

Lunaro Financial Services Limited (FRN: 184333) Risk Disclosure Notice

Risk Disclosure Notice

Introduction

This document is designed to help you understand the risks involved in trading financial products through our platform. Trading these products, including Contracts for Difference (CFDs) and spread bets, can be complex and risky, with the potential for you to lose more money than you initially invested. It explains the general and specific risks you may face when trading these instruments. These risks often interact and build upon each other, meaning losses can happen quickly and may be substantial. If you are unsure whether trading is right for you, seek advice from a qualified financial professional.

CFDs and spread bets are complex instruments and come with a high risk of losing money rapidly due to leverage. The vast majority of retail client accounts lose money when trading in CFDs. You should consider whether you can afford to take the high risk of losing your money.

Risk Disclosures

General Investment Risks

Market Risk: The value of financial instruments can fluctuate due to changes in economic conditions, political developments, and market sentiment. Events such as geopolitical tensions, major policy changes, or unexpected economic data releases can lead to sharp and unpredictable price movements. These fluctuations may result in significant financial losses, especially if positions are not adequately managed.

Liquidity Risk: Certain financial instruments may lack sufficient market activity, making it difficult to sell them quickly or at a desirable price. During periods of market stress or volatility, liquidity may decrease further, potentially forcing you to accept unfavourable prices or experience delays in exiting positions.

Currency Risk: If you trade instruments denominated in foreign currencies, fluctuations in exchange rates may impact your profits or losses. For example, even if the underlying asset performs well, adverse currency movements could offset gains or amplify losses.

Interest Rate Risk: Changes in interest rates affect the cost of holding leveraged positions, particularly in CFDs and spread bets, and influence the valuation of interest-sensitive instruments such as bonds and derivatives. Unexpected rate adjustments by central banks can lead to sudden market reactions.

Regulatory and Taxation Risks: Changes in laws, regulations, or tax policies may increase trading costs or reduce the attractiveness of certain financial instruments. For example, spread bets may be tax-exempt under current UK law, but this could change, impacting your returns.

Operational Risks: Trading platforms rely on technology that can experience outages, cyberattacks, or technical failures. Such disruptions may delay your ability to execute trades, monitor positions, or withdraw funds, potentially leading to financial losses.

Volatility and Gapping: Sudden and sharp price movements, known as gapping, may occur due to major market events or low liquidity conditions. Gapping can result in orders, including stop-losses, being executed at significantly different levels than anticipated, leading to unexpected losses.

Conflicts of Interest: Brokers acting as counterparties set their own prices for OTC products, which may differ from broader market rates, particularly in illiquid markets. When closing trades or executing stop-loss orders, prices may deviate from external market benchmarks, potentially impacting clients adversely. These practices may align broker profits with client losses, creating inherent conflicts of interest despite measures to mitigate them.

Trading Outside Regular Hours: Trading outside of normal market hours can present additional risks, including reduced liquidity, wider spreads, and delayed order execution. Sudden price changes during these times may result in significant financial impacts.

Trade Size Risks: If your open positions exceed the allowable trade size during closing, it may not be possible to close all positions with a single trade. This leaves remaining positions exposed to ongoing risks until further actions are taken.

Risks of OTC and Leveraged Trading

Nature of OTC Trading: Over-the-counter (OTC) trading occurs outside regulated exchanges, where prices are determined by the broker. This lack of centralised pricing means you may face less favourable conditions than in exchange-traded markets. Transparency is limited, and prices may not reflect broader market values.

Leverage and Margin Requirements: Leveraged trading allows you to control large positions with a relatively small deposit, amplifying both gains and losses. A small adverse price

movement can result in losses exceeding your deposit. Failing to meet margin calls may lead to automatic liquidation of positions, locking in substantial losses.

Counterparty Risk: As the broker acts as your counterparty in OTC transactions, your financial exposure depends on the broker's ability to fulfil its obligations. In the unlikely event of broker insolvency, recovery of funds may be at risk. Eligible clients may be covered under the Financial Services Compensation Scheme (FSCS) up to £85,000.

Frequent Trading Costs: High-frequency trading strategies can result in cumulative transaction costs, such as spreads and commissions, significantly reducing profitability over time. These costs can erode returns, particularly for short-term trades.

Insolvency Risk: Dealing in OTC products exposes you to the financial health of the broker. Insolvency could lead to partial or complete loss of funds held with the broker, as there is no central clearinghouse for OTC transactions.

Order Execution Risks: In certain circumstances, orders may not be executed at the requested price due to market conditions or technological issues. This risk is particularly acute during periods of high volatility or when trading illiquid instruments.

Specific Risks When Trading CFDs

Complexity and Speculation: CFDs are inherently speculative and designed for active trading on price movements. Due to their complexity, they may not be suitable for all investors. Poor understanding of their mechanics can lead to rapid financial losses.

Leverage Risks: CFDs enable trading with leverage, magnifying both potential gains and losses. Even small price changes can result in outsized impacts on your account balance. For example, a 1% adverse movement in the underlying asset could lead to a 10% loss on a highly leveraged position.

Margin Close-Out: If your margin levels fall below required thresholds, your positions may be liquidated without prior notice, potentially locking in substantial losses. It is your responsibility to maintain sufficient margin to avoid forced liquidation.

Market Volatility: The value of CFDs is closely tied to the underlying asset, which can experience sharp and unpredictable price swings. Sudden volatility can lead to gapping, where prices move significantly between trades, increasing the risk of losses.

No Ownership Rights: CFDs do not provide ownership of the underlying asset, meaning you are not entitled to dividends, voting rights, or other shareholder privileges associated with equity ownership.

Negative Balance Protection: Retail clients benefit from protections ensuring losses do not exceed their account balances. However, professional clients may be liable for account deficits, exposing them to potentially unlimited losses.

Specific Risks When Trading Spread Bets

Nature of Spread Betting: Spread betting allows you to speculate on the price movements of an underlying asset without owning it. Your profit or loss depends on the accuracy of your prediction of the asset's price movement.

Leverage Risks: Spread betting often involves leverage, amplifying both potential profits and losses. A small movement in the underlying price can result in disproportionately large losses, which may exceed your initial deposit.

Tax Treatment: Under current UK tax law, profits from spread betting are typically not subject to capital gains tax. However, this tax treatment could change, impacting your returns.

No Ownership Rights: Spread bets do not confer ownership rights to the underlying asset. This means you are not entitled to dividends, voting rights, or other benefits associated with owning the asset.

Gapping and Market Volatility: Spread bets are sensitive to sudden price changes. Gapping can result in substantial losses, particularly during volatile market conditions.

Limited Risk Management: Non-guaranteed stop orders, commonly used in spread betting, may not execute at the expected price during fast-moving markets. Guaranteed stops may be available at an additional cost to mitigate this risk.

Specific Risks When Trading Equities

Price Volatility: Equity prices are influenced by a wide range of factors, including company performance, industry trends, and macroeconomic conditions. These variables can lead to significant price fluctuations, impacting investment returns.

Dividend Risk: Dividend payments are at the discretion of the issuing company and are not guaranteed. Economic downturns or poor financial performance may result in reduced or suspended dividends.

Liquidity Risk: Equities in smaller companies or less active markets may suffer from low liquidity, making it difficult to execute trades at desired prices. This can result in delays or increased costs when entering or exiting positions.

Foreign Market Risks: Investing in international equities introduces additional risks, such as currency fluctuations, differing regulatory environments, and limited access to timely information about foreign companies.

Penny Shares: Low-cost equities, commonly referred to as penny shares, carry heightened risks due to limited liquidity, wide spreads, and lower regulatory oversight. These factors increase the likelihood of significant financial losses.

Settlement Risks: Delays or failures in trade settlement processes can lead to missed investment opportunities or financial losses, particularly during volatile market conditions.

Administrative Costs: Trading equities may involve costs such as commissions, custody fees, and exchange charges, all of which can reduce overall profitability.

Summary

Trading financial instruments, including CFDs, spread bets, and equities, involves significant risks that can lead to substantial financial losses. Leveraged and OTC products carry additional complexities and heightened risks, requiring a thorough understanding before trading. It is essential to assess your financial objectives, risk tolerance, and investment experience carefully.

This document is not exhaustive. For detailed information, consult our terms and conditions or seek professional advice. Your trading decisions should be informed by a full understanding of the risks and your personal financial circumstances.

Disclaimer: Trading is speculative and may not be suitable for all clients. You should only trade with money you can afford to lose. Always ensure you understand the risks involved and seek independent advice if necessary.