OPTO guides

A beginner's guide to spread betting shares & indices

Learn how to spread bet with this informative guide that will lead you through your first trade and teach you the tricks to trade the market.

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You can join the thousands of people in the UK who are using spread betting to profitably trade the markets. This easy to follow guide will explain how spread betting works, what you can trade and why you should join the growing number of traders who are using the unique leveraging capability of spread betting to turn small sums into large gains.

Learn how you can manage the risks of trading stocks, currency and indices by using clever tricks to prevent huge losses and ensure you capitalise on gains. This guide will also teach you the strategies used by top traders to place trades and how they analyse the movements of the market to identify opportunities.

Discover a world of trading opportunities in this guide that makes spread betting simple.

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WHAT'S INSIDE

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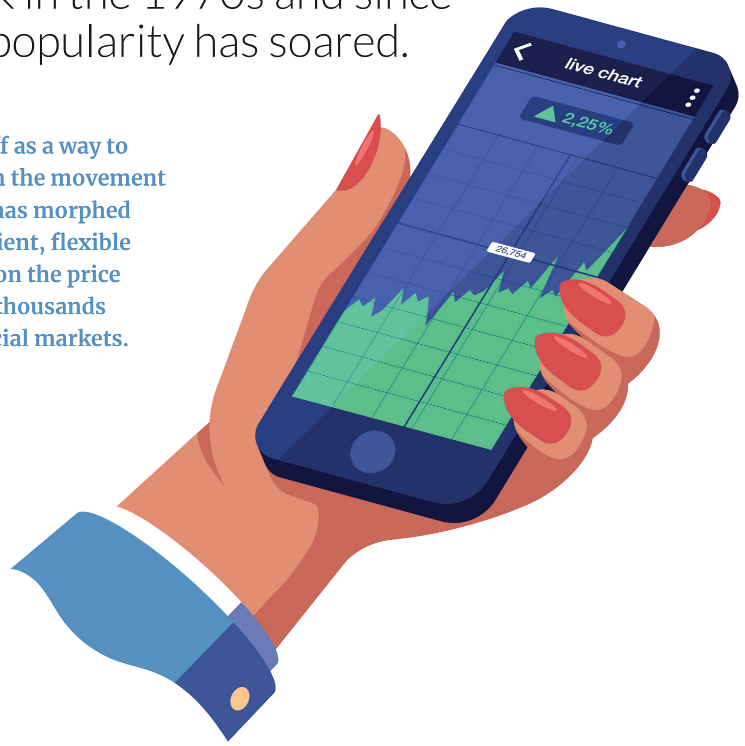
HOW TO SPREAD BET ON STOCKS & INDICES

Spread betting was introduced in the UK in the 1970s and since then its popularity has soared.

What started off as a way to make money on the movement on gold prices has morphed into a tax-efficient, flexible way of trading on the price movements of thousands of global financial markets.



But what exactly is spread betting?
Spread betting is known as a 'derivative' strategy because traders are not buying an asset directly, such as a share, instead they are betting on whether the price of that asset will rise or fall.

Through this strategy traders can trade on the price movements of thousands of global financial markets, including shares, indices, currencies, treasuries, and commodities.

Traders speculate on whether the price of the asset will go up or down. If they believe the price of an asset will rise, then they place a 'buy' bet or 'go long', but if they believe the asset with fall in value, they place a 'sell' bet or 'go short'.

Spread betting can be a risky product without the right risk management. See Chapter 2 to find out more about **managing risk** and leveraged trading.

Why spread bet?
There are a number of advantages that spread betting offers traders over conventional trading.

Lower costs and tax efficiency
Spread betting is a particularly tax efficient way of investing. As traders do not own the underlying asset they are ***not liable to pay stamp duty reserve tax*** - traders currently pay 0.5% stamp duty on all UK share purchases.

There is also ***no capital gains tax (CGT)*** or income tax on profits made through spread betting. But remember, tax treatment depends on individual circumstances and can change.*

Ability to borrow capital
A spread bet is what's known as a 'leveraged' product, meaning traders only have to outlay a small amount of money - a percentage of the full value of the position - in order to make the trade. The rest of the position is covered with 'leverage' or borrowed capital, allowing your capital to go further.

How leverage works:
20:1 leverage on indices means with £1,000 you can open a trade with a value of £20,000

This way of investing is known as trading on 'margin' or on 'deposit' and allows traders to place much larger bets than they otherwise would be able to and potentially be rewarded with large returns on low bets.

However, traders need to remember that the leveraging aspect of spread betting means losses could be magnified just like profits can. Good risk management techniques can keep your exposure in control.

Commission-free trading
Trading with a stock broker can incur a number of costs but spread betting is exempt from many of those costs, including commission.

Fractional share buying
Buying stocks can be expensive, especially when it comes to the big names such as Apple and Amazon. Spread betting traders have the option to take a position on a 'fraction' of a share so they do not need to have the large amount of upfront capital required to buy some shares.

Spread betting gives traders the flexibility to speculate on high value stocks with a small amount of upfront capital.

***Tax treatment depends on your individual circumstances. Tax law can change or may differ in a jurisdiction other than the UK.**

Go long or short
Stocks are traditionally bought, and held, with the hope that over time the price will rise. This bet is known as 'going long' or just 'long'.

While spread betting allows traders to speculate on stocks that they think will rise in price by placing 'long' bets, it allows gives them the ability to place 'short' bets on stocks.

Short positions are the opposite of long positions and traders are speculating that the price of an asset will fall over time. To short the market traders can buy a 'future' that allows them to bet on prices based on future performance.

Holding costs
Spread bets do not incur any commission cost or tax but there is a cost traders should be aware of.

Trades can be subject to 'holding costs' if they are held in a trader's account at the end of the trading day. The cost is incurred for holding a trade in an account overnight and are typically charged at a set daily percentage of the trade. It is essentially an interest payment on the cost of the leverage - or the loan - in the trade.

Example
A trader investing £4,000 pounds at 5:1 leverage means a total position value of £20,000. If leverage costs 3.5% annually then this is approximately £1.90 per day.

The holding costs on bets held overnight is typically outweighed by the fact that there is no tax on the trade and no stamp duty, even if the bet is held for an extended period.

Buying stocks vs spread betting
Many people will be well versed on buying and selling shares on the stock market but investing on the derivative market is very different.

In the example of a stock market trade, the trader buys 1,000 shares in Company A at £100 per share. The original price goes up to £102 per share and the trader sells the stocks, capturing a profit of £2,000 - £2 profit on each share multiplied by 1,000 shares before commission costs and tax.

This trade would have been costly for the trader, who would have needed to invest £100,000 to buy the shares, even before the cost of commissions and taxes.

Compare this to investing in Company A via a spread bet. Assume the bid-offer spread means the trader can buy the bet at £100. They then determine what amount to commit per 'point' moved.

For this example, one point change equals one pence of change up or down in the share price. The trader, confident the shares in Company A will rise, places a £10 per point 'long' bet.

The shares in Company A subsequently increased from £100 to £102, meaning the price has moved up 200 points (or 200 pence).

The trader has bet £10 per point on the price rising, meaning they have gained £2,000.

The spread bettor would not pay commission or tax on their trade and would only require a small initial outlay.

While the stock market trader would have to find £100,000 to invest in Company A's shares, the spread better would only need to deposit a small percentage of trade.

If the trader only deposited 5% or 10% of the trade their outlay would only be £5,000 or £10,000 - a dramatically lower

Spread betting	Share dealing
Tax-free profits*	Pay tax on profits
Trade on leverage and deposit a percentage of the full value of the trade	Buy shares outright and put up the full value of the trade
go long or short with the ability to profit on stocks which rise or fall in value	The ability to profit on stocks which rise in value
Commison is payable on share CFDs	Subject to commisions
Trade on a **huge range of financial markets**	Trade stocks and shares only
Suited to **shorter-term investments strategies**	Suited to long-term investment strategies

Placing your first trade

Placing a bet is simple once a trader has signed up with a platform like CMC Markets. Traders can open an 'order ticket' which allows them to commence a trade by clicking on any streaming price on the platform. However, any individual thinking of doing so must first understand the importance of planning and developing a trading strategy and beware of the risks involved.

The order ticket will show the product name, the sell and buy prices and the real time spread between the 'bid' and 'ask prices'.

The difference between the 'buy' and 'sell' price is known as the 'spread', which is where spread betting gets its name from.

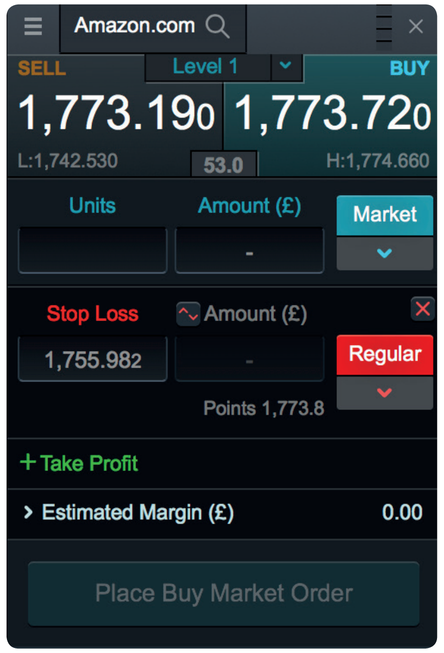
As traders are not holding an underlying asset and therefore cannot buy or sell, for example, a number of shares, they instead buy or sell an amount of points per movement - this is known as a 'stake'.

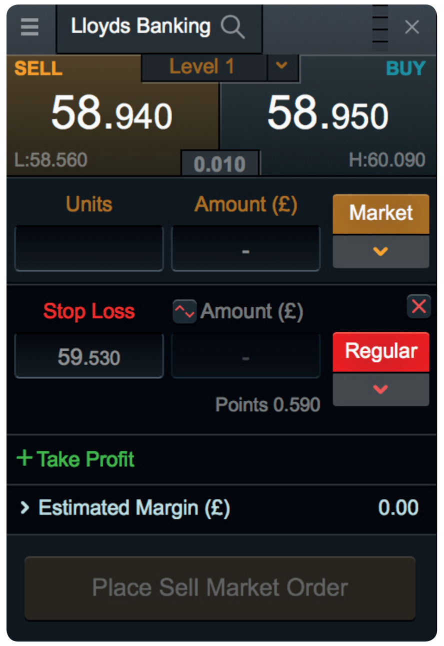
The profit or loss of the bet is determined by the entry and exit prices. The more points the prices move in the direction a trader has bet on, the more profit they make. This also works the other way round, and if the market moves in the opposite direction to the bet, they make a loss.

The number of points moved multiplied by stake size equals profit/loss. For example, a trader puts a £5 per point stake on a stock to rise, it rises by five points, which would equal £25 profit.

The stake price multiplied by the asset price equals your total trade exposure. It's good practice to always be aware of this so you can manage the risk on all your trades.

Click on a price will bring up an order ticket; if a trader believes a price will go up they click '**buy**', and if they think it will go down they click '**sell**'.





Types of bet

DAILY

As the name suggests, daily bets have an expiry of one trading day, at the end of the day the bet will be closed automatically by our platform. Traders can close the bet early at any time during this period and do not have to hold a trade until the expiry.

ROLLING DAILY

A trader who places a daily bet can decide not to close it at the end of the day and instead 'roll' it over into the next trading day. They may do this because they think that the market will move in their favour the next day and want to continue holding it to maximise gains. Where a trader who places a daily bet does not actively opt to 'roll' it over in to the next trading day, the daily bet will expire at the end of the day and will be closed automatically by the platform. There is a small cost for doing 'rolling' over as they will have to pay the daily spread again.

FUTURE

Futures bets allow traders to bet on what will happen in a market or with a stock in the medium term.

Futures are legal contracts to buy or sell something at a predetermined price at a given point in the future. By buying into futures, traders are locking in tomorrow's asset at today's prices, making money on price movements in the intervening period.

The value of futures is likely to rise if the market believes the asset will perform well over the period meaning traders can get a good idea of whether the market thinks it is a good bet or not.

> Spread betting is a particularly tax efficient way of investing. As traders do not own the underlying asset they are not liable to pay stamp duty reserve tax.

MANAGING RISK

Investing always carries an element of risk and that also applies to spread betting, but there are ways to manage – that are unique to spread betting - to minimise losses.

An order ticket, as set out in the first chapter, enables a trader to commence a trade, but there are a few different types of order that can be placed to either bet now or at some point in the future, or at a certain price.

Market order

A market order is the most straightforward and commonplace order as it executes a buy or a sell at the best available price in the current market. Traders use this type of order when certainty of execution is more important than price of execution, as these trades can be susceptible to price slippage.

Traders should be aware of price slippage on orders. This means that the order may not be placed at exactly the price quoted on the order as the price is dependent on the liquidity of the market right at that moment. In other words, if you want to buy a stock there has to be enough sellers willing to sell at the price you're looking for.

If liquidity is low, then the order may be executed at a less favourable price – this is known as 'slippage'.

Limit entry order

If traders want to avoid slippage and buy at a specific price, they can use a limit entry order.

Instead of buying at the prevailing price and risking slippage, as with a market order, traders can use limit entry to enter the trade at a predefined price level.

If the stock fails to reach the predefined price then the order isn't placed. However, it will always be placed at either the specified price or at a better price.

This type of order is used to take advantage of any pullback in the price of a stock, as it will only come into force at a more favourable price if it does not reach the price set originally.

Stop entry order

A stop entry is similar to a limit order in that it will only be executed when the asset reaches a certain price, or a more favourable price.

The difference is that a stop order is an order to buy above the current market price in a long position, or sell below the current market price in a short position.

Setting an order to buy at above a current market price, or below a sell price, means the investor can take advantage of price momentum in swiftly moving markets.

Whereas a limit order can be seen by the market, a stop order cannot be seen until it is triggered. Once the level on a stop order is reached, it turns into a limit order and can be seen by the market.

Limiting losses

No trader likes to lose money but when it comes to spread betting, while profit can never be guaranteed, there are ways to limit the losses made.

When spread betting, traders can set up a 'stop loss order' that will

Using limit and stop orders

When using limit or stop orders, the trader is able to set a time period over which the orders remain valid. There are three types of time periods:

- → **Good til cancelled (GTC):** this remains active in the market until the investor decides to cancel it
- → **Good for the day (GFD):** this remains active in the market until the end of the trading day. This is determined by the closing time of the market exchange
- → **Fill or kill (FOK):** these are cancelled if the entire order does not execute as soon as it becomes available

Controlling risk starts with the amount traders place bet. No one should ever bet their whole account on one trade.

automatically exit a losing trade at a predetermined point.

This is a useful tool to help manage exposure or risk when trading, as it prevents a losing trade from running from a small loss into a larger loss, if the price continues to move against the original bet. This means a trader can relax knowing that a stop loss will execute if the trade moves unfavourably.

No trader should risk their entire account on one trade and stop losses allow traders to risk just fractions of their account on one trade.

When to setup a stop loss

A stop loss is typically set up at the point when an order is being executed so that when an order is filled, there is already a stop loss attached to it. However, it is also possible to add a stop loss to open trades, or modify a stop loss on an open trade higher or lower, or remove it entirely.

Trading out of hours

When attaching a stop loss to an order, traders need to be aware of extended hours trading. This is a period of time outside of normal market hours that traders can buy and sell securities - premarket trading is before the stock market opens and after hours trading is, as the name suggests, after the market closes.

This practice used to be reserved for institutional traders but has become increasingly popular among individual traders which means, on rare occasions, large movements in the price of securities before the markets have even opened can occur.

It also means a price could jump past the level set by the stop loss and therefore the stop loss would be triggered at a lower level than specified. This is known as negative slippage.

Trailing stop loss

Trailing stop losses are similar to standard stop loss orders but instead of being set at a specific price level, it follows behind - or trails behind - the price when it moves in a favourable direction.

This risk management tools locks in any potential profit but still caps the potential downside. It can also be beneficial if the market moves in a favourable direction and then reverses suddenly, as it will have followed the positive price movement but does not move in the opposite direction.

Trailing stop losses are often used when trading is volatile, such as the trading of a volatile currency pair that is prone to erratic price movements.

Trailing stop losses are placed below the market price in a long position, and above the market price on a short position.

Guaranteed stop loss (GSLO)

To mitigate the risk of negative slippage, traders can use a guaranteed stop loss for a small premium. This type of stop loss exits the trader from the market at the specified level regardless of negative slippage, so losses on the trade don't mount up.

Know the risks and limit them

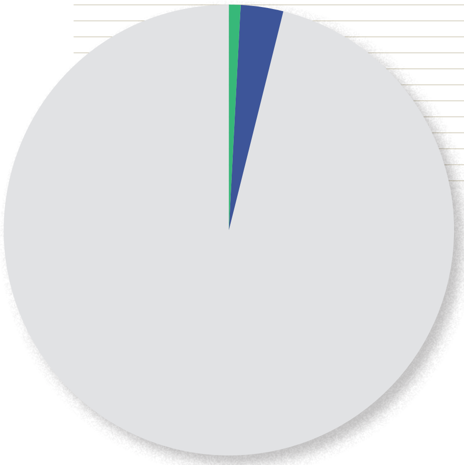
No trader will ever escape risk but there are rules of thumb to follow in order to ensure risk and exposure don't get out of control:

1 Bet size

Controlling risk starts with the amount traders place bet. No one should ever bet their whole account on one trade. As a rule of thumb, low-risk traders typically make maximum bets of 1% of their total account, whereas higher risk traders may wish to allocate 2% to 3% of their pot per bet.

2 Active trades

The second part of risk management is knowing how much of the total account to bet on securities. Just because a low-risk trader decides to invest 1% of their account per trade doesn't mean they should open 100 trades in order to use up their pot of money. This is particularly pertinent when trading on leverage, as the trader may end up owing money if one their bets moves against them.



Traders should work out how much their losses would be if all of their bets moved against them and were exited at specific stop loss prices. This will give a good idea of their total loss exposure.

3 Risk versus reward

Getting the risk-to-reward ratio right is the key to trading successfully. If a trader had a risk-reward ratio of 1:1 it would mean they would only be making the risk back if they won, so they would need far more winners than losers to make a profit. No one can be that successful, so traders should aim for a more favourable risk-reward ratio, 1:3 for example (risking £1 to make £3), this means you can be wrong 70% of the time and still make a profit.

THE DANGERS OF USING A STOP LOSS

Exiting a trade to ensure losses are minimised is a good idea but there is a downside to using a stop loss. If a trader selects a stop loss too close to the current price, they could be closed out of the trade early and lose out on further profit down the line.

More active traders may choose a smaller stop loss, for example 5%, whereas longer-term traders who hold their trades for longer may choose a 10-15% stop loss, for example.

4 Drawdown limits

Knowing when to cap losses is a key facet of managing risk; no one should be throwing good money after bad.

This is when drawdown limits come into play, as they stop traders running up large losses and therefore shifting the odds in the traders' favour.

Traders can set a daily or weekly drawdown limit that means a losing trade will automatically close when the drawdown limit is hit.

By limiting how much of an account can be drawn down, a trader is essentially limiting their losses. A good rule of thumb might be to limit losses to 2% of your account per day, or 6% of your account per week, for example.

Key takeaways

- '**Limit entry orders**' and allow traders to enter markets at predefined points to take advantage of moves in securities
- '**Stop loss orders**' allow traders to exit a losing trade at a pre-set point, but they must remember exiting too early could see them forfeit profit further down the line
- '**Trailing**' and 'guaranteed' stop loss orders can help mitigate profit loss by locking in some profit and capping the downside
- **Risk management** is key to successful spread betting, and it is imperative that traders know what their total exposure to loss is
- Traders should work to a **risk-reward ratio** and be able to identify when they are throwing good money after bad

STRATEGIES FOR SPREAD BETTING

Once a trader understands how spread betting works and, very importantly, how to manage risk, they can then look at the different trading strategies and decide which is best for them.

When trading, there is no one-size-fits-all strategy. A trader's strategy will depend on their attitude towards risk and personal preference. Discovering what works for them.

Trading strategies can commonly be categorised by the timescale of a typical trade, which can range from a single day to years. These categories are:

- **Day trading, or 'short' trading, is as the name suggests intraday trading**
- **Swing trading, which has a short-to-medium timeframe, sees traders hold positions from days to months**
- **Position trading is longer terms and covers investment periods of six months to years**

Day trading

Day trading used to be the preserve of traders but the introduction of online trading platforms has opened this potentially lucrative way of trading up to everyone.

Day traders are typically very active in the market, executing intraday strategies in order to profit from daily changes to asset prices.

By trading intraday, traders avoid any overnight holdings charges which longer-term spread betting strategies have to bear. In order to be successful at day trading, traders should ideally be disciplined and objective, with many employing technical analysis to inform their trading choices - such as Fibonnaci retracements and support and resistance lines which are discussed later in this chapter.

Day trading can be a taxing exercise as traders are looking at time frames as short as five minutes to an hour and using high levels of leverage to try to capitalise on small price moves. Traders are looking at intraday trading volume to try to identify where momentum lies in the market. This can typically spike in the first hour of markets opening and in the last hour of trading, or around economic or company-specific announcements.

Trading in this way can be very effective but it can also be psychologically tough as traders have to trade multiple times a day, increasing the risk of making mistakes, or having an emotional response to markets.

Swing trading

This is one of the most popular ways of trading and the longer time frame of swing trading means traders are focusing on capturing parts of larger moves in prices.

TRADING STRATEGIES

Trading style	Timeframe	Time period of trade
Scalping	Short term	Seconds or minutes
Day trading	Short term	1 day max–do not hold positions overnight
Swing trading	Short/medium term	Several days. Sometimes weeks
Position trading	Long term	Weeks, months, years

The assumption behind swing trading is that markets very rarely move in a straight line, and that profit can be made in the ups and downs - or the swing - in the market. Swing traders typically focus on the point at which a market changes direction, trading short-term periods of a long-term trend. The trick with being successful in swing trading is to enter and exit trades at the right time to make the most of the swings.

Like day traders, swing traders also look for market momentum to inform their trades, but also use technical data to analyse levels of support and resistance from key pricing levels. Swing traders also assess the risk/reward level of the moves they make and will often place a limit order on a trade to exit the trade automatically at their price target.

Position trading

Position traders are typically trend followers as they believe that once a trend starts it is likely to continue. Unlike day and swing traders, position traders tend to be more focused on fundamental analysis than technical analysis, as the former has more of an impact on price valuations over a longer period.

Key metrics for fundamental analysis include company earnings and expected future earnings and position traders are often less focused on short-term drivers of asset prices and potential market corrections that could reverse trends temporarily.

That is not to say position traders do not consider technical analysis when placing trades. While they use fundamental analysis to identify the trends they want to follow, technical analysis is also employed to support the trade set-ups and the timing of entry and exit.

When spread betting position traders are most impacted by holding costs as the longer a position is held for, the greater the costs incurred. However, the benefits of leveraged trading and the tax benefits afforded to spread betting can typically outweigh the costs for many traders. Please note that tax treatment depends on individual circumstances and can change or may differ in a jurisdiction other than the UK.

For more info:

cmcmarkets + youtube

Getting your analysis right

Analysis is at the core of trading; traders need to know what is going on in the markets in order to profit from them. And much like everything else in investing, there are different ways to analyse markets.

Technical analysis

Most traders, especially those working to short timeframes, concentrate on technical analysis.

Charles Dow, of Dow Jones fame, laid down the rules of technical analysis at the end of the 19th century, working on the basis that technical analysis works because human behaviour is both 'repetitive and predictable', so past events are a good indicator for the future.

Support and resistance

One of the most common technical analysis tools is identifying support and resistance levels.

Support and resistance levels are points at which a trend is expected to pause and then reverse. The support level is the price level which a market or asset hits in a downtrend. When it reaches this point it can potentially stop falling due to increased demand prompted by the fall in price; this determines the support line.

Support and resistance

Fibonacci retracement

Conversely, a resistance line is formed when an asset price increases and there is a sell-off as the price peaks; the resistance line is the point at which the upward trend can potentially reverse.

The zone that is created between the resistance and support levels provides valuable insight into potential entry and exit points for traders.

Identifying these zones gives you an indication of where the market will turn next, or how much further it has to rise or fall.

Fibonacci retracement

Fibonacci retracement is used to plot horizontal lines predicting where support and resistance levels may lie based on past prices.

The positioning of the lines is based on the key numbers identified by mathematician Leonardo Fibonacci in 1170AD; 23.6%, 38.2%, 50%, 61.8% and 100%.

If a stock has risen and retraced to any of these numbers, a horizontal time is drawn across the vertical of a chart, which should then help determine the support and resistance lines of a security.

Moving averages

One popular technical analysis tools is the simple moving average, which is used to identify trends. It works by smoothing out past price data to show the average price of a security over a certain period and plotted as a single line on a chart. It can be plotted over different time frames so is useful for short and long-term traders.

Moving average convergence divergence (MACD)

Traders commonly watch 20, 50 and 200-day moving averages and use breakouts from the average as trading signals for buying or selling, with short-term traders using a short time frame of moving averages than a longer-term trader.

A rising moving average indicates that a security is in an upward trend, and a declining moving average indicates it is in a downtrend. If a short-term uptrend moving average crosses over a longer-term moving average, this is considered a 'bullish' crossover. Conversely, if a downtrend short-term moving average crosses a longer-term downward moving average, this is a 'bearish' crossover.

Moving average convergence divergence (MACD)

Developed by Gerald Appel in the 1970s, MACD is used to determine the strength and momentum of a trend using price data plotted over a time period. It looks at the degree of separation between a shorter and longer-term moving average, with a shorter moving average reflecting current price action and a longer term moving average reflecting the earlier price action.

The MACD is calculated by subtracting the 'exponential moving average' (EMA) over a period of 26 day from the EMA over a 12 day period. This creates the nine-day EMA of the MACD, known as a 'signal line' that is plotted on top of the MACD.

Traders use this signal line to know when to enter and exit a trade; they may buy a security when the MACD crosses above the signal line, and sell it - or short it - when it crossed below the line.

Moving averages

2 Fundamental analysis

Fundamental analysis of stocks looks at underlying factors that affect a company's business and its prospects for the future.

This type of analysis can be used to determine the direction of markets, sectors, and individual stocks.

It is split into two types: quantitative fundamentals which are measurable such as revenue, profit/earnings ratio, and debt level; and qualitative fundamentals that are more intangible, such as strength of chief executive and brand.

Veteran investor Warren Buffett, known as the 'Sage of Omaha' or the 'Oracle' thanks to his consistent outperformance of the market, is a fan of fundamental analysis.

Buffett is a value investor, which means he looks at the intrinsic value of a share rather than than at technical indicators like moving average. Essentially, he likes to understand the financials of a company.

Buffett famously looks at the return on equity (RoE) offered by a company, picking stocks on the back of strong RoE over long time periods. He also considered how much debt the company has by looking at the debt-to-equity ratio; the higher this is the more likely a company is to use earnings to service debt. The profit margin is also examined over a number of years, and Buffett is searching for companies that have a strong and growing margin.

Typical of fundamental analysis, Buffett also looks at the more intangible indicators such as how unique a company's product is as he believes those with more generic products are riskier as they can be substituted more easily.

Finally, Buffett considers the price of the shares. Value investors are looking for shares that have good fundamentals but are trading at a discount - lower than where they should be - as they're good value. The bigger the discount, the more scope there is for profit.

3 Fundamental analysis versus technical analysis

The debate about the merits of technical or fundamental analysis, and which is best, has raged for a long time, but the upshot is there is no 'best' type of analysis - it is a question of suitability.

When comparing the type of analysis and which one to use, there is one main factor to consider: time horizon.

For some traders,technical analysis is considered beneficial for short-term trades whereas fundamental analysis is for those taking longer-term positions. Fundamental analysis tries to predict how long-term trends will play out and ultimately affect the outcome of a security's price so it may make sense for those who are hoping to capitalise on long-term changes to use this method.

Short-term traders are looking for mis-pricing opportunities and attractive entry and exit points. Looking longer-term is typically of no use to short-term traders who will have entered and exited a position within a day.

Those using technical analysis often rely on price charts to try to predict future price movements and buy when they believe a security can be sold at an advantageous price. Those using fundamental analysis tend to rely on companies' financial data to predict how a security will perform and buy when they believe it has fallen below its intrinsic value.

4 Strategies

Investment strategies can be predicated on a number of things, such as the type of analysis preferred, but there are strategies that traders return to time and time again.

Strategy 1: All-time highs

This strategy sees traders buy into a security based on the upward momentum it is generating when a security's price reaches an all-time high.

Trading at all-time highs can be a position trading strategy for traders who want to take a mid-long-term view. This strategy operates on the fundamental philosophy that larger cap stocks which are hitting all-time highs in their price will follow through based on the momentum they have already accumulated.

If there is no technical resistance and the company has strong fundamentals, such as potential for revenue and earnings growth, then theoretically the price of the security will continue to push even higher.

To find a selection of stocks approaching all-time highs traders might use a stock screener. Traders could insert some criteria, listed below, to find large stocks approaching all-time highs. They could use average volume traded per day and also market cap to filter out small stocks whose price can more easily be influenced by a few large investors. To find a stock screener try searching 'stock screener' in google.

Find relevant using these filter settings:

— Market cap > $2bn
— Avg volume: Over 1M
— 0-5% below all time high

Strategy 2: Short squeeze

Shorting means traders are betting against a security, or betting on it losing value. A short squeeze occurs when a heavily shorted stock or commodity moves sharply higher - not what traders shorting a stock want.

This puts pressure - or a squeeze - on the short sellers to close their position (typically at a loss), pushing up the stock, further tightening the squeeze. On top of this, the former short sellers may be forced to buy the stock to cover their losses, again pushing up the price.

A short squeeze often happens on news of a surprise positive development that suggests there may be a turnaround in the fortunes of a company, for example. Even though the turnaround may not truly appear and the surge in the price could be fleeting, short sellers cannot afford for their losses to run away and close the position to limit their loss.

There are two common ways to identify stocks that may be at risk of a short squeeze:

Float short and short interest ratio.

The former calculates the total number of short shares sold as a percentage of total shares. The latter is the total number of short shares sold divided by the stock's average daily trading volume.

A float short above 20% is usually abnormal and therefore these are some of the most heavily shorted stocks. Traders can also use price, volume and market cap to filter out smaller stocks, which can be influenced by only a few large partieswho can force price in the direction of their choosing. Traders may want to avoid this as it has the potential to make a short squeeze less likely to occur.

Try out the following stock screener filter to find stocks that are at risk of a short squeeze:

— Float short – Over 25%
— Market cap – Over $300m
— Current volume > 100k
— Price > $5

7 COMMON SPREAD BETTING MISTAKES

There are a number of advantages that spread betting offers traders over conventional trading.

Hubris, fear, lack of preparation, and lack of understanding can all undermine the very best of trading strategies, so be aware of these traps to have the best chance of becoming a successful spread bettor.

1 Over exposure

Being over exposed is usually due to a traders lack of understanding of the actual value of their leveraged position. This can be a truly problematic trap as it can lead to bad losses.

Over exposure is usually due to traders taking stakes that are too high for the pot of capital they have as they mistake the need for a small margin as a small risk. Traders should not forget that leverage means they could be liable for losses that are far above the deposit they have put on the trade.

A good way to counter this is to always calculate your position size before placing a trade (simply the pounds per point multiplied by the current mid-price of the share) and have a max trade size as a percentage of your account; for example 3%.

2 Run your winners

Run your winner means not selling winning positions too early. This may seem like a simple piece of advice but it can be more difficult to follow than you think. The psychology of trading means that once a profit is made many traders have a desire to cash in those profits but this means they could lose out of further gains above what has already been made.

When a trade has done well it is tempting to crystallise those gains and feel like a winner but traders may kick themselves if that trade continues to move in their favour and rake in more profit – the winning feeling can quickly turn to disappointment.

To win long term, your winners need to be larger than your average losers. This is why risk/reward ratios exist. A commonly used one is 1:3, meaning the target for winning trades should be three times the potential loss.

3 Cut your losses

The flip side of running your winners is knowing when to cut your losses. Ending a bet that is losing money is a difficult thing to do as traders typically want to wait it out until the bet recovers.

However, losing bets don't always turn into winners and can instead rack up losses for traders quickly. Being on the end of a losing bets is where traders learn about the importance of stop losses, which are particularly important when traders are learning how to spread bet.

Knowing when to cut losses helps traders define the level of their potential losses, and what safeguards to put in place to stop their losses getting out of control.

An easy way to help decide where to position stop losses is by using a risk/reward ratio explained above and becoming familiar with support and resistance levels.

4 No discipline

To be a successful trader, you need to be a disciplined trader who places bets strategically, unemotionally, within predefined parameters of entry and exit, and who doesn't deviate from their rules.

Before entering a bet its recommended practice to decide their entry price, where their stop loss is, the maximum they will invest and finally what their target profit is.

Without knowing the answers to these questions and why they are choosing specific points, traders are unable to trade systematically and manage risk, and are instead keeping their fingers crossed that they get lucky on a trade. Hope is not a strategy.

5 Recordkeeping

In tune with being disciplined is recordkeeping. It may sound dull but good traders keep a diary to record their gains, losses, open positions, closed positions, and their winners and losers. Many record exactly why they traded the way they did on a particularly day and what lessons they may have gleaned that can help improve their trading further.

This helps traders keep a tab on whether they are improving, identify where they are going wrong, learn from their mistakes, and find out what makes them better traders.

Recordkeeping ensure traders aren't fooling themselves into believing they are making more gains than they are and becoming overconfident about their abilities.

6 Don't panic

No one can predict which way markets will move but putting a strategy in place enables a trader to control the things that can be controlled.

When a bet is winning traders feel in control but when a bet is losing them money, they may start to feel out of control and this is when panic sets in.

Panic is the enemy of trading strategy as it prompts traders to make uneducated, unplanned, and risky moves in a bid to claw back money or find gains elsewhere. Once the rules go out the window, the account is very likely to follow. It's therefore very important to keep emotions in check.

Having a strategy in place to understand total exposure and maximum loss means traders should not have to panic because they know how much cash they will lose if a bet goes against them.

7 Overtrading

Overtrading sounds like a complicated term but it just means the mistake that traders make of opening too many positions at one time or opening too many trades during a trading day or week.

This could result in a trader having to deposit more money into their account in order to cover losses, which is exactly the opposite outcome they are trying to achieve.

If you're having a bad day, or even week, it's best to know when to call it quits, knowing you can come back to trade another day. Putting maximum drawdown rules in place can help you be more disciplined when it comes to overtrading, such as 3% on an individual day or 12% for the week.

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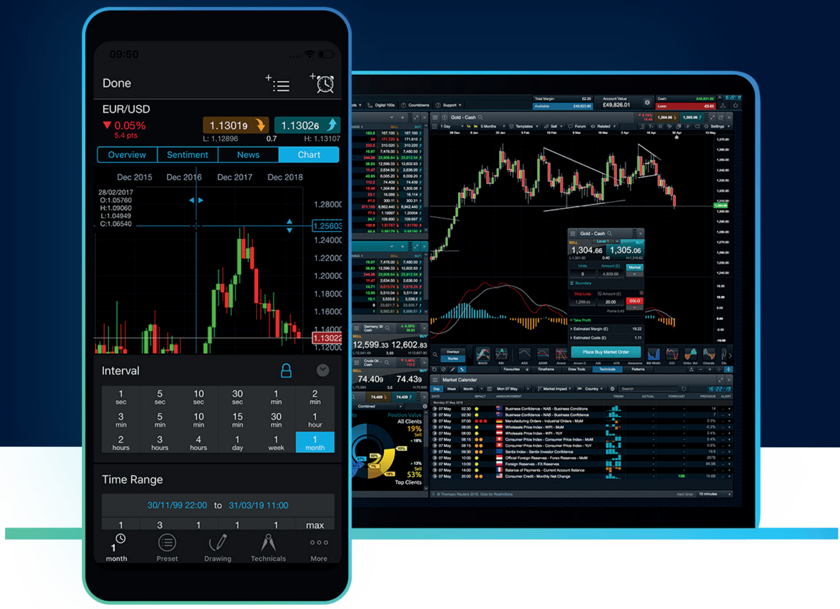

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