



RISK MANAGEMENT GUIDE

INTRODUCTION

This risk management guide's purpose is to alert and explain the main risks trading Online may pose to new traders over the course of their trading career. Even if you have experience in trading leveraged products, we strongly suggest that you carefully read this guide. The goal of this guide is to ensure traders are supplied with a sound foundation of trading information in order to understand the importance of building a robust Risk Management Plan as a fundamental prerequisite of a successful trading career. This applies to all traders, both new and experienced.

By having a solid understanding of the risks involved in trading and being aware of the trading tools available, traders can enhance their ability to minimise exposure to risks. Risk management is essential to the success of any trader. Success may be defined as the point where trades return more profits than losses. As such, it is crucial that as a trader you realise that potential losses are as integral and important a part of trading as potential profits. A correct approach to risk management attributes equal importance to both of these fundamental aspects.

Developing a personal trading strategy is crucial to every trader's success. It is of particular importance for you to develop a unique trading and risk management strategy of your own, as any decisions and actions you take regarding trading are your sole and absolute responsibility. As a consequence, you will also be fully responsible for the results of your trading decisions and actions, whether they be profits or losses. As such, you should not underestimate the importance of having a solid understanding of the principles, risks, and tools presented in this guide.

The following section will present the fundamental principles of CFD trading. Comprehensive knowledge of these principles is necessary to understand the risk factors you may be exposed to while trading. A more in-depth analysis of these specific risk factors will be presented in the second section of this guide. Finally, the third section will focus on the tools available for managing the risks.

I. The Basic Principles of CFD Trading

A solid grasp of the fundamental principles of CFD trading is crucial for managing your risk. The next section of this guide will present you with a variety of different forms of risk that should serve as the basis for every trader's risk management plan.

Contracts For Difference

A contract for difference (CFD) is a derivative financial instrument with an underlying asset, meaning you do not physically own the underlying asset.

A CFD is an agreement between the buyer and seller to exchange the difference in the current value of the underlying asset, such as a share, currency, commodity, or index and its value at the end of the contract.

As derivatives, the price levels of CFDs are directly related to those of their underlying assets, and are thus affected by market volatility in the underlying instrument market. Please refer to the below section on Market Volatility for more information.

Leverage and Margin

CFDs are a leveraged product, which means that you only need to deposit a small percentage of the full value of the trade in order to open a position. You are able to leverage your investment by opening positions of a larger size than the funds you have in your account. This is called "trading on margin" (or margin requirement).

With leverage you are investing a fraction of the trade's value, but your position will return profits and losses as if you had invested the full value of the CFD position. It is crucial that you understand that leverage will inflate both your profits and losses. For an example of how leverage affects profits and losses, please see the section below on Losses.

Leverage is expressed as a ratio of X:1 where X is the leverage. Most currencies have a leverage of 400:1, so we can say that the leverage is 400. Stocks usually have a lower leverage of 20:1 so the leverage is 20. The margin requirement is directly related to leverage. It is the expression in percentage of the leverage ratio. A leverage of 20 means a margin requirement of 5% ($20:1 = 1/20 = (1/20 \times 100) \% = 5\%$) For example: You decide to buy 4000 CFDs of Share A at the price of \$10 per CFD. Your position is therefore \$40,000 ($4000 \times \10).

You will not actually pay \$40,000: the amount you will pay depends on the margin required by the CFD. If the CFD trades with a leverage of 20 (margin requirement of 5%) the required margin would be calculated as follows:

a) (Amount x price)/leverage

$$4000 \times \$10/20 = 2000\$$$

OR

b) (Amount x price) x margin requirement %

$$40000 \times \$10 \times 5\% = \$2000$$

c) This means that your minimum initial payment is \$2000 instead of \$40,000. You require an initial balance (margin) of \$2000 in your account to open this trade.

Spreads

The “Bid/Ask Spread” is the difference between the Bid and the Ask prices available for each asset. Whenever you open a trade, you will start with a loss. That loss amount is the spread, and will appear automatically on every trade you open.

If you open trades worth a large percentage of your equity, the initial loss due to the spread may bring your account balance dangerously close to Stop Out levels.

To avoid such situations, you should be aware of the spread amount you will have to pay before opening the trade and refrain from trading in volumes which are too risky for your account’s balance. You can calculate the value of the spread by calculating the value of the pips, as shown in the section below.

Each asset has a different spread which is published on our website. You can also find the spread of each asset on our platform and are strongly encouraged to study the lists. Before opening a position, you should bear the spread of the asset in mind. You can also read more on how the Spread works in our Best Execution Policy.

Pip Calculation

Calculating the pip value of your trades is a fundamental principle of managing your risk exposure and can give you better control over your trades. Once you have calculated the value of the pip, you will be able to know the impact (in terms of profit or loss) of any price fluctuations in the market. The formula for pip calculation is as follows:

For currency Pip Value = (Pip in decimal places * Trade Size) 10

Example: Trading 100,000 of the pair EUR/USD.

One pip in decimals = 0.0001

Trade Size = 100,000

$$0.0001 * 100,000 = 10$$

Each pip is worth \$10

If the account currency is not the same as the second currency in the pair (i.e., for any pair that is not XXX/USD), you will need to divide the value of the pip by the exchange rate, so the value will be in U.S. dollars.

In this case the calculation is as follows:
(Pip in decimal places * Trade Size)/Market Price

Example: Buying 100,000 of the pair AUD/CAD

One pip in decimals = 0.0001

Trade Size = 100,000

$0.0001 * 100,000 = 10$

Pip value = 10

USD/CAD price: 1.29131

$10/1.29131 = 7.7440$

Each pip is worth \$7.74

Rollover Fees

DeltinFX does not charge a rolling commission. What we do charge is a rollover fee (also known as an overnight swap). The rollover fee is calculated when a trader leaves a position open past 00:00 GMT.

The term “rollover” refers to the interest rate that traders will pay, or receive, on the open positions that are rolled over from one day to the next. Every currency pair has its own interest rate. At the end of every trading day, at 00:00 GMT, the trader will pay or receive the interest rate on the currency pairs they hold.

In the trading market, interest is calculated on a daily basis. At the end of each trading day, at 00:00 GMT, traders can see from their account statement if they were charged or received the rollover fee. On regular weekdays, the rollover rate is charged for the previous trading day. As the trading week has five days, on Wednesdays, rollover interest for the next weekend is charged for three days.

The following is a brief explanation of rollover interest:

The interest rate of the main currency is lower than that of the secondary currency.

Buy/Long: When the Trader buys the Euro, he will be charged the rollover fee.

Sell/Short: When the Trader sells the Euro, he will receive the rollover fee.

NOTE: Trade volumes affect the amount of the rollover fee; the larger the volume traded, the larger the rollover fee.

- Rollover fees are charged as follows:
 - From Sunday night to Monday: regular rollover fee
- From Monday night to Tuesday: regular rollover fee
- From Tuesday night to Wednesday: regular rollover fee
- From Wednesday night to Thursday: rollover fee is charged three times (for Wednesday, Friday, and Saturday)
- From Thursday night to Friday: regular rollover fee in very specific situations, namely when your balance is very low, if you allow Rollover fees to add up, this might drop your balance below the Stop Out level and thus trigger a Stop Out.

Expiration Dates

Some underlying assets have contracts with a limited lifetime and a specific expiration date. As such, it is strongly recommended that you refer to our website's up-to-date list with the expiration dates of underlying assets. When the expiration date is reached all open deals based on that asset will be closed automatically at the market rate of the expiration date. This means that, depending on the market rate, your trades may close with a profit or a loss.

As such, it is very important that you make yourself aware of the expiry dates before opening a trade so you are not surprised by an unexpected closure and the unexpected consequences such an event may generate. Being aware of the time frame within which you will be able to trade a certain asset before you initiate the trade is a basic but extremely important factor in managing your risks.

Being aware of the time frame and expiration date of any contract in a specific asset is your sole responsibility as a trader.

Expiration dates for all assets reach out to us at support@deltinfx.com and can also be obtained by contacting our Customer Support team.

The expiration date of your trade will also be displayed on the trading platform after you have opened a position, but you should be aware of this date before opening any trade.

Armed with an in-depth understanding of all the fundamental principles discussed in this section, you should be better prepared to develop your risk management strategy for the risks described in the second part of this guide.

II. Risks Involved in Trading

As a new trader, it is imperative for you to understand the risks associated with trading leveraged products.

Risk can be generally defined as the possibility of an investment unexpectedly returning a financial loss as opposed to a profit. Risk can be calculated based on the likelihood of the unexpected outcome occurring and the amount such a loss would represent if it occurs.

The focus of this section is on the specific risks you will need to manage, along with an in-depth description of their nature, characteristics, and consequences. At the end of this section, you should have a firm understanding of how to structure your risk management strategies around the risks described.

Losses

As leveraged instruments, CFDs have the potential to generate both significant profits and losses. Moreover, leverage increases the speed at which profits and losses can occur, and may leave traders with relatively little time to react to asset volatility.

To illustrate the effect of leverage on profits and losses, please consider the example of 4000 shares with 20:1 leverage used in the “Leverage and Margin” section above.

In this case, if share prices **fall** by 1% (to \$9.9) this would translate to -20% (-\$400) of your investment as a result of 20:1 leverage. Conversely, a rise of 1% in share prices (+\$10.10) would translate to a profit of 20% on your investment (+\$400). With a leverage rate of 20, a movement of 5% on the price of the CFD can mean a 100% profit or 100% loss (in this case, a profit of \$2000 or a loss of \$2000). If the price moves more than 5%, you could see a return on your investment that exceeds +/-100%.

As shown in the example above, it is absolutely necessary for you to understand that your exposure to the market will always equal the full value of the underlying shares of the CFD you are trading on. Therefore, when trading with leverage, your profits and losses are also calculated based on the underlying value.

In other words, you may profit or lose a much greater amount than the value of your initial margin investment, up to the full balance of your account.

Because leverage influences the speed at which profits and losses can be made, it is of the utmost importance to monitor your open positions closely. It is your responsibility to monitor your trades and ensure you will be able to monitor all open positions until they are closed.

Margin Call and Stop Out

A Stop Out occurs when all open positions in your account are automatically closed because your account margin dropped below certain levels of equity. This usually means that you have lost all or nearly all your account balance. At margin levels of less than 25% of your equity, we reserve the discretionary right to close all your open positions immediately and without notice.

A Stop Out can occur when your open positions are incurring losses, particularly those involving underlying assets experiencing high market volatility. Trading highly volatile assets can cause the balance of your account to drop rapidly to unsustainable levels. If you are not closely monitoring the state of your account and you do not have sufficient funds to cover these situations, you run the risk of all your open positions being automatically closed if the balance of your account falls below the Stop Out level (as shown on the platform).



You should always be conscious of the size of your positions relative to the funds available in your account and refrain from opening high-volume trades which your account cannot sustain. When you open large trades without the appropriate level of funds in your account to sustain them, even small price changes can drop your margin below the Stop Out level.

It is your responsibility to constantly monitor your open positions to ensure your account retains sufficient levels of funding to cover the margin on open positions. To assess whether you need to deposit more funds to increase your margin, you must add up the margin requirements for all open positions on your account. If the sum of the cash in your account and of the value of open positions is less than the margin requirements, you will be required to deposit additional funds to cover the margin requirements and avoid a Stop Out. You can see the available margin at any time when you sign into the trading platform or by contacting Customer Support.

You can find all the details of your account, including the Stop Out percentage level, in your Personal Menu on the right side of the account bar when signed into the platform.

DeltinFX may give you a “Margin Call.” This is a courtesy call to inform you that if you do not want your open trades to close automatically, you should deposit additional funds as soon as possible to cover your margin requirements.

Please note that DeltinFX is not obliged to make such a call and past performance (i.e. DeltinFX has given you a margin call in the past) does not create an obligation or expectation for future repeat performances (i.e. if DeltinFX has given you a margin call in the past, it is not obliged to do so again). You should not expect or depend on a margin call being made to you. Your obligation to monitor your open trades and your margin is in no way negated by the possibility of DeltinFX giving you a margin call.

Market volatility

Volatility is defined as the fluctuation of prices of a certain asset within a certain period of time. A state of high volatility exists when these fluctuations are characterised as rapid and dramatic. Since the prices can rapidly change over a wide range, trading on that asset will be a high-risk activity since it can rapidly generate unexpected profits or losses.

On the contrary, if the price moves slowly, the asset is considered to be one of low volatility. As such, trading on that asset will represent a lower risk since the prices will change at a slower pace and across a narrower range.

The financial market is often affected by high volatility. As such, you should be constantly aware of the state of the underlying market and decide if the level of volatility is in line with your risk management strategy. Cautious investors tend to prefer assets with low volatility, while investors who are willing to tolerate a higher risk of losses are more likely to invest in assets with high volatility due to the potential for higher returns.

High volatility can be the product of multiple factors operating independently or simultaneously. As stated previously, CFDs are derivative financial instruments, meaning they are affected by the state of the underlying asset's market.

Countless factors may contribute to volatility in the market, e.g. important declarations/notices in the financial market, wars between countries, political decrees etc. As such, it is very hard for traders to predict exactly how to behave in the market both in the present and future, particularly because the future is always uncertain. The prices of CFDs and the underlying securities, currencies, commodities, financial instruments, or indices may fluctuate rapidly and over wide ranges, in reaction to unforeseen events or changes in conditions, none of which can be controlled by the client. Thus, it is crucial that you monitor the market movement of the underlying asset.

CFD prices are influenced by the same unpredictable events affecting all financial instruments. These events include changes in supply-and-demand relationships, governmental policies, agricultural, commercial, and trade programmes, along with national and international political and economic events. Each of these is also affected by and affects the prevailing psychological characteristics of the relevant marketplace.

“Gapping” is also a risk that may arise from market volatility. Gapping usually occurs when a market opens with an opening price that is significantly different from the closing price. If there is a significant gap between the two prices, your open trade may suddenly shift from the closing price to the opening price without transitioning through the intermediary price range. Thus, the new price may instantly generate significant profits or losses. Moreover, it can affect any Stop Loss or Take Profit orders you have placed by creating Slippage, making it impossible for these to trigger at the price or rate you selected since such a price will not be available if it lies within the gap. In that case, your order will be executed at the opening price. For more information, please see the section on Stop Loss.

Moreover, if we detect there has been abuse of a gapping situation, we will proceed to cancel all trades involved. If you are not willing to run the risk of market gapping, you should consider closing all open positions before market closing times.

High volatility can also create a higher risk for Slippage, which will be addressed in more detail below.

Slippage

The term slippage refers to the difference between the expected price of a trade and the price at which the trade is actually executed. If the execution price is better than the price requested by the Client, it is referred to as positive slippage. In contrast, if the execution price is worse than the price requested by the Client, it is referred to as negative slippage.

Please be advised that ‘slippage’ is a normal phenomenon within the foreign exchange markets that may arise under certain conditions such as illiquidity and high volatility after financial news announcements, economic events, and market openings.



It should be noted that the price at which a trade is executed may vary significantly from the original requested price during abnormal market conditions. This may occur, for example, in the following cases:

1. During market opening times
2. During financial news or important announcements
3. During volatile periods where prices may move significantly up or down and away from the declared price
4. Where there is rapid price movement, if the price rises or falls in one trading session to such an extent that under the rules of the relevant exchange, trading is suspended or restricted
5. If there is insufficient liquidity for the execution of the specific volume at the declared price

This means you should be particularly careful when trading during highly volatile periods (for example, during major economic announcements), because your orders (including Stop Loss and Take Profit) may not be executed at the set price, but only at the next available price. Volatile market conditions, therefore, create uncertainty and may cause you to incur unexpected losses or profits.

The only way to shield yourself from slippage is to avoid trading when the market is extremely volatile.

This overview of the risks you are most likely to encounter while trading was aimed at making you aware of their existence, their characteristics, and their consequences. Combined with the knowledge of fundamental principles you've acquired in the first section of this guide, you should now have a better understanding of your risk exposure. Specific ways of handling this exposure will be analysed in the following section.

III. Risk Management Tools

The final section of this guide will present the tools available for mitigating or minimising, as much as possible, the risks you will be exposed to during your trading. As with all tools one has to rely upon, you should become familiar and comfortable with their functions, capabilities, and limitations.

In combination with a profound understanding of the principles and risks presented in the above sections, these tools may, if used correctly, provide a level of protection. This, however, will ultimately depend on the specific circumstances unique to every trader and every trade.

Equity Drop Alert

Prior to a Stop Out, you will receive an *"Equity Drop Alert"* from us.

The purpose of the alert is to warn you that your account is at risk and approaching the Stop Out level. In this situation, you will have to decide if you are willing to add further funds to your account in order to prevent the Stop Out from occurring. This can be considered as a last resort and emergency measure, and thus it is strongly recommended that you take preventative steps in order to avoid this high-risk situation.

Unless receiving an Equity Drop Alert (and the potential Stop Out that may follow) is in line with your risk appetite and your trading strategy, it is preferable that you remain in control of your account at



all times and take the necessary measures to avoid the alert from being triggered at all. Depending on the volatility of the market and the size of your transactions relative to the funds available in your account, an Equity Drop Alert (especially if it is unexpected) might mean that you will have to make very important decisions regarding your account and open positions in a very short period of time. If you do not deposit additional funds within the required time and the market does not move in a direction that reduces your losses, a Stop Out may occur.

Please note that providing an alert is not an obligation of DeltinFX. You will be deemed to have received a notice requiring the injection of additional funds to your account, even if you did not read, open, or acknowledge the message. Constant, vigilant monitoring of your account in combination with effective control of your account are crucial and necessary measures you must take when managing the risk of a Stop Out. For reference, please find below an example of an **Equity Drop Alert** message:

Stop Loss Orders

The use of the Stop Loss mechanism may help protect you against losses. It enables you to decide in advance the maximum amount you are willing to lose on a specific trade. A Stop Loss order will automatically close your open trade when it reaches the pre-determined level of loss you have set for it.

For example, if you sold currency with the intention of letting its value decrease and buying it back for a profit, you could set a Stop Loss order if the currency moved upwards by a certain amount. Additionally, if you bought a currency and the price began to fall, your Stop Loss would keep you from losing more than you wanted to by closing your open trade automatically at the price you set.

DeltinFX gives you the option of setting your own Stop Loss orders so you can control the value of your trade and ensure it doesn't drop below a certain level. Thus, you can manage your risk and prevent losses due to your inability to monitor and manually close your losing trades. You should, however, monitor your trades as much as possible, even when using Stop Loss.

Subject to market conditions, Stop Loss orders shall be executed either at the exchange rate selected by you, in which case, the amount will be calculated automatically, or at the amount of loss selected by you, in which case the exchange rate will be calculated accordingly.

However, in long-term investments with potential short-term volatility, the Stop Loss order may not be appropriate. If your trading strategy consists of opening trades which you believe may initially incur losses due to market volatility but will turn a profit in the long term, you will need to also adjust your Stop Loss to take this into account. Either way, the use of the Stop Loss mechanism is an important tool every trader must know, whether he/she chooses to use it or not.

Alternatively, you can choose to set a rate for your Stop Loss, instead of setting an amount. The mechanism is the same.

In this scenario, you managed your risk exposure by setting a limit to your acceptable losses. If you had not set a Stop Loss, the trade could have continued going against you and generated losses (up to a Stop Out). On the other hand, the trade could have gone past your Stop Loss limit and then changed direction, incurring less losses than your Stop Loss amount, or even become profitable.

Implementing Stop Loss orders shields you from these uncertainties and you know in advance the maximum loss that a trade can incur. It is important to make a Risk/Benefit assessment for every trade and decide if you wish to use the Stop Loss mechanism or not.

However, you must take into account that Stop Loss is not “guaranteed.” This means that Stop Loss does not guarantee your position will close at the exact level specified. If there is slippage and the market suddenly gaps beyond the level you set as a Stop Loss, your position may be closed at a price other than the one requested.

Take Profit

A Take Profit is an automated order you can set so your open trade will automatically close if it reaches a certain level of profit. This way, if the trade is successful, you can ensure a certain level of profit and prevent a loss if the rate falls again before you have a chance to manually close losing trades. You should, however, monitor your trades as much as possible even when using Take Profit. The downside to using Take Profit orders is that you may sometimes close a position on trades with particularly profitable trends that continue long after you’ve exited, thus depriving yourself of an even more profitable trade. The decision to use a Take Profit order and the amount to set for each particular trade you open is your exclusive responsibility as a trader and will depend entirely on your targets, your risk appetite, and your risk management plan.

For example:

The pair EUR/GBP is trading at a 0.8495 bid/0.849 offer respectively and you buy 50,000 because you think the price of EUR will go up against GBP. The EUR/GBP has a margin of 50,000 / 400 *Currency value which means that you only have to deposit a fraction of the total position’s value as margin. Therefore, in this example, your position’s margin will be \$106.19 $((50,000/400) \times 0.84955)$. You set a Take Profit of \$285 on your trade to automatically close your profitable trade and limit your risk in case the market turns against you after that point.

The EUR/GBP pair price rises as expected. Once it reaches the 0.8553 bid/0.8554 offer, you decide to sell at the bid price at that moment, with a profit of: $((50,000 \times 0.8553) - (50,000 \times 0.8496)) = \285

Since you have reached your pre-determined maximum profit amount, your Take Profit is engaged and automatically closes your trade.

Instead of setting an amount, you could choose to set a rate for your Take Profit. The mechanism is the same.

In this scenario, you managed your risk exposure by putting a limit on your desired profits. If you had not set a Take Profit, the trade could have turned against you after exceeding your Take Profit limit and generated losses (up to a Stop Out). On the other hand, the trade could have stayed profitable beyond your Take Profit limit and generated an indefinite amount of profits.

By using Take Profit, you safeguard yourself from these uncertainties and know in advance the maximum profit that a trade can incur. It is important to make a Risk/Benefit assessment for every trade and decide if you wish to use the Take Profit mechanism or not.

Take Profit and Stop Loss orders are crucial risk management tools that allow you to professionally manage your trades. Where you set these orders depends on your level of risk, but it is good practice to use them, or at least consider using them, and weigh the positives and negatives of these tools for every trade you make. Management of positions and your investment is key to successful online trading.

Manual closure of trades

If you feel your open trades have reached your target or, on the contrary, don't feel comfortable with the trades you have opened, you can always close them manually.

If you rely on the manual closure of trades, vigilant supervision of your account and timely action is a fundamental prerequisite. If executed correctly and with foresight, such an approach may mitigate your risks. While closing a loss-making trade can prevent it from generating further losses, many traders may choose to let the occasional open position run its course. This approach consists of enduring any further losses the trade may generate, relying on an expectation of a market reversal that will eventually turn a loss-making trade into a profitable one.

Such a strategy is high risk since it must take into account the possibility that a market reversal will not occur and requires a healthy account balance that can sustain the short-term losses.

As such, the exclusive responsibility lies with the trader who must make an informed and independent decision on the usage, timing, and appropriateness of the available tools. Since the financial market is a dynamic environment, every situation and every risk strategy may call for a different approach. An informed and independent decision on how to use these tools may only be taken after having developed your own trading and risk management strategies based on the self-assessment of your financial capabilities and tolerances, your level of knowledge, your intentions and targets. You should always aim to have a complete understanding of the consequences of your actions.