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The Complete Guide to Fintech Trading and Investments

Building Wealth in the 21st Century

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Introduction

Congratulations! You have just opened the definitive guide to investing in the fintech age.

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Why Should You Read The Complete Fintech Guide?

No matter where you live or the level of your experience, you will find this guide brimming with information for your financial education. eToro's goal is to educate investors and bring transparent investing to anyone who wants it, not just the elite

aThe more you know about investing, the more confident you can be when making decisions. Expand your wealth building to include alternative investments you haven't previously considered. This guide will introduce you to a broader world of investing. Enjoy!

What to Expect From This Guide

You'll learn basic and advanced trading and wealth management techniques. Find tools to assess your personal risk level and develop your unique investment strategy. You'll discover a wide range of different investments so you have options to best fit your goals. You'll see how money grows and gain reasonable expectations for your wealth building.

When you finish this book you will:

- Understand the 'plague' that stops investors from making money
- Know which kinds of stocks will let you sleep at night
- Learn how to assess a company's value so you don't overpay
- Find the 'market maker' secret to buying and selling for best returns
- Understand cryptocurrencies and how to profit from them
- Explore the world of currency trading most investors never see
- Learn how debt can make you money
- Find five different ways to hold precious metals and other assets for added security
- And much, much more

Who Is This Guide For?

This guide is for people who want to take control of their financial lives. It is aimed at young investors who have time to build their wealth. Experienced investors will find ways to expand and diversify their investments. And everyone interested in investing, trading, and building wealth will find it to be an extremely useful investment resource.

New technology, such as the eToro trading platform democratises investing. Now, investing and wealth building become available to every person. This guide is for people who want the freedom to explore investing and the knowledge to do it well.

How to Get the Most from This Guide

If you are new to the world of investing, we recommend starting from the beginning and read the book chapter by chapter. When you are finished, you will have the knowledge and confidence to invest. Likely, you will have a more advanced knowledge of investing than most of your friends and co-workers. Indeed, you may become the resident expert.

If there is a particular investment opportunity that interests you, (like currencies or value investing) you can go there directly. Use our trading glossary to clear up any term or acronym you're not familiar with.

If you are a seasoned investor, check the table of contents for alternative investments. Use them to diversify and broaden your portfolio.

Our promise is that readers will gain a comprehensive understanding about different investment opportunities. You'll see solutions that can make your investing easy, enjoyable, and rewarding.

A Word From eToro CEO and Founder, Yoni Assia

Dear traders and investors,

Welcome to the The Complete Guide to Fintech Trading and Investments, and thank you for taking the time to read this intro. Whether you're an experienced trader, or making your first steps in the world of trading, I'm certain you will find it interesting and enlightening.

Here at eToro, we aim to disrupt the traditional trading industry by making online trading and investing available to anyone, anywhere. A key element to achieving this goal is promoting financial literacy.

Over the years we've gathered knowledge which I believe benefits both seasoned and beginner traders. Since helping people become better traders is part of our agenda, we've become quite proficient at making the complex world of finance easier to understand. And this is what this guide is all about.

If you're not familiar with eToro, here's a little bit about us:

We've been around for about 10 years now, and I'm proud to say that we are considered global leaders and pioneers in the fintech revolution, and were chosen as one of the top 10 fintech companies to watch by FT and was recently awarded the Best of Show Award by FinovateEurope, one of the biggest Fintech conferences in the world. This is a global phenomenon, and eToro is at the forefront. Our strongest points have been promoting social trading by inventing CopyTrading, and supplying solutions for a wide scope of clients, from day traders to long term investors, such as our CFD trading platform and our CopyFunds™.

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Six million users strong, I am now confident that eToro is in the right place, taking part in a revolution that is changing the trading world. Even the World Economic Forum recognised that this is the future of the financial industry:

'The next generation of retail and social trading platforms offer effective means for individuals to share or sell their investment expertise, directly competing with traditional investment managers'.
The Future of Financial Services, World Economic Forum, June 2015

I know there is something for everyone in the guide you are about to read, and I'm sure it will benefit you as a trader and enrich your knowledge.

Happy trading!

Yoni Assia

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About the Authors

Mati Greenspan was born with investing in his genes His grandfather, a self-made multimillionaire, discussed investing over the dinner table and many of his siblings entered the family business. But Mati struck off on his own. At 13 he was reading the Wall Street Journal and paper trading. He is drawn to the thrill, the excitement, and the adventure of day trading. 'It's like a computer game', Mati says. 'You just have to see the patterns and trends, and when you win the prizes are in real money'.

Mati mostly focuses on globally traded markets such as currencies, commodities, and indices. He is fascinated by the macro stories behind the moves. He trades primarily based on the fundamentals and uses the technicals to determine support and resistance. What does he do in his spare time? Watch the news and social media looking for the stories that will influence the markets... and trade.

Mati is a high leverage, fully invested trader and is very comfortable taking on high risk. He is currently the Senior Market Analyst at eToro and loves helping others learn the markets and trade more effectively.

'The financial sector represents about 10% of the world's wealth', Mati says. 'Why not have it accessible to the average guy?' Many novices fail to profit from this potential but Mati thinks that with knowledge and the eToro trading platform, they can. He loves to help them learn and succeed. If you have questions, feel free to contact him on twitter or on the eToro network. He'll be happy to answer. He takes great satisfaction in your success.

Mati lives in a small town in Israel, not far from the Tel Aviv office and has an amazing wife and two lovely daughters.

Contact Mati in any of these ways:
https://twitter.com/MatiGreenspan
https://www.etoro.com/people/matigreenspan

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About the Authors

Sandy Fox also grew up in an investing family. Her grandmother's IBM stocks paid for part of her college education. She's been investing in stocks, options, and real estate for the past 35 years and recently has been enamored with pre-revenue start-ups, private lending, and cryptocurrencies.

She also writes about finance and investments. She loves to learn about the flow of money and then share that knowledge with others. Her 25 year writing career has spanned from writing stories for children, to magazine travel articles to books, white papers, and on to articles and reports on investing, business, real estate, finance, insurance, gold, and biotech start-ups.

'The difference between wealth and poverty is so often the knowledge of how to handle money', Sandy says. Learning empowers people. It changes lives for good. Contact Sandy through LinkedIn or her website.

Chapter 1

The Fintech Revolution

The relationship between technology and financial companies is changing at a rapid pace.

Finance companies have always used technology in their businesses. But now the evolutions made possible by the internet and fintech - or financial technology - are changing the way people interact with money in their daily lives. It affects how they buy products, pay bills, send money, and invest. New and innovative start-ups offer services that used to be done by banks, insurance companies, and financial management groups.

1.1 What is Fintech?

In its broadest sense, the definition of FinTech (financial technology) is the use of technology as it applies to the financial sector. This includes areas such as payments, insurance, investment management, deposits and lending, capital raising, and market provisioning.[1] Finance companies have always used technology to make their businesses faster, safer, more productive, and more global. But now they are disrupting the entire nature of finance.

What is a Fintech Company?

The rise of new and cutting-edge technology allowed small start-up companies to offer financial services outside of traditional banking. For the first time, consumers can bypass the bankers, brokers, and middlemen. Now, people can deal directly with businesses or other consumers.

For example, companies like PayPal send payments directly to merchants or between people. And peer-to-peer lending companies like Upstart brings borrowers and lenders together. Bitcoin and other cryptocurrencies store money digitally, simplifying international payments and bypassing governments as well as financial institutions. These are just a few examples how fintech leaves banks out of the equation.

Recently, the term fintech has expanded beyond financing, or areas like peer-to-peer lending, and now covers any service or product the financial sector once did.[2]

[1] "The Future of Financial Services. How disruptive innovations are reshaping the way financial services are structured, provisioned and consumed", An Industry Project of the Financial Services Community Prepared in collaboration with Deloitte, June 2015, pg.12

1.2 Fintech History

Traditionally, banks, insurance firms, and trading companies have been among the leaders in using advanced technology. Breakthroughs started with the telegraph in 1838 and the transatlantic cable in 1866. These inventions vastly increased the speed of communication and allowed for the globalization of finance to begin.

Up until the 1950s transactions were done by phone, mail, or in person. Stocks were kept as a certificate on paper by a broker or by the client themself and could be mailed in to redeem the value of the share. In banking, a loan officer would usually judge a client's credit risk based on how well he knew them as a person.

The 1950s brought IBM and computing. Diner's Club and American Express introduced the first credit cards. The fax machine came out in 1964 letting people send documents in seconds instead of days or weeks.

Barclays Bank put out the first ATM in 1967 and revolutionised banking. Now people could get money from their account without speaking to a teller or even entering the bank. Suddenly, banking became 24/7. Some consider this the beginning of the second stage of the fintech revolution.[3]

Then finance companies began computerizing their systems. They moved from paper to digital. Payments no longer needed to be sent by cheque or bank draft. They could be electronically transferred through the Bankers Automated Clearing Services (BACS). International payments went through the Society for Worldwide Interbank Financial Telecommunication (SWIFT).

In 1971 NASDAQ completely changed trading by introducing electronic trading. For the first time,computers handled the price feeds instead of live traders on the floor of the exchange. This significantly cut the cost and the time it took to fill an order.

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[2] Arner, Douglas W.; Barberis, Janos Nathan; Buckley, Ross P. "The Evolution of Fintech: A New Post-Crisis Paradigm?", UK report published Oct 1, 2016, pg.6 https://papers.ssrn.com/sol3/papers.cfm?abstract_ id=2676553

[3] Arner, 'Evolution', pg. 10

Fintech advancements didn't come problem-free. The crash of 1987 was probably caused by computerised trading systems. Investment firms set up programmes to automatically buy and sell at pre-set prices. The crash brought this weakness to light, so regulations and technology stepped in to correct it.

Starting in the mid 1990s, financial services topped all other industries in technical equipment buying. It continues to be the largest purchaser of fintech.[4] It uses technology to reduce risk and comply with regulations, to streamline operations and of course, reduce costs and increase profits.
Banks were some of the first companies to offer their services online. Wells Fargo let customers check their accounts online starting in 1995. And 2005 saw the rise of banks that transacted business only online.

The most significant shift in the world of fintech was born from the wake of the 2008 crash. At that time, credit tightened. Many financial professionals lost their jobs and people started to distrust banks and financial institutions. It was the perfect storm for the revolution to begin.[5]

Tech savvy financial experts looked for ways to solve customer problems in a novel way.

They found direct solutions that eliminated traditional financial service providers. For the first time, technology was used to displace banks and the fintech of today emerged.

[4] Arner, 'Evolution', pg. 6

[5] ibid, pg. 17

Factors that contributed to the financial revolution include:

- Digitally skilled population
- Fast-growing international middle class
- Inefficient financial and capital markets
- Shortage of physical banking infrastructure, especially in third world countries
- People's changing preferences and expectations
- Failing trust of established financial services
- New market opportunities
- Highly skilled, innovative engineering and technology graduates[6]

Fintech Timeline

1866 transatlantic cable
1950 Diner's Club Card
1951 Ferranti Mark 1 - first commercial computer
1958 American Express Card
1964 Fax machine
1966 Interbank Card (now MasterCard)
1966 Global Telex
1967 First handheld calculator
1967 Barclay's ATM machine
1968 UK Banker's Automated Clearing Services (BACS)
1970 US Clearing House Interbank Payments System (CHIPS)
1971 NASDAQ
1973 Society of Worldwide Interbank Financial Telecommunications (SWIFT)
1983 Online Banking Nottingham Building Society (NBS)
1980s Banks go from paper to computer
1987 Stock market crash, new regulations
1992 European Union
1995 Wells Fargo Bank Internet customer online account checking
2005 Online only banking
2008 Market crash, increased regulations
2009 Bitcoin
2010 eToro Social Trading Platform with Copy- Trading features

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[6] ibid, pg. 23

Today fintech stands to disrupt traditional financial services by being direct, nimble, accessible, and customer oriented. For many users, the experience with fintech is easier and more fun. They feel more in control of their finances.

1.3 How does Fintech Work?

Fintech generally slips into places where traditional financial services are failing, or where customers are having a difficult time accessing services. Anywhere that tech companies can fix those issues and keep an adequate profit margin, they will.

The World Economic Forum says fintech is taking over traditional services in these areas:

- Payments
- Deposits and Lending
- Investment Management
- Insurance
- Capital Raising
- Market Provisioning[7]

Payments: The internet and new technology make payments simple, fast and secure. Some companies have one click check-outs. It's now possible to eliminate credit cards with direct bank payments to merchants. Or pay with your phone and avoid cash or credit cards altogether. and avoid cash or credit cards altogether.

PayPal is the grandfather of online payment systems but new companies, like Ripple allow, banks to settle transactions between each other, bypassing central banks and lowering costs.

Customers can set up automatic bill payments. They now deposit cheques with a snap of a picture on their phone. You can use your phone to collect payments. Voice, face, or fingerprint recognition and geo-location ensure security.

Players in the field include:

- Mobile payments: ApplePay, PayPal, Square, Level Up, m-Pesa
- Integrated billing: Uber, Order Ahead, iBeacon
- Streamlined payments: MagicBand, bPay, Shipwallet
- Next-generation security: Nuance, biyo, XYverify[8]

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[7] See Note 1.

[8] 'Future', pg. 30

Deposits and Lending: With fintech, you no longer need to keep money in a bank. You don't have to borrow from a financial institution. Angel investing and peer-to-peer lending cut out the banks. They use computerised processes to assess creditworthiness. You can borrow money for personal or business needs from private lenders.

Finally, you can now store your funds in alternative locations from cryptocurrencies to trading platforms.

Players in the field include:
- Peer-to-peer lending: Funding Circle, Lending Club, CreditEase
- Credit assessment: Lenddo, Kabbage, eCredable
- Automated processing: OnDeck, Prosper, Zopa[9]

Investment Management: Fintech gives ordinary investors more control over their money. New trading platforms offer small traders investment choices formerly available only to high-networth investors. You'll find reduced fees, easier access, and customer education. You have the freedom to manage your money without a broker and choose every investment.

Now you can invest with small amounts of money. You can choose computer assisted trading or social trading. This way you build on the expertise of others. With some platforms, you may move beyond stocks, bonds, mutual funds, and Exchange Traded Funds (ETFs). You are free to trade bitcoin, currencies, and other commodities.

Players in the field include:
- Automated management & advice: FutureAdvisor, Wealthfront, Motif Investing
- Social trading: eToro, Covestor, StockTwits
- Algorithmic trading: CoolTrade, Quantopian, QuantConnect[10]

Insurance: Big data now lets insurers set rates based on your actions, your credit score, perhaps even your social media profile. Wearable technology measures our health and fitness. The Internet of Things (IoT) brings smarter cheaper devices. And self-driving cars are set to disrupt the insurance industry.

These all impact your life and the cost you may pay for insurance. But fintech also levels the field. You can go online to compare rates and insurers as well as check reviews. You can shop like never before.

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[9] 'Future', pg. 87

[10] ibid, pg. 127

Players in the field include:
- Comparative shopping sites: BeatThatQuote, Money Supermarket, BizInsure
- Shared economy: Airbnb, Getaround, Uber
- Hedge funds and insurance-linked securities: Leadenhall Capital Partners, Triplepoint Capital[11]

Capital Raising:
Fintech opened the world of business financing. Now start-ups and mid-sized companies can find capital outside banks, hedge funds, or affluent investors. And ordinary investors can pool funds with others to gain a share of the company. The best news? You don't need lots of money to invest, so you can spread your money across several businesses.

Now you can invest in companies before they go public. Or you may donate to charitable ventures that may not bring a return.

Players in the field include:
- Crowd approved funding: Seedrs, Spacehive, iAngels, Kickstarter, Kiva
- Follow the expert: AngelList, SeedInvest
- Custom business funding: Abundance Investment, Crowdcube[12]

Market Provisioning:
This fintech area uses smarter and faster machines for machine based trading. It's the next step past algorithmic high speed trading. The machines respond to real-life events. Powerful computers analyzes huge chunks of information to suggest trades and trends. They read the news and social media to predict price changes and potentially gain a trading advantage. AI and machine learning run predictive modeling and are self-correcting. This can improve the accuracy, consistency, and speed of trading.

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[11] 'Future', pg. 60

[12] ibid, pg. 113

Players in the field include:
- Machine accessible data: Thomas Reuters, SemLab, SNTMNT
- Big data: SAS, Palantir, Hadoop
- Artificial intelligence & machine learning: Sentient Technologies, Rebellion Research, Ayasdi[13]

1.4 Why Fintech?

Fintech opens a wide range of financial opportunities for you. Here are 10 ways fintech can make your life better.

1. **Need a loan?** Go to crowdfunding and present your case.
2. **Want a place with better returns than the bank?** Loan your money to an individual or business in peer-to-peer lending.
3. **Need auto or life insurance?** Check the aggregate sites to compare companies and policies.
4. **Want a different place to keep your money?** Buy cryptocurrency or hold it in a trading platform.
5. **Want to invest, but need some help?** Use social trading to give you choices and confidence.
6. **Want to invest in start-up businesses pre-IPO (Initial Public Offering)?** Choose your company from a capital raising site.
7. **Want to invest in currency trading?** Find a fintech trading platform that offers. Contract for Difference (CFD) trading so you can buy fractions of lots.
8. **Want to know market trends?** Check out big data driven algorithms to see what AI and machine learning suggests.
9. **Want a place to stay or to take a quick trip?** Use Uber or Airbnb to bypass the large industries Find something much nicer for less money.
10. **Need to send money to a friend or pay a bill?** Skip the bank or cheque and use mobile payments.

Fintech is all around you. You probably use it every day to make your life easier and your tasks go faster. You may feel more comfortable and trust fintech more than you do traditional banking. It's never been easier to control your money and manage your wealth than in the fintech revolution.

Investments and money management carry risks, even in fintech startups or large companies. Investing on trading platforms or in peer-to-peer lending means you can make or lose money. Cryptocurrencies and investments fluctuate and can be volatile. Please research and exercise care before you invest.

[13] ibid, pg. 154

1.5 Why is Fintech Important?

One of the most exciting innovations in fintech is the marriage of trading and the social revolution. First, it’s fun to trade with a group of friends and enjoy the social experience. Second, new investors benefit from the wisdom of experienced traders. And finally, the transparency of seeing exactly how the trades play out lets you trade with confidence and trust.

The best platforms help you asses the risks of the trades. That way, you can match your risk tolerance with that of other traders. They also help you lock in profits or minimise losses with built in stop loss or profit taking points that you set based on your trading plan.

Small investors are welcome. At eToro you can start with just a few hundred dollars and build from there. This new technology lets you practice trading with a ‘virtual’ account. This gives you time to gain confidence as you practice trading the markets and discover different traders you might like to copy, all without risking real money.

With social trading you can check out the performance and history of other successful traders. Learn their investment style. Then you can allocate a portion of your funds to a variety of traders, copying their trades, exactly as they make them. Importantly, you are free to move your money at any time. You are never locked in.

Social trading takes advantage of the newest in fintech innovation. Now you can trade and build your wealth with the same freedom and tools as the ultra-wealthy. Fintech democratises trading. It levels the playing field. Check out eToro for the best in social trading.

your wealth with the same freedom and tools as the ultra-wealthy. Fintech democratises trading. It levels the playing field. Check out eToro for the best in social trading.

Of course, all trading involves risk. Only risk capital you're prepared to lose. Past performance does not guarantee future results.

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1.6 The Fintech-CFD Connection

Fintech opened a new playing field for non-institutional investors. It has taken contracts previously only available to high net investors and created a system for the average investor to trade a broad range of securities. These high net investors had access to markets around the world so they could diversify their portfolios to reduce risk and seek better returns. Thus they had an advantage over lower net worth investors.
The instrument they used was based on futures contracts. It was the promise to buy a commodity or investment in the future at a price that was fixed today. Currently 92% of the world's 500 largest corporations use this tool to manage their risks.

The instrument is called a Contract for Difference (CFD). This derivative acts very similar to a futures contract. It allows two parties to agree on a price for a certain stock or commodity at the opening of the contract. The actual settlement takes place sometime in the future. You can take a position that lets you to profit as the asset falls. A different position allows you profit from a rise. Let's look at an example so you can see it how it works with prices either rising or falling.

Say Tony buys a CFD for ABC company at a price of £100. At some point in the future, ABC goes to £110. Tony cashes in his agreement and gains £10 per unit. Or Tony may sell an ABC contract for £100 expecting the price to fall. In the future, if the price falls to £90, Tony buys back the contract and pockets £10 on the drop.

CFDs are different than other instruments because they trade based on an underlying asset's price, without actually owning the asset. With no leverage, a CFD holds no more market risk than buying stock in the company. Used this way, it looks and feels almost exactly like equity ownership. If the equity pays dividends, you'll receive them as well. But there are some impressive advantages to using CFDs.

Higher Leverage: CFDs are often bought and sold on margin. You may be able to trade with a margin as low as 2%. That means your £2 can control £100 of equity. While this can be a good opportunity to make substantially more money than the actual capital you have invested, it also carries much higher risk, since losses are also leveraged.
eToro supports a 'responsible trading' policy. To help traders manage risk, they limit leverage for certain clients and equip them with many risk management tools. In addition, eToro does not allow high risk traders to be copied, thus maintaining an extra layer of protection for the social investors.

Smaller Lots: Since there's no actual ownership of the asset by the trader, the asset may be traded in fractions, rather than purchasing the entire share or futures contract. Traditional hedge funds trade in 100,000 lots in currency which is probably more than the average investor could afford. But with CFDs, investor can trade in small fractions of a lot. So they need less money to enter trades. Because they can buy CFDs in fractions, traders have money left to more easily diversify across more assets.

Global Market Access from One Platform:
Fintech brings multiple markets into one convenient place, including stocks, commodities, currencies, and more. You can trade stocks from other countries that typically could only be found on their own country's exchange. Because you are only purchasing a contract based on the asset's price, you have much more freedom to trade. It opens up trading in Bitcoin and other cryptocurrencies.

Finding all of these assets on one platform bypasses the hardships of dealing with securities laws of foreign countries, and legal statements in other languages. The instantaneous nature of transactions made on platforms such as eToro, gives its users the added benefit of high liquidity. They can easily and instantly buy or sell any CFD so they can quickly adjust to changes in the market.

No Day Trading Limits: Certain markets require minimum amounts of capital to day trade. When you are actually buying, selling, or writing options on assets, your broker may limit the number of daily trades within an account. The CFD market does not have these restrictions so traders can move their investments as frequently as they wish.

Avoid Shorting or Borrowing Rules: Certain markets prohibit shorting. That is, you contract to sell a security you don't own. You do this because you think the asset will drop in price. Then you can buy it for less, fulfill your contract, and pocket the difference. Of course if the market goes up, you still must buy the asset to fulfill your contract. In that case, you lose money.

Several market crashes have been blamed on this practice, so now, many exchanges require traders to own the instrument before shorting or have a reserve margin to cover the risk. Both of these practices help reduce the risk of short trading. However, the CFD market uses a different instrument to trade. Since ownership of the underlying asset is not possible with CFDs, it avoids the short selling rule.

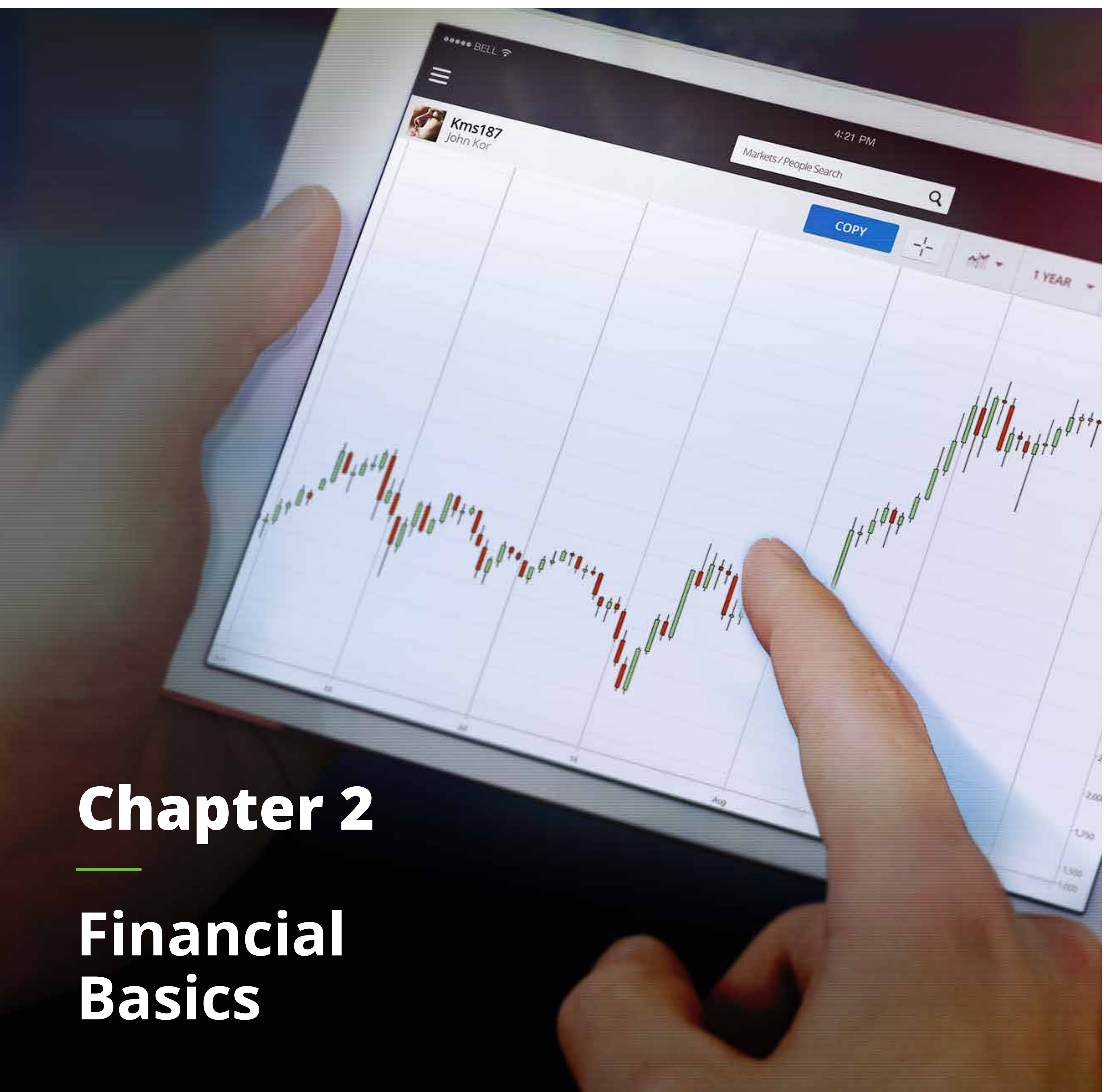
Low Fee Trading: CFD trading platforms are finding wide appeal with newer and younger investors because it can be traded around the world. The increase in CFD users and the nature of the instrument means that the cost of trades can be significantly lower than that of traditional brokerage firms. Instead of high commissions per executed trade, CFDs are nearly cost free.

The platform makes a profit from the spread. Buyers must open the trade at the ask price and sell at the bid price. The spread is the difference between the two prices. Leveraged trades may incur an overnight fee for trades held past the closing bell. The size of the overnight fee depends on the amount of leverage you choose to use.

Because the contract is between the user and the company running the platform, contracts can be sold instantly, at any time, even when opening a short position. This privilege is sometimes not available to traditional traders due to costs.

Recently, the Financial Instruments Directive (MiFID) extended regulation of the European financial services to CFDs for the first time. The increased oversight of these platforms gives their clients extra confidence when trading. eToro, for example, holds both a European MiFID license (CySEC), and a British FCA license, therefore certifying they have the highest levels of compliance and risk management.

All trading involves risk. Only risk capital you're prepared to lose. Past performance does not guarantee future results. This information is for educational purposes and not investment advice.



Chapter 2

Financial Basics

2.1 Savings, Investing, Trading, Speculating

What is the difference between saving, investing, trading, and speculating? Sometimes people think they are saving, when they are really investing. Or they trade when they are trying to invest. Sometimes people simply don't know the difference between investing and trading so they just end up saving. And that's a real shame.

Wealth building comes from knowing your money strategy and working it wisely. The main difference between saving, investing, trading, and speculating is the degree of risk you take with your money. But in this era of volatility and in times of inflation, sometimes the conservative position puts money at greater risk.

Let's look at these choices.
Savings begin when you put aside a part of your income and spend less than you earn. The foremost goal with savings is preservation of capital. Not losing money is more important than growing your money. Typically, savers place their money in some secure, low-risk place. If you ask yourself how to save money, these are considered low-risk options: a dependable bank, cash, physical gold, a savings bond, or a certificate of deposit.

People save because they have a use for the money in the future. They could save for education or to buy a costly item, an expansive vacation, or a house, to pay for a wedding, or even just for a rainy day. Sometimes they save in order to put aside enough money to invest. Most experts recommend having a savings of 6-8 months of your living expenses.[14]

- **Advantage:** Cash allows you to move quickly when needed. You can invest when the right opportunity comes along. If you have a medical emergency or lose your job, you have money to tide you over.

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[14] Pant, Paula 'How much should you keep in savings?', Bankrate.com, 18 Oct 2014
http://www.bankrate.com/financing/saving-money/how-much-should-you-keep-in-savings/#ixzz4YgM2BX6f

- **Risk:** You could lose cash. Banks may fail. You lose money as your savings typically do not keep up with inflation. You also lose the opportunity to earn income from investing the

Investing puts your money to work for you in a deliberate, productive way. Most experts recommend at least a three-year investment timeframe. And the longer your money is invested the more it can work for you.

Most investments are into a business you think will perform well. When it comes to more specific examples of how to invest money, investors typically buy into reputable companies with established value. You may be a partner in a private company, or own shares in a public company. Investors want to see a return on their money. Returns come from growth in the value of the company or dividends.

- **Advantage:** You can grow your wealth much faster with higher returns. Steadily compounding dividends can grow your money exponentially.

- **Risk:** Markets fluctuate with politics, current events, news cycles, and business management. You can lose money on pullbacks. Not all companies prosper, some fail.

Trading is a kind of investing with a shorter timeline. Traders look at potential profits in fast moving markets. They may make many trades on an hourly, daily, or perhaps weekly basis.

Traders take advantage of the volatility and uncertainty of the financial markets. They seek to profit from fast rises and falls that happen from short term day to day activities. The markets are always moving. Up, down or sideways. They want to take advantage of every opportunity. Traders use a variety of charting tools and analyses to predict where the market is going and when the

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a variety of charting tools and analyses to predict where the market is going and when the trend will change.

While this kind of trading is considered speculative, skilled traders manage their trades so the winning trades outnumber the losing trades. They accept losses as a part of the nature of their trading, but work to minimise the losing trades and maximise the winning ones.

- **Advantage:** While past performance is no guarantee of future results, well-researched trading based on fundamentals and not emotion has produced stable returns you are not likely to see from other kinds of investments. Check out eToro's Popular Investors page where you'll find plenty of skilled traders who you can chat with or whose trades you can copy.

- **Risk:** You must be able to accept losses in your account and have the self control to keep your emotions in check as you trade. All trading involves risk. Only risk capital you're prepared to lose and past performance does not guarantee future results.

Speculating is high risk behavior. Here people hope for big gains but also take on considerable risk. The trade might be called 'a long shot'. Typically, it's very difficult to assess the outcome as to whether it will be in your favour or not. Speculators require a keen business sense, strict safeguards and a deep understanding of the market or they will soon be out of business. Investors may speculate with money they can afford to lose.

- **Advantage:** possibly fast rewards.

- **Risk:** Losing all capital plus MUCH more.

2.2 The Theory Behind Making and Losing Money

Growing wealth requires the understanding of how to make money. Some people think the only way to earn money is through a job or working for it. But investors know how to use money to make money. This is called passive income because you didn't actively work for it.

Stocks: When you own your business, or are a partner in a business, you get a share of the business profits. Likewise, you share in any loss of the business. If you own a stock, you own a share of the company. You might own 1/1,000,000,000 of the company, but you are part owner. Some companies pay dividends. That means they share their profits with the stock owners.

Companies paying stock dividends often pay them quarterly. They may also pay dividends monthly, annually, or make special payments. People who want to use this dividend income may ladder these companies. That is, they choose stocks with different dividend payout dates so they receive income from dividends each month.

When companies grow, they increase in value. You may make money as your stock price goes up with the increased value. When the stock price does not rise with the actual value of a company, the stock may be called undervalued. If it's priced higher than the company's true value, it means people are willing to pay more than a stock is technically worth. Stocks may be overvalued if shareholders believe the company is likely to do great things in the future.

Many investors specialise in finding undervalued companies. They expect investors will eventually see the value and the stock price will rise quickly, giving them a better return. You realise the gains from a stock that has grown in value only when you sell the stock. Until then, it's called a paper gain.

Bonds: A bond is a debt note or IOU to a government, corporation, or municipality. You agree to loan them money. In return, they issue a bond for a fixed amount, a fixed time, and a certain rate of interest. When you hold the bond to maturity, you are promised they will pay you the face amount of the bond plus interest due.

Investors make money through the interest paid on the bonds. If interest rates drop, the value of the bond may increase and they may make money selling the bond before maturity. If interest rates rise, the bond may lose value, although it should still pay interest and return the principal at maturity. If interest rates rise too high, you may actually lose money by holding the bond to maturity. It will pay you less than the cost of inflation.

Some companies are less secure and a have lower bond rating. These bonds usually pay more interest, but they also carry more risk that the issuer will default and you will not regain your investment. These high risk bonds may be called junk bonds.

Currency Trading: Pairs money from two different countries. When currency is traded between these countries monies, they are called major currency trades

- British pound (GBP)
- Canadian dollar (CAD)
- Euro (EUR)
- Japanese yen (JPY)
- US dollar (USD)

Other currencies may also be traded. Traders sell, or short, one currency to buy, or go long in, the other currency. In a long EUR/USD trade, the euro is sold to buy the USD.

Traders speculate that the currency they sell will go down in price or the currency they buy will go up in price. If that happens they make money. If the currency they sell increases in value or the currency they buy loses value, then they lose money.

Commodity Trading: This trading started as farmers or manufacturers wanted to lock in a price of a commodity that would be delivered in the future. These are called futures contracts. Commodities can be 'soft or have a limited shelf life such as corn, wheat, rice, or cattle. Or they may be called 'hard' or more long-lasting such as oil, cotton, gold, silver, or lead.

Most traders do not want to actually own the commodity. Rather they want to profit from the changing prices. They buy a contract expecting the price to rise so they can sell at a profit. If they believe the climate, season, demand, or economic factors will cause the price to drop, they may sell a contract at the high price and hope to buy it back at the lower price.

Commodity trading uses leverage and is speculative and high risk. Traders lose money when the price goes against them.

Stock Market Index: An index is a list of related assets. They can be related by sector, size, market, or category of asset. They are benchmarks to indicate the value of the stocks that make up the index. It's a way of determining how well that sector or market is doing. For example, the S&P 500 is made up of the top 500 stocks trading on the New York Stock Exchange or the NASDAQ. The FTSE 100 measures the value of the top 100 stocks trading on the London Stock Exchange.
These give a sense of how the overall market is doing.

Market Sector indices help investors see the trends in those sectors. The indices can be grouped by country and by industries such as healthcare, financials, commodities, agriculture, transport, etc. These indices form the backbone for mutual funds and exchange traded funds (ETFs).

The indices themselves can only be traded with CFDs that are derivatives of the index. Mutual funds and ETFs can be built by purchasing the assets in the index and holding them in one fund. Investors seek to profit by gaining value as the indices rise.

ETFs: ETF stands for Exchange Traded Funds (ETFs), and it represents a basket of stocks or assets that reflect the index they want to duplicate. They diversify your portfolio as they act like a single stock, but hold a wide range of assets. The goal of the ETF is to match the index exactly. They do not use active management. They simply own the same assets the index does. Typically they offer lower fees than a mutual fund of the same kind. They can be actively bought and sold, and you can buy and sell options on them. ETFs have been designed to gain (or lose) 3x the price change of the index as it rises. A reverse ETF is constructed to rise in value as the index falls.

ETFs can track a market (like the FTSE), bonds, commodities, sectors and industries, foreign markets, and currencies. Investors may profit from ETFs as they match the bull market in a sector or as they buy an inverse fund when the index drops.

Mutual Funds: These funds are actively managed. They also diversify your portfolio as they hold many stocks in one fund. While they may track indices like EFTs, their goal is to beat the returns of the indices. Managers of mutual funds buy and sell assets in order to gain better returns. These trades

can incur costs and have tax consequences.

Mutual funds are not actively traded on stock exchanges. Instead, they are priced after market closing. It may take several days to redeem your mutual funds for cash. And there may be extra fees associated with buying or selling mutual funds in addition to the management fees.

Mutual funds may offer an easy set-and-forget kind of investing if you choose excellent management and low fees. If not, you run the risk of underperforming funds with fees that strip you of profits.

CFD Trading: CFD Stands for Contract for Difference (CFD). Rather than buying or selling the actual asset, money may be made trading a CFD based on the underlying asset. You do not own the currency, commodity, or stock. You simply have a contract where you agree on the current price of the asset and you have the opportunity to profit from selling it or buying it back at a later date.The asset never changes hands. But the profit or loss that comes from the movement of the asset goes to the CFD holder.

Investing gives you many ways to potentially make money. Select a markets or investment tool that is likely to meet your investment strategy. You can simply buy or sell the stock, asset, or lots of a commodity or currency. You might invest in a limited partnership or Real Estate Investment Trust REIT. You may also be able to trade options or Contract for Difference (CFD's).

To reduce risk in any of these kinds of trades, traders use stop losses, or fixed points at which they will sell.

Losing Money: Investors hope every trade will be profitable… but they are not. Careful research and preset stop losses can increase the chances for wealth building. But most investors still fail to prosper as statistics suggest they should. The Dalbar study shows the S&P 100 index averaged annual growth of 9.85% over the past 20 years. The average equity fund investor only gained 5.9% averaged over the same time.[15] Why?

Most experts point to our emotions. Money creates feelings of fear and greed. When the markets are high, novice investors jump in…greedy for profits and afraid they will miss out. When markets fall investors panic and sell. At the bottom, when equities are attractively priced, investors are afraid to get back in. They've been burned once.

People overreact to both good and bad news. You see security prices jump after earnings reports or news events. The London stock exchange index, the FTSE 250 dropped 14% after the Brexit vote, but bounced back within a month. Scared investors who dumped their equities took a huge loss. If they would have held on, they could have profited. It's vital to base decisions on predetermined choices, not emotions.

Investors also tend to be overly confident in their abilities. They may exaggerate the ability of past data to predict future movements. They may trust their 'gut feelings'. So, what can you do?

1. Tap into more experienced advisors or traders to help you stay calm in a storm.
2. Set up a trading plan with rules you will follow, and don't deviate based on emotions or news that may not affect the underlying value of the security.
3. Research company values. If the valuations

[15] Anspach, Dana. 'Why Average Investors Earn Below Average Market Returns: Investor Overreactions Cause Poor Historical Returns'. the balance. 28 Aug 2016. https://www.thebalance.com/why-average-investors-earn-below-average-market-returns-2388519.

remain good there is no advantage to selling, even in a downturn.
4. Choose conservative, dividend paying equities with good valuations and plan to hold them for the long haul.

Simply knowing the pitfalls gives you an advantage. Examine your emotions. If you are fearful, you may be trading outside your risk level. Move to investments with less volatility that you are more comfortable with.

Because we tend to be emotionally driven, smart investors and traders research, understand trends, and use calculations to determine the best entry and exit points. Then they trade based on the facts they've gathered and not on their emotions.

Experienced day traders and swing traders know that not every trade will be profitable. Instead they work the law of averages. They plan trades so there is greater upside than downside. Even if they lose 20% or even 50% of their trades, if they make more money on the winner than they lose on the losers, they can still profit. These traders work hard to eliminate emotion from trades, win or lose.

2.3 Who Is Your Source?

Your investment methods, goals, and beliefs depend on who you listen to. One source says the stock market will fall, be defensive. At the same time, another says it's a bull market, go all in. How do you decide who to listen to?

- How does their philosophy match yours and your risk tolerance?
- Follow the money. How do they get paid?
- Do they have a personal stake?

- What is their track record?

Let's look at some advice choices to see how they fit these criteria.

News Outlet Commentators: Their driving motive is to get people to listen to them. The dramatic, sensational, or unusual commands attention. They give outsized attention to high-flying assets and are less likely to comment on boring, safe, quiet equities that may outperform over time.

Typically, they have no personal stake in the investments. If their pick rises or falls - if they are right or wrong - it doesn't really hurt them. And you'll probably only hear about their winners, not when they chose poorly. You may not find a full track record of their investment advice. Their choices may not fit your risk tolerance or cover areas you want to invest in.

Your Friend/The Guy at the Party: Investment tips can sound like a sure thing. Be careful. These people don't make money from their advice, but what is their track record with past picks? You may want to take the tip as a starting point to do your own research. There you can learn the true potential and see how it fits with your portfolio strategy and risk.

Financial Newsletters: These have a wide range of investment philosophies, focus, and risk management styles. It's easy to find one that fits your investment style. You can see their track records. It's a straight transaction: you pay, they give advice. They will tell you to what degree they are investing alongside you.

However, their goal is to sell newsletters, so you may see them talk about looming risks and dangers

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or actions you need to take right away! They may do this to make you think you can't invest without their 'wise' guidance. And their predictions of future events have only a modest degree of success. Finally, they have to crank out recommendations on a schedule. Great picks don't always come like clockwork so they may need to tout inferior ones.

Robo Advisors: Robo advisors offer a new low cost way to invest. It replaces human financial advisors with algorithms and computer formulas. Investors can tailor their portfolio as they answer a questionnaire that asks about their risk level, among other things.This is an easy set-and-forget way to invest. However, not all robo advisors give the same returns. They can vary about 5% even on a conservative portfolio.[16] While costs are low, investment companies may place these investors into their own funds to gain revenue.

Popular Investors: Social trading platforms let you follow and copy trades made by other investors. With eToro, you can find an investor with your risk tolerance. You'll find it easy to spread your investments over a wide range of asset as you copy several different investors.

Each Popular Investor's history is open for all to see, along with their annualised profits. And you can be confident they are fully invested in the picks you follow. They are taking the same risks you will if you follow them.You can even check out the performance simulator. It will show you how your assets would have performed had you started copying at different intervals.

eToro Popular Investors receive payments based on the amount of copiers or funds invested in copying them. Thus, your success contributes to their success. Of course, all trading involves risk.

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[16] Anderson, Tom. 'Returns Vary Widely for Robo Advisors with Similar Risks' CNBC, 7 September 2016. http://www.cnbc.com/2016/09/07/returns-vary-widely-for-robo-advisors-with-similar-risk.html.

Only risk capital you're prepared to lose. Past performance does not guarantee future results. Trading history presented is less than 5 years and may not suffice as basis for investment decision.

Analyst Consensus: Analysts throughout the world spend hours poring over stock charts and fundamentals. They inform their clients, usually banks, investors, and hedge fund managers, about ideal trends and trades. When you take the aggregate, the total recommendations from many analysts, you can get a feel for the security. You may find answers to these questions.

- Should you buy the stock?
- What is the value of the stock?
- Where do they see the stock moving in the future?

eToro has collected this information under the Stock Research tab in easy-to-read chart form. You can see the analyst consensus as to whether to buy, sell, or hold.

Another chart gives the estimates of stock price increase or decrease. It offers a target price. Because analysts differ, you'll see high, low, and average estimates.

The movement in hedge fund money also shows where they think the stock will go. Sometimes hedge fund decisions actually move the stock price when large amounts of stock are involved. Hedge funds are sometimes called 'smart money' because they detect trends and valuations before the average investor. Still, their advice is not foolproof or guaranteed in any way.

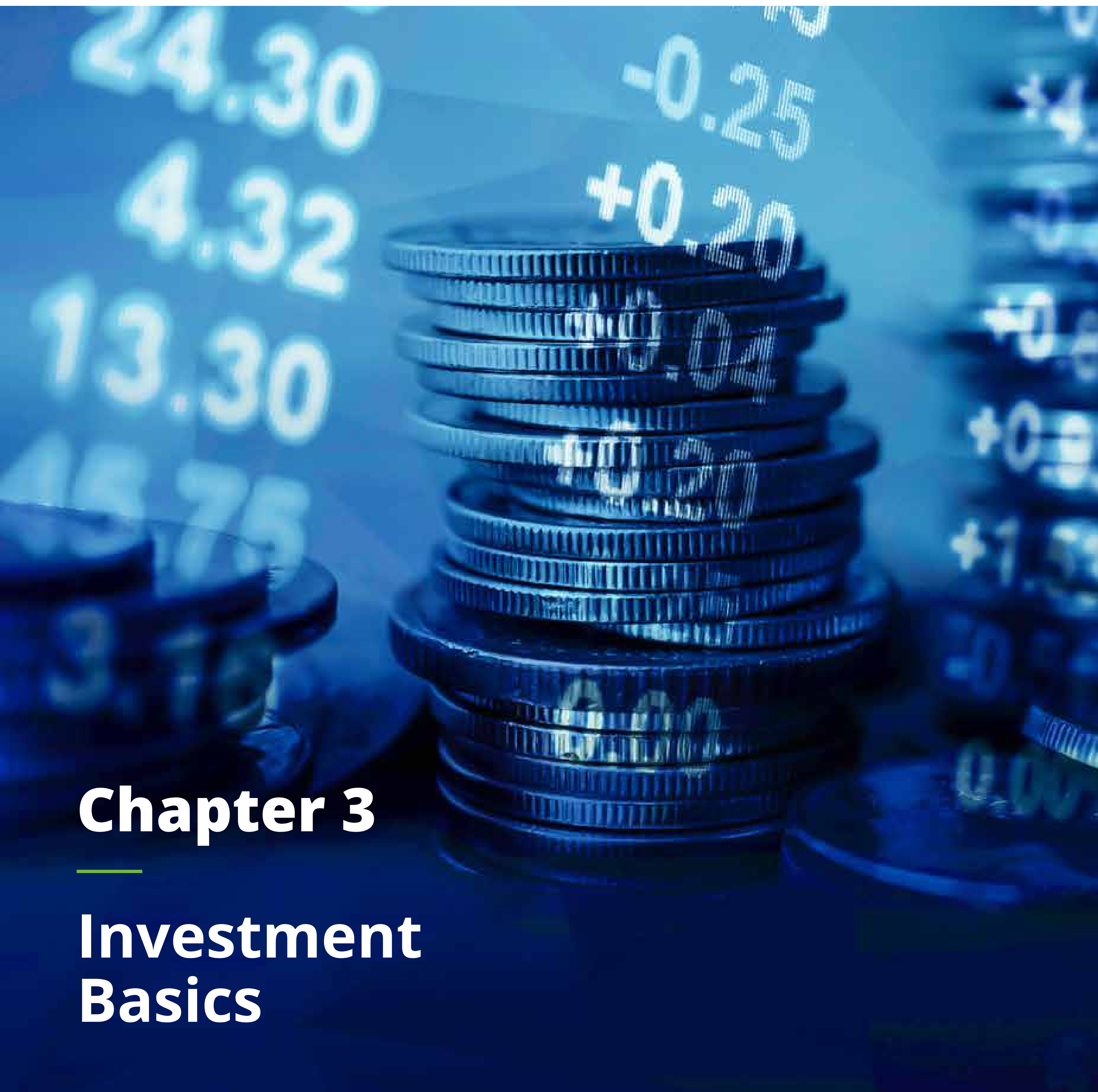
eToro's research page gives you insight into their buying and selling patterns. One chart shows a hedge fund buying and selling against the blue line

of the stock price.

And finally, a simple meter tells you the sentiment of the funds toward the stock.

Truthful advisors will tell you there are no guarantees. Past performance does not guarantee future results. Only risk capital you are prepared to lose. They may talk about 'high probability' of a security doing well, but no one can make promises. You will need to do your research and make your best decisions, which will lead to your own 'high probability' of more successful trades.

All trading involves risk. Only risk capital you're prepared to lose. Past performance does not guarantee future results.
This information is for educational purposes and not investment advice.



Chapter 3

Investment Basics

There are reasons assets rise and fall. If you don't understand those reasons, picking assets is like throwing darts at a dartboard. It's all a gamble. You need not take those kinds of risks. Indeed, it's essential you understand the risks of trading and protect yourself by staying within your risk tolerance. As you learn about events and trends that move assets, you can become better prepared to invest wisely.

3.1 Understanding Market Cycles

Market cycles and trends are used to help investors predict the market. They are easy to see looking back, but much harder to pinpoint as they occur. Traders study technical analyses to try to understand how the market will move next. For the most part, professional investors follow the trend until it changes. They have a saying, 'The trend is your friend.

What Causes a Market Cycle? The expansion and contraction of business, earnings, inflation, stability, and politics all affect market cycles. Basic human emotions and behaviors create market trends.[17] People swing between fear and greed, between focusing on the good news and worrying about the negative. Markets react to the pendulum-like swing.

Economic Cycle: The most generic of all cycles is the economic one. It's divided into four parts:

- Market bottom and full recession
- Bull market and recovering economy
- Market top when the curve levels out and there is high expectation but less production
- Bear market with the economy falling toward a recession

Kinds of Market Cycles: The length of a cycle and its beginning and end point are especially hard to see as they are occurring. The trend is easier to determine as you look at charts and historical data.

- A Bull Market is a series of up-trends. You see higher highs and higher lows.
- A Bear Market is a down trend. It's characterised by lower highs and lower lows.
- A Revision to the Mean is the natural tendency of securities to come back to the norm as shown on long term charts.
- A Sideways market is when the price bounces up and down but stays within a channel. This may show up at any point in a cycle. In the middle of a trend, it's called a consolidation

[17] ALitman Gregory Team, 'Market Cycles and Portfolio Positioning', Advisor Perspective. 26 Apr. 2016 https://www.advisorperspectives.com/commentaries/2016/04/26/market-cycles-and-portfolio-positioning

Companies may gain high valuations in a bull market, or low ones in a bear market, but some schools of thought believe secular cycles revert to the dominant P/E ratio.[18]

Different investments can be in different cycles at the same time. Often consumer staples will be in an uptrend while technology is in a downtrend. Or the financials may be trending up while commodities are trending down. Savvy investors capitalise on these trends by shifting their assets away from a down-trending sector and into an up-trending sector. But entering a trend too early or too late will reduce profits and can result in losses.

Secular cycles can last decades. Cyclical cycles range around four years and within each cycle there will be many temporary dips or reversals. It takes skill to know if these dips indicate a change in the cycle or are just variations of the same trend. Traders may buy and sell on these smaller changes.

Short cycles include things like:

- The January Effect
- Sell in May and Go Away
- Options expiration dates
- Monthly reports on employment, inflation, and other data[19]

Long term investors exercise patience and hold their course during the short reversals. Understanding the basics of technical analysis may help investors spot trends and places where the market is likely to change direction.

Traders who are worried that the trend might suddenly change sometimes may place puts, calls or invest in a Contract for Difference (CFD) as insurance against that change. or invest in a Contract for Difference (CFD) as insurance against that change.

[18] Easterling, Ed. 'Understanding Secular Stock Market Cycles', Crestmont Research, 7 Oct 16 https://www.advisorperspectives.com/commentaries/2016/10/07/understanding-secular-stock-market-cycles

[19] 'Stock Market Cycles', Wikipedia https://en.wikipedia.org/wiki/Stock_market_cycles

3.2 Trading the News and Economic Calendar

Stocks, currencies, and commodities all respond to news, both predicted and unexpected. Because you understand that trends will eventually revert to the mean, or back to the trend, you may be able to take advantage of unexpected news. The knee-jerk response of bad news may cause a sudden drop in a security. Often it's an overreaction and the security will bounce back. But not always. Knowing the fundamental value of the security will help you know if a news-related dip is a buying opportunity or not. Understanding the underlying strength or weakness of a currency may guide your investment decisions during a surprising change.

Company news: Companies distribute reports and dividends on a calendar schedule. Options or CFD traders often trade before the news based on their estimate of the outcome. Volatility usually spikes before earnings reports. If the equity trades within the expected range, traders can capture that premium as the volatility drops after earnings.

Options Expiration Dates: If the stock market has made major changes, those who have shorted equities may need to cover those shorts. It can cause a temporary dip or rise in the equity price. In a similar way, index funds rebalance their portfolios on specific dates. This too, can affect the prices of those equities held within the index fund.

Economic Calendar: There are many dates where economic reports are delivered. Many of these reports are used to assess the health of the economy. Based on these measurements or statements, the market tries to predict how securities will move. Some of these include:

- Commodities Future Trading Commission net positions (CFTC)
- Consumer Confidence
- Consumer Price Index (CPI)

- Federal Reserve Board minutes- affects U.S. interest rates
- German Buba Monthly Report
- House Pricing Index
- Jobless Claims
- Markit Manufacturing PMI
- Producer Price Index- measures inflation for businesses
- Retail Sales[20]

"You're trading the largest markets in the world with trillions of dollars being traded every day, it's you against the millions of other traders out there and it's the biggest challenge you will probably ever face, to become one of the 5% who actually make money from trading and that's why I love it. - fxchartstudies, eToro Popular Investor

You can find a more complete list at eToro's economic calendar.

When nations report on their gross domestic production, their debt, employment, housing, manufacturing, import/export levels, consumer confidence, and more, investors gain understanding about the direction of the economy. As financial institutions comment on business trends such as inflation levels, interest rates, oil supplies, and cost of goods, traders adjust expectations for business growth.

3.3 Risk vs. Reward

When you invest, you'll often find a trade-off between risk and reward. Sometimes that trade-off is obvious. Sometimes it's hidden.

Traditionally, bank savings were viewed as the most risk free investment. You would earn fixed or various interest on the money you put into the bank. However with negative interest rates and

[20] FX Street Economic Calendar https://www.fxstreet.com/economic-calendar

increasing bank failures, banks may no longer be considered risk-free.

Bonds have been another asset class that has been labeled 'low risk.' If you purchase a bond and hold it to maturity, you are guaranteed to get your money back and the additional percentage of interest paid. That is provided the holder has not defaulted. Depending on inflation, your bond may or may not actually earn you any money.

Investing in blue chip stock companies has also been considered fairly safe. These large, international, well-funded companies produce needed services and pay dividends. They most often weather financial storms. The stock price may fluctuate, but traditionally, they have offered good returns for the investor.

Smaller companies, those in emerging countries, and those with larger debt offer added risks. Small companies may not have the depth to weather adversity. Emerging countries may face unrest, shortages, or unfavourable exchange rates. Companies with large debts may find they cannot raise capital during a setback.

The more uncertainty, the more likely you are to lose money or to lose your entire investment. Statistic Brain Research Institute says only 37-58% of start-up companies are alive in four years.[21] If the company fails, you lose all your money. On the other hand, if the company becomes an Apple or Google you stand to make many times your original investment.

Commodities may offer the security of tangible assets. But they are most frequently traded on paper. CFDs can help capture the change in price without the risk of physical storage. Different kinds of commodities carry different risks. Cycles influence commodity prices.

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[21] Pryor, Kristin. 'Here Are the Startup Failure Rates by Industry', Tech.Co 12 Jan 2016 http://tech.co/startup-failure-rates-industry-2016-01

Currency typically has small movements so it might be deemed safer. But traders usually leverage their trades to try for larger gains, which significantly increases risk.

Leveraging a trade means you use a lower percentage of invested money to control a larger amount of a financial instrument. This increases your chances for both larger profits and larger losses. You increase your risk. CFDs, Forex, and short options trading use leverage. In these cases, it's possible to lose more than your total investment and be left with a large debt.

When traders can afford to lose all their money, they can trade with a higher degree of risk in the hopes of making an outsized return. People who cannot afford to lose their money should trade in a more conservative way with lower risk instruments. They exchange increased safety for lower returns.

On the other hand, many people, over the long run, have made substantial returns on low risk investments. So low risk does not always mean low returns. Investment platforms may help you find out the risk of the trade before you choose to make it.

The Cost of a Loss: When you take a loss, sometimes called a drawdown, it takes more gain to recover. If a security drops 50%, it doesn't just take a 50% gain in the price to bring you back to even. It takes a 100% gain to even you out. Here is a chart of the gains needed to return to even on unleveraged instruments.

Portfolio Loss	Gain needed to bring back to even
-10%	+11%
-20%	+25%
-30%	+43%
-40%	+67%
-50%	+100%
-50%	+150%

If you choose to invest in leveraged securities, the required gain is much steeper. At 5x leveraging, a 10% drop will need a 100% gain to break even. And a 25% drop would need a 300% gain to eliminate your losses.

Ask yourself, how will I feel if I lose money on this trade? How much can I afford to lose before it affects my future, my retirement, or my emotional well-being? This will help you assess your risk tolerance. If you find yourself watching the prices and sweating every time there's a dip, you may need to lower your risk tolerance and choose safer investments. It should be fun, not stressful.

3.4 Risk Score

eToro offers a simple tool to assess the risk level of a portfolio or investment. Click on your public profile in your active trading site to see your Risk Score. It tells you the level of risk in your investments. If you have a private profile, you must make it public to see your score. (A public profile shows what you are investing in, but never the amount of you investment.) You'll also see this risk score in the Popular Investor's page so you can choose to copy people with a similar risk tolerance.

The Risk Score is a reminder that all trading involves risk. You should only risk capital you're prepared to lose. Also remember that past performance does not guarantee future results. While these traders may have produced outstanding results for the past 12 months, you cannot assume the next 12 months will bring the same results. However, as an investor, you are now better prepared to understand the risks you are taking should you trade alongside them.

This is another step eToro makes to be transparent and keep investors informed. When you click on a Popular Investor's page, it will take you deeper. You'll see a chart with their past trades and the risks associated with those trades.

When you scroll over a bar, a pop-up tells you the maximum risk and the average risk of the trades for that month.

The max drawdown below the graph shows the highest historic losses the trader has incurred during the previous 12 months, by day, by week and aggregated yearly . This shows the performance of the trader for you to consider if you are willing to tolerate the risk for the potential upside gains. The low risk scoring 4exPirate brought in 15.23% profit over this trading period. The higher risking Konstantin Trade profited 63.96% over the risk period.

The Risk Score is created from a proprietary algorithm that assesses the portfolio's overall exposure from each of the trades open. It takes into account the daily movement of a security. Then it multiplies the chances of volatility so the range will be accurate 99% of the time. Leverage increases the risk. But some combinations of securities actually reduce risk. If you pair two currencies (for example the EUR/USD and the USD/JPY) you hedge the USD no matter if it goes up or down. These

kinds of paired trades lower the overall portfolio risk and so may lower the risk score.

eToro's risk scores help you understand and manage your risk in a less emotional and more quantified way. When you understand how the markets can cycle and how to control your tolerance for risk, you gain the confidence to trade and invest. The next step is to learn how to research assets to be able to pick strong ones.

All trading involves risk. Only risk capital you're prepared to lose. Past performance does not guarantee future results. This information is for educational purposes and not investment advice.

Chapter 4

Fundamentals of Research

When you begin investing, you enter a strange new world of language and terms. Each one can help you invest with more confidence and more likelihood of success. Read this chapter and then use it as a resource guide. Come back to it again and again to refresh your memory until the information becomes second nature to you.

4.1 Fundamental Analysis

All public companies need to issue annual reports. While some companies may engage in 'creative accounting', the numbers that must be reported can help you see how a company is performing. Is it growing or shrinking sales from year to year? Is it taking on more debt? Is it increasing or decreasing in value? How risky is a company? All this information is can be uncovered as you look at the numbers the company reports.

When you go to any securities market page, you are likely to find a list of abbreviations and numbers. Making sense of these numbers allows you to invest wisely. Once you know about them, it's easier to choose instruments with a higher probability of rising.

Fundamental Cheat Sheet		
Fundamental	Definition	Investors typically believe the numbers indicate
Beta	measures volatility	lower number = lower risk
Dividend Ratio	Dividends/ earnings	higher number = increased dividend payout
Debt Ratio	total debt / total assets	Lower (below 1) stronger company
EBITDA	company's ROI	Lower number = cheaper valuation
EV Enterprise Value	Total assets of company	Higher number = larger company
EV/EBITDA	Best measure of company value	Lower number = better valuation
EPS	Earnings per share	Higher number = more profit
PE Ratio	Price to earnings. Quick company assessment.	Lower number = better valuation
Market Cap	Size of company	Large number = bigger company
Volume	Number of shares traded	Large number = more trading interest

52 Week Range lets you see how the instrument has traded over the past year. You can compare the current price to the high and low. The chart will show you the trend, either up, down, or sideways. If it's coming off lows, it may be undervalued.

Beta tells you the volatility of a security. A Beta of 1 is average, so a fraction below that means it is less volatile than the overall market. A higher Beta shows the price fluctuates more than average. A Beta of 1.2 means the security can be 20% more volatile than average. Traders like the increased volatility because it opens up more trades. It can also be an indication of the degree of risk you take on.

Debt Ratio shows how well a company can pay off its debts with its current assets. It's found by dividing the total liabilities by the total assets. While debt ratios vary by sector, a number of .5 is a reasonable debt load. A debt ratio of 1.0 tells you the company would need to sell all its assets to resolve the debt. Cheap interest has encouraged many companies to borrow to buy back stock. This makes their price to earnings, or PE, ratio look good. Don't be fooled. The more secure EV/EBITDA ratio will still reflect the debt.

Highly leveraged or indebted companies may not be able to raise cash in a crisis or a downturn making them more risky.

Dividend Ratio is the percentage of earnings paid to stockholders. It's found by dividing the dividend per share with the earnings per share (EPS). If they are the same, the number would be 1. If a company retains 50% of their earnings to fund growth, the number would be a .5. At times some companies choose not to cut their dividends, so they may pay out more than they earned. In this case the dividend ratio would be higher than one, say 1.3.

This higher rate is not sustainable for long. Either the company must increase earnings or cut dividends. Be cautious of a company paying large dividends with a ratio significantly above 1

EBITDA means earnings before interest, taxes, depreciation and amortization. This measure shows net income after expenses. It's used to measure a company's cash return on investment or ROI.

Enterprise Value (EV) might be considered the takeover price of the company. To calculate the EV, start with total cash and cash equivalents. Then subtract the liabilities of debt, outstanding shares of stock, minority interest, and preferred shares. The less debt a company has, the higher its Enterprise Value is likely to be. But watch out for hidden debt like unfunded pension liabilities, leasing obligations, or other guaranteed payments. This gives you a sense of what the company is worth.

EV/EBITDA may be the most accurate reading of a company's value. It's more complete than a simple price to earnings ratio that does not include company debt.

The EV/EBITDA is printed as a fractional percent. For example in the first quarter of 2017, Apple (APPL) had an EV/EBITDA of 10.60 The average ratio is 11.4. Ideally, the lower the number, the cheaper the valuation. Trading stocks with a low EV/EBITA ratio has been shown to lead to more profitable returns than trading based on a P/E ratio alone.[22]

Find the EV/EBITDA Value

$$\frac{\text{Enterprise Value}}{\text{Earnings before interest, taxes, depreciation and amortization}}$$

EPS means Earnings per Share. This indicates how profitable a company may be. It takes

[22] Gula, Alan, 'A Superior Metric for Value Investors' Wall St. Daily, 6 Jun 2014 https://www.wallstreetdaily.com/2014/06/06/ev-ebitda-valuation-metric/

profitable a company may be. It takes the net income from a company (minus the dividends paid) and divides that by the number of outstanding shares. Large sales of equipment, a division, or one-time losses (like settling a lawsuit) might be included or excluded to give a more favourable number. Cash EPS is operating cash flow divided by outstanding diluted shares (all shares possible, including stock options). Operating cash can't be manipulated so this EPS gives a better indication of the profitability of the company. EPS can be calculated on past numbers using Trailing Twelve Months (TTM) or on forward looking data.

Market Cap is sometimes called market capitalization. It is the total value of all the outstanding shares of a company. It is not necessarily the actual value of the company or its assets. Investors use market cap to determine the size of the company. Large-cap companies are over $10 billion and are usually established, major players. Mid-cap companies are $2-$10 billion and often offer more rapid growth accompanied by increased risk. Small-cap companies are $300 million to $2 billion. They may be early-stage companies or serve a niche market. Since they have fewer resources they often have a higher risk.[23]

PE Ratio is the price to earnings ratio. The lower the PE, the more value you are getting. It compares the current price of a share to the company's earnings per share.
The PE shows the price investors are willing to pay per pound of the company's earnings. If the PE Ratio was 42.5 they would be willing to pay £42.50 for £1 of earnings. Investors may pay a higher PE if they think the company is growing or is going to do better than in the past.

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[23] 'Market Capitalization', Investopedia http://www.investopedia.com/terms/m/marketcapitalization.asp

Finding a Company's PE

Market Share Value
Earnings per Share

If company XYZ cost £20 per share and company earnings were £1 per share, your equation would be:

£20 (share cost) = a PE of 20
£1 (earnings/share

Traders may also use the PE ratio to determine if a stock is more or less valuable than in the past. A speculative company's PE ratios may range from 50 to 300. A conservative utility stock may stay between 8 and 16. If you know your stock typically has a PE ratio between 20 and 30 and it's now trading with a PE ratio of 18, it may be undervalued and a good buy.

Typically the PE Ratio is based on TTM, the trailing twelve months of earnings. Sometimes the PE will be based on the trailing two quarters and the future two quarters. Or it may be forward looking PE, anticipating the earnings for the next 12 months.

While the average PE Ratio across all assets is 20 to 25, different sectors have different valuations. So it's most useful in comparing companies within a sector.

Volume tells you how many shares have traded hands and how actively the stock is trading. A higher volume means it's easier to buy and sell as there's a lot of interest in trading. A spike in volume may also indicate a more rapid change in price. When you compare current volume to average volume you see if the stock is active or quiet.

4.2 Company Valuation

Company valuation lets you determine if you are paying a high or low price per share relative to the value of the company.

The PE ratio is a quick valuation. However companies can use debt to buy back shares. This makes the PE look better because there are fewer shares, but it overlooks the debt. It can also allow for accounting manipulation. Companies can choose to sell an asset, and add in the profits for a one-time good report. Or they can sell a spin-off that was a losing part of the company, and eliminate that loss from their report.

Wise investors dig deeper. If a company were to sell off all their assets, take the cash, and pay all the debts, what is left? That's the cash value of the company. Your EV/EBITDA ratio gives you this number.

Value investors look for exceptionally cheap companies that have solid management, a good product, and good prospects. They want to see a high EPS and a PE below 15. They check to see if the product has a 'moat' around it. That is, how protected is it from competition? Companies protect themselves from competition by brand name, think Coca Cola or Nike. They may protect themselves with patents as pharmaceuticals do. Or they may have such a huge market share or unique product that makes it nearly impossible or vastly expensive to duplicate. Microsoft and Google fit here.

Ways to increase the probability you will make money with a company include:

- Buying stock when the company is selling at a discount, which means the value of the company is below that of the stock price
- High EPS (earnings per share)
- Low Debt Ratio
- Low EBITDA

- Hedge fund buying
- Analysts' recommendations
- Pays consistent and increasing dividends

You can find this information on some trading platforms, in the annual reports of a company, or on websites like Yahoo Finance.

Six Ways to Reduce Risk

1. Invest in assets that are not correlated to each other. Check historic charts to make sure they don't fall or rise in tandem. Consider commodities such as oil, corn, or metals.
2. Trade CFDs, inverse funds, and assets that can hedge against a downturn.
3. Diversify to CFDs and managed futures that let you use derivatives to invest in the rise or fall of a broad range of instruments: Currencies, commodities, stocks, ETFs, indexes, etc.
4. Diversify into a range of global equities that may have different cycles and correlations to the UK or your country's exchanges.
5. Research and know the strengths and weaknesses of the equities you choose. Invest in value.
6. Keep track of your investments. Check for change in strength, change in trends, upcoming news events, etc., and adjust your portfolio as needed.

4.3 Technical Analysis - Making Sense of Charts and Tools

Charts are valuable tools to help you choose investments. Choose a chart that matches your timeline to see the trends that apply to you. Do you want to hold your securities for a long time? Choose a daily or weekly chart. Want to hold for a few days or weeks? Select a one- or four-hour chart. If you are day trading, you'll want a one minute chart.

Charts can be shown as a line, a mountain, a set of bars, or as candlesticks. Mountains and lines are good at showing the movement of the security. Candlesticks give you more precision.

Each candlestick represents the timeframe of the chart. So if you are looking at a 15 minute chart, each candlestick shows the maximum and minimum prices reached during the 15 minute interval. The solid bottom and top of the candlestick show the prices at the beginning and end of the 15 minute period. The tails - top and bottom - show the highest and lowest prices in that timeframe.

Experts use candlesticks to help them predict changes in direction. A long tail can show resistance to the price going in the direction of the tail. A candlestick with a very short middle and long ends is called a doji and can indicate a change in direction. When the price begins at the top of the candle and ends at the bottom, the candle is red. If the price starts at a lower level and rises in the candle time period, it is green.

Tools help you make sense of the chart.

Channel: Stocks trend up, down, or sideways. Within that trend, they tend to stay in a range. The range can be broad or narrow. Drawing a channel helps you see that range. To draw a channel, connect the peaks on the top with a line. Do the same with the points on the bottom. Connecting three or more points makes a stronger trend line.

When the security moves above or below the channel line, it's called a breakout and may signal a change in the trend.

The bottom line of the channel is called resistance. When trading gets to that line, it is more likely to stop and bounce back. The top line is called support as trading often reverses when it hits

that line. When a line is breached, that line may change from resistance to support, or support to resistance.

Lines: Sometimes a trend is not formed with equidistant lines. Use the trend line to draw lines connecting as many peaks or valleys as you can. If the trend lines come closer together, a breakout is inevitable. But which way? If this 'flag' comes after a down turn, it can be referred to as a bear flag, indicating the likelihood of a continuing downward trend. If it comes after an up-trend, it can be called a bull flag with the idea that the asset will go up. These are simply probabilities. You can look for high probability trades, but there are no certainties or guarantees. The market has a mind of its own.

Fibonacci Lines: This is another way of finding resistance and support lines based on prior moves. A line is drawn between a peak and a valley. Then the mathematical formula comes into play. Your Fibonacci tool draws lines at 23.6%, 38.2%, 50% and 61.8% of the movement in both up and down directions. 61.8% is considered the most powerful line and called the golden retracement. People don't know why this ancient formula works; just that it seems to be an effective predictive tool.[24]

Investors look at these lines as a place to take their trade off the table if it bounces there. Or they may have confidence to let the trade run if it breaches the line and keeps going. Fibonacci experts often draw several Fibonacci lines between different peaks and valleys. As these lines overlap, they create a stronger sense that support may be found in that place.

ADX (Average Directional Index): ADX was developed for the currency and commodity markets.
The ADX tells you the strength of the current trend but not the direction.

[24] 'Fibonacci Retracements' Stock Charts School http://stockcharts.com/school/doku.php?id=chart_school:chart_analysis:fibonacci_retracemen

A reading below 20 means choppy trading with no clear trend. A reading above 30 shows strong trend movement. Traders use this as one of several indicators that may recommend getting into or out of a trade. When the ADX is high, you have an increased probability that the security will be coming to the end of the trend.

The +DI (plus directional indicator) and –DI (minus directional indicator) help to define trend direction. If the ADX is above 20 and the +DI crosses over the –DI it is considered a buy signal for an upward trend. When the –DI crosses over the +DI (with the ADX above 20), that is a sell signal. With this system, there can be many false stops and starts, so use other trend direction tools to assist your decision.[25]

Alligator: Currency traders use trend lines with an alligator metaphor on this chart pattern. Lines together mean the alligator is sleeping, with its mouth shut, so don't trade. Open lines show an open mouth that's good for trading. In reality, the lines show trends up, down, or sideways.

All rising lines are bullish. All descending are negative. When the lines cross over each other, it indicates a change in direction. When the lines are close together, it means there is no tradable trend.

The lines are smoothed. moving averages of different lengths. Periods of 13, 8, and 5 are based on the time period of the chart. The Alligator tool will let you set time lengths that suit your trading.

Bollinger Bands®: Bollinger Bands are dynamic indicators that quickly adjust to market conditions. This essential indicator shows recent price changes and measures momentum and volatility. Traders use Bollinger Bands to see the strength and trend of a security and to see when to enter and exit a trade.

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[25] 'Average Directional Index (ADX)' Stock Charts School
http://stockcharts.com/school/doku.php?id=chart_school:technical_indicators:average_directional_index_adx

trade.

Bands expand when the stock is volatile with price fluctuations or strong trends. Bands contract when the stock is consolidating or moving sideways.

Bollinger Bands usually are set at 2.0 standard deviations above and below the price. 99% of all price action falls between 2.5 deviations. So a breakout of the band is a clear trend signal. The center line represents the 20-period moving average. Strong trends have the price closer to the outer edge of the band.

When the price moves away from the outside band and closer to the center, the momentum is fading and the trend may be turning. Candlesticks above the center line show a bullish trend. When the stock price falls below the centerline it is indicating a bearish trend.[26]

MACD (Moving Average/Convergence/ Divergence): This indicator notes the difference between a short period exponential moving average (EMA) with a longer period EMA, usually 12 and 26 days. These lines are shown below the chart. When the short EMA moves over the longer EMA it signals the price is rising higher than it has in the past. This is a bullish sign. Traders may not want to take short positions here.

When the short EMA drops below the longer EMA, it shows prices are dropping faster than in the past, a bearish sign. This may not be the best time to buy. It's easier to see the trend against a baseline since the MACD is below the price chart.

Traders look for the lines to cross over each other to signal when to enter or exit a trade. They may also look for divergence. When the MACD is moving one direction and the price of the commodity is still moving another, it anticipates a change in trend.

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[26] Rolf, 'Bollinger Bands Explained– The Best Trading Indicator For Different Purposes',Tradeciety
http://www.tradeciety.com/bollinger-bands-explained-step-by-step/

Moving Average (MA): A moving average levels out random price fluctuations on a chart. It is called a lagging indicator because it uses past data. You can choose how long of a period of past prices go into the MA. The longer the period, the longer the lag time. A shorter MA is more responsive and better for short-term traders.

Use moving averages to identify trends, support, and resistance for your trades. When a security is dropping, it could find resistance based on the moving averages. If it drops through the 20 day moving average, the next support might be the 50 day moving average.

As in the MACD, when one MA crosses over another, it signals an up or down trend. You can choose a variety of moving averages. Weighted or exponential moving averages are weighted toward the most recent data. Triangular MA has the extra weight in the middle. [Caption: Moving averages show trends, support and resistance.]

Relative Strength Index (RSI): This index is a momentum indicator. RSI is said to be in 'oversold conditions' when the index falls below 30. It shows overbought conditions when the index rises above 70. Traders believe the market is unlikely to sustain itself for long in either an overbought or oversold condition. Like a stretched rubber band, it is likely to snap back to its normal level.

The standard look-back period for RSI is 14. A lower number increases sensitivity to change. Just because the indicator says a security is overbought does not mean it will correct or correct immediately. Securities can continue their current trend while the RSI says it's overbought or oversold. Sometimes the equity will consolidate and work off the overbought condition before continuing higher. It is just one tool that recommends caution when certain levels are reached.

A divergence between the RSI and the security price may indicate a coming trend change. If the security is making higher highs, while the RSI is making lower highs, that is a bearish sign. If the security is making lower lows and the RSI is making higher lows, it indicates a possible breakout to the upside. Divergences are less trustworthy in a strong trend and a better indicator when they form after overbought or oversold readings.

Use Multiple Charts: At times it's useful for traders to have several charts on their screen at one time. They may want to see how an asset is trending on a short term chart like a one-minute or five-minute chart as well as on a daily chart. Or they may want to have some leading indicators on the screen. Transports or futures may indicate a market trend for a specific stock. Or index charts may help traders decide when to enter or exit a trade. Finally, some traders prefer to have Bollinger Bands, Fibonacci lines, or other indicators on separate charts so the charts are not too cluttered. eToro helps new and skilled traders see a variety of charts in real time with their new feature called ProCharts.

ProCharts give traders the opportunity to show multiple charts on their screen. It is exceptionally customizable. Traders can choose the:

- Number of charts on the screen
- Chart locations on the screen
- Assets represented
- Time frames represented

Traders can easily move the charts around to better support their unique trading analysis. Once the charts are set up, they will appear the same way each time you access them.

Don't allow fundamental analysis and chart reading to seem daunting. There are so many tools to help

you, it might feel like a lot to take in at first, but take it one step at a time. You will learn to use these tools and they will make you a much better trader. The difference between successful and unsuccessful traders is the skill to know when to enter and exit a trade. These tools help you see the trends and the changes in direction. They are designed to let you know when the security may stop going up or down. Then you may choose to buy and sell at these points, you have a distinct advantage. You are not trading blindly.

None of these indicators are guarantees. They don't predict the future, they only indicate a probability of a direction. To gain experience, practice on a virtual account. Get a feel for how these tools work and how they apply to the securities you want to trade. Then you can trade with more confidence.

All trading involves risk. Only risk capital you're prepared to lose. Past performance does not guarantee future results. This information is for educational purposes and not investment advice.

Chapter 5

The Basics of Buying, Selling, and Controlling Securities

There are more ways of controlling securities than simply buying and selling. Understanding the basics of how to buy, sell, and other ways of controlling securities puts you in the driver's seat. It lets you make decisions that can increase profits or reduce losses. These decisions also affect the commissions you pay for your transactions.

5.1 Owning the Asset and the Bid/Ask Spread

There is always a difference between the asking price and the selling price. This difference is called the 'spread'. It may be a few points or it may be a wide gap. This is the profit margin for the market maker or the broker who holds the securities and stands ready to buy or sell at any time. The **ask** price is the price sellers are willing to part with the asset. The **bid** price is what buyers are willing to pay.

When you buy stocks, ETFs, or options, this difference is negotiable. For example, ABC Company's asking price might be $19.68; the selling price might be $19.99.

If you place a **market order**, the price you will pay for the stock will be whatever is the going rate, in this case, $19.99. However you could place a **limit order**. A limit order tells the market you are only willing to pay this specific amount, or less to buy the security. In this case, you might set your limit order at $19.78. Then the seller gets to decide if they are willing to take that price or not.

You may get your asset cheaper than others pay... but if the equity rips higher, your order may not be filled and you won't get the asset at that price. Then your choices are to rebid a limit order, pay the market price, or forgo the security at this price. You can almost always get the security for less than the ask price in a wide spread. Often the order will be filled even if you choose the midpoint of the spread because the price tends to fluctuate during the day.

Profitable buying requires patience to wait for the best entrance and patience to let a trade pass you by rather than chasing the trade. **Chasing the trade** means buying at a more expensive price than is a good value because the price keeps going up. This is caused by fear of losing out and often

results in a loss when the price settles back down.

Buying: The traditional way to own a security is to buy it outright. When you own it, you can take physical possession of the stock certificate, the gold, or the currency. People who intend to buy and hold a security for decades or generations will typically buy the security outright.

The purchase comes with commissions and perhaps other fees. With traditional investment brokers equity purchase and sales used to cost $100 or more per transaction. Fintech has reduced these fees. Some purchase transactions are now less than $10, regardless of the number of shares moved.

Selling: You face the same commissions when you sell your equity. Thinly traded securities may not have enough liquidity to sell right away. You may have to wait for a buyer.

When you sell your security, you may sell at the market price (whatever the ask price is) or put in a limit order. Then you tell the broker or trading platform you will sell at this set price or higher.

Often traders want to protect their investments and pre-set a sale price if the equity reaches a certain point. This point may be determined by a percent against the asset's gain or as a fixed amount. On a price drop, the fixed amount sale is called a **stop loss**. A **trailing loss** is triggered when the equity falls a certain percentage below its highest price while you owned the equity. With ABC Company you could sell when it falls to $15 (or lower) or when it drops 25%.

You may also want to set stops to sell your security when it reaches a certain profit point. Again, you can set the sale to trigger when the security rises a certain percent or a specific fixed amount.

On many trading platforms, the stop loss triggers do not guarantee you will sell your equity at that price. In a fast falling market, the price may blow through your stop. By the time the order is filled, the price you receive could be much less. Some trading platforms allow you to protect yourself from this kind of flash-crash by letting you bracket your sale. You tell it to sell at $15...but not if it falls below $13.50, for example. However, in a fast falling market, your asset might not be sold at all and you'd be left holding it at a price perhaps far below $13.50.

Some trading platforms do guarantee the stop loss price you set. Then the trading platform will take the loss if the sale cannot be made in time. Check with your broker or platform to see which rules apply to you.

Stop loss and profit points can be a significant part of a trader's arsenal to reduce risk and increase protection in a changing market. They can be immensely helpful many times, but they are not foolproof.

5.2 Options

Options let you control a block of securities without owning the security. Options are priced individually, but traded in 100 share lots. When you open 1 option trade, at say $1.15, the cost is multiplied by 100 ($115.00) and you control 100 shares of stock.

Options are for a fixed price and a fixed time. You can trade options for as short as a few minutes or as long as two years.

Most option traders do not want to actually own the asset. They want to profit from the movement of the asset. When the price of the asset moves toward the option price, the option increases in value. Traders may sell for several reasons:

1. When the option gains an attractive profit
2. When the option falls below the traders determined stop loss
3. When it looks like the option will expire out of the money, the trader may salvage some of the premium by selling the option they bought

When an option is **out of the money**, it means the price of the asset has not reached the strike price, or the agreed upon price the stock needs to reach to trigger the option. At the end of the option period an out of the money option expires and has no value. The trader who sold the option keeps the profit from the sale. The trader who bought the option takes the loss.

If the asset price reaches the strike price or higher, it's called **in the money**. If an option is in the money at the end of the option period, the trading platform will automatically execute the order to buy or sell that option. The seller must either buy the option back or execute the trade. For example:

On February 6th ABC Company sells for $19.99/share. Frank believes the stock will stay the same price or go down. So he sells 10 call options of ABC at $21 a share with an expiration date of 21 April, 2017 for $1 a share. Since options control 100 shares, Frank will earn $100 x 10 = $1000.

If ABC stays below $21 on the expiration date, Frank keeps the $1000 and has no obligations. But if the stock grows to $24 a share, the option price will go up as well— to perhaps $3.25. Now Frank must either buy back the options at a cost of $3250, (a $2250 loss) or have the $24,000 in his account to buy the stock at option expiration. And then turn around and sell it to the option holder for $21 a share for a loss of $2000.

Or Frank may have made a covered call. This is when he already owns the 1000 shares of ABC Company. Perhaps he bought them at $17. Then, when the stock is called at the $21 option price, he still made $4 a share on the stock… although he missed the possible profit if he'd kept the stock and sold it at the current $24.

George took the other side of the trade. He paid the $1/share to buy the option. If ABC Company stays below $21 at the expiration date, George loses the $1000 he invested. He might sell the option sometime before expiration for perhaps $.70 and have a smaller loss. But if ABC soars to $24, George can sell his option for $3.25 and his $1000 investment returned him 325% gains.

There are four ways or sides of option trading:

- Buying puts (the option to sell an asset when it drops to a specific level)
- Selling puts (the obligation to buy an asset if it drops into the money)
- Buying calls (the option to buy an asset if it rises to a specific level)
- Selling calls (the obligation to sell an asset if it rises above a specific price)

When you **sell** you incur an obligation and unlimited risk because the stock could soar or drop to zero in price. You reduce that risk if you have covered the option by owning the stock or being willing to buy the stock at the put price. When you **buy** you have a fixed risk. It will be no more than what you paid for the option.

Selling options uses leverage and thus can give investors both vast profits and staggering losses. Buying options gives large upside, but limits losses to the amount paid for the option. Successful traders use charts and fundamental analysis to predict high probability trades and use strict stop loss orders to reduce losses. They may also use

complex combinations of these four option trades. This gives up some potential profits in order to reduce the risk.

5.3 Contract for Difference (CFD)

A CFD is a contract between the trader and the broker to exchange the difference between the opening and closing price of a specific security. The trader never owns the security. Rather the CFD is a derivative because the contract is based on an underlying security.

These instruments are exceptionally easy to trade. Some platforms even have one-click trading. Here are six ways CFDs offer more flexibility than other methods of trading securities.

1. Accessibility: Trades are accessible, and small investors can trade securities that might otherwise be impossible to have access to.You can trade CFDs across a broad range of assets. Stocks, commodities, currencies, indices, and ETFs can all be traded with a Contract for Difference. You also can trade a wide variety of international equities not always available to traders who buy and sell securities.

2. Leverage: You can use more leverage for your trades. CFDs can be traded without leverage or with high leverage, depending on what your broker offers. When using leverage, a smaller amount of your money can fund a larger investment amount. This may create outsized gains. It can also lead to your losing more than your original investment. Some trading platforms limit the amount of money you can invest in high leverage trades and they encourage strict stop loss placements to reduce the risk.

Margin or Leverage			
X	Invest	Controls	Margin
1	1000	1,000	0.00%
2	1000	2,000	50.00%
5	1000	50,000	80.00%
10	1000	100,000	90.00%
25	1000	250,000	96.00%
50	1000	500,000	98.00%
100	1000	100,000	99.00%
200	1000	200,000	99.50%
400	1000	400,000	99.75%

You may balance some of the risks by spreading your trades over a range of securities in various sectors. Also, never risk a large sum of your portfolio on any one trade, or even on multiple trades of the same security.

3. Low Commissions: The initial cost of the trade can be much less than buying or selling a security. Some trading platforms only charge the spread difference. This is the difference between the buy and sell price. For stocks and commodities, it may be a few pence or a small percentage difference. For currency, it will be listed as 'pips.' PIP is short for 'price interest point', and measures the amount of change in the exchange rate for a currency pair. A pip is usually 1/10,000 or .0001% of the asset. In 10K currency lots, that comes to about $1 or £1. There is also an overnight fee that can be a debit or a credit depending on the direction of the trade.

4. Upside and Downside Profit Potential: You have the potential to make money in both a rising and falling market. CFDs let you buy, or go long, when you believe the market will rise. You can also sell, or go short, when you believe the market will

fall. Thus, your investment options are not limited to only a rising market as when you trade stocks.

5. Tax Advantages: There may be tax advantages to CFDs. In the UK, you avoid Stamp Duty because you are not actually buying or selling the security.[27]

6. Insurance: CFDs can be a convenient way to hedge equities you own if you are concerned they may be in a temporary downtrend. You can sell a CFD to earn money on the difference in price should the equity drop. This compensates for the lost value of the equity you own.

CFDs are easy to trade for potential profit as the asset rises or falls. However, on small moves in equities, the spread, or cost of the transaction, can eat away at your profit. Some platforms list their CFDs commissions on the fees page. Other platforms do not let users know the spread.

Suppose ABC company has a bid/ask difference of 10 pence per trade. If you sell when the asset rises only 25 pence, you've lost 20 of that to your buy and sell commissions. So your net profit is only 5 pence.

When you use leverage, even a smaller amount of gain can produce an attractive return on your investment. Here is an example:

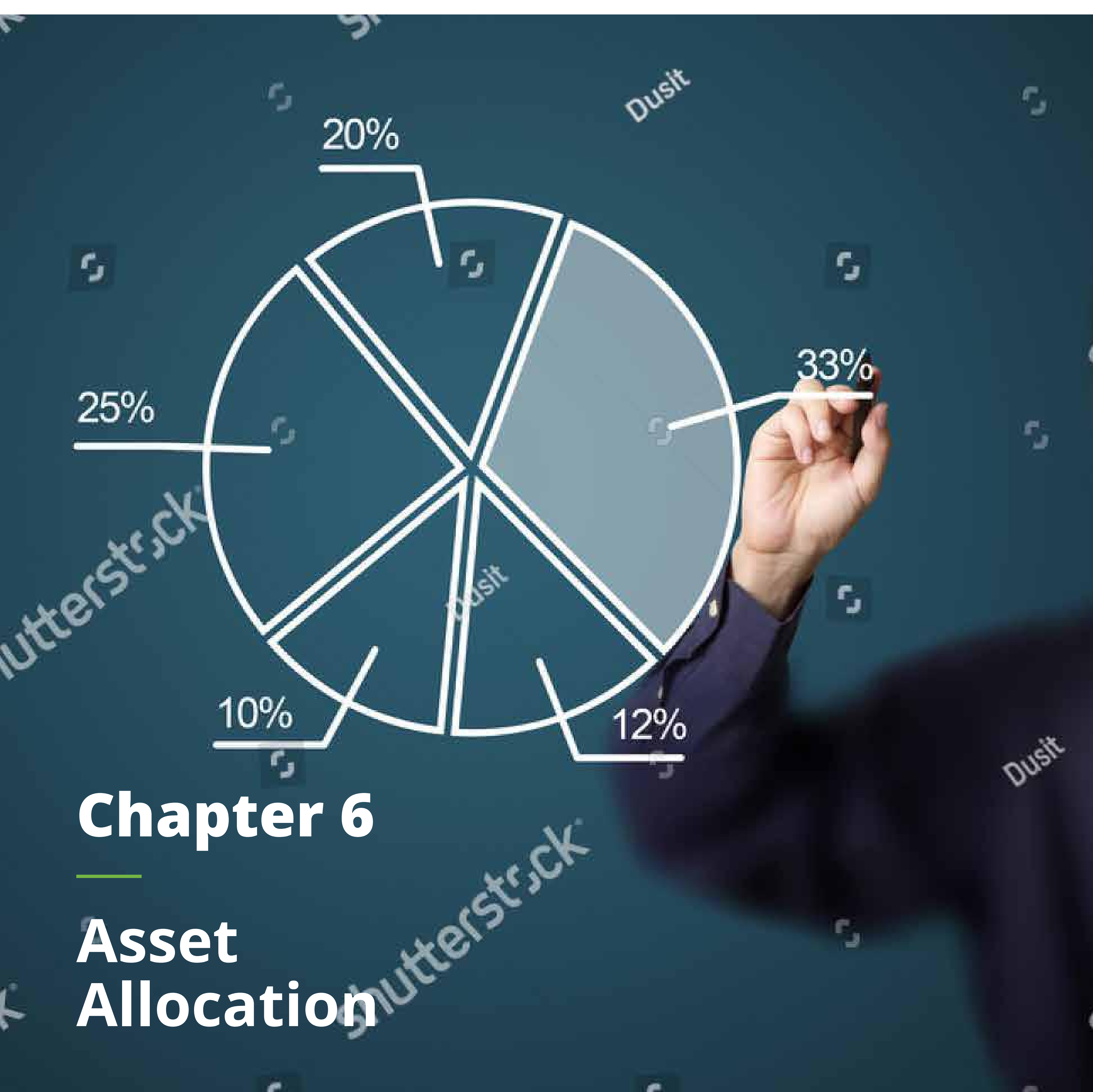
You want to buy XYZ Company that has a sell price of £9.9 and a buy price of £10.0 and your broker allows a 10x leverage. You buy 1000 shares for £1000 using 10x leverage. You expect the stock to rise. It goes up £1 and now has sell/buy price of £10.9/£11.0. You sell it at £10.9 and make an £900 profit on the £1000 you invested. That's an 90% return.

[27] 'What is a Contract for Difference' CMC Markets https://www.cmcmarkets.com/en/learn-cfd-trading/what-are-cfds

The stock may not move as you anticipate. Suppose it drops £1 and now has sell/buy price of £8.9/£9.0. You sell it at £8.9 and incur a loss of £1100. You just lost 110% or more than your initial investment. This is why most CFD buyers use stop losses to close the position before the stock drops below a certain point. It helps to limit their losses.

Investing can be a remarkably profitable way to increase your wealth and your retirement security. As you understand the fundamentals of a profitable company and as you learn the technical analysis of market trends you are better able to take advantage of profitable trades.
You are more likely to see existing trends. You can trade within the cycles of commodities and calendars. You can optimise buy and sell timing and set suitable stop losses to limit the downside. The more you learn, the more prepared you will be to manage your risks and make decisions that best suit your risk tolerance.

Remember, all trading carries risk. You may lose some or all of your money and go into debt with margin trading. Only risk capital you're prepared to lose. Past performance does not guarantee future results. This information is for educational purposes and not investment advice.



Chapter 6

Asset Allocation

As you plan your investment strategy, one of the most critical things you can do is plan your asset allocation. There is no asset that is entirely risk free. Different assets hold different risks so as you diversify into a variety of asset classes, you connect with different market cycles. Asset classes are divided into stocks, bonds, cash, real estate and perhaps commodities.

The hope is that these classes operate on different cycles and will balance one another for a smoother ride and reduced overall risk. If the stock market crashes, all stocks will take a hit, but your real estate assets may not be affected and your commodities might go up.

Assets are further divided into sectors or subsets of an asset class such as commercial, residential, or manufacturing real estate. It is risky to have all your assets in one sector. If that sector collapses, you have no fallback; your portfolio takes a hit. For example, many people loaded up on dot-com stocks at the turn of the century. They were flying high and giving double digit returns. Then came the crash of 2000 and many investors saw 75% or more of their life savings wiped out.

Asset allocation may have more impact on your overall returns than the specific securities you choose. A 1986 research report said 88% of a portfolio return could be attributed to asset allocation.[28] So let's look at some different ways to diversify your portfolio.

Diversify by Bonds: Some investment advisors recommend diversifying into different sectors, or kinds of trading instruments. The old standard is a ratio of stocks and bonds, typically 75% stocks, 25% bonds. And the ratio changed with a high percentage moving into bonds as you aged. In the past, these two had an inverse ratio. If stocks went up, bonds went down and vice versa. But this is no longer the case. Stocks and bonds can fall or rise at the same time, making this strategy less diverse.

Diversify by Asset Sector: Asset sectors are another form of diversity. Broadly, sectors are divided into 4 major categories:[29]

1. Natural resources: farming, mining, forestry, etc.
2. Manufacturing: building, and processing
3. Service: medical, retail, entertainment, finance
4. Intellectual: colleges, education

Within these sectors, securities breakdown to further divisions:

- Consumer discretionary
- Consumer staples
- Energy
- Financials
- Healthcare
- Industrials
- Materials
- Real-Estate investment trusts (REITs)
- Technology
- Utilities

The belief is that when you allocate your assets in a variety of these sectors you can protect yourself from dramatic drawdowns. Traditionally, consumer

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[28] 'Principle 2: Develop a suitable asset allocation using broadly diversified funds', Vanguard, https://personal.vanguard.com/us/insights/investingtruths/investing-truth-about-risk
and 'The global case for strategic asset allocation', Vanguard https://institutional.vanguard.com/iam/pdf/VIPS_global_case.pdf
[29] 'Sector' Investopedia http://www.investopedia.com/terms/s/sector.asp

staples and energy have done well in recessions while financials and technology outperform in an uptrend. As all these are traded on the exchange, they are sensitive to not only their sector cycles and swings, but also total market reversals. The stock market crash of 2007 crushed all assets. A broadly diversified portfolio still lost 57% in the next two years.[30]

Diversify by Size or Location: Advisors may also suggest diversifying by moving into international equities, emerging market assets, or small-cap investments when they feel these are moving into an up-cycle.

Diversify into Physical Assets: Broader diversification includes moving out of traditional investment assets into currencies, art and collectables, physical metals, real estate, and business ownership. Today, investors are spreading their wealth into a new asset of cryptocurrencies.

Most advisors agree that the more diverse your investments, the more secure your portfolio.

However, remember that each kind of security carries its own risks. For example real estate is illiquid. It can be hard to sell quickly. And if you must have a fast sale, you will sacrifice price to make it happen. Pharmaceuticals have the potential to return greater profits, but political decisions or a bad report may send them tumbling. And currencies can change with political climates, natural disasters, or trade imbalances.

The ratio of how you invest in these asset classes also matters. You may want to divide your portfolio over all the sectors with perhaps 5-10% in each sector. You may be conservative and place 50% of your investments into blue chip assets of long-standing quality and security, then divide the rest over assets that may carry more risk, but also have more upside potential. And you may take 5-10%

[30] Leary, Elizabeth, '5 Strategies to Lower Risk', Kiplinger, 31 Dec 2011
http://www.kiplinger.com/article/investing/T041-C000-S002-5-strategies-to-lower-risk.html

of your portfolio and risk it on junior miners, tech start-ups, or other high risk assets.

Exchange Traded Funds (ETFs), index funds, and mutual funds are designed to mitigate risks by investing a broad spectrum of assets within a group or sector. These make it easy for beginning investors because the assets may be managed by others to assure diversity and proper allocation. They let you invest in emerging markets without the risk putting all your money on a single company.

While ETFs and index fund are considered safer, a deep sell-off will cause your security to drop in value. Open ended mutual funds may also be forced to sell assets at a loss if too many investors pull their money out at once.

Social trading offers another method to diversify your portfolio. It's easy to copy another trader and automatically gain the benefit of his or her experience. Your investments are diversified exactly as the investor you are copying. Because you can allocate a different amount to each trader, you have the chance to diversify your portfolio over an exceptionally broad range of investments.

The key is to know what kinds of instruments each trader invests in. There's no diversity in using copy trading if everyone you copy is invested in the same currencies. You'll have more diversity if you choose to copy a trader in currencies, one in US stocks, one in global stocks, one in commodities, etc.

eToro also offers CopyFunds™ that invest in certain asset sectors. These funds are managed by eToro and some are based on the trading of select Popular Investors. Each uses eToro's unique algorithms to manage risk and diversity. Again, you can easily diversify by allocating a percentage of your funds to trade with different CopyFunds™.

Just remember, all trading involves risk. Only risk capital you're prepared to lose and past performance does not guarantee future results.

6.1 Assessing Your Timeline and Goals

In truth, asset allocation is specifically about you. Your goals, your money, your risk. What is the correct allocation for you may be totally wrong for someone else. So don't blindly follow what a mutual fund, investment advisor, or guru tells you. It's critical to see how it aligns with your needs and goals.

Age: Many financial advisors categorise asset allocation by your age. They say if you are younger and have a longer working timeline, you can afford to take on greater risks. You have the time to make up losses. You can let compounding work in your favour.

As you work on your asset allocation, look at the number of years you expect to work. Consider the deposits you can make into your portfolio each week, month, or year. Continually adding to your investment portfolio increases the probability it will grow faster and allow you to reach your goals.

Timeline: This is a good time to look at retirement calendars.[31] They will ask you questions such as:

- How much have you already saved for retirement?
- How much money would you like to have each year in retirement?
- Will you get money from other sources?
- When do you expect to retire (age/year)
- How long do you think you'll live?
- What rate of inflation do you want to plan for?
- What kind of taxes are you paying now?
- What tax basis do you estimate when you retire?
- How much can you invest each month? And

[31] http://apps.finra.org/calcs/1/retirement or https://financialmentor.com/calculator/best-retirement-calculator

when will you stop putting money into your account?

- Will you have other sources of income - pension, annuity, government support - when you retire?
- What do you anticipate for your average rate of return on your investments?

These online calculators crunch the numbers and give you an estimate of your retirement potential. The advantage of retirement calculators is that you can try different numbers and check the results. See what happens if you delay retirement a few years. How do the end numbers change if you increase your monthly contribution? What if the average returns go up or down? The goal is to help you see how much money you will need saved or invested in order to retire at the comfort level you'd like.

It's much better to have realistic return rates and a longer timeline than to hope for higher returns that may come with greater risks. In general, the shorter the time between now and retirement, the less risk you'll want to take on with retirement money. However, you may set aside some money for trading in the hopes of growing that money faster.

Goals: You may have goals other than retirement. You may want your assets to bring in current income or to buy intermediate purchases such as education, a car, or a home. Part of the asset allocation is to produce the income you are looking for.

Traders may be seeking monthly income. They will need to find underlying assets that have volatility and movement that is cpable of producing the income they seek. Still, they will find less risk as they diversify into different markets to protect against cycles, news, or swings. The hope is that the different markets will add balance.

You may lean toward assets that pay dividends for monthly income. Or you may plan not to touch your securities for years. In that case, less liquid investments such as real estate or a business may keep your money in a secure place until you need it. Diversifying your portfolio may mean you use many financial instruments to accomplish your goals.

6.2 What is Your Risk Tolerance?

Since every kind of investment carries its own risk, you'll need to figure out your risk tolerance. This is both an emotional and a financial decision.

On the financial side, look at your portfolio and your timeline. If you lose 20% on an investment, what will that mean to you? Do you have time to work to make it up? Do you have enough invested that you can afford to take some of your money to speculate? If it disappears, will you be able to pay bills? Retire? Have your current lifestyle?

On the emotional side, what kinds of losses can you tolerate? Do you find yourself worrying when a trade goes against you? Do you get sweaty hands as a security drops? Do you live on 'hope marketing' where you hope the market will rise... but you are afraid it won't?

You know yourself. If aren't sure how you will react, pay attention as you go through a few trades. If you think, 'That loss stinks, but on the whole, my trades are working out well,' then you are working within your risk tolerance. If you find yourself obsessing over every trade and every loss, stop and reevaluate.

You may feel more comfortable about temporary drawdowns if you consider these things.

- Have I learned enough about fundamental and technical analyses so I have a feel for the trend and resistance points?
- Have I chosen copy investors who have a track record I can trust?
- Should I stick to lower risk securities and try a set-and-forget method using rising dividends and blue chip assets that have historically provided a good return,so the swings don't bother me? Can I put my emotions on hold and trade with set stop losses and profit taking to ride out short dips and minimise losses?
- Have I allocated money to both long term growth for security and to short term trading for the potential for higher rewards?

For most investors, as they gain experience, they find a comfortable spot for themselves. They learn their risk tolerance and stay within it. And, when they find themselves falling for a 'sure thing' that's riskier, their fears and emotions eventually pull them back into what they consider a 'safe zone'.

Leverage: Leverage lets you use a fraction of the equity to control large lots of investments. This is inherently much riskier than simply owning a stock or buying a CFD. Your profits are multiplied, but you run the risk of losing more than your investment. This is one place to check when you want to adjust your risk tolerance.

You may want to begin by buying assets with no leverage. With a CFD, it costs almost nothing and there are no carrying charges on unleveraged assets purchased on eToro. As you see your investment decisions bearing good fruit, you may move to leveraging 2x, 5x, or 10x, or at maximum 25x. Then it may make sense to trade in currencies that need leverage to take advantage of small price movements. eToro guides you with suggested (and perhaps required) stop loss settings to reduce risk.

CFDs also allow you to sell assets you do not own to take advantage of a down market. Short selling CFDs, even unleveraged, creates a carry charge. Leveraging your trade can produce outsized gains or losses.

Compounding: Compounding has been called 'getting rich slowly'. It is considered a low-risk way to earn considerable income over 40 to 60 years or more. Stocks, mutual funds, ETFs and CFDs can all pay dividends. This is cold, hard cash right into your account. It's not paper earnings you may redeem in the future.

Here is an example. Say you bought Realty Income shares on 31 December 2006 and collect their dividends for the next 10 years. In that time you would have seen:

- 8.8% yield on cost (vs. an original yield of 5.5%)
- 60% increase in dividend income amount
- 108% increase in the value of shares
- 69% of your original investment returned to you as dividend income[32]

You may be able to set your account to have those dividends reinvested into the security. This gives you a greater share of securities. That give you more dividends so you buy more securities, which gives you more income.... You can see how the amounts add up. If you keep adding to your investments and reinvesting the dividends, the return has the potential to go up exponentially with time.

For example, the chart shows potential gains with these assumptions:

- Initial investment of $10,000
- Initial dividend yield of 3.5%
- Capital appreciation rate of 5%
- Dividend growth rate of 5%.

The chart assumes you reinvest the past year's gain

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[32] 'The Magic of Rising Dividends', Realty Income, http://www.realtyincome.com/about/magic-of-rising-dividends/

at the beginning of the next calendar year. Plus you add $1,000 in new capital each year You will have slightly higher growth if the dividends are reinvested as soon as they are paid. This chart assumes the portfolio is held in a tax free account.[33]

6.3 Developing a Risk Tolerant Strategy

You may change both your investment strategy and your asset allocation over time. When you first start trading, you may trade in ETFs indices, and CopyFunds™ so that others help you with your investment decisions. It's so easy to start by simply finding a trader with a suitable risk level and diversity to invest with. If you find this method satisfactory for you, you may simply continue like this forever.

As you gain experience, you may choose to develop your own method of choosing trades and the time you want to hold a security. It may be that you grow to be a trader and have others copy your trades. It's nice to know that eToro has a system to reward traders that others copy. That can be a source of additional income.

Keep in mind that most traditional investors do not have the broad array of investments available to CFD online traders. They must stick to stocks, bonds, ETFs, index funds, and metals that are traded on their national exchanges. This often excludes currencies, cryptocurrencies, some commodities, and many securities from other nations. eToro Copy Traders on the other hand can easily diversify into all those categories. Hundreds of companies from around the world are tradeable on CFD trading platforms. They can trade American, Australian, British, French, Russian, and South African equities as easily as they trade their home country's assets.

[33] Dividend Growth Machine, 'Illustrating The Factors That Affect Dividend Growth Investing', Seeking Alpha http://seekingalpha.com/article/704231-illustrating-the-factors-that-affect-dividend-growth-investing?page=2

Your investment strategy may be tied to one or some of the trading strategies listed below.

- **Currencies:** Watching news, economic and political events to determine if you believe a currency will rise or fall against another currency.
- **Day trading:** Trends, news events, quarterly reporting periods and other market moving information is the food for these short moves.
- **Global markets:** Watching the tide ebb and flow for different parts of the world and shifting funds to take advantage of the growth in China, South America, or other bright lights has performed well during some times.
- **Rising cycles:** Commodities and other assets follow general cycles. Moving your investments from cycles that are topping out into cycles that are beginning to rise.
- **Rising dividends:** Assets that have paid consistent dividends and increased their dividend payments (never decreasing them) over a period of years have been shown to outperform non dividend assets over the long time frame.

Value equities: Investing in assets with a low PE ratio and low debt has been a well-used strategy.

The purpose of this book for you to become an educated investor. This learning is a two-way street that needs your input. As you learn about yourself and your risk tolerance, you will understand how to use the knowledge in this book to master your trading.

Please don't skip over the asset allocation and risk tolerance part of trading. Take the time to learn your timeline, risk, and investment strategy. Calculate what you'll need to retire and start putting money toward that now. Your goal is to become a smart, successful investor, and build a portfolio that supports your chosen lifestyle. That can only happen to the degree you plan for the risks inherent in all investing.

All trading carries risk. You may lose some or all of your money and go into debt with margin trading. Only risk capital you're prepared to lose. Past performance does not guarantee future results. This information is for educational purposes and not investment advice.

Chapter 7

Building an Investment Portfolio

As you begin to build your investment portfolio, have your end goal in mind. What is the purpose? The joy of beating the market? Secure retirement? A current income? With your purpose in mind, you can plan the portfolio around it. Most long term investors suggest at least a 3-5 year timeline. Markets go up and down. Losses happen. Profitable trading is more likely to happen when you give yourself ample time to recoup losses and build on gains.

7.1 Balancing Risk, Profitability, and Diversity

Within your portfolio you want to balance risk, profitability, and diversity. Investors trading in traditional accounts can build diversity by choosing mutual funds, indexed funds, and exchange traded funds (ETFs). Each of these equities lets you buy a basket of assets with one purchase. By choosing from different geographies, sectors, and kinds of assets, you can build a diverse portfolio.

The kinds of assets you choose within those funds or indices will be based on your risk tolerance and the profitability you seek. A small cap fund carries more risk and perhaps more potential profits than the more conservative index of large, established companies. But this is not always true. When you have studied the cycles and the trends, you may find some assets that appear secure may actually carry more risk. And you may find some equities considered risky that have lower risk because you know the trends.

Once you've chosen an asset based on fundamental principles, trust your decision. Of course, you'll use stop losses to protect from a dramatic downside. But then, let your asset run up to your profit goal. Don't second guess each time there's a dip in the market. Most investors lose money because they let fear take the upper hand. They sell in a dip and then lack the confidence to buy as the asset moves up. Wise investors choose assets based on sound principles and then stay the course unless the fundamentals change.

If you decide to go with individual equities rather than a fund or index, go with quality rather than quantity. Choose about 10 excellent assets to begin with. Making them best in class is a good balance between risk and profitability. Well researched, single assets may outperform an index that is diluted with lesser picks, but, because all your eggs are in one asset, it typically elevates your risk.

Knowledgeable day trading or swing trading may also be a way to build a portfolio with a portion of your assets. Copying successful traders gives you the potential for higher returns and tight trading stops can give you prudent risk management.

When you use CFDs and copy trading you have an accessible way to diversify your portfolio over an immense range of asset classes. You may profit from both rising and falling markets. With eToro's platform, you can also assess the risk of each trader. Still, CFDs are considered high risk trading.

7.2. Regular Additions to Your Wealth-Building Fund

Most investors don't have enough money to start with one lump sum and grow it into a huge nest-egg. They need to continually add to the money they have available to invest. This means making weekly or monthly contributions to their investment portfolio.

Take stock of your current budget and find ways to free up money for long term wealth building. As with all ways to free up money, it comes down to either spending less or earning more... or both.

The sooner you start your regular investing, the larger your portfolio is likely to become and the faster you may achieve your goals. Your consistent periodic investment produces large benefits. It gives investors that chance to benefit from years of compounding interest.

Look at the graph. It assumes you start with $100 and add $100 a month, in 50 years your total investment will be $60,100. But with a moderate rate of return, even including periodic drawdowns, a stock market calculator suggests a possible end value of $8,208,000 return.

Notice how the majority of the gains come at the end of the time period. If you invested $100/month for only 30 years, your total estimated value would be about $409,704, or under a half a million dollars. Of course your actual outlay would also be lower, only $36,100. Yet you'd still see your money multiplied by more than 10 times! And remember, the past is no prediction of future gains and all investing carries the risk of loss.

7.3 Using Model Portfolios and Copy Trading

Many investment advisors offer model portfolios. They may have dozens based on your timeline, your risk factors, and your goals. This is a simple way to get started. If you're not sure how to jump in, go ahead and start with a standard portfolio. It's better to begin and then refine your asset allocation as you move along. Morningstar has a number of these generic portfolios for you to look at. [34]

The limitation of standard models is that they may not exactly address your level of risk, your age and timeline, or your goals. Also, many financial investors do not have your best interests at heart. They may suggest mutual funds or other assets that pay them larger commissions at the expense of your returns.

If you can trade CFDs on a social trading platform, you open your portfolio possibilities. It's easy to match your goals, age, and risk factor to tailor a portfolio exactly to your needs.

Let me show you how it works on the eToro site. As soon as you create a profile on the site, you can deposit funds. Or you can experiment for a while as a virtual trader and see nearly all the investment tools you need to make good choices.

[34] http://www.morningstar.com/content/morningstarcom/en_us/model-portfolios.html

You have the chance to personalise a watchlist so at a quick glance you can assess how equities you are following are performing. You can see the percentage of people buying or selling the assets you follow so you can gauge whether you want to do the same.

But most importantly, you can click on the copy people site and find instant access to model portfolios. First, check the risk score to find one you think you might be compatible with. Then look at other pieces of information. You may want someone from your own country or you may choose to follow a Popular Investor who has a large following or one that has produced returns you seek.

Do remember all trading carries risk. Also know that past performance does not guarantee future returns. There may have been an anomaly that produced either extra-ordinary or disappointing results. Your next step is to click on the synopsis of someone you think you may want to copy. There you will be able to see the securities they are investing in. Make sure the assets they are invested in fit with your strategy.

You can even delve a little further to gain insight into their thinking. You're free to ask them questions on the feed. When you click on any one asset, you'll see when they bought it and what their target profit goal is. You can also check out past performance and risks. Finally, with one click you can copy their entire portfolio and follow their trading decisions.

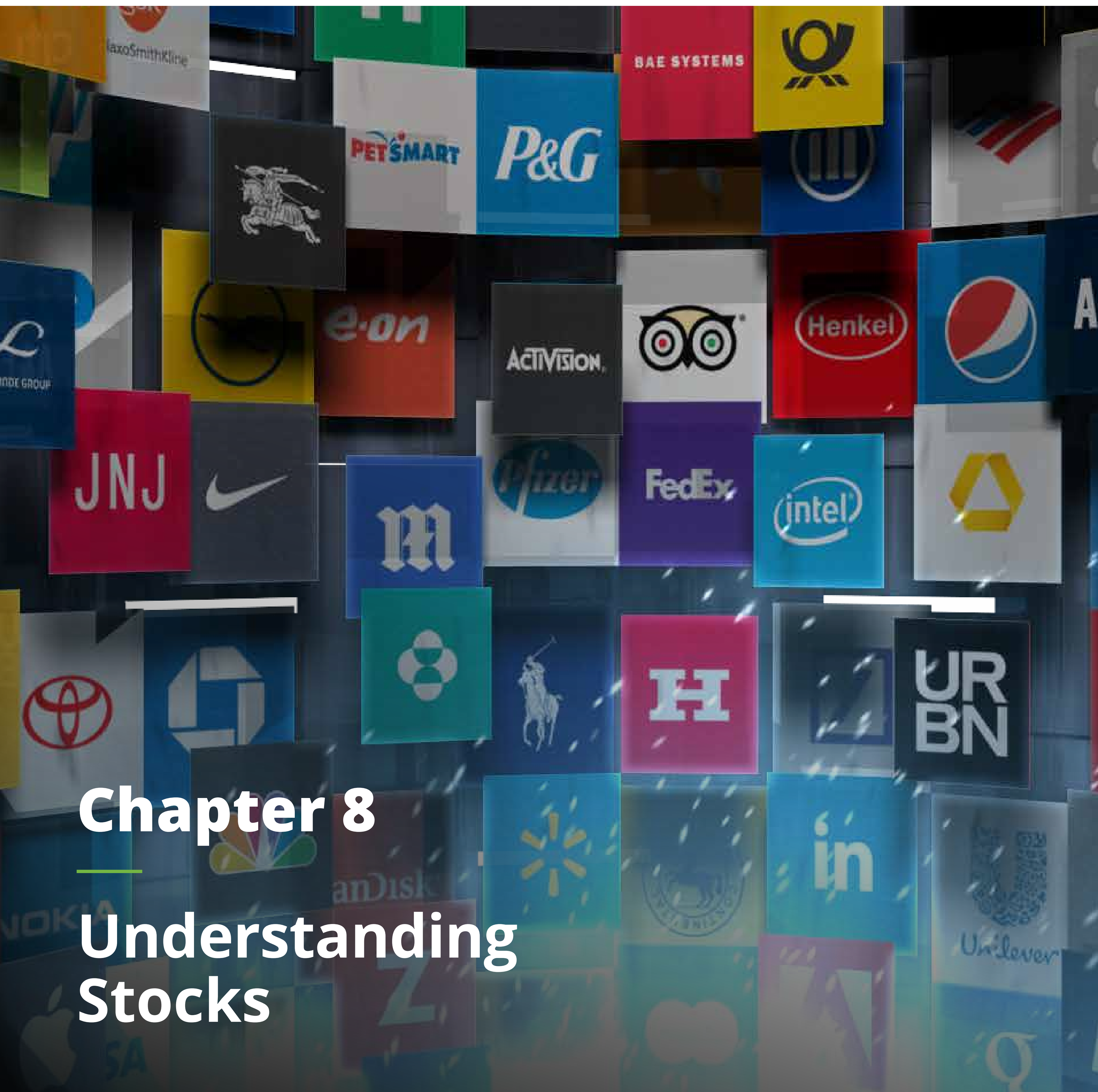
When you know your goals, timeline and risk level it's easy to check each Popular Investor portfolio against your measurments to see how they mesh. You can also go one step further. Look at each asset in the trader's site to see how well it adds to the diversity you want. And researching the companies in Popular Investors' portfolios can help

you see how they are distributed into the different sectors and classes.

Know that you can exit an individual trade of any trader you copy at any time. It's a one click process. So if you keep on top of the traders you follow, it's easy to keep your diversification in mind, and in check, by exiting trades that don't fit your strategy.

eToro also offers several CopyFunds™ selected by sectors or assets similar to ETF's. What makes CopyTrading an ideal way to create a portfolio is that you don't have to choose just one portfolio. You can collect a basket of different traders you want to follow. The platform will seamlessly buy and sell the fraction of your investment you allot to each Popular Investor exactly as they trade. Because the site is so liquid, you can easily change Popular Investors whenever you want. Creating your perfect portfolio could not be easier.

All trading involves risk. Only risk capital you're prepared to lose. Past performance does not guarantee future results. This information is for educational purposes and not investment advice.



Chapter 8

Understanding Stocks

The traditional asset classes for retail investments are stocks, bonds, and cash equivalents or money market funds. For the past 10 years a growing sector of smaller investors have been able to trade in currencies and commodities as well. Today you have the option to invest in a wide variety of asset sectors.

As we discuss these equities and investment tools, let's begin with the grandfather of them all, stocks. Stocks form the root of many indices, mutual funds, and ETF's. As you understand the fundamentals of stocks and companies you can enter into trades with both individual companies and funds with greater confidence. It's important to understand these differences as they influence risk and come with historically different rates of return.

8.1 Asset Sectors

Asset sectors often move in different cycles. When you know what drives each cycle, you can better understand how they fit within the trends. Learn when they are in demand and when they may fall out of favour. Discover typical risks and rewards.

Most investors use a sector breakdown of assets to balance their portfolio. These nine sectors offer a wide range of diversity within the stock market. This information will help you understand each sector and how it trends. Because we talk about the market cycle throughout this chapter, here is the chart to remind you of the cycle.

1. Consumer Discretionary: These are companies that produce goods and services considered nice to have, but not essential. People buy these products with 'extra' money. When the economy is good, people are more likely to spend money on 'frivolous' things, so consumer discretionary rises as the economy improves and flourishes in bull markets.

When the economy tightens, people cut back on the extras, so this class trends downward in a recession. Within this asset class, however, some stocks may trend differently. Cheap entertainment, like movies, tend to rise in bad times.

Some companies in this sector include:

- Bertelsmann (mass media)
- Amazon (consumer goods)
- Christian Dior (luxury goods)
- Walt Disney Co. (entertainment)
- McDonald's (fast food)
- L'Oréal (cosmetics)
- NIKE (clothing)
- Time Warner (movies and entertainment)

2. Consumer Staples: These assets are considered essentials. People do not stop buying these products even in a recession. This sector

includes agriculture, food, beverage, tobacco, and pharmaceutical distributors. It includes non-durable household goods and personal products, including grocery stores and supercenters.

Late in the cycle as economies enter a recession and during the recession, investors often move into consumer staples and prices rise. They believe assets keep their value better and are less likely to fluctuate in this sector. When times improve, money rotates out of this sector to faster moving assets and prices may dip. Overall, cycles tend to be more muted in consumer staples and they are often considered one of the safest and most risk free sectors.

Stocks in the consumer staples sector include companies such as:

- Anheuser-Busch (beverages)
- Walmart (retail)
- Procter & Gamble Co (retail)
- Sligro Food Group (grocery)
- Coca-Cola Co. (beverage)
- Philip Morris International (tobacco)
- Carrefour (retail)
- Unilever (personal care)
- Nestlé (consumer goods)

3. Energy: This category includes stocks related to producing or supplying energy. Traditionally, the energy sector has been dominated by oil and gas companies. Within the oil and gas industries, companies are broken down into three types, extraction (upstream), refining (midstream), and distribution (downstream) of gas and oil. Companies that engage in all aspects of energy production are called integrated companies. Integrated companies are less vulnerable to the change in the price of oil or gas because the cost of refining and transport may stay steady, when the cost of extraction rises or falls.

Upstream companies in exploration and extraction expand when energy is in demand and suffer when the price of energy drops. Because they are often heavily indebted, these companies often do not survive during down trends. They are more volatile and carry more risk. Downstream distribution companies may offer steady dividends in good times and bad.

Coal, nuclear power, and renewable energy such as water, wind, and solar are also included in the energy sector. Historically, renewable energy stocks were considered more speculative and carried more risk. As technology improves and renewable energy moves into the mainstream, the stocks are becoming more stable. These stocks can fluctuate based on government policies and rebates.

Which type of energy stocks are affected most when oil makes wild swings? When oil drops, drilling stocks like Apache Corp and Marathon Oil take a hit as do alternative energy stocks. When oil surges, they rise with the tide. But it also carries wind, solar, and electric vehicle stocks along with it.

Energy stocks include companies such as:

- Royal Dutch Shell (oil and gas)
- BP (oil and gas)
- Nordex AG (wind power)
- Yingli Green Energy Holding Co Ltd (solar)
- Canadian Solar Inc. (solar)
- ExxonMobil (oil and gas)

4. Financials: The financial sector covers financial services to both retail and commercial customers. This includes banks, insurance companies, thrift and savings plans, investment managers, mortgage companies, and real estate.

Financials tend to do well at the beginning of a recovery as credit begins to grow. They prosper in bull markets. In a recession, credit dries up and

financials may see prices drop.

Real Estate Investment Trusts (REITs) follows a somewhat different cycle. They may be more dependent on interest rates. While insurance companies are often considered steady, dependable income in all market types. All financials are sensitive to changes in laws and regulations. Rising interest rates serve banks well, while falling interest rates reduce their bottom line.

Financial stocks include companies such as:
ING (banking)
BNP Paribas (banking)
Allianz (insurance, annuities)
HSBC (banking and wealth management)
Munich Re (insurance)
Morningstar (investment)
Exor (investment)

5. Healthcare: Healthcare stocks deal with medical goods and services. This includes hospital management firms, medical equipment, and medical products. It also includes research, development, production, and marketing of medical equipment, pharmaceuticals, and new biotechnology.

All of these are considered essential so the healthcare sector typically performs well in all markets - bull or bear. However, it is subject to swings based on politics and government policies, subsidies, laws, etc. Pharmaceuticals and biotech stocks may rise or fall based on new product testing successes or failures or new competition to existing drugs. Early stage biotechs are considered highly speculative.

Companies in the healthcare sector include:
- Bayer (pharmaceuticals)
- Hoffmann-La Roche (pharmaceuticals)
- GlaxoSmithKline plc (pharmaceuticals)

- Fresenius (medical equipment)
- Capio Group (hospital management)
- Kaiser Permanente (HMO)

6. Industrials: Industrial goods are companies engaged in producing items used in manufacturing and construction. Sub-sectors encompass aerospace, industrial machinery, military and defence equipment. It includes cement, metal fabrication, pre-fab houses, and waste management. The Industrial sector also covers transportation companies such as airlines, trucking, roads and railroads.

Look to essential products like rail and defence to stay steady regardless of market trends. Huge, diversified industrials, such as General Electric, have offered good returns for years in all kinds of market swings. However, housing construction and industrial machinery generally slow in a recession. Many analysts look to the trucking and transportation sub-sector as a bellwether, as those numbers tend to drop or rise ahead of a change in trend in the larger market. In this sector, it pays to look at specific trends within the broader sector as you choose your assets.

Companies in this sector include:

- International Airline Group (transportation)
- LafargeHolcim (building materials)
- Leonardo (aeronautics and defence)
- CRH (building materials)
- BAE Systems (aeronautics and defence)
- Schneider Electric SE (automation/equipment)
- Continental AG (automotive manufacturing)
- BMW (automotive)
- TUI Travel (transport)

7. Materials: Companies in this sector manufacture or process chemicals and plastics. They mine or extract minerals and metals. Paper, containers, and packaging are part of this sector. Some analysts

include forestry and construction in this sector since they are closely aligned with packaging and are the raw material for many products.

Chemicals are used across a broad range of businesses so that they may hold up better under a range of cycles. However, in a downturn, the demand for them is reduced. Manufacturers use gold and other metals which affect asset prices. But precious metals also cycle with investor demand for a safe haven. Investors may turn to precious metals in times of economic and political uncertainty and tend to reduce their holdings as interest rates rise.

Companies in this sector include:

- BASF (chemicals)
- ArcelorMittal (steel)
- Rio Tinto Group (mining)
- LyondellBasell (chemicals)
- Dow Chemical Co. (chemicals)
- Rockwell Automation Inc. (automation)
- Silver Wheaton Corp. (metals)

8. Technology: This sector includes IT businesses and companies that research, develop, produce, and distribute communication equipment such as cell phones, towers, cable, etc. It includes computer hardware and software, home entertainment, office equipment, data management, processing systems, and consulting services.

Because technology is constantly evolving, new products can quickly become outdated. New inventions can drive up stock prices, sometimes dramatically. However, competition on price and better inventions put downward pressure on companies. These stocks usually have higher volatility and risk. They typically do well in a rising market and less well as markets shrink and customers cut back.

Many of these stocks have higher valuations because investors expect more and better products in the future. If their earnings statements fall short of expectations, the price typically takes a hit. Some traders use these volatility swings to trade options or CFDs.

Some companies in this sector include:

- Apple (communications)
- Microsoft (IT)
- Materialise (3-D printing)
- Skype (communication)
- Spotify (music streaming)
- Shazam (tag songs)
- Huddle (business software)
- Blossom IO Inc. (product management tools)
- Nginx (webserver)

9. Utilities: This sector distributes electricity, oil, gas, water, etc. Utilities that distribute energy have been considered ultra-safe stocks. Everyone needs energy in good times and bad. They have been used as income stocks to provide steady dividends for retirees. Utility stocks tend to rise in recessions as they are used as a safe haven. They may trend down in good times as investors shift to more profitable stocks.

Companies in the utility sector include:

- Engie SA (electric utility)
- E.ON (electric utility)
- Kenon Holdings Ltd. (power generation)

Artesian Resources Corporation (water)
Azure Power Global Ltd. (solar power)

You can see that diversifying your portfolio over these sectors will give you stocks that rise in each phase of the market cycle. And some, like precious metals, that march to a different cycle altogether.

8.2 Finding Diversity in Stocks

Even within sectors, stocks are grouped based on size, production, dividends, and location. Each of these can bring investors added diversity. They also help investors assess risk and likelihood of growth or profit.

Size: Stocks can be grouped by the size of the company. Often this is called a market cap, short for market capitalization. Market cap is found by multiplying the number of outstanding shares of stock by the stock price. Companies are divided into categories of small, medium, and large based on that number.

There are no rigid or official numbers for the groupings. Morningstar divides them by a percentage. For example, the top 5% of stocks in its database are labeled large cap. For investors wanting to evaluate this aspect of their companies, a dollar range may be more useful. Here are generally accepted definitions.

- **Mega Cap:** $200 billion or more
- **Large Cap:** Between $10 and 200 billion
- **Mid Cap:** Between $2 and $10 billion
- **Small Cap:** Between $300 million and $2 billion
- **Micro Cap:** Between $50 and $300 million
- **Nano Cap:** Below $50 million[35]

Traditional investors believe large cap stocks have the capital and depth to weather storms and consider them a safer risk. Smaller cap stocks offer more growth potential and have historically outperformed the large cap stocks. For example, the Wilshire Small Cap Value Index gained 371% between 1999 and 2013 while the S&P 500 gained only 97%. That's a difference of 10.9% per year vs. 4.6% per year.[36]

But that increase came with volatility. Several of the years showed marked losses for the small caps. And if you go back to the 1984-1998 time frame,

[35] Berger, Rob. 'Large Cap vs. Small Cap Mutual Funds' DoughRoller 14 June 2017
http://www.doughroller.net/investing/asset-allocation/large-cap-vs-mid-cap-vs-small-cap-mutual-funds-does-size-matter/

[36] Carlson, Ben 'The Small Cap Value Cycle', A Wealth of Common Sense 8 Apr 2014
http://awealthofcommonsense.com/2014/04/small-cap-value-continues-dominate/

the S&P outperformed the small caps by 4% per year on average. Large and small caps cycle with one performing better in certain timeframes.

Some investors keep large caps for their stability and steady returns and add in some small caps for growth.

Growth: Companies are also divided into growth or income categories. Nearly every small cap has the goal to grow into a large cap. Small caps often take their profits and use them to grow their company. They may acquire smaller companies, plough back earnings into more resources to increase output, or seek to expand their range of products they offer. In these cases, investors don't see payments in the form of dividends. Rather, they look for returns in the form of higher stock prices.

Income stocks, on the other hand, use less of their profits for growth, and return more of it to shareholders. Some companies return almost all of their profits to shareholders. Investors don't expect these income stocks to increase in price as rapidly as the growth stocks... or even increase much at all. The security comes from having physical cash-in-hand in the form of dividends that will be there regardless of stock market swings.

Reinvesting these dividends back into stock shares is one way to compound your interest and grow value. While past performance is no guarantee of future results, historically, reinvesting dividends has produced steady gains in a portfolio.

Not every small cap is a growth company and not every large cap is an income company. A check of historical prices and the history of dividend payments will help you recognise the kind of company you are dealing with.

Dividends: Stocks are divided into dividend and

non-dividend paying companies. As mentioned before, those who do not pay dividends may be reinvesting profits to grow. Many investors prefer dividend paying companies because the dividends are in-the-hand, not paper profits. They can also be an indicator of the health of the company.

Rising dividends speak to the growth and health of a company. Many investors look for this track record of constantly increasing dividends. During a downturn in the economy, some cyclical companies may be forced to cut their dividends. If a company makes poor decisions, they may have to cut dividends. When companies cut dividends, their share prices tend to drop.
Here is six reasons dividends matter.

1. **Dividends reveal fundamentals.** When a company can pay steady dividends, it says something about the stability and fundamental value of the company. It's possible for companies to be creative with the books, so dividends demonstrate cash profits. Companies MUST have the cash to pay out dividends. However, a high dividend in a company with low free cash flow can also signal a problem. It may mean it's taking money from past, not current earnings, to pay a dividend. This is not sustainable.
2. **Dividends force companies to manage better.** A drop in dividends is seen as a failure of management and usually brings lower stock prices. Managers of dividend paying companies have an additional incentive to be wise. Studies show dividend paying companies pay less for acquisitions than those who do not pay dividends.[37] So they are more efficient for stockholders. The managers begin the year deciding how much dividend they will pay out. Then they look for the most efficient way to use the rest of the free cash flow.
3. **Dividends reduce market risk.** When you have cash in your account from dividends, it stays there, whether the market goes up or down.

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[37] Investopedia Staff, 'Why Dividends Matter', Investopedia http://www.investopedia.com/articles/fundamental/03/102903.asp

Over a period of time, your stock may pay you in dividends what it cost you initially to buy the stock. For example, a stock with a 10% dividend will pay for itself in 10 years.

4. **Holds up better in bear markets.** Dividend paying stocks outperform in sluggish and in bear markets. They don't go down as much in value and they tend to be less volatile. In a slow market, a larger percentage of the total returns come from dividends.
5. **Outperforms non-dividend paying stocks.** In the long run and on average, dividend paying stocks produce better gains than other kinds of stocks.[38] The longer you hold dividend paying stocks, the better your returns tend to be. Typically over 27% of annual returns from the S&P500 come from dividends. This is from all the stocks in the index, both dividend paying and not. If you expand that out to 10 years, dividends account for 48% of the total returns of the S&P 500.[39]
6. **Dividends provide tax advantages.** Depending on where you live, dividends may be taxed differently than other kinds of income. Check to see if this produces an advantage for you.

Investors who prefer the buy-and-hold or set-and-forget approach to their money may find dividend paying stocks to offer many advantages.

Location: Investors tend to buy stocks from their home turf. This makes sense. It's easier to buy stock held on your country's exchange and you are more familiar with domestic companies. However, there are advantages to diversifying beyond your borders.

International stocks help you take advantage of countries whose economies are in a different trend. They may be rising when yours are stagnant. It gives you the chance to pick up emerging companies with good potential. And sometimes the exchange

[38] Mortimer, Ian & Page, Matthew 'Why Dividends Matter', Guinness Atkinson Funds, pg. 4 https://www.gafunds.com/wp-content/uploads/2012/11/imdf_WhyDividendsMatter.pdf

[39] ibid, pg. 5

rate makes foreign stock particularly inexpensive and attractive.

It can be difficult to buy the foreign stock if it is not available on your exchange. Sometimes it can be purchased over the counter (OTC) or off-exchange. Buying CFDs on the underlying stock also gives you a great deal of freedom to trade many international stocks.

Voting Rights: Traditionally, buying stock has given the stockholder voting rights in the company. This gives them the right elect board members, vote on executive compensation, and bring resolutions or demands to the company for all shareholders to vote on. If enough shareholders vote for a shareholder led proposals, they must be enacted. It takes either a consensus of may shareholders or the power of a few large shareholders to make changes contrary to the board's approval.

Recently some new initial public offerings (IPO) stocks have been offered without voting rights. Companies going public for the first time, like Snap, have management who wants to retain full control of the company. Just be aware that shareholders of these kinds of companies have no ability to effect change within the company should they disagree with management.

8.3 Ways of Owning or Controlling Assets

The simplest way to control stocks is by buying them outright. This can be done with a single stock or a group of stocks. In Chapter 2 we discussed the advantages owning stocks, mutual funds, index funds and EFTs. And how each may be used to help control risks and diversify your portfolio. We also covered controlling stocks without actually owning them through options and CFDs. Here are

two other ways of holding assets.

REITs or Real Estate Investment Trusts are a way to hold income producing real estate as if it were a stock. Typically, they own rental units, hospitals, or businesses. Or they hold the mortgages on these properties. This kind of equity is required by law in some countries to pay out a large percentage of their income to the shareholder; therefore, it provides a regular stream of income and long term capital appreciation. It has tax consequences that are different from other stocks. Here, shareholders are responsible for taxes on the pass-through income.

Limited Partnerships can be traded on an exchange like a stock. This gives you more liquidity than would otherwise be possible were you to invest into a company as a business partner. While most partnerships are in resources - oil and gas, timber, or pipelines - some are also in real estate or finance. They have quarterly required distributions. They act like dividends, but they are mandatory and can come from sources other than cash flow.

The partnership pays no taxes, so their distributions are often higher than the average stock. However, the limited partnership share owners are responsible for all the taxes, and these taxes can be complicated.

Investors can own and manage assets in many ways. Because rights, fees, risks, and rewards all vary with different kinds of ownership or control, it pays to understand these different ways. Then you can choose the right one for your goals, your risk tolerance, and your investment style.

All trading involves risk. Only risk capital you are prepared to lose. Past performance does not guarantee future results. This information is for educational purposes and not investment advice.

Chapter 9

Investing in Bonds

A bond is a debt security or an official kind of IOU. They are used to raise money for a government, municipality, or corporation. This kind of contract sets up the:

1. Maturity date and length of time to borrow the money, such as 1 year, 10 years, 30 years
2. Interest rate
3. Interest payment dates; usually semi-annually or annually, but sometimes monthly
4. Face value of the bond or the amount paid out at maturity

9.1 Kinds of Bonds

Knowing the different categories of bonds and their strengths and weaknesses helps you diversify more accurately. Each type responds to a different market cycle. Bonds are categorised by issuers, payment, and even location or currency. The first three kinds of bonds are the most common ones.

Treasury Bonds are a loan to the issuing government or government body. These are often called government bonds. There strength is based on the faith one has in the government. Thus US bonds would be considered safer than bonds issued by Zimbabwe.

Municipal Bonds are a debt to cities, states, or other public entities. Often these are issued to create funds to build roads, schools, hospitals, and other public projects. Some municipal bonds have tax advantages. Some of these bonds may be revenue bonds. The interest and principal on these bonds are paid by the collection of tolls or fees from a specific project.

Corporate Bonds are a debt to corporations issued to raise money for capital improvements, acquisitions, or refinancing old debt. Independent companies rate bonds with ratings such as AAA+ to DDD-. Bonds can also be secured or guaranteed.

- **Secured**. Secured bonds are backed by assets from the company.
- **Guaranteed bonds** have a second party such as an insurance company guarantee the bond will be paid.
- **Investment grade bonds** are from companies with a rating of BBB- or better.
- **High yield bonds or junk bonds** come from companies with ratings below BBB- or businesses that are considered less stable. The yield on these bonds are usually higher than other bonds to compensate for the increased risk of default Interesting to note: bondholders get paid before shareholders. So junk bonds may be more secure,

but perhaps less liquid, than stock in the same company.

Foreign Currency Bonds are issued in a currency different from the originating country. The issued currency might be more stable than the issuing country's currency. It can be used to help a company break into foreign markets or be a hedge against foreign exchange risks.

Perpetual Bonds have no redemption date. They have little principal value as their only real value comes from interest payments.

Zero Coupon Bonds or discount bonds pay no regular interest over the bond period. Instead, you pay much less for them than the face value. As you hold them, the interest accrues and you are paid the full face value at maturity.

9.2 Earning Money with Bonds

Sometimes the interest paid on bonds is called a 'coupon'. This is because paper bonds of the past had coupons attached to the bond. When the bondholder was due interest, he'd take the coupon to the bank to redeem it for the interest.

Zero coupon bonds have no 'coupons'. That is, they pay no interest for the duration of the bond. Instead, the price of the bond is based on the face value and accrued interest. The closer to maturity, the more value the bond has.

Bond Math

Finding the Yield Rate
Annual Interest Payment - yield rate
Current Price

Finding the Sale Price:

Factors:
- All interest earned to maturity
- Remaining life of bond
- Face value
- Current market value

Market price is a percentage of the face value

If you choose to hold a bond to maturity, the price and value are simple. You buy a bond. You receive interest, and at maturity, you get your money back (as long as the bondholder does not default.) If you consider buying or selling your bond before maturity, figuring out the market value of a bond is trickier.

To calculate the market value of a bond before maturity, you must first find the yield rate. This comes from dividing the annual interest payment by the current price. Remember, the current price of the bond fluctuates based on:

- Interest rates
- Risks of the issuer
- Demand
- Other factors

For example, if interest rates rise, bond prices will fall. This is an inverse relationship. If a company receives a downgraded rating, its bond prices will fall. Any fear of default reduces the bond price. If interest rates drop, bond prices may rise - even going higher than their face value. The market price is listed as a percentage of the assigned value.

The sale or exchange value of a bond takes into consideration all the above factors. The yield to maturity, or redemption yield, also considers the remaining life of the bond, the bond face value, and the market value of the bond. The U.S. market typically quotes a *flat* or 'clean price' which is the face value price only. Other countries may quote a full or 'dirty price' which includes the face amount

may quote a *full* or 'dirty price' which includes the face amount plus interest accrued to the maturity date.

Buying and Selling: Most bonds are initially bought from the issuer in lots by banks, central banks, hedge funds, or insurance companies.They may then be sold to the general public. Banks may charge a commission on the sale or they may make their profit on the buy/sell spread.

You can buy new bonds or buy them on the secondary market. There is not a bond market in the same way there is a stock exchange. The bond market is decentralised and dealer based. Usually a bank or securities firm buys the bond and either keeps it or resells it. It may be easier for investors to buy a bond fund. This fund holds the bonds, but now you can buy and sell just like a stock.
Rewards and Risks: Investors choose bonds for the steady income they offer. When purchased from a highly rated entity and held to maturity, investors can determine exactly how much they might expect in returns. As a debt holder, bondholders have an advantage over equity or shareholders. If a corporation or business goes bankrupt, bondholders get paid first.

But all investments carry risk and bonds are no different. Here are some of the possible risks.

- **Credit Risk:** If the issuing entity defaults or goes bankrupt, bondholders may lose their principle If the company is downgraded, bond price will fall resulting in lower resale price. Price fluctuation does not affect the bondholder if you intend to hold the bond to maturity.
- **Revenue Municipal Bonds:** Revenue bonds come from things like toll roads, landfills, or other municipal projects that produce income. If the revenue source dries up, the municipality may not be obligated to pay off the bond. You could lose the principal you invested.

- **Callable:** Corporations or cities may call the bonds or pay them off early. They will pay face value, but you lose the income 'coupon'. Usually this happens when interest rates are falling, so you may not find as favourable a rate when you reinvest your money.
- **Interest Rate Risk:** If you sell before maturity, you are subject to market value. Rising interest rates may price your bonds below the face value and you lose part of your original investment.
- **Liquidity Risk:** Since bonds do not sell on an official market you may not be able to sell your bonds as quickly as you want or exactly when you want to. The resale market for buying and selling bonds is much smaller than new purchases. While there are over two million bonds in existence, only a small percentage - perhaps tens of thousands - change hands on any one day.[40]

Bonds have traditionally been considered one of the safest investments. The returns are fairly predictable and the volatility is lower than most any other investment vehicle. Some investors are happy to get lower returns along with lower risks. Advisors often recommend bonds for retirees and other people on fixed incomes. These people may not be able to afford the risk of higher volatility found in other investments.

All trading involves risk. Only risk capital you're prepared to lose. Past performance does not guarantee future results. This information is for educational purposes and not investment advice.

[40] 'Individual Bonds', Fidelity https://www.fidelity.com/fixed-income-bonds/individual-bonds/overview

Chapter 10

Working with Exchange Traded Funds (ETFs)

What are ETFs? Exchange Traded Funds (ETFs) began in 1993. They became a low-cost alternative to mutual funds since they are not actively managed. Rather they are designed to mimic key indices such as the S&P 500 or the FTSE. Traders use these as an inexpensive way to diversify across a wide range of assets. Since the first ETF, these assets have multiplied and now you can find hundreds of ETFs for dozens of asset classes.

How Are ETFs Created? Unleveraged stock ETFs are typically formed by an institutional investor. They often create an ETF by borrowing large blocks of stock (25,000 to 200,000 shares[41]) from a pension fund. The block of assets in this 'creation unit' are in the exact ratio of the index they want to duplicate. The ETF trust then issues shares which have legal claim on the shares in the trust.

When mergers or acquisitions happen with companies in the index, funds need to rebalance. If some assets overperform or underperform in the ETF, they are sold or bought to keep the fund in the same ratio as the index it follows. Managed ETFs might rebalance quarterly. Traditional ETF may rebalance once or twice a year.

Tax Advantages: ETFs have more tax advantages than open-ended mutual funds. When a trader sells their shares of mutual funds, the underlying stocks are sold and the cash given to the owner. This can create capital gains for every holder of that mutual fund. With ETFs, the buying or selling of the share does not change the ownership of the underlying assets.

ETFs usually sell for close to the total value of the index they follow. If you add up the per share value of the stock of each company in the fund, the fund's price should be very close to that number. If it rises (premium) or falls (undervalued) by more than a small amount, institutional investors step

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[41] Shreck, Mara and Antoniewicz, Shelly 'ETF Basics: The Creation and Redemption Process and Why It Matters', Investment Community Institute, 19 Jan 2012 https://www.ici.org/viewpoints/view_12_etfbasics_creation

in. They take advantage of that small difference. Their arbitrage buying or selling brings the price back into line.

Lower Costs: ETFs most often have lower associated costs than the same kind of mutual fund. In addition to the tax savings mentioned above, you save on:

- Management fees. They have no research costs and are un-managed
- Commission costs. Fewer shares are traded
- Entry costs. You can buy just one share instead of a minimum order for mutual funds.
- Fully invested. ETFs can put all their money to work. They don't need to hold out a reserve to pay for redeemed shares

10.1 Kinds of ETFs

Bond: Investors can buy a wide range of bond funds. They may choose funds based on bond length: short, intermediate or long. Other bond ETFs invest in bonds of different nations, from China and Australia, to California Muni and international corporate bonds. You can find bonds based on money markets, maturity dates, and mortgage backed. For investors who want to diversify into any broader market, there's an EFT for that.

Currency: Currency ETFs give investors an easy way to enter the currency market. They can choose an ETF that holds futures contracts for a specific currency or ETFs that invest directly into a currency, or a group of currencies. Both have the goal of matching the performance of a certain foreign currency, rather than beating performance. If you think a currency will rise or fall, an ETF can be a simple way to try to take advantage of the move.

Commodity: Commodity ETFs give investors exposure to agricultural products, energy resources and precious metals. An investment in copper, crude oil, or gas is different from investing in a company that produces or manages it. Unlike equity ETFs, commodity ETFs seldom own the underlying asset, with the exception of gold and silver. Some funds actually own the precious metals stored in vaults.

More typically the ETFs buy futures contracts for oil, soybeans, or whatever commodity or index it follows. Futures lose premium value as they get closer to their expiration date. This premium loss can add up over time, making these ETFs best for short term investing. If you want to hold oil or other commodities long term, you may be better off with an equity ETF.

Equity: Many investors use ETFs to diversify into different asset sectors ranging from energy, to financial, healthcare, or industrials. Check your investment strategy and find ETFs that give you exposure to different sectors. It pays to review the stocks in the index your ETF follows to avoid duplication. Some ETFs invest based on size, such as small, mid, or large cap, or they may focus on value investing or new technology.

Region: Choose ETFs that are located where you think markets might outperform: Europe, China, India, or perhaps the Middle East. You can invest in country-specific ETFs or in a basket from developing countries or emerging markets. Worldwide diversification helps broaden your portfolio to different trends. ETFs make it easier to hold equities from foreign countries, especially if the stock is not traded on your country's exchange.

Real Estate: You can gain easy access to real estate exposure with real estate ETFs. With this method, there's no need to worry about a down payment

or mortgage payments. Many Real Estate ETFs seek to mimic the performance of certain indices. Most ETFs do this by buying REITs (Real Estate Investment Trusts).

These companies either own physical properties or they hold mortgages to properties. The properties within an ETF may be held based on location, business, or size. Some might focus on hospitals, other on malls in New York, or apartments in London. They may also be companies that manage properties. Real Estate ETFs can look for high returns, potential growth, or acquisitions. Remember that all investment carries risks and there are no guarantees.

Volatility: These ETFs try to mimic the volatility of the Volatility Index (VIX) or other volatility measurements. Since they often move inversely to the major market indicators, they can be attractive for day trading. For example, if the markets rise, volatility often falls. Most of these ETFs are based on exchange traded notes which have no assets behind them. These ETFs do an imperfect job of following their indices and can involve a lot of risk. Because of premium decay on futures, these funds are not recommended for long term holding.

Actively Managed: These ETFs have portfolio managers who more actively balance the ETF by buying and selling. This is in an attempt to achieve a specific objective. In this case, they seek to beat the market or the index. While they still take advantage of the ETF benefits, management fees rise a little. ETFs began because the indices often beat managed funds. It's possible the managed ETFs can cost more and produce poorer results.

With hundreds of ETFs to choose from, you can find ones that fit your risk level, your portfolio, and your diversification strategy. You can check out different ETFs at the etoro.com ETF page. Remember,

all trading involves risk. Only risk capital you're prepared to lose and of course, past performance does not guarantee future results.

10.2 Leveraging ETFs

While traditional ETFs seek to mimic the indices they follow, inverse ETFs want to do the opposite of the index. If the index goes down, the ETF should rise by the same amount. And leveraged ETF want to do it times two or three. These funds use leverages and hedges to accomplish their goals. Their design and makeup are different from simple stock ETFs.

Inverse ETFs: An inverse ETF is designed to give you profits when the underlying asset drops. Investors may use this as a hedging tool against market corrections. For example, if the FTSE goes down £10, the inverse FTSE fund such as XUKS would hopefully rise by £10. Double (SUK2) or triple inverse (UK3S) ETFs hope to multiply the drop by returning you £20 or £30 for each £10 drop.

These funds are sometimes called 'short' or bear ETFs. They do not hold the FTSE or underlying assets. Rather they use transferable securities, derivatives, and swap agreements. It takes active management on a daily basis, so the fees for these ETFs are much higher. Often they are 1% or more. The funds rebalance their assets on a daily basis to keep the inverse with that day's move of the index.

This daily rebalancing means that each day's move is a separate event. It can lead to an extra percentage, or more in a fall over a few days. However, the ETF will lag in the rebounds giving you poorer performance. It's a highly sophisticated tool often best used very short term or left to professionals. There are other ways to short a market. Statistically, if held long term, they

disappointingly underperform.[42]

Leveraged ETFs: A leveraged ETF is designed to give you two or three times the return of the underlying asset. These ETFs may be called Ultra 2x, or double long. The funds work by both holding some of the asset and through swap contracts. These create a 'notional exposure' that is two or three times the daily return of the index or asset. At the end of each day the fund must rebalance to maintain that notional exposure.

This leverage can work both for ETFs seeking to track the market and those wanting to short the market. The promise of double or triple returns may work for a day or in a very strong up or down movement over a few days. But the longer it is held, the less likely you are to get the results you want.

For example, here are two funds that track the MSCI Emerging Market Index:

- Short MSCI Emerging Markets ProShares (EUM)
- UltraShort MSCI Emerging Markets ProShares (EEV)

They are designed to go up if the index goes down. Yet in 2008, when the index lost 52%, the short EUM gained only 20%. Meanwhile, the UltraShort not only didn't go up 100%, but it also lost 25%![43] This is not unusual. Rather, it's typical for leveraged ETFs.

Part of the problem is that the funds are designed for one day use, and this is an annual return. The reason they fail is that the returns are compounded daily on market fluctuations. The chart in Chapter 2 reminds us how much assets must gain after a loss to come back to even. A 30% loss needs a gain of 43% to recoup the loss. When the underlying asset returns to break-even over a period of days, the ETF can't make up the difference.

[42] Justice, Paul, 'Warning: Leveraged and Inverse ETFs Kill Portfolios', Morningstar 22 Jan 2009 http://news.morningstar.com/articlenet/article.aspx?id=271892
[43] See Note 42.

Paul Justice, writing for Morningstar says:
With virtually every leveraged and inverse fund, I can tell you that they are appropriate only for less than 1% of the investing community. Considering that these funds have attracted billions of dollars over the past year alone, it's pretty obvious that too many people are using these incorrectly.

...[W]henever you hold these ETFs longer than their indicated compounding period (typically one day for stock-based ETFs, sometimes monthly for commodities), you are almost mathematically guaranteed to get a return that is not double that of the index. In fact, the longer you hold one of these funds, the probability that you will get nothing close to double the returns increases.[44]

10.3 Trading ETFs

A simple way to take advantage of ETFs is to buy and sell them on the stock market. One benefit to this method is that you can use leverage and short selling ETFs in retirement accounts that might prohibit short selling in other ways. And buying leveraged ETFs only exposes you to the potential loss of your investment. This is different from options or leveraged CFDs that can create a loss far greater than your investment.

However, CFDs offer an alternative way to trade ETFs. These Contract for Differences allow you to trade based on the price change of the index or ETFs. Since you can arrange a contract at a fixed price, it's easy to short the indices or ETFs. With CFDs you also have access to many funds that are normally outside the reach of your local securities exchange.

The low-cost, transparent nature of ETFs make them a vehicle of choice for diversification. They

[44] ibid.

have an inexpensive entry point and it's easy to see the kinds of assets you are buying. However, when you move into leveraged and inverse ETFs you gain more risk. The rewards and risks are multiplied. While the leveraged ETFs clearly tell traders they are rebalanced daily, few investors understand this kind of leverage is unlikely to work over the long run.

Consider ETFs as just one aspect of a balanced, risk-adjusted portfolio.

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This information is for educational purposes and not investment advice.

Chapter 11

Understanding Contract for Difference (CFD)

What are CFDs? CFD or Contract for Difference is an agreement between a broker and a client to pay the difference between a security's opening and closing price.
As investing moves online, digital platforms offer CFDs as an innovative trading solution. CFDs have many similarities to traditional trading, but the differences make CFD trading popular and essential to next generation investing capabilities. Online CFD trading platforms, such as eToro, allow retail investors:

- Access to multiple markets around the globe
- Currency and commodity trading
- Leveraged trading
- Low entry price trading
- Flexible long and short positions

CFDs are derived from futures contracts. A futures contract is an agreement between two parties, who agree on a price for a certain stock or commodity when opening the contract. Yet they complete, or settle, the actual transaction sometime in the future. CFDs do this in an easy and cost effective way. You don't need large amounts of capital, or the expertise that institutional investors possess.

Instead, your trading can harness the power of technology, transparency, and crowd wisdom. CFD trading, which enables fractional shares, flexible long and short positions, and is done in real-time, offers investors advantages that do not exist in traditional trading.

11.1 The History of Futures Trading

Early forms of futures contracts date back before the ancient Babylonians, some 3,800 years ago. The futures contract was created as a hedging tool. It enabled both parties in a transaction to protect their investment. At that time each contract was unique. It was arranged one contract at a time between individuals. They were used in Japan in the 1600s, and the tradition of individual contracts continued up until the late 19th century. In 1865, the Chicago Board of Trade (CBOT) changed the game.

The CBOT, an exchange hub for most of America's mid-west grain farmers, began to standardise futures contracts. They graded quality of wheat, corn, and other commodities and they established a standard measure of grain. That way, one contract from farmer Jones was the same size and quality as one contract from farmer Smith. This made the contracts interchangeable. Buyers could trust quality and size, and it no longer mattered from which farm the grain came.

Standardisation of Contracts: This standardisation of contracts gradually expanded to other assets. In the late 1960s, non-agricultural commodities, including raw materials such as gold and oil, began to be traded with futures. The futures market met the needs of buyers and sellers such as oil companies selling to airlines, or miners selling to manufacturers. The seller locked in a fair price for the commodity. And the buyer could budget expenses knowing the cost they'd have to pay for the product.

But soon banks and investors saw it as a profit play. The underlying asset (corn, oil, gold) is much less important than the movement of the price. Bankers never intend to own the asset. They just want to make a profit on the risk and volatility.

If you believe the price of a commodity could go up, you simply buy the contract that guarantees it at a lower price. Then you look for it to rise and profit from the difference. This was the beginning of CFD trading as we know it today.

The Rise of the Foreign Currency Exchange Market: Another turning point in trading came with the end of the gold standard. In 1971, the Bretton Woods system collapsed. This system pegged all currencies to each other, based on the price of gold. When it failed, currencies became highly volatile, so they offered another financial instrument for trading. This opened the floodgates for the expansion of the futures markets and created many new financial instruments.

Over the years, many forms of futures were conceived on Wall Street. Then things morphed again. If you could trade on the underlying asset of commodities, why not trade other assets such as stocks or indices? These assets have no actual physical materials to exchange. But traders didn't want the asset. They wanted to settle accounts in cash. This type of futures transaction became known as a contract for difference (CFD). It, too, and has opened a wide array of financial opportunities for investment.

Reserved for Institutions: Futures contracts and CFDs are widely used in markets around the world. Currently, 92% of the world's 500 largest corporations use them to manage risks. Futures contracts today cover a variety of asset classes and span virtually every aspect of global trading.

eToro

While the principle of futures and CFDs are still the same, new innovation and technology are changing the landscape. Banks and corporations have been developing more elaborate investment instruments. The majority are tailor-made according to the bank or corporation's specific needs, as securitization tools.

For decades, financial institutions had the upper-hand over individual traders by using futures CFDs. It gave them access to markets around the world. They were able to manage their risks and diversify their portfolios more easily. Even with the advent of digital banking and global finance, futures contracts stayed in the realm of financial institutions. They remained an obscure and out-of-reach tool for most investors.

Futures Come to Individual Traders: One of the biggest barriers for the individual trader of futures contracts is that the contracts work in bulk. This means a trader has to spend a substantial amount to buy a whole contract. Similarly, the price of one share in a major corporation could be in the hundreds of dollars, locking out private investors who don't have the required capital. One of the main benefits of CFDs is that there's no actual ownership of the asset by the end user. With CFDs you can trade commodities and other assets in fractions, rather than purchasing the entire share or futures contract. This opens opportunities for smaller individual traders.

Next, CFDs have recently expanded to virtually all asset sectors. This allows traders to choose from a wide array of securities spread across the world. CFDs aren't limited to your country's exchange. You can trade on assets in the Shanghai Stock Exchange as easily as you trade on the London Stock Exchange or the New York Stock Exchange. Again, it's because you aren't trading the actual asset, just a CFD based on the underlying asset.

Finally, CFD trading became available to individual investors via the Internet. Now people can trade various assets and have a diversified portfolio, one much broader than ever before possible.
Essentially, CFDs evolved from being just another form of contract to the most technologically advanced asset on the market. Online platforms act as a mediator by obtaining the rights to the asset, usually from a liquidity provider, and then entering into a CFD with the end client. The underlying asset never changes hands - even when it is a commodity.

Regulation: Recently governments have stepped in with increased regulations for CFDs and their trading platforms to better protect the traders. Financial Instruments Directive (MiFID) extended coverage of the European financial services to CFDs. Expect quality platforms to hold a European MiFID license (CySEC) and a British FCA license to give users the highest levels of compliance and risk management.

11.2 Asset Ownership vs. CFDs

Financial advisors may tell you that traditional trading can accomplish as much as CFDs but CFDs have some unique advantages. Let's take a look at the traditional and CFD benefits and limitations.

Dividends: Owing stocks entitle you to dividends and special distributions. While CFDs do not confer ownership, some brokers, like eToro, offer dividends on stock CFDs. The dividend is credited to your available balance based upon the amount of shares you hold.

Going Short: Traditional ownership offers options trading as a method of shorting a stock, but not all assets have options. Some ETFs theoretically act like a 'short.' They are designed to go up as the

portfolio of stocks they follow go down. But they are only effective on a very short term basis. And the range of assets you can short is narrower than with CFDs.

Because CFDs operate independent of the market, individual traders can perform actions that don't exist in traditional trading. For example, they could open short positions (to profit when an asset's value drops down) even for assets that do not offer options in traditional markets. Moreover, CFD traders can use very flexible 'stop loss' and 'take profit' orders, which automatically stop a transaction when it reaches a predetermined profit or loss point.

A good example could be the subprime mortgage crisis. When the U.S. housing market crashed in 2008, several investors foresaw the event and were able to profit from it by convincing investment firms to create a collateralised debt instrument (CDO) that could short sell the mortgage market. However, today, one could simply use a CFD platform to open a short position without the hassle of dealing with financial institutions or big banks.

Leverage: Traditional investors can use options as a method of leveraging. A very small investment allows them to control thousands of euros worth of shares. However, they are limited to individual stocks. Typically ETFs, indices, and many smaller stocks cannot be leveraged with options trading.

Online trading platforms offer leveraged transactions with CFDs. Traders can use a small amount of money to control a wide range of assets. This includes currencies, commodities, stocks, indices, cryptocurrencies, and assets from across the globe. While this is a good opportunity to make substantially more money than the actual capital the trader has, it is also a double-edged sword. Traders can also lose all their money and more.

Diversification: Traditional investing gives people a good range of choices. They can buy individual stocks, mutual funds, exchange traded funds, and some commodities and real estate that are held in a fund.
They can choose a selection of international assets and a few foreign country specific stocks. Often these foreign assets trade 'over the counter' (OTC). This means you have to match buyers and sellers one-by-one without brokers or traders, so fewer shares are available to buy or sell making the market lower volume, 'less liquid,' and more expensive.

Because CFD platforms are not subject to one specific market, each trader can diversify their portfolio to assets from different classes and various locations, and even virtual cryptocurrencies, such as Bitcoin, Ethereum, and Litecoin. All these assets are available on one platform. There's no need to search for OTC ticker symbols. You don't need to deal with securities laws of foreign countries, tax liabilities, or legal statements in other languages. Transactions on these platforms are instantaneous and highly liquid.

Fees: Traditional investor fees vary. Some pay a fixed percent of the assets in their portfolio, perhaps 2-3% each year. Some pay 5-6% on each trade. Even online discount brokers charge about $10 per trade. Savvy investors may be able to pay less, especially for options trading.

CFD's on the other hand, only charge the spread. This may be as small as a few cents per share. Because of the number of users and the frequency of trades, online platforms can more easily offer these reduced commissions. It can make trading CFDs more profitable even when trading small amounts of assets that produce minor gains.

Trading Platforms: When you go on your trading platforms, you'll find very little difference between buying and selling actual assets or CFDs. The look and feel of the platforms are easy to use. The choice to use leverage is the clue you are trading CFDs instead of other assets.

One popular use of the social elements on investment platforms, invented by eToro, is CopyTrading. CopyTrading lets those with some money, but little time or experience, invest their funds by following and copying other successful traders automatically in real time.

This practice differs from traditional asset-management, where a portfolio manager is managing other people's money. With copy trading, the traders that are being copied are actually trading and risking their own money. When platforms ensure copied traders don't benefit from gains or losses of their copiers, they align the interests of the copiers and traders.

The leading social trading platforms today are fully regulated. They offer full transparency and best execution practices that promise their investors will often receive a higher standard than traditional brokers. Even with this high standard, remember that all trading involves risk. Only risk capital you are prepared to lose and past performance does not guarantee future results. International economics expert, Dr. Nouriel Roubini concluded in a recent research that by 2021, 37% of investors expect to be using social investing and trading platforms.

11.3 Before You Begin Trading

All trading puts your money at risk. It also gives you the potential for profits. Before you start, here are some things that increase your likelihood of success.

Trading Platforms: Not all CFD trading platforms are the same. You want to ensure you are going with the highest quality. It is vital the platform is transparent. Some things to check for include:

- How many traders are on the platform?
- How quick and liquid is the trading?
- What legal rules are they governed by and agree to adhere to?
- How much support and help can they give new or experienced traders?
- How easy is the site to use? Is it intuitive to navigate?
- How many assets are available to trade? Can you do currency, commodities, cryptocurrencies, indices, ETFs, stocks?
- Do you have experienced traders to follow?

Educate Yourself: Since many people use CFDs with leverage, it's essential you understand how leverage works. It can add to your wealth, or it can destroy it. You need to know how to use it based on your portfolio size and risk level. We'll discuss this in the next section.

You also need to develop a trading strategy. Most people who use CFDs are short term traders or day traders, although CFDs can be used in buy-and-hold strategies if you use no leverage. In order to find more success in trading, you need to know how to use technical analysis. This analysis will help you find entry and exit points.

Most pros recommend practising your strategy in virtual accounts. There you can experience real-time trading without risking actual capital. You can also backtest your strategy by going into the history of your asset to see how often the strategy would have given you wins... and how often it failed and

produced losses. Learn more about day trading and swing trading if you want to make frequent trades.

While you're educating yourself, you can also follow the trading of others to learn their strategy through eToro's CopyTrading opportunities. This gives you a chance to invest while you learn.

More and more traditional industries are shifting to the digital world, and investing is no different. The technological trend which made CFD trading available to almost anyone is still ongoing and will enable its expansion to new markets and attract new traders. When trading on a reliable, regulated digital broker, traders can take advantage of its flexibility, transparency, and social tools such as copy trading.

Online trading is a great tool for a new type of investor. This is one who easily operates from their own home anywhere in the world, and harnesses the power of the crowds. eToro, the world's leading social trading network, sets a fine example of delivering the future of trading and investing today. Be sure to consider this award-winning platform. Since the launch of CopyTrading by eToro in 2010, 124 million transactions have been copied, with an 80% success rate. Still, it helps to remember all trading involves risk. Only risk capital you are prepared to lose, and past performance does not guarantee future results

11.4 Using Leverage

One of the draws for CFDs is their ability to use leverage. Leverage is often called a two-edged sword. It can magnify your profits or your losses.

What is Leverage? People use leverage in their daily lives. If you buy a house on credit, you've used leverage. It's borrowing money and using a small amount of money to control a large amount of assets. With your home, you may put 20% down (£40,000) and now you have the use of £200,000 worth of the home. Homeowners thought homes would always go up in price. But when the housing bubble came, they could not find buyers at the price they wanted and the home dropped in value. They were underwater on their loans, owing more than they could sell for. This is both the advantage and the danger of leverage.

With CFD, stock, or Forex leveraging you have the same abilities. You can use a small portion of your assets to control a large amount of securities. It's possible to have an enormous amount of leverage. Here is a chart showing the profit/loss created by a 1% change in the underlying asset, depending on the leverage used.

Leverage	% Change in Asset	% Change in Account
100:1	1%	100%
50:1	1%	50%
33:1	1%	33%
20:1	1%	20%
10:1	1%	10%
5:1	1%	5%
3:1	1%	3%
1:1	1%	1%

How Much Should I Use? Most traders recommend novices start without any leverage at all. This is the lowest risk way to trade CFDs. It makes your potential profits lower, but it also reduces your losses. This lets you practice your strategy while reducing the chance you will 'blow up' your account or lose all your money.

Even as you gain greater skills, many traders only use 3x leverage or perhaps 10x at most. The more the leverage, the greater the swings you will see in your portfolio. Profitable trades will swell your assets, and then a losing trade will give you a deep drawdown. The general rule of thumb is to base your leverage level on these factors:

- Skill level
- Risk tolerance
- Capital invested

Studies have shown that small accounts are more likely to lose money than large accounts.[45] This may be because small accounts cannot afford the minor pullbacks that are a normal part of trading. Their stop losses are set so tightly that they are triggered by the slightest downward movement.

It may also be because small investors want to get big fast. They are attracted to the possibility of large gains from leveraging. But they forget they can get equally large losses. A string of wins can be wiped out by one loss. And a string of losses is common. Even professional traders may have three or four losses in a row. Larger accounts are better able to handle that series of losses and keep going.

Leverage	Margin needed to Control $100,000	% Change in Account
100:1	$1,000	+/-100%
50:1	$2,000	+/-50%
33:1	$3,000	+/-33%
20:1	$5,000	+/-20%
10:1	$10,000	+/-10%
5:1	$20,000	+/-5%
3:1	$33,000	+/-3%

[45] The staff at DailyFX.com, 'How the Best FX Traders Use Leverage', The Money Show 28 Oct 2015 https://www.moneyshow.com/articles/currency-26034/

Margin is the amount of money you need to contribute to control the asset. The good news is that you are in control. You get to determine the amount of risk and the amount of loss you are willing to take. Professional traders actually determine their trade based on what they are willing to lose. Since many traders want to keep their risk on each trade to 1%-3%, they keep their margins lower as well. It's vital to preserve your capital, or else you'll soon have no money to trade with.

How to Determine My Leverage? The leverage is considered across your whole account, not just on one trade. It's easy to figure out. What is your total position size including cash, assets, and positions in your account? How much equity is in your account?

Suppose you have £10,000 in your account. You've used that to take positions in some currencies:

- 10,000 short EUR/USD
- 30,000 long CAD/USD
- 20,000 short JPY/GBP

Your total position size is £60,000 and your asset size is £10,000. The formula is:

Total position size/ Account equity =Account effective leverage

So your leverage would be: £60,000 divided by £10,000 = 6 or a leverage of 6x

When you want to place a new trade, you may wonder what size trade to take. When you know the amount of leverage you want to use and the equity in your account, it makes it easy. Remember you want to take into account the TOTAL leverage of all your positions. If some have lost value since you put them on, you need to recalculate the effective leverage on that trade.

To find your trade size, multiply the unleveraged equity in the account by your chosen leverage. That will tell you what size position you can take on your trade. The formula would look like:

Unleveraged equity x Leverage size = Maximum trade size

So if you have €1,000 and you choose 3x leverage, your maximum trade size would be €3,000.

Leverage and Risk: Because so many new traders don't fully factor in the risks of leverage, let's take an example of how leverage can affect your portfolio.

It's just as easy to have a series of losing trades as it is to have winning trades. Say you start trading with $5,000.

- First trade: 25,000 EUR/USD and it drops 2% - $500. Your 5x leveraged loss: $2,500. You now have $2,500.
- Second trade: 25,000 EUR/JPY and it drops 1%. And your trade loss is $250. But you have a smaller amount of assets in your account So now your leverage is 10x. And so your loss is -$2,250 and you've just lost 100% of your equity.[46]

Most trading platforms help you control your risk. Platforms trading CFDs will stop your trades when your account falls to zero. Provided there is no slippage, you should not fall into a negative balance.

Stock accounts have margin limits. An investor might be able to borrow money from the brokerage firm for leverage, but the brokerage determines that equity backing the loan can't fall below 25%.

Say you start with 2x leverage: you buy $10,000 of XYZ stock with your $5,000 in equity. Over the next week, XYZ drops in value to $6,000. Now the broker's $5,000 loan is only backed by $1,000 of

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[46] Wagner, Jeremy, 'FOREX: How to Determine Appropriate Effective Leverage', Daily FX, 10 Jan 2012 https://www.dailyfx.com/forex/education/trading_tips/daily_trading_lesson/2012/01/10/How_to_Determine_Appropriate_Effective_Leverage.html

equity. That's only a 20% margin. When the equity backing the loan falls below 25%, the broker can issue a margin call. That means you either need to add money to your account or sell stock in order to get your account margin back up.

If you don't do that promptly, the broker will sell stock to cover the margin call without letting you know. This can lock in further losses. When you buy the stock, as opposed to a CFD, only the margin on the leveraged stock is taken into account in determining the margin.

Slippage: Your stop loss setting or brokerage order doesn't guarantee the asset will be sold at that price. The difference between the desired sell price and the actual price at which your trade is executed is called slippage. In a fast moving market, this amount may be considerable. Flash crashes are notorious for triggering sell orders that execute far below the stop loss price.

Suppose you enter a Bitcoin trade at $2600. You place a protective stop loss at $2500. A sudden new event drops Bitcoin price to $2200 in a matter of minutes. The platform enters your selling trade the moment the price moves to $2500. But there are no buyers there. The buyers have already lowered their price. The sale may be made at $2300 or even lower. If you use limit orders, the trade will not execute until that price or better. But then you risk not selling at all and taking steeper losses.

Comparing Leverage: Understanding the risks of leverage will help you make better decisions as you use it. Here is a chart showing the power of leverage by comparing two traders using different leverage. Call them William and Ben. Ben's loss allows him to move on to new trades. William's loss seriously impacted his portfolio.

[46] Wagner, Jeremy, 'FOREX: How to Determine Appropriate Effective Leverage', Daily FX, 10 Jan 2012 https://www.dailyfx.com/forex/education/trading_tips/daily_trading_lesson/2012/01/10/How_to_Determine_Appropriate_Effective_Leverage.html

	William	Bent
Total Equity in Account	£10,000	£10,000
Trade Size	Buys 50, 10K lots for £500,000	Buys 5, 10K lots for £50,000
Leverage	50:1 (50 times)	5:1 (5 times)
100 Pip Loss	-£5,000	-£500
% Equity Loss	50.0%	5.0%
% Equity Left	50.0%	95.0%

You can better manage your risks by:
- Using low levels of leverage
- Using trailing stops to protect your capital
- Practising your trading strategy until it works in all situations
- Setting up the trade according to the amount you are willing to lose
- Limiting your capital to 1% or 2% per trade on each position
- Stop trading for the day if your emotions are getting in the way

Novice traders get excited about the leverage possibilities with CFDs, but only when they are winning. If they use leverage unwisely, they may drop out of investing before they learn enough. So get educated. Start with no leverage. Get your strategy to the point that the winning trades outnumber the losing ones. Make sure the amount of money from the wins is much greater than the loss in losing trades and then leverage can help you work toward larger gains. Always be sure you are trading within your means.

All trading involves risk. Only risk capital you are prepared to lose. Past performance does not guarantee future results. This information is for educational purposes and not investment advice.

Chapter 12

Day Trading and Swing Trading

Investors ask the age old question: can you time the market? Day traders and swing traders say yes! They try to time the market in a short term: daily or even minute by minute. They are the opposite of the buy-and-hold investors. But even value investors try to buy low and sell high.

12.1 What are Day and Swing Traders?

Day traders buy and sell a number of securities all within the same day. They prefer not to hold positions overnight. They are looking for short movements in highly liquid and volatile assets.

Swing traders are similar to day traders except that their time horizon is longer. They may hold trades for two to six days, and perhaps even for a few weeks.

Both day and swing trading involves a deep study and knowledge of markets, news, technical analysis, and the development of a trading strategy. They need to master their emotions and have the discipline to stick with their strategy. They understand that losses are a part of the system, but work to ensure the winners outpace losing trades.

Some people say you can't make money day trading. In truth, many novices lose all their money day trading. Scams in the past have given day trading a bad name. And get rich schemes that promise great wealth in a matter of weeks or months are reckless and unlikely to pan out. Yet there are successful day traders, both within financial institutions and trade-from-home individuals.

What Do They Trade? Day traders look for securities with high volume. This means there is a lot of buying and selling of the asset. Volume gives you the advantage of quickly entering and exiting the trade. Liquidity means there are buyers and sellers lined up to make the trade.

Day traders look for volatility. They choose assets with price fluctuations that are above average. Currencies, commodities, CFDs, and stocks in the financial and tech sectors are areas that see a lot of price movement. This is due in part to their sensitivity to news and the uncertainty inherent in these kinds of assets. Some indices can move 100

points or more in a day.

But it doesn't take such a large movement for day traders to be profitable. Scalpers are day traders that look to make a profit on very small movements in the price. They just trade more frequently and with higher leverage to increase those profits. Of course, that leverage also raises the risks of loss, some of which can be deep and painful.

Risks and Advantages of Day Trading: Why do people day trade? It can be very profitable. If you make just 1% on five short-term trades in a day, at the end of a week, you've made 20% profit. If you leverage that with a 5x leverage, you have the potential to see 100% gains.

It's numbers like this that have novices eager to try it. And it is possible to occasionally see this run of profitable trades... but it's not likely. Day traders need to accept losses as well as profitable trades.

A 60% winning trade record may make a trader overall profitable. That would mean that 40% of the trades he or she places lose money. A misstep in entry or exit can wipe out all trade profits for a week or wipe out the entire trading account.

You increase your risk of losses when you let emotions get in the way, have an imperfect system, or don't stick to your strategy.

12.2 What Do You Need to Get Started?

There are a number of things you can do to set yourself up for a better chance of successful trading. It helps if you have the right:
1. Equipment
2. Skill and training
3. Strategy

eToro

4. Focus on one strategy, one market
5. Practice
6. Patience
7. Discipline
8. Risk management
9. Sufficient capital
10. Time

1. Equipment: You don't need the most expensive computer, but it does need to be fast. The key to day trading is getting your trades executed exactly when you want them to be. Lagging computers can't get that done. Make sure you have enough memory to run your programmes.

While you can get by with one monitor, two will help you see more charts and keep up with leading indicators that will help with your strategy. Professionals may have a bank of monitors they scan. You also want a fast, reliable internet connection. You don't want to get stuck in a trade because your internet goes down.

Find an accurate news service. Some trading platforms will give you a calendar of news events. However, you also need a reliable service that announces breaking financial news.

Look for a trading platform that has all the things you need to execute your strategy. Do you need trend lines, MACD, and charts you can expand and contract, with daily, hourly, or minute by minute charts? Make sure your trading platform has all the tools you need to determine your ideal entry and exit points. You may want to try out several and see which one works best with your style.

You'll need a trustworthy and reliable broker or trading platform. Day traders look for low-fee brokers. But don't make that the most important thing. You want a platform that will give you support. You want one that's honest and doesn't

make trades against you. And you may find platforms that offer social trading and people you can copy. This lets you begin trading even before you've gained the needed experience to trade on your own.

2. Skill and Training: To make successful trades on your own, you must have training. There are many books, courses, trading strategies, and 'fail-proof' methods for sale and for free. Read as many as you can. Learn how to read charts and what the indicators mean. Master the technical analysis. Learn valuation and fundamentals. Book learning is a foundation... but it's just the foundation.

The next step is to find your strategy, and practice, practice, practice. Plan on your training taking several months. Expect to be learning and refining your strategy for up to a year to gain the skills and confidence to trade well. Excellent traders never stop learning.

3. Strategy: There may be as many strategies as there are traders. Out of all the possible ways to trade, you need to find the one that resonates with you. It's a blend of your personality, your training, and the way you synthesise the news, markets, charts, and other indicators. This is what makes it hard to learn trading. What your mentor does may not work as perfectly for you. Another trader's sure-fire approach may fall flat for you.

Here are some common day trading strategies. They tell the theory, but putting it to work for you takes practice.

- Buy the Dips This strategy focuses on entry points. It uses pullbacks as a place to enter the trade in the hopes the equity will rebound higher.
- Fading Here, traders watch for sharp moves up. They check indicators that suggest the move is topping out and starting to fade. These traders

short the security believing that resistance has been met, there will be fewer buyers, and the security will drop in price.

- Momentum Traders look for indicators that show a reversal of the trend. A news event or trend change signals the asset may surge. Traders buy at the beginning of the uptrend. They hold until their price is met or they see bearish signs that the rally is over.
- Options Options traders use time decay and premium volatility as part of their strategies. They may use spreads - buying and selling both puts and calls - to reduce risk while capturing the upside potential. They may earn on the anticipation and sell before the news release.
- Buy and Hold This is the classic Warren Buffett approach. You buy top quality assets with the anticipation that you will hold on to them forever.
- Pivot Points Traders watch the moving indicators to determine when to enter and exit a trade. They look for specific up turns with the goal to buy low and sell high.
- Price Averaging Sometimes this is called stepping into a trade. The strategy buys a percentage of the total amount of the security you want to trade. Then, in timed increments, you add to the trade. You may end up paying more or less for each individual trade, but the price average may be lower than if you'd bought all the shares at once. It smooths out price fluctuations.
- Scalping Traders using this strategy take many trades in a day looking for short, profitable moves. They don't ride the wave to the end. They want to take quick profits and move on to the next trade.

Each of these strategies likely involves stop losses and may also have set targets for profit taking. They may also use leverage. Different strategies may call for a mastery of different fundamental indicators such as understanding candlestick charts, moving average convergence (MACD), relative strength

indicators (RSI) and often proprietary trading tools that analyse, refine, and present the data in an easy-to-use layout.

Be wary of gimmicky software or get rich techniques. You may initially find success with them, but typically they only work in certain kinds of markets. If you depend on them alone, and the market changes, you may experience epic failure. On the other hand, if you've invested in your own knowledge and practised virtual trading, you are more likely to know how to make adjustments to your strategy as the markets shift.

Your strategy will not be generic. You want to refine it to be very detailed and specific. Your trading strategy should tell you:

- Best time of day to trade
- Best assets to trade
- Where to set stop loss
- Where to take profits
- Amount of risk you can tolerate

4. Focus On One Strategy, One Market: When you first start out, you want to focus on one strategy and one market. Choose forex, commodities, CFDs, or equities. Each has unique traits. You may want to limit yourself to only a few stocks or only a couple of trading pairs. It's so much easier to master one strategy in one market. This lets you eliminate all the strategies, information, and news used to trade other assets.

Different asset classes move in different directions. They respond to different kinds of news. Focusing on one area reduces the pool of knowledge required to master that strategy. You can practice over and over and get a feel for when and where your strategy works and when to cut losses.

5. Practice: Once you've decided on your strategy, it's time to refine it and develop your eye. You want

to be able to consistently find the chart changes that trigger the greatest probability for a successful trade. It helps to go back in time and look at chart patterns. Find the places on the chart that meets your criteria. Look at what happened after your trade entry point. Did it support your strategy? Does your strategy need more refinement?

Then move on to virtual trading. Practice your strategy in real time. Each day is different. What worked one day may have a different outcome the next. Don't abandon a strategy when it doesn't work. Try refining it. After all, it works for some people, make it work for you. If you jump ship and move to a new one, you'll have to start the learning curve all over again. Plan on it taking time to learn and refine. Give yourself a good three months, six months, even a year.

Skilful trading is like gaining a college education. It costs time and money. Some traders run losses for several years and lose over $100k in the learning curve. It's not a get rich quick scheme. Schedule time to practice and educate yourself.

Your goal with your practice is to consistently find repeat patterns. Over time, you'll learn the variations on the pattern that work as well. You want to be able to correctly determine:

- Entry point
- Stop loss set-up
- Time to take profits

Before each trade, you should have an exit plan regardless of the movement of the market.

Check your practice and virtual trading. When you have at least a 60% success ratio, you may be ready for live trading. You also need to ensure that your wins have outpaced your losses, both in numbers and in percentages. Ideally, your strategy will give you larger wins and smaller losses so even if you have a 50/50 win loss ratio, you will still make

money. And remember, even the best traders expect to lose 20% of the time.

Again, give yourself the proper amount of time for practice. Don't rush it. Your future wealth depends on this.

6. Patience: Part of your patience is being willing to invest in practice. But even after you start live trading, you'll need patience. You will be tempted to take a trade that is not exactly aligned with your strategy. Don't do it.

Stick to your trading plan. Be willing to sit in front of the computer for your allotted time and not make any trades at all if no chart meets your strategy requirements. You may end up going several days without making a trade. This is better than making a poor trade and losing money. Dawid Kowalski, an eToro Popular Investor, is very patient. If he doesn't see a good trade he won't budge.

7. Discipline: Emotions are a part of life. They may also be an enemy or an ally in your trading. You may feel bored as you sit in front of the computer and no good trades come along. They are the enemy when anxiety creeps in as a trade starts to go south, and you close a position too early. You will struggle with greed and fear. At times your confidence may push you into an iffy trade. On the other hand, once you get to know your emotions, they may be your greatest ally. Emotions can warn you when it may be time to abandon a trade or when to fear and back out of a trade you would usually make.

Be aware of the power of your emotions. Be disciplined enough to stick to your trading strategy. Through consistent practice you gain self-mastery. As you progress, your trading experience may help you weather the emotional times. You need to be realistic about profits and losses. Recognise that

losses happen. Take it in stride. Accept them with grace and move on. It's all part of the process.

8. Risk Management: Risk management is such a vital part of trading we've discussed it several times before. With day and swing trading, it's useful to touch on specific factors that can minimise risk.

- **Create mental stops:** In addition to your hard stop losses, if at any time in the trade your strategy is violated, exit the trade.
- **Establish trade criteria:** You might agree to risk only 1% or 2% per trade and trade a max of 5 trades/day.
- **Stop trading after losses:** If you have a string of 3-4 losses in a day. Stop trading for that day. Your emotions are hard to keep in check at that point.
- **Use scaling:** When you reach the first profit target, sell half your position and move up stop losses.
- **Evaluate losses:** Did you follow your strategy exactly? Was it the right set-up, entry, and exit? Does your strategy need refinement? Would you have avoided this loss if you had followed your plan? If all was done correctly, then accept the loss and move on.
- **Reduce leverage:** The less leverage you use, the lower your risk of loss. Begin with zero leverage, then work slowly up to the leverage comfortable for you.
- **Budget:** Allot a certain amount of disposable money to day trading. Do not exceed that amount. Make sure essential bills are paid before using money to trade.
- **Start small:** Use small positions. Trade only a few assets. And keep to one trading strategy.
- **Risk small amounts of capital:** Don't place all your capital on one trade. Set up trades that only risk 1% of your capital.
- **Follow your trading plan:** Don't keep on a run hoping it will go higher or keep in the trade hoping it will recover. Stick to your strategy, not

hope trading.

- **Base trades on loss:** Set your trades based on how much you are willing to lose if the trade fails.

9. Sufficient Capital: Businesses promoting day trading tell novices how little it takes to get into day trading. Sometimes you can start with as little as $250 and a lot of leverage. Don't do it. Studies show smaller accounts are more likely to have losing trades and get wiped out.[47] The more capital you have, the easier it is to ride out losses.

Of course you are welcome to start small. Begin with what you have and commit to adding to your account on a regular basis. Invest in no leverage, low-risk trades as you build up your account. You may want to copy trade with your beginning funds, but remember, all trading carries risk. You may lose the nest egg you are building.

When you have $50,000 in your account that is disposable, you will have a good trading cushion. It allows you to set a 1% or 2% loss of $500-$1,000 per trade. Even with five trades in a day, you risk only $5,000 per or 10% of your account. Your account could survive five losing trades, where an account of only a few hundred probably could not.

Some brokers will require you to have $250,000 or more in your account to trade forex or futures. That's the minimum. You need investment capital above that amount. Stock brokerage accounts can set their own minimums and their own leverage amounts. When you trade CFDs you have a lot more flexibility. They do not require your account to hold a minimum, however they may still limit leverage on small accounts. In their own way, each platform seeks to control your risks while still allowing you to trade in your preferred style.

10. Time: Day trading takes a lot of time. First,

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[47] DailyFX.com, 'Leverage'

it takes time to read, practice, and learn the strategies. Then it takes commitment to sit in front of computer screens and watch for trade set-ups. Nevertheless, you don't need to be in front of your computer all day. Many traders just trade for two to three hours a day or trade primarily from their mobile device.

Part of your trading strategy will be to determine which times those will be. The highest volatility typically occurs in the first few hours after opening and an hour or so before the closing of most stock exchanges. Many short term traders will just trade the morning, exit those trades, and come back and trade again in the evening. Novice traders may be better off waiting 15 minutes after the opening bell for trade to stabilise. It may allow them to see trends better.

The currency exchanges open at midnight UK time on Sunday and run to 10pm on Friday.

Some traders think the best time to trade is when the market is least active. The active times shift by currencies traded. Quieter times include the late US-Asian times or the early European times. Currency traders are night owls, often working from 7pm to 11am UK time. Range trading strategies look for support and resistance. These are more likely to be broken in active trading sessions and may be better predictors in slower trading sessions.

12.3 Follow a Sample Trade

Let's walk through a sample trade. To make it easier, we'll take an example from the past. Remember, this is just an example. It is not an indication of what might happen as you trade.

Assume your strategy is to focus on the news and how news events affect your asset. You've chosen to trade in cryptocurrencies and do momentum trading to take advantage of uptrends.

You've been hearing about the Winklevoss brothers trying to get their Bitcoin ETF approved by the US securities exchange and played Bitcoin's (BTC) move higher on speculation. You've also been following Ethereum's (ETH) growing presence that it was nearing the $1B market cap. On 10 March 2017, the Winklevoss ETF is rejected by the SEC. BTC falls as speculation drains away.

You think ETH is where the smart money will move. Your rule is to wait for three upticks on an hourly chart before entering a trade. ETH has moved from $17.42 to $18.31 in 24 hours.

You are trading on the eToro platform, so you are using CFDs. You decide to enter the trade at $18.31 with a small portion of your $50,000 equity, $5,000, and use 2x leverage. This lets you trade 546 shares of ETH. You set a tight stop of $100, so you are only risking 2% of your invested equity. So if the price drops $100 you will exit the trade. You decide to make it a trailing stop. This way, as ETH rises, the stop will follow it. You can lock in profits.

On 12 March 2017, Ethereum goes over the $1B market cap. By the 13th, it reaches $26 per share. You think a $7/share profit is a respectable amount. Can it run further? You decide to see where it goes, knowing you have a protective stop in place. It rises to $30.29 and then retrenches to $27.26. You are stopped out at $30.10 for an $11.39/share profit and a total increase of $1437.

You watch the charts and see another set-up in the next few days and get back into a new trade.

Of course, not every trade goes according to plan. You might have been stopped out earlier if the trade went in the other direction or had a minor pullback. Still, you took advantage of a strong upside movement with only a small downside risk. In this particular case, you have the chance to re-enter the trade to continue the trend. And, with the advantage of looking at a now historic chart, you can see where your tight stop loss will exit the trade before the next steep drop.

12.4 Ten Tips Every Frequent Trader Needs to Know

Everyone trades differently. Even as traders copy other traders, no two do it exactly the same way. There are a million different ways to make money trading. Finding trades is like finding the repeating melody in classical music. The motif returns, but in various forms. Successful traders learn to discern the pattern of the music of the trade in its different variations.

As you develop your trading style, you'll refine your eye or ear for the recurring patterns in the asset you choose to trade. But there are overarching words of advice for all traders. Here is a simple recap of the advice given in this chapter. These tips will save you money, frustration, and allow you to continue trading.

1. Don't risk money you can't afford to lose.
2. Start small - with small amounts of capital risked and low amounts of leverage.
3. Know your market. Know the news surrounding

your market and keep up-to-date.

4. Trend, support, and resistance lines are critical to good trading. Learn to discern them.
5. Learn the fundamental and technical analysis of your strategy and your assets.
6. Practice in virtual trading programmes for as long as necessary to get your strategy down.
7. Know your exit strategy before you begin the trade.
8. Base your trade size on the amount of money you are willing to lose.
9. Don't risk more than 1%-3% of your capital on any one trade.
10. Constantly improve and refine. Even the best experts are continually refining their technique.

Is it possible to time the markets? Successful traders say, yes. With practice, experience, and a little bit of luck, they find high probability trades that allow them to make excellent money in day trading. If you put in time and money necessary to build experience, you may become one of them.

All trading involves risk. Only risk capital you are prepared to lose. Past performance does not guarantee future results.
This information is for educational purposes and not investment advice.

Chapter 13

Trading Currencies

Currencies were traditionally the domain of businesses, institutional investors, and hedge funds, but online trading has now made it available to individual traders. Currency is the fastest moving and most liquid kind of trading. It far surpasses the speed and volume of equities. Currencies are traded on the the 'foreign exchange' or forex.

The overall forex market sees average daily volumes of more than $3.2 trillion.[48] This is four times more than all the equity and futures markets combined. About 20% of those trades come from businesses that need to move money from one currency to another to conduct international business. Speculative traders account for the remaining 80%.[49]

The forex market has incredibly flexible hours as different countries around the globe open and close. New York begins at 1pm GMT and closes at 10pm. But Sidney starts at 10pm GMT and then Tokyo opens at midnight. London opens at 8am GMT, just one hour before Tokyo closes and the cycle continues. Currency trading desks set their own hours, but many are open 24 hours a day 5 days a week, closing only for the weekend from Friday evening until Sunday evening.

The most active trading occurs when two markets overlap. For example, London and New York overlap for four hours between 1-4 pm GMT. At this time the USD, EUR, GBP are most actively traded. London and Tokyo only operate together for the last hour of Tokyo and the first of London trading. Trading strategy includes timing. Some traders choose the extra activity of multiple markets and the beginning and closing hours of the London or New York markets. Others prefer the calmer times.

13.1 Terminology

In order to trade currencies, you need to know the terminology used. It's a bit different than that used for equities. And some of the terms are used differently.

Ask: Also known as offer rate. This is the price you agree to buy the currency and the foreign currency agent agrees to sell it. In currency trading, this is not negotiable.

Base Currency: In a currency pair, the first currency is the base currency. So in the EUR/USD, the euro is the base currency as it is mentioned first. When you buy to open a trade, the base currency is the one you are selling or going 'short' If you are trading on margin, this is the currency you are borrowing against to buy the quote currency.

Bid: Also known as the buy rate. This is what you can sell your currency for. Your foreign currency exchanger will buy your currency at this price. Again, there is no negotiation because the spread is where the currency agents make their profit.

Carry Trading: Currency trading is designed to take advantage of the difference in interest rates between two currencies. Usually this is a longer term strategy. Even without price fluctuation,

[48] 'Trading Basics You Should Know', XE http://www.xe.com/currencytrading/basics.php

[49] Schlossberg, Boris 'Top 7 Questions About Currency Trading Answered', Investopedia 3 May 2017 http://www.investopedia.com/articles/forex/06/sevenfxfaqs.asp

the trader can make money on the difference in interest rates.

Counter Currency: The second currency in a pair that is also called a quote currency because the price quoted is the amount one unit of the base currency can buy of the counter currency. When you buy to open the trade, this is the currency you are buying or going 'long'.

Currency Pair: Currency trades are always shown as pairs: USD/GBP or EUR/JAP. When you buy to open a trade, you are selling the first and buying the second.

Exchange Rate: Also called the FX rate, or foreign exchange rate. This is listed as decimals out to the fourth place. This tells you exactly how much a unit of your base currency will buy of the counter currency. For example, in the GBP/USD pair, the exchange rate could be 1.2545.

Pip: Also called a point, is an abbreviation for 'price interest point'. This is the smallest unit of trading and is usually .0001 or 1/100 of 1%. One exception is the Japanese yen which is only calculated out two decimal places. So in trading the yen, a pip is .01.

Rollover: The money your trade gains or loses when kept overnight. It is derived from the difference in the interest rates of the underlying countries and is typically listed as a rollover, overnight, or carry fee on your trading platform. As you increase your leverage, this amount increases as well. The rollover could be positive or negative depending on the pair you're trading and if you are in a buy or sell position.

Spot Price: The current price for a currency pair.

Spread: The difference between the bid and ask price.

Currency pairs also have their own terminology. Currencies are traded most commonly in seven different pairs.

Major Pairs are any trading pairs that have the United States dollar (USD) on one side of the pair. Major pairs include any variation of these pairs regardless of which currency is the base currency. About 95% of all speculative trading occurs in these pairs:
• EUR/USD (euro)
• USD/JPY (Japanese yen)
• GBP/USD (British pound)
• USD/CHF (Swiss franc)

Commodity Currencies come from countries that rely on commodities for much of their exports. These commodity currencies are also included in the majors:
• USD/CAD (Canadian dollar)
• AUD/USD (Australian dollar)
• NZD/USD (New Zealand dollar)

Crosses are trades that do not involve the USD. Sometimes these are traded to take advantage of different interest rates in longer term carry trading. These might be:
• EUR/GBP
• CHF/JPY
• AUD/CAD

Exotic currencies are traded with much smaller volumes and typically are more costly to trade but can sometimes see much larger swings. These involve currencies such as:
• Russian ruble (RUB)
• South African rand (ZAR)
• Singapore dollar (SGD)
• Polish zloty (PLN)

Currency trading is high-risk trading. Trade only with money you can afford to lose. It can be

exciting and profitable, but it can also quickly wipe out your account. Be cautious of leverage that also increases your risks.

13.2 Getting Ready to Trade

Many beginning traders fail because they fail to plan. Trading on a hunch is no more than gambling. When you develop a strategy, you increase your chances for successful trades. Most professional traders say that each person must develop their own strategy. It's helpful to look at how others trade, but your strategy will ultimately be uniquely your own.

Here are six factors that will go into your trading strategy.

1. Time of Day: You will want to develop a consistent time to trade. Currency markets have patterns based on the time and the markets that are open. Trading is more active when two large markets, like London and New York, are open at the same time. Decide if you want the fast movements of this time or the slower movements of mid-market times. When both the US and British markets are open, the trades move more pips and the spread is smaller.[50]

2. Technical Analysis: Some traders depend almost entirely on charts and chart patterns to map out currency swings. They look for historical cycles. Others use very little technical analysis, perhaps just enough to find support and resistance lines to guide them on when to enter and exit the trade. Focusing on chart patterns alone lets traders enter multiple currency markets as the patterns may be similar across many charts.

[50] Mitchell, Cory, 'Best Time to Day Trade the GBP/USD Forex Pair', the balance 14 Oct 2016 https://www.thebalance.com/best-time-to-day-trade-the-gbp-usd-forex-pair-1031020

3. Fundamental Analysis: In currencies this means looking into the 'health' and financial well-being of the country behind the currency. They check employment numbers, debt, consumer spending, import/export, government reports, and other resources. All these give traders indications to help them determine if a currency is strengthening or weakening against another currency.

4. Interest Rates: This can be one of the biggest movers of currency. Often the Federal Reserve or central bank will give us helpful hints to prepare the market for interest rate changes. This helps the market factor them in more gradually. But some countries are willing to shock the market. However, sometimes a country will signal that there will be no changes expected in interest rates... and then, BANG! Change the interest rates to shock the market.

Each night a trader keeps the trade open they incur a rollover or a carry rate. This can be positive or negative depending on the difference in interest between the currency pair. The central banks set the interest as a way to heat up or cool down the economy. Carry trading is a kind of currency trading that takes advantage of the short-term interest rate difference. A trader goes long in a currency rate with high interest and finances it with the sale of a currency with low interest.

For example, in 2005 the New Zealand economy was roaring, but the Japanese economy was stagnant. Traders who traded the JPY/NZD earned 7.25% annual return. Traders harvested 725 pips, or basis points, in yields or carry charges alone, regardless of how the currency moved. However, as the currency interest rates start to equalise, traders may rush for the door causing a drop in the selling currency price.

5. News Events: Currency traders keep an ear tuned to the latest news events. Government reports, politics, even a presidential tweet can twitch the market. On 15 January 2015, the Swiss National Bank (SNB) suddenly decoupled the Swiss franc from the euro. It caused the Swiss franc (CHF) to rally 23% in a matter of moments. It bankrupted several currency trading firms and rocked the financial world. This is why the news is so vital to traders. And it reminds traders how speculative and risky trading can be. Even with a stop loss order, the price may drop so quickly you will not be filled at your requested price, but at something lower.

In currency markets, there is no such thing as 'insider trading'. Any news is legal news. Hear a tip from your golf buddy who works in the central bank? You are free to use it. Traders who focus on news and fundamentals more often stick to a few currency pairs so they can keep up with all the information.

6. Enter and Exit Plans: Your strategy will also include when you will enter a trade and when you will leave it. Currency trading is high-risk trading. You can and will lose money sometimes. But you may protect your assets with carefully formulated stop loss and limit order settings.

Many traders recommend you set your stop loss with enough room to stay in the trade in minor fluctuations, but not to risk too much capital. Some advise you to place the upside limit with a greater spread than the downside. So if you set your stop loss at 30 pips, you may want to set your limit order to sell at a profit at 90 pips. This way your winning trades will give you three times as much as your losing trades. Trades like this let you absorb three losses for every one win and still come out ahead.

Of course, if you set your limit order too high, it may never be reached before the market turns. This is where your support and resistance lines

guide you to the best entry and exit positions.

You may also find an online forex risk/rewards calculator very handy. You put in your buy price the stop you set, and profit target and it will give you the risk/reward ratio.

13.3. How to Make a Trade

While each trading platform is different, walking you through the process of making a trade can be useful. By now you know all trading involves risk. Only risk capital you are prepared to lose and that past performance does not guarantee future results.

Here are the steps using eToro's platform. Let's say you have decided to trade USD/CHF. You check your watchlist and see it's actively trading and trending down right now.

You go to the chart and check your support and resistance. You want to buy just after support and sell just before resistance. So you set up your trade and set your stops. This chart has three places where you could have entered the trade at support and exited near resistance.

You decide to enter a buy position at 1.0052. You decide to set your stop loss at the resistance line of 1.0043. Support is at 1.0075, but you decide to set it a little under support at 1.0070 to grab profits if it turns before the top. That gives you an upside of 20 pips and a downside of 7 pips minus the spread. You've checked the fee schedule and know the spread is 3 pips.

You click the plus or minus tab, or just click on the amount and change it to the amount of money you want to trade. You choose your leverage rate. As you click on the leverage tab, it will give you the different amounts of leverage you can use,

from no leverage (1x) from no leverage (1x) up to as high as 400x on some currencies, which is an incredibly high risk. As you put in your amount and leverage, your preset stops and limits will update automatically.

Go in and click on them to set the limits you've chosen. You can choose a dollar amount, or you can choose a percentage. If you decide you are only willing to take a 5% loss, you will set your stop loss at 95%. If the value of your trade drops below 95%, it will trigger the sale. On the other side, you may preset a 10% profit point. Simply type in the rate '1.10' and the platform will convert that to a dollar amount that takes into account your leverage.

Then simply click the open trade button. When you trade with preset exit points, you take the emotion out of the trade. You let the market make its little swings without panic. You've chosen the maximum loss you're willing to risk against the hoped for gains. Either the trade will trigger a win or a loss. You are free to focus on your next trade.

13.4 Controlling Risk

Because much of the profit in currency trading is made in pips which are only .0001 unit (dollar, pound, euro), it's easy to want to magnify those profits by using large amounts of leverage. After all, if you trade $5000 and make a 20 pip profit, it might total only about $10. But if you leverage it by 10x, that's $100 and if you leverage it by 100x, that's $1000. Now you're making money.

The downside is that you run the real risk of losing money as well. That $5000 trade could equally cost you 2% to 20% of your equity. What are some ways to reduce risk while increasing the chances for profits?

- Start trading with lower leverage and work up as you master your strategy

- Eliminate emotion from the trade by setting exit points, both stop loss and take profit orders.

- Use discipline in your trading. Create your strategy and trust it. Many traders bail out of a trade too soon and lose out. Others let their losses mount up in the hope things will change for the better Stick to your plan.

- Don't get married to your trade. It is not a reflection of your intelligence. It's a trade. Exit it when you planned. Be very cautious about adjusting the stops.

- Use expendable money. You will feel less emotion when you don't bet the farm and you trade with money you can afford to lose.

- Visualise the full amount. You may only be trading with $500. But if you have leveraged it to $5000 or $50,000, think and feel like you are controlling the entire amount. This is real money. While you may only have $500 invested, you are accountable for the full amount.
- Make sure your trading platform is regulated by a major oversight authority. This way you are assured of greater transparency.

13.5 Tips for Currency Trading

As you begin currency trading, remember these basic methods to help you toward more profitable trading. Currency trading always involves risks. You can feel more confident as you take it step-by-step.

1. Understand how and why currency moves. Spend time seeing the correlation between interest rates, news events, the fundamentals and technical

analysis, and how your chosen currency moves. The best traders are always learning.

2. Start with one trading pair. Spend time just trading one pair. Learn to see the patterns and thoroughly understand the news surrounding it. Which reports make the currency move? Your depth of knowledge in one currency pair and the skills you develop are more likely to help you see patterns and entry points you might miss if you dilute your focus.

3. Keep a diary of your trades. Why did you enter the trade? Write down the date and time you entered the trade. Record your entry points and exit points, both stop loss and limit order. Record the results. Why did you exit? Did you follow your strategy? Jot down notes and reminders of things you learned from this trade.

4. Set your limit order so you have more upside gain than you will lose if you are stopped out. That way, even if you only succeed 50% of the time, you will still be ahead. Don't be unrealistic about the upside gains.

5. Technical analysis may reinforce the trade or be a self-fulfilling prophecy. Every trader sees the same charts you look at. They are setting the same support and resistance lines. When they begin to react to the market, it creates a volume of traders all acting in the same pattern.

6. You won't make money on every trade. You're going to lose some. Accept it with ease. The less emotional you can be about both wins and losses, the more control you will have in your trading.

7. Choose a reputable trading platform. Look for one that is easy to use, trades the markets that you want to trade, and has reasonable transaction costs. An active community of investors on the

forums can help answer questions and guide your trading decisions. Traders who allow you to follow them can jumpstart your trading.

Currency trading can be exciting and profitable. It offers tremendous liquidity and flexible trading hours. The higher leverage offered by different brokers allows you to make quicker profits than most other markets while being mindful of the risks. Know the risks and don't trade money you can't afford to lose. When you look at successful currency traders on eToro you will see the capital they put at risk in balance with the earnings they gain.

All trading involves risk. Only risk capital you are prepared to lose. Past performance does not guarantee future results. This information is for educational purposes and not investment advice.

Chapter 14

Exploring Cryptocurrencies

One of Fintech's most disruptive breakthroughs is the blockchain. Rather than keeping all your data on a single server, this decentralised ledger system stores data in many places. This makes it virtually impossible to hack into and steal or falsify data. It also creates a way to trade currency independent of any government or entity. Currently, hundreds of businesses are looking for ways to incorporate blockchain technology into their systems so they can increase security, speed up transactions, cut costs, and interact more easily with other businesses.

The short history shows how diverse blockchain technology can be and how many companies are jumping on it. It also shows the extreme volatility of the companies in this niche as it moves forward to weed out the winners and losers.

14.1 History of the Blockchain

The possibility of cryptocurrencies began with debit cards and electronic cash. But people concerned with privacy wanted an undetectable way to transfer money. Others wanted a secure system not controlled by any government. In 1983 David Chaum developed an RSA algorithm that modified a string of numbers.

A person sending a bank deposit sent it with one string of numbers. The bank received it with another set of numbers, based on, but distinct from the first, so the bank could not trace the origin of the deposit. This algorithm is the foundation for blockchain today.[51] He created DigiCash, but governments were not receptive to this private currency. Due to regulations and other issues, it did not succeed.

PayPal stepped in to provide a way to transact services on the web with 'cash' and prove there was a market need for web-based currency. Another online currency company, e-gold[52] allowed clients to sell their gold or hold gold in e-based accounts. They could trade these monies across borders fairly anonymously. The anonymity let scammers flourish and in 2005 the US government stepped in to close it down.

In the United States, the 9/11 attacks of 2001 changed the tolerance for alternative monies. Now the US government seemed to view every private money source as a money laundering method for terrorists, drug dealers, and crime. While Europe realised these alternative methods did not necessarily foster crime, they were still not receptive to start-up companies.

However, the lack of privacy and the reduced trust in governments and banking institutions led to a desire for another currency source, and Bitcoin (BTC) emerged.

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[51] Griffith, Ken 'A Quick History of Cryptocurrencies BBTC — Before Bitcoin', Bitcoin Magazine, 16 Apr 2014
https://papers.ssrn.com/sol3/papers.cfm?abstract_ id=2676553
[52] ibid.

Even the origins of Bitcoin are shrouded in privacy and mystery. The bitcoin.org site was anonymously registered in August 2008. And in October 2008 a software developer with the pseudonym of Satoshi Nakamoto posted the Bitcoin paper that explained the peer-to-peer electronic cash system supported by the blockchain. It's possible this founder of Bitcoin is a group of people. His goal was to create a currency outside the control of any government. One that was private and not based on trust but on verifiable transactions.

2009: In 2009 the first Bitcoin block was mined, proving the concept worked. And a simple version of Bitcoin was released on the internet to a small group of insiders. The first Bitcoin to dollar equivalency was based on the electric costs to create the Bitcoin: $1 =1,309.03 BTC.[53] 10,000 bitcoins bought a Papa John's pizza for the first crypto-currency transaction.

2010: In early 2010, the first Bitcoin exchange was formed, the value of Bitcoin increased, and Jed McCaleb opened the Mt.Gox trading exchange.

This year the software became open sourced and freely available. Anyone could look and check on the authenticity of the transactions. They could see how many Bitcoins are in any numbered wallet. They just wouldn't know who owns the wallet. Those who set up the ledgers and facilitate the transactions are called miners. Because of open sourcing, anyone can become a miner.

The growth was not without problems. In late 2010 miners exploited a system glitch and created 184 billion Bitcoins. And a government task force warned about the use of cryptocurrencies to finance terrorism. Still, by the end of 2010, BTC was trading at $.50 and the market cap of Bitcoin exceeded $1million.

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[53] 'History of Bitcoin', http://historyofbitcoin.org/

Namecoin was one of the first additional blockchain technologies. It's a decentralised name registration database. It allows the registration of a common name while giving it a unique blockchain key.[54] One use could be to match domain names to IP addresses.

2011: By mid-year, BTC traded at $10 and was moving higher. The Silk Road, a drug dealing site opened using Bitcoin as currency and later in the year fraud interrupted PayPal/Bitcoin transactions. The bubble burst and in four days BTC lost over 67% of its value. Mid 2011 also saw 25,000 BTC stolen from a wallet and major breaches of the Mt.Gox exchange. Hackers stole passwords and drained accounts of millions in Bitcoin.

2012: This year brought an FBI report on virtual currencies and how they could enable illegal drug and arms deals. While cryptocurrencies and Bitcoin gained recognition with conferences, magazines, physical coins, and more, it still struggled with hacks, Ponzi schemes, and increasing government suspicion.

Governments expressed concern that cryptocurrencies could cause a loss of trust in government currencies. They worried that anonymity and no regulation would promote crime, tax evasion, and money laundering. But Bitcoin also moved toward legitimacy. In 2012 Bitcoin Central registered as a European bank complying with bank regulations and in 2013 more tech and retail stores begin to accept Bitcoin as payment.

Other groups worked to build on and improve Bitcoin's blockchain currency. Yoni Assia, eToro founder, and Vitalik Buterin worked together to create a new Bitcoin protocol called Coloredcoins, which allows users to assign attributes to a transaction. Coloredcoins was designed to allow users to do more than just transfer value and the

[54] Maltsev, Pavel 'White Paper- A Next-Generation Smart Contract and Decentralized Application Platform', March 2017

first implementation was to allow people to create their own cryptocurrencies.[55]

2013: It took until early 2013 for Bitcoin to surpass the all-time high of 2011. But volatility continued. In March 2013, a soft fork, or blockchain glitch, forced a trading shutdown. BTC suddenly dropped 23% to a low of $37 and then regained most of the loss by that evening. By mid-April Bitcoin hit $266[56] and reached a market cap above $1 billion. A hack crashed the price down below $125 in a matter of hours.

Also in 2013, the US Financial Crimes Enforcement Network (FINCEN) created the first Bitcoin regulations. The US government then charged Mt.Gox exchange, with 'failure to register as a money transmitting business'[57] and subpoenaed 22 other Bitcoin companies for possible violations. It shut down the Silk Road, seized $3.6 million in Bitcoin and charged the Vice Chair of the Bitcoin Foundation with money laundering. In the same year, the US and Germany declared Bitcoin to be money. China's Baidu began to accept Bitcoin but in late 2013 China's central bank banned any Bitcoin transactions and Baidu stopped accepting BTC.

Bloomberg started showing Bitcoin as XBT a currency and Ben Bernanke, the US Federal Reserve Chairman, gave praise for Bitcoin at the senate's digital currency hearings.[58] This is the year the Winklevoss twins made their first attempt to establish an ETF based on Bitcoin. By November, Bitcoin soared above $1000, only to spend the next few years retrenching.

Vitalik Buterin decided blockchain technology needed more changes than Bitcoin could allow and began building Ethereum. This coin allows contracts to be written within the blockchain.

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[55] Pixby. CC0 Public Domain.Free for commercial use. No attribution required

[56] 'History of Bitcoin', http://historyofbitcoin.org/

[57] 'History of Bitcoin', http://historyofbitcoin.org/

[58] Jessop, Nathan 'A brief history of bitcoin and where it's going next'. The Next Web, 29 March 2015

2014: 2014 brought a new level of respectability. UK government gave Bitcoin VAT-free status as HM Revenue and Customs classified it as private money. The European Banking Authority recommended virtual currencies be held to the same regulatory standards as banks when it comes to money laundering and anti-terrorism. This added legitimacy to the currency, as did the establishment of a regulated Bitcoin investment fund (GABI) and the first Bitcoin derivative trading on an equity platform. Microsoft began accepting Bitcoin as payment for products and services.

2015: By 2015, Bitcoin transactions exceeded 100,000 per day.[59] Bitcoin started the year at $238 but gained traction and topped $400 by the end of the year. The HM Treasury Report issued concerns about consumer protection and technical standardisation for Bitcoin and reports by the European Central Bank looked for ways to control volatility. The Winklevoss brothers once again tried to establish a Bitcoin ETF. Companies begin to create crypto-tokens and other alternative cryptocurrencies.

2016: Many international, national, and local companies began to accept Bitcoin as payment. The Chinese became the largest Bitcoin traders as people tried to evade government capital controls. 80% of Bitcoin transactions were processed in China.[60] Bitcoin more than doubled in price to a peak of $997. Competitive currencies and crypto-tokens began to multiply. The UN's World Food Programme started using Ethereum blockchain in their programmes to feed the hungry.[61]

2017: The Winklevoss brothers again tried and failed to get a Bitcoin ETF. Speculation on the ETF caused Bitcoin prices to spike over $1300 and drop to $975 on word of the failure. However, they rapidly climbed back to $1200 in just a few days later and have continued climbing. Canada opened

[59] Jessop, 'Brief History'
[60] Jessop, 'Brief History'
[61] Campbell, Rebecca 'The UN's WFP Uses the Blockchain to Feed Hungry Families', Cryptocoins News, 22 March 2017
https://www.cryptocoinsnews.com/uns-wfp-uses-blockchain-feed-hungry-families/

the first peer-to-peer Bitcoin exchange. Fortune 500 companies joined together to find ways to take advantage of blockchain technology to add security and lower costs. Companies found private blockchain systems could increase security, ensure accurate authentication, and offer real-time hack checking. IBM promoted its own cloud blockchain with regulation compliant solutions for healthcare, finance, and government use.

Japan officially recognised Bitcoin as a legal method of payment. Japan's point-of-sale giant AirREGI, used at more than 260,000 retail locations, began accepting Bitcoin as payment. Since AirREGI is compatible with China's Alibaba's Alipay, visiting Chinese tourists can pay with Bitcoin.[62] This new acceptance may be part of the reason Bitcoin has nearly tripled in the first half of the year alone. It has not occurred without extreme volatility, even dropping 36% only to rebound.

14.2 Cryptocurrency Terminology

Don't be thrown off by the language surrounding cryptocurrencies. It's easy to learn and soon you will feel like an expert.

Bitcoin (BTC) is the original blockchain cryptocurrency. An alternative, decentralised currency. Also known as 'digital gold'.

Blockchain collects transactions and data and puts them into blocks in a public ledger. The records are securely linked together with hash codes to prevent hacking.

Cryptocurrencies are a new digital money outside government systems based on a blockchain.

Crypto-tokens are tradeable coins that hold part ownership in a company instead or as well as being a source of currency.

DAO or **Distributed Autonomous**

[62] Wilson, Greg 'The Biggest Bitcoin News No One Is Talking About', The Palm Beach Daily 14 Apr 2017

Organisation, is a company built around the blockchain technology.

Decentralised means many computers and people have access to the data. It is the opposite of a single government controlling the source.

Fork or **Hard Fork** is a change in blockchain protocol that changes block history. Users either continue the old way or split off and update to the newest protocol to continue building the blockchain.

Hash or **Hashtag** closes off a block in the blockchain with a secure number. It is created by a complex mathematical formula that draws on past blocks to make it unhackable.

ICO or **Initial Coin Offering** is when a blockchain company offers cryptocoins as ownership in the company instead of stock at a public sale.

Miners are people with sets of high energy computer processors who build the ledger or blockchain to store cryptocurrencies.

Nodes are any unique network addresses that hold the complete and updated copy of the cryptocurrency blockchain. Your private wallet would be a node.

Nonce is a slight variation in the hash computation that lets miners adjust the calculations while seeking a hash that starts with enough zeros to qualify as a hash.

Proof of Stake is a blockchain system where those who own the most coins help create the cryptocurrency hash and earn coins.

Proof of Work is the difficult hashtag producing system that verifies the blocks and pays the miners.

Pump-and-Dump is when unscrupulous cryptocurrency investors manipulate the price by buying gradually and selling all at once. They hype it up so the price increases, then let it fall.

Wallet is a secure online place where your cryptocurrency is stored. This is separate from a trading platform.

14.3 What is a Blockchain?

Blockchains, such as Bitcoin, use cryptographic protocols. These are complex code systems built on advanced mathematics and engineering principles. They encrypt data so it can be transferred securely while making them nearly impossible to duplicate or counterfeit. This prevents scams or cheating by spending the same money twice. You can transfer coins with a chain of numbers and letters. There are public and private keys. Your personal key is not seen in the the public transaction and ensures privacy.

Since the transaction is based on cryptographic proof, it eliminates the need to use a third-party financial institution like a bank or trading platform to verify the trade and ensure each party will fulfil their part of the agreement.[63]

The blockchain ledger, a foundation of any crypto-currency, is decentralised. It is not held in one place, such as the national reserve. Instead, the ledger is copied to many places. Let's take Bitcoin for example.

Bitcoin collects each time period of transactions into a 'block'. These blocks are kept in a general ledger which is a long list of blocks or a 'blockchain'. This provides a way to go back and check any transaction. Each new block is added to the old.

[63] Nakamoto, Satoshi, 'Bitcoin: A Peer-to-Peer Electronic Cash System' https://bitcoin.org/bitcoin.pdf

To prevent it from being tampered with, miners take the string of numbers that is the block and put it through a mathematical formula. This produces a new, shorter, random-looking sequence of letters and numbers called a hash. This hash is put at the end of each block. Just by looking at the hash, you can't tell the data in the block.

But if even one character in the block is changed, the hash will completely change. Information from the previous block is also used to create the hash, so it's impossible to remove any blocks. Because this entire blockchain is stored on the computer of every miner, a change in one blockchain would be immediately revealed by its difference from the blockchains held by others.

This feature opens the door to authenticating records, keeping records and transactions secure and unhackable, verifying contracts, accounting for inventory, and enhanced security for business and financial transactions. Legal contracts, health records, equity trading, and banking transactions all would benefit from hack-proof storage, transmissions, and transactions.

A lot of virtual currencies use many computer engineers or groups of engineers called 'miners'. They perform the complex calculations to come up with the hash codes that verify and time-stamp the transactions. Miners compete to produce the hash code that seals off the block. Miners are paid in the cryptocurrency for their efforts. For example, each successful Bitcoin hash is rewarded with 12 BTCs.

While it's easy to compute a hash, Bitcoin makes the process more difficult. It requires 'proof of work'. That means the hashtag must have a certain number of zeros at the beginning. Miners can't predict this, so they must rework the transaction over and over. They can vary the data with one random bit of information called a 'nonce' to try to

find an acceptable hash number.

It takes high energy usage, exceptionally fast computing, and specialised equipment to mine. Often miners join a mining pool in the hopes that their combined computing power will produce the right hash. As of March 2017, it took 3,596,936,257,000,000,000 attempts per second to produce a hash and one is created every 10 minutes.[64]

Bitcoin protocol permits only a certain number of coins to be mined each year. By the year 2040 21 million Bitcoins will have been mined and the number will stop. Since one Bitcoin may be worth thousands of pounds, Bitcoin is set up to be divided into relatively smaller parts. That way it is still useful for smaller transactions. It can be tracked out eight decimal points to the ten millionth place. 0.00000001 of a Bitcoin is called a Satoshi, named after Bitcoin's anonymous founder who went by the pseudonym Satoshi Nakamoto.[65]

Bitcoin can be bought and sold on a variety of online exchanges, at Bitcoin ATMs, or even in some physical Change Spots.[66] Buyers can fund their Bitcoin in dollars, euros, yen, etc. through credit cards, PayPal, cash, and bank transfers.

14.4 Building on the Blockchain: Crypto-Tokens

The security of the blockchain ledger makes it attractive for a wide range of applications. Secure, non-hackable but traceable transactions have use in government, business, financial, and informational markets. Blockchain technology stands to vastly reduce costs for these transactions as well. As companies expand to explore this new

[64] Berg, Henry, 'In today's Bitcoin mining difficulty, how many TH/s are needed to get 1 coin per day?' Quora, 28 March 2017 https://www.quora.com/In-todays-Bitcoin-mining-difficulty-how-many-TH-s-are-needed-to-get-1-coin-per-day

[65] 'A Complete Guide about Bitcoin'. Investoo. Accessed 15 July 2017. https://www.investoo.com/complete-guide-bitcoin/.

[66] 'Complete Guide'

technology, they are using blockchain technology to finance their companies as well. This revolutionary kind of start-up no longer requires IPO or angel investing in the traditional sense.

Instead of offering stock in a company in return for equity, they are selling crypto-tokens in what is now called Initial Coin Offerings (ICO). The advantages of this kind of offerings are:

- Tradable any time, day or night
- Liquid with fewer investor limitations compared to equity
- Anyone can issue
- Reduced restriction and regulation
- Raises a lot of money very quickly
- Small investors can participate

You can find new coin offerings on sites such as Ether.camp, CryptoCompare, and Smith & Crown.[67]

Some of these coins require you to hold them for a time before trading them. These crypto-coins are not really intended for a currency replacement. Instead, they act more like a share in the company. The value is based on how investors believe the technology will pan out and how the company is growing.

Using virtual currency lets companies incorporate virtually. They don't need a physical location; they can live on the blockchain. Everything is in the ether. Each coin is similar to a share of stock and it can trade on any cryptocurrency exchange that accepts it. The company or project is called a DAO or Distributed Autonomous Organisations.

What makes these companies different from geography-based businesses is that the management system is different. Blockchain is

[67] 'CoinDash, The Operating system for Crypto Assets' PDF of powerpoint https://medium.com/@Altcoin.Support/coindash-operating-system-for-crypto-assets-881b141fab5b

established and based on computer formulas, not people guiding a company in a traditional way. A development team supports the application, but it cannot define how it runs once it starts.[68] Wise investors look at the development team for experience, success rate, and ethics to determine the potential of the DAO.They check out it's ability to problem solve and the publicity put forth to promote the novel solution to users.

However, once the crypto-company is up and running, it's the technology and the problems it solves that will make the success or failure of the venture. Often the technology is open source so it can be viewed by those who want to know the strength of the technology.

These new blockchain companies don't necessarily grant legal protection or voting rights to those who buy the coins. At this point, they don't seem to fall into any government's jurisdiction so it's a wide-open field. While this freedom allows people around the world to invest in new companies and new technologies, it also opens the possibilities to scams, frauds, wild successes, and disappointing failures.

Some of the markets are completely undeveloped at this date. These new companies offer speculation and hope. Exercise care and research well. The exciting part is that small investors can buy what is essentially an IPO, or stock sale, of a company by buying their crypto-tokens. These coins can range in value from a few pence to many pounds. As the company gains traction, builds software, and finds clients, investors expect the value of the company and the price of the tokens will increase.

Some companies combine the equity token with a currency function. For example, Voxelus[69] is a virtual reality (VR) content platform. It created Volex token through crowdfunding, giving investors a

[68] Somensatto, Jason 'How are Cryptocurrency Investments Different than Securities Investments?', Coincenter.org, 11 Feb, 2015
https://coincenter.org/entry/how-are-cryptocurrency-investments-different-than-securities-investments
[69] Menezes, Nuno 'Vitual Reality and Cryptocurrency: Volexus and uphold join forces' Bitcoinist, 31 January 2016
http://bitcoinist.com/virtual-reality-cryptocurrency-volexus-uphold-join-forces/

stake in the company (the equity portion). However, Voxelus VR users can create designs and assets to be used in virtual reality. They can exchange the designs for Volex tokens, other currency, or to buy content for their own virtual worlds (the currency function).

Steem[70] is a blockchain social media platform where users earn tokens for posts and can share in the profits of the company. And Peerplay[71] is a gaming and wagering platform using blockchain. It offers the security of trusting your wagering partner to pay-out even if you don't know them. Due to the security of the blockchain, users can trust the system will be a level playing field without hacking or cheating. Again, coins can be used to make transactions on the platform or to participate in the profits from the company.

Some investors do not want to go to the bother and effort of exchanging their government currency to cryptocurrency. They can still trade on the price movement of these highly volatile currencies through CFDs. It's a simple way to gain the benefit from a profitable move without needing to worry about crypto wallets, hacking, etc.

14.5 Cryptocurrencies and Tokens

The *CryptoCurrency Market Capitalizations* site listed 971 different cryptocurrencies in July 2017 and the number keeps growing![72] At that time only seven coins were had $1 Billion market cap: Bitcoin, Ethereum, Ripple, Litecoin, Ethereum Classic, Dash, and NEM. The couple dozen or so were over $100 million and the following 200 top a million. The bottom 175 or so are so small that their total market cap is less than a cent.

In less than one month in 2017, the number of

[70] https://steem.io/

[71] https://www.peerplays.com/

[72] 'CryptoCurrency Market Capitalizations' https://coinmarketcap.com/all/views/all/

cryptocurrencies in the million dollar market cap increased nearly 50%. Who can imagine which coins will climb to the top? Which will fail? Bitcoin emerged in the last 7 years. Ethereum only began July 30, 2015, and in under 2 years reached a billion in market cap. So it's possible any of these small players could rocket to prominence, and equally likely some of the more familiar coins might fade.

Because the coins are designed to do different things or to handle some problems faster or easier, there is room in the blockchain world for a number of successful coins. And as with many volatile assets, they offer great trading opportunities. The volatility also increases risk, so trade with caution. Let's take a look at the most popular cryptocurrencies and tokens as of May 2017.

Augur: Augur (REP) is a software built on the Ethereum blockchain that facilitates betting and gaming. It uses open source coding to build a predictive decentralised market. Augur seeks to learn more about crowd wisdom, or collective intelligence, to become the most accurate forecasting tool. It collects data without bias because it's a machine. The coin was crowdfunded to begin the company.

Anyone can set up a bet on real world events. Want to guess which team will win the championship or who will win the election? You establish a bet and know that the contracts are secure and payment will be made. Pay $.50 to cast your vote. If you are right, you win $1 for each vote.

Bitcoin: Bitcoin (BTC) is the grandfather of all cryptocurrency and by far the largest. It has a market cap of over $39 billion (as of this writing) and is about twice as large as its closest competitor Ethereum. Bitcoin was designed as a currency replacement, immune to quantitative easing because the number of tokens is fixed.

It is open source coded and not controlled by any specific government. It could be considered community money. Bitcoin only exists because people believe in it and attribute a specific value to it. Bitcoin is accepted as currency at thousands of outlets from reputable companies such as Del, Amazon, and Microsoft, to corner pubs, bookstores, and clothing shops.
Currently, Bitcoin is the entryway to most all blockchain technology. It is the base currency to which all other coins are tied. People typically need to buy Bitcoin first with their fiat currency such as euros or sterling. Then they are free to trade Bitcoin for any of the hundreds of other cryptocurrencies. As the price rises and more investors buy Bitcoin, the transaction speed has slowed down. It takes 10 minutes or more to make a trade. That's still substantially faster than the three days it may take to transfer assets with fiat currencies.

As of April 2017, Bitcoin faced the risk of a hard fork. This is when an unalterable change is made to the blockchain code. Some programmers want to change the code so the transaction speed can increase. Others say the strength of the coin is the inviolate nature of the code and it should not be changed. If the coin forks, investors will get a proportional amount of both currencies. In past forks with other blockchains, one currency declined and one rose to the top. But no one can be sure which will be the winner. Some traders also worry that a fork will damage the Bitcoin brand strength and allow newcomers to overtake it.

If you are entering the cryptocurrency market, Bitcoin is an essential coin to own. If you are trading CFDs, the volatility of Bitcoin makes it attractive. An increasing number of platforms trade Bitcoin as a currency. While a Bitcoin ETF has been rejected by the SEC again in 2017, other Bitcoin ETFs are in the wings seeking approval.

BitConnect: A newcomer, BitConnect (BCC) hit the markets in January 2016 with an ICO. It offers security, speed of transaction, and decentralisation built on the blockchain technology. It also gives every owner the opportunity to earn interest on their coins. It uses both proof of work and proof of stake to mine the coins. Because of the sharp rise in price in just a few months, BCC had to increase the difficulty of its mining.

BitConnect has a strong community of investors and lenders. It eliminates banks and other institutions in offering secure lending. Using the newest technology, mining BCC is much less energy intensive than mining Bitcoin. Total coins are expected to reach 28 million coins before stopping production.

ColoredCoin: This coin was designed to create a protocol or standardisation for the creation of other digital currencies. It's an open source banking system for digital money. Imagine a company like Amazon wanting their own money. Or even a movie theatre that uses coins for tickets. The attraction is that you could never double-sell a seat. This platform allows a new currency to issue a 'colour' tied to a specific Bitcoin. The user could then hold a wallet with only these coloured coins. They could track the coloured coins through the Bitcoin system.[73]

ColoredCoins could act like coupons to redeem air miles. Or it could become a 'currency' where one coin equalled one rental car for a day. Because it builds on the Bitcoin blockchain, users know they have security, privacy, and the item will not be sold twice.

Dash: In March 2015 Darkcoin changed its name to Xcoin, then to Dash (DASH). When it was created, there were many emerging altcoins, or alternatives to Bitcoin. Some of them were scams or flashes

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[73] Maltsev, 'White Paper' pg 7

in the pan. Over time, Dash has solved early problems, risen above the pack, and developed into a solid cryptocurrency. Its strongest benefits are the features of privacy, anonymity, and speed of transaction.

Like many cryptocurrencies, in early 2017, Dash saw an unexpected and sudden rise in price from about $14 per coin to above $100 in a matter of days. In one day alone, it increased 34% in value.[74] Its precipitous rise launched Dash into the select billion dollar market cap group. Then dropped 40% in value, climbed back, and continues to be highly volatile.

Dash expects to limit total supply to 22 million coins. However, the master node owners of Dash need to keep 1000 Dash in a secure wallet to own a master node and benefit from distributions. This keeps some coins out of circulation. Simply buying those 1000 coins lets anyone move into the duties and benefits of the master node position. The purpose of master nodes is to provide a second tier network that's used to execute Dash's PrivateSend and InstaSend. Master nodes also help with Dash governance, while miners perform tasks similar to Bitcoin miners. The profits from mining and master noding are split three ways:

- 45% to miners
- 45% to master nodes
- 10% to the budget or treasury to be used for projects that improve Dash

Dash offers digital cash similar to PayPal. It lets you make instant, private, secure payments. You can pay online or in-store at some locations. Payments are accepted for transactions such as:

- Payments to friends and family
- Gaming and gambling
- Gold and precious metals
- Housing
- Phones

[74] Buntinx, JP 'Dash Price Surges Past US$50, Gains 34% Value in just One Day', Aeternity 2 Mar 2017 https://themerkle.com/dash-price-surges-past-us50-gains-34-value-in-just-one-day/

- Web and graphic designs, digital mining equipment, Virtual Private Networks (VPN)
- Commodities like cigarettes, water, plants, jewellery, clothing, wine, books
- Services like photography, law, health

It uses an open source, peer-to-peer, secure exchange like Bitcoin. Your money is privately held on your computer giving you full control. Transactions happen instantaneously. Dash may be the first cryptocurrency to offer a debit card.

Cryptocurrency platforms like Poloniex.com let people buy and sell Dash and other coins. Some fiat currency trading platforms allow traders to trade Dash as well.

Decred: This coin is billed as '[t]he first cryptocurrency of the people, for the people, and by the people'.[75] Rather than having miners or stakeholders control the cryptocurrency, Decred (DCR) lets every member, every coin-holder, have a say in deciding the direction of the coin and the technology. Miners and coin-holders will vote to implement Lightening Network's payment process and then vote to improve or add features. If agreed on, developers work on projects in full view of the community.

Currently, Decred offers coin-holders opportunities to solve puzzles for high stakes prize money. They work against the clock as the prize money decreases with time.

Dogecoin: Dogecoin (DOGE) started in December of 2013 as a joke. But it gained a fan base and by March 2016 it had a market capitalization of $22.2 million USD. It uses a private key and a public key like many other cryptocurrencies and is mined similar to litecoin. This means miners can switch between coins and mine either DOGE or LIT. Dogecoin is used by the Reddit community for

[75] Bitcoin PR Buzzfeed. 'Decred Releases v1.0: The World's First Cryptocurrency of the People, for the People, and by the People' 20 Apr 2017 http://bitcoinprbuzz.com/press-release-decred/

fundraising and as a form of tipping. They'll send coins as a way of rating comments.

Dogecoin bills itself as a fun peer-to-peer internet currency and has a mascot, a Shiba Inu dog native to Japan.[76] Its meme reflects the playful nature of the coin and its community. Doge claims a friendly user base that supports charitable causes. They even have a Dogecoin Foundation to support and grow this cryptocurrency.

Surprisingly, Dogecoin has been traded more frequently than Bitcoin and has been the most traded cryptocurrency to date.[77] Coins have a small value calculated in Satoshis or 1/10,000,000 of a Bitcoin. As of April 2017, Dogecoins were valued at about 0.00000033 Bitcoin. In other words, it takes about 27 DOGE to equal one cent USD. As DOGE expects to continue unlimited mining, the price may stay low. Even with this small amount of money, however, Dogecoin enthusiasts have been able to raise money for a NASCAR racer, a water bore hole in Africa, and sponsor the Jamaican bobsled team for the Olympics.

Several online currency exchanges now offer DOGE trading. It's possible to trade DOGE/BTC, DOGE/ LTC (litecoin) and even DOGE with the yuan, the USD, and the Canadian dollar. Trading with CFDs can also make it simple. Traditionally, DOGE has been one of the most stable of the cryptocurrencies.[78]

Ethereum: Ethereum (ETH) was launched in 2015 and by June 2017 it had rocketed to a $32 billion market cap. It has been called Bitcoin 2.0 since it solves many of Bitcoin problems and can perform more applications than Bitcoin. Ethereum founder Vitalik Buterin realised there needed to be radical changes to the blockchain protocol to realise the full potential of the technology.

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[76] http://dogecoin.com/

[77] 'Dogecoin', Wikipedia https://en.wikipedia.org/wiki/Dogecoin

[78] OConnell, Justin 'A Dogecoin Pump-And-Dump to Start 2016', Cryptocoin News 19 Feb 2016 https://www.cryptocoinsnews.com/a-dogecoin-pump-and-dump/

The Ethereum platform makes it possible for any developer to build and publish next-generation distributed applications. It allows smart contracts to be written into the code on the blockchain. This means that once the contract is fulfilled, the money is released. Ethereum stands to be an incredibly disruptive technology. It's possible to do all banking transactions, all securities trading, or record all deeds and attorney contracts on this blockchain platform. It has wide applications for:

- Currencies and banking
- Financial derivatives
- Hedging contracts
- Savings wallets
- Wills
- Full-scale employment contracts
- Data feeds
- Computational problems
- Title registries
- Online voting
- And thousands of other applications

Since the contract is written into the code, it needs no third party to verify it. No judge. No Jury. Just the code. And it's fast. The transactions can take place in 1.5 minutes. With open source coding, anyone can write an app for Ethereum. They can create their own rules for ownership and transaction formats. Many applications are too small to go to the cost and effort of creating their own blockchain. Ethereum makes it possible for these small decentralised applications to work together or independently on the Ethereum system.

Ethereum's code is written in a low-level, stack-based bytecode language called Ethereum Virtual Machine code or EVM code. Each byte represents an operation.[79] Ethereum's method of block building and storage allows it to use between five and 20 times less space than Bitcoin, saving on computer storage.

[79] Maltsev, 'White Paper', pg 11

eToro

Ethereum differs in other ways from Bitcoin. While Bitcoin has a fixed number of coins, Ethereum will continue to produce coins called ether. Ether is the cryptofuel used to power the applications Ethereum produces. So businesses will need to spend ether in order to run the applications. The more complex the contract or transaction, the more ether it will consume.

In Feb 2017 JP Morgan, Intel, Microsoft, and other companies joined together in an Enterprise Ethereum Alliance. The purpose? To seek ways of using Ethereum to lower costs and increase security.[80] This news shot ETH from about $15.40 a share to over $53. By June 2017 it spiked over $400.

Ethereum is traded on cryptocurrency exchanges and the eToro platform using CFDs.

Ethereum Classic: A hard fork in Ethereum split the coin into Ethereum (ETH) and Ethereum Classic (ETC). In April of 2016 Ethereum created a decentralised autonomous organisation (DAO) - a method of creating new applications built on the ability of Ethereum to handle contracts. However, a hacker used an error in the DAO smart contracts code to steal $60 million.

The blockchain technology showed where the money went. But reversing the transaction was against the immutable structure of Ethereum. To retrieve the money would take a change in the code and a hard fork. The Ethereum group, led by founder Vitalik Buterin, voted to change the code and retrieve the money. The classic fork side claimed changing the code violated the immutability of the blockchain.

Many people expected the classic fork to die after the split. It dropped in price to about $.75 but by June 2017 it had risen past the forked price to over

[80] Durden, Tyler,'Ethereum To Soar After JPMorgan, Intel, Microsoft And Others Form Blockchain Alliance', Zero Hedge 27 Feb, 2017
http://www.zerohedge.com/news/2017-02-27/ethereum-soars-after-jpmorgan-intel-microsoft-and-others-form-blockchain-alliance

$18.00 per coin.

Ethereum Classic has the same advantages of Ethereum listed above. It's competing with ETH by claiming its protocol in keeping the blockchain immutable gives it superiority. Ethereum Classic also intends to grow coins beyond the current 89.3 million, but limit total coins to 230 million. And it seeks to highlight its transparency and diversified group of miners. Enthusiastic management may help Ethereum Classic keep a place in the cryptocurrency world.

Factom: Factom (FCT) works as a publishing and auditing engine that secures data by several layers of encryption. With Factom all parties can verify and audit the data as needed. It proves the truth of the data and makes it impervious to fraud or manipulation. It's like a private notarization system, which makes it attractive to banks, governments, and security organisations. The Department of Homeland Security in the USA is running a trial of Factom to see how well this increases their security.

Factom is faster and cheaper than Bitcoin and can handle more volume. It works on top of Bitcoin and anchors itself into the Bitcoin blockchain for redundant security. It allows users to theme track, or link together, data they want to track without including unneeded data.

Factom uses factoids as currency which can be traded on exchanges like other cryptocurrencies. Factoids are created by mining and ICOs and used or 'burned' when paid as entry credits used to run applications.

Golem: Golem (GNT) is a decentralised system that rents computer usage all over the world for business computing and programming. You can rent out your computing power and earn money. Some call it the Airbnb of computing. It makes

high-speed computing available for a fraction of the cost. Need to render a complex computer generated image? You can do it in minutes instead of days with Golem.[81]

As companies discover this fast computing for less, Golem expects to prosper. It is built on the Ethereum blockchain and offers a highly skilled programming team and high-quality software development. In February 2017 Golem nearly doubled in value overnight.[82]

Litecoin: Litecoin (LTC) is a peer-to-peer internet currency that was one of the earliest competitors to Bitcoin. It was established in October 2011 and came as the result of a hard fork in Bitcoin. The major differences are shortened block generation times and increased transaction speed. It also excels in lower transaction costs.

Litecoin uses technology and miners nearly identical to Bitcoin and Dash. The open source software allows anyone to verify the code. Mining blocks will be halved every 4 years until a total of 84 million litecoins are produced. That's about four times as many as Bitcoin's ultimate total. LTC doubled in price in one month in late 2013 reached the $1 billion market cap. It retraced, but in mid-2017 it soared about 700% in a month

The advantages of litecoin are:

- Near instantaneous transactions
- Low-cost transactions
- Capability of higher transaction volume without slowdown
- Wallet security lets you see your transactions and account balance, but you must enter your password before spending for added protection from wallet-stealing viruses.[83]

Recently litecoin had a breakthrough. OpenBazzar, an open source market, is working to add other

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[81] 'Golem World Wide Supercomputer', https://golem.network/

[82] d'Anconia, Frisco 'Golem Rises Almost 100 Percent Overnight, Now Number 11 on CoinMarketCap', Cointelegraph 18 Feb 2017 https://cointelegraph.com/news/golem-rises-almost-100-percent-overnight-now-number-11-on-coinmarketcap

[83] https://litecoin.org/

coins as payment since the cost of Bitcoin fees is rising. Charlie Lee, the creator of Litecoin, has offered developers to help OpenBazzar incorporate litecoin.[84]

LTC can be traded on cryptocurrency platforms as well as some forex trading and CFD platforms.

MaidSafeCoin: MaidSafeCoin (MAID) is designed to fight cyber crime by decentralising and encrypting data. It connects unused global computing capacity to create storage space. It also slices and dices data to send to various locations, making hacking virtually impossible. The files are moved autonomously as computers are turned on and off.

MaidSafeCoin started as an ICO, but coins will continue to be generated as people loan their computer storage. The loaned storage allows them to 'farm', or earn, the crypto-tokens as their resource is used by the system. Eventually, SAFE software will host messaging, email, social networks, video conferencing, data storage and more as more apps are built on the system.[85]

This uses P2P technology and a Proof of Resource (POR) model that pays users for hosting data on their computers. When the system is fully running, MaidSafeCoins will be exchanged 1:1 for SAFEcoins.

Metacoin: Metacoin (MET) is an add-on protocol to Bitcoin. It saves in costs of mining and development since it piggybacks on the Bitcoin technology. But it adds advanced features and protocols that Bitcoin is not equipped to handle. Metacoins may be able to handle things like financial contracts, name registration or a decentralised exchange. One weakness in this system is that metacoins can't ensure Bitcoin does not encode the rejected or erroneous transactions from the protocol.[86]

Monero: Monero (XMR) sprang to life in an

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[84] Coleman, Lester 'As Bitcoin Fees Rise, OpenBazaar Looks at Altcoin Payments', Cryptocoins News 9 April 2017 https://www.cryptocoinsnews.com/bitcoin-fees-rise-openbazaar-looks-altcoin-payments/

[85] 'What is MAID?' Eobot, https://www.eobot.com/maid

[86] Maltsev, 'White Paper', pg 7

awkward birth from a Bytecoin fork in 2014. Early scams and miners squabbling made for a difficult beginning.[87] However, Monero broke away from the pack as core developers used solid technology to make a stronger coin. Monero seems to be committed to continued change to improve the currency, placing high value on privacy.

Monero conceals the sending address and creates stealth addresses for the receiving address. In January 2017, Monero introduced Ring Confidential Transactions that provided an added measure of security by obscuring the amount of money transferred to everyone not a part of the transaction.[88] Part of Monero's attraction is the ability to hide the blockchain and to reveal it with a viewkey. This viewkey specifically allows transaction transparency in situations that require it, such as auditing or the public display of charity finances. This makes it an ideal blockchain for banks and other financial institutions that must work within government regulations.

XMR expects to produce about 18 million coins over eight years. Rather than halving the coin mining, it will gradually reduce them. Even after mining stops, it will permit minimal mining to provide less than 1% annual 'inflation'.

Its strengths are:

- Privacy
- Decentralisation
- Scalability

In the first six months of 2017 the price has moved from $10 to nearly $60 USD, and market cap has ranged from $11 million to over $736 million. Trading takes place on cryptocurrency platforms and some forex sites.

NEM: Created by the New Economic Movement, NEM (XEM) is more blockchain technology than

[87] Latapie, David 'History of Monero', Monero Forum https://forum.getmonero.org/20/general-discussion/211/history-of-monero

[88] 'Monero (Cryptocurrency)', Wikipedia https://en.wikipedia.org/wiki/Monero_(cryptocurrency)

strictly cryptocurrency. NEM was a community-based movement to create a new cryptocoin. It rolled out originally in June 2014 with the latest update in March 2015. NEM is not mined and coins are expected to top out at 4 billion. Originally, about 3000 stakeholders received 75% of the coins.

As users create more and larger transactions, those trades give NEM users more power and control over the system. This is called proof-of-importance as opposed to Bitcoin's proof-of-work and Ethereum's proof-of-stake. NEM offers a peer-to-peer platform that lets users manage payments, messages, and names and build assets. The EigenTrust++ system lets NEM run securely and efficiently. Japanese banks are working with NEM.

PIVX: PIVX (PIVX) stands for Private Instant Verified Transactions. It is a fork from Dash and a name change from Darknet. PIVX has a strong community base with over 1,800 masternodes to add to security.[89] This is a fast blockchain payment system. Its SwiftTX give users transactions that happen in a matter of seconds, allowing you instant proof and security guarantees.

Ripple: Ripple (XRP) was created as an international payment system with a goal to help banks move large amounts of money around the world. It's designed to work much faster and at a lower cost than current methods. This direct-to-bank settlement eliminates intermediate financial institutions and currency exchanges. It offers instant settlement and real-time processing of funds so they can be promptly verified.[90]

Ripple is less expensive and more secure than Bitcoin. It can transact huge payments using a fiat currency like dollars or euros as well as cryptocurrencies, commodities, or any other unit of value. Other units of value include things such as mobile minutes or frequent flyer miles. It can also

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[89] 'Yes, PVIX Is Now Top 20 CryptoCurrencies In the World', 22 March 2017 https://bitcointalk.org/index.php?topic=1837054.0

[90] https://ripple.com/

escrow funds and release them without needing trusted intermediaries.

As of April 2017 more than 75 banks have signed on with Ripple, including heavyweights such as Standard Chartered, SHRB, UniCredit, and ATB Financial.[91] The Bank of England FinTech Accelerator recently selected Ripple to illustrate cross-border transfers.[92] Ripple is designed to handle tens of thousands of transactions per second, as fast as Visa.[93]

Ripple began in 2012 priced about $.004 per XRP and quickly grew to 10 times that at $.05 only to drop back to the fractions of a cent. It lingered there with only a brief surge in Jan 2015 until it shot up to $.43in May 2017, reaching a market cap of over $16 million USD, only to drop 48% in the next month.

This volatile cryptocurrency trades on cryptocurrency and some forex platforms.

Stratis: Stratis (STRAT) is a flexible blockchain development platform. It builds applications to run with Bitcoin, Ethereum, and Bitshares. Its strength is that it lets businesses take advantage of blockchain technology in a faster, easier, and less costly way.[94] It simplifies and speeds up the development process for new applications. Stratis combines the latest advances in blockchain security and stability with innovation in speed and scalability of applications. It uses proof of stake to produce STRAT coins that can be used to purchase or run the applications. They are exchanged on several cryptocurrency exchange sites.

TaaS: TaaS (Token as a Service) uses cryptocurrencies as an investment fund. TaaS launched with an ICO in 2017. It is a closed fund that invests in cryptocurrencies. The contract is built on Ethereum. The fund holds 10-30% in

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[91] Roberts, Daniel 'More Than 75 Banks Are Now on Ripple's Blockchain Network', Yahoo News, 26 April 2017 https://finance.yahoo.com/news/75-banks-now-ripples-blockchain-network-162939601.html

[92] Leonard, Shanna 'Ripple Selected to Participate in the Bank of England FinTech Accelerator', Ripple 17 Mar 2017

[93] Vias, Miguel 'New Features Increase XRP Ledger Transaction Throughput to Same Level as Visa' Ripple 31 March 2017 https://ripple.com/insights/ripple-continues-to-bring-internet-of-value-to-life-new-features-increase-transaction-throughput-to-same-level-as-visa/

Bitcoin and the rest in different cryptocurrencies. Investors receive quarterly dividends (in Ethereum) of 50% of the profits. One-half of the remaining profit is reinvested in cryptocurrencies and the final 25% is paid to the development team.

TaaS distributed 100% of its tokens in the ICO. They will be available for trading on currency platforms, but no more coins will be issued. TaaS stands out from other funds in that it is transparent and on the blockchain. It also has reputable leadership. This is unlike other managed high yield investment programmes that invest in cryptocurrencies. They lack the transparency of TaaS and thus are at much greater risks of scams.[95]

Tether: Tether ties the blockchain technology to fiat currency such as the US dollar (USDT), euro (EURT) and Japanese yen (JPYT). This vastly reduced the volatility of this cryptocurrency. It holds 100% of the fiat currency in reserve and claims to be transparent. So you can compare the number of Tether coins with the dollars or euros held in reserve.

The advantage is you can store, send, or receive these digital tokens across the globe nearly instantly for a very low fee. You do have to comply with the 'know your customer' process and prove your identity before getting the coins.[96]

Zcash: Zcash (ZEC) began with impressive parentage at Johns Hopkins, Massachusetts Institute of Technology and Israel's Technion working together to create an improved Bitcoin. The cryptocurrency they produced is a unique code and completely separate from Bitcoin. Design began in 2014 and it was formally announced in January of 2016.

It is faster, more efficient, and offers greater privacy than Bitcoin. The payments show on the

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[94] 'The Stratis Platform' 14 June 2016 https://bitcointalk.org/index.php?topic=1512202.0

[95] Anderson, Weston. 'TaaS Token Sale (ICO): A Closed-End Crypto-Asset Fund'. Smith & Crown. 23 March 2017. https://www.smithandcrown.com/sale/taas/.

[96] 'About Tether'. Tether. Accessed 15 July, 2017. https://tether.to/faqs/.

open source blockchains, but the sender, receiver, and amount remain private. Zcash is mined and will max out at 21 million units. While Zcash uses open source it is not an open source community but has been established as a company.[97] The founders put money in to develop the coin. In return, the founders charge a 20% 'tax' on the first 4% of the mined coins.

14.6 Trading Cryptocurrencies

The above listed cryptocurrencies were the top 20 as of May 2017. Cryptocurrencies and tokens will continue to emerge, rise, and fall. This book can only give you a spot-check on the status of the coins, as they are constantly in flux. You will likely be shocked at the price changes between the time the book goes to press and when you read it. Price changes of 100% to 1000% are not uncommon and market caps will continue to expand exponentially.

Cryptocurrencies can be traded two ways. Either you purchase the actual tokens and trade them on a cryptocurrency platform, or you trade CFDs based on the underlying cryptocurrency price.

On Trading Cryptocurrencies

On 20 April 2017 Yoni Assia, Founder and CEO of eToro said:
"The entire Crypto currencies market cap is under 30 billion where the stock markets are measured in trillions - but I have little doubt that in 10 years, the cryprocurrency world will surpass the trillion USD market cap - and therefore as an investment platform we should be a part of it"

As of 7 June 2017 the Cryptocurrency market Cap topped $100B

[97] 'What is Zcash?', Cryptocompare https://www.cryptocompare.com/coins/guides/what-is-zcash/

Buying Coins: Buying most all cryptocurrencies involves trading your country's currency for virtual currency. You can upload your dollars, pounds, euros or yen to the platform via bank transfer, wire, or PayPal. At the moment, only a few sites accept fiat currency. Often the platform that will accept your fiat currency will not host a multitude of cryptocurrencies. Once you've converted your currency into Bitcoin, or perhaps Ethereum or Litecoin, you are free to buy other currencies and trade on a platform that hosts multiple currencies. Most cryptocurrency owners trade by buying and selling the coins on these exchanges.

Some ICO offerings accept fiat currency. Their sites may be set up to allow purchases of the coins. But more often the purchase must be made in Bitcoin or perhaps Litecoin or Ether. Sometimes those crypto-tokens from ICOs are not easily exchanged for other cryptocurrencies. Either they are only available on the digital platform that issued them, or they are not listed on many of exchanges because they are so small.

Bitcoin Exchanges:
- BTCC - China
- BTC-e - origin unknown
- Bitcoin.de - Germany
- Bitfinex - Hong Kong
- Bitstamp - US
- Coinbase - US and Europe
- Cryptopay - UK
- Huobi - China and Hong Kong
- Kraken - US
- Localbitcoins.com - worldwide p2p
- OKCoin - China

Trading Cryptocurrencies with CFDs: eToro has been at the forefront of the cryptocurrency movement. CEO and founder Yani Assaia delved into Bitcoin back in 2011 buying Bitcoin when it was just $1 a coin. Fascinated with the technology,

he started a Coloredcoins project in September of 2012. It is likely that eToro will be the first trading platform to use blockchain technology to facilitate transactions. This could mean faster service and lower prices. Yoni is committed to offering the strongest cryptocurrencies to trade on eToro.

In 2017, eToro began offering CFD trading in Bitcoin, Dash, Ethereum, Ethereum Classic, Litecoin and Ripple, to let you enter the cryptocurrency trading market. You don't have to go through the process of converting your currency into cryptocurrencies. You need not own a 'wallet' and have your fiat money tied up and hard to access.

When you daytrade cryptocurrencies you'll want to use fundamental analysis and/or technical analysis to forecast price changes. Cryptocurrencies seem more susceptible to drastic changes due to political, legal, or business decisions rather than chart patterns. For example, news of hacking, China restricting BTC transactions, or Microsoft starting to accept BTC payments all affected the price. However, in quieter periods, you can see chart patterns with trading between support and resistance.

Crypto-Currency CopyFund™: One of the easiest ways to play the cryptocurrency market is through eToro's new Top Cryptocurrency CopyFund™. It focuses strictly on the leaders: Bitcoin and Ethereum. In July 2017, the fund weights a little heavier with 65% in Bitcoin and the remaining 35% in Ethereum. The fund's assets will be rebalanced monthly by the eToro investment committee as the volatile prices and market caps change.

CryptoFund CopyFund™: This fund is different from the Crypto-currency CopyFund™ in that it takes advantage of all the cryptocurrencies traded on eToro plus a few more that are not yet traded on the platform. It currently invests in Bitcoin,

Dash, Ethereum, Ethereum Classic, Litecoin and Ripple. The fund's initial allocations gave Bitcoin the greatest weight at above 50% with Ethereum taking the next quarter of the pie. The remaining cryptocurrencies have about 5% each with Ripple holding slightly less. The eToro management team will adjust the percentages as the currencies evolve.

Cryptocurrencies seem to trade in a narrow range and then break to the up or downside in a wildly dramatic manner. Due to the exceptionally volatile nature of cryptocurrencies, smart traders use preplanned trailing stops. They offer a high potential trade for the adventurous trader and a financial instrument to hold for the chance for above average growth.

All trading involves risk. Only risk capital you are prepared to lose. Past performance does not guarantee future results.
This information is for educational purposes and not investment advice.

Chapter 15

Trading Commodities

Commodities are a variety of resources that have been quantified or standardised. Exchanges have established specific standards for each commodity. This way, buyers and traders know exactly what they are trading and what the value is even without seeing the product. Commodities include soft commodities such as:

- **Agricultural** - soybeans, wheat, cotton, sugar, etc.
- **Livestock** - cattle, lean hogs, pork bellies, feeder cattle

Hard commodities are those that need to be mined or extracted such as:

- **Energy** - crude oil, natural gas, heating oil, gasoline
- **Metals** - gold, silver, copper, platinum

As society progresses, new commodities are added to the trading centres. Commodities now include plastics, iron and steel, machinery, and vehicles. They may include things like wind, solar, biofuel, or even carbon emissions or offsets and renewable energy certificates.

Commodities have symbols similar to stocks. West Texas Intermediate crude oil goes by WTI and is a benchmark for other oil standards. Wheat traded on the Euronext Exchange goes by EBL and live cattle go by LE. Contract sizes tend to be huge. Live cattle trade in 20 tonne lots, wheat in 50 tonne lots and West Texas Crude in 42,000 US gallon lots. [98]

Because lot sizes are so large, commodity trading has traditionally been the province of hedge funds and large institutional traders. Even trading with leverage and margins requires a sizeable investment and risk. Trading with CFDs lets people trade fractions of lots and makes the trading available to the average investor.

Commodity trading takes place in exchanges around the world. Different exchanges specialise in different commodities. Often they trade in the commodity produced by their country or those nearby. Some of the largest exchanges are:

- Chicago Mercantile Exchange - USA
- Tokyo Commodity Exchange - Japan
- Euronext - Europe
- Dalian Commodity Exchange - China
- Multi Commodity Exchange - India
- Intercontinental Exchange - Multinational
- African Mercantile Exchange - Kenya
- Uzbek Commodity Exchange - Uzbekistan[99]

The market that drives commodities is different from that which propels stock exchanges. They respond to different stimuli than stocks or currency, and so offer another avenue to trade. Weather, natural disasters, politics, and supply and demand all influence commodity prices. In areas of political unrest, the market prices can fluctuate more dramatically.

For example, when there is tension in the middle-east, oil prices react. A drought in the mid-west section of the USA will affect wheat prices.

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[98] 'Worldwide Commodities', http://worldwide-commodities.com/list-of-traded-commodities/

[99] Commodity Market, Wikipedia https://en.wikipedia.org/wiki/Commodity_market

Or alfalfa scarcity will drive up cattle prices. While some of these issues may also affect stock or currency prices, many of them will have a much more volatile effect on commodities. This gives traders the chance to profit in commodities when the volatility may be low in other assets.

15.1 Commodity Trading History

The Sumerians may have been the earliest people to use commodity-based money or trading. As early as 4500 BC they inscribed clay pots with the commodity - grain or goats - to be delivered. Thus, the beginning of futures contracts.[100]

People continued to trade gold and silver, pigs and sea shells. In the 1400s reliable scales allowed farmers to weigh their commodities for better standardisation. And in 1530 the Amsterdam Stock Exchange began using complex contracts like options, forward contracts, and short sales.[101] The Chicago Board of Trade (CBOT), started in 1864, was the first to truly quantify and standardise commodities.

The CBOT started by trading agricultural products: wheat, corn, cattle, and pigs with the kind of futures contracts and options still in use today. By 1940 the CBOT had expanded to include a multitude of soft commodities. In 1952 the Bureau of Labor Statistics started publishing a Spot Price Market Index that followed 22 commodities. Traders started using it as an early indicator of possible changes in the economy of the country.

It wasn't until the 1990s that commodity index funds were created. After all, it's hard to hold the perishable underlying assets. Instead, the funds invested in financial instruments that were linked to commodities in the index. The exceptions to this were some gold and silver funds that actually held

[100] 'Commodity Market', Wikipedia

[101] Stringham, Edward 'The Extralegal Development of Securities Trading in Seventeenth Century Amsterdam' Quarterly Review of Economics and Finance. 43 (2): 321. *SSRN 1676251*

the physical gold or silver in vaults.

The 1990s also saw expansive growth of emerging economies in Brazil, Russia, India, and China. Commodity exchanges expanded throughout the world to feed the increased demand from these countries. This commodity boom lasted until 2012.

By 2011 electronic trading had taken over the buying and selling traditionally handled by floor traders. This allowed high-frequency trading and algorithmic trading that favour commodity speculators. As speculators entered the market, some feared they were ramping up the price of the commodities.

People claimed rich banks and traders were making money by starving people with high food prices. An article in Forbes indicates this has little merit.[102] Over the last 50 years as the population has increased from 3 billion to 7.2 billion, the cost of food, as shown by the World Food Index, has gone down. This decrease has come even as the number of traders and speculators has increased.

There were also complaints that the commodity traders increase price volatility and make it more expensive for companies to hedge their costs by fixing the price of the commodities they need. But others said that companies and farmers need the speculators as counterparties for the other side of their trade. In 2014 the US Commodities Futures Trading Commission (CFTC) set limits on 28 commodities. They restricted the amount of supply speculators could use to trade.[103]

Traders of commodities can feel confident their trades are not affecting market price. Plus, when you trade CFDs you are free from any of these limits because you are not trading the commodities, only trading on the price changes that occur.

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[102] Worstall, Tim, 'Commodities Speculation Doesn't Increase Food Prices', Forbes 10 Mar 2016 https://www.forbes.com/sites/timworstall/2016/03/10/commodities-speculation-doesnt-increase-food-prices/#5d6acbe52ea5

[103] Fuhrmann, Ryan C. 'The Role Of Speculators In The Commodity Market', Investopedia 11 Aug 2014 http://www.investopedia.com/financial-edge/0412/the-role-of-speculators-in-the-commodity-market.aspx

15.2 Commodity Terminology

Before you start trading commodities, it's useful to understand the specific language traders use. Here is a brief glossary to get you started:

Cash Commodity: holding the actual asset of gold, silver, oil, cattle, etc.

CBOT: Chicago Board of Trade. One of the world's oldest futures and options exchanges.

Derivatives: These are contracts such as futures, options, or forwards based on the physical asset. They can be redeemed by the asset or, more often, sold before the commodity transfer takes place.

Forward Contracts: An agreement between two parties to purchase a commodity at a specific price on a specific date. This is a form of hedging and the settlement takes place on the closing date.

Futures Contract: These exchange-traded contracts are standardised and the payment is made at the beginning of the period and 'settled' or rolled over each day until the end of the contract. Speculators use these contracts to try to make money on the changing price of the commodity and typically close them out before maturity.

Margins: A certain level of funds needed in your account when you use leverage to make a commodity trade.

Margin Call: The requirement to deposit more funds into your account to cover a commodity trade that has lost money. This is done to bring your account up to the appropriate margin needed for trading. If funds are not promptly deposited, the broker will liquidate a position to cover the margin call.

Options: Options give you choices. You can buy or sell the right or the obligation to buy or sell a commodity within a specific time. The end of the time is called the expiration date. Buying a put or call, gives you the opportunity, but not the obligation, to collect the commodity if the price rises (call) or falls (put) into the price you set for the option. Selling a put or call brings you up-front money. But it requires you to deliver the asset if the price comes in the money or beyond your agreed upon price at or before the expiration date. This exposes you to unlimited risk if the commodity spikes (with a call) or drops like a stone (with a put.)

OTC: Over the Counter trades. These are made by two parties without going through the exchange. It is more private and less secure.

Short Sales: This is selling a commodity you don't own. Traders who make short sales assume prices will drop during the term of the contract and they can repurchase the commodity at a lower price. If they are right, they profit from the price difference. If the commodity rises, they must pay the difference between the sell and buy prices.

Spot Contract: Commodity delivery takes place immediately or within a day or two of the contract start date.

Standardisation: Specific tests and standards, so traders know the quality of the commodity they are buying. All coffee beans of a certain size, colour, and species may be one standard. They are identical even if they come from Panama or Kenya.

Swaps: The consumer gets the commodity at a guaranteed price and pays in advance for the commodity. The producer is hedged from a price decline but gets a slightly lower price for the commodity. Since he pockets the money up front, the sales price is reduced by the interest earned

on the money over the swap period. At the end of the period, the swap can be settled with a cash difference or with the commodity. Swaps are a common hedge.

15.3 Nine Ways to Trade (or Own) Commodities

As has been explained above, there are many ways to try to profit from commodities. Here are some specific buying, selling, and trading strategies. Consider your risk tolerance as you review them.

1. Own the Asset. If you live on acreage, you might buy cattle or goats. If you desire gold, buy the physical asset. If you heat with fuel, buy larger tanks and store more. When you own the asset, you take advantage of upward prices, but fall victim to price drops. Still, the asset of gold or silver carries intrinsic value and beauty, and many people own it as a hedge against devaluing currency.

Owning the asset limits your losses to the amount you invested.

2. Commodity Exchanges. By far, the majority of trades take place on exchanges. Here the products are of a standard quantity and quality. Commodity exchanges are all over the world, with some trading in a few specific commodities and some covering almost all of them. Most individual traders, hedge funds, and companies who speculate, trade on the exchanges. These exchanges guarantee the trades will be executed and honoured. However, they still carry considerable financial risk.

3. Trade Commodities OTC. Usually companies, farmers, and those who have or need the resource use OTC (over the counter) contracts to buy or sell commodities. These commodities may be personally inspected to see the quality as they are

not guaranteed to be a specific level or standard by a governing body. Some commodities are not sold on exchanges, such as rare metals, common minerals, pressed oils, or vegetables. They are only available OTC. OTC contracts can take the many forms shown under futures contracts. These contracts may expose you to more risk than your initial investment and carry the additional risk of default, where the other party does not fulfil their part of the agreement.

4. Futures Contracts. The most common method of trading is with futures contracts. The futures contract specifies the:

- Commodity
- Exchange traded on
- Quantity
- Quality
- Delivery location
- Delivery date[104]

The seller agrees to deliver the commodity on the delivery date. Speculators sell the contract before the delivery date. The amount of a commodity in any one contract is substantial. It will be thousands of bushels or barrels, or tonnes of goods. Traders use leverage to take advantage of price movement without needing to have the entire cost of the trade in hand.

You can buy (go long) or sell (go short) a futures contract depending on the direction you think the market will go. Long anticipates the price will rise and you keep the profit when you sell. Short anticipates the price will drop and you can buy it back at a lower price. As the trade progresses and your exit points are reached, most traders exit the trade. They do not want to own the commodity, only to trade on the price volatility.

[104] 'Futures Markets - Part 4: What is a Futures Contract?' Futures Trading Short Course http://futures.tradingcharts.com/tafm/tafm4.html

Be aware that futures contracts are settled each night, and a new contract price is in effect for the next trading day. If the price has dropped, the margin amount changes and the traders must immediately ensure they have enough money in their account to cover it. These overnight or carry fees are shown on your trading platform. Traders are ultimately responsible for the entire amount, even when they have borrowed money from the broker for the trade. This creates very high risk. The longer you hold the trade, the more carry fees you will incur.

5. Options. As mentioned above, options give you a chance to buy or sell puts and calls. Most options expire worthless or 'out of the money'. This means that traders who sell puts or calls usually just collect the money and don't have to pay out. But the risk can be substantial if the price of the commodity changes rapidly. The advantage of ***buying*** options is that you limit your downside. The most you will ever lose is the amount you paid for the option. And if the commodity comes 'into the money' or even closer to the agreed upon price before the expiration date, you can make a nice profit. Some traders use a mix of puts and calls, both buying and selling at different prices or expiration dates to minimise risks and enhance profit potential.

6. Binary Options. Binary options, or digital options, are derivatives that trade on the underlying asset. You don't own the asset, rather, you buy an option based on the direction you think the commodity will trade. You can use small amounts of capital and no leverage. You have a fixed price and fixed payout or loss on a yes/no question. Binary options can expire in an hour, a day, or a week. Most binary options brokers are scams and regulators are currently cracking down on them.

Notice that the binary options trade does not follow the price of the commodity; rather it varies between zero and 100%. When the option expires, the trade closes. Either you are right, or you are wrong, two choices. That's why it's called binary options. For example: Will gold rise above $1200 by 6pm tonight? You think yes, and open the trade at the going rate - say $50. At 6pm, gold trades for $1213. You are paid the rate fixed for this trade, say $100 and earn a $50 profit. If it closes at $1195, you lost your $50 and earned nothing. It does not matter if gold climbs to $1300, your max profit is the agreed upon payout. And your max loss is the cost of the trade.

7. ETF. Stock market investors gain access to the commodities markets through exchange traded funds(ETFs). This is an easy way for the average investor to gain exposure to this asset class. Some of these funds actually hold the commodity, usually gold or silver funds. Holding physical gold or silver carries risks of security and also tax consequences with buying or selling. Most ETFs just hold derivative papers such as futures contracts or options. These instruments do not align exactly with the commodity prices. So if the commodity goes up a certain amount, the ETF is unlikely to rise the same amount or at the same time.

8. Stocks. Stock market investors who want exposure to commodities may also buy companies that have a holding in the commodity such as oil and gas companies, junior mining stocks, or precious metal streaming companies. They can invest in aluminium through Alcoa, or steel through ArcelorMittal or other similar companies.

9. CFDs. Contract for Difference (CFD) offer an alternative entry to commodity trading. You trade on the underlying asset, so your prices correlate exactly with the price changes. You can trade fractions of a lot, so you don't need as much money

to enter the trade or as much margin to stay in the trade. You can still use leverage to increase your profit potential and your risk. It's also easy to move between stocks, indices, currencies, and commodities because they are all traded on the same platform.

Remember all trading carries risks. Use of leverage increases your risk factors. You have the chance to profit or lose money in your trades.

15.4 Commonly Traded Commodities

Many speculators focus on trading in precious metals and oil and gas. These commodities have intrinsic value, are highly volatile, and trade frequently. The easiest way for individual day traders to take advantage of commodities is through CFDs. Let's take a look at why you might want to trade in these commodities.

Copper: Copper is the third most widely used metal in the world and is in demand, especially as economies grow. High conductivity and malleability make it useful in electronics, motors, wires, and cables. It's also used in solar panels, telecommunications equipment, and car batteries. It does not corrode and is an essential part of alloys such as bronze and brass. It also is one of the most affordable metals.

Copper prices moves in tandem with the state of the economy, especially the construction industry. Copper can signal an uptick in the health of a nation as sales of homes, electrical appliances, and other copper using technology increases. Spot prices can also be influenced by mine strikes, political instability in mining regions, and increased demand as people turn to solar power. Supply and demand affect price and current mines have a limited number of productive years remaining.

Prices can move dramatically even within an hour, so traders must pay close attention to their trades or pre-set exit points. As always, trading commodities involves a high level of risk. Copper trades in 25,000 pound lots under the ticker symbol HG.

Gold. Gold has long been valued as money and as a safe haven in times of unrest. It is also used in computers and jewellery. Most of the gold comes from China, South Africa, the United States, Australia, Canada, Indonesia, and Russia.

Gold moves with supply and demand. Demand increases in times of insecurity or increased prosperity as more people buy gold. World and national politics, political turmoil, monetary policies, and the US dollar affect gold prices. Since gold is typically quoted in US dollars, strength or weakness in the dollar usually, but not always, affects the price. Gold prices decrease when investors are confident other assets offer better returns.

Gold is sold in 100 troy ounces lots with the ticker symbol of GC.

Natural Gas: Natural gas is a highly volatile commodity that is cyclical in nature. It is used primarily for heating and cooling as well as running energy plants. Price moves with supply and demand, which are often controlled by nature. A cold winter increases demand. Increase or decrease in oil output also influences supply.

Traders keep an eye on stockpiles and the weather forecasts as they trade. Natural gas prices are most volatile in the high demand seasons of December to February and in July and August. At other times of the year, natural gas prices may see a lull.

Natural gas trades in 10,000 million BTU lots and has a ticker symbol of NG.

Oil: Crude oil is the basis of petrol, liquefied petroleum gas (LPG), naphtha, kerosene, and diesel and jet fuel. Oil is also the basis for most plastics. Oil with less sulphur is called sweet. Oil with low density is called light. Light, sweet crude takes less time to refine and so is more desired.

Crude oil is traded more frequently than any other commodity in the world. Volatility in oil prices comes from the news: political unrest, possible disruption of oil fields, and changes in supply or demand can all impact the price. Russia, the Middle East, and the United States produce the most oil, so changes in their politics or production make the most impact.

Nature also plays a role in crude oil's volatility. Heating fuel comes from oil, so a cold winter will increase prices. A temperate summer can encourage a busy summer driving season which may increase gas demand. Emotion also drives the oil market. Fears and worries, even unrealised, can rocket oil futures.

1,000 US barrels or 42,000 gallons make a futures trading lot. Oil trades under a variety of tickers depending on the type and quality of the oil.

Palladium: Palladium is similar to platinum, but even rarer. It's resistant to heat, chemicals, and tarnish. It is softer, so it can be more easily shaped. An inert metal, palladium can absorb 900 times its own volume in hydrogen. Palladium is used in jewellery, dental work, electronics, fuel cell production, and, most often, in catalytic converters for cars.

Traders like palladium because it is 30 times rarer than gold. The demand for palladium is increasing, but the price is still relatively low compared to gold. Some use it as a hedge against inflation.

Russia and South Africa produce about 80% of the world's palladium. Because Russia controls nearly 50% of the market and is secret about its stockpiles, uncertainty makes the asset volatile. Political tensions in the regions and auto production impact price. Typically the price of palladium goes up as car production increases.

Palladium contracts sell in 100 troy ounce lots with a ticker symbol of PA

Platinum: Platinum has a high melting temperature and is corrosion resistant to air. It has high electrical conductivity and yet is non-reactive to chemicals. It is more useful than gold as it is a part of products as diverse as catalytic converters, dental equipment, jewellery, and thermometers. It is also about 15 to 20 times scarcer than gold which typically gives it a higher price than gold.

Russia and South Africa produce a majority of the world's platinum, so strikes or political unrest in either area can shock the price. As always, supply and demand play a part. Nearly half of the platinum goes into cars. If a cheaper option for catalytic converters is found or if too many cars shift to electric, demand may drop.

Contracts trade in 50 troy ounce lots with a ticker symbol of PL.

Silver: Silver is easy to shape and very conductive. It has a long tradition of use in jewellery and money. Indeed the British pound originally equalled one pound of sterling silver. It also serves industrial purposes and can be found in electronics, household appliances, photographic equipment, x-rays, and even anti-bacterial odour control in shoes.

Silver has traditionally stood as a hedge against inflation, deflation or devaluation. It is highly volatile

and has traded as high as $110 in 1980 to a low of under $6 in 2001. The peak came as a group of investors tried to corner the market on silver.[105] The price spiked, then tanked.

The low cost and high volatility of silver make it attractive to trade. Its price changes seem correlated to other precious metals. People buying physical silver as a hedge against currency concerns may affect the price.

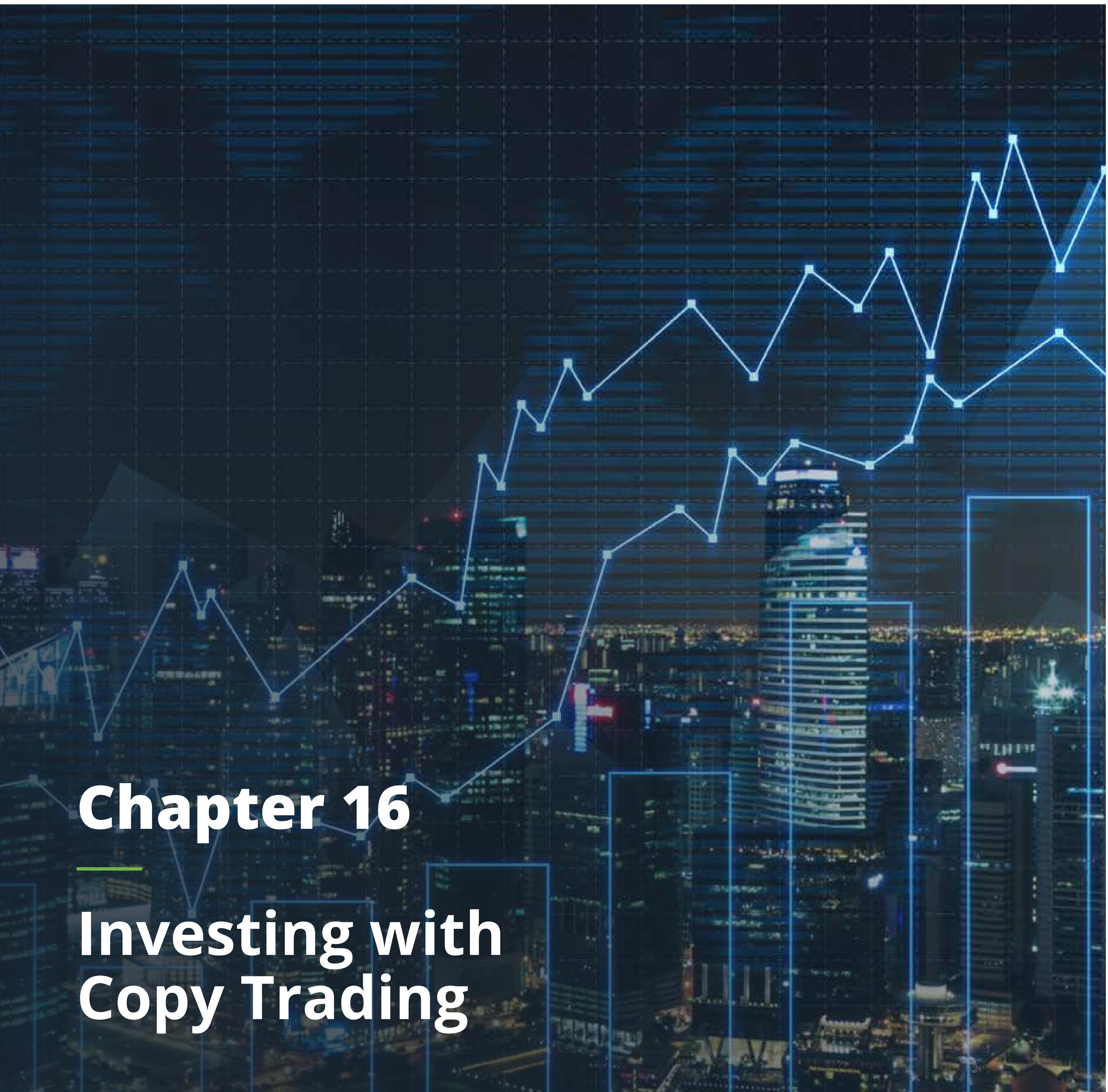
A silver contract is 5000 troy ounces and trades under the symbol of SI.

Gold, silver, oil, and natural gas are the most frequently traded commodities. If you decide to enter commodity trading, keep tuned to the news that affects the industries that use your commodity. Pay close attention to countries that hold large reserves and the political events surrounding them. Recognise that supply delays and shipping problems caused by weather or disasters are likely to impact price.

Know that commodity trading is high-risk trading. Your capital may be at risk. Leveraged trading increases your risk. While you may only use a small amount of your money to control a large contract of assets, you are responsible for the entire amount. Trade wisely.

All trading involves risk. Only risk capital you are prepared to lose. Past performance does not guarantee future results. This information is for educational purposes and not investment advice.

[105] Drakoln, Noble 'Commodities: Silver', Investopedia http://www.investopedia.com/university/commodities/commodities18.asp



Chapter 16

Investing with Copy Trading

Both experienced and novice traders may benefit from social trading. Copy trading platforms help new traders gain from the wisdom of the crowd. It also allows experienced investors to share their knowledge and skills for income. It gives everyone the chance to benefit from an exceptionally wide range of trading.

16.1 Getting Started Trading

Before you start social trading, you'll have some decisions to make. Which platform should you use? What should you trade? What is the easiest way to trade within your risk tolerance and goals?

Choosing a Trading Platform or Broker: The kinds of securities you want to trade influence your choice of trading platforms. Online stock brokers may not offer you the versatility of CFDs or trading in currencies, commodities, or cryptocurrencies all on one site. Traditional brokers can't give you the advantage of building off the wisdom of the crowd.

Chances are you want an online trading platform that is entirely based on or accommodates CFDs. This gives you the freedom to trade assets from many countries as well as currencies and commodities, and even cryptocurrencies like Bitcoin. Additionally, you see benefits in a platform that lets you watch other traders so you can build on their knowledge. Check out how easy it is to copy the trades of others. Learn the fees each platform charges for trading.

You also want to know the ways the platform safeguards your investing. Do they easily let you set stop losses? Can you exit a trade at any time, even if it was put on by a trader you are copying? How fast are their executions of the trades? With trading, some losses are inevitable, but some trading platforms are set up to limit leverage and offer other protections to safeguard traders. You can also have more trust in a brokerage that complies with financial regulations.

Checklist for your best trading or investing platform:

- Trades the financial instruments I am interested in - currencies, commodities, stocks, cryptocurrencies, ETFs etc
- Offers a social network to chat with and learn

from others

- Supports responsible trading with risk reducing factors
- Allows traders to copy other experienced traders
- Offers thematic investment funds
- Registered and compliant with national or international securities regulators

Most platforms make it easy to sign up and they are available in many countries. One notable exception is the United States. Other countries that may not permit social trading include Japan, Iran, North Korea, Myanmar, Syria, Cuba, and Sudan. eToro trades in over 160 countries. If your country prohibits trading or the platform does not offer services in your country, you'll see a message that says something like: 'We're sorry, but we currently cannot accept clients from your country'.
Why not the USA? The FATCA (Foreign Account Tax Compliant Act) the USA put into place in 2014 requires all foreign financial institutions to report assets held by US citizens and entities. The paperwork is onerous and many platforms don't want the work. Also, the Dodd-Frank Act prohibits hedging trades such as opening a buy and sell in the same pair. And it requires closing trades in the order they were opened.[106] This is impossible to guarantee if you are copying other traders.

Money: Typically the platform will accept your country's currency to begin trading. They may take PayPal, credit cards, bank wire, or other online payment forms. Check to see if they show the results of your trades in your currency or in US dollars.

Profile: Be sure to complete your profile. If you have an opportunity to enter your risk tolerance and goals, do so. It may help the platform tailor its offerings to better match your trading goals. You may be offered the choice to keep your profile private or public. This is entirely up to you.

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[106] 'Social Trading for USA Residents', SocialTradingGuru 5 Sept, 2016 http://socialtradingguru.com/social-trading-for-us-residents

Sharing your track record will attract friends and others who want to mirror your trading. Public profiles are selective in what is public. Check your platform to be sure what information is shared. At eToro, your trading information and statistics, name, and nation are public. But the actual cash invested and other personal information such as your address are always private.

You can also choose virtual trading or live trading. When you begin, you will likely want to practice on the virtual trading site to get a feel for the platform and to prove and perfect your trading strategies. Virtual trading mimics the timing and results of live trading exactly. But with virtual money, you don't feel the sting of the loss, and you can't pocket your winnings.

Finding Your Way Around: Each social trading platform has its own quirks and ways of executing trades. Take time to investigate the site and learn how it works. Watch the start-up videos until you become familiar with all the options and benefits on the site. Make sure you know how to enter and exit a trade. Learn the stop loss settings and how to use them. Some sites may have classes or courses you can take. On eToro, and any site, trading involves risk. And remember, past performance does not guarantee future results.

Begin Slowly and Build: Many of the social trading platforms are fun. They are attractive, easy to use, and it's simple to begin trading. It's almost like a game. You can chat with friends, follow others, and have a good time. But, once you start live trading, it's real money: real profits and real losses. It's great to have a good time. But be sure to use 'good time' money at the beginning. Use the money you can afford to lose.

One trader started with money he would otherwise have spent on a new computer. Some decide to trade with the money they would have used for a

holiday. Just don't use the money you need to pay bills. Then you can have fun. A loss won't break the bank, and a win can feel exhilarating.

Add to your account on a regular basis. Larger amounts of money let you trade in different ways and gives you more potential for significant gains. As you build your account, your strategy may adjust. You may choose to have speculative trading money and hold long term investment money in lower risk assets. Social trading platforms are designed to allow you to do all of this.

16.2 Copy Trading Strategies

Copy trading comes with its own kinds of strategies. Here are some ways to get the most from your copy trading account.
Check Out Skilled Traders: Take the time to find out all you can about traders you are thinking of following. You may want to virtually follow them for a while and see their long term results. Remember that their past performance does not represent what they will accomplish in the future. Check out their trading history. Are they invested in the kinds of securities you want to trade? How often do they trade? How much money have they lost? Knowing that is as important as knowing how much money they have earned.

Don't automatically pick the highest earning trader. He or she may be taking excessive risks and will crash and burn. They may also have a number of open trades that are at a loss. Those unrealised losses won't show up in their earnings.

You can see how many people they have following them. That can be an indication of their success, but not always. Sometimes it's self-fulfilling. They have a run of good trades, and people hop on.

Others see the increase in the number of copiers and jump on as well. This herd mentality may be the downside of social trading.

Don't follow blindly. A trader with a string of good trades may not have a strategy built to handle all markets movements. Even those with large followings may take substantial losses. So be sure to look at factors beyond a large following.

Strong trading platforms help you manage your risk by assigning risk levels to traders. It's most useful if it reveals the risks of individual trades and total trades put on. Match the trader's risk score to your trade tolerance. You may find greater security in copying a trader with a 10-20% return rather than risking trades with a trader who has recently returned 50% or more.

Learn as You Go: Don't just pick traders and trust them. Instead, learn their strategies. Study charts and fundamentals. Become the backup 'fact checker' for the trades you are following. See if you agree. Evaluate how the trades turned out and see if you might have predicted better... or worse if you'd done the trade on your own. If you find they've put on a trade you're not comfortable with, eToro lets you drop out of that specific trade with the click of a button.

Set Stop Losses for Copy Trading: Usually you can see the drawdowns or losses the trader you are copying has taken. If it is beyond your comfort zone, this is probably not the trader for you to follow. Even when you find a trader that keeps within the safety zone you want, be sure to set a stop loss order. If the asset value they are managing falls below a specific percent or amount, the platform will close the trades automatically. Some traders may have a strategy that works great, but then fails spectacularly in a certain market. Your stop loss lets you bail out early in the fall.

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Copying Current Trades: When you begin to copy a trader, you may be asked if you want to copy their current trades. Typically the answer should be no. Those trades may have already made substantial moves in a positive direction. They may fall back a bit before the trader sells it and you'll take a loss while others profit. You might join the open trades if most of the positions are new, neutral, or in the red. Did the trader have a good set-up? Is it likely these trades will rebound giving you even better returns than the followers who started when the trade was originally placed? If you can answer yes to these questions, then copy the negative trades in the portfolio of the trader you are starting to copy.

Risky Money and Investment Money: All trades carry risk, but day trading and leveraged trading carries greater risk with a goal of a potentially greater upside. Investing in indices, ETFs and blue chip stocks without leverage reduces the risk of loss of capital while still giving some upside. You only want to day trade with leverage using money you can afford to lose. As you add more money to your account, consider having two ways of trading. Firstly, the money you want to risk for possible big gains, and secondly money for more secure trades that you want to grow for retirement or other long term goals. Then balance your copy trading to include these kinds of traders. Or take some money and invest in lower risk CopyFunds™ offered by the platform.

Limit the Number of Traders You Copy: eToro lets you copy up to 100 traders. But experienced copy traders choose three to seven traders to follow, at least initially. They balance their risks and assets between these traders. That way if any one trader fails, they have not lost their entire pot of money. Also, if you are only starting with a small amount of money, don't follow many traders. You may not be placed in some trades if your

investment amount on that trade doesn't meet the minimum requirement. If you miss a trade, you will also lose out on the trader's diversification and increase your risks of loss.

Choose Traders in Different Assets: Your asset allocation may be best served by having money divided between currency traders, stock traders, commodity traders, those who heavily leverage, and those who do not.

But it can be hard to find traders who focus on one sector. Some invest over a vast range of securities. Then you have the concern of overlap. You may have two traders you follow and both are buying USD/GBP or gold, for example. This cuts back on your diversity. When seeking out traders to copy, try to find ones that are not investing large amounts in the same securities.

The wider your asset allocation, the greater your risk protection. Leverage also plays a part in your asset allocation and risk level. You might put a percentage in with a high-risk-score trader, but adjust your risk by choosing another trader with a conservative style.

On the eToro platform, you can search for Popular Investors to follow based on where they live, what markets they invest in, how much they have gained, and how long that track record is. You can further refine the search to cover the percentage of profitable trades, risk scores, drawdowns, average trade sizes, the number of followers, and more.

High risk and high rewards don't always go together. At times you can find a low-risk trader making great returns. It's worth your time and research to find traders with lower risk, higher returns and a long track record. You may keep an eye out for 'rising stars' you can add to your copy trading. Remember that past performance is not a

promise or indication of future results.

Once you find the traders you want to copy, a simple click of a button should let you start following them. Choose the amount of money or the percentage of your account you want to invest with them. The portion of the money you allocate will be used in the same percentage as the trader invests his or her money. Often a trader will recommend a minimum amount to invest with them. You need not invest that, but you must make sure the amount you are investing is large enough so that no one trade is below the platform's minimum amount for a trade. When you enter the amount you want to copy on the eToro platform, it will tell you the average size of your trades.

16.3 Growing Your Influence

Traders who are confident in their skills and have a good track record may want to become a popular investor, or a trader others follow. Check out your trading platform to see the steps you need to take to become the trader others copy.

You can start simply by reaching out to friends and inviting them to trade with you. You can begin being copied any time after you have a public account. However, there are steps you can take to grow your following. Here are nine tips.

1. **Trade well.** Develop a good track record.
2. Complete your profile. Add a picture. People trust traders with pictures so they can see who they are.
3. Keep a reasonable risk level. Make it within bounds other wants to trade in. Some platforms will not let others copy you if your risk is too high.
4. Get verified. Make sure you give your platform

all the information needed to be verified and increase your credibility.

5. **Increase personal money invested.** The more money you have in the trades, the more credibility you gain with the trading platform. (No one else knows how much money you are investing.) Studies also show you can withstand more volatility with leverage if you are trading larger amounts. Some platforms require a larger investment to become a higher level copy trader.
6. **Comment in the chatroom or feed of the platform.** Make comments about your thoughts on an asset in the news feed or chat area. You will get exposure. If your predictions come to pass, others will take note. Also, explaining the rationale behind your trades helps novices know and trust you. Answering questions helps others perceive you as an expert.
7. **Develop a track record.** It takes time to become a leader. You need to develop that track record of trades so others can see, verify, and trust you.
8. **Grow copied money.** The more money you have following you, the more the platform will compensate you.
9. **Trade well. It's worth saying again.** If you are a successful trader, others will copy you.

Most trading platforms compensate traders who have copiers. Traders can earn a rebate on the spread, eventually moving up to entirely free trades. Some platforms compensate traders based on the amount of money that copies them, others on the number of people copying them.

For example, eToro offers four levels of Popular Investors, (their name for traders you can copy).

- **Cadets** begin the journey as a Popular Investor with as little as $1000 in personal funds, $500 in minimum average equity, plus one copier. They receive a spread rebate of 20%.
- **Rising Stars** have at least $5k of their own invested, plus 50 traders with a total up to $5,000 average equity. They earn $500 a month plus a 30% rebate on trade spreads.
- **Champions** have a following of 250 or more and $5k in both personal funds and $5k in average equity. They earn $1000 a month plus a 50% on spreads.
- **Elite** status has the potential for nearly unlimited income with some making $7,000 to $10,000 or more each month. Elites have over $300,000 in money following them. They receive 100% rebate on their trade spreads plus $1000 a month and a 2% management fee for the funds invested with them (calculated annually and paid monthly).[107]

Of course, all these fees are in addition to any profits Popular Investors earn from their personal trading. If you bring trading skills to a social trading platform, consider the money making possibilities of becoming a trader others follow.

16.4 Professional Traders

There are many traders who have been investing on their own for years and they have skills to share. And there are professional traders who have been managing the funds of clients. Both can find a place on social trading platforms that welcome them and help them grow their clientele.

Professional traders are particularly invited to come and trade on social trading platforms. First,

[107] 'Popular Investor Program', eToro https://www.etoro.com/en/popular-investor/

they can bring their clients and give them more transparency. Clients can view each trade and follow along or they can set-and-forget. Second, professional traders have a chance to pick up more clients or copy traders who want to follow them. They have much greater exposure to the thousands of other traders already on the platform and looking for someone to follow.

The platform may have a dashboard specifically for professional traders so they can track their following, their income, and their trades. Some platforms even let professionals set up their own fund for others to follow. They can pick their securities, choose the weights, and decide how often they want to rebalance. They can also back test performance data and choose active or passively managed strategies.

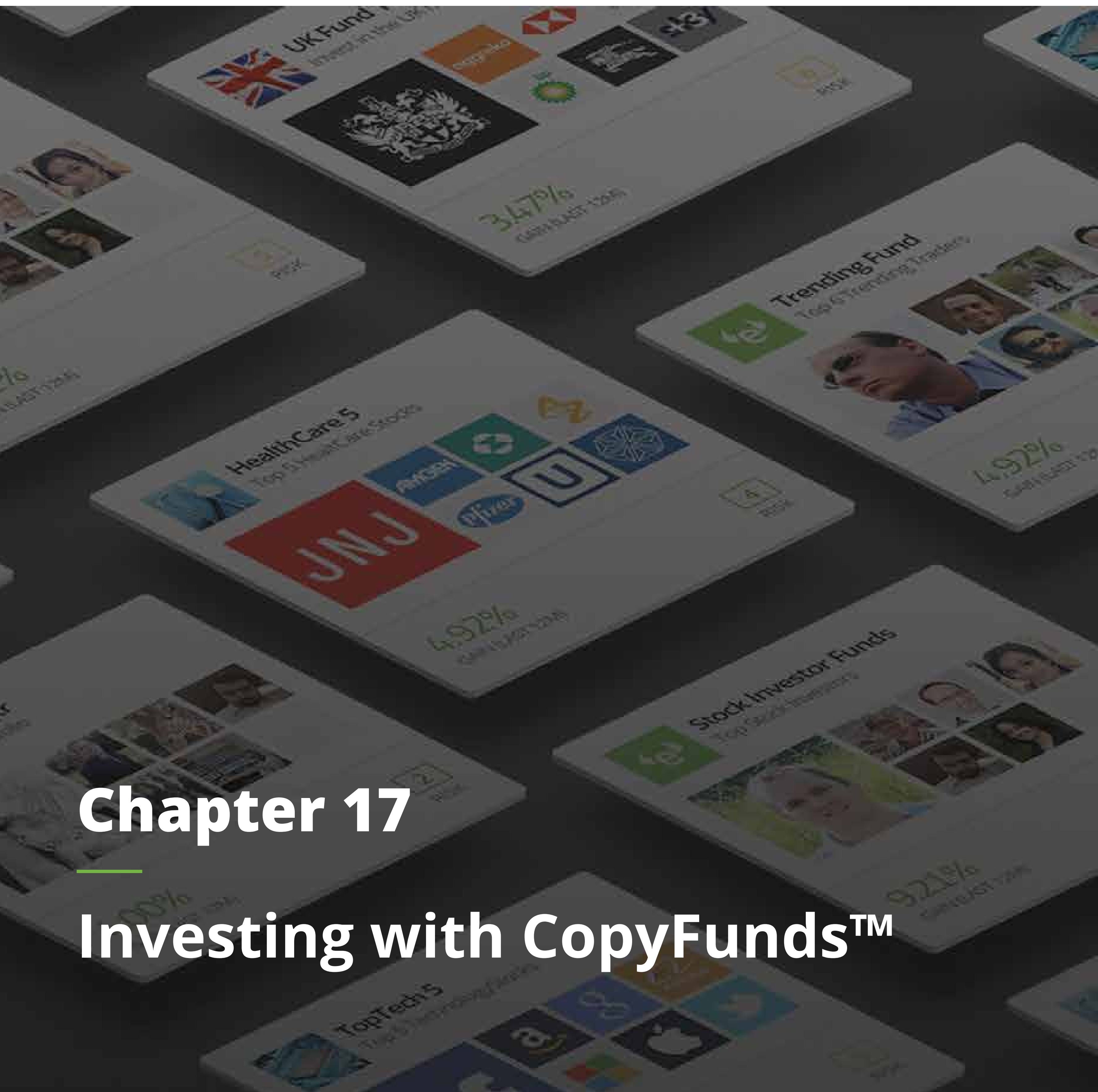
If the platform has a chat or feed page, they can interact with their followers quickly and effectively. This way of gaining information about investor's experiences and feedback allows professional traders make adjustments to improve their trades, their funds, and user satisfaction. By sharing investment rationale on the feed page, professionals create trust and increase those copying their trades.

And trading platforms can offer financial benefits. First, the spread is an ultra-low trading fee. Second, the compensation for the traders can be quite attractive. Traders with a high amount of assets under management (AUM) can earn a sizable amount of profit sharing.

And there are perks to make life easier. The platform handles all the 'paperwork'. The platform takes care of the client trades, fees, payouts, trading history, etc. Traders get to focus on what is the most enjoyable for them: making trades!

Social trading platforms offer a new choice in trading. They help new traders get started under the umbrella of skilled examples. And they let highly professional traders make a rich income sharing their years of experience with new, and not-so-new traders.

All trading involves risk. Only risk capital you are prepared to lose. Past performance does not guarantee future results.
This information is for educational purposes and not investment advice.



Chapter 17

Investing with CopyFunds™

Social trading opens the opportunity to diversify and moderate risk in a way no other trading platform can. Some social trading platforms have created special portfolios of securities and traders designed to give their users an extra edge. They give traders a chance to invest in pre-set funds.

Some of these funds follow the market or indices, some funds invest in a group of elite traders, and some are promoted by professional traders. When you have a broad range of investment choices, you can use these funds to diversify, reduce risk, use as long holding positions, or extend the reach of your investment money. While other platforms have a range of services, we will be looking at eToro’s proprietary CopyFunds™ in this chapter to give you an idea of the investing possibilities available to you.

17.1 Top Trader CopyFunds™

Grouping together top traders allows spectacular diversification, especially for investors with only a small amount of money. Even a few hundred pounds can be put to work by dozens of traders. This use of the crowd magnifies the diversity of your portfolio to potentially reduce risk. Funds can group traders according to what they trade, their performance, or how frequently they trade. Platforms may use management or complex algorithms to pinpoint ideal traders for funds and to rebalance the fund portfolios.

For example, here is how eToro draws on the strengths of their best traders. The returns listed are as of 17 July 2017. While funds may be lower risk, remember that all trading carries risk. And past performance does not guarantee future results.

Quarterly Gainers: This fund is rebalanced every quarter with up to 50 of the platform's top solid traders. The algorithm looks for traders who are most likely to generate positive growth in the next quarter. Traders must stay within the funds risk score parameters to remain in the fund. It has invested in ETFs, currencies, commodities and stocks with a risk score of 2 (out of a risk level from 1-10) while returning 10% in the last 12 months.

Active Traders: This fund draws on a group of frequent traders with proven track records. Algorithms select those traders expected to have the best risk/reward ratio. It sets tight stops and only allows small drawdowns before stepping out of a trade. The average risk score is 2. Over 50% of its holdings are currently in stocks with the rest spread across currencies, cryptocurrencies, indices, commodities, and ETFs. Return for the last 12 months: 16%.

Trending Traders: This fund draws on the ten traders with a risk score of 7 or below who are gaining the most copiers. The fund rebalances

monthly and is managed by eToro's investment committee. As of July 2017, the fund was heaviest in stocks, but that could change as the traders are rebalanced. This fund allows slightly larger drawdowns of up to 3.5% weekly as it returns 53% over the last 12 months. It carries an average risk score of 3.

CopyPlus R4: This fund uses social trending to choose low risk traders with the biggest upswing in copiers during the previous month. The eToro investment committee rebalances the fund monthly with new traders. It has a risk score of 3. Over the last12 months this fund has returned 13%.

Using the crowd to trade dilutes results but also moderates risks. Individual traders may perform better, but these funds are a great way to spread a small amount of money across a broad range of assets.

17.2 Market CopyFunds™

Another way to invest is to place your money into a bundle of securities of a specific class. Here you gain access to different market sectors. You can choose a specific area of the economy that you believe is heating up.

You can also use these funds to diversify. If you copy a trader investing in currencies, you might choose to hold a fund that invests in indices or blue chip stocks to reduce overall risk in your account. These funds restrict assets to sectors as opposed to the fluid trading and diversity found in many traders you may copy.

Here are some of the market CopyFunds™ traders on the eToro platform you have access to. Returns are prices as of July 2017. You know this already, but compliance says we need to say this each time there's a link to eToro. 'All trading involves risk. Only risk capital you are prepared to lose and past performance does not guarantee future results'.

The Big Banks: Banks in particular, follow cycles. If you believe banks and financial institutions throughout the world are in an uptrend, this is your fund. It is 100% invested in stocks in the financial sector and is rebalanced periodically by the eToro investment committee. It has a risk score of 5 and has returned 45% in the last 12 months.

Big Tech Companies: Want a bite of the Apple... and Google, Microsoft, Amazon, Facebook, Alibaba, eBay and others? Gain a piece of all of them with this fund. The risk score is 5 and it has returned 40% in the last 12 months.

In the Game: Gaming may be one of the hottest and fastest growing market sectors.You can put fun into your portfolio with this fund. It holds NVIDIA, Sony, Activision Blizzard, Electronic Arts, Zynga, GameStop, and others. The volatility of gaming stocks increases the risk score to 5 and returns from the last 12 months are currently 60%.

All Stocks: If you want to diversify into stocks in all the major indices, this fund may be for you. It invests in the biggest stocks from the biggest economies in the world including the Dow Jones 30, S&P 500, Nasdaq 100, China 50, DAX30, Euro Stoxx 50, AUS 200 and more. It has returned 25% over the last 12 months and carries an average risk score of 5.

Gold and Energy: Think it's time for a gold and energy comeback? Invest in the hard commodities with the fund that holds ETFs from the energy sector and CFDs in stocks and commodities. Gain a stake in US Natural Gas (UNG), US Oil (USO), SPDR Gold (GLD), Energy Select Sector SPDR (XLE), Junior Gold Miners ETF (GDXJ) and Gold Miners (GDX) and more. With an average risk score of 4, this fund has returned -9% over the last 12 months.

Crypto-Currencies: This Top Cryptocurrency CopyFund™ invests in Bitcoin and Ethereum giving Bitcoin the heavier weight. Easily gain access to one of the fastest rising currencies in the world. It has higher volatility but offers the potential for impressive gains. Highly volatile cryptocurrencies usually carry a risk score of 7, and has returned 52% since inception.

CryptoFund CopyFund™: This fund takes advantage of all cryptocurrencies traded on eToro. It currently invests in Bitcoin, Dash, Ethereum, Ethereum Classic, Litecoin, and Ripple. The fund's initial allocations gave Bitcoin about 50%, Ethereum about 25% and the remaining cryptocurrencies about 5% each.This fund is rebalanced each month, while the weight of the assets may change any time at the discretion of the Portfolio Manager.

US Market ETFs: Jump into the largest economy in the world if you believe it will become even bigger. This fund gives you a piece of the entire US economy. You'll hold CFDs in high yield American bonds and stocks from mega corporations to small businesses. It includes the Russell 2000 ETF (IWM), SPDR S&P Midcap 400 (MDY), QQQ to keep up with the FANG stocks, and others. It is rebalanced periodically by the eToro management team. It holds a score of 3 and has returned 17% in the last 12 months.

Global Market ETFs: This fund includes all the economies of the world except the US market. Gain easy access to potential profits from Europe, Australia, Japan, China, Russia, Brazil, and many emerging markets. The portfolio is periodically rebalanced by the eToro management team. Over the last 12 months, it has returned 15% with a risk score of 3.

Sector ETFs: Spread your assets across the entire US economy by investing in ETFs in a broad range of sectors including consumer staples & discretionary, finance, healthcare, infrastructure, real estate, technology, utilities, and more. This fund holds a risk score of 3 and has returned 15% in the last 12 months.

Food and Drink: This fund is designed to cycle stronger in economic weakness when consumer staples are a dependable fall-back. Invest in McDonald's, Starbucks, Coca-Cola, General Mills, Dean Foods, and the like. It has a risk score of 4 and a return of 8% over the last 12 months.

Travel and Leisure: Traders may want to jump into the travel and leisure market created by low-interest rates and more discretionary income. They have an easy way to invest with this fund. It includes hotels, airlines, booking agencies, credit card companies and upscale shopping. It holds a risk score of 5 and has returned 16% in the last 12 months.

Four-Horsemen: Invest in the four largest technology companies if you believe these super-heroes of the new tech age will continue to excel. eToro's investment management team will rebalance the fund as needed. A new eToro fund, it has a risk score of 4, and has returned 14% since it's inception in February of 2017.

17.3 Directional Funds

Traders may want to look at funds that focus on the market direction. With a basket of CFDs and shorts, it becomes even easier to take advantage of downturns. Old time investors say that some stocks can lift a market, but when the markets fall, 80% of the stocks dropped in value, regardless of their fundamentals. When traders see technical analysis that indicates a potential pullback, they

may want to invest in funds that make it simple to take advantage of the drop.

For example, eToro has several funds designed to profit in bear cycles. Most of these are new funds at eToro and have not yet developed a risk score or track record.

PanicMode: This fund is for traders who expect the markets to dive. It goes short on stocks and long in metals. This fund is a clear directional play you may want to use in short pullbacks.

Short Worldwide: Worried about political tensions, disasters, or a looming crisis? Add protection to your portfolio by shorting major world indices.

Short Banks: Defend your banking positions by hedging against losses with this fund. It shorts major banks and covers the entire financial sector.
Short Tech: This fund takes short positions on major tech companies. It effectively hedges your portfolio against a drawdown in the entire tech sector.

Short ETFs: This new eToro fund lets traders hedge against major worldwide ETFs and takes a long position on the VIX index and some commodity-based ETFs. This fund is managed by the eToro investment committee and rebalanced periodically.

17.4 Partner CopyFunds™

Some platforms invite professional traders to offer branded funds. It is beneficial to the professional because they get the support system and the exposure to a whole new group of investors. It's also beneficial to the traders because they have an opportunity to build on the depth of experience and skill a professional brings to the table.

These funds are set up and maintained by the

professional trader. They choose the securities, the asset allocations and when to rebalance the fund. Some funds may be back-tested to increase the probability the strategy will produce the desired returns. It is a reflection of the professional's investment style and research. Some funds have eToro management mimicking the style of famous investors.

Because platforms may have chat rooms or feeds, copy traders have remarkable access to the fund administrator. They can ask questions or offer suggestions. They gain insights and may learn more about the fund, the securities, and investing strategies from the professional as they interact. Remember though, all trading involves risk, and past performance does not guarantee future results.

eToro offers several Partner CopyFunds™ with more on the way.

AlphaCore by WeQuant: WeQuant are the portfolio managers of the parent company, WeSave, and are based in Paris. This fund invests across all markets with ETFs that follow indices. Its goal is to deliver performance with minimal fees. The core-satellite strategy builds a core portfolio based on deep market analysis and macroeconomics. The satellite portion follows market thematic rotations. Top trades are QQQ, SPX500 and HYG. It has a low risk score of 3 and a return since inception of 6%.

WarrenBuffett-CF follows Berkshire Hathaway: This fund is managed by the portfolio manager of eToro (Europe) Ltd. It mimics the legendary Buffett's investment methods and the stocks held in Berkshire Hathaway. The fund includes businesses engaged in property and casualty insurance, utilities and energy, rail transportation, finance, manufacturing, retail and services. The main holdings as of July 2017 are Kraft Heinz Company (KHC), Wells Fargo (WFC), Apple (AAPL),

and Coca-Cola (KO). With a risk score of 3, this fund has returned 4% since inception.

WorldEquityPlus by Tachlit Tracking: Meitav Dash, a leading Israeli investment house collaborated on this fund. It is designed to beat the MSCI ACWI index, which is a benchmark for the world equities markets. The fund banks on rising oil prices while managing risk. Major holdings are iShares MSCI ACWI Index Fund (ACWI), Emerging Markets index MSCI iShares (EEM) and SPDR S&P Midcap 400 (MDY). With a risk score of 3, the fund has returned 3% since inception.

CarlIchan-CF follows Carl Icahn C: This fund is based on the SEC filings of Carl Icahn Enterprises. This American business magnate and investor holds substantial positions in corporations engaged in automotive, energy, food packaging, gaming, home fashion, investments, metals, mining, rail cars, and real estate. Top positions are Icahn Enterprises (IEP), American International Group (AIG), and Cheniere Energy (LNG). This fund carries a risk score of 4 and a return since inception of 0%.

EWachenheim-CF based on Greenhaven Associates Inc: Greenhaven Associates in the UK manages over $5 billion in assets. This fund seeks to duplicate the success of Edgar Wachenheim's strategies. Major securities include Goldman Sacks (GS), FedEx Corporation (FDX), and Citigroup (C). This fund has a risk score of 4 and a return since inception of 11%.

17.5 Conclusion

CopyFunds™, copy traders, CFDs, and inventive online platforms are all part of the fintech revolution that makes investing more accessible to the average trader. It introduces simplicity and accessibility to traders all over the world. It brings new possibilities to invest in currencies,

commodities, global stocks, and international indices.

The fintech revolution also opens up new kinds of investing opportunities and new ways to think about money. Never before have investors been offered the chance to buy and trade the decentralised currencies like Bitcoin. The blockchain and cryptocurrencies also show how technology is transforming the ways we think about money, and even stocks.

Instead of traditional IPOs (initial public offerings) of stocks, fintech companies offer ICOs or initial coin offerings. New blockchain companies use crypto-tokens instead of stock as a way for investors to own a portion of the company.

Even in the new fintech world, there are some constants. Traders need an investment plan and a trading strategy. They are more likely to find success as they add a steady amount to their investment portfolio each week or month. They must assess the risks of their trades against their own personal risk tolerance.

And there is the constant truth that trading involves risk. You can lose your capital. But you may also capture a portion of the vast wealth generated by the financial sector. Past performance does not guarantee future results. But experience and training in tracking results give a much higher likelihood that you can generate consistent and profitable trades.

New online trading platforms that take full advantage of financial technology offer speed, ease of trades, the enjoyment of investing with the crowd, and an opportunity to see impressive results.

Happy trading!

All trading involves risk. Only risk capital you are prepared to lose. Past performance does not guarantee future results. This information is for educational purposes and not investment advice.

The Complete Fintech Glossary

Italicised words in the definitions mean they are also defined within the glossary.

Alligator Lines A series of trend lines on a chart that indicates a strong or changing trend.

Arbitrage The simultaneous purchase and sale of an asset to take advantage of the spread, or the difference between the buy and sell price, or the difference in price between brokers. This is illegal in many places.

Ask Also known as offer rate. The price at which you agree to buy the currency or asset.

Asset Allocation The spread of your securities across different sectors or instruments to promote optimal growth within your risk profile.

AUM Assets Under Management. How much money traders have copying them or how much money a financial advisor is managing.

Base Currency In a currency pair, the first currency is the base currency. This is the currency being bought or sold.

Bear Market A downward trend in stock prices. It's characterised by lower highs and lower lows.

Beta The measurement of stock price volatility. A beta of 1 is average fluctuation. A beta lower than 1 indicates that a stock/security is less volatile than the market average, and a beta of greater than 1 is more volatile than the market average.

Bid The price at which you sell a currency or an asset.

Bid/Ask Spread The difference between the bid, or buy, price (what a buyer will pay) and ask, or sell, price (what a seller will accept for the security).

Bitcoin (BTC) The original blockchain cryptocurrency, an alternative, decentralised currency.

Blockchain The collection of blocks oftransactions of cryptocurrencies into a ledger. This is a method of tracking transactions that is decentralised and private.

Blue Chip Stocks These are established, dependable, high cap stocks that are considered low risk.

Bollinger Bands® A chart that shows the asset trading within support and resistance bands.

Bond A debt security or an IOU from a government, corporation, or municipality.

Breakout When the price of a security rises or falls through a trending chart line.

Bull Market A series of up-trends in stock prices You see higher highs and higher lows.

Call Option The right or opportunity to own a specific asset at a specific price within a certain time length. **Buying** a call gives you the opportunity (not the obligation) to buy at a specific price. **Selling** a call obligates you to sell at a specific price.

Candlestick Chart Pattern A chart that displays the high, low, opening, and closing prices of a security for a specific time period. The pattern of the chart that looks like a candle with a fat middle and 'wick' lines extending from the top and bottom.

Carry Trading Currency trading designed to take advantage of the difference in interest rates between the two countries.

Cash Commodity The physical assets of gold, silver, oil, cattle, etc. as opposed to paper holdings.

CBOT Chicago Board of Trade. One of the world's oldest futures and *options* exchanges.

CFD or **Contract for Difference** A contract for difference is an agreement between a broker and a client to pay the difference between a security's opening and closing price.

Channel A chart pattern that shows trading occurring within a defined narrow area.

Chasing the Trade Buying a rising asset at a higher price due to fear of missing out on possible profits. Often results in a loss as the asset price settles back down.

Clean Price The value of a bond that considers only the current redemption value.

ColoredCoin A cryptocurrency protocol that is standardised for the creation of other digital currencies.

Commodities Natural resources from the ground, such as minerals and foods, that have a standardised measurement of quality so they can be interchanged.

Corporate Bonds An IOU from corporations issued to the bondholder. Used for acquisitions, expansions, or to refinance debt.

Counter Currency In a currency pair, the second currency is the counter currency. This is the currency being purchased. It is also known as the *quote currency.*

Coupon The interest paid on *bonds.*

Covered Call Selling a *call* option when you own the underlying asset.

Cryptocoin A token or *cryptocurrency* designed to act like a share of a *blockchain* company and or to be used as utility in an application.

Cryptocurrencies A new form of digital money, outside government systems, based on the *blockchain.*

Crypto-tokens These tradeable coins give holders part ownership in a company instead of, or as well, as being a source of currency.

DAO Distributed Autonomous Organisation. A *blockchain* based company.

Dash (DASH) A *cryptocurrency* that specialises in privacy, anonymity, and speed of transactions.

Debt Ratio Total liabilities divided by total debt of a company.

Derivative A contract that gets its value from an underlying asset such as an index, stock, commodity, currency, or interest rate. It does not own the asset.

Dirty Price The value of a *bond* that considers interest and the current redemption value.

Dividend Stock company profits paid out to investors. Dividends are usually paid quarterly, but can be paid monthly, annually, or in special payouts.

Dividend Ratio The percentage of earnings per share paid to stockholders.

Dogecoin (DOGE) A *cryptocurrency* with a value of a fraction of a pence used by the Reddit community for fundraising and tipping.

Doji A candlestick chart with a very short middle and long ends.

Drawdown A loss in a security or in your account.

EBITDA Earnings Before Interest, Taxes, Depreciation and Amortization. This is used to help determine the value of a company.

Economic Calendar A schedule of government and economic reports that may influence market movement.

EPS or **Earnings Per Share** EPS helps investors understand the health or strength of a company.

ETF or **Exchange Traded Funds** Funds that invest in a basket of equities within a market sector.

Ethereum (ETH) A *cryptocurrency* that is sometimes called 'Bitcoin 2' since it solves many *Bitcoin* problems and allows smart contracts to be written into the *blockchain* code.

Ethereum Classic (ETC) This *cryptocurrency* split from *Ethereum* to maintain the inviolate nature of the *blockchain.*

EUR Euro. Official currency for parts of the European Union.

EV or **Enterprise Value** The total assets of a company.

EV/EBITDA the most accurate measure of a company value. It is the enterprise value divided by EBITDA. Low numbers means better value.

Exchange Rate The price attached to a currency pair. Also called the FX rate or foreign exchange rate.

Fiat Currency This money comes from a centralised location such as a country or government. It is backed by the government, not by gold or physical assets.

Fibonacci Lines A mathematical pattern that suggests areas of resistance on a stock chart.

Foreign Currency Bonds IOUs issued by a corporation in a currency different from the originating country.

Forex Foreign Exchange Market. The market in which government currencies are traded. Other common terms for forex are currency market, foreign exchange, and FX.

Forex Trading Buying or selling *CFD*s or *futures contracts* in exchanges for currencies of governments and/or *cryptocurrencies.*

Fork or **Hard Fork** A radical change in *blockchain* protocol that requires every node to update to the new protocol.

Forward Contracts An agreement between two parties to purchase a commodity at a specific price, quantity, and quality for delivery on a specific date and location.

FTSE 100 Index Financial Times Stock Exchange 100 Index. This is an index composed of the 100 largest companies listed on the London stock exchange.

Futures Contracts Buying a commodity at a fixed price today, for a future delivery.

GBP British pound. Official currency of Great Britain.

Go Long To buy.

Go Short To sell.

Hash or **Hashtag** The secure digital number that closes off a block in the *blockchain.*

Hedging Buying insurance through *options* or *futures* to balance the chance of your assets falling in price.

HMO Health Maintenance Organisation. A health insurance organisation that uses a system of contracted providers to give care to its subscribers.

ICO Initial Coin Offering. A ***blockchain*** company that offers ***cryptocoins*** instead of stock in a public offering.

In the Money When an option reaches the price point of the underlying asset.

Index Funds Funds that follow a market index with a group of stocks in the same allocation as the market it follows.

Instrument In financial terms, this is an asset that can be bought, sold, or traded. It usually refers to a stock, ***bond***, security, or commodity, but can be anything of value that can be traded.

IPO Initial Public Offering. The first time a company offers stock for sale to the public.

JPY Japanese yen. Official currency of Japan.

Ladder Buying bonds or equities so that they pay interest or mature in an orderly sequence.

Leverage Using a small amount of money to control a large amount of securities.

Limit Order The amount you are willing to pay to buy or sell an equity.

Liquidity How easy it is to liquidate, or sell, a security.

Litecoin (LTC) A ***Cryptocurrency***. It offers shorter block generation times than Bitcoin, increased transaction speed, and lower transaction costs.

Long To own or buy a stock or currency.

MA or **Moving Average** This is a statistic that averages a range of prices to give an indication of the trend of a security. This chart indicator smooths out the price fluctuation to show trends, support and resistance.

MACD Moving Average/Convergence Divergence. Long and short exponential moving averages. They help traders see price changes and trends up or down.

MaidSafeCoin (MAID) This *cryptotoken* keeps data safe by encrypting it and disbursing fractions of the data into different locations. It allows coin holders to 'rent' their computer space.

Margins A certain level of funds needed in your account when you use leverage to make a commodity trade.

Margin Call The requirement to deposit more funds into your account to cover a trade that has lost money.

Market Cap or **Market Capitalization** The total value of all the outstanding shares of a company.

Market Index Financial experts use a cross section of industries within a market sector to assess the health of that section of the stock market.

Market Maker A broker or security exchange that stands ready to buy or sell securities at any given time.

Market Order An order to buy or sell at whatever rate the market will accept at that moment.

Margin Trading Paying only a fraction of the cost of the underlying asset to control the asset. Typically using money borrowed against your account or your broker.

Metacoin (MET) A *Cryptocurrency* designed to add more features on top of the *Bitcoin* foundation.

Miner A person or set of computer processors who create the ledger or *blockchain* to store *cryptocurrencies.*

Monero (XMR) This *cryptocurrency* uses increased privacy tools. It conceals the sending address and creates stealth addresses for the receiving address.

Moving Average A chart indicator that smooths out the price fluctuation to show trends, support, and resistance.

Municipal Bonds Debt to cities, states, or other public entities.

eToro

Naked Call or **Put** selling a *call* or *put* option without either owning the underlying security or having the funds to purchase the stocks.

Namecoin (NMC) An early *cryptocurrency* designed as a decentralised name registry database.

Node Any unique network address that holds the complete and updated copy of the *cryptocurrency blockchain.*

Nonce A slight variation in the hash computation that lets *Bitcoin miners* adjust the calculations while seeking a *hash* that starts with enough zeros to qualify as a *hash.*

Options The right or obligation to buy or sell an equity at a certain date and price. You may profit from asset movement without asset ownership.

OTC Over The Counter trades. A method of buying stocks, person-to-person when they are not available on your country's exchange.

Out of the Money When an asset is not in range for the option to be executed.

Overvalued When all of the stock shares at the current price total more than the actual amount of money you'd get if you sold off all the parts of the company.

Paper Gain/Loss The difference between the purchase price and the current price of a security before it is sold.

Passive Income Money that comes to you from investments. It is not money you actively worked for or earned in a job.

Peerplay A gaming and wagering platform that uses *blockchains.*

PE Ratio Price to Earnings Ratio. It compares the current price of a share to the company's earnings per share by dividing the price of an equity's stock by its annual earnings. This provides a rough estimate of the asset value and how many years you would need to own the asset in order to earn back the cost of the stock.

Perpetual Bonds These are *bonds* that make regular interest payments but have no redemption date.

Pip or **Price Interest Point** A unit that measures the amount of change in the exchange rate for a currency pair. A pip is usually 1/10,000 or .0001% of the asset. In a mini-lot of 10k units of currency a pip is about one unit or roughly $1 or £1.

Portfolio The total collection of assets owned or controlled by you.

Premium When an asset's price is higher than the actual value of the asset it is said to be selling at a premium.

Procharts® Multiple chart selection offered by eToro to give users the ability to customise their charts section.

Proof of Stake Where the *cryptocurrency* hash and income comes from owning a large amount of the coin.

Proof of Work The difficult *hashtag*-producing system that verifies the blocks and pays the *miners.*

Pump-and-Dump Strategy used by unscrupulous groups that start a new *cryptocurrency* or *fork*. They hype up the *cryptocurrency* so the price increases, then dump or sell their coins and let the price fall.

Put The right to sell, or the obligation to buy, an equity at a certain price within a certain time period. *Buying* a put give you the opportunity, but not the obligation to sell. *Selling* a put obligates you to buy if the asset reaches or passes the price.

Quote Currency In a currency pair, the second currency is the quote currency. This is the currency being purchased. It is also known as the *counter currency.*

Realised Gain/Loss The difference between the purchase price and the sale price when a security is sold.

Revision to the Mean The natural tendency of a security to come back to middle ground.

Ripple (XRP) *Cryptocurrency* platform designed as an international payment system helping banks quickly move large amounts of money internationally.

Rollover The money your trade gains or loses when kept overnight.

RSI or **Relative Strength Index** The RSI is a momentum indicator that measures the speed and change of price movements and is shown using a number ranging from zero to 100. It shows oversold and overbought conditions indicating the likelihood of trends and trend changes.

Scaling Adjusting position size to minimise risk For example, as you reach your profit target, you sell part of your position and tighten your *stop loss.*

Scalping A day trading method of many rapid trades that take advantage of very small price changes.

Share Lot An amount of a security that is bundled into an option or currency offer. For *options*, a lot controls 100 shares of equity. Currency lots are 100,000 or mini lots are 10,000. Lots are priced individually, but sold in blocks.

Short To sell or to be obligated for a stock or currency.

Short Sale Selling a security that is not owned by the seller, based on the expectation that it will decline and be bought back at a lower price for a profit.

Slippage The difference between the expected trade price and the actual trade price. It is the amount the price changes from when you issue the order until it is executed.

Spot Contract A contract where the commodity delivery takes place immediately or within a day or two of the contract start date.

Spot Price The current price for a currency pair.

Spread The difference between the *ask*/buy price and *bid*/sell price. It can vary from 1 to 20 cents or more.

Steem (STEEM) A *blockchain* social media platform where users earn tokens for posts and can share in the profits of the company

Stop Loss Order A predetermined point at which you instruct your broker to sell securities if the value drops. It can be a percentage of change or a specific price point.

Stratis (STRAT) A *cryptocurrency* that also hosts a flexible *blockchain* development programme.

Strike Price In options trading, this is the price at which you agree your option can be called or exercised.

Swaps A commodity trade where the seller gets the commodity at a guaranteed price for a year or two, minus interest the sale money will earn, and the buyer pays in advance.

TaaS Token as a Service. A crypto-fund token from a closed end fund that invests in *cryptocurrencies.*

Tether A *cryptocurrency* that keeps the consistent value of a fiat currency, such as USD, EUR, or JPY.

Trailing Stop Also called a **trailing loss**. It is a standing order to sell your equity when it falls a certain percentage below the equity's highest value while you own it.

Treasury Bond A loan or IOU from a government or government body to the bondholder.

Trend Line A line on a chart showing the direction the stock is moving. Formed by connecting three or more peaks or valleys.

TTM Trailing Twelve Months. A report that incorporates the income statements of a company for the last twelve months. It is a measurement of a company's financial health.

Undervalued When the cash value of an asset is worth more than the total shares outstanding.

USD United States dollar. Official currency of the United States.

Volume or **Trading volume** The number of times an equity is bought or sold in a fixed period of time, usually a day.

Voxelus A virtual reality (VR) content platform that uses *cryptocurrencies* and *cryptocoins.*

Wallet A secure online place where your *cryptocurrency* is stored.

Zcash (ZEC) A new *cryptocurrency* that is faster, more efficient, and more private than *Bitcoin*. It is built on a different *blockchain* protocol than *Bitcoin.*

Zero Coupon Bonds *Bonds* that pay no regular interest. Instead, you pay a fraction of the face value, and at maturity you are paid the full face value.