TRADING EXAMPLE

Capademy Tutorial Series

What is Trading?

Trading means buying and selling financial instruments to make a profit from the change in price. A global financial market is a pool of opportunities for traders to benefit from fluctuating price. Now a day anyone with a computer and internet connection can start trading company shares, commodities, indices and currencies literally from anywhere in the world.

What is a short and long position?

Short and long positions are trading terminology's where short position represents selling first and buying later, while long position represents buying first and selling later.

Let's understand the short position. When a trader thinks that the price of a particular instrument is going to fall, they open a short position. They sell the underlying instrument and expect the price to fall. If the price fall, the trader will book profit, and if prices rise, the trader will book loss.

Now let's understand the long position when a trader thinks that the price of an instrument is going to rise. He buys the underlying instrument, that means he opened a long position. If the price of the instrument rises, the trader will book profit, and if the price of that instrument fell trader will book loss.

What is CFD trading?

CDF is a vehicle built especially for traders to speculate on the price moment of different instruments such as stocks, commodity futures, index or Forex. CFD stands for **Contract for Difference.** It helps traders to speculate on the price movement without actually owning the underlying instrument.

CFD has many benefits:

- A trader can go long or short based on his market analysis
- There is no delivery of the underlying product, so the settlement process is fast and easy.
- CFD maximise the exposer to the market as a trader needs a single account to trader US base companies, European companies or Asia-pacific base companies.
- CFD trading can provide a greater reward as it provides high leverage.

Simple trading example

We will explain how to trade in CFDs through a simple example

Step 1. Firstly, we have to select an instrument to trade. We can choose a stock, an index, a commodity, a currency pair, or a cryptocurrency. Suppose we decide to trade on gold. We assume that a single CFD (an ounce of gold) of gold futures costs $1500, i.e. Market price.

Step 2. The maximum leverage on gold is 100:1. So, if we have $1200, we can open a deal of up to $120,000($1200*100 = $120,000).

So, we can buy/sell 80 contracts with investment capital.

Step 3. Choose whether to go Long or Short. Analysis of the market with your strategy and decide whether you want to go long or short. Suppose we think the price of gold will go down. We open a short position at 1500 dollars for 80 gold CFD.

Step 4. Let us assume the price of gold fell by $5. So, we can close the position and book profits. So what is the profit we made on this trade?

Open rate = $1500

Close rate = $1495

Difference =$5

Profit = 5* 80 =$400

Now you know the basic idea of how a trade deal works. Capital Street provides a ton of free educational resource, so keep learning, and if you need our help, simply contact us, we will be happy to assist.

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