What an index spread actually costs

> **SPREAD COST**
>
> The spread converted into money: points wide, multiplied by what a point is worth to your position. It is charged once per round trip, paid at the moment you open, and it is the reason a position starts behind rather than level.

Module 1 taught what the spread is and what it is quoted in. This is the arithmetic that turns it into a number you can compare against anything else.

The conversion is the whole lesson

Spread in points, times the money value of a point for your position. That is it. The difficulty is never the sum - it is that platforms quote the spread in points and your account is in money, so the comparison never happens.

Worked example - figures in USD

A 1.6-point spread on a dollar-settled index at $5 per point, in a US dollar account. No conversion.

1. The quote is 1.6 points wide, and you hold 1 contract at $5.00 per point.
2. One point is $5.00 to you, so the spread is $8.00.
3. That is the position's starting deficit. The index has to move 1.6 points in your favour before the trade is level, and it has not moved at all yet.

Why a tighter spread is not automatically cheaper

A 1-point spread on a contract worth £10 a point costs £10. A 2-point spread on a contract worth £1 a point costs £2. The wider quote is five times cheaper.

This is why spreads cannot be compared between vehicles, or between brokers offering different contract sizes, without doing the conversion first. The unit hides the number that matters.

When it is widest

Module 2 covered where: outside the cash session, around the open and close, through announcements. The cost consequence is that the same trade placed at 03:00 and at 13:00 is not the same trade, and the difference is not small on a thin index.

What it is not

It is not the whole cost. On a position held overnight it is often not even the largest one, which is the next lesson.

Check your understanding

1. A 1-point spread on a £10-per-point contract, against a 2-point spread on a £1-per-point contract. Which costs more?

a. The 2-point spread, at £2
b. The 1-point spread, at £10
c. They cost the same

Answer: b. Points are not money. The tighter quote on the larger contract costs five times as much, which is why the comparison has to happen after the conversion.

2. When is the spread charged?

a. Once per round trip, effectively at the moment you open
b. Every night the position is held
c. On exit only

Answer: a. It is why a position starts behind rather than level. Nightly charges are a different cost with different arithmetic.