DO'S AND DON'TS OF SPREAD BETTING

MF Global Spreads guides us through some fundamental strategies in order to minimise your risks – and increase your form when spread betting

BACK IN THE MID-1980S IT WAS THE SOLE preserve of savvy City dealers but spread betting – which enables you to take a position on the direction of shares, commodities or stock market indices – is increasingly popular among ordinary investors, with as many as 150,000 people now opting to play the markets in this exciting way.

Spread betting may be high risk, but it's potentially a very profitable way to trade. You can choose from literally thousands of markets, with the flexibility to bet long or short. This means you can profit from bull or bear conditions– it's a tool that's not only useful during the boom times. This method of trading is also treated favourably by capital gains tax (CGT) rules; under current UK tax laws, spread betting profits are free from CGT as well as UK stamp duty.

So how does it work? The spread-betting company will quote a bid (selling) and offer (buying) price for, say, the FTSE 100 index, at 5,016 and 5,018. The difference between these prices is the spread. If you think that the index will rise, you might "buy" at £10 a point at 5,018.

If you allow your bet to run until the market's close and the FTSE rises to 5,053, then your profit is the difference between the closing price and the opening price you were quoted, multiplied by 10, giving a total of £350.

MF Global Spreads are part of the huge investment mother company MF Global – but they remain very approachable to the novice investor. They have an experienced team of dealers who will not only take your trades and orders, but also answer any questions about their services. For online dealing, their interface is browser-based so you can trade wherever you have access to the Internet. MF Global Spreads system is secure, fast, robust and carries flexible real-time account information.

Spread bettors are increasingly using charting tools, which show how a stock or index has performed. MF Global Spreads currently offers 12 months of free access to technical analysis.

DO RESEARCH THE MARKET YOU ARE GOING TO TRADE IN EXTENSIVELY

Know what the biggest move has been in that market and make sure your trading strategy is able to accommodate a bigger move. One well-known commentator recently declared that in all of his 10 years of trading, he had never experienced markets like those we are faced with today. He may have been surprised, but he only had to look back to 1987, hardly a blip in financial history terms, to see markets in a far greater state of chaos.

DON'T LISTEN TO OR FOLLOW TIPS

Often the person who has advised you of a good move will not be around to instruct you when to exit the position. Some of the most disastrous trades are made when somebody receives a hot tip, only for conditions to take the most unexpected turn. Because the tipster is no longer around, they don't know when to cut. Information and situations change, but if you are not privy to those changes then you're vulnerable. A little bit of knowledge can be very dangerous in financial trading.

DO PUT YOUR EGO TO ONE SIDE

There are times when you will be wrong in your trading decisions. When you're wrong, you need to accept it – and be prepared to cut the position quickly. This is a particularly difficult skill to cultivate, as we all want to be right, all of the time. If not properly contained, your emotions could lead you to commit the classic trading mistake of running your losses too long and sometimes taking your profits too early– all because you want to validate your decision making.

DON'T OVERTRADE IN FREQUENCY OR SIZE

This is the most common reason for traders' lack of success. Remember that for a spread better, not trading is an active trading decision. This should be the default approach when you realise you don't have the expertise or knowledge to commit funds to a position. To control risk, it can be useful to set up a "stop-loss" limit, which will close your trade at a set level if the price moves against you. Otherwise, you could be facing unlimited losses if the market turns.

DO TAKE MONEY OFF THE TABLE WHEN NECESSARY

If you've enjoyed a successful trade, then why not withdraw some of your cash and enter into a different asset class? If you profit from a trending market and you continue to plough those profits into making your holding bigger, then by definition you will have your biggest position at the top of the market. Some investors use spread-bets to hedge, or protect, their positions. A concerned investor with £10,000 saved in a FTSE 100 tracker fund might "hedge" the position by selling the index on a spread-bet.

DON'T ENTER THE MARKET WITHOUT A PROPER MONEY MANAGEMENT STRATEGY

One of the most successful traders ever seen in the spread betting industry is Mark Shipman, whose book "The Next Big Investment Boom" is a worthwhile read. He never puts more than 5% of his "investment pot" into any one position. Walking into a casino and putting all your money down on black or red is not investing - but that's effectively what traders do when they put all their risk capital into a long or short position.

MOST INTRIGUING SPREAD BETTING STORIES...

Maybe you, your family or colleagues have heard of the following stories – can you identify the punter? Or maybe it was you?

- A well-known politician who wanted to set up a market in the number of bodies found at Fred West's Cromwell Street house in Gloucester in 1995.
- **A famous TV commentator who made a mistake with his bet size when trading the $/Yen. He phoned the dealer and was overjoyed, believing he was making £12,000 in his position. He was even happier when he was informed of his error and told that he was in fact making a fantastic £120,000.**

- A particularly well-traded market was the amount of times that Gordon Brown said "prudence" in his budget speech.
- **The largest shareholder in a biotechnology company, who placed a £6m spread bet on the firm shortly before its IPO in 2002**
- A client who went long of £1 per cent when Google was issued at $85, and kept it all the way to the near high of the stock at $600 – making a £50,000 profit for an initial outlay or margin payment of less than £1,000.
- **The former property developer who gave up renovating houses to spread bet full-time – last year he boasted impressive returns of 1,400%, against 2% for the FTSE All-Share index, and earns well in excess of £100,000 per annum (despite losing £100,000 in his first year).**
- Suspicious betting patterns from people who should know better – trading the former Labour Party leader John Smith's position at the end of 1994, seemingly knowing that the politician had just died from a heart attack.