The 30 Minute

Guide To CFDs & Single Currency CFDs

By Tom Hougaard
Welcome to the 30 minute guide to CFDs & Single Currency CFDs.

The book should take about 30 minutes to read, and by then you will know all there is to know about CFD trading. You might not be an expert in CFD trading yet. That will come with practice, but you will know this:

1. What is a CFD and Single Currency CFD?
2. What is the difference?
3. What CFDs can you trade?
4. How do you trade them?
5. How do you protect your capital when trading CFDs?
6. How do you place orders?
7. What does margin trading mean?
In short, in the next 30 minutes I aim to teach you to the point where you are ready to start doing it yourself. The best way to learn is to do it for yourself. You can even start with a demo account. A demo account allows you to trade with fictitious money – so you can get the hang of CFDs with no risk at all.

The book is designed to introduce you to CFDs – Contracts for Difference – so that you are ready to open a trading account with a broker. In 30 minutes, you will have all the information you need to be able to place a trade using CFDs.

I wrote this book to give you a concise guide to trading CFDs. This book is not about how to make money trading. If you want to learn how to trade profitably, then start with this guide and then contact me via my email to ask for the free e-book I have written about trading strategies and profitable trading.

My email is hello@tradertom.com.

So, let’s get started.

Tom Hougaard - TraderTom
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CFDs and Spread Bets are highly leveraged products and carry high risk to your capital. Due to the leverage offered, it is possible for you to incur losses in excess of your initial margin. These products are not suitable for all investors so please make sure that you understand the risks involved. Rates of exchange may cause the value of investments to go up or down.

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If you have any doubts about your financial suitability for trading, please seek professional advice from a financial planner.
Before we really get started with the book and the terminology of CFDs, let me show you a simple example of what a CFD trade looks like.

The major German share index is called the DAX index. It has all the major German shares in there, such as BMW, Adidas and Siemens. You can trade all these 30 shares as one product – in the form of an index. Share index trading and currency trading are the two most popular forms of CFD trading.

Today, as I am writing this, the trading ticket for the DAX index looks like this:

![Trading Ticket](image)

This is what a trading ticket looks like. A trading ticket is where you enter your trades. When you study this trading ticket closer, you learn several things:

1. The price of the DAX Index is 11,436 – 11,437. I will explain later why there are two prices.
Let us take a closer look at the trading ticket. This time we will explain the different things you are seeing on the trading ticket. This will help you when you yourself are viewing a trading ticket on your trading platform.

1. The price you can sell at.
2. The price you can buy at.
3. The amount of money you want to risk per point movement in price.
4. The button to press to enable you to place a stop-loss and/ or a take-profit order.
5. The amount of margin your current position size requires on your account.

(2) The trading ticket shows me the real market – right here – right now. This is because a CFD will follow what the underlying market is doing – point for point.

(3) It states how much “margin” I must have on my account for this trade – under “Est. Margin”.

(4) It also invites me to put in a stop-loss and a limit order, by pressing the “Stop / Limit button”.

You may not know what all this means yet. All these expressions might be new to you. Don’t worry. This is why you are reading this book. I will teach you what margin is, what limit orders are, why there are two prices etc. So, don’t worry about them right now.

Let us take a closer look at the trading ticket. This time we will explain the different things you are seeing on the trading ticket. This will help you when you yourself are viewing a trading ticket on your trading platform.

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Let us take a closer look at the trading ticket. This time we will explain the different things you are seeing on the trading ticket. This will help you when you yourself are viewing a trading ticket on your trading platform.
The price of the DAX is 11,436 – 11,437. What does that mean, and why are there two prices? The answer is rather simple.

If you want to buy the DAX, then you will have to pay 11,437.

If you want to sell the DAX, then you will receive 11,436.

Having two prices in the financial markets is very normal. It is called the Bid-Ask price, or sometimes the Bid-Offer price. You may ask who gets the benefit of the point in the middle, between 36 and 37. The answer is the broker.

**Placing a Trade**

I want to show you how simple it is to trade. In this example I am buying the DAX index at 11,437. I think the DAX will rise in value.

Later in the day I check in on my DAX position. My stop loss has not been triggered. I am still in this trade. It is a quiet day in the market, but the DAX has moved a little higher. The trading ticket shows you the current price.
If I decide to close the trade right now, I can sell it at 11,450. Let’s say for the arguments sake that I do want to close the trade. I do so by selling the DAX at 11,450. The trade is now closed.

**What is my profit?**

I opened the trade at 11,437. I closed it at 11,450.

$$11,450 - 11,437 = 13 \text{ points}.$$  

What is a point worth? I have written a whole chapter on this subject. However, let me explain it to you here as well.

*The value of a point is up to you. You decide how much to risk per point.*

If you are a seasoned professional trader, you probably want to trade with bigger amounts. If you are new and want to get started, you probably want to trade with very small amounts, such as €1 per point or less.

Basically, you decide how much you want to risk per point. It is such an incredibly easy way to trade. You could have risked €100 per point. In that case you would have made €1300. You could have risked just €1 per point. In that case you would have made €13.

Your risk – how much you are prepared to lose on the trade – will be determined by where you place your stop loss. Again, I will explain what a stop loss is in this book, and much more.

Now that you have an idea of how simple CFD trading is, shall we get started?
What is a CFD?

Over the last two decades CFD trading has become the preferred tool for the private trader in most countries across the world. Originally invented in the 90’s in London for institutional purposes, it quickly altered into the simple-to-use product we know today.

A technical definition of a CFD goes like this:

“A CFD is an agreement between two parties (CFD broker / client) to exchange at the close of a contract, the difference between the opening price and the closing price of the underlying instrument”.

The essence of CFDs, as the name implies, is that you have a contract where the broker pays you or you pay the broker, depending on the outcome of the trade. The only thing that changes hands is money. Either you are right, and the broker pays you, or you are wrong, and you pay the broker. What is important to know is that you are not trading the real product when you are trading CFDs. You are trading a derivative of the product. This means that you don’t take ownership of the product. This may or may not concern you, but it is actually a very good thing for people who trade. Let me give you a quick example.

I want to trade Crude Oil. Now I can go out and buy the physical Crude Oil from a chemical plant somewhere in Canada or Nigeria, and then find a place to store it, and then one day sell it to someone who wants to buy it off me. That is a pretty impossible mission for a private trader like me. Instead I buy a Crude Oil CFD through a broker. Now I don’t have to buy the real Crude Oil. I don’t have to worry about storing it. I know I can always sell it back to the broker, whenever I want. Whatever I trade using CFDs, I don’t own what I am trading. I am purely speculating on the direction of the market. If I am right, I will be paid well for it. If I am wrong, then I will lose money. It is that simple!!!
Key Points to CFD Trading

What are the key points to CFD trading? Let me outline the key points and then explain them in more detail.

1. A CFD contract is essentially just a contract between you and the broker.

2. A CFD follows the actual market 100%.

3. CFDs are traded on margin.

4. You can “go short” a CFD.

5. You usually don’t pay commission when you trade CFDs.

6. You can pretty much trade anything on a CFD.

7. You don’t own what you trade. You only speculate on the direction of what you trade.

Now I will go through those 7 points in much greater detail, so you have a thorough understanding of CFDs.
Point 1:
A CFD contract is essentially just a contract between you and the broker.

A CFD contract is actually an artificial product, which is essentially just a contract between you and the broker. A CFD is a derivate and an OTC (over-the-counter) product. It is solely a contract between broker and client and is not traded on an exchange. Therefore, the underlying asset is never actually owned or traded.

This means you are only speculating on the direction of the market. You don’t own what you are trading. If you trade Crude Oil, it doesn’t mean that you own barrels of crude oil. If you trade tomatoes on a CFD, you don’t actually own the tomatoes.

Point 2:
A CFD follows the actual market 100%.

A CFD follows the actual market 100%. So, the DAX CFD follows the DAX index 100%. A Facebook or IBM CFD will follow the price development of the real Facebook and IBM shares 100%. This is the beauty of CFD trading. Whatever you are trading, follows the underlying market.

For example, let’s assume you are trading Bitcoin. Although you stand to make or lose money, depending on the direction of Bitcoin, you don’t actually own any Bitcoins. You just speculate on the coin falling or rising. Your advantage is that you don’t have to physically buy it to profit from it. You can just trade it through a CFD.

On any given market the quoted price is a 1:1 reflection of the real market price of the underlying instrument. In other words, regardless of which instrument (shares, stock indices, currency pairs, commodities, cryptocurrencies etc.) the price of the CFD moves in sync with the market in question. When the underlying market is closed (for some markets during the night), most brokers today will quote you an artificial price to trade at (typically with a wider spread).
Point 3:
CFDs are traded on margin.

CFDs are traded on margin. What that means is that you can speculate on the
direction of financial market products using CFDs, without paying the full price.
The amount of margin you deposit with your broker will depend on which broker you
use. Let’s say for the sake of the example that the broker you use offers margin of
10 to 1.

What that means is that you will be required to deposit on your trading account an
amount which is just 10% of the value of what you are trading. I will explain margin
in more detail later in the book, when I show you practical examples of CFD trading.

Some brokers will offer you margin of 100 to 1. That means you only put down 1%
of the value of what you are trading. Some brokers will offer you margin of 200: 1.
That means you only put down ½% of the value of what you are trading.

In a moment we will get to a chapter called “What is Margin?“. There you will
learn what it means to trade on margin and why some brokers offer more margin
percentages than others.

Point 4:
You can “go short” a CFD.

Now, this may be new to you. Even though it is easy to understand for a
professional trader, it sometimes causes confusion for the newcomer. You can “go
short” a CFD. Going “short” means you are selling something now, and hoping to
buy it back later, at a cheaper price.

Think of it like this. You are selling something at €10, and you receive €10 in your
pocket. Now you have an obligation to deliver the “something”, and the way you do
that is to buy it at some point. What if you can buy it for 9. You pay out 9, but you still have a profit of 1 in your pocket. That is profiting from shorting! Some people will ask how you can sell something you don’t actually have? I will answer this question in the chapter called “Shorting”.

If you are long the market (jargon for having bought the market), you lose money when the market is falling. If you are short the market, you want the market to fall, and you will make money if it does, but you will lose money if the market is rising.

When we go through trading examples, I will show you more about what shorting means. Until then, just know what you can actually make money from falling markets.

**Point 5:**

**You don’t pay commission when you trade CFDs.**

You don’t pay commission when you trade CFDs. The brokers I use, and that I will recommend you trade with, do not charge commission when you trade. The only fee you pay is if you hold a position from one day to the next day. It is a very small charge, and it is quite insignificant.

**Point 6:**

**You can pretty much trade anything on a CFD.**

You can pretty much trade anything on a CFD. You can trade individual shares like Facebook and Google, stock indices like the Dow Jones index, currency pairs from the entire globe, commodities like Gold and Oil. It means that you can create a trading plan in any trading instrument that suits you.
Point 7:
You don’t own what you trade. You only speculate on the direction of what you trade.

This is a very important point to remember: when you trade a CFD, you are not trading the “real” thing. What do I mean by that? I mean that you don’t own what you are trading. If you are trading Facebook shares on a CFD, you are not actually an owner of Facebook shares. You are trading a product which mirrors the real Facebook shares. So, if the real Facebook shares increase by 1%, so too will the CFD in Facebook. A CFD is created to enable you to speculate on the direction of global financial instruments without actually owning them. This is a huge advantage for traders and speculators. They can speculate on the direction of thousands of instruments without ever taking real ownership of them.

Next Chapter
In the next two chapters, I will discuss what the value of “points” are and what “trading size” has to do with CFD trading. You will learn how to determine how much you should risk on your trades. In the trade ticket below, it says “Amount”. I am going to teach you what that means and how to use it in your trading.
Trading for Points

When you are trading CFDs, you decide how much you want to risk per point movement. The first thing I need to teach you is what is meant by “per point movement”. Let’s go through some examples from different financial instruments.

Example: Dow Jones Index

The most popular CFD to trade is the Dow Jones index. You can see the trading ticket for that instrument below. What you should know is that all CFD companies must call their Dow Jones Index another name because “Dow Jones” is a copyright protected name. On the trading ticket below, it is called Wall Street. Some brokers call it USA 30. Some call it US 30.
As I said, here it is called Wall Street, but it is the Dow Jones Index. On the trading ticket **to the left**, the price is 25,570 – 71. On the trading ticket **to the right**, the price is now 25,933-35. If you had bought “Wall Street 30” at 25,571, and you had sold it again at 25,933, you would have made 362 points.

Imagine you had bought “Wall Street 30” at 25,571, and you decided you wanted to risk $1 per point. If you then later had been able to sell your position at 25,933, then your profit would have been

\[25,933 - 25,571 = 362 \text{ points.}\]

If each point was worth $1, then you would have made $362.

What was your risk? That is where a stop-loss comes in. The stop-loss is not something you have to use, but I URGE you to use it. Let’s say you placed a stop-loss 50 points away from your entry price. Then you would have placed a stop-loss at 25,521. If the market had moved against you by 50 points, you would have lost $50.

Say for the sake of the argument that you are an expert trader, and you risked 50 points, and each point is worth €100, then you would have risked €5,000 but your reward here would have been €36,200.

Let us go through some more examples. The next example is for a currency trade.
**Example: Euro Dollar**

The most traded currency pair in the world is the Euro Dollar. This is the currency in the European Union vs. the currency in America. 30% of all Forex volume is traded in Euro Dollar. On the trading ticket below to the left, the Euro Dollar exchange rate is traded at 1.1258-59. On the right-hand side, 30 minutes later, Euro Dollar is traded at 1.1245-46.

Imagine you had bought Euro Dollar at 1.1259, and the market then unfortunately declined to 1.1245-46. If you decided to close it then, you would have to close it by selling it at 1.1245. Your loss would be 1.1259 minus 1.1245 = 14 points.

Imagine you had shorted Euro Dollar, at 1.1258 and you bought it back at 1.1246. You would have made 12 points.

Let me show you how you can trade commodities like Crude Oil on a CFD.
Example: Crude Oil

US Crude Oil is trading at 60.52-55. You decide to buy Crude oil at 60.55. Later you see that Crude Oil is trading at 60.80-83. You decide to sell at 60.80. How many points have you made? You made 25 points (60.80 minus 60.55).

Next I will discuss the value of a point. How much are you risking per point movement. I will also show you what the difference between CFD trading and Single Currency CFD trading. I think you will discover that Single Currency CFD trading is much easier.
Up until now, you have learned about the basics of CFD trading, and you have learned about “points”. Now you need to learn what the value of a point is. However, before we can do that, I need to tell you about the two different ways you can trade CFDs.

**Normal CFD Trading**

When you open a trading account, you tell your broker what you prefer your “base account currency” to be. So, if you live in Europe, you will probably have a Euro account. If you live in Scandinavia, you will probably select your own national currency as your base account currency, and so forth.

When you start trading, you will notice that when you trade products from other countries, you will have to nominate your “stake” in their currency. For example, if you trade the DAX index, your stake size will be denominated in Euros. If you trade the Dow index, your stake will be in US Dollars. If you trade the currency Dollar Yen, you will have to nominate your stake in Yen.

Then when the trade is closed, your profit or your loss will then be converted back into your “base” currency. That is the essence of normal CFD trading.

There is an alternative to normal CFD trading. It is called Single Currency CFD trading, and it is actually a much smarter way of trading CFDs and it is cheaper too.

**Single Currency CFD Trading**

The only difference between a normal CFD account and a Single Currency CFD account is this: no matter what you trade, you ALWAYS nominate your stake size in your “base account currency”. 
Remember that you are always trading for “points”, and you want to make as many points as possible in trading. Single Currency CFDs are no different on that respect, but the Single Currency CFD allows you to nominate your stake size in your “local” currency.

For example, say you live in Europe and your account currency is set in Euros, and you like to trade the Dow Jones index. Normally you would place the stake size in US Dollars per point. Then after the trade was closed, your profit or loss was converted back into Euros.

Now, instead of placing the stake size in US Dollars per point, you now place your stake size in Euros per point. What are the advantages of that?

1. It is much easier to understand your risk, when you know your risk per point in your local currency than a foreign currency. You don’t have to sit and wonder how much a dollar is in Euros, and then place your trade.

2. By trading in your local currency, you will never find yourself in a situation where you have risked too much or too little, because you were trading a product in a currency that you were not familiar with.

3. All brokers tend to charge you a little percentage fee for converting your profit or loss back to your “base” account currency. With Single Currency CFDs you never have to worry about that.

Sadly, there are very few Single Currency CFD providers in existence. I have only found one global provider who offers both normal CFDs and Single Currency CFDs, and who is also regulated by a financial services authority. That is TD365 (TradeDirect 365) in Australia. They are regulated by the Australian Securities and Investments Commission (ASIC).
They offer Single Currency CFD accounts in the following “local” currencies:

- Norwegian Kroners
- Danish Kroners
- Swedish Kroners
- Euros
- Sterling Pound
- US Dollars

Example Of The Difference

Let me give you a quick example of why Single Currency CFDs are so much smarter and so much easier to use than normal CFDs.

On the next page to the left is the trading tickets for Dollar Yen – using a normal CFD trading ticket. On the next page to the right is the same trading ticket, but now you are seeing the trading ticket using a Single Currency CFD.

On the trading ticket to the left your stake size is in Yen. So now I must figure out how much I want to risk per point movement, but here is the problem: every point is in Yen.

In order to make sure I know how much a Yen is worth to me in my local currency (I am Danish, and my “local” currency is Danish Kroners), I have to look up the exchange rate between Yen and Danish Kroners is. I will probably have to Google it, just to make sure I am not trading too small or too big per point.

Do you see how convoluted this process is, when in fact there is a much easier solution readily available? I simply select to trade Dollar Yen using a “Danish Kroner
stake size. I know exactly how much each point is worth, and whether I trade a normal CFD account or a Single Currency CFD account, the point movement in Dollar Yen is the same. I never have to worry about the broker charging me fees for converting my profit or loss in Yen back to Danish Kroners.

Of course, you will naturally select a base currency account that suits you. I just happen to like trading in Danish Kroners, because it is a currency that I am used to.

**The Most Traded Products**

Let me give you an insight into the world of CFD trading, and the products that are most traded. For all the talk about Forex trading being the most heavily traded product in the world, it is actually not true in the world of CFD trading.

I have spoken to 3 CEOs of global CFD companies and they tell me that the most traded product they have is the Dow Jones Index followed by the DAX index.
I created the list below to show you the top 5 products traded in the world of CFDs and next to it I showed you what currency they are traded in. Remember, that if you trade these products using a Single Currency CFD account, you never have to worry about your stake size being in a foreign currency.

1. Dow Jones Index – traded in US Dollars
2. DAX Index – traded in Euros
3. Euro Dollar – traded in US Dollars
5. FTSE 100 Index – traded in Sterling Pound

I hope you can see the advantage of having a Single Currency account, because it simply does make life a lot easier as a trader, and it is a much more cost-effective way of trading, compared to normal CFD trading.

Towards the end of this book I have written a small chapter on Single Currency CFDs, called "A Few Final Words on Single Currency Trading (SCT)". It illustrates how a trader perceives the use of Single Currency CFDs over a normal CFD trading account.

Although we have already discussed the value of points, we will now look at it from the perspective of margins and margin calculations.
Now that you know what “points” are, and you know what the difference between a normal CFD account and a Single Currency CFD account is, we need to move on to what the value of a point is. After all, that is what decides the size of your profits and losses.

When you are trading CFDs, you decide how much you want to risk per point. There are two factors that determine the size of your risk per point:

1. The size of your trading account.

2. How much you want to risk.

The size of your trading account determines how much you can risk per point. This is discussed in more detail under the chapter called "Margin", but I will discuss it here too.

Margin is another word for “margin deposit”, which basically states that if you want to trade on margin, you need to deposit something on your trading account as security. It is just like buying a house, and you get a mortgage. The bank will often ask you to deposit 10% of the value of the house and they then lend you the 90%. CFD brokers work almost like that too.

The second factor is your own risk appetite. If you are new to the trading game, you probably want to start slow and build up experience, before you start trading bigger size.
What is the Value of a Point?

Let’s take a trading ticket from Dow Jones index again and describe what is going on. The trading size in the box called “Amount” currently says “1”. What does that mean?

Well, Dow Jones Index is traded in America, where the currency is US Dollars. So, when it says 1 in the amount in the Wall Street 30, it means that you are risking $1 (one dollar) per point movement in the index – unless you trade it using a Single Currency CFD account.

Say for example that you bought Wall Street 30 at 25,571 and you sold it at 25,581. If you did that, you would have made 10 points, and you decided that each point would be worth $1. So, your profit would be $10.

The next chapter is called Margin, and it will teach you how much money you need to have on your account to trade. Let me get a slight head start here because the trading ticket you just saw is a perfect example of how to describe what “margin” is for you.
Do you see the text in the trading ticket that says, “Est Margin:”, and then it says USD 128? What does that mean? It means that if you are trading $1 per point in the Dow, you need to deposit $128 on your trading account. If you don’t have $128 on your account, at least, then you will not be able to execute the trade.

The reality of margin is that the money needs to be on your trading account before you even place the trade. When the trade is executed, the broker will then “freeze” that margin on your account. The money will still stay on your account, but you won’t be able to use that $128 for anything. It is frozen on your account, until you close the trade.

Let’s say you want to trade the Spanish share index, the “Spain 35”, and you input €1 in the “Amount” size. How much money will you need on your account for margin? Look at the trading ticket below to the left, and then compare it with the trading ticket to the right. When you trade €1 a point, the margin is €68 and when you trade €10 a point, the margin is now €683.
A Great Benefit of CFDs.

One of the great advantages of CFDs is that YOU decide how much you want to trade per point. This is very different to the futures market, where you trade contracts. If you don't know what the futures market is, don't worry. It is not important to this discussion. Needless to say, that you are in many respects much better off trading CFDs than trading the futures markets.

Next Chapter

In the next chapter I am going to teach you what margin is all about. After all, the bigger amounts of money you want to dedicate per point to your trades, the more money there needs to be on your trading account. Therefore, it is very important you understand everything there is to know about margin and margin trading.

Did You Know?

I have written a beginners trading course, which you can download for free here
https://tradertom.com/foundation/
What is Margin?

Trading on margin means that you are able to trade without paying the full price for whatever you are trading. Margin enables you to take a position in a trading instrument by only depositing a small amount of money.

The comparison to a house purchase is not far off. You buy a house for €100,000 but you only deposit €10,000 with your bank. The rest, the €90,000, is lent to you by the bank.

Trading on margin means that only a fraction of the value of the full-sized underlying instrument needs to be present in your account.

There are 2 kinds of margins:

1. Initial Margin.

2. Variation Margin.

Initial Margin

Margin is not overly complicated to explain or understand, but you do need to take it seriously. The margin dictates how much you can trade on your CFD account, so it is important you learn the implications of trading on margin.

Let us use the DAX index in this example. Imagine you input 1 in the “Amount” value on the DAX Index trading ticket. It means you stand to make or lose 1 euro for every point the Dax Index moves up or down.
Brokers offer different kinds of margin, so I will use a fairly standard margin rate, which is 100:1. It means that you have to deposit 1% of the value of your trade (1/100 = 1%).

**Margin Calculation on 1%**

Imagine the price of the DAX Index you are trading at is 11,000, then what does that mean?

\[
11,000 \times \€1 = \€11,000
\]

**The value of your bet is €11,000**

\[
1\% \text{ of } 11,000 = \€110
\]

So, you need to have on your trading account at least €110 to cover the margin on this trade. That was pretty easy, wasn’t it? That €110 is what is called the Initial Margin.

What if you were trading €10 per point in the DAX?

\[
11,000 \times \€10 = \€110,000
\]

\[
1\% \text{ of } 110,000 = \€1,100
\]

If I trade €10 per point in the DAX index, then I need to have at least €1,100 on my trading account. Again, the €1,100 is the Initial Margin.

**Variation Margin**

Variation Margin is different to the Initial Margin. The best way to describe variation margin to is say that whatever you are losing on your open trade needs to be covered on your account. In other words, your open loss on a trade needs to be 100% covered on your trading account.
Example of Variation Margin

You have €1,000 on your account. You open a trade. The Initial Margin is €100. Now you only have €900 “free capital” on your account. The €100 is frozen. It is still on your account, of course, but you can’t use it for trading.

Now your open position is moving against you. Let’s imagine you lose €50 on your open position. Now your account will look at follows:

Account: €1000

Initial Margin: €100

Variation Margin: €50

Free Account Capital: €850

You always need to make sure that your account does not go so low on funds that you are issued a margin call. A margin call is basically a call for you to deposit more funds on your account, because your open loss on your position exceeds the free capital on your account.

One great feature for new CFD traders is that you can trade very small sizes. You will find that most brokers will give you the ability to trade in increments below €1 (or whatever your local currency is). This means that you can even trade in contract values like 0.1 or 0.5 in order to further reduce the risk of the trade. This is a really great feature when you are learning to trade. It also means you can start trading CFDs with a very small account size.

Next Chapter

Your understanding of CFDs is nearly complete. The next 3 chapters will teach you about stop-losses and limit orders, about funding and dividend payments and finally, it will teach you about “shorting” or “going short”. That is where you are making money from falling markets.
Stop-Loss Orders and Limit Orders

Any trader who has been in the game for a while will tell you that you need to learn to protect your money. One friend says it very poetically: “Take care of your losing trades, because the winning trades take care of themselves.” We have tools to help us protect our money. It is called a stop-loss, and it is really simple to use. Take a look at the trading ticket on the next page. It shows you the DAX Index right now, but the trading ticket will look different to what I have shown you previously.

What is a Stop-loss order?
A stop-loss is an exit order for when the market moves against you. For a long trade – when you buy - it gives you protection if the market moves lower. If you have SOLD SHORT the market, a stop-loss will protect you if the market moves higher. It is an efficient way of protecting yourself against out-of-control losses on your trading account. Losing trades is inevitable. No one wins all the time. The trick is to keep the losses small, and the profits bigger than the losses. On the trading ticket to the left, you see two types of orders.

1. Stop Order.
2. Limit Order.

In this situation, where I am looking to BUY the DAX, the stop order will close my position, if the market moves against me by an amount of points that I decide. I don’t have to use a Stop order, nor do I have to use a Limit Order. It is 100% up to me.
I always place a stop loss based on one of the two following criteria:

1. I don’t want to lose any more money on this trade.

2. If the market moves against me by a set amount of points.

Placing a stop loss will take some practice. You don’t want the stop loss to be too close. Otherwise you will probably get stopped out even though the market may well move in your favour later.

However, you don’t want to place it too far away either. As I said, it will take some practice to get your stop loss right. Let’s take a look at the trading ticket on the following page. There you see how you can input your stop loss and your limit order.

A stop-loss order is an order to exit the market – if the market moves against you. A limit order on the other hand is an order to exit the market – at a point where your position is in profit.
Let's take a practical example based on the trading ticket below.

**Stop Order**

The DAX Index (called Germany 30 here) is trading at 11,171-72. If you decide to buy the DAX at 11,172, and you want to risk 20 points, then your stop-loss will be at 11,152.

So, the trading platform creates an “exit order” for you at 11,152. If the market moves down to 11,152, your position will be closed, and you will lose 20 points.

**Limit Order**

A Limit Order works differently. The limit order creates an exit, when you are in profit.

If you buy the DAX Index at 11,172 and the market moves in your favour, in this example you want to exit with 20 points of profit.

If the DAX moves up to 11,192, the trading platform will exit your position with 20 points of profit. You don’t even have to be there to make sure it happens. It happens automatically.
IMPORTANT MESSAGE

I didn’t write this book to give you trading advice, but to guide you through the world of CFDs. However, I will make an exception here. I don’t want you to ever place a trade without a stop-loss. You don’t have to use a limit order. You can and should let your profits run, but PLEASE do not trade without a stop-loss.

Next Chapter

The next chapter is called “Shorting”, and this chapter you will learn how you can make money from falling markets. Being able to short the market means you can take advantage of falling prices.
Shorting

There are many famous stories about people making fortunes by selling short a market. For example, George Soros, the famous Hungarian speculator, reportedly made $1 billion in 1992 by selling short the British Pound.

There is a famous movie made about people selling short the American housing market in 2007. It is called The Big Short. If you haven’t seen it, you should. It is both entertaining and educating.

When someone wants to buy something in the market, you will need someone to sell it to you. Does it matter to you if that person on the other side of the trade is selling something that he or she had bought at some point in the past, or that he or she has a different opinion to you, and they think the market is headed lower.

If you meet in the market place and trade at a fair price, does it worry you so much that someone has a different opinion to you? It doesn’t bother me, and it doesn’t bother me that someone is shorting say a stock that I am buying. May the best man/woman win!

I personally don’t think that there is anything immoral by selling short, but some people do. I respect that people will have their opinions, so I will instead focus on the mechanics of selling short here.

What we are doing when we SELL SHORT, is to sell first and buy back later.

In theory, the risk is infinite on a short trade as “the sky is the limit” upwards, whereas the risk on a long trade is always limited at zero. In the real world, however, a short trade does not entail any more risk than a long trade, as the combination of stop-losses and margin calls would get us out sooner or later anyway.
The Realities of the Markets

As an investor you are looking at the market from one perspective, and one perspective only. You want to invest in something, and then you want the value of your investment to go up. The way you increase your wealth is if the market continues to buy your investment. As a trader and a speculator, you have more than one perspective. You can buy the market – in the hope that it moves higher – or you can sell short the market – in the hope that it moves lower. The basic premise of a short trade is simple. You decide that you think the market in question is about to move lower. By selling short you want to take advantage of falling prices. Your risk is that the markets will rise.

Whenever we are looking at a trading ticket, we will have two prices to deal on. You can BUY the higher price or SELL SHORT the lower price. That is just the facts of the financial markets. For someone who has made more than a fair share on “shorting”, I can only recommend taking this possibility very seriously. Let’s go through a practical example of shorting and how I may come to the conclusion that I want to sell short something. On the chart below, you see the German DAX index over 2-3 days. I am a trader who uses charts to decide whether I want to be LONG the market, or if I want to be SHORT the market. When I looked at this chart, I decided I wanted to be short the market.
The trading ticket told me I could sell short the DAX at 11,450. I input my stake size (not shown below), and I put in my stop loss, and then I pressed “Sell”. That was it. I was now short the DAX index.

So, you can see that shorting isn’t much different to buying. You have an opinion, and you press the button. If the market agrees with you, you make money. If it doesn’t, well then you lose money.

The market doesn’t care if you are short or long. The market doesn’t have an opinion. The market is just a place where people like you and I meet up to conduct our business.

Next Chapter

The next chapter is very short and to the point. When you trade CFDs, you trade on margin, and when you trade on margin, you pay a small amount of interest if you hold a position from one day to the next. The next chapter will explain that to you, as well as explain what happens if a CFD stock pays out a dividend.
Funding and Dividends

When you trade with CFDs, there are rarely any charges, except for one charge. This charge is quite small, but all brokers charge for it.

It is called “overnight funding charge”. Remember that most brokers do not charge commissions when you trade. However, they do charge for the overnight funding. As the name suggests, this fee kicks in by the start of each new day (so the weekend counts as two days in relation to funding). The funding fee is assigned automatically.

Why are we paying this fee? In essence, when you trade on margin in CFDs you are borrowing a substantial amount of money for the trade itself and in order to sustain the position. The overnight funding is simply the interest you pay for this.

A very important feature to keep in mind is that for SELL SHORT positions (when you are betting on falling prices), you receive the fee. The exact percentage you pay or get may vary slightly from broker to broker. For trades lasting a few days it is not that important but at a few percent per day – on the full position - it quickly becomes a factor worth reckoning.

Lastly, just a quick mention of dividends. When trading single shares on CFDs people often wonder what happens with dividend payment. The simple answer is that it is nothing to worry about as it is automatically added (or deducted if you are short) to your account. This goes for indices as well.

Next Chapter

The next chapter is called “What Currency is your Stake?”. It is an important chapter, because trading CFDs at times will mean you will have a stake size in another currency than your own. This chapter explains this in great detail. Of course, if you trade Single Currency CFDs, you will not have this issue.
What Currency is Your Stake?

One thing that can cause some confusion with CFDs is the amount you risk per point. I have already shown you examples of how it works, but that was only for a CFD trade in the DAX index. What you learned there was that when you input say 1 in the Amount on the trading ticket, your risk was €1 (one euro) per point movement.

Well, what if you are trading the American Dow Jones Index or the English FTSE 100 index. What currency are you then trading in?

That is a good question, and we need to answer that immediately.

Did You Know?

I write blogs on current news in the Trading sector, keep up to date with it here

https://tradertom.com/
Here is the Dow Jones Index trading ticket (called “Wall Street 30”). If you look at the “Est. Margin:” you will see it says “USD”. Hence, you are trading in Dollars, and whatever amount it says in the “Amount” part of the trading ticket is what you will risk in Dollars. Let’s say you live in England, and your account is in Sterling. What happens when you trade in another currency?

Not much actually.

The moment the trade you opened has been closed, you will have a profit or a loss in US Dollars. Your profit or loss is immediately swept back to your “local” currency, using the exchange rate of that moment in time.

What if you live in Portugal and you trade CFDs? Well, your local account will be in Euros, and so when you have made a profit or a loss in another currency, it will simply get converted into your local account currency, and either credited or debited to your account. It is as simple as that. The best way to find out what currency your “Amount” size is, is by looking at the currency named by the margin estimations. Whatever three letters you are seeing there will tell you what currency you are trading in.
GBP = British Pounds
USD = American Dollars
JPY = Japanese Yen
EUR = European Euros

Take a look at the trading ticket below:

Here we are trading the “UK 100”, which is the FTSE 100 index in England, and you will be trading in GBP.

When you are trading currencies like Euro Dollar or say Australian Dollar vs. Canadian Dollar, just take a look at the currency next to the margin estimation.
Let’s take a look at the AUD/CAD (Australian Dollars vs. Canadian Dollars).

As you can see, your stake size in the Amount will be Canadian Dollars. Once the trade is completed, you will then have your profits or losses converted from Canadian Dollars to your local currency. Of course, all of the above can be avoided, if you find a broker that offers you Single Currency Trading. Then all your stake size will be in your local currency.

Did You Know?

I trade LIVE on a daily basis through my free telegram group. Find out more below.
https://tradertom.com/telegram-signals/
With the foundation now firmly in place, it is time to hit the ground running. I will now show you examples of how to fill in the tickets for different instruments and for different order types. I will show you some case stories of great trades and not so great trades. Hopefully you will be inspired by the former and learn from the mistakes of the latter.

First you select which instrument you wish to trade. I have used the trading navigator at TD365 for this purpose, but all brokers will have this navigator.

Here you can see the various sectors you can trade there. There are cryptocurrencies, stock indices, FX, individual shares, commodities such as oil and metals. So, there is no shortage of things you can trade.
I want to take you through an example of some of the major groups that I trade myself. I frequently trade currencies, commodities, stock indices and individual shares. I will show an example of a currency trade and a trade in an individual stock. By then you should hopefully understand the process of CFD trading.

**Case Story: Trading a Currency**

If you want to learn more about charting, then I recommend that you download my free e-book. The book can be found here: [https://tradertom.com/the-first-trading-manual/](https://tradertom.com/the-first-trading-manual/)

In there you will find examples of how I trade using charts. On the chart below, I am following a currency pair called Dollar Yen. It is me trading the US Dollar against the Japanese Yen.

At the time of the trade, the market is trading where the black arrow is pointing. The trading ticket at the time looks like the one on the right. The exchange rate is trading at 113.897 – 113.905. The spread between the buy and sell price is 0.8.
I decide that based on the pattern that I am seeing, that Dollar Yen is headed lower. The pattern I am referring to is called a “shoulder-head-shoulder” pattern. I have drawn it on the chart, using 3 black horizontal lines. This pattern suggests that Dollar Yen is headed down.

So, I am now going to sell short the Dollar Yen. What that means is that I am speculating that the market will fall. I sell at 113.897.

Over the next few days I am watching the market closely. Making money trading is fun, but as you never know what will happen next, it is important to treat trading as a serious endeavor. Otherwise you can quickly lose money.
I am short Dollar Yen, so I want the currency pair to fall. It does fall, and it falls rather a lot. After a few days I look at the trading ticket and it looks like this:

![Trading Ticket Image]

You recall I sold it short at 113.897. Now I can “cover” the trade, by buying it back. When you are short something, and you want to close it, you need to buy it. That is how you close a short position.

I shorted it at 113.897 and I can close it at 112.967.

How much have I made?

113.89 minus 112.96 = 93 points

What was a point worth for me?

In this case I put in 15,000 yen per point. I made 1,395,000 Japanese Yen. It sounds like a lot, doesn’t it? Once you convert it back to US Dollars, it is a more modest sounding amount. I made a little more than $12,000 on that trade.
The important thing to remember is that if you are new to the art of speculation, then take it slowly. You will get there soon enough. When I started trading, I was trading £1 a point. The first time I went to £2 a point, my heart skipped a beat. It is important to develop at your own pace.

There are many people who will tell you how to trade and tempt you to buy their systems and their methods. I have nothing against education, but before you spend money on education and systems, maybe you should just get hold of a good book about trading and absorb that.

Towards the end of this book I will show you how to download my own 180 page e-book on trading. It doesn’t cost anything, and it will without doubt save you a lot of money in education. I wrote it after a friend of mine was ripped off on a course that cost him £3,000. I decided to write a course for him and everyone else, and simply give it away for free.
Case Story: Trading a Stock

When CFDs were invented some 20-30 years ago, it was actually mostly used for trading individual shares. It was only in the 1990’s and in particular in the late 1990’s that CFDs became popular to use on stock indices.

I also use CFDs to trade individual shares. I want to show you how simple it is to trade an individual share. Here I am executing a trade in the German car manufacturer called BMW.

![Price Ticket for BMW](image)

As you can see from the price ticket, BMW is trading at 73.80 - 73.97. The difference between the buy-and-sell price is called the spread.

The spread here is 17 points. Up until now I have shown you examples of financial instruments where the spread was very narrow. Here is an example where the spread is wider.

I decide that BMW looks like a share I want to buy. I know I only want to risk 45 points, so I buy at 73.97 and I put a stop loss at 73.52.
One thing that you need to know about trading individual shares is that even though the spread – the difference between the sell and the buy price – is wider, there are some advantages to trading shares using a CFD instrument, rather than buying the physical shares.

1. You don’t pay commission when you buy the shares. The commission is built into the spread.

2. You don’t pay Stamp Duty, a tax that many countries impose when you buy shares. The reason you don’t pay Stamp Duty is because you don’t actually buy the physical shares. You are buying a derivative of the real shares.

3. You still receive any dividends that are being paid out, if you have bought the shares as a CFD.

4. You have the ability to go short. This means you can take outright speculative positions in shares falling, or you can hedge your physical share positions, if you feel there is a strategic need to do so.

5. You are trading it on margin, so unlike when you buy physical shares, you don’t have to pay up the full amount of your investment. You only have to deposit typically 10% of the value of your investment.

The trading size in shares is a little different to when you are trading stock indices, currencies and commodities. You are still risking an amount per point, but what I want to explain to you is how you calculate what your “stake size” is equivalent to – if you had bought the physical shares.

In this case I have noticed that other German car makers are performing well, and I decide to buy BMW shares. I put in 10 into the Amount in the trading ticket. What does that mean?
It means that I am risking 10 euros per “point”. When you are trading a share, a “point” is the same as a penny move, or as it is called in the Euro, a cent. If BMW rise in price from 73.10 to 73.11, then it has moved one cent, or one point.

So, you see, if you are buying €10 per point, you are essentially buying 1000 shares. It is easy to see why. If you buy 1000 shares, and BMW falls 100 cents, which is the same as €1, then your share investment has lost €1000.

If you buy €10 a point, and BMW falls 100 points - €1 – then you have lost €1000.

A Losing Trade

I am watching the development in BMW closely over the next few days. Unfortunately, BMW shares are falling. I come in one morning and I see the BMW shares are now trading at 72.93 – 73.10. You may remember that I had put a stop-loss at 73.52. If I had not put in a stop-loss, my loss would have been considerably bigger. My loss was 73.97 minus 73.52 = 45 points.

Each point was €10, so I have lost €450. If I had not put in a stop loss I would currently be sat on an open loss of 73.97 – 72.93 = 104 points = €1,040!
As you can see from what you have learned so far, being able to trade on margin enables you to take on a bigger risk with a smaller amount of funds.

If margin is 10:1 then you need to deposit 10% of the value of your trade, but if margin is 100:1, then you only need to deposit 1% in margin. You can obviously take on more risk with a 100:1 than a 10:1 margin requirement.

Is that a good thing?

Well, for someone like me, who knows what I am doing, it is a good thing. However, when you are learning to trade, you need to start slowly and build up your expertise.

There are big differences in the margin made available to clients. For example, if you open an account with a European CFD broker, then you are subject to much more restrictive margins than if you open an account with a broker outside Europe.

As of August 2018, ESMA, The European Securities and Markets Authority, have tightened its restrictions on CFD trading. This means that the amount of margin on various products has been severely restricted, compared to what it was before.

For example, the most leverage that a client now can get in Europe is 30:1. It is not all bad, because ESMA has also created by law a rule that states that clients can’t lose more than is available on their trading account. Negative balance protection, as it is called, means that a client can’t end up owing the brokerage money.
These rules do not apply to clients that obtain professional status and, moreover, brokers outside the EU are not bound by these regulations. For instance, it is possible to open an account with a host of companies outside the European Union. I have written about these changes extensively on my website www.tradertom.com. In particular you should consider reading the following two articles:


https://tradertom.com/are-brokers-creating-a-dangerous-situation-with-the-new-pro-status/

I spent a considerable amount of time investigating brokers all over the world. In most places there are very little consumer protection, but in Australia there is. I found a great broker there that offers 200:1 and is regulated by ASIC, the Australian Financial Regulator. The company is called TradeDirect365 (https://tradedirect365.com.au/). I wrote a review about them here:

https://tradertom.com/independent-broker-platform-review/

If you have any questions on broker choice, or you want a great book offer when you sign up for a broker, then email me on hello@tradertom.com
I have written an extensive trading course, which I am giving away for free. It is a 180-page book you can download free of charge. You can find it here: https://tradertom.com/the-first-trading-manual/

Course Material

1. The 24-Hour Trading Cycle
2. Basic Technical Analysis
3. Price Action & Price Behaviour
4. Principles of Price Action & Trend
5. Trend Indicators
(6) Daily Work Routine
(7) Candlestick Charting
(8) The Essential 8 Candle Patterns
(9) Understanding Chart Time Frames
(10) Trade Entry Technique 4 Bar Fractal
(11) Divergence Strategies
(12) Managing Your Risk
(13) Forex Markets & Forex Trading
(14) Basics Facts of the Forex Market
(15) Practical Forex Trading Terminology
(16) Quick Guide to Spread Betting / Trading
(17) What Makes Markets Move?
(18) Case Stories & New Entry Techniques
(19) Trading Psychology
A Few Final Words on Single Currency Trading (SCT)

I hope I am not going to confuse you by writing about Single Currency Trading again. I will take my chance, because Single Currency Trading is just like trading CFDs, but it is just a smarter way of doing it.

Not all brokers offer it, so please bear that in mind. TD365 in Australia offers it, but I don’t know any other brokers outside of England that offers Single Currency Trading.

Single Currency Trading originates from England, where traders place all their trades in British Pounds. As you know by now, when you are trading say the Dow Jones Index, you are trading in US Dollars. Your stake size per point is nominated in US Dollars. The same goes for the DAX, for example. When you are trading the DAX, your stake size is nominated in Euros, because DAX is trading in Euros.

What Single Currency Trading does is to do away with all the different currency nominations you are trading. You no longer have to worry about trading in US Dollars when you are trading American instruments or worry about trading in Japanese Yen when you are trading say Yen denominated currencies or the Japanese Nikkei index.

Instead, what SCT allows you to do is to place all your trades in the same currency. Usually that currency is your home currency. So, for example, if you are based in Italy, you will want to trade in Euros, and if you are based in Norway, you probably want to trade all your trades in Norwegian Kroners.

Let’s take a practical example to illustrate how easy it is to trade with SCT. I have a friend in Norway called Steinar. He is a hobby trader, but a very good one. He likes to trade the English FTSE 100 index. Now the FTSE 100 index (called UK 100 because of copyright protection) is trading at 7093-94. Instead of buying the FTSE 100 at 7094 using a British Pound stake size, he simply uses Norwegian Kroner.
So, in the “Amount” on his platform, the number he writes is his exposure per point in Norwegian Kroner. Steinar never has to worry about making too big or too small trades, because he perhaps is not sure how much a US Dollar or a Euro or a Pound is worth in Norwegian Kroner. He knows how much he wants to risk in his own local currency.

Single Currency Trading is just like CFD trading – in every respect – except for the fact that you are always trading with stakes in your own currency. So, for my Danish trader friends, they trade with TD365 using Danish Kroners as their stake size.

The prices move the same way, the margin is the same, all the products are the same. The only thing that is different is that your stake size per point is now always the same currency.

It is a much smarter way of trading because you always know the value of your “local” currency.

SCT is only available through TD365 in Europe. All other brokers offer CFDs instead.
**Demo Account**

There is no substitute for the real trading experience. There are a few reasons for that. One of them is that making money on a demo account might give you a little bit of fun, but isn’t it better to have earned them on a real account, so you can withdraw the money and spend them on life’s necessities and enjoyments?

Another reason is that trading is quite a psychological game to play and you will find that your trading on a real account might not be so objective as when you are trading on a demo account. Nevertheless, there are some great reasons for using a demo account to begin with.

1. You can practise trading with no risk.
2. You can learn how the platform works.
3. You can practise placing orders and stop-losses.
4. You can learn how the charts work.
5. You can test your trading techniques with no risk.

Where can you find a good demo account? You can find an excellent one at TD365 by following this link: [https://tradedirect365.com.au/trading-platforms-demo/](https://tradedirect365.com.au/trading-platforms-demo/)

You will receive a virtual $10,000 and there is no time limit on your account. Another great trading platform you can use is the ETX Capital demo account. You just need to be aware that if you sign up for a real account with ETX Capital, the most margin you can trade on is 30:1, as opposed to 200:1 with TD365.

[https://www.etxcapital.co.uk/account/demo-sign-up](https://www.etxcapital.co.uk/account/demo-sign-up)
I have created a FREE book parcel for you. It consists of 7 books. If you email me on hello@tradertom.com, I will let you know how you can get all 7 books sent to your home address anywhere in the world.

It does require that you open an account with a broker, which I have an affiliate deal with. The books are physical books, not e-books, and you really do get them sent to your home. I consider 3 of these books essential to your education as a trader.

I have sent this book parcel to all corners of the world, including Australia and Russia.
I want to say thank you for downloading my 30 Minute Guide to CFD Trading. I hope I have lived up to my promise: to teach you all there is to know about CFDs in just 30 minutes. If it took a little longer than 30 minutes, I hope you found it to be worth the extra minutes you spent.

I love trading, but as I get older and hopefully a little wiser, I have come to like teaching other people how to trade. When you trade, and you made a good return, it feels great. When you teach, and you have an interested student, who then goes on to do well in trading, it feels great too, but it is a more lasting sensation. It feels as if you have made a difference in someone’s life.

I have written an e-book, which you can download free of charge. I argue it is better than some of those £3000 courses you see advertised. I hope you will take the time to download it and send me your feedback.

I hope our paths cross one day. Until then, I wish you a great journey.

Kindest regards

Tom Hougaard

28 November 2018.