

## Short Example

Jessica is a 'directional trader' who generally holds positions for no longer than 4 days. She believes that ABC Bank is overpriced and will fall over the next few days. Jessica has \$100,000 deposited with her broker and wants to expose 5% of her cash to this position.

ASX ABC CFDs have an Initial Margin of \$2.50 per contract or approximately 5%. With \$5000, therefore, Jessica can gain exposure to \$100,000 (5,000/5%), as the \$5,000 is sufficient to pay her Initial Margin on the position.

ASX ABC CFDs are currently trading at 5000 bid – 5001 offer.

**Jessica places an order to sell 2,000 ASX ABC CFDs at \$50.00 = \$100,000 value.**

After the first day Jessica must pay an Initial Margin and the Open Interest Charge. She is exposed to Variation Margins, but receives Contract Interest. On subsequent days Jessica continues to pay the Open Interest Charge, any negative Variation Margins and continues to receive Contract Interest.

*Note: If ABC went ex-dividend during this period then Jessica would pay Dividend and any Franking Credit Cashflow.*

ASX EQUITY CFD TRADE PRICE		\$50.00			\$48.00
Trade	Sell 2,000				Buy 2,000
	Day 1	Day 2	Day 3	Day 4	
<b>Daily Settlement Price</b>	<b>\$51.00</b>	<b>\$49.50</b>	<b>\$49.00</b>	<b>\$48.00</b>	
<b>Initial Margin</b>					
(1) # of contracts	2,000				
(2) Trade Price	50.00				
(3) Initial Value (1x2)	\$100,000				
(4) Margin	2.50 or 5%				
Initial Margin (1x4) or (3x4)	<b>-\$5,000.00</b>	+\$5,000.00			
<b><sup>1</sup>Contract Interest</b>					
(1) # of contracts	2,000	2,000	2,000		
(2) Daily Settlement Price	\$51.00	\$49.50	\$49.00		
(3) Position Value (1x2)	\$102,000	\$99,000.00	\$98,000.00		
(4) CI/ # of days	6.25%/365 days	6.25%/365 days	6.25%/365 days		
Contract Interest (3x4)	\$17.47	\$16.95	\$16.78		
<b><sup>1</sup>Open Interest (OIC)</b>					
(1) # of contracts	2,000	2,000	2,000		
(2) Daily Settlement Price	\$51.00	\$49.50	\$49.00		
(3) Position Value (1x2)	\$102,000	\$99,000.00	\$98,000.00		
(4) OIC/ # of days	1.5%/365 days	1.5%/365 days	1.5%/365 days		
Open Interest Charge (3x4)	<b>-\$4.19</b>	<b>-\$4.07</b>	<b>-\$4.03</b>		
<b>Variation Margin</b>					
(1) Opening	\$50.00	\$51.00	\$49.50		
(2) Closing	\$51.00	\$49.50	\$49.00		
(3) Difference (1-2)	-\$1.00	\$1.50	\$0.50		
(4) # of contracts	2,000	2,000	2,000		
Variation Margin(3x4)	<b>-\$2,000</b>	\$3,000.00	\$1,000.00		
<b>Cumulative Profit/Loss</b>					
Gross Profit	<b>-\$2,000</b>	\$1,000.00	\$2,000.00	²\$4,000.00	
Contract Interest	\$17.47	\$34.42	\$51.20	\$51.20	
Open Interest	-\$4.19	-\$8.26	-\$12.29	-\$12.29	
Net Profit/Loss	<b>-\$1,986.72</b>	\$1,026.16	\$2,038.91	\$4,038.91	

<sup>1</sup> Some brokers aggregate Contract Interest and Open Interest and give them a generic title such as funding cost.

<sup>2</sup> \$4,000 is the difference between the price when the ASX CFDs were initially written (\$50.00) and the price when the CFDs were bought back (\$48.00) multiplied by the number of CFDs traded (2,000)