



DOW, S&P 500 e-mini – CFD, futures

In this article we will talk about what we should trade and how we should do it. What financial products are more convenient for trading? Why do some traders prefer the futures version of S&P 500 and others like trading CFD for the same index? We will study and compare prices, margins, commissions and spreads.

We will not talk about brokers, brokerage houses or other companies offering financial services because these can be easily found on the internet. We just want to present a comparison between different financial products and advise you what to choose when starting trading.

Lets take this one at a time:

1. What is the difference between CFDs and futures contracts?

What are CFDs?

Contracts for Difference (CFDs) are contracts between a trader and a CFD provider, who will at the close of the contract, exchange the difference between the opening price and the closing price of the underlying index, share, commodity, per the number of specified CFD contracts.

A CFD differs from the traditional trading methods as it is not a purchase of the nominated investment, but trading on its speculated price movement. The main idea of CFDs is the ability to be able to trade higher volumes than traditional trading while using less initial capital.

The buyer of the contracts is required to pay commission to enter the contract, plus fixed interest on the remaining value of the borrowed amount, until they decide to end the contract, at which time they are paid the price difference. The buyer may opt on either side - high (buy) or the low (sell), which means that if the contract was a low trade the buyer could still turn a profit if that was the initial investment.

Advantages of CFDs versus traditional share buying

The key distinction between traditional share buying and CFD buying is that buying a CFD is done on leverage (typically between 5% to 35% for actively traded stocks), both shares and CFDs participate in all corporate actions, both buyers receive dividends but only the buyer of the share is able to vote and receive the franking credits.

With CFDs one is not entitled to these rights, which enables CFD sellers to sell with ease. This makes CFDs an excellent trading product. The leverage and ability to short sell gives power and flexibility.

Unlike futures, CFDs do not have an expiry date, so one can hold on to them for as long as they desire. CFDs open up a whole new trading world, with the ability to trade shares, indices, foreign exchange, and commodities.



Dharmik Team

www.FutureAnalyzer.com

CFDs are the flexible new way to trade. One can trade Singapore Stock Exchange (SGX) listed shares but you have access to worldwide markets, such as the United States (DOW, NASDAQ, S&P), United Kingdom (FTSE), Japan (NEIKKI), Hong Kong (Hang Seng) and many other countries.

What is futures contracts

In finance, a futures contract is a standardized contract, traded on a futures exchange, to buy or sell a standardized quantity of a specified commodity of standardized at a certain date in the future, at a price (the futures price) determined by the instantaneous equilibrium between the forces of supply and demand among competing buy and sell orders on the exchange at the time of the purchase or sale of the contract. The future date is called the delivery date or final settlement date. The official price of the futures contract at the end of a day's trading session on the exchange is called the settlement price for that day of business on the exchange.

2. Trading terms for DOW and S&P 500

The mathematical relation between DOW and E-mini S&P 500 futures continuous is 1:9.8, which is almost 1:10. One DOW point represents 10 S&P points.

This is a chart highlighting the differences:

	CFD		Futures	
	DOW	S&P 500	DOW	S&P 500
No. of Contracts	1	1	1	1
Margin	300-400 \$	30-40 \$	5000 – 6000 \$	5000 – 6000 \$
commission	0	0	10 – 20 \$	10 – 20 \$
Levier	1	1	1:5	1:50
Expiring date	NO	NO	End of March, June, September, December	End of March, June, September, December
Interest	YES	YES	NO	NO
Spread	5 -10	0.5 - 1	2	0.25



Dharmik Team

www.FutureAnalyzer.com

3. Conclusions

The chart helps us draw clear conclusions:

- a. If your portfolio is small (10.000\$ - 30.000\$) it will be very expensive to trade futures contracts. The margin for this type of contract is high, the lever being the same. You will not be able to control the risk and profit as the rules of a classic money management say. The CFDs would be more appropriate. The CFDs for S&P 500 are cheaper and are recommended for portfolios under 2000-3000 \$. The traders with more money can efficiently trade Dow Jones.
- b. When the portfolio exceeds 30.000 \$ the trader can choose futures contracts. The trading of futures contracts is more advantageous regarding the costs (commissions and spread). The effect of a single S&P 500 e-mini contract is 50 times bigger than the one of a CFD. So when you have enough money it is wiser to trade futures contracts.
- c. Both financial products are efficient but they address different types of traders.

Dharmik Team.