TRADING INSIGHT

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New kid on the block brings in business

Matthew Vincent explains why the election and its outcome produced a rush of custom to spread betting

David Cameron's election posters may have failed to persuade 16,000 people to become first-time Tory voters – the number he fell short of for a parliamentary majority, according to the psephologists at Plymouth University – but posters about the Conservative leader did encourage thousands of opinionated individuals to become first-time forex traders.

IG Index reports that its billboard adverts depicting Number 10 Downing Street, and asking "what would a new resident mean for sterling?" attracted enough new spread betting clients to swing a key marginal.

City Index and Spreadex even believe that the new resident of Number 11 can become a poster-boy for trading UK retail derivatives. "There is a feeling George Osborne's impending emergency Budget could serve to highlight the tax efficiency of spread betting," explains Joshua Raymond of Spreadex.

As politics and government debt began to dominate the April and May headlines, it seems voters who had never considered spread bets chose to put their money where their X was.

"Our advertising made the connection between cause and effect, how everyday events in the real world events affect financial markets," says Tim Hughes, managing director of IG Index. "We asked people to think about Cameron, and what he would do for sterling – and it's not a giant leap to say that you are as informed as the next person. When financial news gets on front pages, people think: Where's the opportunity here?"

IG Index helped boost beginners' confidence in their own convictions by sending overnight election tweets on the social networking website Twitter. While the marketing campaign was running, the firm signed up first-time traders – of sterling, equities and other assets – "in their thousands".

Even with a newly-austere Con-Lib government in place, betting firms continue to report an increase in brand-new traders.

"At Spreadex, we have seen a noticeable increase in the number of first-time spread betters in recent weeks with the main catalyst for this being the proposed hike in capital gains tax by the coalition government," says marketing manager Andy MacKenzie.

"We have had dozens of phone calls and e-mails each day for the past few weeks – mostly from people with no experience whatsoever in financial spread betting.

"We have seen a lot of new business from people who have been surprised at the opportunities provided by transferring the capital into a spread bet," he says.

City Index expects many existing share traders will now become first time spread betters. "Regular share dealers and first time traders alike will continue to be attracted to the product for the tax efficiency," argues Mr Raymond.

"Research has shown that a high majority of first-time spread betters have a share dealing background and so naturally this remains a target market."

Spread betting providers see this client acquisition as a significant development, after a survey last year by Investment Trends suggested that only 83,000 people traded spread bets in the UK – and much new account opening involved those same people opening a second or third account.

In 2008, three in 10 spread betting clients were being churned in this way.

"Investment Trends was forecasting 80,000 rising to 120,000 [traders], and that's 50 per cent growth, but not in the mainstream," admits Mr Hughes. "So we've made a concerted effort to convey the benefits of spread betting to a wider audience, and broaden the appeal beyond a relatively finite number."

He says his aim is to change preconceptions of what spread betting is about: "The transition from the 1980s cliché of a wideboy trading the value of a Porsche in an afternoon, to the everyday, is continuing."

Gary Thomson, director, sales trading at World-Spreads, already reports some success. "At present, 85 per cent of customers are male – but we we would like to see more savvy, cashy, techy and opinionated woman coming on board in larger numbers."

Many of these new customers are being attracted via new media. IG has targeted commuters with digital media at railway stations showing how easy it is to trade "everyday" events.

Spreadex says: "We have been upping our presence on social media sites such as Twitter and Facebook, ensuring that posts are helpful and relevant to traders by, for example, offering links to technical analysis of popular currency pairs, topical stocks or volatile markets." Paddy Power gives its market views on Linked-In.com.

However, once first-time traders have signed up, they then see more value in education, and service.

With contracts for difference (CFDs), which may be less familiar to new traders, knowledge is the key, says Barclays Stockbrokers.

"CFD providers are indeed constantly striving to broaden the market by demystifying products and providing educational material, whether online or via seminars," says its head of product, Paul Inkster.

"I believe that the market is indeed opening up for leveraged products and they are becoming more mainstream.

"Their appeal is also being boosted by financial market conditions – as investors look to either hedge their 'long only' portfolio or profit from price falls."

City Index takes a similar approach with spread bets and is launching a range of webinars and trading workshops designed for a new audience – these will include strategies and tactics to help identify trading opportunities.

At Capital Spreads, the range of educational events has now been expanded to take in "Learn to Bet", "Advanced" and "Trading Strategies" seminars – the last two of which are hosted by experienced investors who are independent of Capital Spreads.

Following successful sessions in Birmingham, Manchester and Leeds, the seminars will soon be moving to Glasgow.

For Paddy Power, it's about striking a balance. "We work hard to develop tools onsite that educate the novice spread better and we hope it helps them trade smarter," says commercial manager Davin McAnaney.

"This helps not just in the beginning but throughout their spread betting career. We also try to use a lexicon on our site that appeals to sophisticated traders while not being too filled with jargon for a novice."

Novice traders can now take smaller first steps, too, as a number of firms have reduced their minimum stake sizes and their total risk exposure.

"The facility for new clients to trade in reduced sizes is extremely popular as it permits them to familiarise themselves with specific markets as well as the product in a much less risky environment," says Mr Inkster at Barclays.

IG already offers limited risk accounts and World-Spreads is now introducing them – it also has a new client offer that provides a £300 cashback to cover any losses in the first eight weeks of trading.

But it is not just minimising losses that appeals to first-time traders. Maximising profits, through the narrowest spreads, has proved a draw for this years' new intake. Paddy Power's Mr McAnaney says: "New clients are as price-conscious as experienced spread betters and the fact that we have low spreads such as 1 point on the FSTE and euro/dollar helps attract novices who are looking for good value as well as informative and reliable platforms to trade upon."

Or as Mr Hughes at IG puts it: "I don't think it's a limited pool of traders we're competing for, but we need to be competitive."

'Regular share dealers and first-time traders alike will continue to be attracted to the product for the tax efficiency'

IG Index says its adverts asking 'what would a new resident mean for sterling?' attracted enough clients to swing a key marginal AFP

Trading Insight

Traders try to profit on the gauge of fear

Volatility

Alice Ross looks at the opportunity offered by wild swings in markets

After a period of relative calm, the markets are volatile again – offering opportunities for traders.

Last year saw a drop in volatility as markets began to recover. Traders in 2009 therefore tended to focus more on asset classes where volatility remained, such as currencies.

But volatility has recently spiked again, amid fears over European economies such as Greece and Spain and the impact on the euro.

The Vix index – which measures the volatility of the S&P 500 – hit a two-year low on April 12 but by the end of May was at its highest point since March 2009, when stock markets bottomed out.

Currency markets are also experiencing increased volatility. FXCM says that the DailyFX volatility index, which measures the general level of volatility in the currency market, rose in May to its highest level since April 2009.

However, volatility is widely seen by traders as an opportunity.

"Day traders have come alive over the past few weeks, as volatility around the markets creates a plethora of trading opportunities," says Simon Brown, chief executive of ProSpreads.

"We usually find that spread betters are attracted to increased market volatility," agrees Joshua Raymond at City Index.

"One key component of volatile markets is that they can cause sharp and sometimes unnecessary changes in the prices of financial instruments. Spread betters actively seek out big price changes to create potential short-term trading opportunities."

In fact, he says, one of the few safe trades when the financial crisis was at its height in 2008 was a long spread bet on the Vix index – allowing traders to profit from sudden price movements in either direction.

The Vix index is frequently referred to as Wall Street's "gauge of fear" and uses option prices to work out how volatile the S&P 500 will be over the next 30 days. Investors can place bets on the index as a way of hedging against their other positions.

Now that volatility is back, long bets on the Vix index have become popular again. When the FTSE 100 lost 13 per cent in two weeks from the end of April, City Index saw a lot of traders putting long bets on the index to try to take advantage of the – expected – 7 per cent bounce the following week.

"Clients remain acutely aware of the opportunities held by [the Vix], especially in a climate where more traditional spread bet strategies may prove difficult to execute explicitly because of the higher levels of volatility," says Yusuf Heusen at IG Index.

IG Index says that some of its more sophisticated clients are also using the Vix to hedge against their options contracts – because option prices suffer greater swings when volatility is high.

Volatility is not quite back to its level at the time of the Lehman Brothers collapse in September 2008, which sent the Vix soaring to double its current rate – an all-time high of more than 80.

However, Capital Spreads says that it has far more traders taking positions now than it did at the time of the financial crisis.

"What's interesting is that we've seen trade volumes that are, on average, double those of 2008, which possibly indicates that clients are taking a much more active part in the recent turmoil, having learnt perhaps from their mistakes in 2008," says Simon Denham, head of Capital Spreads.

"Increased volatility usually leads to an increase in trading activity, but this time round seems unprecedented. If we do see the Vix back at its 2008 highs, the current demure ride that we're on will turn into a true white knuckle one."

Traders believe the markets are likely to remain volatile for some time, offering opportunities to cash in.

"With a great deal of uncertainty remaining in the market at present – with factors such as European debt woes and geopolitical issues in the likes of Iran and North Korea refusing to dissipate – there's every chance that we won't see a quick return to the low levels that indicate little day-to-day movement in the underlying markets," warns Mr Heusen.

However, traders should be aware that the Vix index, as well as measuring volatility, can itself be very volatile and is subject to relatively fast swings that could catch traders out.

Mr Brown at ProSpreads describes the Vix as the "ultimate ride" for the "adrenaline traders" – pointing out that daily moves of 20 per cent are not uncommon in current conditions.

John Cotter at Barclays Stockbrokers warns: "This index by its name and nature is volatile and you may be shutting the stable door after the horse has bolted."

Traders who take bets at volatile times are therefore advised to take additional steps to protect themselves. Many keep their positions open for a very short period of time, City Index says, when markets are subject to particularly large swings – some for as little as two hours.

The Greek crisis increased volatility

Insurance for those scared of losing

Stop-losses

Alice Ross looks at ways to protect against risk in volatile markets

Troubled times: stop-losses can protect traders from sudden unfavourable changes in the market, such as in October 2008 Getty

Investors spooked by the volatility plaguing global stock markets are being urged to take out stop-losses to ensure the swings do not cause too much damage to their trading accounts.

Stop-losses are used by traders to protect themselves from losing too much money if markets quickly move against their open trades and they have no time to close their positions. Trading firms can agree to stop positions automatically if an asset hits a certain level.

Traders say the facility can make even more sense when markets are particularly volatile – as they have been recently.

In May, for example, the FTSE 100 index was hit by the biggest sell-off since the collapse of Lehman Brothers. A combination of a hung parliament in the UK, the European sovereign debt crisis and an "error" trade on Wall Street sent UK share prices down 7.8 per cent in a week.

But traders who had taken out guaranteed stop-losses on their positions would have had their trades closed out, avoiding the worst falls.

Such sudden swings are relatively common in equity markets.

Tim Hughes at IG Index calculates that, since the FTSE 100 was created in April 1984, there have been about 125 ocassions where the index moved by more than 3 per cent in a single trading session, about one in 50.

"It is to help guard against these very eventualities that we encourage the use of the risk management tools," he says.

Stop-losses are meant to offer investors peace of mind and ensure they do not have to spend all day staring at trading screens. Traders can also "book" their profits by placing limit orders – which sell if shares hit a certain price and thus realise a profit.

However, both have their drawbacks.

Limit orders can cause a position to be sold too soon, if the shares keep on moving up, while stop-losses can cause investors to be shut out of the market when they might have preferred to stay in.

A day after the 7.8 per cent fall in the FTSE 100, a European debt rescue plan sent shares up 4.8 per cent in a single morning – meaning all those traders "stopped out" may have missed a profit.

John Cotter at Barclays Stockbrokers admits that stop-losses can sometimes work against investors.

"Guaranteed stop-losses, like most things in life, have their pluses and minuses," he says.

"They provide protection against an unlimited downside but obviously they mean that you can be taken out of positions that recover quickly. The level at which you place them is crucial."

> 'Guaranteed stop-losses, like most things in life, have their pluses and minuses'

Some traders argue the key is to keep emotion out of the game if a stop-loss does lead to a loss of money. "If your stop-loss is hit, then all emotion should be eliminated and you should detach yourself from the trade that has just incurred a loss," says Simon Denham, head of Capital Spreads.

"This is all about discipline and if you have analysed a new trade and entered a buy or sell position only to see it get stopped out, then you should thank yourself that you didn't lose more.

"If a market subsequently moves back in the direction of your original trade, you should not be thinking about this, but analysing the next trade."

Investors are also urged to modify their stop-loss positions to try to minimise risk when markets are particularly volatile.

Mr Hughes at IG Index suggests reducing bet sizes, but moving the stops and limits further away from the trade opening price.

The further out that investors place a stop-loss, the more able they are to ride out short-term swings in the market without being automatically closed out of their position.

"By doing this, the potential profit or loss can be kept the same, while taking into consideration the added swings that are likely to be seen," he explains.

Investors can also take out trailing stop-losses, where the sale price is set at a percentage of the market price of the stock, rather than a fixed level.

If the market price rises, the stop-loss price also rises – but if it falls, the stop-loss price does not. This allows investors to protect losses without curtailing potential gains.

Some investors are using options to reduce risk. City Index says that its spread betters have increasingly been using options as a way of reducing their risk exposure – particularly through the recent bear market.

Put options, for example, give the buyer the right to sell shares if they hit a certain price – ensuring that they will not lose too much money.

But spread betting firms also stress that traders are increasingly able to access their accounts at any time of the day, with the growth of online trading platforms that can be used on mobile phones or the internet.

For many traders, therefore, the risk of being away from the markets – and so vulnerable to being automatically shut out of a position through a stop-loss – is not as high as it used to be.

"While the markets continue to be unpredictable, with improving technology, be it a mobile trading platform, a web-based platform or even a platform that allows you to trade behind company firewalls, traders will have the access to be in tune with the market," points out David Song at FXCM.

A firm foundation or will the roof fall in?

Housing
Ellen Kelleher examines the price of homes

Wagering on UK property prices can be difficult, as few spread betting firms now offer the opportunity.

But if you remain keen, you can seek out the services of IG Index, which still arranges bets on the Halifax House Price index, a key barometer.

At the moment, IG's customers are able to speculate on the strength of the country's housing market until March 2011.

IG sets spreads in such a way as to encourage two-way betting. This does not necessarily mean those who place long bets think house prices will rise. If there is a strong feeling that property prices will fall further, the spread will factor in a decline. To make a profit, betters have to predict accurately whether the fall in house prices will be more or less severe than that reflected in the spread.

Betters who do not believe the fall in prices will be as bad as the spread suggests can place a long bet. Those who think the fall will be more pronounced can go short.

House prices dipped slightly in April and look set to remain flat throughout 2010, according to the Halifax House Price Index.

It found that the average cost of a UK home fell by 0.1 per cent in April to £168,202, following a 1 per cent increase in March.

The latest figures are in contrast with recent data published by mortgage lender Nationwide that showed a 1 per cent rise in house prices in April.

So, traders are now betting that the average UK house price could fall to a range of £161,600 to £164,400 in the next 10 months, according to David Jones, IG's chief market strategist.

In current conditions, if you placed a bet of say, £10 per point that the price would rise above £164,400 and it rose to £166,400, you would earn £20.

On the flip side, if prices fell by 2 points to £162,200, you would lose £20.

In this way, spread betting can give exposure to the housing market without incurring stamp duty or capital gains tax or tying up funds.

And betting on property prices has a number of uses. Investors who are looking to hedge their exposure to house-builders, for example, often short the property market via spread bets to protect themselves if demand for new-build flats collapses. Companies such as Redrow and Barratt Developments are directly affected by what happens in the property market.

But these days, such a hedge may not be necessary. This time of year can be a good time to bet on housebuilders, as the companies tend to make more profits during the spring selling season.

Research by the Investors' Chronicle, the FT Group publication, says the first quarterly return on the housebuilder sector is "significantly higher" at 10.9 per cent than the average first quarter return of 3.3 per cent on the FTSE 100, based on annual data since 1980.

Traders who bought the seven FTSE 250-listed housebuilders and short-sold the FTSE 100 through a spread bet would have seen a positive return in 26 of the past 30 years, with an average of 7.6 per cent.

Industry strategists say that house prices tend to be more predictable than equities or stock indices. And investors can read multiple reports on the sector's outlook, as the state of the UK housing market generates much publicity.

IG also offers the chance to bet on regional house prices across London, East Anglia, the Midlands, Northern Ireland and Scotland.

Several betting firms stopped taking bets on house prices after UK house prices dropped sharply two years ago. The reason was the firms faced losses, as more punters took out short positions on the property market.

> 'New sales instructions have risen, helping push up the stock of unsold properties in recent months'

Betting on property prices works in a way different from betting on other assets such as equities, commodities and bonds, as there is no underlying exchange for house prices. Betting firms can easily price spreads according to the FTSE-100, for example, and can hedge their own exposure by buying shares. For property prices they have to set the spreads themselves, according to the business they see, and it is difficult to hedge against clients' positions.

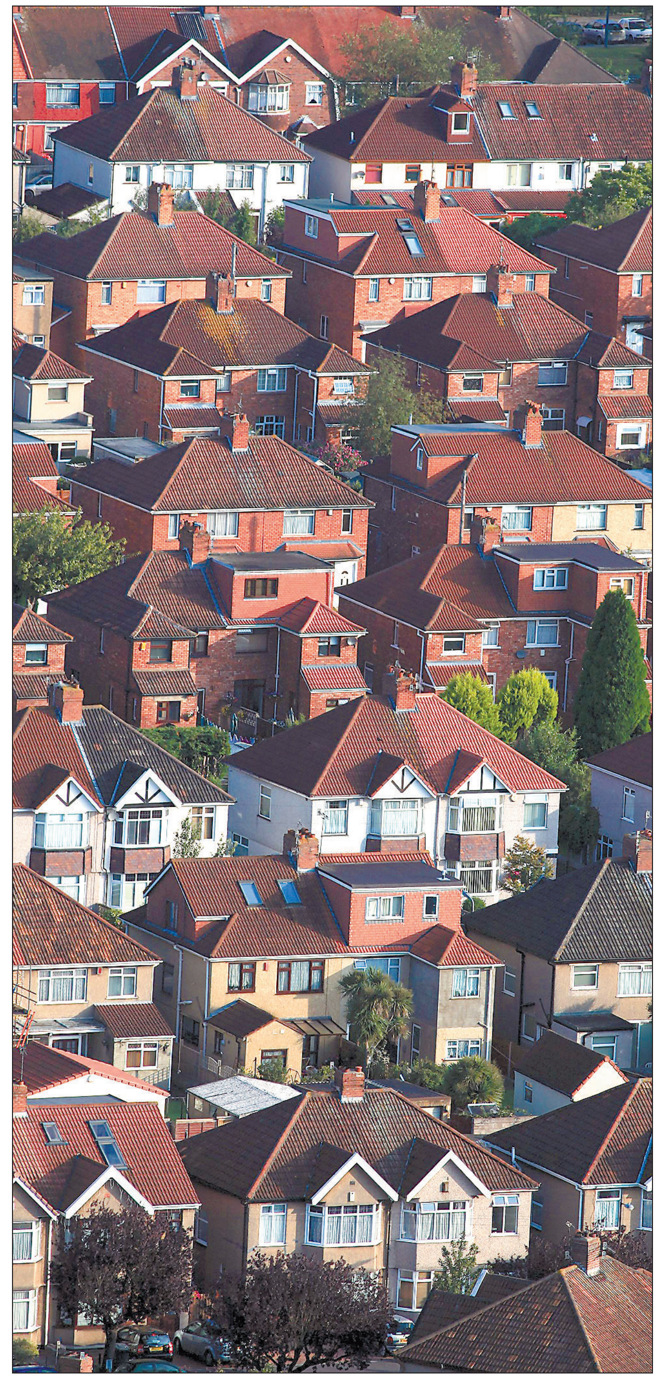
Martin Ellis, housing economist at Halifax, says the improvement in house prices since spring 2009 has encouraged more people to try to sell their property, which has resulted in a slowdown in price growth.

"New sales instructions have risen, helping push up the stock of unsold properties in recent months. As a result, the imbalance between supply and demand is easing," he says.

According to data from the Royal Institution of Chartered Surveyors, the stock of unsold properties in March rose to the highest level since April 2009.

Halifax said house prices in April were 6.6 per cent higher compared with a year ago – this is the largest increase in the annual rate of change since October 2007– measured by the average for the latest three months against the same period a year earlier.

The lender maintained its view that house prices will be flat during 2010 as a whole.



Safe bet? Price rises brought sellers to market Getty

Hard pounding is the order of the day

Sterling
Lucy Warwick-Ching looks at currency betting

Recent swings in exchange rates mean taking a punt on a currency movement has become one of the most popular types of financial betting.

Traders have been busy placing bets on the euro to continue to fall against sterling and the US dollar – and on the yen and the Canadian dollar to rise.

"Currency trading makes up some 20 per cent of our daily volume, so it's a significant part of our business and continues to be popular with clients because of the volatility, tight spreads and ability to trade in and out of the market," says Angus Campbell, head of sales at Capital Spreads.

Neil Looker, chief FX dealer at City Index agrees. "The sovereign debt crisis and subsequent flights to safe haven investments by traders have made FX pairs much more volatile, which in turn has sparked an increase in their popularity," he says.

> 'We have seen more betters looking to short the euro on the back of recent sovereign debt woes'

This is because in the past month the euro lost 6.8 per cent against the dollar; 11 per cent against the yen and 1.73 per cent against sterling.

"The euro is being buffeted on all sides by fears over the Spanish banking system and concerns over the German political situation, while Greece's problems refuse to go away. We expect it to continue to lose ground over the summer months," says Jeremy Cook, chief economist with World First Markets.

One of the easiest ways to profit from exchange-rate movements is to "short" the market and speculate that a currency will fall, or rise, against another.

For example, with the spread on the pound against the euro of 1.1194 to 1.1199, investors could "buy" at the upper end – if they thought the pound would strengthen – or "sell" at the lower end if they thought it would weaken.

Say you bought at 1.1199, on a £1 a point movement bet, and the pound strengthened until the spread was 1.1312 to 1.1317. You could then close your position by selling at 1.1312. This would give you a £113 profit (1.1312 minus 1.1199 equals 113 points, multiplied by your £1 a point stake). However, if the market went in the other direction, you would lose in equal proportion.

Mr Looker says currency trading has increased in popularity with media coverage.

"It has been some time since the strength of the euro made front page news in the UK and we have already seen more and more spread betters looking to short the euro on the back of the recent sovereign debt woes," he says.

The most popular longer-term currency bets tend to be in dollar-sterling, euro-dollar and dollar-yen.

Experts say traders are moving investments away from risky asset classes and into safe haven investments, such as the US dollar. "In uncertain times the dollar is a natural safe haven," says Jane Foley research director at Forex.com.

"The eurozone's fiscal problems have chased away talk that central banks will be diversifying away from US dollars in favour of the euro. This supports the view that the dollar could be entering a period of strength."

But, as with most underlying asset classes, the popularity of currency pairs changes over time, and there are other currency pairs that could offer further scope for profit such as the New Zealand and Canadian dollars and the South African rand. Investors are not short of choice, with City Index offering more than 40 currency pairs to trade and IG 60.

Paul Inkster, head of product, Barclays Stockbrokers says: "Sterling is our most popular traded currency, with the vast majority of volumes being versus the US dollar but we also see activity versus the euro, Aussie dollar and yen."

Exchange rates can be very volatile, however, and there are concerns about risks faced by inexperienced traders.

Gary Thomson, director of sales trading at World-Spreads, says: "The first thing a spread better should consider when looking at currencies is that markets are traded 24 hours a day and although the market never closes, it has periods where volume of business reduces, which can lead to larger swings in price."

For anyone worried about unpredictable movements it is possible to put a "stop-loss" in place that will close the trade.

As for sterling, David Song, at FXCM, which recently acquired ODL Securities, believes the pound could return to strength.

"As the nations operating under the fixed-exchange rate system struggle to bring their public finances back in line with the stability pact, with the EU and IMF pledging an unprecedented €750bn to help the ailing economies to meet their debt obligations, the ongoing turmoil in the region could lead the pound to appreciate further against its European counterpart over the near-term."

Paper chase: currency betting has become popular Bloomberg

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Trading Insight

Punters focus on World Cup dreams

Football

Huw Richards explores the options on offer during the next few weeks

Football traders are rarely harder worked than during a World Cup, but at the same time they have been looking forward to it. Will Daniels, senior trader at Spreadex, explains: "There's football all the time on television, and not all of it is very good or meaningful. At a World Cup you know that it all matters."

Not least of the demands over the coming month will be the sheer volume of trades. Chris Shillington, trading spokesman for Extrabet, says: "It will be the biggest sports spread betting event for four years. We expect to do about a third of our annual turnover on the World Cup alone."

Those bets and trades are cast in a highly competitive environment. The demise of Spreadfair in December 2008 may have removed the exchange component from the sporting spread market, but the remaining market leaders have diversified their offerings.

Sporting Index, the largest sports spreads concern, continues to concentrate on spreads, but its competitors offer other types of bet.

Extrabet has for some time run fixed odds and binary books alongside spreads, while Spreadex has recently diversified into fixed odds and has enjoyed what Mr Daniels describes as "the best six months in company history".

Other elements of change include the computer programmes that enable a much larger range of in-running markets. Anthony Gray, football trader at Sporting Index, remembers: "At Euro 2004, we had perhaps half a dozen in-running markets on each match. Now we are offering hundreds."

The impact of this on the balance of trades is noted by Mr Shillington, who says: "In-running was a third of our business four years ago. This time, we expect it to be more like half."

Punters and traders also have access to much more information. Mr Gray says: "We know much more about other teams and their players, not least because there are so many overseas players in the Premiership. It is really only the Asian teams who retain an element of the unknown."

Add in a relentless schedule that means there is football every day until June 30, with 44 matches to be played in 19 days, and a sympathetic time zone, and it is easy to foresee a tough month for traders as an increasingly sophisticated community of punters seeks out good bets.

Key elements in the pre-tournament search for relevant information were the final declaration of the 23-man squads and a proliferation of friendly matches. England's friendly against Mexico moved markets, but not in a way that might have been predicted. "Punters weren't impressed by England, but in spite of the result they liked Mexico and were looking to get with them," says Mr Gray.

Sweet dreams: cakes with flags of participating nations on sale in Johannesburg AP

That also illustrates a traditional tendency of the football punter: a preference for betting for – rather than against – events. While the top three in the winner market – Spain, just ahead of Brazil and England – was clearly established, there was also a move towards Argentina that established them as fourth favourites.

That runs against a poor qualifying performance and what might politely be termed doubts about the competence of coach Diego Maradona, but Mr Gray says: "A lot of people clearly feel that they are cheap at the spreads being offered."

Mr Daniels argues: "Punters like getting with the superstars, and there is nobody better than Lionel Messi at the moment. A lot of people clearly think that, with the players they have, they can't go on being that bad."

Also attracting business was the tournament goals quote for the Netherlands. Mr Shillington says: "They started trading at 7 to 7.6, but have moved up to 7.6 to 8.2. They're in a group with Denmark, Cameroon and Japan, so might score freely there, and while the draw suggests that they could meet Brazil in the quarter final we also know that's a long way from a certainty."

North Korea will attract interest by virtue of being so little known, and also the fourth element in a seemingly brutal group otherwise composed of Brazil, Portugal and Ivory Coast. Shillington says: "They might turn out to be this World Cup's equivalent of the Saudis, a team who are likely to concede quite a few goals."

Spreadex have wrapped North Korea's "goals against" in the group stage into their "World Cup Hamper", which combines 10 markets into a single bet. Mr Daniels explains: "It is for punters who don't want to do a huge amount of research, but want to have something to follow through the length of the tournament."

The other nine markets include Spain's performance on the 100-point index and total goal minutes (goal times added together) for the final.

Popular long-term markets include those on the numbers of goals and red or yellow cards during the tournament. Total goals were trading on Extrabet at 159-168, compared with totals of 147 at the 2006 World Cup and 161 in 2002.

Mr Shillington says: "The average goals per game in the top European leagues has gone up from 2.6 to 2.9 over the past four years, so that might indicate an increase." Yellow cards were trading at 285-295, a midpoint between 249 in Japan and South Korea in 2002 and 326 in Germany in 2006.

"FIFA cracked down on tackles from behind in 2006, but there's not yet been any indication of new initiatives like that this time," says Mr Shillington – like all traders and punters searching the horizon for news that can move markets.

People off the pitch think it's all over . . .

UK betting pattern

Huw Richards finds traders nervous of the outcome

Amid the national bacchanalia that can be predicted with some confidence should England carry off the World Cup on July 11, there will inevitably be some abstainers.

Wales and Scotland would regard the event as a decidedly mixed blessing, while the multiracial nature of British society means there are many people living in England whose primary sporting allegiance remains with other teams.

Celebrating a goal: England's Peter Crouch (left) and Ledley King at Wembley Getty

But for spread betting punters, it is occupation rather than ethnicity that would limit enthusiasm.

Chris Shillington, trading spokesman for Extrabet, reckons the atmosphere on the trading floors of the main sports spread betting companies will be less than joyous, should England's captain lift the trophy at Johannesburg's Soccer City stadium on that Sunday evening next month.

As with much betting and trading, it is a matter of heart versus head. The advice given to punters in any fields is to bet on your fears rather than your hopes.

The propensity of the football punter to do the opposite explains the feelings of spread traders.

Mr Shillington says: "When you get into the office, you tend to start thinking in terms of what will be best for business.

"Our traders are football fans, and many of them are English, but it will still be pretty gloomy in here if England do win, because it will mean we end up paying out on a large scale.

"We know that it means Bognor rather than Barbados for holidays this year."

This does not mean that the patriotic pound is quite the overwhelming force it once was.

Will Daniels, at Spreadex, says: "We have to be wary in adjusting prices. If we move them too far, there are plenty of professional punters who are quite happy to take positions against England if there is a profit in it for them, and will take us to the cleaners if we get it wrong."

Anthony Gray, football trader at Sporting Index, points out: "Our market-maker is a Scot, so he is highly unlikely to be taken in by euphoria about England's chances."

Nor is an England victory the sole outcome to be feared by the betting companies. Mr Shillington points out: "We'll also lose out if either Spain or Brazil, the two favourites, win the tournament."

And it is also in the betting companies' interest that England go a long way in the tournament, maintaining the high level of public and media interest that always serves to stimulate extra business.

Mr Shillington says: "The ideal outcome for us is for England to go out in the semi-final or lose reasonably clearly in the final. Otherwise, we want them to go as far as possible, although it also suits us if they go through by single goals or on penalties, rather than large margins."

England are clear third favourites on tournament indexes, trading at 39 to 42 at the time of writing on Sporting Index's 100-point index – which scores 100 points for winning, 75 to the runner-up, 50 to semi-finalists, 25 for reaching the last eight and 10 for the last 16.

This was behind Spain (43-46) and Brazil (40-45), but ahead of other contenders, such as Argentina (33-36) and reigning champions Italy (28-31).

Mr Daniels argues that this a fair reflection of their chances: "They're not too far off. They need to stay clear of injuries and for Wayne Rooney to play brilliantly, but it is far from impossible."

One reason for optimism is the perception that England have an undemanding pool draw – with none of the US, Algeria and Slovenia rated as a particularly dangerous rival.

On this basis, only Spain – who play the similarly unthreatening looking trio of Chile, Switzerland and Honduras – were rated hotter favourites to win their group. Sporting Index had England trading at 20.5-21.5 on their 25 point group index, marginally lower than the Spain quote of 20.5-22.

Brazil, by contrast, face potentially fierce competition from Portugal and Ivory Coast – generally reckoned the best of the African qualifiers – plus the intriguing unknown quantity of North Korea, so were being quoted at 18.5-19.5.

The US (8.5-10) were rated second favourites to England in the group, but still not seen as a great threat when they meet in England's opener at Rustenberg on June 12.

Spreadex was offering 1.05-1.25 on English supremacy (margin of victory in goals) for this contest.

Similarly, England were being quoted at 6.9-7.2 by Extrabet for the number of points they are likely to win in their three group matches, meaning they will have to win all three for buyers at this price to show a profit.

The strength of England's group is also a factor in strong interest in the market on the total number of goals they will score in the tournament.

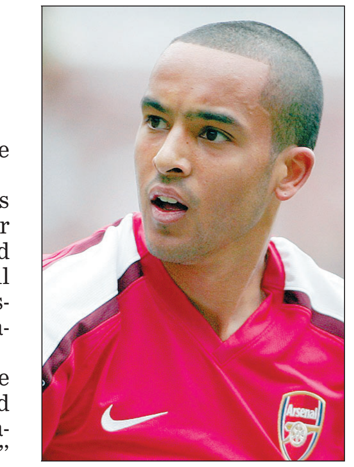
A big variable here is the number of games played – those eliminated at the group stage will play only three: anyone reaching the last four plays seven.

In addition, only goals scored in the first 90 minutes of matches count, eliminating those added in extra time.

Markets vary, with Sporting Index quoting England at 10.3-11 against Extrabet's 9.9-10.6 and Spreadex's 9.7-10.5, but all three reflected considerable optimism about their likely performance.

Extrabet's Mr Shillington points out: "Over the past five World Cups, dating back to reaching the semi-final in 1990, England's goal totals have been 6, 6, 7, 8 and 6, so they've not got anywhere near the totals being backed this time."

Social networking has us all of a-Twitter



Theo Walcott: left out

Online

Sean Smith looks at the way information is spread rapidly

The FA embraced the modern era last week when it announced the England squad to travel to South Africa with a posting on its website, just after 4pm on June 1.

Unfortunately for the association, often lambasted for its determination to stick to more dated methods, its late embrace of technology was a step behind: it had been overtaken by the advent of social networking.

As FA.com, the association's official website, crashed under the weight of visitor numbers searching for the final squad list, fans abandoned official sources and turned to Twitter.

By the time the official press release had been posted on FA.com, the squad had been predicted, verified by separate sources, and been available on established media sites and blogs for at least three hours.

Social networking is rapidly coming of age.

'For this World Cup, 80 per cent of our marketing budget has gone online'

Although Facebook is by far the biggest site in terms of users, its impact on betting has been less significant than Twitter, particularly since the microblogging service introduced "lists" in 2009, which allow a user to select a group of tweeters on a specific subject.

Twitter now plays a crucial role in how media companies get information to readers and viewers far quicker than with traditional formats. For this World Cup, punters are able to compile lists of the most relevant football journalists and players on Twitter, and receive the information at the same time as – and sometimes faster than – spread betting companies.

Noted football commentators Henry Winter (The Daily Telegraph), Neil Ashton (News of the World), Oliver Kay (The Times), Scott Wilson (Northern Echo) and Phil McNulty (BBC), for example, all published squad information on Twitter long before the official announcement of the England squad on June 1.

This brutally rapid redistribution of relevant information is causing a few flutters on the trading floors of sports spread betting companies.

"With information flying around very quickly, it is so easy to get caught out," says Chris Shillington, spokesman for Extrabet. "Nobody picked up on Theo Walcott being left out of the squad. Most firms were still quoting him as a top England scorer when the squad was announced.

"The reality is that there is little you can do to safeguard against [social media], unless you take down markets. Four years ago there simply weren't the sites there are now.

"Because of the amount of information and the sophistication of in-play traders we are trading markets at 103 per cent from 107 per cent from four years ago – it's very much in the punter's favour now."

"It's about being on top of newsflow and rumour," agrees Ciaran O'Brien, spokesman for Ladbrokes. "The [odds compiling] team manages this 24 hours a day and takes into account any gossip in pricing."

Betting companies are divided as to how to deal with this relatively new phenomenon. While traditional high-street firms attempt to monitor and react quickly to this new, faster form of information, some trading firms are more circumspect, believing it to be a modern twist on an old theme.

"We have always run on the policy that anyone's free to attempt to trade on whatever information they get. The internet has just speeded up the process. Our trading floor has access to the same levels of information as customers. It is just that the time scales have been shortened on everything."

One expert believes that more, and quicker, information is a force for good across the industry.

"It makes the information more democratic," says Joe Suarez-Smith, gambling consultant and owner of odds comparison site bookies.com.

"This extra information allows odds compilers to price the market better. And most bookies have automated systems anyway that can close down markets automatically if there is a big movement on a price on Betfair, for example."

Spread betting firms are beginning to learn how to use social media networks for marketing. Betfair is one of many firms using Twitter to entice new customers: it is giving away a £5 bet to anyone who tweets "Come on England" to the exchange.

"Twitter is far more effective than an e-mail that often won't even get opened," Mr Shillington explains. "Twitter is often far more relevant than traditional media advertising.

"Four years ago we spent 80 per cent of our marketing budget offline and 20 per cent online, for this World Cup 80 per cent of our marketing budget has gone online."

However, Mark Maydon, Sporting Index's commercial director, says: "We pay close attention to social networks but not because our clients are massive users. The average sports spread better is not a big user of social networks at the moment.

"Google watches social networks, and that is useful to us in terms of exposure online."

Social networking has proved a useful tool for traders and punters and may sound the deathknell for some of the more questionable forms of information gathering.

"Previously, just the mates of a player had access to sensitive information – now everybody does," Mr Suarez-Smith muses.

A wider view of betting

Binary logic

Tanya Powley looks at one product, as firms try to widen their appeal

Financial betting firms are improving their fixed odds betting offerings in an attempt to encourage further take-up of the product by inexperienced and sophisticated traders alike.

Fixed odds or binary betting allow traders to bet with limited risk on a wide range of assets, including individual shares, equity indices, commodities and exchange rates.

These types of bet typically appeal to traders with limited experience, or appetite for risk, because the maximum profit and loss is known from the outset.

Bet On Markets offers fixed odds bets on 20 market indices, 15 currency pairs, five commodities and 60 UK and US stocks. The firm has recently increased its share offering from 20 to 60 and Todd Kurie, head of marketing and business development, says he hopes to increase the choice to 100 by the end of the year.

"We want to include most of the top companies in the FTSE 100. We feel this will help attract a wider audience to fixed odds betting," says Mr Kurie. Bet On Markets' clients place 10,000 bets a day, with about 70 per cent of the bets made on currencies. Indices are the next most popular, with commodities and stocks trailing behind.

While the majority of the firm's clients are casual speculators who make small size, simple, short-term bets, Mr Kurie says about 30 per cent of its clients would be defined as sophisticated traders. These traders prefer making large, complex and long-term bets on specific markets. The maximum bet a trader can make is £10,000.

Binary betting is often described as a halfway house between fixed odds and spread betting.

This type of betting allows the trader to take a view on whether an event is going to happen or not.

If the event is deemed to have happened the bet expires at 100, and if not then the bet expires at 0.

The spread betting company will quote a price range between zero and 100 to reflect their view of the probability of the answer being yes or no.

The big difference with binaries compared with a fixed odds bet is that the trader can trade out of the bet at any time, whereas fixed odds bets have to be held through to expiry, says David Jones of IG Index, the firm that pioneered binary bets in 2003.

This year, the firm is offering a new twist by launching a product that allows clients to "build" their own bet. For example, a trader can decide "I want to make £150 if the FTSE touches 5,800 in the next two hours."

Tim Hughes of IG Index says Custom Bets – which will be available from early summer – will offer traders another degree of flexibility. "It will give control to the client to tailor the bet themselves. Custom Bets will also make binary bets much simpler to understand and we've included a function that explains in narrative what the bet entails," he explains.

In contrast to fixed odds betting, binaries appeal much more to sophisticated traders. "Many experienced traders will trade binaries and many clients will risk a significant amount of money doing so," says Tim Gort of GFT.

According to Mr Jones, binaries appeal to traders as a complementary form of trading or a way of making money even if markets are quiet.

IG Index offers a number of short term binaries such as FTSE five -minute binaries, which will swing around on just a movement of a few points of the index.

Mr Jones says many traders have been attracted to the limited risk nature of binary bets because of the increased volatility in the markets.

"Placing a traditional spread bet trade may mean the client has to ride out significant moves against them as the week unfolds. It is not unusual at the moment to see the FTSE 100 trade in a daily range of 100 points," says Mr Jones.

"If the trade was to be run for a week, this would mean a sizeable potential stop-loss just to avoid getting taken out in the 'noise'."

With a binary bet, the risk is absolutely fixed.

Binaries also allow the more experienced trader the opportunity to take a view on future levels of volatility in the market rather than just directional movements.

Using a binary, a trader can back the FTSE to move 50 points in either direction and make money whichever way it moves – but with a more traditional spread bet, the trader would have to get the direction right to make money.

IG Index includes binaries as part of its 'Trading Volatility' product offering. In addition to binaries, the firm offers daily options that again offer a fixed risk way of playing the volatility in a wide range of markets.

Stacking up: binary betting is described as a halfway house between fixed odds and spread betting Alamy

Easy gains, hard losses

Contracts for difference

Richard Hemming looks at the risks

The return of volatility to financial markets has not dented the popularity of contracts for difference (CFDs) and spread bets – quite the opposite, for many firms – but, for some traders, it has revealed hidden costs.

While the products are similar to options or futures contracts – and can be used to bet on underlying assets such as a shares, indexes, currencies or commodities – the full cost of these derivatives is sometimes only apparent when prices move sharply.

Asghar Hussain is the head of derivative products at Interactive Investor, which provides CFDs and spread betting services.

He says he has seen traders "blow up" because they were not aware of the risks.

Do your homework

"I always recommend anyone who does not have a real understanding to do their homework.

"Because you're not putting up much cash, only 10 per cent of the value of the trade, some clients tend to think they can make a lot of money easily."

He uses an example of a bet on a stock moving on average 10 points an hour. There is a spread between the bid and offer price of 2 points. A trade of £1 a point might make £8, if it moves in the right direction. But many clients see the ease of this and trade £10 a point, with the potential for greater gain, but also greater losses.

The costs involved in using these products often include brokerage, typically 0.15 per cent on the investor's total exposure, as well as interest on the amount borrowed. This is normally about 2.5 percentage points over the London interbank offered rate (Libor) and is charged through the spread.

These costs are relatively transparent, but some traders argue that other pricing problems can affect returns to a greater extent.

Clem Chambers, chief executive of ADVFN, a trading site, says he uses CFD providers that have so-called "direct market access" (DMA), because they replicate the trade he has put on in the market.

"There's no middle counterparty, these CFDs are just a wrapper for a market trade," he says, and adds that he uses them because they avoid stamp duty of 0.5 per cent a trade, which is applicable if you are buying the underlying securities.

However, he has a less favourable view of spread betting pricing, which may not follow market pricing so closely. This can happen because the customer is betting directly against the spread better, "who is more akin to a bookmaker", according to Mr Chambers.

"Historically, you find people have beefs with spread betting," he says. "For example, a spread better will have in its terms and conditions that if it gives out a wrong price, it will cancel that trade.

"When you buy with a spread better, they're not entering the market. If they give a customer the wrong price, they've shot themselves in the foot and they will cancel the trade, which some people get upset about."

Some traders, who would not give their names, say they have had bad experiences with both CFD and spread betting providers.

Some say they now use Gadwin software to take automatic screen shots every time they buy or sell, in order to protect themselves against providers' cancelling trades.

This is especially important they say, when using alternative dealing platforms such as Chi-X and SmartPool, because trading volume details are not available.

Traders who have bought or sold large volumes of CFDs also say that, when they started making money, their providers placed their trades under more obvious scrutiny – and some talk of trades being delayed.

Clem Chambers says delays could possibly be due to "shaping" by the internet service provider (ISP).

"If you've been using a lot of data throughout the day, your ISP can 'traffic shape' you once you've used a certain amount of bandwidth – say 3 megabits – which will slow down your connection.

"They do this because they think you're being greedy."

But Mr Chambers still advises customers to check the fine print in any dealings that they have with providers of CFDs or spread bets.

"You can't afford to have any counterparty risk," he says. "You should have no doubts about your provider."

Fifa's rule tinkering has punters thinking

Bernd Schneider, captain of Germany, on the ground in the 2006 World Cup Getty

Behind the headlines

Sean Smith explains why the arcane business of refereeing has set pulses racing

When Germany's captain Bernd Schneider threw himself to the floor – in an act some commentators criticised as a dive – in the opening game of the 2006 World Cup and was not booked by referee Horacio Elizonodo, the viewing public assumed Fifa's promise to throw the book at those wishing to bend the rules was hot air.

Four weeks and 63 games later, football took stock after Fifa referees shattered the record for the most number of cards in a tournament by 103 – a total of 373 cards (318 yellow, 26 red).

It proved an eye-opening experience for sports traders in what was the first World Cup in which spread markets were widely available online.

Fast forward four years and, with the amount gambled with traditional betting companies, spread betting firms and exchanges on the 2010 World Cup in South Africa expected to exceed £1bn, and with football now accounting for more than 40 per cent of turnover for high-street betting groups, picking up on a betting trend early can greatly enhance prospects of healthy trading margins – for punters and marketmakers alike.

> 'Our markets are suggesting that there will be far fewer red cards this summer'

Fifa has a tradition of tinkering with the rules.

In 1994, the introduction of the back pass rule after a turgid World Cup in Italy four years earlier produced a spike in total goals – 138 compared with 109 in 1990.

In 1998, the tackle from behind was outlawed, and the tournament produced 22 red cards – a record until 2006, when, in one match, Russian referee Valentin Ivanov liberally shared out a record four red and 16 yellow cards between The Netherlands and Portugal.

Last month, Fifa decreed that the fourth official – the assistant who has until now held up the injury-time board and kept coaches in their place – is allowed to influence the action on the pitch: by pointing out foul play, and recommending cautions for players.

Fifa also agreed to ban dummying at the conclusion of the run-up to a penalty kick, a practice rife in South America and on the rise in Europe.

Spread betting firms take these changes very seriously.

"We have already had a crisis meeting in relation to the Fifa rule changes," says Chris Shillington, Extrabet's trading spokesman. "The new powers given to the fourth official, we feel, will add an extra flavour to the yellow and red card markets. We've pushed up our spreads 2 per cent on yellow cards and up to 10 per cent on red cards in anticipation."

Their concern is well founded. In the 1999 cricket world cup, for example, trading firms were taken by surprise by the number of wides bowled.

Spread firms were quoting total wides at about 250-270 for the tournament. But the International Cricket Council had briefed umpires to be more stringent with leg-side bowling, and the total wides for the tournament was 979 – a 709-point profit for pre-tournament stakers.

"[In major tournaments,] there can be a trend you don't really pick up straight away," Mr Shillington adds. "Any Fifa mandate won't become clear until referee's match reports start to be leaked to the press – often a number of games in."

Andy Lulham, Betfair's sports spokesman, however, has seen little evidence that traders on the exchange are worried about more bookings. "Our markets are suggesting that there will be far fewer red cards this summer," he says. "It could be that with more power to fourth officials, there may be fewer hasty red cards from referees who didn't see the foul correctly, or fell for a player's dive."

Betfair is seeing more movement on the goals front. Mr Lulham speculates this may be down to the official ball – the new Adidas "Jabulani" ball – which has been widely lambasted by players as lightweight and unpredictable.

Prior to the rule changes, the price on Betfair for more than a record 196 goals (there were 144 goals in 2006, 158 in 2002, 170 in 1998, 138 in 1994, 109 in 1990) in South Africa peaked at 81.0 on Betfair, but is now as low as 22.0.

Ladbrokes, meanwhile, which is planning to launch a new spread betting portal in time for the World Cup, is less worried.

"We tend to wait and see," says spokesman Ciaran O'Brien. "If, in a couple of games, we see a lot of long-range free-kicks going in, then we'll rapidly take a new view."

"The issue with the ball is pretty much exactly the same as it was four years ago," Mr Shillington argues.

"We found then the ball made little difference to the number of goals scored in set pieces, free-kick and penalty conversion rates were exactly the same.

"Players get used to a new ball very quickly."

Meanwhile, a small welcome rule change is Fifa's promise to discard accrued tournament yellow cards at the semi-final stage.

So, an influential player – such as Germany's Michael Ballack in the 2002 semi-final against South Korea – cannot be denied a place in the final for an infringement that did not earn a sending off.

In 2010, Wayne Rooney, who can be overzealous (he averages a card every five competitive games for England), may benefit. England fans will be relieved they are less likely to see a repeat of the incident that led to Paul Gascoigne's tears in 1990's semi-final.

If the rule guarantees the best 22 players start the World Cup final in Johannesburg on July 11, football fans and traders alike will consider it a job well done.

Finding the right moment is everything

Timing

Lucy Warwick-Ching explains why positions are being held for shorter time periods

Hold a position for too long and its value could drop unexpectedly. Sell too quickly and you could miss out on performance.

But new data from a leading spread betting firm suggests traders are more worried about the former: they are keeping daily FTSE 100 positions open for a maximum of only two hours, in the belief that the strong UK equity market rally has come to an end.

The research from City Index shows that even though index trades are generally less volatile than individual share trades, and can even be opened using quarterly contracts, traders are cutting down the length of time they keep their bets open, as price movements are becoming less predictable.

Joshua Raymond, market strategist at City Index, says: "One of the key influencing factors behind this is that the FTSE 100 has become much more volatile since the turn of the year, with typical daily trading ranges of more than 100 points.

"This has only exacerbated since the start of the sovereign debt crisis."

However, there is a benefit to betters in the increased level of volatility.

Mr Raymond points out that the increased volatility has also meant that spread betters no longer need to wait as long to reach their profit or loss targets.

"Moreover, increased volatility has made markets a little more unpredictable, making spread betters more reluctant to maintain positions for a longer duration, leading them to cash in early rather than risk losing gains or escalating losses.

"This could have played a role in the contraction of average deal lifespans."

Others point out that the time a trade is held can depend on the type of bet that is placed.

Tim Hughes, managing director of IG Index, says: "It's worth highlighting the difference between a spreadbet and a contract for difference in this regard.

"We find that spread bets – offered through IG Index – have a more speculative outlook, while CFDs – offered through IG Markets – are more often used for hedging.

"As such there can be a vast discrepancy between the average length of time a spread bet position is held open versus a CFD.

"Typically a FTSE 100 spreadbet will be open for just a few hours whereas the CFD equivalent will have an average duration measured in days."

It also depends on the asset class on which traders are betting.

"Sectors such as commodities have a been a lot more stable than equities and in these areas people tend to take a longer view," says Gary Thomson, director of sales trading from World-spreads.

"We expect to see more stability across all areas after the emergency Budget. But until then, we expect more and more people will become shorter term traders."

The other factor is cost. City Index has found that, since reducing its spreads across key markets, it has seen further changes to customers' spread betting behaviour.

"Recently, we reduced our spread for our FTSE, Wall Street, Germany 30 and France 40 Index daily markets to one point," says Mr Raymond.

"As a result, we have seen an uplift of approximately 40 per cent in average client trading volume and a 50 per cent increase in stake sizes, while the average life span of deals continues to contract."

He puts this down to the fact that, as the spreads are now much cheaper across these markets, they need to move only one point before a spread better's position is in profit, when previously the move had to be greater – such as two points on the FTSE and four points on Wall Street.

IG Index has also recently reduced its FTSE 100 spread down to just one point, which has encouraged shorter trade durations but again this is a reflection of the fact that a trade can turn profitable faster than was previously the case with a two point spread.

"The days of extended rallies look to be behind us, at least for the time being," says Mr Hughes.

He continues: "The shifting landscape regarding regulation, sovereign debt and the prospects of a global economic recovery will continue to lend uncertainty to markets.

"The subsequent increase in volatility means traders will have the potential to reach their target prices faster, but the risk of quick and unexpected reversions is again going to discourage clients from holding out in the hope of making another 10 per cent profit."

But no matter the cost, there will always be two types of trader, says Chris Hossain at ODL Securities, recently aquired by FXCM.

"The adventurous trader will ride out storms over longer periods, but the more risk-averse are looking to trade on smaller time scales and take advantage of news stories," he says.

Trading Insight

All that glisters can be sold

Gold

Ellen Kelleher explains why world affairs put the yellow metal in the spotlight

As the gold price has swung higher, more punters are turning their attention to the yellow metal.

The sovereign debt crisis still hangs over European markets and the metal is considered a "safe" asset and a hedge against inflation.

This has meant that gold bulls outnumber bears at present – meaning more betters expect the price of gold to increase – according to industry experts.

"Not only can gold be held as a hedge against dollar stocks, as the dollar and gold tend to move in opposite directions, but the metal also constitutes a natural defence against inflation," points out Lisa Baum, a strategist with Cantor Index.

"With the eurozone in disarray, both the dollar and gold have been popular bets in recent weeks."

Gold prices have hit record highs, amid fresh turmoil in financial markets, as investors have rushed to stock up on the precious metal.

Fears of unmanageable public debts, inflation and sluggish growth are creating an uneasy backdrop in which the gold price is flourishing.

Indeed, the metal's price has surged more than 30 per cent in euro terms since the beginning of the year, on the back of investor buying and the euro's weakness against the dollar.

But Cantor Index's Ms Baum says that long-term traders still have an advantage.

"The bullish trend, we have seen in the past 10 years or so shows no sign of slowing down, and as investors continue to flee the traditional investment markets, it seems plausible that gold could hit $1,500 an ounce in the next few years," she says.

Angus Campbell, head of sales with Capital Spreads, meanwhile, points out that investors who placed spread bets at the year's start, when the metal traded at about $1,095 an ounce have reaped large profits.

"You could have paid £1 per point at a price of $1,095," explains Mr Campbell, "and for every dollar that the gold price increased, you would have made £10, so if you still had the trade open at today's prices (gold trades at about $1,225), you could be looking at a profit of £1,300 ($1,225.0 – $1,095.0 is equal to 1300 points x £1).

Dealers believe the transparent way in which the price of gold and other commodities respond to news makes them appealing to active traders.

Although longer-term investors looking to diversify risk will generally favour a broader index, spread betters know that lower risk means lower potential return.

But if gold prices were to drop in defiance of expectations, losses could be large.

Strategists warn that the ranges on gold tend to be wider than they are for silver, which poses challenges. But despite the dangers, they agree that spread bets remain a useful way to capture short-term price movements.

"The intra-day volatility provides favourable conditions to reap rewards," says Simon Brown, chief executive of ProSpreads.

"The professional super-active day traders have a knack of spotting intraday swings in the gold price and are often seen switching from long to short in a second, trading like dervishes throughout the day, and retiring at the close with no position."

The consensus is that gold prices will remain buoyant as long as markets remain turbulent.

"Gold is an asset that traditionally does well during times of political or economic uncertainty," says Mr Campbell.

"Gold is back above its record nominal levels and many believe it's in the early stages of a cyclical bull run.

"So, if you think continued concern over sovereign debt issues from Portugal, Ireland, Italy, Greece and Spain will send the price of gold higher, then a spread bet can be a simple way of profiting from such a move," he adds.

Betters can also turn to exchange-traded funds (ETFs) backed by gold bullion for short and leveraged exposure.

The first three months of 2010 saw an 11 per cent drop in investment demand compared with the previous quarter, reports the World Gold Council, a trade group backed by mining companies, driven by a fall-off in growth of ETF holdings.

ETFs bought just 3.8 tonnes of gold in the first quarter, compared with 54 tonnes the previous quarter and 465 tonnes a year earlier, the WGC said.

But strong buying of gold coins, bars and ETFs persists, says the WGC, with concerns over Greece and eurozone contagion driving investors to seek safety.

"Most of the high net worth traders that make up our client-base have been playing gold from the long side over the past few months. It takes a brave person to play this bull any other way," says ProSpread's Mr Brown.

"There is so much uncertainty over the equity, bond and currency markets, that gold feels relatively safe."

Gold prices have hit highs