TRADING INSIGHT

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INSIDE Slow start off the blocks at the Olympics

PLUS Attractions and pitfalls of food price spikes

An increasingly uncertain world

In This Issue

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Payroll problem: US employment data trigger 5,000 buy and sell orders at one company in the space of a minute Getty

Turmoil drives trades in thin, nervy markets

Matthew Vincent reports on a sector that is desperate for movement and volatility

It is 13.29 GMT on Friday March 4. An eerie calm descends on dealing desks across the City of London and screens flash less rapidly. Across the country, fingers hover above computer keyboards, mouse buttons, and smartphone touchscreens. Seconds later, the US Bureau of Labor Statistics transmits the latest US non-farm payroll data to the internet and newswires. And, at one UK spread betting firm, 5,000 buy and sell orders are suddenly received inside a minute – a rate of 83 trades a second.

It is a scene that has played out at broking firms for many years – but, as economic recovery and geopolitical stability look less certain – it is now also a monthly occurrence at the offices of the big providers of spread bets and contracts for difference (CFDs).

"Clients continue to react to economic data," says Paul Inkster, head of spread trading at Barclays Stockbrokers. "Globally, there is an awful lot going at the moment – politically and economically – and this is reflected in client trading behaviour and volumes."

At ETX Capital, there is a notable calm before the trading storm. "We see volume die down just prior to any major numbers," says Manoj Ladwa, a senior trader. "But if we do see any spikes in volume, then it usually comes straight after the figures, especially if they come in some distance from expectations. The numbers most clients are focusing on at the moment are unemployment, non-farm [payrolls], GDP and anything that is likely to affect the real estate market."

IG Index, which processes those 5,000 trades between 13.30 and 13:31 on non-farm payroll day, believes this heightened activity underlines the significance of US economic data to private investors. As labour is critically important to the US economy, unemployment levels play a leading role in quantifying the strength of recovery – and can act as leading indicators of moves in interest rates, bond yields and the dollar.

Foreign exchange rates – and spread bets on them – are usually quickest to react. "Currency pairs move first, and often the most dramatically, of all financial instruments," says Mr Inkster. Chris Purdy, sales trader at Spreadex, says the dollar-based currency markets, especially bets on the "spot" sterling/dollar rate, and spot euro/dollar, often see spikes in volume around macroeconomic announcements.

In recent months, these spikes have been getting higher, too. "We have definitely seen an increase in volume for asset classes such as GBP/USD and EUR/USD," says Mr Ladwa.

Traders with CMC Markets prefer dollar-yen bets. "One of the most popular trades in recent times has been the USD/JPY currency pair, which tends to act a little more predictably than the other US dollar pairs in this low interest rate environment," says Michael Hewson, CMC market analyst. "Good US economic data is usually followed by a strong move higher in the US dollar relative to weaker treasury prices, as yields rise."

But it is not just non-farm payroll data that can trigger dollar bets. "Inflationary announcements such as US CPI and PPI have sparked a glut of trading on spot JPY/USD and gold," says Mr Purdey. "Currencies and certain metals are highly reactive markets so we experience a buzz of in-and-out trades around this news, with many clients holding a spread bet for only a matter of minutes."

Traders' reaction times – and bet durations – have come down across the board, according to many firms. "Generally, any bets on economic direction have become shorter term in nature," says Mr Ladwa. Richard Wiltshire, chief dealer for foreign exchange at ETX, adds: "We seem to be getting more knee-jerk reactions to data releases and political news/statements, which highlights how thin and nervous the markets fundamentally are and also how desperate for movement/volatility we are!"

Some traders are employing more sophisticated betting strategies – but in volatile markets, these can add risk.

Spreadex has noticed that some traders have been looking for correlations between related economic reports, such as the ADP unemployment change figure which comes out two days before the monthly non-farm payroll data.

"It can be incredibly risky to hold a position during the nearly 48-hour lag between the two announcements, during which time geopolitical events can arguably have more of a short-term impact," warns Mr Purdey. "Just because both reports cover the broader US jobs market does not mean Wednesday's outcome will necessarily dictate Friday's direction, since the methodologies for measurement are very different."

So, to cater for clients who want to trade economic uncertainty, but with limited risk, IG Index has launched a series of binary bets on the US non-farm payroll data. These can be placed on whether the monthly figure will be above a specified level – if it is, the bet price closes at 100, or if it is not, the bet price closes at 0. "Using a binary means that the price of the bet expires at either zero or 100, allowing the client to accurately know both their liability and potential return before committing to a trade," explains IG.

Bullish traders who might think that 300,000 new jobs have been created could then "buy" the "above 280k" bet at 23.0. If they are right, the bet price will close at 100 immediately after the figure is released and their profit will be 100-23=77, multiplied by their stake. However, if they are wrong, they know their loss will be limited to 23 multiplied by their stake.

"Until now, traders have been limited to taking a position on an associated asset like the greenback – or maybe even just getting involved in an office sweepstake – but this gives them the option to take a position on the non-farm payrolls," says Tim Hughes, IG Index managing director. IG will also be offering similar binary bets on the US initial weekly jobless claims number.

However, in recent weeks traders' attention has shifted from the US to the Middle East, as popular uprisings in Tunisia, Egypt and Libya have sent the oil and gold prices soaring. Trading volumes in these commodities have now spiked to the same level as some currency pairs.

"Middle East turmoil has driven our clients to double their trading activity in gold, bringing it to the same trading volume as we traditionally see in currency trading," says Gary Thomson, director of trading at WorldSpreads. "This has been coupled with obvious increases in oil trading which many people are trading due to geopolitical concerns – and at times like this oil is seen as a barometer of political concerns."

WorldSpreads has reacted by launching a daily oil futures bet, which enables traders to interact with daily volatility instead of the traditional quarterly contracts with which oil is bought and sold. As oil futures have risen in price against the backdrop of conflict in Libya, WorldSpreads' three-point daily spread has proved popular.

But for traders who prefer a longer term, slower moving economic spread bet, based on factors closer to home, WorldSpreads also has a 1,000-day contract on the future of the euro. Launched in January, it quoted a price of 710-720 days for how it would be before at least one country confirms its intention to withdraw from the euro.

It works in a similar way to a binary bet. Pessimists could bet lower than 710 if they thought the currency would break up within 710 days, and if a country came out in 300 days, the win would be 710-300=410 times the stake. If the eurozone is still intact in after 1,000 days, though, all trades still open will be settled at 1,000.

As WorldSpreads chief executive Conor Foley puts it: "A sharper benchmark for euro sentiment than our very own Stress Test one will not find."

'Numbers most clients are focusing on are jobless, GDP and anything likely to affect the real estate market'

Trading Insight

Currency punts not for the fainthearted

Foreign exchange

Lucy Warwick-Ching reports on an asset class in which it is difficult to be profitable

Foreign exchange trading is significantly more popular than it was two years ago, as fast-moving currency markets give intraday spread betters the perfect way to trade the news headlines of the day.

Last year, the big currency stories were Greece and Ireland and what would happen to the euro. In 2011, however, it is China and Middle East. While not all of these regional stories can be traded through obvious forex bets, some currency pairs can still give traders a way to profit from their views.

"Our clients have really taken to trading foreign exchange in the last year. In fact, appetite for margin FX trading has more than doubled in the past 12 months," says Paul Inkster, head of product at Barclays Stockbrokers.

Others also report an increase in forex trading. "Although equity markets made for some of the most popular trades in the run-up to the credit crunch, the subsequent sell-off, and then a bout of what for many looked like a market trading sideways, saw a shift into other asset classes," says Tim Hughes, managing director at IG Index. "Forex provided the opportunity for big intraday movements and volumes increased as a result."

Some traders are focusing on the effect rising interest rates could have on the three big currencies: the dollar, the euro and the pound. "Currency markets are very sensitive to interest rate expectations, and since interest rates in the major markets are so low, currency investors are pouncing at the first hint that one of the major central banks will hike rates," says Kathleen Brooks, at Forex.com, the retail trading platform.

She believes the most interesting trade will be euro/sterling. "The UK's growth outlook faces significant headwinds, whereas the largest economies in Europe are flying high," she says. "However, the euro area is dealing with a sovereign debt crisis. If the EU authorities can sort out the financial positions of the weakest members in the coming weeks, then interest rate hikes along with a strong outlook for German growth could fuel a euro rise against sterling."

Another big issue for traders is inflation. Simon Brown, managing director at ProSpreads, says: "The US dollar, rather like gold, is considered a safe haven in times of financial or geopolitical woes – during the financial crisis between 2008 and 2009 the dollar index rose 25 per cent."

However, he says that this time around the tensions have not led to a significant rise in the dollar – the reverse has happened. Investors have been piling into oil and gold which in turn tends to weaken the US dollar, so the likes of the euro and sterling have held up very well considering this recent bout of risk aversion.

"Sterling has seen some good gains recently with cable [trading the pound against the dollar] rallying to test its recent highs around 1.6250 and against the euro it is knocking on the door of 1.2000," says Mr Brown.

"This also indicates that there is still a degree of risk appetite among investors who are happy to be long on the currencies that are considered to be slightly more risky."

Providers say foreign exchange betting tends to revolve around sterling, dollar, the euro and the yen.

Sterling bets tend to be most popular with UK clients, as investors often have an affinity for the home currency. The most popular longer-term currency positions tend to be in dollar-sterling, euro-dollar and dollar-yen.

The way to profit from exchange-rate movements is to "short" the market and speculate that a currency will continue to fall, or rise against another currency. Investors can buy at the upper end of a spread – if they thought the pound would strengthen – or sell at the lower end if they thought it would weaken.

But Angus Campbell, head of sales at Capital Spreads, warns investors that forex trading is not for the faint hearted. "It can be incredibly lucrative but at the same time it is one of the most difficult asset classes to be profitable in,"

> More clients lose money trading FX markets than winning and for most of them it is because of a lack of discipline

he says. "Even with spreads as narrow as one point in many currency pairs, people think it's easy to dip in and out taking advantage of small movements in rates."

He warns the reality is that more clients lose money trading FX markets than winning and for most of them it is because of a lack of discipline.

"To be able to intraday trade FX markets, you have to be stuck to your screen all day, you have to be experienced, you have to have sound risk management and above all you need a bit of luck," he says.

"There's no question that if you take a long-term view on a currency and catch a trend, you can make a lot of money, but it's getting the call right that matters."

For anyone worried about unpredictable movements in this market it is possible to put a "stop loss" in place that will close the trade if markets have moved too far, too quickly.


Greek worries hit the euro

Odds taken on death of the euro

Europe

Speculators have been piling in to bet against the single currency, says **Lucy Warwick-Ching**

Confidence in the single currency has been falling since the eurozone debt crisis swept through Greece and Ireland last year – but this has opened up some interesting areas for traders.

"The eurozone crisis has increased volatility in the region and has created significant trading opportunities," says Paul Inkster, head of product at Barclays Stockbrokers. "The euro is always a popular currency trade and this crisis has only served to reinforce that trend."

Traditional ways to bet on the euro revolve around currency pairs, but one spread betting company is offering a pretty straightforward bet: how long will the euro last?

From January, investors with WorldSpreads have been able to take a position on how many days they believe the currency will survive in its current guise. WorldSpreads' "Euro Break-Up price" is quoted as a number representing the predicted number of days, from and including January 2011, until the Euro-Break-Up Date.

Optimists can bet higher than 730 if they think the euro will last longer than 730 days from January 1, 2011. If they are wrong and it collapses in 300 days from when the market opened, the loss is 430 times the stake.

Pessimists can bet lower than 720 if they think the euro will break up within 720 days. If it collapses in 300 days, the win is 420 times the stake. The market will last until Friday September 27, 2013 and all trades still open at that date will be settled at 1,000 days from January 1, 2011.

Alastair McCaig, market analyst at WorldSpreads, says this individual bet had captured clients' imagination and the company had seen a more than tenfold increase in the volume of trading since customers piled in at the beginning of the year.

"European markets will be glad that events have redirected the global focus on to the Arab nations," he says. "As a consequence, the WorldSpreads Euro-Break-Up Bet market has moved over the past month from 700-710 up to 720-730, meaning more traders are giving the euro a longer lifeline – up by 20 days – as their attentions move towards the Middle East."

However, he says this European relief might be shortlived as "one of the biggest repercussions of Middle East instability on European markets will be the increase in the price of oil futures and inflationary pressures they bring".

Added to that is the growing pressure on Portugal to take EU aid from Germany and France and political paralysis in the form of Belgium's recordbreaking lack of a government.

But Angus Campbell at Capital Spreads, warns that, as with any of these gimmicky type bets, there is a catch.

"The market is not on how long the euro will last but on the first time any voting rights are lost by a governor of a national central bank of an EU member state," he says. "So the euro can still be around, but the market for this bet might have ended."

He says it is highly improbable the euro as a currency will end – because of the political ramifications of such a break-up, but believes it is possible one or two states might bail out.

"Should such a scenario arise from any of the weaker member states being forced out, then this could be dire for not only the eurozone but the global banking system and economy as well," says Mr Campbell. "The costs of exiting are much greater than the hard times they're having to go through now, to get their houses in order."

Others dismiss the likelihood of an end to the euro altogether. Tim Hughes, managing director at IG index, says: "The crisis regarding eurozone sovereign debt would seem as if it will keep running for some time yet. But with so much political capital at stake over the single currency's survival – and with no easy exit strategy from membership – there seems to be a pretty strong chance that the euro still has a degree of longevity," he says.

This is because any attempt by the new Irish government to renegotiate borrowing rates with Germany will be closely watched because this would risk setting a precedent for other fringe members who are also struggling against mounting debts.

Others make the argument that it would be too complex to unwind it. Kathleen Brooks, research director at Forex.com, the retail trading platform, says: "A decision to revert to old currencies or invent new ones, minting and distributing the new currency and reinstating currency symbols would take years. Reference rates would need to be agreed upon so that the new currencies could actually trade, along with a period of time to allow the troubled peripheral states' economies to recover from their recent shocks," she says. She believes the current situation is fundamentally a credit crisis. "Euro/dollar is still 44 per cent higher than it was in 2000, and 15 per cent higher than it was in the depths of the Greek crisis back in June," she says. "When you look at it like this, why would you abandon the euro?"

FINANCIAL TIMES FRIDAY MARCH 11 2011 7
Trading Insight

Olympics

Betting groups have been slow off the mark, writes **Sean Smith**

Let the Games markets begin

Different strokes: oddsmakers appear to have been held back by a fear of fringe specialists and illegal betting syndicates Getty

On the official London Olympics 2012 website, one can view a webcam that shows how the main Games park in Stratford is taking shape.

It is pretty much there. The main stadiums are getting their finishing touches, while work has started on the wetlands. The Olympic Village is more than a third complete. The velodrome was officially opened in February.

Elsewhere, the white water rapids park in Lee Valley (canoe, kayak) is complete, while Dorney Lake (rowing, canoe racing), near Eton, and Weymouth (sailing) have been Olympic-ready for a while.

This summer sees 43 test events – including two at the main stadium – which will help organisers fine-tune each event, as well as affording savvy traders the opportunity to data-crunch the particular conditions for each event.

Most athletes are beginning to enter their latter-stage preparation cycles for the Games – and we are beginning to see a clearer picture of the main contenders in many events.

Traders have a library's worth of historic data to assess, yet some spread and fixed-odd companies are biding their time before plunging into the Olympic market.

"As we get closer to the Games we will be adding a comprehensive product," says Shane O'McLaughlin, marketing director of Betdaq. "We are planning ahead, as the sheer number of events and competitors requires plenty of preparation."

"We just cannot tell what effect [London as a venue] will have on betting interest," says Paddy Power, head of communications for the company with the same name.

What appears to be holding back most oddsmakers is a fear of fringe sports specialists and illegal betting syndicates – the latter a concern amplified by a recent comment by Jacques Rogge, president of the International Olympics Committee, that London is a target for criminal syndicates.

"The turnover invested in illegal betting is $140bn. That's a huge amount of money. What we have from Interpol is definitely that illegal betting is on the rise, that we have to absolutely fight that, there is a sense of urgency," he said.

Jeremy Scott, spokesman for Extrabet, says: "Traders are going through stats at the moment, just to get an idea. But we are reluctant to put spread markets up too quickly – these are the type of markets you can get picked off on."

But when the Games markets begin – most companies are expecting it to be the biggest ever Olympics in terms of betting and trading.

"We would expect to see in the region of €500m (£426.6m) matched on the exchange on Olympic bets next year. It might not reach the levels of a Fifa World Cup but it will still be a significant betting event," says Mr O'McLaughlin.

> Most companies expect 2012 to be the biggest Olympics for betting and trading

Centrebet – based in Darwin, Australia – turned over A$25m (£15.6m) on the Beijing Games, and reported recently that it expects to turn over more than A$40m during the London Games.

Of the betting markets already available, the spread of gold medals for the home side in 2012 is the most popular. Coral is offering 5/6 that there are more than 24.5 gold medals for Great Britain and Northern Ireland, while Extrabet is offering a spread of 22.5-23.5. Spreadex says it will be looking to quote between 22 and 23.

"Regarding expectations for next year, it's hard to say," says Spreadex spokesman Andy MacKenzie. "The public perception is that Team GB, spurred on by a vociferous and enthusiastic home crowd, will build on a solid showing in Beijing where they won an impressive 19 gold medals.

"In terms of a spread on GB gold medals for the 2012 games, although we don't currently have a market live on this, we could be between 22 and 23 gold medals."

Once more markets begin to be published, the most popular spread opportunities are likely to be statistics-based and centred around the blue riband events.

"One of the most popular Olympic spread betting markets in Beijing was the prediction of the winning 100m time," says Mr McKenzie. "Those spread betters who sold on the spread were left in the money when Usain Bolt romped home to win in a then new world record time of 9.69 seconds."

Whatever stance the trading and betting groups have, most agree that it is an opportunity not to be missed.

"We're expecting London 2012 to be our biggest ever Olympic Games by some distance in terms of the number of markets we offer and the amount traded on the exchange," says Ari Last, Betfair spokesman.

"It's massive," says Neil Evans, Centrebet spokesman.

"We will be going with a full market on every gold medal event."

Paddy Power concludes: "This is the Olympics in London. It represents a great opportunity for betting to make sports even more interesting by having a little flutter."

On the move Some good reasons to keep taking the tablets

Spread betting providers are capitalising on the growing popularity of Apple's iPad and developing trading applications to increase further the appeal of trading on the move.

Sales of Apple's iPad hit 14.8m in 2010, dominating last year's 16m tablet market, which is set to grow further, with strong competition this year from Samsung's Galaxy Tab, Motorola's Xoom and Research in Motion's BlackBerry PlayBook.

While mobile trading has been available to spread betting clients using their iPhones and other smartphones for the past couple of years, providers are only now developing separate platforms for the iPad.

Both CMC Markets and IG Group will launch iPad trading applications this year. Other providers note that their iPhone app also works on the iPad, but they fail to make use of the larger screen of the tablet device.

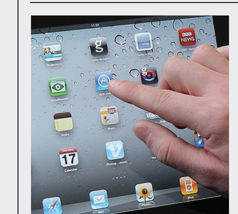
Michael Hewson, market analyst at CMC Markets, says its iPad application, to be launched in April, will bring an enhanced desktop experience to trading via a tablet.

"Users will find that they won't have to learn new functionality, as the look and feel will be identical whether they use an iPad or a desktop interface," says Mr Hewson.

The ability for spread betting and "contracts for difference" (CFD) clients to keep a constant watch on their investments has become increasingly common in recent years.

CMC Markets says 41 per cent of its daily trades are generated through its Next Generation platform, while more than 30 per cent of its new accounts are mobile ones.

Rival providers have also seen a huge growth in this part of the market. IG Index sees between 350,000 and 400,000 trades a month on its mobile platforms, representing just over 10 per cent of its monthly volume – an increase of 50 per cent in the past year. "More than 50 per cent of these mobile trades are now carried out on the iPhone app," says David Jones of IG Index.



One company's app has a live streaming chart, allowing clients to undertake their research while they're out and about

City Index says that trades placed on a mobile device grew last year from 2 per cent to nearly 20 per cent. As many as 40 per cent of the company's trading clients actively use their mobiles to place at least one trade.

Barclays Stockbrokers and Capital Spreads both entered the mobile trading market later than their rivals, but are already seeing strong demand.

Barclays Stockbrokers launched its iPhone app last December and has seen up to 10 per cent of its daily trading executed through mobile devices.

While most spread betting and CFD providers now offer trading apps for iPhones, users of Google's Android smartphone operating system have less choice. Since December, City Index has started offering its City Trading application through Android mobiles.

IG Index also offers trading apps for BlackBerrys and Android mobiles, while Capital Spreads is developing one.

However, neither Barclays Stockbrokers nor CMC Markets offers apps for this part of the market.

"We have no plans to design a device for Android because of the differing hardware standards. However, we are constantly reviewing market trends and this could change if the economics make it commercially viable," says Mr Hewson.

Joshua Raymond, market strategist at City Index, believes the focus of providers is switching from the accessibility of mobile platforms to the innovation and tools available to help clients undertake their own research on the move.

He says his company's City Trading app has live streaming charts, with multiple indicators, which allow clients to undertake their own research on the move so that they can react, not just to price swings, but also to technical analysis.

Tanya Powley

Unforgiving market for the ill-prepared

Commodities

Lucy Warwick-Ching reports on the risks of betting on the weather and the middle classes

It is hard to walk into a supermarket today without spending the entire contents of your wallet on basic food essentials.

But rising commodity inflation is opening up opportunities for investors to make money, and spread betting companies are reporting significant growth in commodity trading volumes. Soft commodities have seen a huge rise in prices in the past year following bad weather. Over the same period, the price of coffee has shot up 94 per cent, corn has risen 88 per cent and wheat has gone up 74 per cent.

Some traders believe prices have peaked, others say they have further to go – they see food price inflation as a growing problem in the medium to long term because supply will struggle to keep up with the growing demand from a rapidly expanding population.

So what are the main drivers behind the recent surges and how can short-term traders benefit from further price fluctuations?

Most investors are split into two camps, says Nick Serff, market analyst at City Index. "The first believes excess liquidity and central bank quantitative easing is ramping up inflation," he says. "This is causing investors to look for an inflation hedge, with traders seeking to take advantage of low interest rates to speculate on higher yielding asset classes such as commodities."

On the other side of the fence, he says, are people who believe price increases are coming from a pick-up in global growth and sustained demand from China and other emerging economies.

"If growth is boosting the demand for commodities. it could be argued that the speculators are only going along for the ride and that prices could be set to increase further," says Mr Serff.

Other experts also believe the recent spike in prices is down to supply and demand. "Last year, expectations of a decent global harvest of cereal crops and the financial crisis had seen prices plummet, but global supplies were already depleted and then the harvest from Latin America to Russia was exceptionally poor," says Angus Campbell head of sales at Capital Spreads.

"This year, markets are in dire need of a bumper crop in order to replenish stockpiles and this might bring prices back down a bit. But if we see similar weather conditions to 2010, there's a possibility prices could spike even further."

Other important price drivers are the growing middle classes and shifting eating habits in the emerging world.

"In China alone, the middle classes grew by 87m between 1995 and 2005 and the next 10 years is expected to see even more rapid expansion," says Kathleen Brooks, research director at Forex.com, the retail trading platform. "This is a tempting prospect for investors, as commodities rise with ever increasing middle class populations in the east."

Mr Serff says spread bettors are naturally opportunistic. "We have seen them jump on the commodity bandwagon to ride on the back of price waves when trends are set," he says. "We saw this late last year when the price of CBOT [Chicago Board of Trade] wheat rallied 68 per cent between late June and August after the severe drought in Russia that crippled a third of its grain crops, forcing the country to ban exports."

He says prices surged from a low of $5.12 per bushel to a high of $8.64, meaning even a simple £1 "buy" spread bet would have netted an investor just over £1,400. But the movements of these types of assets are hard to predict and there are lots of things that need to be considered by anyone looking to trade the commodity markets.

"They have different trading and quoting hours from many other markets and also different tick sizes," says Mr Campbell. "At Capital Spreads we attempt to simplify this by quoting many of our commodity markets in whole numbers as opposed to the specific underlying tick size."

It is also important to be aware of a commodity contract's expiry date. "As with all financial markets, they [commodity markets] are risky and since many only trade for part of the day, they can be subject to big moves in either direction when they open," he says.

Others also warn of the risks. Michael Hewson, market analyst at CMC Markets, says that while commodities represent a great opportunity to make money, for the ill-prepared they are "an extremely unforgiving market".

"One of the biggest risks that spread bet and CFD clients face is the higher margin requirements needed to fund what are, to all intents and purposes, less liquid markets more prone to short term price shocks due to varying seasonal factors as well as changes of margin requirements by the exchanges to try to limit price volatility."

The price of wheat has risen by 74 per cent in the past year

Some top tips for the novice punter

Education

Tanya Powley reports on a trend toward seminars designed to bring in new business

Spread betting providers are pouring significant resources into educational tools and online courses as a way of attracting more clients to their trading platform. Where once they competed for clients by offering cheap pricing, many have realised that educational seminars and online tools are the way forward.

"I think the industry moved away from being differentiated on price a few years ago – there is little to choose between the companies on just spread alone," says David Jones, chief market strategist at IG Index.

"We want to provide the best of all aspects for clients – a range of markets, tight spreads, functional platform, and education is a very important part of that overall suite," Mr Jones says.

IG Index has launched a programme of regional seminars, following on from its national programme at the end of 2010.

Mr Jones says the company held a seminar in Leeds this year, with Birmingham and Heathrow lined up next. It is finalising dates for Manchester, Milton Keynes, Edinburgh and Glasgow over the next few months, with this year's theme being "spread betting forex".

Joshua Raymond of City Index says it is important that clients are aware of the risks involved with spread betting and Contracts for Difference (CFD) trading due to the leveraged nature of the products.

"We therefore take the education process very seriously, wanting to ensure that our clients fully understand not only our products, but also how to master trading the financial markets," he says.

City Index starts its prospective and new clients on an introductory seminar and webinar, explaining how the spread betting and CFD products work. This training also explains why the products are so popular today and the tools the company offers to help clients minimise their risk, such as guaranteed stop losses.

Capital Spreads has a basic "learn to spread bet" seminar that is open to anyone, whether they have an account with the company or not. Angus Campbell of Capital Spreads says this seminar is particularly popular as it caters for the complete novice. It also includes a tour of the company's platform.

"There are many different providers and platforms to choose from so it's important that we do as much as we can to help clients understand the nuances of our particular offering, which can often be very different from other providers," says Mr Campbell.

Mr Jones says there are plenty of people for whom spread betting is still relatively new. "The whole idea of trading markets in both directions, using margins, managing risks with stop losses – and it is probably this section of the market that we see the most at seminars."

However, educational tools are not just for beginners. City Index offers advanced classes such as "using candlestick patterns for short term trading strategies" and "forthcoming trading opportunities" for more experienced traders.

"Our intermediate and advanced seminars are hosted by our chief technical analyst, Sandy Jadeja, who has worked in the industry for many years and is able to tailor his advice to his audience," says Mr Raymond. All of City Index's seminars are free to the company's account holders.

Capital Spreads and IG Index also have conferences targeted at more experienced traders. Capital Spread's "advanced" and "trading strategies" are for smaller groups of people, up to a maximum of 20, and only for account holders. The company charges £49 as they are hosted by traders who are independent of Capital Spreads.

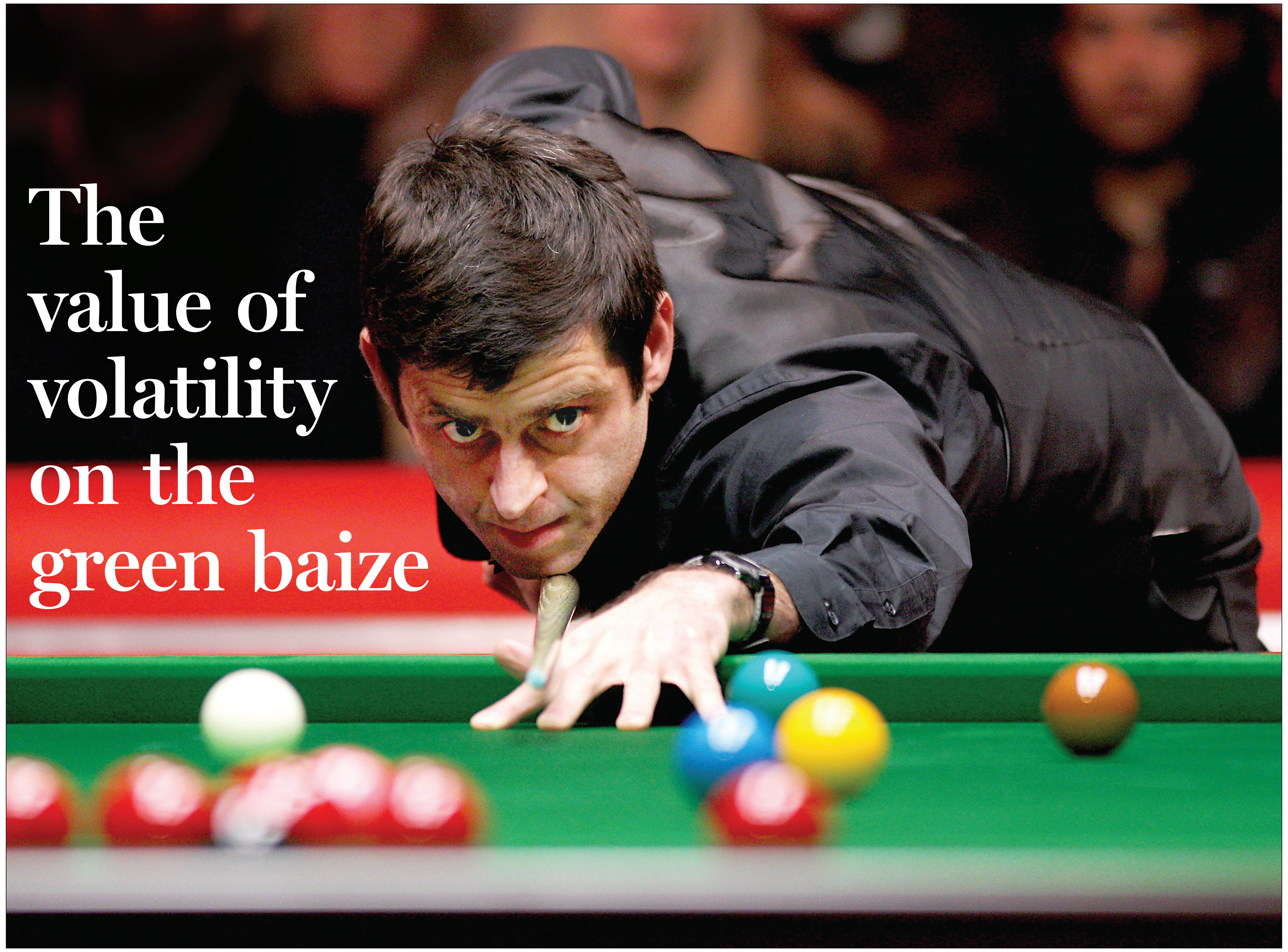
"They are held in our offices and the size of the groups means that people can really interact with the presenters to get the most out of the session," says Mr Campbell.

Some companies are focusing on getting more female investors to use products such as spread betting. Barclays Stockbrokers has recently launched "SmartWoman on the road" – a series of investment seminars for members of its SmartWoman community.

"These events are for female clients who may have felt disengaged with investing and personal finance and give an introduction to the basic tenets of investment strategy," says Paul Inkster, head of product at Barclays Stockbrokers.

City Index has launched a website called City Wise for retail spread bettors and CFD traders providing real time news, trading education and market analysis to complement its seminars, creating a platform to educate, engage and interact with the company's own team of analysts, as well as other traders.

Yes, Sir: education tools are for novices and experts



The value of volatility on the green baize

One to watch: Ronnie O'Sullivan is the main attraction but 'there is also every chance he'll throw a wobbly and lose', creating the prized quality of volatility Getty

Snooker

It is similar in many ways to cricket – only it does not take so long, says **Huw Richards**

Snooker is like cricket, says Aidan Nutbrown, Sporting Index's trader for the sport. "All those numbers mean it is made for spread betting."

None of his colleagues would disagree, and Ian Massie, his counterpart at Spreadex, is prepared to go further. "It is probably better than cricket. It will take most of a day to score 350 runs, but you'll have that many points in three or four frames of snooker, which might take not much more than an hour of play."

There is, of course, a downside to punter-friendliness. Like cricket, snooker has been afflicted by betting-related corruption. John Higgins, current number one and three times world champion, was suspended last year when he was enmeshed in a betting scandal.

That he was banned for only a few months – rather than the potentially career-ending sentences imposed recently on three Pakistan cricketers – and will be playing at this year's World Championship, starting in Sheffield on April 16, reflects a perception that he was guilty of poor judgment rather than dishonesty.

But public reaction to the championships will reflect the extent to which interest and faith in the sport has been damaged. The World Championship is to snooker what Wimbledon is to tennis, two weeks in the year when mild interest can turn to near obsession.

"It is on BBC television, it runs over Easter, and it is by far the most important tournament," says Chris Camp, snooker trader for Extrabet.

Mr Nutbrown says: "We have clients who specialise in snooker, but the world championship is where we see people who don't bet on other snooker tournaments having a go." He reckons it accounts for as much as 75 per cent of Sporting Index's annual snooker business.

Among the longer-established markets are the tournament indices, which for Extrabet operates at 80 points for winning, 60 for being runner-up, 40 for semi-finalists, 20 for the quarter-final and 10 for reaching the last 16.

The draw is still incomplete, although the top 16 players pre-qualified and their positioning within the draw allows traders to consider likely prices.

Mr Nutbrown points to an imbalance. "Both Higgins and Ronnie O'Sullivan are in the same half of the draw and seeded to meet in the quarter-final. That will affect the prices for both," he says.

> World Championship is to snooker what Wimbledon is to tennis, two weeks when mild interest can turn to near obsession

Mr Camp expects the leading contenders to be tightly grouped on the index when the tournament starts. "Higgins at maybe 32-35, O'Sullivan 28-31, reigning champion Neil Robertson at 29-32 and Ding Junhui at 27-30."

Tournament indices indicate one area where spread betting has an advantage over fixed odds. The fixed-odds punter placing a bet on the tournament as whole is focused on the final. The spread better can get value from a player whose progress ends after a couple of rounds.

Mr Massie points to 15th ranked Ricky Walden as an example. "At fixed odds, he'll probably be 80 or 100 to one. On the index he'll be 2.5 to 3.5, which means you can make a decent profit if he gets through a couple of rounds."

Higgins' astonishing resilience – in a year that saw his suspension and the death of his father, he has returned to win a series of tournaments – always attracts backers, but the big draw for punters is Ronnie O'Sullivan.

"It used to be Jimmy White," says Mr Nutbrown. "And if he qualifies again he'll attract a lot of support, but O'Sullivan is the main attraction nowadays. But there's also every chance he'll throw a wobbly and lose."

In other words, volatility, the quality most prized by spread betters. That quality is also highly evident in the in-running markets that have driven the growth of snooker spread betting in recent years. Single frame points margin bets are described as "Frame Volcano" by Sporting Index, with little exaggeration, since a player may lose or win an individual frame by as many as 147 points. Spread that concept over a 35-frame final and you can have cumulative winning margins running into four figures.

Markets called 50up and 100up aggregate the scores of players who make breaks above those numbers – so a maximum 147 counts 97 points in 50up and 47 in 100up. Traders and punters have to watch for the way players react to having a big lead in a frame.

"Some players will go on as if every ball still matters and clear the table," says Mr Nutbrown. Ding Junhui is a remorseless maker of big breaks, a contrast with Wales's Mark Williams, a former champion who has revived strikingly this year. "Once the frame is won, he's likely to start playing trick shots."

As Mr Massie notes, these markets mean that every point matters. "A break of 80 may hardly matter to the match overall, but it makes a big difference to spread betting. So does whether a player bothers to pot the black at the end of a big break." Like the man said, ideal for spread betting.

A good bet on the bottom of the league

Football

Huw Richards finds returns may be greater if you back the underdog

Manchester United and Arsenal will capture most headlines as they battle for the Premier League title but the attention of football spread markets is likely to be elsewhere.

Spread markets, more than fixed odds, thrive on a range of outcomes. A two-horse race, however distinguished the runners, has real limitations.

As Anthony Gray, football trader at Sporting Index, points out, English football's biggest prize often disappoints in this respect.

"You don't get exciting finishes – the last one I can remember was the year when Blackburn won the title in spite of losing their last match at Liverpool," he says. "That was in 1995, and in the years since, the average margin of champions over runners-up has been 6.7 points."

Once again, uncertainty is at the other end of the table. Jeremy Scott, sports spokesman for extrabet.com says: "You see it in most seasons at about this time of year, as punters lose interest in limited options at the top of the league and instead start to focus on the bottom and the battle against relegation."

Two markets – those on the number of points each team will have at the end of the season and the specific index on relegation and the lowest places – are the focus for this interest.

> From being quoted below West Ham, Wigan found themselves hot favourites, with a spread of 38-41

This year's battle, with almost half the division still apparently in peril, is particularly compelling.

"This is a year in which there is no team hopelessly adrift at the bottom of the league," says Mr Gray. "You've got teams that could finish either 13th or 20th, so there's plenty of volatility. The league as a whole is much more competitive.

"At the moment, the lowest points spread we're offering for any team is 36 to 37, which would have been safe by several points last year. The highest ever points total for a bottom placed team since the Premier League was cut to 20 teams is 34."

Results, particularly unexpected ones, move markets. West Ham's 3-1 victory over Liverpool had a sharp effect on the 60-point relegation index. From being quoted just below West Ham, Wigan found themselves hot favourites, with a spread of 38-41, 14 points higher than the rising Hammers.

Transfers and managerial changes also have an impact. For the spread markets, the big move on the final day of the transfer window was not Fernando Torres joining Chelsea, but Andy Carroll's move from Newcastle to Liverpool.

West Ham find favour

Mr Gray says: "There was interest in Chelsea, but there will have been as many people wondering how Torres would fit into the team as believing he would make a real difference."

He adds: "The issue around the Carroll move was how Newcastle would do without him. And if Charlie Adam had left Blackpool, you would have seen huge movement, because of the impact that would have had on their chances."

Even if Blackpool fulfil pre-season predictions that they will be relegated, they will have had a huge impact on this year's spread markets.

Chris Field, football trader for Spreadex, explains: "They're the first team to have exceeded their pre-season spread.

"Before the season, a lot of people thought they might be like Derby a few seasons ago and were selling them at 26.5-28. They got to 29 with 12 games, nearly a third of the season, left. If you bought them before the season, you've already made a profit and every point between now and the end of the season adds to it."

Overperformers have had an impact lower down the league as well. In League One, Sporting Index's 60-point promotion index has "The Field" running at 18-21 points.

"The Field" is an invariable part of indexes, since it covers the teams that do not receive an individual quote at the start of the season. Just-promoted Bournemouth were one of the six teams excluded.

"They've just come up, they've had financial troubles in recent years and they sold the players whose goals got them promotion last season, but they're still up there," says Mr Gray.

The Championship promotion race this year also has all the qualities of multiple-team uncertainty that punters relish.

"You've got clubs with big followings involved, such as Nottingham Forest and Leeds, and there has been a fair amount of television coverage, which always helps," says Mr Field. Here again, there is a team exceeding expectations. He cites one punter who bought Swansea's points at 65.5 and needed them only to gain four more points from their last 12 games to move into profit.

Spread firms like underdogs – provided sufficient of the big teams survive to sustain interest. Manchester United v Arsenal will ensure plenty of business on this weekend's FA Cup ties, but Mr Gray thinks the best bet may be elsewhere.

"Stoke, who are at home to Bolton, could offer the best value on the indexes."

Trading Insight

Want anything from the shops?

Retailers

Tanya Powley considers investor attention on the high street

Retailers' shares could be the focus of much investor attention this year as the government's austerity measures kick in and further depress spending.

High street shops look set for a tough time. The retail price index is increasing at 4.8 per cent, the new higher rate of VAT is at 20 per cent and the likelihood of interest rate increases this year are set to damp spending power.

The signs so far are not good. Sales on Britain's high streets were much lower than expected in February, according to the monthly distributive trades survey from the Confederation of British Industry, which measures sales volumes.

It found that only 6 per cent more retailers reported sales that were higher, rather than lower, compared with a year earlier.

It also found that as many retailers expected sales volumes to be lower in the next three months as expected them to rise.

This provides an opportunity for spread betters to have a wager on how the shares in high street retailers will fare. Traders can either take a bet on retailers that will do well, or try to predict which of them will lose market share – or combine the two in a pair trade.

The post-Christmas retail sales figures gave traders an inkling of which shops are better positioned to ride difficult market conditions. Retail analysts are forecasting that supermarkets will thrive in this environment. J Sainsbury enjoyed a better than expected Christmas, with a 3.6 per cent year-on-year increase in sales for the 14 weeks to January 8.

Both Morrisons and Ocado, the online grocer, also fared well. Morrisons, the UK's fourth-biggest supermarket chain, reported a modest 1 per cent rise in like-for-like sales in the six weeks to January 2, while Ocado reported strong sales

> Post-Christmas sales figures gave traders an inkling of which shops are better positioned to ride difficult times

growth in its first set of annual results following last year's public offering.

But not all retailers did well over Christmas, with many blaming the snow for keeping shoppers at home.

Debenhams saw like-for-like sales fall by 1.3 per cent for the 19 weeks to January 8, with £30m of sales lost due to heavy snowfall in December. Sales at clothing retailer Next were down 3.1 per cent year-on-year in the period between August and December. It also blamed the snow for costing it £22m in sales.

Spread betting providers say there was a lot of trading on retailers in January as the Christmas sales figures were announced. David Jones of IG Index says clients were favouring a short-term approach, looking for volatility over the days following a company's results.

"As with other stocks, investors can short sell using spread betting if they think retailers will go down, or buy if they think the price will rise," says Mr Jones.

Simon Denham, head of Capital Spreads, says his company has seen the proportion of equity trades on retailers drop from January to February. In February, there was also a higher proportion of sell trades in the retail sector than in January.

"This goes some way to show that the sector is not particularly loved by our clients at the moment and they are turning more bearish on retailers," Mr Denham says.

However, one notable exception has been Ocado. "After being distinctly unloved following its market debut last year, it has enjoyed a good start to 2011 and for now there seems to be the appetite among some to buy into the dips, expecting further gains," says Mr Jones.

As well as being able to profit from both upside and downside movements in retailers, clients can identify pair trades within the sector. For example, a trader could sell Next and buy J Sainsbury.

Alastair McCaig, market analyst at WorldSpreads, says investors should keep an eye out for early signs of retail failure such as poor sales figures, stock flow problems or insurance issues.

A medium term trade could be to take a view on the retail index as a whole, rather than trying to find the big mover.

"If an investor thought that the doom and gloom had been overdone and we were going to see the UK consumer come to life again this year and hit the high street, a longer term buy on the FTSE General Retailers index at IG Index would be one way to profit from that view," says Mr Jones.

For example, IG Index is quoting the June contract at 1660/1672. This can be traded from as low as 50p per point. If a trade was made at £10 per point and the index rose by 10 per cent over the next few months to trade at 1840/1852, this would represent a profit of £1,680.

Retail therapy put to the test