



CAPITAL  
STREET|FX

## INTRODUCTION TO CFD



Capital Street FX

Level 6, GFin Tower, 42 Hotel Street, Cybercity, Ebene 72201, Republic Of Mauritius

Ph. No.- +1-949-335-4314, Mail Id- support@capitalstreetfx.com



## **Introduction to CFD**

There are many different ways to trade and invest in the market such as physical stocks (delivery based), physical bonds (delivery based certificates), physical commodities etc., as well as others such as options, forwards, futures and so on. And CFD is being one of such instruments - perhaps the most flexible instrument that can replicate all the others etc. So what is a CFD?

A CFD is a contract for difference between where a trade is entered and exited. This kind of financial derivative allows traders to take advantage of price movements without the need for ownership the underlying asset. Some CFDs mirror the spot or market pricing for the underlying value, others are based on the futures market. Therefore, some CFDs have expiry dates which are associated with the settlement date of the related futures contracts.

## **Why choose CFDs?**

There are some reasons why CFDs should be preferred for investment, let's discuss them briefly:

Firstly, as investors who own the contract do not own the underlying asset, CFDs dispel the risk that traders have to take physical delivery of the asset. Not every trader does have the actual desire to own 5,000 bushels of wheat or 1,000 U.S. barrels of crude oil (Standard Futures Contract Size) or a large amount of other commodity.

Secondly, CFDs provide high leverage. This means investors especially those private ones only have to open a much smaller account compared to trading the actual asset and deposit a small percentage of the overall value of the trade for a position of commodities. This is called 'trading on margin' (or margin requirement). The reason why traders can pay less when trading commodity CFDs compared to futures is that they do not have to take the standard size traded on the futures market which would cost thousands of dollars.

Standard leverage in the CFD market begins with as low as a 2% margin requirement and as high as a 20% one depending on the underlying asset. The lower the margin requirement is, the less capital outlay is required and the greater potential returns the trader can magnify.

Another inherent advantage of trading with CFDs is that the CFD market typically does not have short-selling rules. Since there is no ownership of the underlying asset, traders can short an instrument anytime and do not have to pay borrowing cost or execute short-covering.

Furthermore, traders have easy access to any market that is open from the broker's platform as most CFD brokers offer products in all major markets. In addition, no hidden fee is charged for trading a CFD. A trader pays the ask price when going long and takes the bid price when shorting or selling and brokers

## **Capital Street FX**

Level 6, GFin Tower, 42 Hotel Street, Cybercity, Ebene 72201, Republic Of Mauritius  
Ph. No.- +1-949-335-4314, Mail Id- support@capitalstreetfx.com



will make money from trader paying the spread. Depending on each asset, the spread can fluctuate fractionally or widely or can even be fixed.

### **Costs of CFD trading?**

**Spread:** Spread is the difference between the buy and sell price. Traders pay the spread by taking buy price quoted when buying trade and taking the sell price when exiting. The narrower the spread, the less the price needs to move in your favor before traders start to make a profit. However, paying the spread prevents profiting from small moves, while increasing losses by a small amount over the underlying asset.

**Holding costs:** Holding costs are charged for buy positions and credited for sell positions. This means interest premium is charged on long positions held overnight (any long position opens after the end of each trading day (at 5pm New York time)). For short positions, the interest is paid to traders. The holding costs vary from asset to asset, depending on the direction of your position and the applicable holding rate. Because each day a trader holds a long position costs money, a CFD is not suitable for buy-and-hold trading or long-term positions.

**Commission (only applicable for shares):** Equity CFDs are subject to commission charges which vary by market. For example, commission on UK and most European-based equities starts from 0.1% with a minimum commission charge of £9. Commission for most US equities is from 0.15% and for Asian equities is from 0.2%.

### **Trading hours for CFDs**

The trading hours for CFDs depend on the hours in which the underlying assets for CFDs are traded. Currencies are a 24 hour market, so currencies are available for trading as CFDs the whole day, 5 days a week

Stocks are traded for between 6-8 hours a day, depending on the stock exchange where the stock is traded. In the United States, this is from 1.30 GMT to 8.00 GMT. In Europe, this is from 8 am GMT to 3/4 PM GMT. For stock index futures, the trading hours correspond to the hours of operation of the individual markets.

## **Capital Street FX**

Level 6, GFin Tower, 42 Hotel Street, Cybercity, Ebene 72201, Republic Of Mauritius  
Ph. No.- +1-949-335-4314, Mail Id- support@capitalstreetfx.com