

An introduction to Binary Betting with Finspreads

What is Binary Betting?

Binary betting is the latest product to come from the spread betting industry, providing a new and exciting way to trade the financial markets.

Just like spread betting, binary betting allows you to take a view on whether a market is going to go up or down.

The key difference and advantage is that from the outset you know your maximum loss and maximum gain. And with Finspreads, you can trade binary bets on markets such as the FTSE and Wall St from as little as 50p per point.

The word binary means dual or twofold, hence, when you place a binary bet, there are only two outcomes - an **event** will either **occur** or **not occur**.

All binary markets are quoted on an index between 0 and 100.

Just like a spread bet, you BUY or SELL for a certain amount per point depending on your view.

Our binary markets expire at 100 if the event occurs or at 0 if the event does not occur.



Example 1 - Daily FTSE 100 UP

Will the FTSE 100 cash market close UP on the day?

If the FTSE 100 closes UP on the day, the bet expires at 100
If the FTSE 100 does not close up on the day, the bet expires at 0

It's **16h00** and the FTSE cash is having a quiet day and is trading down 2 points from its opening level

Therefore, our quote for the **Daily FTSE 100 UP** binary bet is currently **30 - 34**

SELL @ 30

BUY @ 34

If you think that the FTSE 100 cash **will not** close up on the day, you **SELL** at 30 for **£1 a point**

If you think that the FTSE 100 cash **will** close up on the day, you **BUY** at 34 for **£1 a point**

The FTSE cash closes **UP** on the day, meaning the **event** has occurred and our binary market expires at **100**

If you sold at 30, on this occasion you were incorrect in your judgement:
You lose £70 (100-30 = 70 x £1)

If you bought at 34, your judgement was correct and therefore:
You win £66 (100-34 = 66 x £1)

Example 2 - Hourly Wall Street DOWN 20h30

Will the Wall Street cash market be trading lower at 20h30 than at 19h30?

If Wall Street is trading DOWN from where it is at 19h30, the bet expires at 100
If Wall Street is not trading DOWN from where it is at 19h30, the bet expires at 0

It is now **20h06** and Wall Street is trading at 10500. The 20h30 hourly market (which expires at 20h30) started at 19h30 when Wall Street was trading at 10520.

Therefore, it is currently trading 20 points lower than when the market started.

With 24 minutes until expiry our quote for this market is **75 - 80**

SELL @ 75

BUY @ 80

If you think that the Wall Street cash **will not** be lower than 10520 at 20h30:
You SELL at 75 for **£1 a point**

If you think that the Wall Street cash **will** be lower than 10520 at 20h30:
You BUY at 80 for **£1 a point**

At 20h30 the Wall Street cash is below 10520, meaning the **event** has occurred and our binary market expires at **100**

If you sold at 75, you were incorrect to think the market would rise above 10520:
You lose £25 (100-75 = 25 x £1)

If you bought at 80, you were correct to think the market would fall below 10520:
You win £20 (100-80 = 20 x £1)

Binary Betting v. Fixed Odds

A binary bet is very similar to a fixed odds bet - you always know exactly how much you can win and lose.

A difference between the two is that, unlike a fixed odds bet, with a binary bet you can take your profit before the expiry of the market.

Converting our binary prices into fixed odds

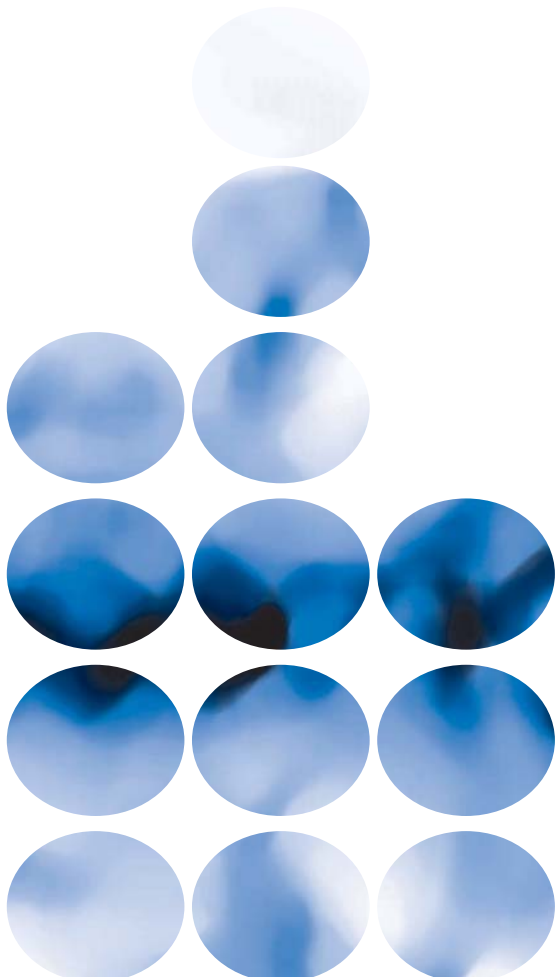
Example: A binary market is quoted at 23 – 25
You decide to BUY @ 25 for £1 per point.

If the event occurs, the bet expires at 100
You win £75 = $(100 - 25) \times £1$

If the event does not occur, the bet expires at 0
You lose £25 = $(25 - 0) \times £1$

This is equivalent to a traditional fixed odds bet of £25 at 3/1. You would either make £75 or lose £25

The table to the right shows you how our binary prices convert into a fixed odds price:



If you SELL a binary at...	Nearest fixed odds equivalent	If you BUY a binary at...
99.0	99/1	1.0
98.7	75/1	1.3
98.5	66/1	1.5
98.0	50/1	2.0
97.1	33/1	2.9
96.2	25/1	3.8
95.2	20/1	4.8
94.1	16/1	5.9
92.3	12/1	7.7
90.9	10/1	9.1
90.0	9/1	10.0
88.9	8/1	11.1
87.5	7/1	12.5
85.7	6/1	14.3
83.3	5/1	16.7
81.8	9/2	18.2
80.0	4/1	20.0
75.0	3/1	25.0
66.7	2/1	33.3
60.0	6/4	40.0
55.6	5/4	44.4
50.0	evens	50.0
44.4	4/5	55.6
40.0	4/6	60.0

Binary Betting v. Spread Betting

Betting on binary markets enables you to trade and make profits during flat as well as volatile markets.

During quiet market periods, your potential profits from spread betting can be limited, since the amount you win (or lose) depends on how much the market moves.

However, with binary betting, you are only betting on whether an event will or will not occur, so greater profits can be made in quiet markets.

It can be difficult to make profits by trading in and out of daily markets that are moving in narrow ranges. However, our hourly binary markets allow you to back your judgement on how a market will move in a much shorter period of time.

Example 3 shows how, with binary bets, you can profit even when markets are flat.

You can open and close binary bets at any time, apart from the final minute before the expiry time when the binary bet cannot be traded.

Since you always know your maximum downside, binaries can be useful when trading more volatile markets that have greater daily movements, such as the Wall Street.

Example 4 shows how trading a binary bet can limit your downside risk during fast moving and volatile markets.

You always have the option to close your bet before expiry to realise your profit or loss.

Limit orders

Like spread betting, you can leave opening or closing limit orders on binary bets. This means that you can leave an order to open a binary bet at a better level than where we are currently quoting.

For example, if we were quoting a binary market at 25-27, you could leave an opening limit order to BUY for £10 a point at 20. If the buy side of our quote for the market hits 20, then your order would be triggered and your bet opened. You may also leave a closing limit order on a binary bet allowing you to close your bet should you be in profit.

Example 3 - Binary Bet v Spread Bet comparison

09h00 Friday and the FTSE 100 is trading just 10 points up on the day at 5005	
BINARY BET	SPREAD BET
FTSE 100 UP 10h00 (10h00 expiry) 48 – 52	FTSE 100 – DAILY CASH FRIDAY 5004 – 5006
You think the FTSE will rise between 09h00 and 10h00 so you BUY £2 a point at 52, hoping the Market will be trading above 5005 at 10h00	You think the FTSE will rise so you BUY £2 a point at 5006
<p>Between 09h00 and 10h00 The FTSE 100 trades in a very tight range with a low of 5000 and a high of 5010, making it difficult for you to make a good profit from your spread bet. At 10h00 the FTSE 100 is at 5010</p>	
At the expiry time of 10h00 the FTSE 100 is trading above 5005 at 5010 Hence the FTSE 100 UP 10h00 market expires at 100 You win £96 (100 - 52 = 48 x £2)	You close your trade by SELLING £2 at 5009 on the market's high You win £8 (5010 - 5006 = 4 x £2)

Example 4 - Binary Bet v Spread Bet comparison

18h30 Wednesday and Wall Street is trading up 60 points at 10420	
BINARY BET	SPREAD BET
Wall Street 19h30 UP (19h30 expiry) 48 – 52	WALL STREET – DAILY CASH WEDNESDAY 10418 – 10422
You think Wall Street will rise between 18h30 and 19h30 so you BUY £2 a point at 52, looking for the market to be above 10420 at 19h30	You think Wall Street will rise further so you BUY £2 a point at 10422
<p>At 19h15 a large US stock suddenly comes out with terrible trading figures and widespread selling drives the market down to 10320 at 19h30 when Wall Street 19h30 market expires</p>	
At the expiry time of 19h30 the Wall Street was trading below 10420 at 10320 and therefore the Wall Street UP 19h30 market expires at 0 You lose £104 (52 – 0 = 52 x £2)	You decide to cut your losses and close your trade by SELLING £2 at 10318 You lose £208 (10422 – 10318 = 104 x £2)

What Markets Can I Trade?

You can start trading straight away and know your upside and downside the moment you hit BUY or SELL. The following markets are available on FTSE and Wall Street.

Daily Markets

Daily UP Bet

- Event:** The official close of the market is UP on the day
- Action:** If you believe the market will close UP on the day you BUY for your choice of stake per point
If you believe the market will not close UP on the day you SELL for your choice of stake per point
- Settlement:** The event happens, i.e. the market closes UP – the bet settles at 100
The event does not happen, i.e. the market does not close UP – the bet settles at 0

Daily DOWN Bet

- Event:** The official close of the market is DOWN on the day
- Action:** If you believe the market will close DOWN on the day you BUY for your choice of stake per point
If you believe the market will not close DOWN on the day you SELL for your choice of stake per point
- Settlement:** The event happens, i.e. the market closes DOWN – the bet settles at 100
The event does not happen, i.e. the market does not close DOWN – the bet settles at 0

Hourly Markets

Hourly UP Bet

- Event:** The level of the market is UP at the stated expiry time, i.e. for the FTSE 100 UP 10h00 bet, the expiry time is 10h00
- Action:** If you believe the market will be UP at the stated expiry time you BUY for your choice of stake per point
If you believe the market will not be UP at the stated expiry time you SELL for your choice of stake per point
- Settlement:** The event happens, i.e. the market is UP at the stated expiry time – the bet settles at 100
The event does not happen, i.e. the market is not UP at the stated expiry time – the bet settles at 0

Hourly DOWN Bet

- Event:** The level of the market is DOWN at the stated expiry time, i.e. for the FTSE 100 DOWN 10h00 bet, the expiry time is 10h00
- Action:** If you believe the market will be DOWN at the stated expiry time you BUY for your choice of stake per point
If you believe the market will not be DOWN at the stated expiry time you SELL for your choice of stake per point
- Settlement:** The event happens, i.e. the market is DOWN at the stated expiry time – the bet settles at 100
The event does not happen, i.e. the market is not DOWN at the stated expiry time – the bet settles at 0

Please note: If at the time of expiry the underlying market is unchanged, the binary will be deemed to have closed UP for settlement purposes.

For more comprehensive market information, please refer to the Binary Betting section on www.finspreads.com
If you require any further help, please call our Trading Support Desk on +44 20 7150 0499



Trading Support

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