

August 03, 2003

Betting made us £1m

A suburban couple have made huge gains by turning to spread betting instead of investing directly in shares.

Dominic O'Connell reports

EVERY WEEKDAY at 7.30am Clive Green, owner of a travel agency in East Sheen, southwest London, holds a morning conference with his close friend, Judith Ireland.

Although conducted in informal surroundings - over the cornflakes or on the telephone - their tête-à-tête is a miniature version of the high-powered trading briefings attended by hundreds of City professionals every morning.

Green and Ireland ask themselves the same questions as the professionals. What happened to the market yesterday? Where is it going today? Do we need to change our trading positions? In the past eight weeks, the morning meetings have started to pay off.

Over that period, Green and Ireland have accumulated a trading profit of about £1m by taking spread bets - highly leveraged wagers - on the prices of individual shares. By backing their judgment on MyTravel, British Airways, Skyepharma, a drugs company, and others, they are sitting on a handsome profit.

As their confidence has grown, they have taken larger and larger trading positions, and are now thought to be among the biggest individual clients on the books of Financial Spreads, one of the City's leading spread-betting companies.

Green, for example, now stands to gain £45,000 from every 1p upward movement in the price of MyTravel. He began taking bets that the shares would rise last year, when, on the back of three profit warnings, a boardroom clear-out and the discovery of accounting problems, they sank - finally bottoming out at 7p in March.

Many professional analysts forecast that the company would go under, but Green thought differently. MyTravel closed last week at 30¾p.

Green and Ireland are in the vanguard of a new brand of day-traders - middle-class professionals who enjoy testing their financial knowledge and nous against the market in the high-risk, high-reward game of spread betting.

Most first took an interest in the City when online share trading boomed in the bull market of the late 1990s, and progressed to the riskier financial spread-betting as stock markets slumped.



According to research by Tradindex, 90% of spread betters are male, half live in southeast England, and they have an average income of £50,000.

There appears to be no shortage of willing punters. Market experts all agree that financial spread-betting is going through a period of explosive growth, although there are no accurate independent figures on the number of traded accounts.

The seven licensed spread-betting firms - Financial Spreads, IG Index, City Index, Cantor Index, Deal4Free, Tradindex and Spreadex - are thought to have between them about 100,000 accounts, of which around one-third are actively traded.

Financial Spreads, which was bought last year by the quoted markets group IFX, says it has increased its number of active-trader clients from 4,900 to 5,900 in the past year.

Figures from the Financial Services Authority, which since July 2000 has been responsible for regulating spread betting, tell a slightly different story. In the first quarter of the year, 156,000 spread bets were registered, compared with just under 100,000 in the same quarter two years earlier. But in the latest quarter, 130,000 spread bets were recorded.

The FSA says its figures should be treated with caution, and does not claim they represent a totally accurate picture of the spread-betting market.

Senior industry executives believe they are very conservative. "I think their figures for CFDs (contracts for difference, a different type of spread-bet contract that gives punters rights similar to those of normal shareholders) are fine. But the number for spread bets looks low to us," says an executive at one of the market-making firms.

Those who spotted the potential of the industry early on have become rich. Stuart Wheeler, a prominent financial backer of the Conservative party, brought spread betting to the City in the 1970s, when his company, IG Index, offered clients a way of speculating on gold prices without having to contend with the then government's exchange controls, which made investment in actual metal difficult.

Last week Wheeler sold his firm in a deal that valued IG Index at £143m and increased his personal fortune by £34m.

Spread betting can be brutal for those who get it wrong. Green and Ireland are enjoying a purple patch, but they have also experienced the downside. Ireland became interested in share trading while building up a portfolio of equities after a divorce settlement, and became an active online trader using Charles Schwab, the execution-only stockbroker.

"That was fine until the markets took their big dive. At one stage the value of my portfolio had halved," says Ireland. Having read several articles about spread betting, she decided to give it a try.

"At first I was just doing 50p or £1 per point - so there wasn't much risk. But then I went into higher stakes, and things went well. I would be getting cheques for £100, £350 at the settlement dates, and I thought this is great."

But then the wheels came off. Ireland had "gone long" on Skyepharma - she bet that its share price would rise. In October last year, the price plummeted to about 40p, leaving Ireland with big losses.

If spread betters' losses go beyond the credit limits on their accounts, they have to make good the balance.

Spread-betting firms assess credit risk on a case-by-case basis, but normally they ask to see evidence that clients have liquid funds to cover their credit limit five times, or ten times if the assets are less liquid, such as share portfolios.

Both Green and Ireland had to stump up cash to cover their trading losses.

But they had the courage of their convictions. After several sleepless nights -

"it scared me, and to be honest it still does" - Ireland decided to back her judgment and took an even larger position in Skyepharma, while Green did the same with MyTravel.

The market drifted sideways in October and November. But, after losing more sleep, Ireland was vindicated when Skyepharma began to climb at Christmas. It closed last week at 66½p. But the couple were still not entirely out of the woods - the market drifted again from January to March, when MyTravel finally hit its nadir.

Their sticky patch, when they had to meet margin calls, helped their relationship with Financial Spreads, says Green. "We built up a level of trust and credibility with the traders there. Once they could see we were credible, they were very helpful and supportive as we built up the large positions we held in individual stocks."

In some ways, Green and Ireland make an ideal trading partnership. Ireland does the serious research - she spent several months getting to know Skyepharma, attending shareholder meetings - and has invested a considerable amount in the information technology needed to keep abreast of market movements and gossip.

She has access at home to Sets, the London Stock Exchange's electronic order-book service, and keeps a hawk-like watch on bulletin boards and breaking news. Green categorises himself as more of a risk taker, ready sometimes to trade on gut instinct.

One obvious attraction of spread betting is its tax-free status. "I resent every penny that I give to Gordon Brown, so when Judith started telling me about this type of trading, and that it was tax-free, I was very interested," says Green.

But they are honest enough to admit the non-financial temptations. Ireland says: "It is exciting, and I enjoy the intellectual challenge it involves. Exciting, and frightening. It is not for widows and orphans."

GOLDEN RULES OF SPREAD BETTING

Clive Green and Judith Ireland have three rules.

◆ Don't run big losses. If you get it wrong, get out. 'We both caught a big and expensive cold with Energis and others.'

◆ Markets go down as well as up, so understanding when to go short is as important as when to go long. Many people think only in terms of making money in rising markets. Understanding shorting, and being ready to go short, is a big psychological barrier.

◆ Focus on what you know, and on a limited number of stocks. Being well informed and prepared is vital. Spread betting in large amounts is not a game for amateurs.

SPREAD BETTING

It is all about beating someone else's predictions.

There are seven licensed firms taking spread bets in the UK and they will offer clients a 'spread'. This can be on almost anything - share prices, market indexes, house prices, currencies or sports results.

Punters then decide whether the final result will be higher or lower. If they bet it will be higher, they are said to be going 'long'. If they think it will be lower, they are 'short'. Once the outcome is known, they will win, or lose, a multiple of their stake.

For example, a market-maker may be quoting a three-month spread on Guns and Butter Industries of 100p-103p. If you think Guns and Butter is doing well, you may go long for, say, £100 a point. If at the end of three months Guns and Butter is trading at 203p, you will make £10,000 tax-free. If it finishes at 50p, you will lose £5,000.

This leverage makes spread betting so rewarding - and so risky.

www.thespreadtrader.com