FUTURES TRADING

DEMYSTIFIED

Your Futures Questions Answered

TradeStation®

Contents

Introduction

Futures were created by professionals for very specific purposes. They are now gaining wide popularity among retail investors and traders. Futures are one of the most powerful instruments in the entire market. However, they have unique characteristics and risks that must be learned.

What are Futures?

Futures are derivatives that track an underlying asset. That might be an index like the S&P 500, a commodity like oil, securities like U.S. Treasury bonds, or a currency like the Euro. Because futures trade nearly around the clock, customers can react to volatility in global markets or events outside of normal trading hours.

Futures originated with agricultural commodities. Some still involve physical delivery of grain or livestock, although many settle in cash.

History of

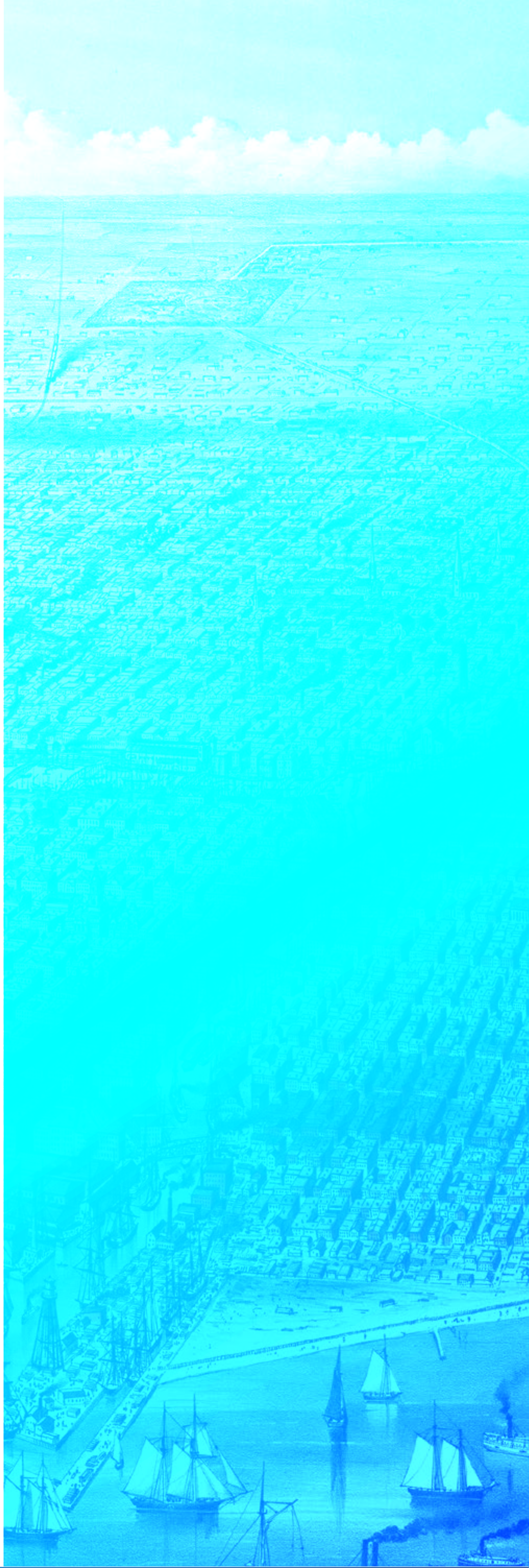
Futures Contracts

Futures emerged from Chicago's grain and livestock exchanges in the 1800s. These foodstuffs only come to market at harvest or when animals are mature. Farmers, wanting to get paid upfront, started selling their future production.

The resulting contracts convey the right to purchase the commodities at a future date. Sellers receive cash now and have an obligation to deliver the products at a specific time in the future.

Futures are also available in products like gold and crude oil. By the 1980s, they included key stock indexes like the S&P 500. These are now the most active futures product.

Each futures contract has its own specifications and delivery date. It's important for clients to understand these details before trading any product.



The Benefits of
Trading Futures

1. Futures offer leverage.

Traders can control a large amount of notional value with relatively little capital.

2. Futures trade around the clock.

Most contracts are available from Sunday night through Friday afternoon. There are brief maintenance breaks at different times for the various products.

3. Liquidity.

Futures are usually quoted with a tight bid/ask spread. This is a big benefit over equities especially outside of normal market hours.

4. Positioning.

It's easier to position for a decline with futures than with equities.

5. Scalable and accessible.

Futures can be scalable and accessible to even small investors, thanks to micro contracts in some products.

6. Offers alternatives.

Futures can be more straightforward than options because they always move the same amount relative to the underlying index or commodity.

7. Uncorrelated assets.

Futures products track a wide range of assets, many of which are uncorrelated. These include stocks, energy, grains, livestock, metals, interest rates, and currencies.

The Risks of
Futures Trading

1. Because they are leveraged, futures positions can lose money rapidly if the trader predicts movement incorrectly.

2. Traders can lose more than their initial investment trading futures.

3. Futures contracts can be complex, with different contract specifications, trading hours, and settlement rules.

4. Some futures have delivery risk.

Trading
Index Futures

While index futures may track the stock market, they work differently. You don't pay a share price in return for a certain amount of assets in your account. Instead, you take a long or short position based on margin in your account.

All futures trades are either long or short:

Long futures profit when prices increase. They lose money when prices decline.

Short futures profit when prices decline. They lose money when prices rise.

What's the

Contract Unit?

The contract unit is the amount of the underlying asset represented by each futures contract. This can be index points, barrels of oil, bushels of grain, or ounces of precious metal.

The contract unit determines how much value is represented by each point that the futures contract moves. Think about them as multipliers on the value of a position.

S&P 500 futures have a contract unit of $50 times the S&P 500. Traders long one contract see their accounts gain $50 each point the S&P 500 rises. They lose $50 each point it declines.

Because they vary widely by product, traders should know and understand contract units before using any futures contract.

What is
Tick Size?

All futures have a point value. However, prices fluctuate in smaller increments known as ticks.

S&P 500 futures, for example, have one-quarter point ticks. Because each point controls $50 of value per contract, a single tick represents $12.50 of value in your account.

Euro futures, on the other hand, have a tick size of 0.00005 point. Treasury futures trade in traditional fractions of one-quarter of 1/32 rather than decimals.

Because each futures contract has its own fixed tick size, traders should thoroughly understand how a product is quoted before using it.

What's
Margin?

Margin is the amount of money you need in your account to trade futures. Each contract, like the S&P 500 or crude oil, has its own margin requirements.

There are two important types of margin requirements: initial margin and maintenance margin.

The initial margin is the amount of money needed in your account at the moment of going long or short.

The maintenance margin is the value of your account needed to keep the position open. This is smaller than the initial margin.

Finally, margin requirements are typically lower during normal trading hours. This is known as the "Day Trading Rate." Customers must open and close their positions within 24 hours to benefit from this rate.

What Do I Need to Know about

Trading Hours?

There are two important things to know about the trading hours on futures.

First, traders holding a position for less than 24 hours may only need the day-trading margin rate. Check with the Margin Department for more.

Second, futures trade around the clock between Sunday night and Friday afternoon. But they close at certain hours in between. Schedules vary for different products, so customers should know the times before trading any individual futures contract.

What's a

Margin Call?

Because a futures position can move against you, your account's value may drop below the required minimum for a given product.

This can result in a margin call, which is when the broker demands that additional cash or securities be added to the account. Alternately, the customer can close the money-losing futures position.

> Traders should never forget that futures have potentially infinite losses. The margin requirement is a cushion to ensure losses are covered, but it may be insufficient. You can lose more than your initial investment trading futures.

What Do I Need to Know about

Expirations?

Unlike stocks and exchange-traded funds, all futures contracts expire. Expiration is the last day that the contract trades.

Expiration cycles vary for different products, so customers should know the cycle before trading any individual futures contract.

Because of expirations, traders shift away from futures contracts as they near the end of their life. This process is called "rolling."

The most active contract is usually the "front month," closest to expiration.

Expiration procedures vary for different products. Equity index futures, for example, expire on the third Friday every three months. Energy futures, however, stop trading 3-4 days before the 25th of each month. Traders should fully understand these rules before using any futures contract.

What Do I Need to Know about

Settlement?

The most popular financial futures like S&P 500 e-minis are "cash-settled." Profits are simply deposited into your account as cash if you hold through expiration. Losses debit your balance.

Some commodity contracts settle physically. That means traders holding long positions through expiration could be obligated to take delivery of items like bushels of wheat or barrels of oil.

Like most retail brokerages, TradeStation doesn't allow physical settlement on futures. If clients hold these contracts too close to expiration, our trade desk will close them to avoid delivery. Clients need to know their firm's rules regarding futures settlement.

How Do

Futures Symbols Work?

Futures symbols change over time because of expirations. They consist of the root, the delivery month, and the year.

Root. is the underlying product like the S&P 500 or crude oil.

Delivery Month. Each month of the year has a unique letter.

Delivery Year. The last two digits are used.

For example, the June 2020 e-mini S&P 500 futures contract is "ESM20."

Root: "ES"

Month: June's letter is "M."

The year is "20."

Contract Month Codes

Month	Month Code
January	F
February	G
March	H
April	J
May	K
June	M
July	N
August	Q
September	U
October	V
November	X
December	Z

What Are the Most
Popular Futures Products?

While financial markets are constantly evolving, these futures tend to be the most actively traded:

- **E-mini S&P 500 futures** track the most widely followed stock-market index, the S&P 500. Its root is "ES."
- **E-mini Nasdaq**-100 futures track the Nasdaq-100 index, which is heavily focused on the technology sector. Its root is "NQ."
- **E-mini Dow futures** track the Dow Jones Industrial Average, which includes more traditional blue chips like banks and industrials. Its root is "YM."
- **E-mini Russell 2000** futures track the Russell 2000 small-cap index. Its root is "RTY."
- **NYMEX WTI crude-oil futures** track West Texas Intermediate crude oil, the most common form of petroleum in the U.S. Its root is "CL."
- **E-mini 10-year U.S. Treasury Note futures** track 10-year Treasuries. These rise in price when yields decline. Because they're viewed as a "safety play," Treasury futures often move in the opposite direction as the S&P 500. Its root is "TY."
- **Euro FX futures** track the euro currency. They rise in price when the Euro rises. They move inversely to the U.S. dollar. Its root is "EC."

Did you know TradeStation offers continuous contracts for charting purposes? These combine all the price histories of multiple contracts over time. Simply add @ before the root symbol.
For example, @ES is the continuous contract for e-mini S&P 500 futures.

What Are
Micro Futures Contracts?

In May 2019, CME launched Micro contracts on the four major equity indexes. These let traders take positions in the S&P 500, Nasdaq-100, Dow Jones Industrial Average and Russell 2000 for one-tenth of the capital. Simply add an "M" before the root for the micro contracts.

How Can I Use
Futures?

Most retail investors use futures for either directional trading or hedging.

Directional trading is when you think the market is going higher or lower. Futures can be especially useful if events outside of regular market hours impact prices.

Hedging is when you want to protect a core position against volatility or declines. For example, if you have a position in a general stock fund, you can sell S&P 500 futures when the market drops. Increases in the short position will offset losses in your portfolio.

Should I Trade

Futures or Equities Options?

Traders may notice similarities between futures and equity options. Both are derivative contracts with the potential for significant leverage. But there are key differences.

- **Account type:** Futures require a futures account. Equity options can trade in an equity account that's enabled for options.
- **Underlying products:** Equity options are based on stocks or ETFs. This provides more variety because there are more stocks than futures markets. However, for some instruments like currencies, futures are much more active than ETFs.
- **Liquidity:** All futures have uniform bid/ask spreads -- unlike options. Transaction costs are more predictable.
- **Trading hours:** Futures trade around the clock, while standard options only trade when the stock market is open.

WHY TRADE FUTURES AT

TradeStation®

TradeStation has the tools and data you need to trade futures more effectively, including an advanced futures trading platform, dedicated future specialists, educational resources, and competitive pricing plans

- **Educational resources**
- **Powerful futures trading and analysis platform**
- **Competitive pricing**
- **Web and mobile trading**
- **Free market data for non-professional traders**
- **Experienced customer support and trade-desk specialists**
- **Special day-trading margin rates**
- **Access to over 350 futures and futures option products**

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