

# OVERVIEW AND DEALING ONLINE

## FINANCIAL SPREAD BETTING

In this module we look at the basics: what financial spread betting is, and how it works. We look at some worked examples, as well as how to place a deal online and other basic features of our dealing platform. We also discuss why this method of accessing the markets has become so popular in the last few years and the advantages that spread betting offers over other means of market access.



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# WHAT IS FINANCIAL SPREAD BETTING?

**Financial spread betting is a versatile and efficient way of accessing financial markets. You can use it to deal on a huge range of outcomes, from the performance of the FTSE 100 on a given day to the price of gold at some set point in the future.**

Spread betting is a way of gaining exposure to the performance of a financial market or instrument. You can set up this exposure so as to profit when the chosen market performs well (or lose money if it performs badly), or if you expect the market to fall you can place your bet so you profit from downward movement instead.

The performance of the market governs not just whether you win or lose but how much as well. If you back a market to go up, you will make more the further it goes up and you will lose more the further it goes down.

Unlike conventional betting where your stake is a fixed sum, a spread bet is not limited by the money you put down – so your profits (or losses) can exceed your initial deposit.

The one thing that spread betting does have in common with fixed-odds betting is the notion that all transactions are truly bets and this offers an advantage common to all bets: all profits are free of tax (tax law can be changed or may differ depending on your personal circumstances).

When placing a spread bet, you may well be opting to 'buy' orange juice or 'sell' shares in Lloyds Banking Group but, despite the terminology, you are never taking ownership of any physical commodity or share. Instead you are using the performance of those instruments over time as an underlying benchmark for your bet with us.

## IN SUMMARY

- You can back markets to go either up or down
- The more successful your trade, the greater your returns
- The more unsuccessful your trade, the greater your losses

## SPREAD BETTING IS A WAY OF GAINING EXPOSURE TO THE PERFORMANCE OF A FINANCIAL MARKET

# COMPARING SPREAD BETTING TO SHARE DEALING

**Spread betting has more in common with conventional forms of trading, such as buying shares or futures trading, than it does with normal betting.**

## EXAMPLE

Let's say that you thought there was value in the share price of GlaxoSmithKline and that a rise in the price was likely over the next month or two.

One way to exploit that view would be to invest in GlaxoSmithKline by physically purchasing a number of shares in the company, with a view to disposing of them at a greater value than they originally cost. Another way to back such a judgement would be to place a spread bet, backing the price to rise.

For both the share purchase and the spread bet, the larger the deal size, the more you would stand to make or lose for a given market movement. If you wanted to exit the position (either because it was going well and you wanted to realise your profit or it was going badly and you wanted to cut your loss), with the physical purchase, you could choose to sell your shares at any time at the prevailing price. Similarly, you could choose to close a spread bet out at any time at the current price that is being made for that market.

A major difference between a spread bet and a conventional fixed odds bet is that spread bets are regulated by the FCA (Financial Conduct Authority), which provides you with substantial benefits and financial protection.

# HOW SPREAD BETTING WORKS

When we provide a price for a market, we quote a price with our market spread: two prices either side of the underlying market value. You can 'buy' at the higher price (anticipating the market will rise), or 'sell' (anticipating the market will fall) at the lower price.

The sell and buy price (they are always quoted in this order) are normally called the **bid/offer price**. The difference between the two is the size of the spread (from which the term spread bet is derived). You sell at the bid or buy at the offer. The bid/offer price is just one of a number of key facets that make up a spread bet.

Another important feature of every quoted spread betting price is the **period**. The period denotes a general indication of the maximum length for which the bet can run. A bet's period could be just for that day, for a specified month or for the end of the year, to name just a few possibilities.

Closely associated with the period are several other attributes that specifically define how a bet behaves if it is left open for the maximum length of time; namely the **last dealing date, last dealing time, the expiry date** and the **expiry rule**.

# HOW SPREAD BETTING WORKS

## CONTINUED

As the name suggests, the last dealing date is the last day on which you can choose to trade out of your bet. Bets can always be closed off before the last dealing time (which is a certain time on the last dealing date), but if you have not closed a bet before the last dealing time, you are committed to holding the bet to expiry.

Expiry is the process by which your bet is automatically settled, and this occurs at a level which is governed by the expiry rule. The last dealing date may or may not be the same date as the expiry date.

All this sounds quite complicated, but if you are not intending to hold your bet to expiry, the good news is that you just need to be aware of the last dealing date and do not need to worry about the intricacies of the settlement procedure.

If you choose to place a bet you will also have to consider the bet size. The bet size is always expressed in terminology of units of currency per point of movement. Most frequently, UK clients choose to deal in pounds per point (£/point), but it is possible for bets to be denominated in quite a large number of other currencies.

### IN SUMMARY

- You sell if you expect the price to drop
- You sell at the bid price (the lower end of the quote)
- You buy if you expect the price to rise
- You buy at the offer price (the higher end of the quote)
- Bets are denominated in units of currency per point (usually £/point)
- Bets can always be closed off before their last dealing day
- Bets held beyond a specified time on the last dealing day will automatically expire

## EXAMPLE 1

# SELLING THE FTSE 100

The FTSE 100 index is trading at 5827.5. You feel the market is set for a down day and decide to place a spread bet, selling the index.

You check the quoted spread for our FTSE® 100 market and we are quoting: 5827/5828.

The bid is 5827, and this is the price at which you can sell, or 'go short' (going short is another term for selling: you are betting that the price will go down).

**If you were buying (or 'going long') instead, your dealing price would have been 5828, the offer price.**

You also need to decide what size of bet you want to place. You cannot place a bet smaller than our minimum bet size, and the bet needs to fit within the trading limits of your account (how this works is discussed in the margin section of Module 4) but other than that, the decision is up to you.

On our introduction programme, however, you are able to deal in bet sizes that are smaller than our usual minimums, so you have time to get used to spread betting and our dealing platform. The minimum for clients in the first two weeks of the introduction programme is just 50% of our listed minimum bet size.

You decide to sell £2 per point as you are fairly confident and you plan to close your position by the end of the day.

Spread Betting Ticket

FTSE 100 (DFB)

Deal Order to open

Size: 0.5 (Min: 0.5 Amount/Pt)

Currency: GBP

Force Open ☒

Advanced options

Close Conditions ☐ Points ☒ GBP

Stop: GBP (Min: £2)

Guaranteed Stop ☐

Limit: GBP

Margin Required: GBP 50.00

## EXAMPLE 1

**SELLING THE FTSE 100**

## CONTINUED

So you have sold £2/point at 5827. You will be making £2 for every point that the index falls below 5827. If you are wrong and the index goes up, however, you will be losing £2 for every point it rises.

Over the course of the day, the FTSE fluctuates up and down with the habitual ebb and flow of buying and selling in the market. At midday, however, the Bank of England publishes the minutes from its last Monetary Policy Meeting, and included in the account are unanticipated comments indicating the strong possibility of a rise in the base rate at the next meeting. By mid-afternoon the FTSE has fallen sharply.

You check our latest quote for FTSE 100® and we are making 5771/5772. You decide to take your profit while it's there, and buy £2/point to close your position. Because you are buying, you deal at 5772, the higher end of the quote.

When closing a bet you always deal in the opposite direction to the open position. So you sell to close an 'up bet' (another term for buying) and buy to close a 'down bet' (another way of describing a bet where you have sold).

You bought lower than you sold, so that you have made a profit, which is calculated as follows:

YOU SOLD AT	<b>5827</b>
YOU BOUGHT AT	<b>5772</b>
NUMBER OF POINTS' PROFIT	<b>55</b>
55 POINTS' PROFIT X £2/POINT =	<b>£110</b>



# OUR DEALING PLATFORM

It is possible to place bets with us over the telephone via our dealers, from our range of mobile apps, or via our dealing platform. Dealing over the telephone allows you to ask our experienced team of dealers any questions that may arise when placing a bet, and a good deal of our clients enjoy the friendly and efficient telephone service that we offer.

However, most clients choose online dealing, taking advantage of the many benefits it offers, such as near-instant execution of bets, thousands of streaming prices, access to useful product information and a selection of advanced dealing tools.

Our classic platform is split into four specific areas, as shown. All windows can be toggled on or off by using the buttons that appear at the top of the screen. 'Finder', 'watchlists', 'open positions' and 'working orders' are selected as a default, but there are other options that can be selected to offer you further functionality. The 'watchlists' pane at the top shows a list of our more popular markets.

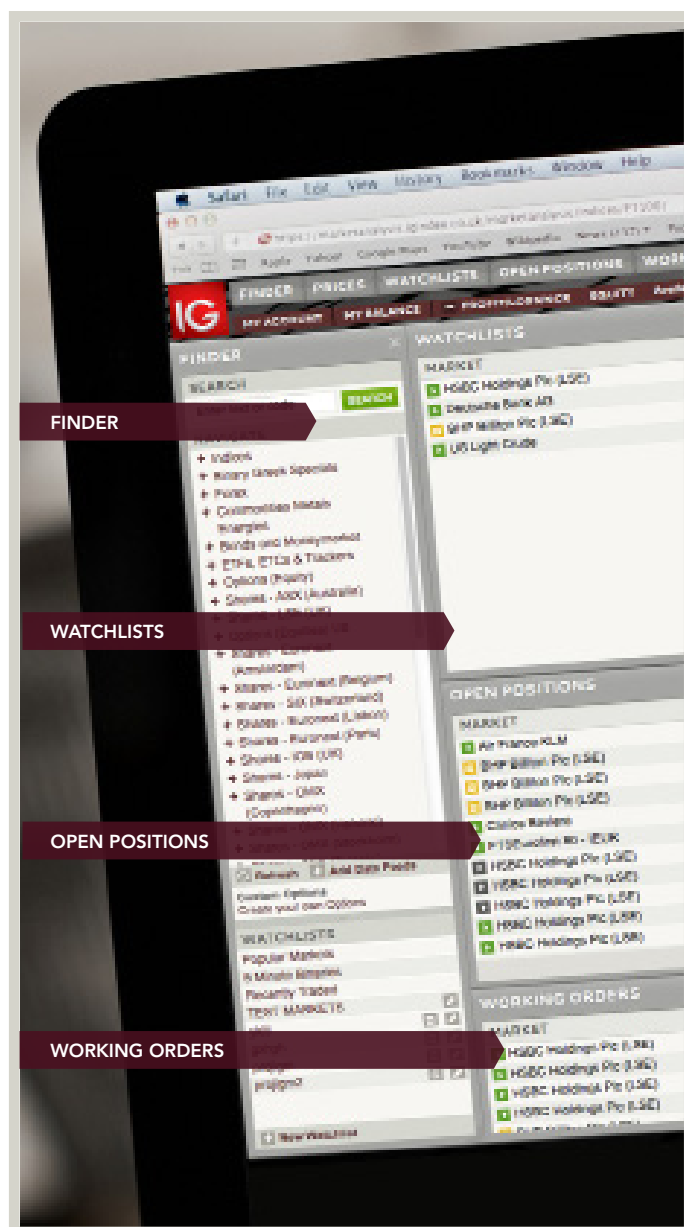
The 'finder' pane on the left is used to navigate to any of our thousands of markets, which can then be displayed as streaming live prices in the 'prices' pane.

From any live price, you can open a deal 'ticket' (with which you can place a bet). You can also choose to add your favourite markets to your own personal watchlists.

## IF YOU'RE USING THE NEW PLATFORM

Introduced in October 2016, our new platform offers an easier-to-use interface as well as the ability to create as many workspaces as you like, split charts across multiple timeframes, and control how we execute your deals.

To get to the new platform, go to your My IG dashboard and click on the 'open new platform' button. If you need help to get started, you can ask a question in IG Community, or give us a call.



## EXAMPLE 2

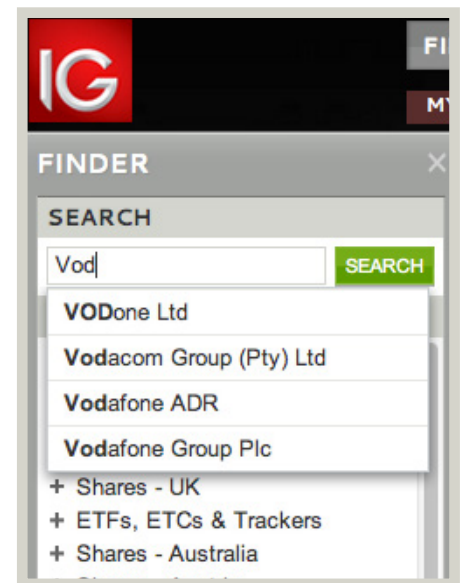
## SELLING VODAFONE

**1** It is early October and you think a fall in the UK share price of Vodafone is likely. Placing a bet selling Vodafone will allow you to profit if the drop occurs. You decide to go online and check what prices we are making on Vodafone.

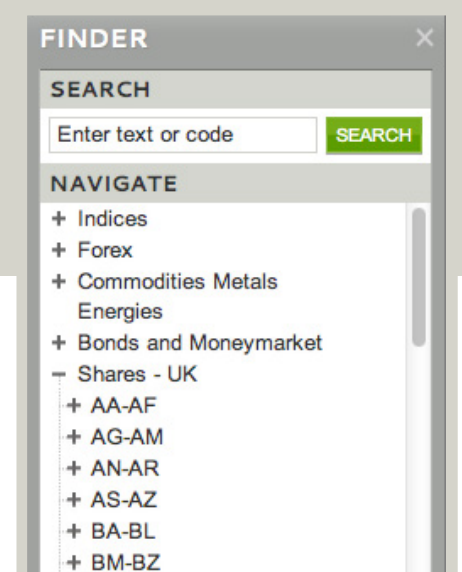
To do so, you first need to access the live price for Vodafone. There are two ways to do so from within the 'finder' section: you can choose to use the navigation tree or use the 'search' function.

Using the 'search' function is as simple as typing in part or all of the instrument's name. As you type in letters, a dropdown automatically displays markets that match; the more letters you type in, the narrower the results that are displayed.

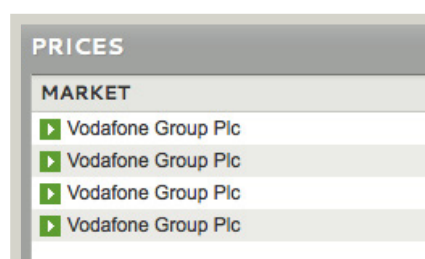
Selecting the market of your choice and then clicking 'search' imports the results of your search into the 'prices' section.



**2** You can also search through our markets using the navigation tree. As Vodafone is listed in the UK, you expand the 'Shares – UK' directory. You then expand the directory that corresponds to the share's initial letter.



**3** Scrolling down to Vodafone and clicking on the directory name, displays all available markets on Vodafone in the 'prices' section.



## EXAMPLE 2

# SELLING VODAFONE

## CONTINUED

**4** In the 'prices' section you can see several bets for Vodafone. The further forwards the contract month, the longer you will be able to hold your bet, but at the same time, the greater the spread as well.

You decide to deal on the MAR-13 forward. Click the green button next to Vodafone Group Plc MAR-13, which launches the deal ticket (clicking on the market name does the same thing).

	PERIOD	CHANGE
	DFB	-0.82
	DEC-12	-0.82
	MAR-13	-0.83
	JUN-13	-0.83

**5** This deal ticket is populated with the current price and allows you to enter the details of the bet that you would like to place.

The bid (176.00) and offer (177.50) of the current price appear in the 'sell' and 'buy' boxes, respectively.

The price constantly updates in both the 'prices' section and the ticket, so that you can sit and wait for the right price to appear in the ticket, if you so wish. To place a bet, you first need to specify a deal size in unit of currency per point. The 'currency' dropdown is usually defaulted to GBP (pounds sterling). For many products there are alternative currencies available, such as USD (US dollars) or EUR (euros). To help you, the minimum bet size is indicated.

In this case you choose to sell £10/point: you enter 10 as your bet size and leave the 'currency' dropdown at the default of GBP.

The bottom half of the deal ticket is an optional section offering the ability to attach further dealing instructions; this is covered in detail in Module 2.

**Spread Betting Ticket**

Vodafone Group Plc (MAR-13)

Deal Order to open

Size 10 (Min: 1 Amount/Pt)

Currency GBP

Force Open

Advanced options

Close Conditions Points GBP

Stop pts away (Min: 2.0)

Guaranteed Stop

Limit pts away

Margin Required: GBP 90.00

The 'requirements' section at the bottom of the deal ticket gives you information (which is specific to you) on how a bet will affect your account. More information on margin requirements can be found in Module 3.

## EXAMPLE 2

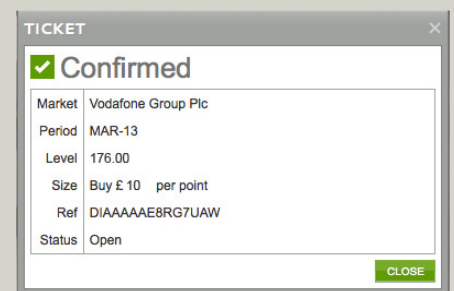
# SELLING VODAFONE

## CONTINUED

**6** Making up your mind that you are happy to deal at the price that is showing, you click on 'sell'.

You receive an acceptance message that confirms the bet you have placed (please note that it is possible for deals to be rejected. The vast majority of deals are accepted, however).

The acceptance message includes the details of your bet, along with a reference number.



**7** As soon as your bet has been accepted, your position appears in the 'open positions' window.

The whole time that your position is open, it is possible to check its profit/loss by looking at the valuation in the 'open positions' screen.

By late February Vodafone is trading lower than where you sold it. Checking our price online, you see that March Vodafone is now standing at **163.5/165**. You decide to close your position and take your profit.

To close your position, click on the relevant deal in the 'open positions' panel.

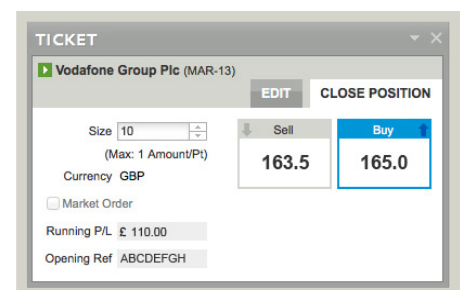


Figure 1

## CLOSING YOUR POSITION

**8** To help you, your running profit/loss for the position in question is displayed in the 'close position' tab figure 1 (which updates with the changing price).

Click on 'buy'. You receive another confirmation back telling you that you have bought £10/point to close at **165**.

Of course if you had instead opted to buy Vodafone in the first instance at 177.5, you would then be selling to close at 163.5, a drop of 14 points, resulting in an overall loss on the trade of £140.

$$\begin{array}{rcl}
 176 & \text{OPENING LEVEL} & \\
 165 & \text{CLOSING LEVEL} & \\
 \hline
 11 & \text{PROFIT (POINTS)} & \\
 \times 10 & \text{£/POINT} & \\
 \hline
 \mathbf{£110} & \text{PROFIT ON TRADE} & 
 \end{array}$$

# ONE-CLICK DEALING

We also offer an alternative way of viewing prices. In the previous example, the prices were viewed as a list. There is another mode in which you can view prices as 'pairs', as shown (you can select the viewing mode using the 'view as' dropdown menu).

Clicking anywhere on a 'sell' or 'buy' price launches a deal ticket. As well as giving you the choice of how price information is displayed visually, the pairs mode also offers another benefit. It is possible to set your account to 'one-click dealing', which allows you to deal on markets directly from prices in the pairs view, without needing to open a ticket.

To enable 'one-click dealing' go to the 'my account' section, which can be accessed by clicking on 'My Account' in the top right-hand of the screen.

Once you have launched the 'my account' window, click on 'settings', then 'preferences'. Select 'allow one-click dealing' and scroll down to the bottom of the page and click 'set preferences'.

Market	Sell Price	Buy Price	Low	High	Change
Vodafone Group Plc DFB	176.62	177.03	176.12	178.33	-0.68
Vodafone Group Plc DEC-12	176.72	177.48	176.22	178.79	-0.68
Vodafone Group Plc MAR-13	176.81	178.28	176.31	179.59	-0.68
Vodafone Group Plc JUN-13	176.79	179.03	176.39	180.40	-0.68

**MY ACCOUNT**

- HISTORY
- DATA FEEDS
- PAYMENTS
- SETTINGS
  - Preferences
    - Username/Password
    - Personal Details
    - Rollovers
- REFER A FRIEND
- CONTACT US
- Helpdesk

**ONE-CLICK DEALING**

One-click dealing lets you enter a deal size directly in size for a market, a single click on either the Buy or Sell price will not be presented with an intermediate screen and your dealing is enabled.

☒ Allow One-click Dealing  
☐ Don't Allow One-click Dealing

**HELP**

☒ Show yellow help boxes on mouse-over  
☐ Don't show

# ONE-CLICK DEALING

## CONTINUED

To view the deal tickets in pairs mode, go to the 'view as' drop-down list in the top-right hand corner of the platform and select 'pairs'.

Now when you look at prices in the pairs mode (figure 1) there is also an 'amount/pt' field.

If you enter a bet size in this field, the 'sell' and 'buy' buttons become dealing-operational as shown in figure 2. Now if you click either 'sell' or 'buy' you will directly initiate a deal. 'One-click dealing' makes it even quicker and easier to place a bet than normal, especially if you pre-fill-in a bet size in the 'amount/pt' field, but you should take care if this setting is enabled. With the intermediate step of the deal ticket removed, you should be cautious not to accidentally place a trade.

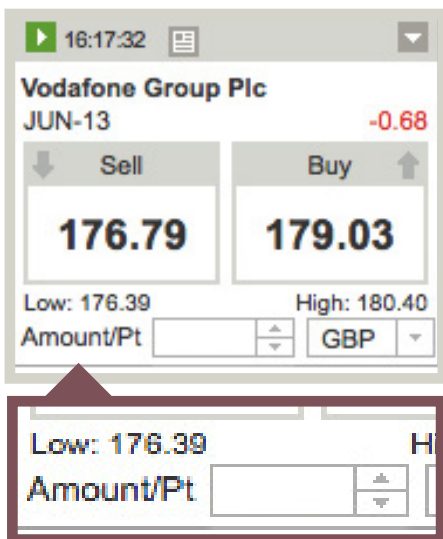


Figure 1

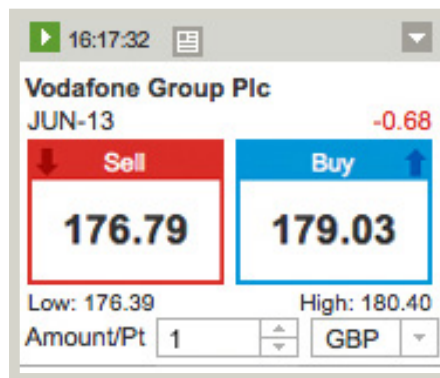


Figure 2

# ADVANTAGES OF SPREAD BETTING

Spread betting as a concept has been around for several decades – IG’s first company, IG Index, was founded in 1974 – but for many years the industry occupied a specialist, niche market appealing mostly to City dealers, the very wealthy or high-level investors. Over the last ten years or so, however, spread betting has been making substantial headway into the public consciousness, and though far from being a mass-market product, does now generate broad interest across a wide range of investors.

There are a number of reasons underpinning this surge in popularity; some are related to the changing nature of retail clients’ dealing habits and some are to do with growing awareness among investors of some excellent benefits that spread betting offers over other forms of trading.

As private investors have become more sophisticated over the years, they have naturally sought more advanced methods of trading. The simple long-term buy-and-hold strategies of conventional shares no longer meet the needs of less risk-averse traders looking to turn quick profits from short-term positions. And spread betting, with its facility to make tax-free profit\* from falling as well as rising market prices, is becoming an increasingly popular way to access market opportunity.

Anyone who has tried to dispose of some shares through a bank or a stockbroker will be aware that there is a variety of service available, from the lax to the excellent. The speed of execution clearly becomes more crucial the shorter the timeframe you are dealing over, but regardless of that, slow execution is frustrating.

\*Tax law can be changed or may differ depending on your personal circumstances.

# ADVANTAGES OF SPREAD BETTING

## CONTINUED

Spread bets are typically transacted in fractions of a second.

Add to that the fact that one account with a good spread betting firm offers access to hundreds of different financial markets from every corner of the world, with liquidity that is often far better than the underlying markets, and it becomes clearer why so many consider spread betting as a worthwhile addition to their trading activities.

It should be stressed that spread betting is best suited to short- to mid-term trading. Those looking purely for long-term growth in their investment will undoubtedly prefer purchasing shares, or other securities, in the traditional way. As well as the benefits already mentioned, spread betting with us also presents the following advantages over conventional methods of trading:

### **SMALL MINIMUMS**

We accept bets that are often far smaller than the minimum transaction size in any equivalent or similar underlying market. Furthermore, during the first two weeks of our introduction programme we will take even smaller bets online.

For example, if you deal FTSE 100 futures in the market, the size of one contract (which is the minimum transaction size that the exchange will accept) is equivalent to £10 per point movement of the index.

The minimum bet size on our FTSE futures, meanwhile, is £2/point and if you are in the first two weeks of the introduction programme you can place bets at just 50% of our listed minimum size.

### **24-HOUR TRADING**

We are open 24 hours a day, from when the markets in the Far East start trading (Sunday evenings London time) through to when the US futures markets shut (Friday 10pm London time). In between then you can deal with us any minute of the day, either online or over the telephone, on a wide range of our core markets, including FTSE, Wall Street and all FX prices, regardless of whether the underlying market is shut.



## SUMMARY

By now you should:

- Understand what spread betting is and how it works
- Have a basic understanding of the term 'expiry'
- Be familiar with the advantages that spread betting offers
- Know how to search for prices online
- Be able to open and close a bet online

Spread bets and CFDs are leveraged products. Spread betting and CFD trading may not be suitable for everyone and can result in losses that exceed your deposits, so please ensure that you fully understand the risks involved.

Please note that although the material contained within our introduction programme is updated regularly to ensure accuracy, the information given is subject to change, often without notice, and therefore may not reflect our most current offering. Our examples are for illustrative purposes only and do not reflect events in the markets. The information is for guidance only and we accept no liability for its accuracy or otherwise.

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