What is a stock index

Stock index is a composition calculated on the basis of certain “basket” of shares providing information about the fact how the equities develop as a whole within certain stock market or specific industry like health-care, banking or any other industry. Shares are included into respective indices on the basis of pre-set criteria like market capitalization, business sector etc. Shares within respective indices are replaced in the same way according to pre-set principles in the event a situation occurs when certain share do not meet the pre-set criteria.

Stock indices have experienced long period of trading already and they exist on financial markets for almost 80 years. One of the oldest and globally most widely known indices are e.g.: the Dow Jones Industrial Average, consisting of 30 top stock from the U.S. industry, Dow Jones EURO STOXX 50 Index, including the top 50 stocks of Eurozone companies or the Nikkei 225 Japanese stock index, consisting of 225 top companies’ stocks, traded on the stock exchange in Tokyo.

What is a dividend

Dividend means a monetary performance of joint stock companies, paid to the shareholders of company on the basis of general meeting decision. These are shareholders with the right to participate on the distribution of company profits on the basis of their ownership of company shares. The amount of paid dividend is set per 1 share, therefore, this is the amount of paid funds the shareholder receives if he owns one piece of share.

Market reaction after the dividend payment

Market reaction on the payment of dividend is often seen as a drop of market value in the amount of paid dividend. This phenomenon is called as a technical correction and is based on the primary principle of dividends’ payment – in the event of any payment of dividends, a drop in finances occur and therefore, in the assets of company per one share as well. On this basis, the value of one share drops exactly by this amount which means that the price of a share reflects the decline in finances of the company.

But how does it work in case of stock indices’ CFDs?

Despite the fact that the trader, purchasing stock index CFD, is not going to become the owner of shares, included therein, it’s necessary to count on the payment of dividends even in case of this kind of trading instrument.

As mentioned above, the price of a stock index CFD may drop by the value of paid dividend and on this basis, it’s necessary to perform a monetary correction for open positions on respective index CFD so the resulting value of market movement and correction is zero.

In case of long positions, credit operation occurs, so respective amount is credited to the trading account. Conversely, in the event of holding a short position, such amount is debited from the trader’s account, thus avoiding the advantage of a short position after the payment of dividends when a technical correction and drop in price occur.

When are the dividends credited/debited onto clients’ accounts?

Dividend’s crediting or debiting on client’s account is executed on the so-called ex-dividend day what is a day when the traders have no claim for payment of the coming dividend in case of purchase of a standard share. In general, the technical correction occurs on this day as well.

The schedule of the specific days when the dividends will be settled on individual indices can be

found on our website.
Dividend charges will be credited / deducted to your trading account the business day directly following the date in the attached document the latest.