Trade with care.

CFD & Forex Smart Guide

GO MARKETS
first choice for forex

This guide is intended to give our clients a greater level of transparency into trading CFD's and Forex. This Information should be considered in conjunction with our Product Disclosure Statement and Financial Services Guide and is not designed as a replacement.

CFD & Forex Smart Guide

Over the last decade, Margin Foreign Exchange (FX, Forex) and Contracts for Difference (CFD) trading have become common place for retail clients. Behind its appeal is the traders' ability to access a range of products in one trading suite (platform), with only a very small amount of starting capital. Unlike buying a share with a stock broker or currency at your local money exchange, CFD's and margin forex allow you to speculate on the value of the asset, rather than taking ownership of the actual underlying asset.

Margin FX and CFD trading involve a high level of leverage. Accordingly, they are classified as 'Complex Investments' by Australia's corporate regulator, the Australian Securities and Investments Commission (ASIC).

Trading with Leverage.

From the outset, traders must understand that leverage can be both your friend and foe. It can swiftly and unexpectedly exaggerate both your winning trades and losing trades.

Let's use a simple example:

A trader wishes to speculate that the price of the Australian dollar will increase against the US dollar. He or she has a trading account with a provider that is offering 100:1 leverage. Using one standard contract as an example, (total value of A$100,000), only A$1000 would be required to open the position. Put simply, a trader can lose their starting capital very quickly. A larger move in the underlying asset may impact on other money held in your trading account, or even place your account in debit (negative cash balance).

It is therefore essential that you understand the risks and be in a position to monitor your account before putting your hard-earned money on the line.

It is leverage that appeals to the appetites of many traders (who should have a strong understanding of how their trading activities may affect their finances). It is important that a trader not only learns trading strategies (adopting a view on when to buy and sell), but understands how trading decisions may impact on overall finances. A simple test is to ask yourself; am I trading with funds that I can afford to lose, and do I understand the risks of having to place further funds in my account if required?

Making Smarter Choices.

Using complex investment products such as FX and CFD's requires prudence, foresight and knowledge. It is therefore essential that participants are well informed and adequately understand key trading concepts:

» how leverage works;
» how volatility and extreme market moves may affect the outcome of your trade;
» the actual monetary value of your exposure (Contract sizes);
» your providers legal ability to offer you trading services;
» your providers platform and product details (PDS and FSG);

Education does not necessarily refer to paying large amounts of money to attend a trading course, or purchasing an 'off the shelf' automated trading system which promises to be profitable. Instead, you may decide to attend a registered training course which can provide you with a certificate, or there are also many reputable websites which provide free and invaluable information, written in simple language that is easy to follow.

Whatever method of education you choose, it must be backed up with practice and enough time to ultimately consider if trading Forex or CFD's is for you.

Regulation - What it means for you.

How regulation will protect consumers ultimately depends on which jurisdiction your provider is regulated in. In Australia, ASIC oversees financial services providers and issues Australian Financial Services (AFS) Licenses. This, however, does not mean a provider in a well-regulated jurisdiction such as Australia is immune to the type of risks that may lead to negative outcomes for its clients.

For clients who are based oversees and use an AFS licenced provider, there is no recourse to ASIC as there is for those who are domiciled in Australia. Protection for consumers can be vastly different in each jurisdiction, and some regulated environments may be less onerous, therefore, prone to see more negative outcomes for consumers.

Choosing a Provider.

A CFD or Forex Provider is the counterparty to your trading activities. This means they are setting a price in order for you to trade on your chosen market.

In Australia, it is essential that a provider is licensed by ASIC. Depending on the provider, the license may allow the provider to 'Make a Market' in Foreign Exchange and/or Derivatives (CFD's) among other product types. In Australia you can check the License status of a company by referring to the professional registers on the ASIC connect website.

Like any business, some are more capitalised than others – meaning that there are more funds to protect the business (and by default its clients) in case of an unforeseen occurrence.

Providers in Australia are also able to use funds held on behalf of the client in order to help control risk (hedging). Straight Through Processing (STP) providers may send their client funds to an external counterparty, also known as a liquidity provider. Others may use both STP methods and also act as the direct counterparty to their clients' trades. Whatever the case, your provider may be exposed to the financial health of their liquidity provider and/or directly exposed to the outcome of their clients' trades.

A licensed provider should disclose these risks in their Product Disclosure Statement and a funds handling policy should be available on their website.

Even larger providers can fall into financial difficulty, as witnessed during the Global Financial Crisis. Further, in January 2015, an announcement by the Swiss National Bank to un-peg their currency from the Euro resulted in global mayhem, causing some Forex and CFD providers to default; some of whom were previously considered to be financially strong.

When Alarm Bells Ring.

Amy is located in Western Australia, and trades Forex from time-to-time. She finds an advertisement for a Forex provider as she is searching the internet and decided to click in and establish a 'demo' account. Their website is professional and purports to have relationships with well-known global banks and investment firms. She receives a phone call from Alex, a senior trader who provides free analysis and currency outlook. She is taken by their client-focused service and she agrees to send funds to their client trust account and begin trading.

What should Amy ask before she proceeds?

The exterior of a company through a professional website does not mean they are indeed a reputable provider, or even a provider of financial services. Amy needs to find out the following:

a) If the provider is appropriately licensed, and where;
b) Is the provider of good fame and a reputable market participant;
c) The actual location of the business and funds handling policy.

Even if these answers are made clear by the provider in question, further due diligence is required. In Australia you can check the License status of a company by referring to the ASIC Connect website. Information on avoiding scams is also located on ASIC'S Smart Money website.

Dispute Resolution - Your Rights.

Licensed Australian CFD or Forex brokers must maintain a Dispute Resolution procedure/ policy (and provide a copy on request) in the event of dispute.

That is, if you are aggrieved in anyway and have not received an acceptable outcome from your provider, you have important rights to have your argument heard by an ASIC approved Australian external dispute resolution scheme.

One such organisation charged with overseeing financial related disputes in Australia is the 'Financial Ombudsman Service' (FOS). This service is available free of charge to both domestic and international clients and is a cost free alternative to court proceedings for the consumer. Click here for more information on GO Markets' dispute resolution procedure.

Automated Trading Systems.

The use of 'Expert Advisors' and other types of automated trading software has become common place in the world of retail trading. Whilst there are clear benefits, including the ability to take the emotion out of your trading, there are also many reasons why a trader should proceed with caution.

For the retail community, the use of automated trading became popular with the arrival of platforms such as MetaTrader, which proved pivotal in the evolution of automated trading systems based on mathematical algorithms and/or technical indicators.

Many traders have been tempted to or have indeed purchased an 'off the shelf' program. The allure of the 'get rich' advertising approach can be all too much for some traders. For this, the old 'too good to be true' adage couldn't be more relevant. Although the program, robot or expert advisor may have some genuinely positive qualities, once again, it is imperative to conduct your due diligence before putting your hard earned cash on the line. Expert advisors can also be tested in a simulated (Demo) environment.

Best Execution Practices.

A factor that is often overlooked is how your provider deals with your trading request (trading execution). That is, each trade facilitated by your provider should be fair and unbiased to ensure you receive their best price without interference. In recent years, some providers have come under regulatory scrutiny for the use of asymmetrical slippage. This is when a trade can be executed with negative slippage, but a program setting, or human intervention may not allow, or limit (pass on in full) positive slippage. A provider acting in a fair manner will always pass on both positive and negative slippage.

To provide some background, forex and CFD trading are two forms derivatives that are traded on an over the counter (OTC) basis. This means there is no central exchange, clearing house or authority to oversee and match each transaction according to volume.

Although best execution practices adopted on exchange traded instruments may be used as a guide, there are no universally accepted best practice execution standards enforced upon Forex and CFD providers.

To demonstrate:

A forex trader who trades at exactly the same time with three different providers will invariably receive three different purchase prices. These purchase (fill) prices may drastically change in times of increased volatility. This is because each provider may be subject to mitigating factors which affect a trade price. These include but are not limited to:

a) Liquidity source (The price feed of your providers counterparty);
b) Trading technology (Server location and hard ware capacity);
c) Platform type (Phone, web based, software);
d) Your internet connection (Your internet speed).

Conversely, a trader who purchases exchange traded share/contract at exactly the same time across three different brokers have a **greater chance** of receiving the same purchase price, provided there is sufficient liquidity.

In short, unlike an exchange traded product, the onus remains on Forex and CFD providers to offer their services in a fair manner.

Methods of trade execution.

A provider who offers the Meta trader platform offer one of two methods of execution; Instant Execution or Market Execution.

A Market Execution provider displays an indicative two-way price and after a trade is placed, you will receive the first available price. This may be better or worse than the price seen on the screen originally. An Instant Execution provider will give you the exact price displayed, or provide an option to buy or sell at an alternate price (requote).

How is your trade executed with GO Markets?

GO Markets Pty Ltd (GO Markets) is a market execution provider.

When you place a trade (BUY or SELL at market), your instruction is passed across a 'bridge'. A bridge acts as an intermediary between your provider and their liquidity source. Upon your request to BUY or SELL at the market price in the MT4 platform, your instruction is packaged as an 'Immediate or Cancel' ("IOC") order. You will then receive the first available price.

How is your pending order executed?

When you place a pending 'stop' or 'limit' order (including a 'Take profit' or 'Stop Loss' order attached to your open position) the order will rest on the MT4 platform until your requested price is breached. Once this occurs, your order is passed to the bridge and becomes and IOC order in the same fashion as a 'market' order. You will then receive the first available price.

Can I receive slippage if I trade at the market price?

By the industry definition an 'At Market' trade with GO Markets cannot attract slippage. This is because you are provided an indicative two-way price (Bid and Ask) on the platform, and by clicking the BUY or SELL button, you are asking to execute at the best price available. However it should be noted, the price that you see on the screen at the time of clicking BUY or SELL, may be different to the price received. Given the ability to be executed at a different price than expected, one may broadly describe this as slippage.

Can I receive slippage on my pending order?

Yes, both positive and negative slippage can be received.

» **Example of negative slippage**

You have a long (BUY) position on EUR/USD with an opening level of 1.3700. You place a contingency stop loss order to close your position at 1.3650. A major news event sends the price of EUR/USD swiftly lower and your stop loss is breached. An instruction to close your position is issued and the first available price is 1.3645. You have received 5 pips negative slippage.

» **Example of positive slippage**

You have a long (BUY) position on AUD/USD with an opening level of 0.8800. You place a contingency take profit (attached limit) order to close your position at 0.8865. A major news event sends the price of AUD/USD swiftly higher and your take profit is breached. An instruction to close your position is issued and the first available price is 0.8870. You have received 5 pips positive slippage.

Code of Conduct - Trading and Liquidity

We have a general obligation to conduct business with you efficiently, honestly and fairly.

Our Trading and Liquidity Management Team play an important role in managing GO Markets operations. They operate, oversee and control technology which is central to how GO Markets provides financial services; a reflection of the client's overall trading experience.

We have access to a number of different data sources in order to ascertain the market price, which is our objective view of the bids and offers available. Occasionally, at the time at which you give us an order there may be no functioning or open market or exchange on which the reference product is traded. In such cases, we determine a fair underlying price based on a number of factors such as price movements on associated markets and other market influences.

The below Code of Conduct forms part of our Trading and Liquidity Management policy. Our team are expected to abide by this internal code of conduct at all times. Contraventions of the code, suspected contraventions or where have reasonable grounds to believe that the code may be contravened in some way in the future, must be escalated to the head of compliance and licensee responsible manager.

GO Markets take all reasonable steps to obtain the best possible result when executing client orders or placing orders with (or transmitting orders to) other entities to execute. We consider a range of execution factors in order to deliver best execution including price, costs and speed.

GO Markets Trading and Liquidity Code of Conduct:-

1. **Act in an efficient, honest and fair manner when discharging duties which impact on a client's trading experience;**
2. **Provide the client with 'best execution. Best execution means that we must take reasonable steps to obtain the best possible result for the client when executing an order with our clients;**
3. **Slippage must be according to, and dictated by, market price and liquidity, without discretionary intervention;**
4. **Slippage must be symmetrical (both positive and negative) and according to, and dictated by, market price and liquidity, without discretionary intervention;**
5. **Clients must be notified if post trading corrections are made;**
6. **Changes, additions or removal of 'liquidity', general technology and/or technology 'settings', must be carefully reasoned and justifiable;**
7. **The Go Markets dispute resolution processes and policy must be followed; which involves speedy effective remedies at the first point of contact wherever possible;**
8. **The reasoning behind trading disputes that are resolved in favour of GO Markets must be clearly communicated to the client with available evidence provided;**
9. **Clients who remain aggrieved are given a right of appeal to an ASIC approved independent dispute resolution scheme at no charge (FOS).**