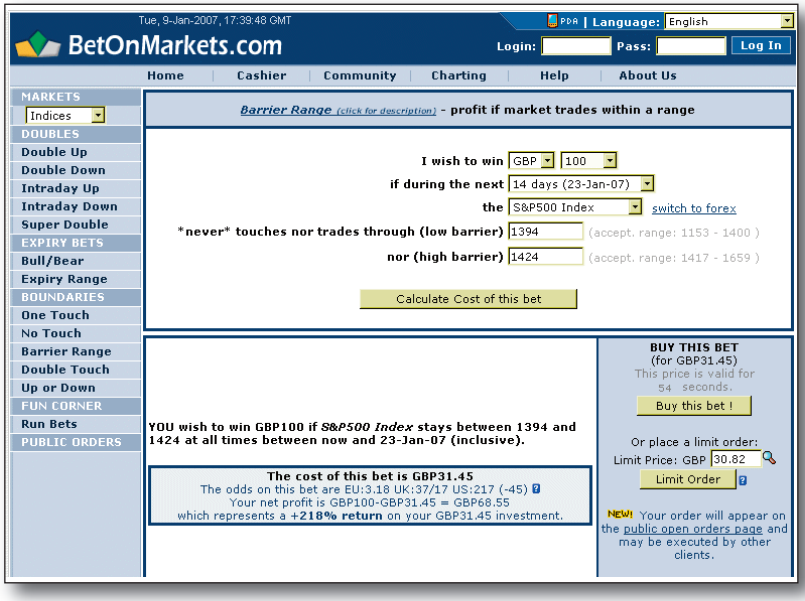
Here is a screen shot of a "Barrier range" trade on the S&P.

Figure 4.11: barrier range



If you then hit the button "Calculate Cost of this bet" you get:

Figure 4.12: barrier range, cost calculation



This site is worth checking out as it is the main place to find longer dated binary bets. It is also worth checking out the spread which you can do by looking at the price of opposite bets, i.e. FTSE to close up and FTSE to close down, or a OneTouch and a No Touch at the same level.

One thought I do have on this site is that it may be worth buying a longer dated bet on this site and then selling shorter-dated bets on IG.

BetsForTraders – financial only

As we go to press this company's website has just gone live. This is another very interesting betting company. The bets offered range from the short-term bets most betting companies offer to longer-term multi-month bets. Here is a list of the unique features of this site, some available now and some intended:

- Two new unique bets, Lookback and TimeSwitch, which have never been offered before. Details of these bets are set out below.

- Fifteen minute bets on the up/downs and ranges/tunnels (both in and out of the range).
- A ‘build your own bet’ feature which the ‘slidey bars’ (see screen shot on page 66) on the dealing interface create, mean that you can structure price and trade the bet of your choosing in real time. The price shown on the top RHS of the screen updates as a function of the underlying market's activity as well as the trader's movement of the 'slidey bars'. BetsForTraders feel that this adds a lot of transparency to their pricing. The software was built in house so they consider it unlikely that anyone else will offer this for quite some time.
- The One and No Touch bets and their range bets currently have a minimum expiry time of 3 days, but this may be reduced.
- BetsForTraders plan, in the medium term, to offer the largest number of markets of any provider. The stock bets that they are adding will push them into this category, unless someone else gets there first, but they also intend to get more “exotic” in time – perhaps on the FX markets, carbon emissions, agricultural commodities and more.

TimeSwitch Bet

With this bet the punter wins a fixed sum for every one of a number of time intervals that the market price ends above the strike price for an up bet or below for a down. Every win is locked in at the end of each interval and paid out when the bet expires.

Use of the slidey bar system allows you to optimise the bet as follows:

- Set a market strike price.
- Select the length of each time interval.
- Set the number of time intervals.
- Set how much you want to win for each winning interval.
- Then place your bet.

Example 4.1

The market is currently trading at 10,500. A trader wants to win £100 for every hour that it is above 10,550 during the next 20 market hours. This means a maximum win of £2,000. He pays a stake of £400.

After 20 market hours the bet expires. The market ended above 10,550 for 16 of the 20 hour intervals, so the trader wins £1,600.

Lookback Bet

The Lookback is another interesting concept. The bet pays the difference between the chosen price and the best (highest or lowest) price that the underlying market reaches over the life of the bet, multiplied by the trader's chosen value per point. The bet locks in every point that the price reaches so that the trader gets the full benefit of any move.

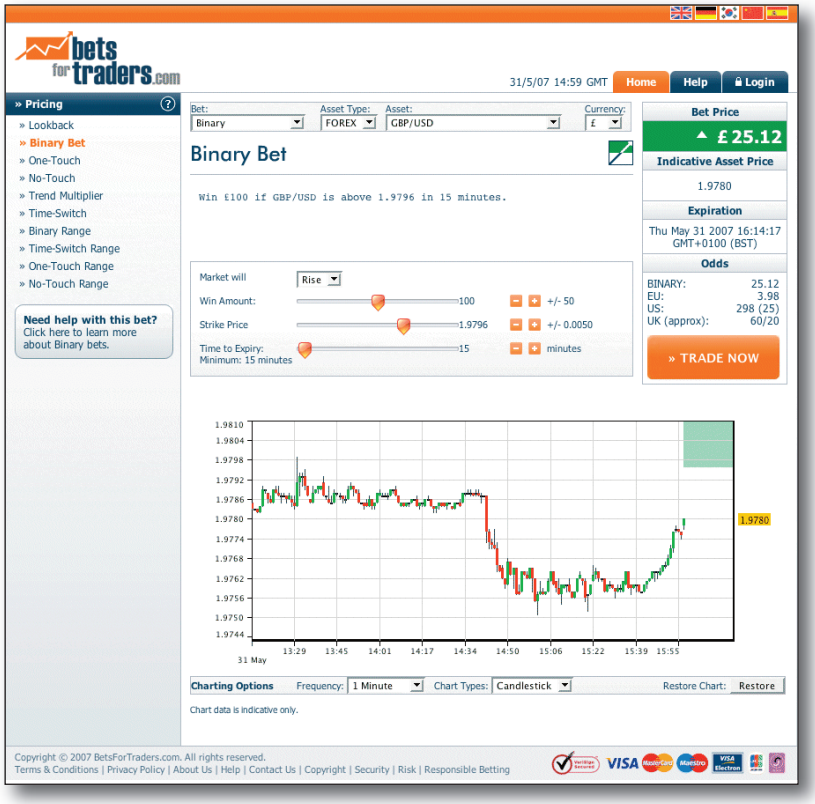
It is a good option for traders who often pick the right time to get in but the wrong time to get out.

Trend Multiplier

The Trend Multiplier is a high risk/high reward bet which pays out up to twenty times the stake in a trending market. The bet is won if the market is higher, for an up bet, or lower, for a down bet, at the end of each of a chosen number of time intervals.

Here is a screen shot of the slidey bars in action:

Figure 4.13: "slidey bars", BetsForTraders



HedgeStreet Inc – financial only

US citizens are banned from online gaming and this is the only US site I am aware of that offers binary bets. The web site is a government regulated exchange and does offer both binary options and binary futures. There are a number of unique contracts and here is a list of the markets covered:

- Commodities – Gold and Silver
- Employment – Non-farm Payrolls
- Various Currencies
- Fuel – Crude Oil and Natural Gas

If you visit the web site and go to non-farm payrolls you will get the opportunity to place bets on whether the non-farm payroll figures will be greater or less than certain numbers on the next day they are announced. Similarly you will find that you can make similar bets on the various other markets covered.

At this point HedgeStreet only accept membership applications from legal US citizens and/or entities organised in the US. UK residents may therefore need to go to some trouble to access these contracts.

ChoiceOdds – financial only

ChoiceOdds offer a number of unique features:

- Prices are quoted both in binary format (called Floating Binaries) and decimal format (called Floating Odds).
- In addition to tunnels (called Range bets) and OneTouch bets on the Dow and FTSE these are also available on the DAX.
- They offer "Fixed Odds" and "Fixed Binaries".
- They offer over 500 financial bets, easily beating the number offered by any other company.
- They offer a very low minimum bet size of 1p per point.

I would mention that I have found a number of arbitrage opportunities when comparing prices on this site with IG Index. An arbitrage opportunity means being able to open a trade on one site and effectively close it *simultaneously* on another site for a profit.

Summary

The leading companies offer over 500 financial bets alone and there are new services coming on line with unique bets. In the US, binary bets are now being offered under the auspices of the CBOE and I take this as a sign that binary bets will be mainstream there in the foreseeable future.

There are also many, many sporting bets as well as those on political events and reality TV shows.

Some of the sites I mention quote prices in decimal format and if you wish to include these in your repertoire then you will have even more choice!

5

Getting Started

Getting Started

In this chapter I am going to cover the basics for getting started trading binaries, such as choosing a binary betting company, opening an account, using the trading platform, placing your trades, and funding your account.

Choosing a binary betting company

Here is a list of the criteria you should consider when choosing which companies to bet with:

1. the range of bets that are available
2. the ease or otherwise of using the trading platform
3. the credit facilities available
4. incentives offered
5. pricing

I will now look at each in turn.

1. The range of bets that are available

The list of betting companies in the Appendices are all fine if you wish to trade the FTSE or the Dow on a daily up/down basis. However, if you want more exotic bets, as outlined in Chapter 4, then you will need to open an account with IG Index, binarybet.com, Choice Odds or Capital Spreads. For longer dated bets the principal company is BetOnMarkets. Right now there are no other choices, but I expect this to change for the better in the future.

2. The ease or otherwise of using the trading platform

All of the companies I have used go to a lot of trouble to ensure that their trading platforms are easy to use and that they work efficiently. In all cases I have found that these platforms work well. Sometimes there are delays, sometimes bets are not filled for a variety of reasons; but nine times out of ten it all works well. It is something of a subjective issue whether you personally will be happy with each platform and I suggest you choose your company based on other criteria and then try out your selection – this is particularly easy if they also give you some cash to start with.

3. The credit facilities available

Some of the companies will allow you credit with which to trade, but there are conditions and credit checks will be carried out. When starting I recommend relatively small sums and you may prefer to simply put cash down – in fact that is my recommendation. However if you want credit then it is available, although some companies do restrict this to more experienced traders. There again, as you can usually fund your account via a credit card this need not stop you.

4. Incentives offered

A good incentive is always worth having, although most incentives will usually come with terms and conditions attached, such as you may have to place a certain number of bets before getting your hands on the cash or the cash may not be withdrawn for a certain period. We include of incentives in the appendices.

5. Pricing

Prices do vary from site to site and there can even be arbitrage opportunities from time to time. These arise where, for example, the buy price on one site is lower than the sell price on another site. But even when that is not the case you will find that different sites are often a few points adrift in the prices quoted and a few points here and there make a big difference. If you shave a single point off every bet you make that is 100 extra points after 100 trades – and that definitely makes a big difference.

But do not try to run before you can walk. It is best to keep it simple in the early stages and simply work with one site. Then, when you are ready, try out new sites and compare prices.

If you already deal with one of these companies, then you may choose to stay with this company for your binary betting business.

Opening an account

This can be done over the internet. After choosing a betting company log onto the web site and look for the words “open an account” – click on the link and fill in the form. There are the usual credit checks, especially if you want the betting company to give you credit with which to bet. Those just starting out may find it difficult to obtain credit as some of the betting companies restrict this to more experienced traders.

IG Index do offer a “Limited Risk Deposit Account” which I understand is easier to open. As all binary bets are limited risk this account may suit well.

If there are incentives on offer make sure you enter the appropriate code and follow the directions as otherwise you may lose out – free money and free bets are not to be sniffed at!

Within a short time you should be emailed your account details, usually consisting of an account number (user name) and a password. However some companies complete this process by post in which case you will have to wait a few days.

You do not need to pay any money up front and this is very useful. It means you can access the charts and prices without digging into your pocket. (I am a big fan of keeping costs to a minimum, preferably zero, until you have developed a style which makes money.)

Having said that you can usually trade with as little as £100 in the account. This money can usually be deposited via debit or credit card. But be warned: if depositing funds by credit card, you can expect to pay an admin fee of around 2% and your credit card company might treat the payment as a cash advance with another fee and interest running from the date of payment.

Logging in

Once you have received your login details, re-visit the site and look for “client login” or something similar.

Enter your account number (or user name) and password. At this point you may encounter trouble if you have blocked pop-ups or for other computer

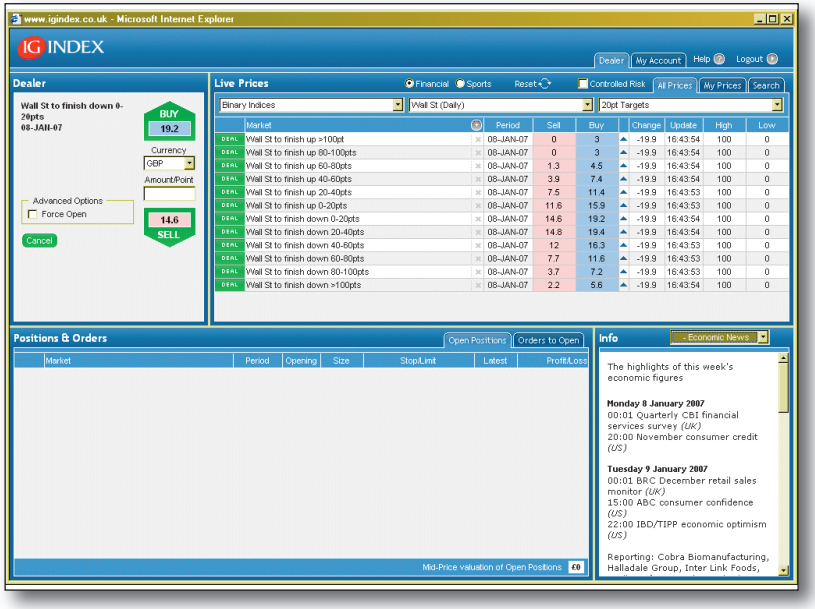
related reasons. If so you will find that there are instructions available to overcome these problems. Failing this there will be a help desk to guide you through the process.

I have also heard from people with Apple Macs that they can have problems logging on, but this can be overcome. I also suspect that this is fairly rare and the help desk will provide whatever assistance is required.

Generally there are no problems but this does depend on the set up and operating system of your computer.

Once you have logged on you will be presented with the dealing desk and these all have different features which you will need to familiarise yourself with. Most dealing desks are primarily concerned with spread betting and binary bets will form a smaller part of this. The exceptions are www.binarybet.com, www.betonmarkets.com, www.betsfortraders.com and www.choiceodds.com which offer binary bets exclusively.

Figure 5.1: screen shot of the dealing desk of IG Index



The screen shot opposite is of the IG Index dealing desk. If you look below "Live Prices" you will see I have the menu bars set to Binary Indices > Wall St (Daily) > 20 pt targets and you will use these menu bars to find the prices you want. You can also toggle between Financial/Sport and All Prices/My Prices/Search.

The "My Prices" page is useful as you can copy whichever contracts you want to this screen and then see them all in one place. This is particularly useful when you are dealing and viewing prices on the move via a PDA.

With a bit of experimentation you will have access to the prices you want and then the fun begins.

Viewing charts

My own betting systems are based on chart patterns and I find it immensely useful to look at charts showing how the binaries behave compared to action on the underlying market. For example, if I am looking at a bet for "FTSE to end up" before the close then I want to look back as far as possible and see exactly how the binary behaved as FTSE bounced on its way.

When looking at charts you will normally find that you can show a chart of the binary bet, similar to the ones in this book, and some of the platforms allow you to look back over a week or so. If you are using a platform also showing spread betting contracts then you will be able to show charts of these which will give you, in effect, real time access to the prices underlying the binary bet.

However you may also want access to real time prices with a little more sophistication, in which case I would recommend www.tenfore.co.uk and www.esignal.com which I use in my own trading.

Funding your account (margining)

I touched on how you can pay money into your account in the "opening an account" section above. In fact, you will probably find that you can transfer money to your account in many different ways: including credit/debit cards, cheques and bank transfer.

How much money should you put into your account?

Before I can answer that question, I need to explain how your money is used to back up your bets. When you place a bet, the company you place it with will, naturally enough, be concerned to ensure that you are going to pay them. They do this in two ways:

- they ask you to deposit cash with them
- they may allow you a certain amount of credit

However you choose to fund your account, and it may be a mix of both, you will end up with a certain amount of cash which you can use for your betting. Here is how that cash can be used.

With a binary bet, when you place the bet the amount of your risk is fixed (I hope this is one fact that I have made clear to you so far!) The amount of that risk is deducted from your available cash as a deposit against your current bet. This sum is known as *margin*. Although it may be given a different name on your betting statements. For example IG Index simply calls this sum the "Deposit Incurred."

For example, if you buy a binary bet, say "*FTSE to end up on the day*" at 24.8 and you bet £10 per point then your deposit (or margin) will be £248 (24.8 times £10). From now on I will refer to this sum as a deposit and not as margin.

The total amount of cash in your account available for further betting will then be reduced by the amount of that deposit.

If you initially had £2,000 available, then after the deposit of £248 is taken off, this sum will be reduced to £1,752. You will then be able to place further bets risking up to this amount (£1,752).

To return to the question:

How much money should you put into your account?

The answer will depend on your level of experience. Here is a summary:

- **Complete beginners** should avoid putting any money down at all. A number of betting companies allow you to open a notional account and trade with notional money to start with. This is ideal and will allow you to get a feel for binary betting at zero risk. Alternatively, some companies let new customers trade with pennies per point during an initial phase. This is another excellent idea and IG do offer this through their "TradeSense" program.
- For those with **more experience** I would suggest starting with a modest sum of around £100 to £500. Even a trader with some experience is best advised to start slowly with a new trading vehicle.
- **Highly experienced traders** will not need any advice from me in this respect. You don't get to be highly experienced in this business without understanding the nuances of risk control and money management thoroughly.

Summary

The financing (margining) of fixed odds bets (such as binary bets) is very straightforward as the downside risk for the bet can be calculated at the outset. This is unlike the situation for, say, spread betting where the downside risk is essentially unknown at the outset.

Placing a bet

Once you are ready the next step is to pick your trade, then you may want to wait for the right price. You may see a great opportunity – but it is only a great opportunity at the right price. This may be the single most profitable statement in this book. *Ignore it at your peril*.

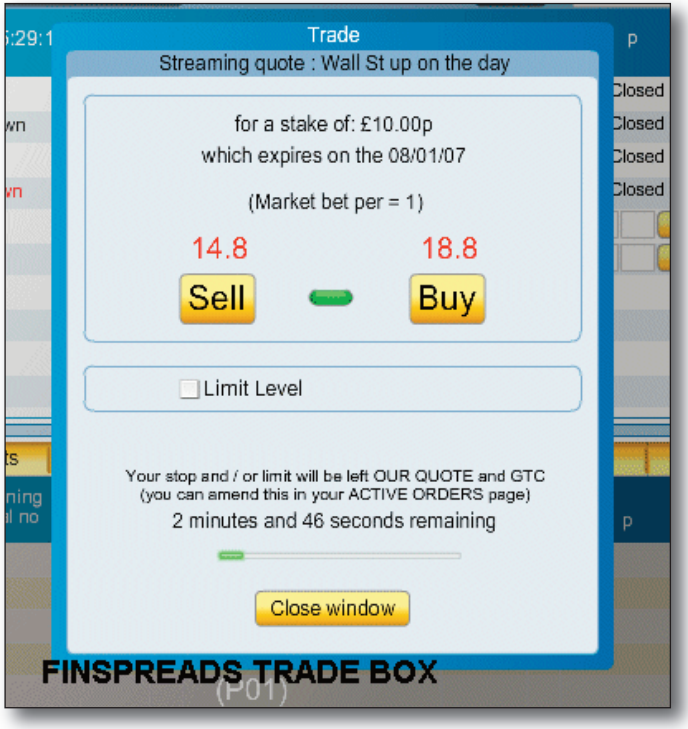
A good "reversal" costing you 45 involves a much higher cost and a substantially lower reward than a "good" reversal costing you 25.

A good part of this is devising your own trading approach as we will see in a later chapter.

Once you have decided to deal, you will normally see a button next to your chosen instrument and you will need to click on this to trade – see Figure 5.1. Once you have clicked you will open a dialogue box, see the screen shot from Finspreads below, which will display two prices: the buy price and the sell price. You will also need to enter your bet size. When you have everything in place just click to buy or sell – and you have dealt!

> *One warning* – you cannot change these prices. If you try and click on the box to do so you will simply trade.

Figure 5.2: the trade screen (Finspreads)



Closing a bet

The procedure to close a bet is very similar and it can usually be done in two ways:

- You do the opposite of what you did to open the bet. If you bought the bet then you open the same dialogue box, enter the same number of pounds per point, and click "Sell". If you only want to close part of the bet then you enter a lower sum as the stake.
- You click the "Close" button next to the open position. By doing this you can only close the entire position. Some sites, notably IG Index, display another dialogue box when you click this button and you must still click "Buy" or "Sell" to close the trade.

Example 5.1: a day's betting illustrating cash flows in an account

I am now going to take you through an example where you place three bets and show you how your account will be affected by deposits retained by the betting companies and realised wins and losses. We will start with the trade I mentioned earlier. I have made this example a little more complex to bring together a number of the points we have already touched on.

1. You buy a binary bet "FTSE to end up on the day" (**bet #1**) at 24.8 and you bet £10 per point. Your total risk will be £248 (24.8 times £10) and this is the amount that the betting company will take as a deposit for the bet.

2. Your total amount of cash will then be reduced by the amount of that deposit and the lower sum will be the money you have left for further betting. If you had had £2000 available at the outset, after the deposit of £248 is taken off this sum will be reduced to £1752. You will then be able to place further bets risking up to this amount (£1752).

3. You then decide to add another bet and you sell the "6220 OneTouch" at 43 (**bet #2**). As you are selling, your risk is not 43 it is 100 less 43. You sell this bet at £10 per point and the total risk is £570 – 100 less 43 is 57 and 57 x £10 is £570.

4. Your available funds are further reduced to £1,182 (£1,752 less £570). This does not mean that the betting company has charged you this money, merely that it has been set aside against the risk you have incurred.

5. Two hours later the FTSE rallies into positive territory. Your bet #1 ("*FTSE to end up*") is now priced at 72/77 and you decide to take profits. You sell the entire bet at 72. At £10 per point this amounts to a profit of £472 (72-24.8 x £10).

6. You had incurred a deposit of £248 on this bet and this is added back bumping your available funds to £1,430. Your profit of £472 is also added to your account which now has total funds of £2,472 (£2,000 plus your profit of £472) . Funds available to bet are £1,902 being the £2,472 less the deposit on the second bet at £570.

7. In the afternoon the Dow opens ahead. You had thought it may open down which is why you had taken profits on your first bet. But the positive opening in the US puts pressure on your OneTouch at 6220 and this bet is now priced at 58.2/62.2. You decide to close half your bet, that is £5 per point. As you *sold* this bet you have to *buy* it to close. You pay 62.2 at £5 per point. This a loss of 19.2 (62.2-43) and at £5 per point that amounts to £96.

8. Your available funds are now increased by the deposit on half of the bet and that sum is £285 (57 points at £5 per point) and reduced by the amount of your loss. Total funds become £2,376 (£2,472 less your loss of £96). Your deposit is now £285 being the remaining £5 per point on the OneTouch at 57.

9. You now feel that the Dow will stay up and decide to buy the bet "Dow to end up" (**bet #3**) which is priced at 65/70. Your success record on the Dow is not as good as it is on FTSE so you only bet £5 per point.

10. You also want to close out the remaining £5 per point on the OneTouch but do not like the current price of 79/84. You reckon a pullback is due and decide to wait for better prices.

11. Your risk on the new Dow bet is £350 (£5 per point at 70) and your deposit is increased to £635 (£285 plus £350). Your total funds remain at

£2,376 and available funds for betting are reduced to £1,741, being £2,376 less £635.

12. Prices now move up steadily for the rest of the day and you get no chance to close your OneTouch at a better price. FTSE touches 6220 and the bet is priced at 100. You lose 57 points (100 less the sale price of 43) at £5 per point. This equals £285 which is the same as your deposit against this bet.

13. Your account is adjusted for the loss. Total funds are reduced to £2,091 (£2,376 less the latest loss of £285). The deposit against open bets is reduced to £350 (£635 less £285). Your available funds remain at £1,741 but the calculation is different at total funds of £2,091 less the deposit at £350.

14. The positive action pushes your final bet on the Dow up to 97/100 and you are tempted to close but decide to go for the last 3 points. The Dow closes up and you bag the full 100. Your profit is £150, being 30 points (100 less 70) at £5 per point.

15. As all bets are now closed your deposit requirement is reduced to zero. Total funds are increased to £2241 (£2,091 plus your latest profit of £150).

16. During the day you made two profits totalling £622 (£472 plus £150) and a total loss on the OneTouch of £381 (£96 and £285) making a net profit of £241 (£622 les £381). Over 12% on the day!

This day's trading is summarised in the following two tables.

Table 5.1: Summary of funds

	Value of funds
Opening funds	£2,000
Buy "FTSE to end up" (bet #1)	No change
Sell "6220 OneTouch" (bet #2)	No change
Close "FTSE to end up" (bet #1) – Profit	47.2 points (72 – 24.8)
Cash Profit	£472 (47.2 points at £10 per point)
Balance after closing this trade	£2,472 (£2,000 plus £472)
Close half of "6220 OneTouch" (bet #2) – Loss	19.2 points (62.2 – 43)
Cash Loss	£96 (19.2 points at £5 per point)
Balance after closing this trade	£2,376 (£2,472 less £96)
Buy "Dow to end up" (bet #3)	No change
FTSE hits 6220 and OneTouch closes at 100 (bet #2) – Loss	57 (100 – 43)
Cash Loss	£285 (57 points at £5 per point)
Balance after closing this trade	£2,091 (£2,376 - £285)
Dow closes up and your bet closes at 100 (bet #3) – Profit	30 points (100 – 70)
Cash Profit	£150 (30 points at £5 per point)
Final Balance	£2,241 (£2,091+ £150)

Table 5.2: Summary of deposit requirements

	Changes to Deposit	Total Deposit	Value of funds as above	Funds available for further bets
Opening Figure		£zero	£2,000	£2,000
Buy *"FTSE to end up"* at 24.8 at £10 per point (bet #1)	+£248	£248	£2,000	£1,752 (£2,000 - £248)
Sell *"6220 OneTouch"* at 43 at £10 per point (bet #2)	+£570	£818 (£248 + £570)	£2,000	£1,182 (£2,000 - £818)
Close *"FTSE to end up"* at 72 at £10 per point (bet #1)	-£248	£570 (£818 - £248)	£2,472 (£2,000 +£472)	£1,902 (£2,472 - £570)
Buy *"6220 OneTouch"* at 62.2 at £5 per point (bet #2)	-£285	£285 (£570 - £285)	£2,376 (£2,472 - £96)	£2,091 (£2,376 - £285)
Buy *"Dow to end up"* at 70 at £5 per point (bet #3)	+£350	£635 (£285 + £350)	£2,376	£1,741 (£2,376 - £635)
OneTouch closes at 100 (bet #2)	-£285	£350 (£635 - £285)	£2,091 (£2,376 - £285)	£1,741 (£2,091 - £350)
"Dow to end up" closes at 100 (bet #3)	-£350	£zero (£350 - £350)	£2,241 (£2,091 + £150)	£2,241 (£2,241 - £zero)

Definition of terms

The key terms used here are:

- *value of funds*: the total value of your account.
- *total deposit*: the sum total amount required by the betting company to cover your bets.
- *funds available for further bets*: the value of funds less total deposit.

Telephone

Some of the platforms also allow you to deal by phone, but not all. Others have set up a facility whereby you can deal using your mobile phone's internet link. You will need a fairly sophisticated phone and not all networks may be supported.

To set up the mobile dealing facility can be fairly complex but it helps a lot if you follow the directions that specify which phones and networks are supported.

This is something I did not do the first time so I had to send one phone back and order another. Eventually I ended up with an Orange SPV M3100 and as Orange currently give a free Broadband service to anyone paying more than £30 pm I saved a fair chunk of the monthly charge by taking advantage of this offer.

> *Quick tip*: Make sure you sign off from the dealing service you have on your computer before you try and use the same dealing service via your mobile phone as otherwise the mobile dealing service may not work.

Bet size

There are usually minimum and maximum bet sizes.

Minimums vary from 1p to 50p to £1 to £2 depending on the platforms. Some companies do offer new clients lower minimums when they first start out. If you can bet for as little as 1p per point it is a great way to start!

I always recommend sticking to the minimum bet size until you have proven that your approach is making money.

Maximums also vary, but you will generally have no problem up to £100 per point and some companies will go well above that. Even the companies with a limit of £100 will allow you to do multiple bets at that level. The result of this is that you should be able to bet in £000s – just make sure you are making money before you do so!

Limits and stops

If the price of a binary bet is currently 32-36, we have the option of selling the bet at 32 or buying it at 36. However, we may not want to trade immediately at those prices, but prefer to wait for better prices. Stops and limits are two ways to try to control the automatic execution of orders at prices different from the current market. They are both terms from the financial world, not the betting world, and need some explanation.

Limits

A limit means that you will only enter or exit a position at a certain price or better.

For example, you may want to buy the "FTSE to end up" bet. The current price is 32/36 but you only want to pay 25 and no higher. You would be very happy to pay less than 25 and any price below 25 would be better for you. In this case you would enter a "limit" to buy this bet at 25 or better. If the price touches 25 you will have placed the bet.

A limit is used to give you a better price than is available at the time you place the limit –

- If you are looking to **buy** a bet, then you would place your limit *below* the current price.
- If you are looking to **sell** a bet, you would place your limit *above* the current price.

The advantage of this type of order is that we don't have to watch the market constantly and strike quickly when the better price comes along. It is all done automatically for us, we can sit back and just watch the market or do something else. As soon as the selling price falls to 25, the betting company will automatically execute the order for us.

In the example above we placed a limit to buy the bet "FTSE to end up" at 25. We will now assume that the price went below 25 and we placed the bet at 25. We now decide that we would be happy to sell at 75 or better. So we place another limit to sell on that basis. If the price touches or goes above 75 we will sell at 75 for a profit of 50 points (75 minus 25).

Unfortunately, currently few companies allow you to use limits orders. This might change which is why I have included a section on limits in this book.

Using limits of complementary bets

If a company does allow you to use a limit to *enter* a bet it may not allow limit orders to be used to close the bet. However, it is possible to get round this if you are using a bet which has a "pair".

An example of a pair of bets are "FTSE to end up" and "FTSE to end down" and we discussed this in an earlier chapter as complementary (or mirror) bets.

To return to our example, we placed a limit order at 25 or better and bought the "FTSE to end up" bet at 25. Our betting company allows us to place limit orders to open bets but not to close them. But if we place a limit order on the complementary bet, "FTSE to end down", and if that price is hit we will end up with a pair of bets which, in effect, cancel each other out.

For example, we want to sell our bet at 75 and selling "FTSE to end up" for 75 is equivalent to buying "FTSE to end down" at 25. So we place a second limit order to buy "FTSE to end down" at 25 or better.

If we had simply sold the bet at 75 our profit would have been 50. By placing the limit on the second bet we are in the same position. Here is how it works out:

- If **FTSE ends up** we have a profit of 75 on "FTSE to end up" being 100 less 25. We also have a loss of 25 on our second bet "FTSE to end down." The profit of 75 less the loss of 25 equals 50.
- If **FTSE ends down** we have a loss of 25 on "FTSE to end up" being zero less 25. We also have a profit of 75 on our second bet "FTSE to end down" being 100 less 25. The profit of 75 less the loss of 25 equals 50.

Finally if our second limit is not hit and we never buy the second bet at 25 we are again in the same position in that we simply lose the 25 put down on the first bet.

We will now look at a different method for controlling the execution of orders: stops.

Stops

Currently, no binary betting companies allow stop orders to be used. So, for the moment, this section is rather academic. However, the situation may change in the future.

A stop is an order that can be used to automatically close out your position at a pre-determined point. In effect, it is used to limit your losses on a trade, and in this use is sometimes called a *stop loss*.

I said above that a limit is used to give you a *better* price than is available at the time you place the limit. By contrast a stop is *always* placed to give you a worse price than the current price. When you place a stop you are saying that you want to limit your risk but you don't want the stop to be hit. You want the trade to go in the opposite direction and win for you.

You might say you place a limit wanting it to be triggered but you place a stop hoping it *won't* be triggered.

With a limit the punter is saying "yes, please get me in/out at this level of my choice." But with a stop the punter is saying "OK, I want to limit my risk but I don't want to get stopped out and would much rather see the bet go to a profit."

For example, let's say that you have bought a bet where the current price is 42-46. You could then:

- Place a **limit order** to sell at 70 (note the limit level is placed *above* the current price). The effect of this order is to lock in a profit if the price increases to 70 or above.
- Place a **stop order** to sell at 30 (note the stop level is placed *below* the current price). The effect of this order is to close your bet and limit your loss to just selling at 30, instead of risking the price falling below 30, even to zero.

Note: the two orders above are not exclusionary (they serve different roles), and they could both be placed at the same time.

To summarise:

- a **limit order to sell (buy)** is always placed *above* (*below*) the current market price;
- a **stop order to sell** is always placed *below* the current market price.

Monitoring positions

Once you have a bet placed (in the jargon: you have an *open position*) you may want to monitor what is going on. You can do this by checking the underlying market, but to build up a good knowledge of how the binary prices move you will need to check the binary prices themselves and in particular how they move as the underlying market moves.

In its simplest form you can monitor your positions by checking the latest price on the betting company's website and seeing how much profit you have made or how much you have lost. But you may find it useful to also monitor charts.

Not all of the betting companies provide charts of binary movements. IG Index and www.binarybet.com do, but you have to visit their web site and it is not possible to get binary charts on your mobile phone – however sophisticated it may be, although this might change.

But as your experience grows you will develop a good feel for the binary price simply by looking at the underlying market. You can obtain charts of all the important financial instruments when you are on the move via a PDA (ProQuote run a good service in this respect) and if you wanted a dedicated pager giving you charts at the push of a button then www.market-source.co.uk offer a very reliable, very convenient, but expensive service.

If you don't need or want charts then your PDA can provide binary prices from the betting companies that support mobile services.

Dealing times and times to trade

When can you open and close positions?

Binary bets are usually traded when the underlying market is open. So, bets on FTSE to close up/down will start when FTSE opens around 8:00 am and close around 4:30 pm. Often there is a small delay at the open and bets close a minute or two before the close. Some spread betting companies quote prices 24 hours a day and shortly after that day's bet on FTSE has closed (just before 4:30 pm) you can bet on the next day's – albeit the process may not be instantaneous. The same with the Dow, but at the times the Dow opens (2:30 pm) and closes (9:00 pm).

Note: All of the times mentioned are UK Time.

If we are looking at the shorter term bets (i.e. the FTSE hourlies), they will often only be quoted during that hour with some companies again offering a 24 hour quotation.

I should add that this process is not followed on the Tunnels and OneTouches, which are never available to trade on a 24 hour basis although you can see prices.

There is a good reason for this. If a Tunnel or OneTouch gets touched at the designated level they immediately close at zero or 100. A OneTouch will close at 100 when it touches the level, because the bet will have come true, and a Tunnel will go to zero because the bet would have proven false – FTSE would not have stayed in the range.

But this cannot happen out-of-hours as FTSE is not open. As such these are different bets out-of-hours than during the hours the underlying market is open. Hence you can't deal in them.

On the best time to trade; I have designed some systems that prosper well by trading within the first hour that a market is open, others are more opportunistic and will not trade until a set-up is in place. I may need a particular chart pattern linked to an attractive price on the binaries.

My primary focus is on getting the right price and without that I do not trade.

I would add that if you are looking for a reversal, then it makes sense to make sure there is enough time on the binary you are trading to give the market a chance to make that reversal. For example, if you can buy the "FTSE up on the day" at 2, but the market is currently down 35 points and there are only 15 minutes remaining, the odds are that you are not going to win.

Spreads

Whenever we see the price of a binary quoted we see two prices with a gap in the middle – like "34/38". As we know, the higher price is the price at which we can *buy* the bet and the lower price is the price at which we can *sell*. The gap in the middle is the *spread*, which is one way in which the betting company make their money. The other way is that they win what you lose; conversely they lose what you win.

There is no simple way in which to set out the size of the spread, as it varies from contract to contract, from company to company, and from time to time.

One company told me that there would often be a 4 point spread prior to the official open of the underlying market and that this would rise to 6 once the market was opened. As the binary price tended toward zero or 100 the spread would tend towards 2. But on Tunnels the spread would often rise as high as 8 points at these extremes.

The spread is important as it is the effective cost of trading. It is important not to underestimate the effect of costs. Frequently they are the difference between an overall profit and a loss when looking at a number of trades.

Consider doing 100 trades each with a 4 point spread. Only half of the spread affects you each time you trade and that is 200 points (2 times 100) you have got to make to come out on top. If you close before the bet expires you will also bear that spread on exiting the trade. That is 4 points per trade, 2 on entry and 2 on exit.

Tax free

All binary betting is exempt from Capital Gains Tax. Technically, HM Revenue & Customs (HMRC) may be able to argue that an individual is running a business of dealing in binary bets – if a trader is extremely active – and then tax any profits that arise as income. However, in practice, they do not seek to do so because most people lose money and if HMRC pursued those who made money they would, in turn, be pursued by those who lose who would wish to offset losses against other income.

Binary bets, being fixed-odds bets, are liable to betting duty, but this is the responsibility of the spread betting company and is, in effect, covered by the spread.

I must state, however, that tax law can change and so can the policies of HMRC.

Regulation and compliance

This is an important area as it directly affects the security of the cash you put down with a betting company and the quality of the service you receive. Or, to put it another way, if the betting company goes bust is your money safe?

Regulation refers to the laws and regulations that a betting company must follow if it is to carry on business. Compliance is the process whereby the betting companies follow such laws and regulations and the checks and measures in place to ensure that they do so.

Binary bets are fixed-odds bets and are not subject to regulation in the UK by the Financial Services Authority (FSA). Most of the UK betting

companies who offer binary bets also offer spread bets and will therefore be regulated by the FSA, in particular with regard to the state of their bank balance and how they run their business.

A UK betting company which is regulated by the FSA may also offer binary bets without any other regulation. Those which are not SFA regulated need to hold a UK bookmakers licence and from 1 September 2007 the regulation of such companies will fall under the Gambling Commission.

Companies offering only binary bets (such as Binarybet.com, BetOnMarkets, ChoiceOdds and BetsForTraders) are not FSA regulated.

Some of the companies which only offer binary bets have chosen to be domiciled in offshore financial centres.

The binary better is thus faced with a somewhat bewildering array of different companies employing different financial structures within different jurisdictions and being regulated by a fairly wide array of different bodies some of which are now in the process of change.

It goes beyond the scope of this book to give chapter and verse on these matters but here are some guidelines:

1. If you are at all concerned about the financial structure and bona fides of a betting company the best advice is to stay well clear.
2. When opening an account with a new company find out who is the regulator and what protection, if any, is available.
3. Ensure that client funds are segregated, meaning they are not mixed in with the betting company's own money. This is fairly standard within the binary betting industry but check to make sure that it applies to the company you have in mind.

Commissions

In the financial world it is usual to employ brokers to place your trades and these brokers get paid via a commission. All binary betting – and spread betting – is currently free of all commissions and the companies which offer these bets charge a spread which goes towards their profits.

In financial terms these companies are acting as *market makers*.

Betfair works on a different model acting as an exchange – putting buyers and sellers (those who place and those who lay bets) in touch with each other. Betfair does charge winners a commission but takes no risk on the bets itself. The sporting side of Betfair is a hugely liquid business, but the financial side is not. This may be partly because the financial betting side of Betfair is expressed in fractional bets which financial people are not familiar with.

City Index did run a binary betting *exchange* called Binnex, and this was expressed in binary format. It may be said to be an unfortunate choice of name as Binnex was subsequently binned!

Personally, I think we will see a successful binary betting exchange as the interest in binary bets grows.

Taking profits

Exiting is always a much tougher deal than entering a trade. Exiting defines your profit/loss – it defines your approach.

When you enter a trade, everything should be in your favour as you should wait until that is the case. Why spend your hard-earned cash on second-rate opportunities?

But when it comes to taking profits, it is all too easy to take 5 points a day out of binary bets. You can do it in seconds. The problem is you may take 5 points but then find you could have taken 50. Plus, every now and then, you will place a bet which gives you no profit opportunity. When would you exit such a bet? Would you allow a loss of 10 points, 20 points, or maybe a lot more?

> *Note:* It is a key feature of any betting or trading approach that you must make enough from your winners to cover your losers – and even more importantly to give you your profit.

Please read this statement again carefully. *It is important to think it through*. If you decide to take 5 points profit whenever you can then most of your

trades will be profitable and each will make around 5 points – binaries can move so fast that you will often end up with more, or less. But every now and then a trade will come along which goes downhill right from the off. If you bought at around 10 that may not matter much but if you bought at 50 then a total loss would eliminate ten profits.

It may make more sense to go for at least 20 points profit each time. These will be less often but you may make more overall. Maybe you should let trades run to expiry. That way your profits will always be as big as possible.

You need not be concerned if you find these concepts confusing at this stage as they will become clear as your experience grows. But if we are going to look at the question of taking profits I think it is important to briefly mention the logic which you will need to address when deciding when to take profits. Exiting a bet or trade is the key skill.

Conversely when you enter a position everything will be in place. You will have decided how you will enter trades (if not, please do so) and you will wait for the right situation. Let me re-phrase that – you should wait for the right situation but maybe your emotions get the better of you and you don't. OK, I have done it myself too many times to mention. In fact, you may find a better way of trading by ignoring your rules; many of the most significant advances in physics have been via a mistake of one sort or another. But if so, systemise your new discovery and stick to the rules, meaning your new rules, in future.

Personally, I let my profits run as far as possible but I am influenced by whether I am up or down on the day. If I end a day up I find I am far more confident the next day and trade far better. This does not mean I get out willy-nilly. But I do monitor the charts and take profits if I am not confident the trade will go better.

It is perfectly valid to run trades to expiry, and I have systems that do just that. I place the bet and then I leave it alone and see what happens at the end. Indeed this is often the best course because, if it goes your way, you bag the full profit – the bet expires at zero or 100.

But sometimes I find I could have closed at 7 or 92 and I let that whole profit slip away by not monitoring the trade carefully. Generally I always tend to close profitable trades above 90 or below 10 and bag that profit. But

it is up to you.

Summary

In this chapter we looked at all the basic factors such as:

- choosing a binary betting company,
- opening an account,
- using the trading platform, placing your trades, and
- funding your account.

We then went a step further and looked more closely at the betting process itself, including:

- looking at the mechanics of placing and closing a bet,
- how the betting company takes a deposit against your risk,
- closing out early or at expiry,
- how profits and losses are treated,
- dealing times, and
- limits and stops.

Finally, we dealt with the essential matters of taxation, compliance, and the spread.

6

Real-Life Trading Examples

Real-Life Trading Examples

In this chapter we are going to look at six trades showing market moves and how different binary bets move as the underlying markets move.

But first we are going to inspect the behaviour of binary bets in some detail and in particular look at how they behave in the price ranges:

- 0-20
- 20-35
- at 50
- 65-80
- 80-100

You may have noticed gaps in the sequence above. What happens between 35-50 and 50-65?

Good question!

This is where the extraordinary nature of binary bets come in – between 35 and 65 binary bets will leave everything else standing. I have never seen anything else like it.

- **Below 20** the binary will tend to move relatively slowly – this is logical as it can only tend towards zero; it has not got that much space to manoeuvre.
- **Between 20 and 35** you will notice distinct acceleration.
- **Between 35 and 65** you can expect fireworks. This will happen as the underlying market goes to parity (where the binary will tend towards 50) and a small move either side of parity will send it towards 35 and 65. But not all binaries have a parity – for example Tunnels and OneTouches.
- **Between 65 and 80** it will slow down a little, and behave in the same way as between 20-35.
- **Above 80** the binary will tend to move relatively slowly – this is logical as it can only tend towards 100; it has, again, not got that much space to manoeuvre.

Here is the same information set out in a table.

Table 6.1: typical binary price behaviour at certain levels

Binary price range	Binary Action
0-20	Relatively slow – can only tend towards zero
20-35	Distinct acceleration
35–65	Jet-propelled!
65–80	Distinct acceleration
80–100	Relatively slow – can only tend towards 100

Six trades

As it is not possible to obtain charts on sporting bets, all of these examples are based on financial markets. There are examples of sporting and political bets elsewhere in this book and the profit ideas set out below would work equally well with these bets where similar movements are seen.

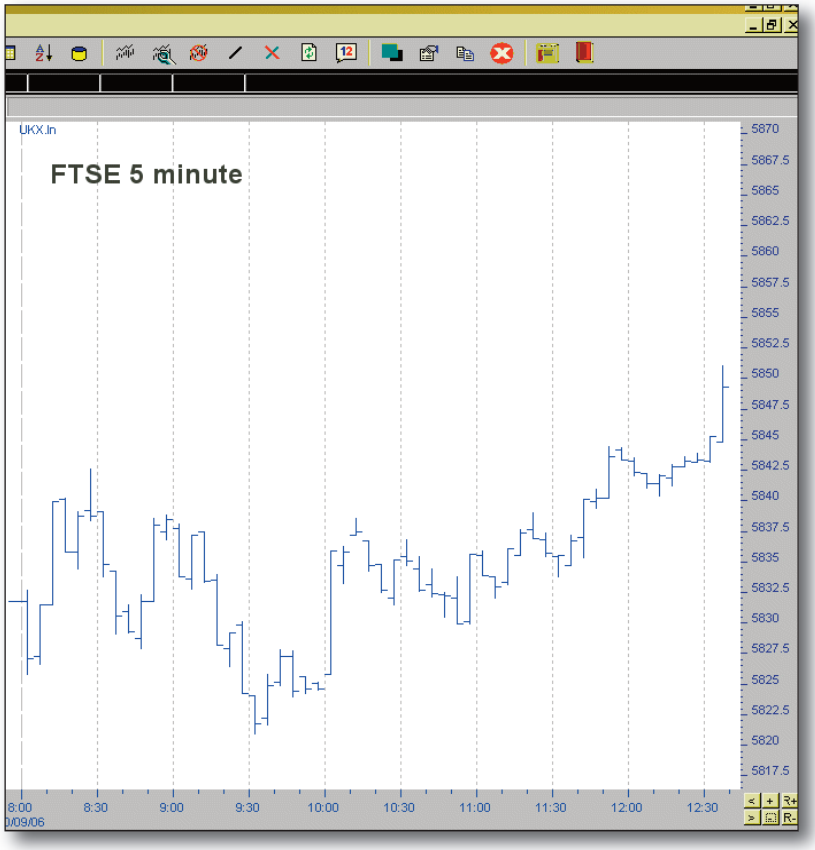
Trade 1: UK FTSE100 index and a down bet

This contract expires at 12:00 and I have chosen a fairly active day to illustrate the point. You can see from the chart below how many substantial moves the bet makes from 8:00 am when FTSE opens until 12:00 when this contract closes.

Chart 6.1: "FTSE to be down at 12:00 pm"

Contrast this with the action on FTSE itself for this same period shown on the chart overleaf:

Chart 6.2: FTSE 5 minute



FTSE had closed at 5831.8 the previous day and all the action between 8:00 – 12:00 was within the range 5820.9 – 5844.4, i.e. around 11 points in either direction. It was only in the last 10 minutes that FTSE made the high of 5844.4 – almost 13 points away from the prior close.

Most traders would dismiss that as a very quiet session, giving no opportunity. But to a binary better it is very different, providing endless opportunity. You always trade at low risk because the position cannot go beyond 100 at one end and zero at the other – you always know your risk! Any trader will tell you that is invaluable.

So let's systemise that. I will make it nice and simple. You buy at 35 and sell at 65 and keep doing that until there is only one hour left.

Here are the trades (see chart 6.1):

1. **8:00** sell at 65 at £10 per point (pp)
2. **8:10** buy at 35 at £20 pp – 1st profit +£300
3. **9:15** sell at 65 at £20 pp – 2nd profit +£300
4. **10:00** buy at 35 at £20 pp – 3rd profit +£300
5. **10:50** sell at 65 at £20 pp – 4th profit +£300

Binary closed at zero – 5th profit +£650

> *Note*: In the above, most trades are at £20 per point as you are closing the first bet at £10 per point and opening a new one at £10 per point in the opposite direction.

The five bets are summarised in the table below.

Table 6.2: trade summary

Time	Quoted Price	Action	Profit
8:00 am	65-69	Sell at 65 (Bet #1)	
8:10 am	31-35	Buy at 35 (Bet #1 and #2)	30 at £10 = £300
9:15 am	65-69	Sell at 65 (Bet #2 and #3)	30 at £10 = £300
10:00 am	31-35	Buy at 35 (Bet #3 and #4)	30 at £10 = £300
10:50 am	65-69	Sell at 65 (Bet #4 and #5)	30 at £10 = £300
Expiry	Zero	Settles at zero	65 at £10 = £650
Total Profit			**185 at £10 = £1850**

How much have you risked?

Each trade carried a £350 risk being 35 points at £10 pp away from 100 or zero.

How much have you made?

Total profit: **£1850**

It beats working!

OK, that was a particularly active day (for the binary) and, in fact, the binaries are more active when the market is not doing very much as the binary will tend towards 50 at parity – ie when there is no change on the day and will then swing away as the market moves away from parity. It moves away from 50 with alarming speed and only slows down above 65 or so, and below 35 or so.

If there is not too much action the market has a higher chance of going from positive to negative and back again which is exactly what happened on that day. But you can check this out for yourself. Both www.igindex.com and www.binarybet.com allow you to view charts of the binaries and these go back around two weeks depending on the timescale you choose.

So do the research and when you devise an approach you can also back test it by using this facility. Although the example above was based on a very active session for the binary you will frequently see similar action. Although maybe not quite so often within the session.

We have now looked at a down bet in some detail and the same principles apply to an up bet. These differ from the Tunnels, the OneTouches, and Hi/Los. A Tunnel is a bet that the index will stay within a particular range. If it does the bet closes at 100 but the slightest touch of that range will send the bet to zero. The OneTouch is the reverse; it goes to 100 if the market touches the level, but ends at zero if it does not. The highs/lows allow you to bet on where the high and/or the low will fall for the day.

There are two fundamental differences between these bets and the up/down bets:

1. For Tunnels and OneTouches the bet ends as soon as the designated event occurs, whereas up/down bets only end at the close or the designated time (i.e. 12:00 noon in the example above). But this is not quite true of the high/low bets, but they will go to zero if the high or low is beyond the range of the bet.

2. There is no "parity" and thus no level at which the bet goes to 50.

Trade 2: a +60/+80 high on the Dow

The chart below shows the binary in action on 16th November. This bet will be worth 100 if the high on the Dow is between +60 and +80. It will expire valueless if this is not the case.

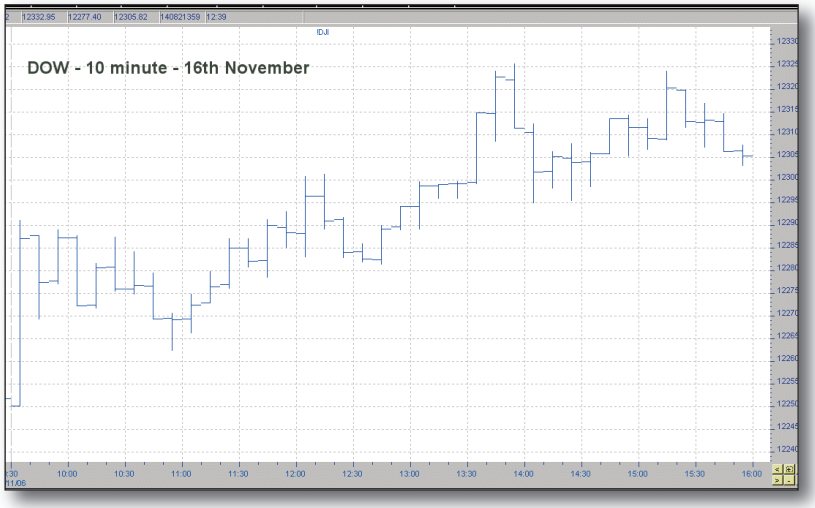
Chart 6.3: "Wall Street cash high to be +60 to +80"

This is a fairly straightforward situation. The early action did not indicate a high between 60 and 80 and the bet was very cheap to buy. But then we saw some action – as is often the case with the Dow – and the price started to

climb. Eventually the binary price went to 100. As you would have had ample opportunity to buy at around 20 this would have been an excellent return.

Here is the chart of the DOW that day.

Chart 6.4: The DOW



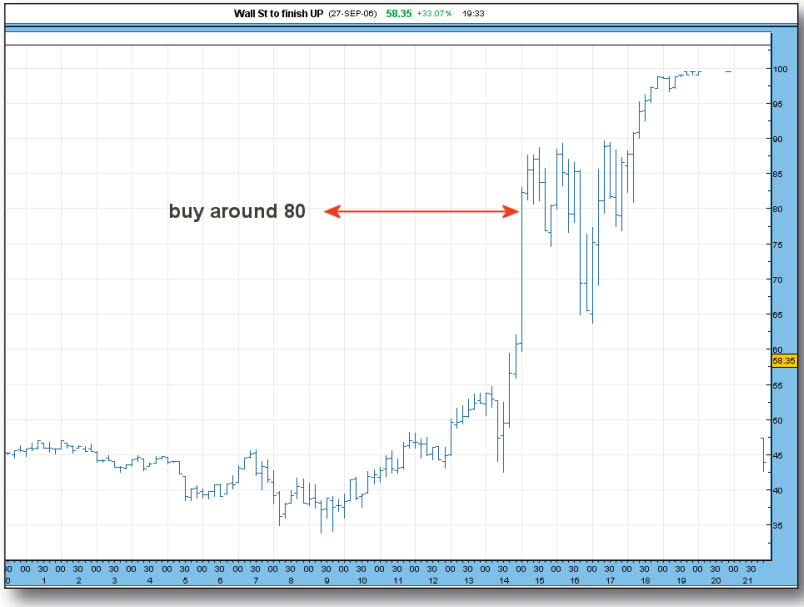
You will often find this bet, and its sisters and cousins, cheap to buy as the market opens. But if you want to make money you need to do the research to find out the odds of a high in that range. If you do trade this you will often find they expire at zero, but the potential is there – all you have to do is unlock it!

Now we are going to look at the trade I know many traders like.

Trade 3: buying at 80 – most of the time it will go to 100!

Here is the chart of the "Wall Street to finish up" binary on 26th September 2006.

Chart 6.5: "Wall Street to finish up"



On that day the Dow was 50 points up almost immediately and you had a pretty safe bet for most of the day.

There was a slight wobble around midday (17:00 UK time), but the bet only went down to 65 so this would not have been too worrying.

The bet expired at 100 and you could have closed around 95 from 18:00 onwards (UK time).

One additional point is that some companies quote this binary on a 24 hour basis, allowing you to trade whenever you want, although there was not too much action overnight.

Here is a chart of the Dow for that day:

Chart 6.6: the DOW

This is just one example of a phenomenon you will see all the time with binary bets. If you buy at 80 or more you will usually make 20 points without too much problem – but every now and then you will lose.

The trick is minimising those events!

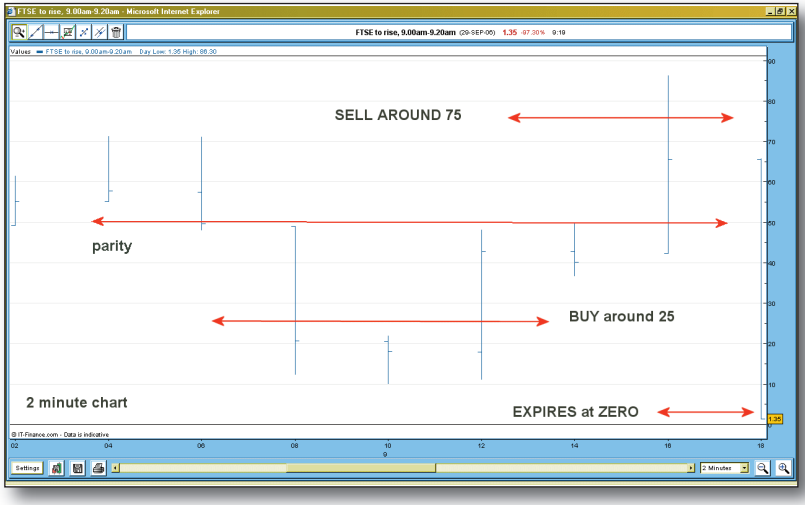
Trade 4: very short term!

I find this chart very interesting.

To me trading is all about seeing an opportunity and then systemising it. If it works out, I just keep doing it – becoming an expert in that process. A large part of this is focus. I focus on a few key factors which go up to make the opportunity which then becomes my system. It is much easier to become an expert on a few key factors.

This chart is of a binary that only lasts 20 minutes! The bet is that FTSE will be up over that period, but look how it moves.

Chart 6.7: "FTSE to rise, 9:00 am to 9:20 am"



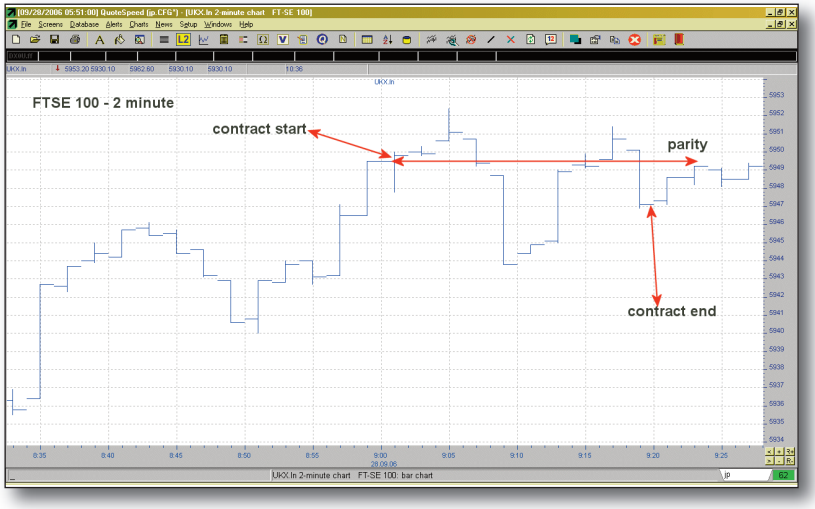
I have overlaid a simple system over the chart: buy at 25, and sell at 75.

So you get two trades in the 20 minute session:

1. Buy at 25 @ £10 pp, sell at 75: profit £500
2. Sell at 75 @ £10 pp, exp. at zero: profit £750

Here is how FTSE moved in those 20 minutes.

Chart 6.8: FTSE 2 minute chart



I only found this contract because I was researching trades for this book. Right now I don't know whether there is a system here, but I do like the idea of only trading for 20 minutes a day. (It even allows time for inconvenient things like jobs for those who are so inclined.)

But this chart is also quite a good illustration of how:

- As FTSE heads towards parity, the binary heads towards 50.
- As the contract nears expiry the contract volatility increases.
- In particular note how a small move on FTSE in the last few minutes sends the contract from 75+ down to zero!

Trade 5: a bar-by-bar account of a down bet on FTSE

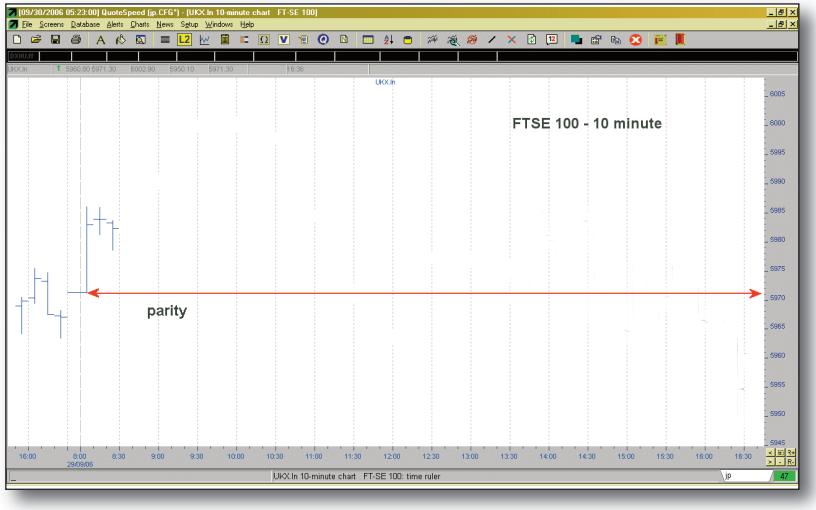
In this example we are going to look at every 60 minute section of the day, divided into 10 minute bars to see exactly what happens and why.

The bet is "FTSE to end down on the day" and the day in question is Friday, 29 September 2006. It was an interesting day and FTSE met my parameters for a perfect Sell that day as I will explain at the end of the piece.

On Thursday, FTSE had closed at 5971.3; and so that level is parity for the Friday.

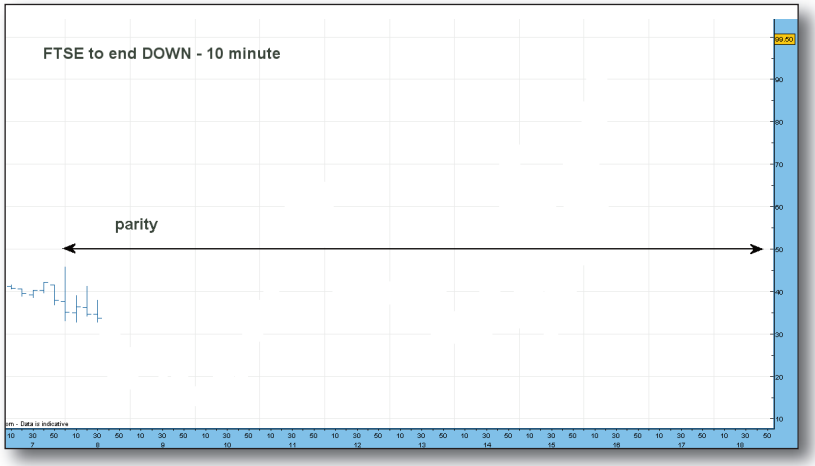
Here are the first 30 minutes of trading on the underlying (FTSE100 Index), the opening is important, so I have made this only 30 minutes.

Chart 6.9: FTSE the first 30 minutes



The first 30 minutes showed a 15 point rally and then a small set-back. The chart overleaf shows how the binary performed.

Chart 6.10: "FTSE to end down on the day" the first 30 minutes



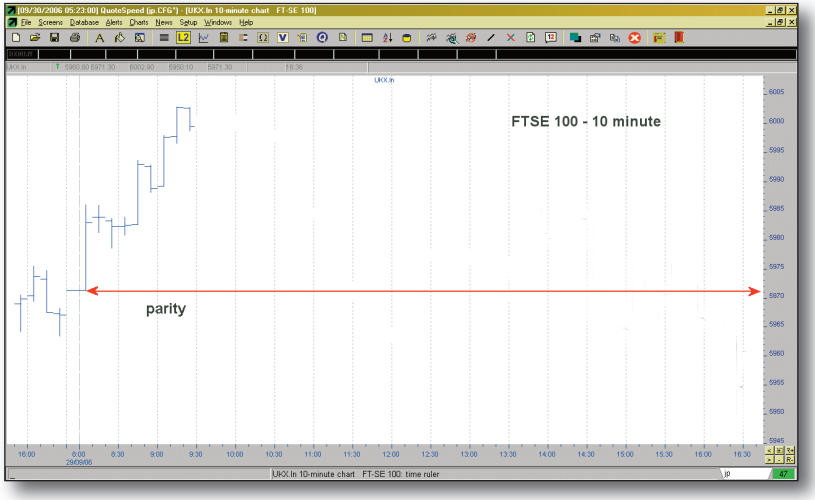
At the open (8:00 am) the binary was already down with a quote of 34/39.

Note how the price was quoted before the official opening on FTSE – this reflected a positive close on the Dow the night before and overnight factors.

The small opening rally was thus largely built into the price and so had little effect other than to drive the binary price a little lower.

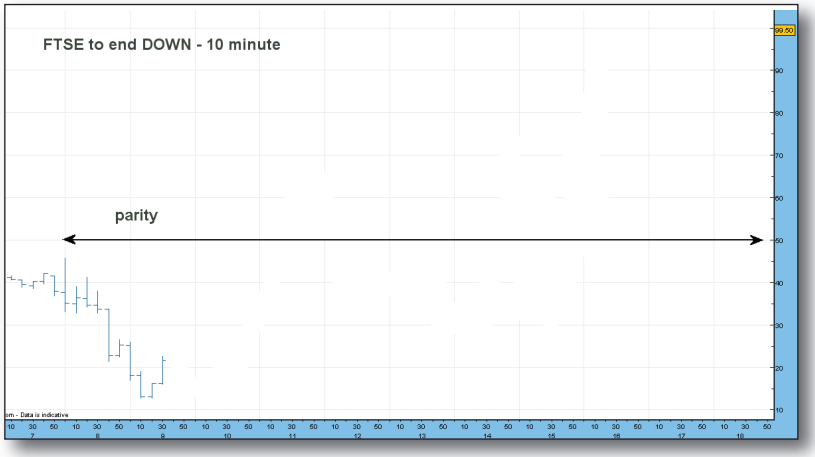
The next 60 minutes brought far more dramatic action, with FTSE moving above 6000 and then falling back a little – see opposite.

Chart 6.11: FTSE 8:30 am to 9:30 am



The binary behaved as follows.

Chart 6.12: "FTSE to end down on the day" 8:30 am to 9:30 am



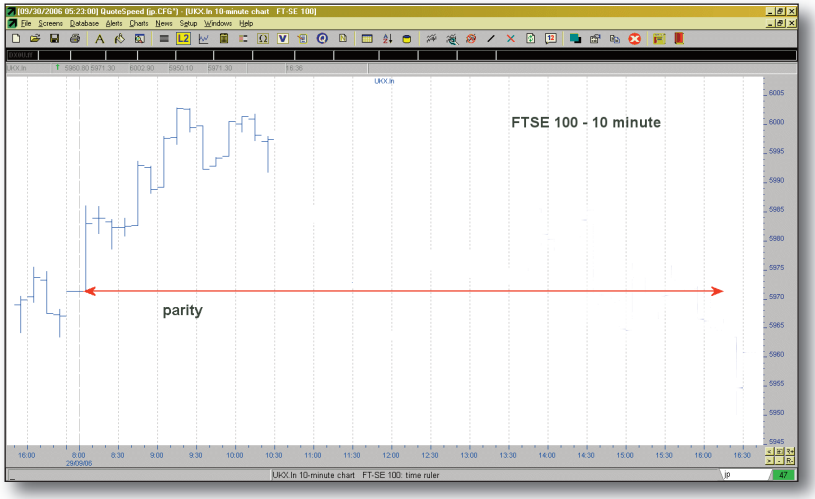
The binary simply went lower to reflect the lower probability of FTSE ending down at the close. If you had a view that FTSE may end down on the

day, this was the time to place your bet with prices below 15 at one point. This was when I placed the bet myself. With a bet at 15 the risk/reward ratio is particularly attractive. Potential reward: 85; risk: 15; risk/reward ration: 5.67:1– meaning you can be wrong 5 times out of 6 and still make money!

One other point to note on the chart above is that FTSE was a fair way above parity and this is when you can pick up some binary bets very cheaply.

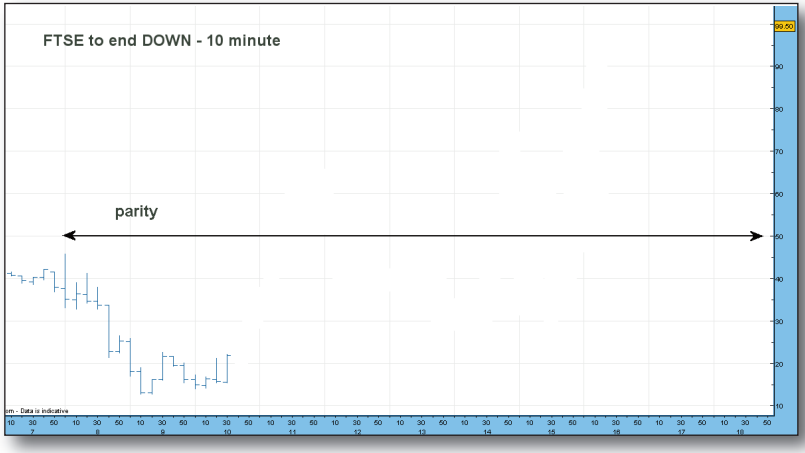
In the next 60 minutes, FTSE failed to hold 6000 and in doing so gave a sell signal. This signal is known as a *failed break*. However, the initial action was fairly muted and not decisive – but at 5.67:1 the odds are in our favour.

Chart 6.13: FTSE 9:30 am to 10:30 am



The chart opposite shows how the binary behaved.

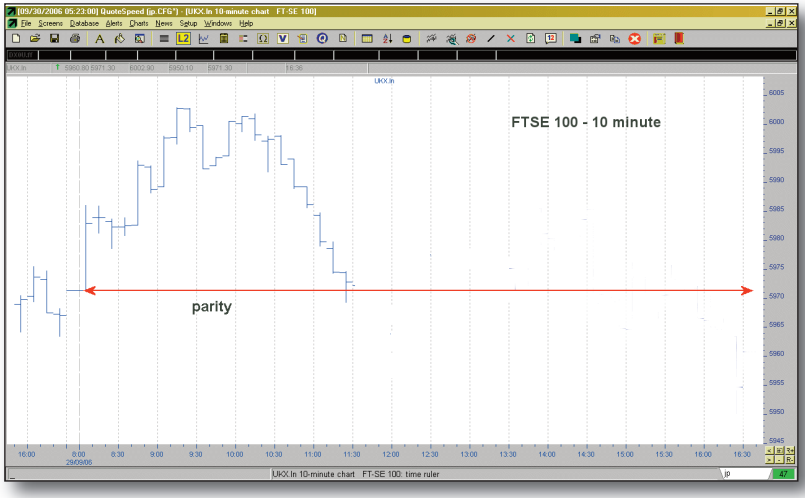
Chart 6.14: "FTSE to end down on the day" 9:30 am to 10:30 am



It blipped up slightly, but not significantly – reflecting the fact that the odds still favour the bet failing.

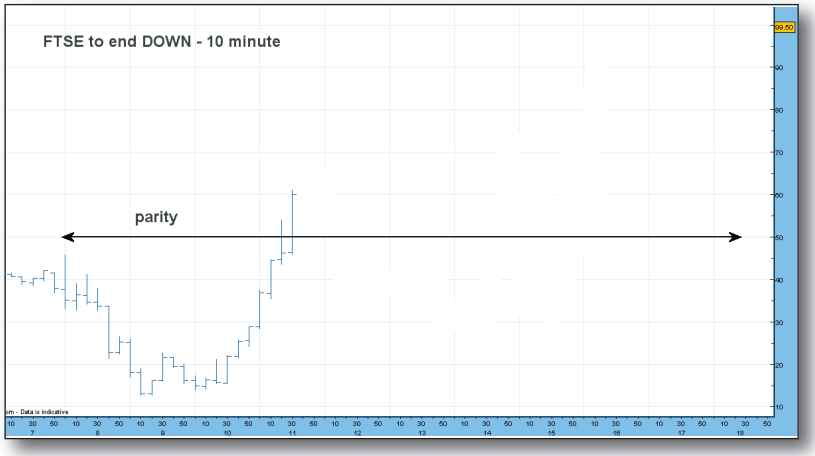
But in the next 60 minutes FTSE started to give clearer signals.

Chart 6.15: FTSE 10:30 am – 11:30 am



In fact FTSE fell right back to parity, eliminating all of its prior gains. This is what we have been waiting for. And the binary delivered a far more satisfying gain at that point.

Chart 6.16: "FTSE to end down on the day" 10:30 am to 11:30 am



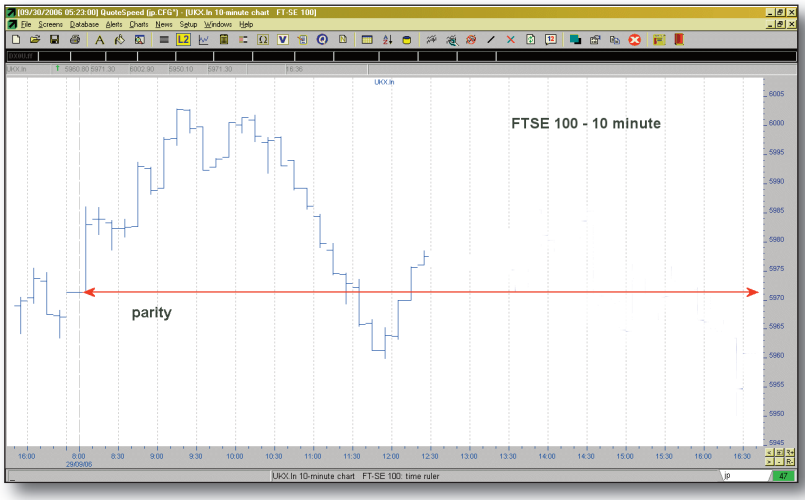
We are now well up and a dilemma does enter the equation.

At 15 the risk/reward was very favourable, but at 60 should we take profits?

Between 30 and 70 the binaries move quickly and between 40 and 60 they are like lightning. A very small rally now would knock off a fair bit of profit and FTSE may not fall again. I am not saying it is the right decision, but I took profits at this point. I was up 50 points on the day, in fact in a few hours – *job done*!

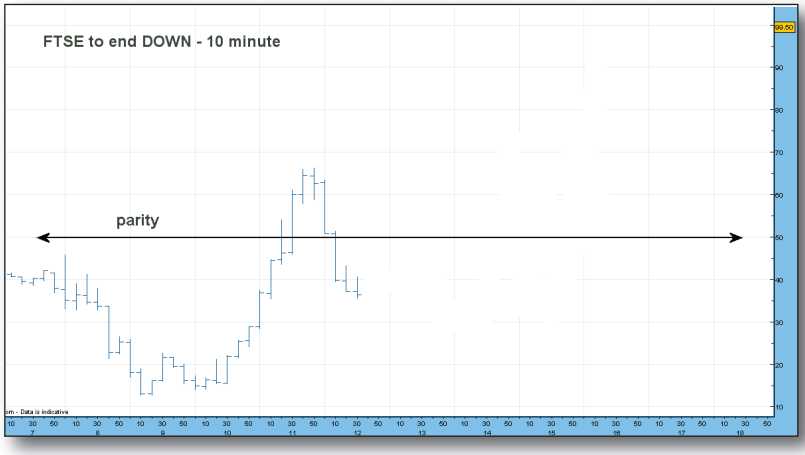
What happened next is shown opposite.

Chart 6.17: FTSE 11:30 am to 12:30 pm



FTSE did indeed rally but only after it had fallen a further 10 points or so. Here is how the binary reacted.

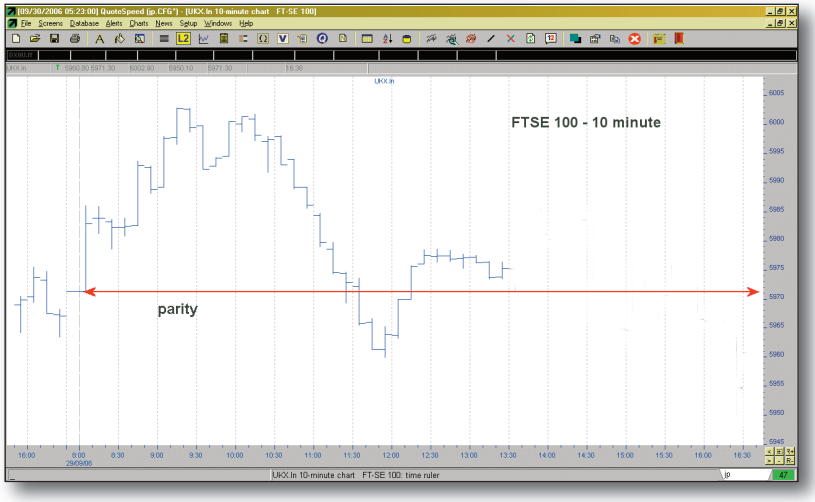
Chart 6.18: “FTSE to end down on the day” 11:30 am to 12:30 pm



The further decline drew the binary towards 70, but the subsequent rally caused it to fall promptly back to 35. So I could have got out a little better, but now I have another buying opportunity. Unfortunately at the time I was distracted and missed it. This is one good reason why it can pay to stay with positions.

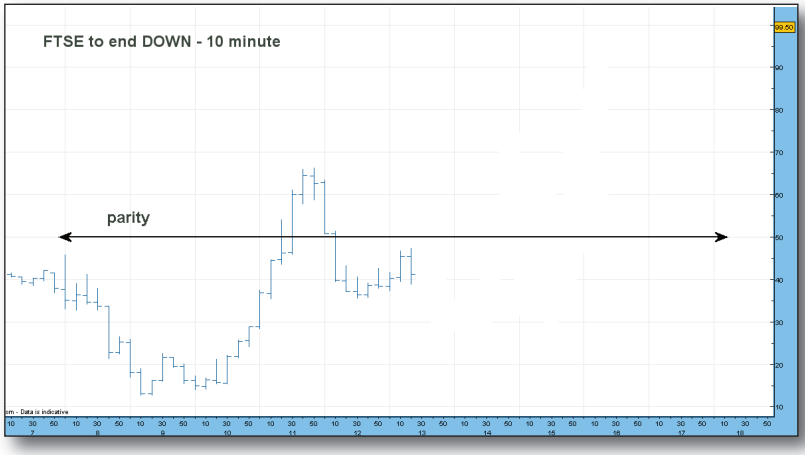
Back to FTSE, the next 60 minutes had elapsed.

Chart 6.19: FTSE 12:30 pm to 1:30 pm



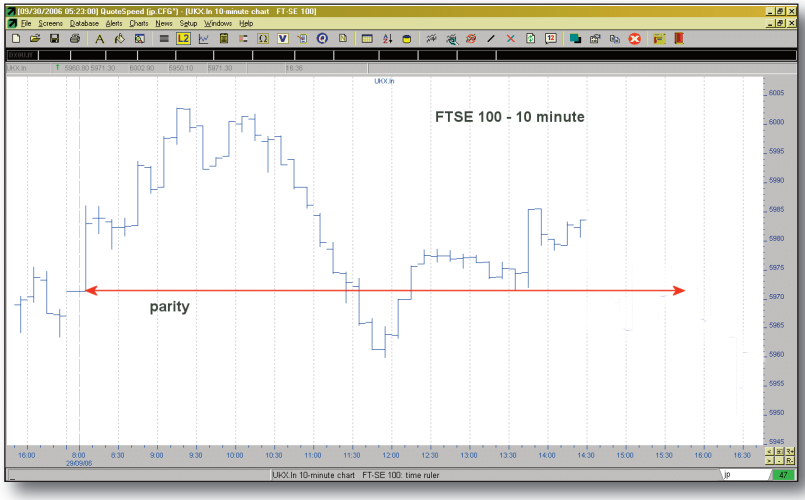
You can see how FTSE had stalled only just in positive territory – but it was lunch time. The chart opposite shows how the binary was similarly becalmed. It also shows how the two charts have a clear inverse relationship. This is what you would expect with a down bet.

Chart 6.20: "FTSE to end down on the day" 12:30 pm to 1:30 pm



The next 60 minutes were more active.

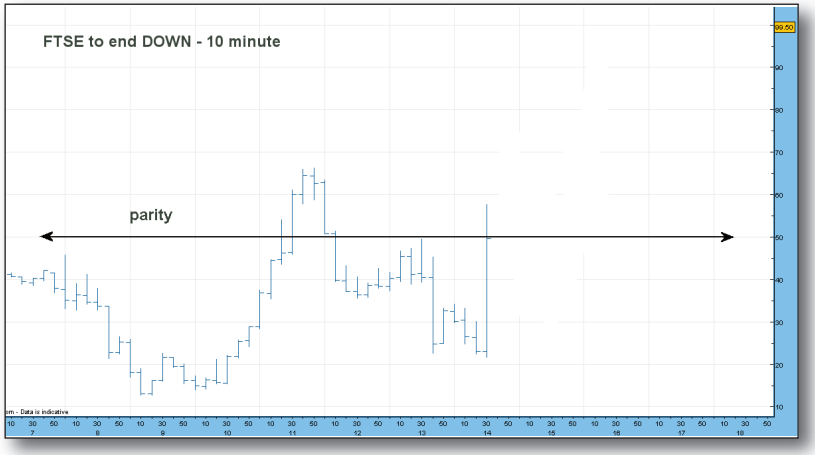
Chart 6.21: FTSE 1:30 pm to 2:30 pm



The US was waking up and FTSE probed a little lower.

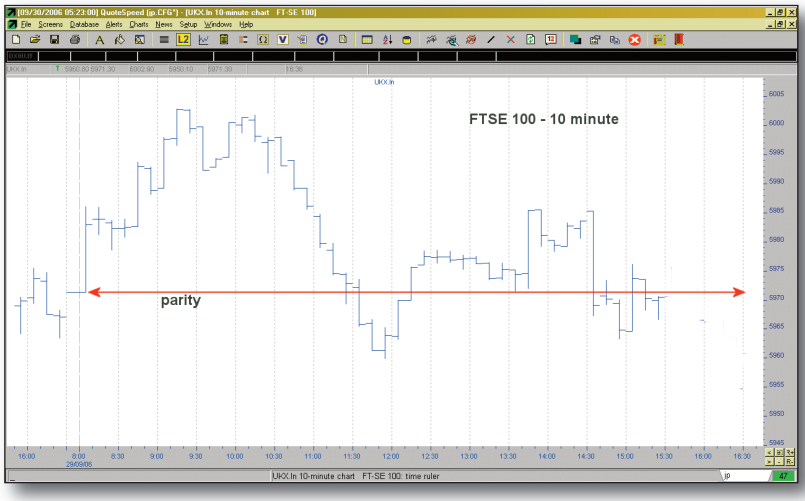
The bet only has two more hours to run and at this point the volatility starts to increase – the moves get faster.

Chart 6.22: "FTSE to end down on the day" 1:30 pm to 2:30 pm



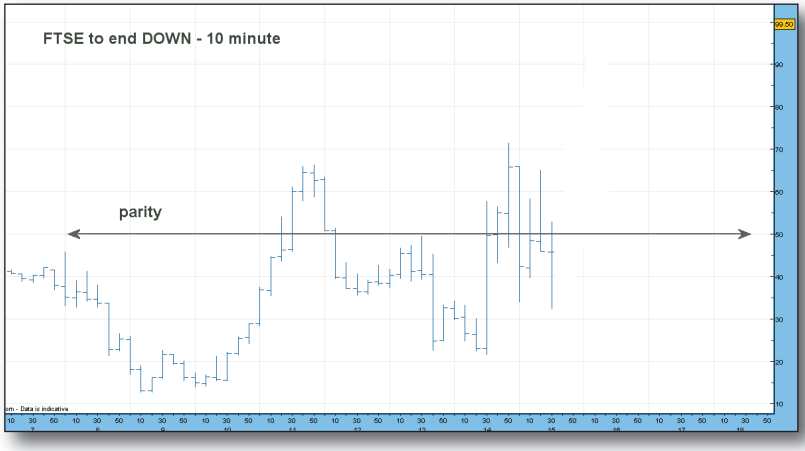
This may seem strange, FTSE up and the binary leaping to parity, but this reflects the official opening and the movement on the futures which were looking negative. The futures are far more sensitive than the FTSE100 Index itself, and will be the first to reflect a move. Here is how FTSE behaved in the next 60 minutes starting with a quick drop.

Chart 6.23: FTSE 2:30 pm to 3:30 pm



The binary reacted as below.

Chart 6.24: "FTSE to end down on the day" 2:30 pm to 3:30 pm

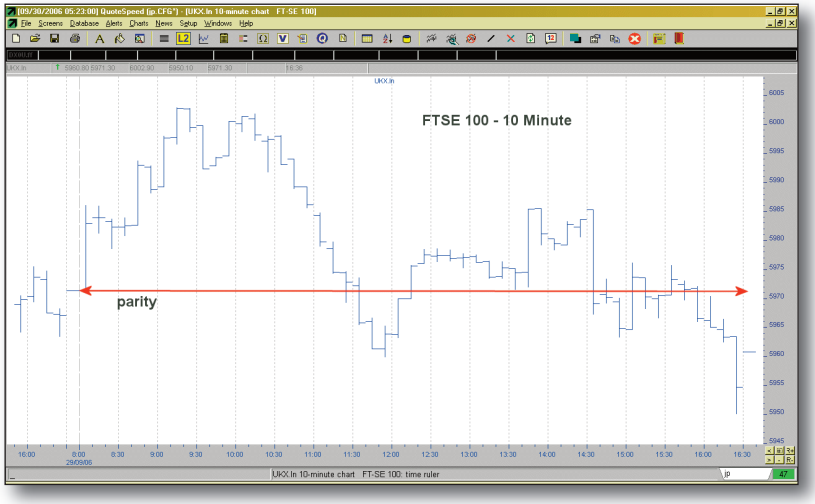


A very active 60 minutes, with FTSE bouncing around parity, but only by a few points, which drove the binary into a frenzy between 30 and 70. A

buy/sell system at 35/65 would have yielded a good harvest in that 60 minute period.

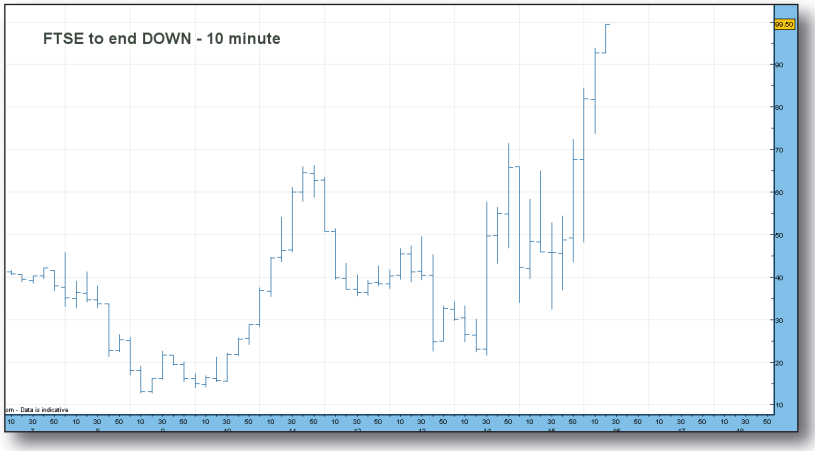
We are now into the final session and you can see that this contract has been keeping us interested right up to the final bell. Here is the close on FTSE.

Chart 6.25: FTSE the final hour



The negatives have become established although the final tick is at 5960.8, only down 10.5 points. But this is quite enough to win the bet – if you had held you would have bagged the full 100! See opposite.

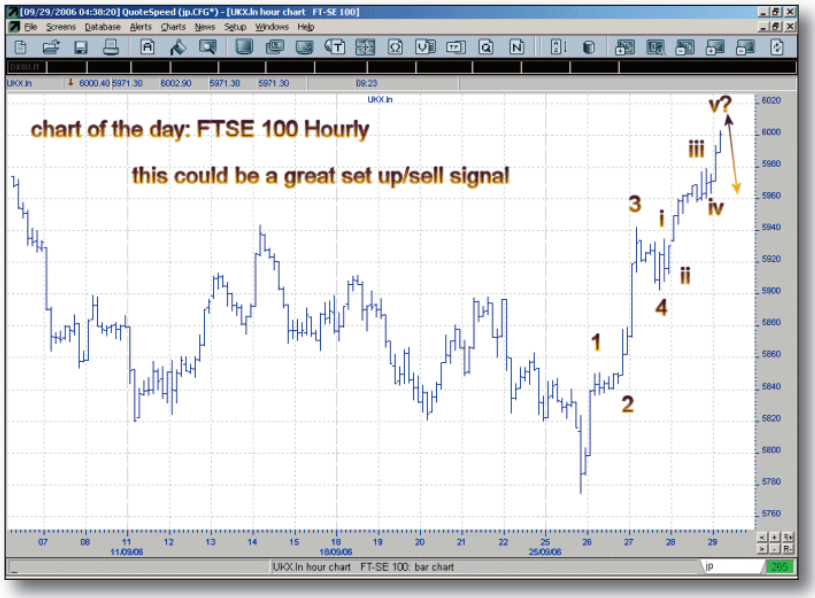
Chart 6.26: "FTSE to end down on the day" the final hour



6000 – a key level

Now that was a good trade and it all started from a view that FTSE was headed down and 6000 was an obvious resistance level. You don't need fancy charts to show such things, but here is the reason I was bearish – an extract from my morning report that day (in box overleaf):

Chart 6.27: FTSE over the last few days



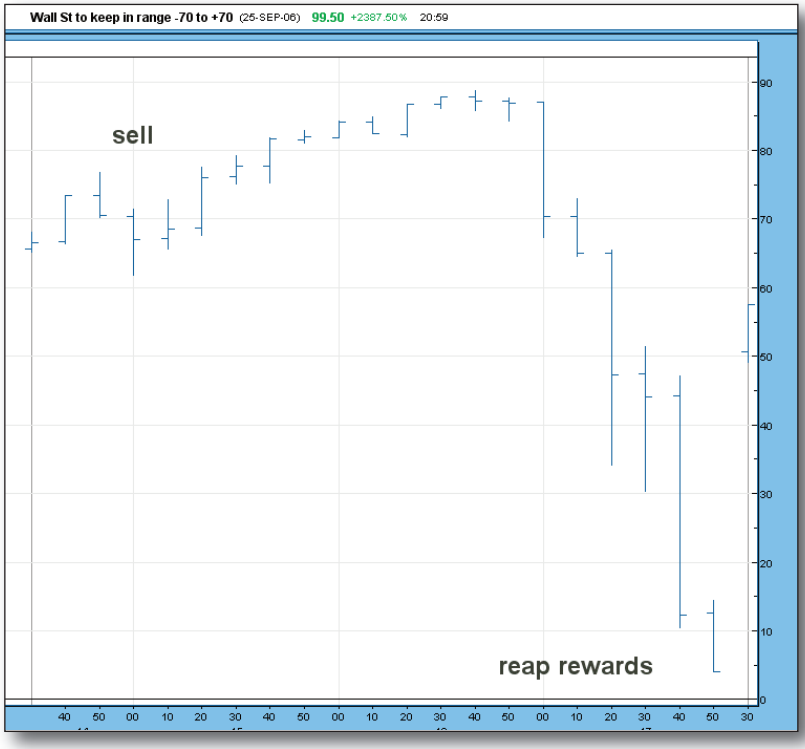
Here is an extract from the commentary:

"Yesterday I said that good days often come in threes and the start today suggests we may have another one to come. FTSE is now very close to hitting 6000 and as I said in yesterday's report, if FTSE can make it above 6000 we could see an imminent reversal. In fact the key level is 5991 and FTSE has already taken that out. As far as the wave count is concerned this rally looks like a fifth of a fifth – see chart above – so today could be a good day to go short. But, as ever, wait for the signal."

Trade 6: A +/-70 tunnel on the Dow

The chart opposite shows the binary in action on 21 September 2006. A +/-70 tunnel will expire valueless on any move of at least 70 points away from the prior close and be worth 100 in the absence of such a move.

Chart 6.28: "Wall Street to keep in the range -70 to +70"



This is a fairly straightforward situation.

On 21 September, the Dow opened pretty flat and you could have sold the Tunnel at almost 90 an hour or two after the opening. Then we saw some action and the price started to drop. Eventually it closed at zero.

If you analyse the price data over a year you can find out the odds of the Dow, or any other market, taking out such ranges. Having done this sort of analysis you might automatically sell, or buy, a bet like this if the price goes to a certain level. Alternatively you may have a specific reason for expecting a solid move on any particular day.

Here is the chart of the DOW that day.

Chart 6.29: The DOW

You won't see this every day and if you do trade this you will often find they expire at 100 but the potential is there!

One very useful point about Tunnels is that they allow you to get the market totally wrong but still make money. For example, you may have thought the Dow was going to go up when you sold the Tunnel in the trade above. Instead it went down – but you would still have made money. There is a small cost in terms of the price of the bet as opposed to a OneTouch which does not offer this benefit. But I consider the cost small for the benefits it gives.

Summary

In this chapter I have shown you how binary bets behave in the real world.

7

Ten Binary Betting Tips

Ten Binary Betting Tips

In this final chapter I am going to set out ten quick tips to make your binary betting experience as good as it can be.

1. Exploit any account opening offers

The betting companies will give you money to start betting – my advice is to grab it with open hands. See appendices for a few starting offers.

2. Start trading with 1p per point

Binary betting is like anything else you do in life, when you start you are liable to make mistakes. So start small and build up only when you are making money.

3. Always make sure you fully understand the terms of the bet

Before you bet read the terms of the bet carefully. The bet description will describe a particular event and if that event happens the bet will go to 100.

4. Take care when you sell a bet, are you doing what you intend?

If you buy a bet you are betting that the bet description will take place. When you sell you win when that event does not take place and the bet goes to zero.

5. Remember that prices can move quickly between 35 and 65, but slowly away from those levels

This is particularly true of the up/down bets but applies to all binaries. It becomes important if you buy a binary around the 65 level as it means that your profits may come slowly but losses may come in all too quickly. But if you buy around 35 you make this characteristic of binary pricing work for you.

6. Binary bets can be addictive, be careful

If you are used to spread betting you may find that being able to buy a binary bet for 10 or less and then seeing that bet go to 100 is a fairly exciting process – I can assure you I do. But this does not happen often so take care.

7. Do not risk more than you are comfortable with

This rule works on two levels. First, financially: if you risk excessive amounts then you will wipe out your gambling pot. Second, psychologically: if you bet more than you are comfortable with you will be on edge and may make bad decisions.

8. Run your profits

You need to make as much cash as you can from your winners. If you don't you will not cover your losers. It is very easy to take small profits but you need to learn to let those small profits get bigger.

9. Don't panic and don't chase losses

If you follow rule seven this should never happen. Panic is never going to make money. If you feel under pressure, get out and leave it until tomorrow. Similarly if you lose don't start placing more and more bets in an attempt to "get back" at the market – that doesn't work either.

10. Betting can be a lot of fun, but if you want to win treat it seriously

Betting can make a great hobby, it's lots of fun and exciting. Many people enjoy that aspect of it. But if you want to make money then you will probably find you need to take it seriously. If it's fun and you still make money – great!

Appendices

I. Directory of binary betting companies & cash incentives

Here is a list of those companies offering binary bets at this time:

BetsForTraders – www.betsfortraders.com

Binary Bet – www.binarybet.com

Cantor Index – www.cantorindex.co.uk

Capital Spreads – www.capitalspreads.com

ChoiceOdds – www.choiceodds.com

City Index – www.cityindex.com

Finspreads – www.finspreads.com

IG Index – www.igindex.com

TwoWayBet – www.twowaybet.com

The three below are slightly different animals:

BetFair – www.betfair.com

Betonmarkets – www.betonmarkets.com

HedgeStreet Inc – www.hedgestreet.com

Cash from the betting companies

It is one of the features of binary betting that the betting companies are so keen to have you sign up as a client that they will give you cash to do so. They do this because they expect to make money from you – why else? The whole purpose of this book is to reverse this process and help you to make money from them.

> *Quick Tip*: These offers change all the time so it may pay to check out the company website to see whether you can find something better!

To give you a head start in this process we set out below some of the companies that are offering cash at this time.

BetsForTraders – www.betsfortraders.com – £100 will be credited to your account immediately you deposit £200 but withdrawal restrictions apply. To receive this make sure you enter the promotional code JPB100.

BetOnMarkets – www.betonmarkets.com – £20 will be credited to your account on opening and to get this add the promotional code JP777 at the appropriate point in the application form. No deposit is necessary with this offer.

Capital Spreads – www.capitalspreads.com – £75 will be credited to your account after you have made two bets as long as you deposit at least £250. Withdrawal restrictions apply. To obtain this make sure you say you were introduced via "John Piper".

ChoiceOdds – www.choiceodds.com – Free £75 bet. ChoiceOdds will match the value of your first bet up to £75 but if it is a binary bet you must risk at least 50 points. To claim this, enter "John Piper" on the application form under "refer a friend."

> *Quick Tip*: Be sure to check out the terms and conditions before signing up. You often have to jump through a few hoops to get this cash.

At the time of going to press most of these offers for readers of this book were better than the offers on the websites and you will need to log in as stated above to obtain these figures.

If you want regular updates on the offers available together with a quick link to the betting companies and the full terms and conditions of these offers then send a blank email to:

freetrades@aweber.com

II. Differences between spread betting and binary betting

A spread bet can range far and wide: it can go up 225 points or it can fall 1000 points. But a binary wears a tight corset; whatever happens, it never goes below zero or above 100.

Is this difference a good thing or a bad thing?

It is my experience that most of us will do better with binary bets because they lend themselves to good trading practice.

Here are the two biggest mistakes traders make:

- they let losses run, often devastatingly so,
- they take profits too early, stifling any chance of success, as the profits are never big enough to cover the losses.

If you spread bet you have complete freedom to make both of these mistakes again and again. There are traders who have learnt how to handle these matters but they are very much in the minority.

Here is how a binary bet helps you avoid these two key mistakes:

1. You cannot let losses run, your maximum loss is fixed as soon as you place the bet.
2. The time frame of a binary is much reduced, and therefore the temptation to take profits too early is less of a problem. It is one thing to resist taking premature profits for a few hours which is all most binary bet offers, quite another for a few days or weeks which is what a spread bet can subject you to.
3. Once you get in the range 35 to 65 the binary price can move very quickly, which is a further aid to staying with it.

In order to illustrate the practical differences between these two forms of trading vehicle I set out an example opposite:

Example: a binary bet v a spread bet

It is 3:20 pm and FTSE is at 5957. The spread betting price would be around 5756-5958.

I have mentioned that there are hourly binaries which are based on whether the underlying (i.e. FTSE in this example) is up or down at the end of the hour. At 3:00 pm FTSE was at 5959 and that is the benchmark (or what I have referred to as *parity* in this book).

At 3:20 FTSE is 2 points below parity and thus the hourly bet "FTSE to be up at 4:00" will be below 50 – the quote may be 33/37.

You have looked at the chart, considered your indicators, consulted the bones, and reckon there is a good chance FTSE will be above 5959 by 4:00.

You buy the binary bet at 37 for £10 a point. Your total risk is £370 and maximum potential reward £730.

At 4:00 FTSE is at 5965 up 6 points. You were right, and you bag the whole profit of £730!

If you had been spread betting the situation would have been very different. You would have bought at 5958, at £10 per point. Your total risk is potentially unlimited in real terms, although you can use "stops" but sometimes, in fast market action, they are not effective unless guaranteed. Your maximum potential reward is also potentially unlimited, in real terms but you are likely to grab any profit of any size.

It is the potential risk which is the key factor when comparing spread betting with binary bets.

In the event FTSE ends the hour at 5965 and the spread bet is quoted at 5964/5966 – you sell at 5964 for a 6 point profit. At £10 per point this is equal to £60.

I never say no to any profit but £730 is a lot better than £60!

The example is skewed in favour of the binary bet, but consider if FTSE had moved up 40 points – a huge move in the time frame. Even then you would have made more money from the binary.

Trading is all about risk/reward. If you can reduce risk and increase reward then do it.

III. Different ways of expressing fixed-odds bets

Binary bets v fractional bets

By *fractional bets* I mean the type of prices you will see on a race course. “3 to 1”, “10 to 1”, “11 to 5” are all fractional bets and they work in a particular manner. The number on the right hand side represents your stake; the number on the left represents the multiple if you win.

Example 1

If you take odds of 3 to 1 and you bet £100:

- if you **win**, you receive £300 (the number on the left, 3, times the stake of £100 equals £300) and you will also get your stake back. Your profit is £300.
- if you **lose**, you lose your stake (£100).

If you decide to place the same bet as a binary bet you may find the price is 21/25 and you would pay £4 per point. This means that you pay £4 for every point and as you buy at 25 this is equal to a stake of £100 (£4 times 25 is £100).

- If you **win**, the bet is priced at 100 and your profit is 75 (100-25). Your profit is again £300, being the profit of 75 at £4 per point (£4 times 75 is £300).
- If you **lose**, the bet is priced at 0 and so you lose £100 (£4 times 25).

So, with a fractional bet, odds of 3 to 1 are the same as buying a binary bet at 25.

Example 2

Mr. Splodge is running in the 3:40 at Exeter. I will assume the binary bet on Mr. Splodge to win is quoted at 8/11 – meaning you can *buy* the bet at 11 for Mr Splodge to win, or you can also *sell* it at 8 for Mr Splodge to lose.

Buying at 11 is roughly equivalent to odds of 8 to 1.

> *Note*: I am assuming that the binary bet on Mr. Splodge is a simple "to win" bet.

If you go for the binary bet you will pay 11 and we will again go for £4 per point:

- if you **win**, the bet goes to 100 and your profit is £356 (100-11 times £4 a point),
- if you **lose**, the bet goes to 0 and your loss is £44 (0-11 times £4 a point).

When you compare this to odds of 8 to 1 it is important to realise that they are different ways of expressing the same thing. You cannot apply the £4 per point to the fractional bet because you would not get the right result. Instead you must look at the total stake – the £44 you placed on the binary bet.

If you stake £44 at 8 to 1:

- if you **win**, you gain £352 (8 times £44), plus you will get your stake back,
- if you **lose**, you lose your stake of £44.

> *Note*: £352 is not exactly the same as £356 because a binary bet priced at 8/11 is not exactly the same as odds of 8 to 1. The precise odds would be 8.090909 to 1 (but if I had said that you might have started running for the hills, and who has ever seen odds quoted like that?)

Decimal bets

This leads to a quick word about *decimal bets*. Decimal bets are similar to fractional bets but:

- they are expressed in decimal format, and
- you do not get your stake back.

For this reason a fractional bet of 8 to 1 becomes a decimal bet quoted as 9.0:1. The higher figure compensates for the fact you do not get your stake back.

Finally, it is fairly simple to convert from binary to decimal. You simply divide 100 by the amount of the binary bet. If you pay 50 for a binary bet the equivalent decimal bet is 2:1, the 2 being 100 divided by 50. To then convert to fractional you simply deduct 1 from the 2 – so we get fractional odds of 1 to 1.

Throughout this book when I refer to odds, I am talking about fractional odds.

Exercise

Here are some questions to hone your skills.

Q. Express odds of 2 to 1 as a binary bet.

A. To convert odds of 2:1 (and I always mean fractional odds if I do not specify decimal odds) you take the number on the left and divide it into 100. 100 divided by 2 is 50. But two points:

- A binary bet will be expressed as two prices, the one at which you buy and the one at which you sell, so the full answer is 46/50 or 48/50 but you can choose the first number yourself as you do not have enough information to compute it.
- If the second part of the odds, i.e. the "1" was another number you would need to have first divided the first part, i.e. the "2", by the second part and then divided the result into 100. So if the odds in the example had been 11 to 5. First divide 11 by 5 and this equals 2.2 and then

divide 100 by 2.2 giving you 45.5. The binary price may then have been 41.5/45.5

Q. If you buy a binary bet priced at 31/33 what are the equivalent odds? Express this as a decimal bet.

A. If you buy the bet priced at 31/33 you pay 33. To convert to a decimal bet divide this into 100 and you get 3.0303:1. You then need to deduct 1 and the fractional bet is 2.0303 to 1. You might round this to odds of 2 to 1.

Q. If you buy a binary bet at 23/27 at £15 per point what is your risk and how much could you make?

A. If you buy a binary bet priced at 23/27 you will be paying 27 and at £15 per point that will cost you £405 (27 x £15 = £405). That figure, £405, is your maximum risk. The biggest move you could see would be if the bet went all the way to 100 and this would involve a move of 73 points (100 – 27 = 73). 73 points at £15 is a maximum profit of £1095.

Q. What are the equivalent odds to a binary bet priced at 17/20 and how much would you stake at those odds to equal £20 per point on the binary bet?

A. The binary price is quoted at 17/20 but different odds would apply to each part of that price. In both cases to get the odds you divide the number into 100 and deduct 1 from the result. We will stick with the "20" part of the binary price for reasons of simplicity and if you divide 100 by 20 you get 5. So the equivalent odds are 4 to 1.

The second part of the question is deceptively easier. If you bought the binary bet at 20 and bet at £20 per point the cost would be £400 (20 x £20). That is the sum you would stake at odds of 4 to 1 to equal the amount placed on the binary bet.

Index

A

ASX Index 47, 51

Asymmetric returns 14

B

Barrier range 61, 62, 63

Betfair 45, 58, 59, 93, 135

betfair.com 45, 135

BetOnMarkets 23, 60, 61, 62, 71, 74, 92, 135-136

BetsForTraders 63, 64, 66, 92, 135-136

Binary pricing 16, 131

binarybet.com 23, 47, 56, 71, 74, 88, 92, 104, 135

Binnex 93

Brent Crude 47

Buying the bet 13, 21

C

Cantor Index 135

Capital gains tax 91

Capital Spreads 71, 135-136

ChoiceOdds 67, 74, 92, 135-136

City Index 93, 135

Closing out a bet early 30, 32, 33

Complementary binary bets 17, 86

Cricket 54

D

Decimal bet 5, 17, 23, 59, 143-144

Decimal format 59, 67-68, 144

Deposit 73, 76, 79, 95, 136

Double touch 61

E

esignal.com 75

Event 4, 22

Expiry bets – bull/bear 60

Expiry bets – range 61

F

Financial Services Authority (FSA) 91-92

Finspreads 78, 135

Football 4, 7, 45, 53, 58

Fractional bet 5, 93, 141-143

FTSE100 ix, 4, 6, 7, 28, 29, 30, 45, 101, 120

Fun corner – run bets 62

G

Golf 57

H

HedgeStreet Inc 24, 66, 135

hedgestreet.com 24, 135

hi/los 52, 104

History of binary bets 23

Horse racing 55

I

IG Index iv, 23, 45, 53, 61, 67, 71, 73-76, 79, 88, 135

igindex.com 56, 104, 135

Incentives 71-73, 135-136

Intraday 50

Intraday doubles 60

L

Limit order 85, 88

Limited Risk Deposit Account 73

Lookback Bet 63, 65

M

Margining 75-77

Market targets 50

Market-source.co.uk 89

Maximum risk 17, 18, 144

N

Nicoll, Sally ix

No Touch 61, 63, 64

O

OneTouch 61, 63, 67, 79, 80, 81, 82, 83, 89, 104, 126

Opening an account viii, 71, 73, 75, 92, 95

Opposite bets 17-18, 63

P

Parity 29-30, 38, 99, 104-105, 110-111, 114, 116, 120-121, 139-140

Placing a bet 3, 27, 77

Potential profit 8, 17, 18, 20, 22

Profit profile 16, 17, 18, 19, 32

R

Range bets 64, 67

Reversals 90, 124

Risk and reward 20

- Profiles 21-22

Rugby union 56

S

Seasonal and other bets 53

Selling the bet 13, 22, 85

Settlements 52

Stop order 87, 88

Super doubles 60

T

Tax vii, 91, 95

tenfore.co.uk 75

TimeSwitch bet 63-64

Trading binary bets viii, 25, 27-41

Trend multiplier 65

Tunnels 48-49, 61, 64, 67, 89-90, 99, 104-105, 124-126

TwoWayBet 135

Types of betting

- fixed-odds 4-5, 15-16, 141-144
- spread betting vii-ix, 4-8, 138

Types of binary bets vii, 45

- financial bets viii, 45, 58, 60, 67-68
- sports bets vii, 53

U

Up or down 4, 29, 45, 46, 47, 61, 94, 139

US Dow Jones 45

V

Viewing charts 75

Volatility 40, 48, 110

W

Wall Street 47, 51, 52, 60, 105, 107, 125

What is a bet? 3

SAVE OVER 30%...ONLY £2.20 AN ISSUE...SAVE OVE

Subscribe to Shares Magazine TODAY!

SAVE OVER £100*

FREE online version available on MoneyAM

FREE weekly delivery to home or office

FREE book worth £12.99

FREE access to Premier MoneyAM

ONLY £2.35* per copy (cover price £3.50)

NEVER miss an issue

*Based on two years subscription when using Direct Debit

PLUS FREE

The Beginners Guide to Financial Spread Betting

A book that provides step by step instructions and winning strategies.

01444 475 661

(9.00am-5.00pm, Monday - Friday) Please quote reference SP25