

The Fundamentals and Techniques of Trading Futures

Disclaimer: Trading in futures and options is not suitable for all investors as the risk of loss is substantial.



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The purpose of this booklet is to give you a better understanding of the various aspects of futures trading, and the workings of the futures market.

This booklet will attempt to answer any questions you may ask as a speculator and thus enable you to approach futures trading in an intelligent manner.

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HISTORY AND ORIGIN

When civilization began, trading started. Bartering for different commodities probably was done since time immemorial. Coined money appeared sometime between 800 B.C. and 700 B.C. Soon, instead of bartering as a means of business, coined money was used. Eventually trading had to be done on the basis of future delivery, as a merchant would sell out his complete stock, but still have customers waiting to buy. The merchant would then take a partial payment and guarantee delivery at a future date. This type of transaction probably was the beginning of the present day futures contract.

For nearly three hundred years, commodity futures contracts were used. Merchants and processors of food would bid for a farmer's crop, before or after planting. Both parties involved were protected and would not have to fear that drastic price changes of the crop during harvest or delivery would alter the normal course of their business. Today's modern day commodity futures markets still offer this protection, plus other important uses to be discussed in this booklet.

Commodity Exchanges

What is a Commodity Exchange? A Commodity Exchange is an organized market of buyers and sellers of various types of commodities. It is public to the extent that anyone can trade through member firms. It provides a trading place for commodities, regulates the trading practices of the members, gathers and transmits price information, inspects and governs commodities traded on the Exchange, supervises warehouses that store the commodity, and provides means for settling disputes between members. All transactions must be conducted in a pit on the Exchange floor within certain hours.

Futures Contract

What is a futures contract? A futures contract is a contract between two parties where the buyer agrees to accept delivery at a specified price from the seller of a particular commodity, in a designated month in the future, if it is not liquidated before the contract reaches maturity. A futures contract is not an option; nothing in it is conditional. Each

contract calls for a specified amount and grade of product. For example: A person buying a March Silver Contract at \$4.25 in effect is making a legal obligation now to accept delivery of 5000 ozs. of silver bullion, to be delivered during the month of March, for which the buyer will pay \$4.25 per ounce.

The average trader does not take delivery of a futures contract since he normally will close out his position before the futures contract matures. As a matter of fact, a survey conducted by a leading exchange has estimated that less than 3% of the contracts traded are settled by actual delivery.

Futures contracts are traded on different exchanges. Following is a list of the major exchanges and some of the contracts they trade:

1. **Chicago Board of Trade**—Wheat, Corn, Soybeans, Soybean Meal, Soybean Oil, Oats, Diammonium Phosphate, Gold, Ginnie Maes, Treasury Bonds, Treasury Notes, Silver (1000 ounces), and Major Market Index.
2. **Chicago Mercantile Exchange**—Live Cattle, Live Hogs, Lumber, Pork Bellies, Feeder Cattle, Broiler Chickens, S & P 500 Stock Index, eight different currencies, Silver Coins, Gold (100 ounces), 90-Day Treasury Bills, and 3-month Eurodollar Time Deposits.
4. **New York Mercantile Exchange**—Platinum, Palladium, Crude Oil, Heating Oil, Unleaded Gasoline, Natural Gas, Propane.
5. **Coffee, Sugar, and Cocoa Exchange**—Coffee-C, Sugar #11 & #14 and Cocoa.
6. **New York Futures Exchange**—NYSE Composite Stock Index, Treasury Bonds, and CRB Index.
7. **Commodity Exchange**—Silver (5,000 ounces), Copper, Gold (100 ounces), and Aluminum.
8. **New York Cotton Exchange**—Cotton, Orange Juice, 5 Yr. Treasury Notes, and U.S. \$ Index.
9. **Mid America Commodity Exchange**—Grains, in units of 1000 bushels, Silver (1000 ounces), Gold (1 kilo), Hogs (15,000 lbs.), Cattle (20,000 lbs.), Treasury Bonds; \$50,000,

Sugar, and Currencies.

10. **Kansas City Board of Trade**—Value Line Stock Index and Wheat (hard red winter).
11. **Minneapolis Grain Exchange**—Spring Wheat.

THE HEDGER AND SPECULATOR

A hedger buys or sells a futures contract in order to reduce the risk of loss through price variation. A short hedger sells a futures contract to protect against the possible decline in the actual commodity owned by him. A long hedger purchases a futures contract to protect himself against the possible advance in the value of an actual commodity needed to be purchased in the future.

The speculator is an important factor in the volume of futures trading today. He, in effect, voluntarily assumes the risk which the hedger tries to avoid, with the expectation of making a profit. The largest number of traders on any commodity exchange is speculators. In order for the hedger to participate, he must have continuous trading interests and activity in the market. This trading activity stems from the role of the speculator, because he involves himself in buying or selling of futures contracts with the idea of making a profit on the advance or decline of prices. The speculator tries to forecast prices in advance of delivery and is willing to buy or sell on the basis. A speculator involves himself with risk.

Can You Be A Speculator?

Now, can you be a speculator? Before considering entering into the futures market as a speculator, there are several facts which you should understand about the market and also about yourself. In order to enter into the futures market, you must understand that you are dealing with a margin account. Margins are as low as 5 to 10% of the total value of the futures contract. **LOW MARGIN=HIGH LEVERAGE!!**

Fluctuations in price are rapid, volatile, and wide. It is possible to make a very large profit in a short period of time, but also, it is

possible to take a substantial loss. In fact, surveys taken have shown that most of the individuals speculating in commodity markets have lost money.

Now taking you as an individual, let us see whether you have the characteristics to become a commodity trader. Number one, and most important, is that you should not take money that you have set aside for your future, or money you need daily to support your family or yourself. Number two, and almost equally important, is that you must be willing to assume losses with such a temperament that it is not going to affect your everyday life. Money used in the futures markets should be money that has been set aside strictly for risky investments. If it is not risk capital, your methods of trading could be seriously affected because you realize that you cannot afford to be a loser.

Another very important factor is that you cannot expect to take a thousand, two thousand, five or ten thousand dollars, place it with a brokerage firm, and not follow the daily happenings of the market. Price fluctuations are fast, and as stated before, wide, so you must not only be in contact with your Account Executive daily, but know and study the technical facts that may be affecting the particular markets in which you are speculating.

The individual who makes his first trade by buying a contract on Monday and selling this contract on Wednesday, making six hundred dollars on a \$1,000 investment in a period of two days, suddenly says to himself, "Where has this market been all my life? Why am I working? Why not just concentrate on this market, if every two days or so I can make six hundred dollars?" This is a fallacy, and this individual may well destroy himself and perhaps his family. The next trade he will feel confident that, because of his first trade was profitable, the market will always go his way, despite the facts that he is now showing a loss in his position. He still feels that the market will turn around in his direction. If you become married to a particular commodity futures contract and constantly feel that the losses you are taking at the present time will reverse into profits, you are fighting the market, and in most cases fighting a losing battle. This may lead to disaster. There is a saying that you

let your profits ride, but liquidate your losses fast.

If, in any way, you are uneasy with a position that you are holding, it is better to liquidate it. If, prior to the time of buying or selling a contract, you are not sure that this is the right step to take, do not take it. To protect yourself against this hazard you should pre-decide on every trade exactly how much you are willing to lose.

Another important point is not to involve yourself in too many markets. It is difficult to know all the technical facts and be able to follow numerous markets. In addition, if you are in a winning position, be conservative as to how you add additional contracts or pyramid your position. Being conservative will sometimes cause you to miss certain moves in certain markets and you may feel this to be wrong, but over a period of time, this conservatism will be profitable to you.

If at this point you feel that you are ready, both financially and mentally, to trade futures, the next step is to begin the actual mechanics of trading futures contract.

Opening An Account

The first important factor is to decide which brokerage firm will afford you the best service. To accomplish this, you should do a little research by checking with the various exchanges about different brokerage firms. You should study their advertising, market letters, and other information. These should all be presented in a business-like manner and have no unwarranted claims, such as a guarantee of profit without indicating the possibility of loss.

The brokerage firm must be able to handle orders on all commodity exchanges. Do not pick just any Account Executive in a firm, but one you feel confident can help you make market decisions. Become acquainted with the Account Executive through phone or personal conversations. His knowledge of the factors entering into the market and the understanding of current market trends are important to your final choice.

After making a decision about which brokerage firm and Account Executive are best for you, contact the AE and have him send you literature concerning contracts you may wish to trade, and also, any additional information about his organization. He will then send you the necessary signature cards required by the firm to open an account, and ask you for a deposit of margin money.

You will be trading in regulated commodities, and margin money will be deposited in a segregated fund at the brokerage firm's bank. A segregated account means that the money will only be used for margin and not for expenses of the brokerage firm.

Now you decide to enter into your first trade. Your Account Executive and you decide to enter into a December Live Cattle contract on the Chicago Mercantile Exchange. Your order will be executed as follows: your Account Executive will place the order with his order desk which will then transmit the order to the floor of the Chicago Mercantile Exchange. There your order will be executed on the trading floor, in the pit. All technical details connected with the transaction will be handled by the brokerage firm.

Upon filling your order, the filled order will be transmitted back to your Account Executive, who will then contact you, advising you that you have purchased one December Live Cattle contract at a given price. You will also receive a written confirmation on this transaction. You will now show an open position in December Live Cattle on the books of the brokerage firm.

Mechanics Of A Trade

Let us go back one step to explain in detail just how your order to buy one December Cattle contract was handled on the floor of the exchange. All buying and selling in the pit is done by open outcry, and every price change is reported on the exchange ticker system. Each firm has brokers in the different pits, which are the trading areas for buying and selling different contracts.

When your order was received on the exchange floor, it was

time stamped and given to a runner. This is a person who takes the order from the desk on the exchange floor and gives it to one of the brokers in the December Cattle trading pit. He is then responsible to the brokerage firm to fill that order, if possible, at the stated price. After filling the order, he then has the runner return it to the desk where it is time stamped and transmitted back to the order desk at the brokerage house, and the filled order is reported to you.

MARGIN

Futures trading requires the trader to place margin with his brokerage firm. Initial margin is required and this amount varies with each commodity. The minimum margin is established by each commodity exchange. Additional funds are needed when the equity in your account falls below this level. This is known as a margin call.

All margin calls must be met immediately. Normally you will be given a reasonable amount of time to comply with this request. If you do not comply, the firm has the right to liquidate your trades or a sufficient number of trades to restore your account to margin requirements.

The brokerage firm has the right to raise margin requirements to the customer at any time. This is normally done if the price of the commodity is changing sharply or if it is the brokerage firm's opinion that due to the volatility of the market the margin requirement is not sufficient at that particular time.

Most commodity contracts have a minimum fluctuation and also a maximum fluctuation for any one particular day. For example, if you are trading Corn futures on The Chicago Board Of Trade, the fluctuation is considered in cents. One cent = \$50.00, each tick is represented in $\frac{1}{4}$ cents equivalent to \$12.50. This means if you buy a corn contract at \$2.40 and the next price tick is \$2.40 $\frac{1}{4}$ you have made a paper profit of \$12.50. The maximum fluctuation on a corn contract is 10¢ or \$500, so your profit or loss can not exceed 10¢/bu. or \$500 from the previous day's settlement. There are some exceptions in certain commodity contracts.

Let us assume that you had originally placed in the hands of your brokerage firm two thousand dollars margin money, and that you and your Account Executive decide to purchase a December Live Cattle contract whose initial margin is \$1200. After the purchase of the contract, your account would show initial margin required of \$1200 dollars with excess funds of eight hundred dollars. At the end of each day, the settlement price of December Cattle is applied to your purchase price and your account is adjusted by either increasing due to profit or decreasing due to loss in your contract.

Within the next four days, suppose there is a loss of nine hundred dollars. Your account will now need one hundred dollars to maintain the required margin. Your account executive, or a person from the margin department of the brokerage firm will contact you; stating that you must place additional money with the firm to maintain the December Cattle contract.

At this point, you must decide whether to continue with the contract, feeling that it may be profitable in the next few days, and thus sending the brokerage firm the required one hundred dollars to maintain your position, or whether to realize your loss by selling the contract.

Let us assume that you decide to sell your December contract at this point and that the selling price causes a loss of four hundred dollars. Added to this loss is the commission of forty dollars, so your total loss on the transaction is four hundred forty dollars. A confirmation and purchase and sales statement will be sent to you, showing the original price paid for the contract, the price for which it was sold, the gross loss of four hundred dollars plus the commission of forty dollars, the total loss of four hundred forty dollars, and your new ledger balance on deposit with the firm of fifteen hundred sixty dollars.

As shown in our example, commissions are charged only when a contract is closed out. Some companies charge commissions on a half in, half out basis. A single commission is charged for each round-turn transaction, consisting of the creation and liquidation of a single contract.

CONTROLLED, DISCRETIONARY, AND MANAGED ACCOUNTS

There are two methods of trading your account. The first is the professional approach where you and your Account Executive decide on each trade with no discretion being given directly to your Account Executive. This method was illustrated in the discussion about margins. The second method is called a controlled discretionary or managed account. Under this method, you are giving your Account Executive authorization to trade your account at his discretion at any time and as many times that he considers that a trade should be made. Ask your Account Executive about his company's Managed Accounts Programs.

Reviewing Your Confirmations And Statements

An important factor in trading is that you must be sure that no errors occur in your account. For every trade made, you should receive a confirmation, and for every close-out, a profit and loss statement known as a Purchase-and-Sale, showing the financial results of each transaction closed out in your account. In addition, a monthly statement showing your ledger balance, your open positions, the net profit or loss in all contracts liquidated since the date of your last previous statement, and the net unrealized profit and loss on all open contracts figured to the market should be sent to you.

You should carefully review these statements. Upon receiving a confirmation of a trade, you should immediately check its accuracy as far as type of commodity, month, trading price, and quantity of contracts. If this does not agree with your original order, it should be immediately reported to the main office of your brokerage firm, and any differences should be explained and adjustments should be made.

If you do not receive a confirmation on a trade after it was orally reported to you by your Account Executive, be sure to contact him and the main office so that, if an error was made, it can be corrected immediately. You should receive written confirmation when you

deposit money with your brokerage firm. If, within a few days, you have not received this confirmation, report it immediately to the main office of your brokerage firm.

Never assume that an order has been filled until you receive an oral confirmation from your broker. A ticker or a board that you may be watching can be running several minutes behind and is not the determining factor as to whether your trade was executed or not. Until you receive an oral confirmation, never re-enter an order to buy or sell against that position.

If you receive a confirmation in the mail showing a trade not belonging to you, immediately notify the main office of your brokerage firm and have them explain why this is on a confirmation with your account number. If it is an error, be sure that it is adjusted immediately and a written confirmation sent to you showing the adjustment of the error. If an error is made and it is profitable to you, do not consider this any differently than if it was not profitable. Regardless of whether there is a profit or loss, all errors should be immediately reported to the brokerage firm.

Be sure that when you request funds to be mailed from your account that they are received within a few days from the time of your request. If not, contact the accounting department of the brokerage firm to see what is the cause of the delay.

Never make a check for your account out to an individual. Always make your check payable to the brokerage firm.

Day Trading

Day trading is when a contract is both bought and sold during the trading hours on one day. Day trading is not considered to be a sound practice for new speculators and inexperienced traders. Day trading is something that should be executed only by a sophisticated trader who is in frequent communication with his or her account executive.

Orders

To trade effectively, you may want to familiarize yourself with several basic types of orders. The most common order is a market order. A market order is one in which you authorize your Account Executive to buy or sell at the existing price. There is no predetermined price, but the order is executed at a bid or offer at that particular moment.

EXAMPLE: Buy 1 Mar Treasury Bond at the market.

Limited or price orders and “OB” designation:

This type of order to buy or sell commodities at a fixed or “limited” price and the ordinary “market” order are the most common types of orders.

EXAMPLE: Buy 2 March Silver at 4.15. This limit order instructs the floor broker to buy 2 March Silver contracts at \$4.15. Even with this order, however, one presumption is necessary, that the market is higher than \$4.15 at the present time. If the price is below \$4.15, the broker could challenge on the basis that the client meant “Buy 2 March silver at 4.15 Stop.” While it is always assumed that a “Limit Order” means “Or Better,” if possible, it saves time and confusion if the “Or Better” designation is added to the limit price. This is particularly true on orders near the market, or on pre-opening orders with the limit price based on the previous day’s close, because no one knows whether the opening will be higher or lower than the previous day’s close; e.g., Buy 2 March Silver 4.15 Or Better.

Stop Orders (Orders having the effect of market orders):

Buy Stop: Buy stop orders must be written at a price higher than the price prevailing at the time of entry. If the prevailing price for December Wheat is 356 per bushel, a buy stop order must designate a price above \$3.56.

EXAMPLE: “Buy 20 Dec Wheat 356½ Day Stop.” The effect of this order is that if December Wheat touches 356½, the order to buy 20 December Wheat becomes a market order. From that point (356½) on, all the above discussion regarding market orders applies.

Sell Stop: Sell stop orders must be written at a price lower than the price prevailing at the time of entry in the trading pit. If the prevailing price of December Wheat is 356 per bushel, a sell stop order must designate a price below 356.

EXAMPLE: “Sell 20 Dec Wheat 355 Day Stop.” The effect of this order is that if December wheat touches 355, the order to sell 20 December wheat becomes a market order. From that point, 355 on, all the above discussion regarding market orders applies.

Buy stop orders have several specific uses. If you are short a December Wheat at 356, and wish to limit your loss to ½ cent per bushel, a buy stop order at 356½ would serve this purpose. However, it is important to realize that such “stop loss” orders do not actually limit the loss to exactly ½ cent when “elected” or “touched off” because they become market orders and must be executed at whatever price the market conditions dictate.

Another use is when you are without a position and believe that, because of chart analysis or for other reasons, a buy of December Wheat at 356 ½ would signal the beginning of an important uptrend in Wheat prices. Thus, the same order to “Buy 20 Dec Wheat 356½ Day Stop” would serve this purpose.

Sell stop orders have the same uses in reverse. That is, if you are long 20 December Wheat at 356 and wish to limit this loss to 1 cent per bushel, the above sell stop order at 355 would serve this purpose, within the limitations of the market order possibilities. Similarly, if you are without a position and believe that sale of December Wheat at 355 would signal a down trend in wheat prices, and you wish to be short the market, you could use the order to “Sell

20 December Wheat 355 Day Stop” for this purpose.

MIT Orders (Market-If-Touched)

By adding MIT (Market-If-Touched) to a limit order, the limit order will have the effect of a market order when the limit price is reached or touched. This type of order is useful to you when you have an open position and if a certain limit price is reached.

EXAMPLE: “Sell One September Sugar 950 MIT.” The floor broker is told that if and when the price of September Sugar rises to 9½ cent per pound, he is to sell one contract at the market. At this price of 9½ cents, the prior discussion on market orders applies.

Under certain market conditions, not enough contracts are bid at 9 ½ cents to fill all offers to sell. Thus, you may see your straight limit price appear on the ticker, but your broker fails to make the sale.

But by adding MIT to your order, you will receive an execution, because the order becomes a market order, once the price is touched. However, the price will not necessarily be a good one in your eyes, since it became a market order when touched.

The same reasoning is true on the buy side of MIT orders but in reverse. Assume you are short one contract of September Sugar, with the prevailing price at 9½ cents per pound and you want to cover or liquidate your short at 9 cents.

EXAMPLE: “Buy one September Sugar 9 cents MIT.” If and when the price of September sugar declines to 9 cents per pound, the floor broker must buy one contract at the market. Aside from the disadvantages of a market order, the MIT designation on the buy order prevents the disappointment which might arise if a straight buy limit order at 9 cents were entered instead of the MIT.

Spread Orders:

As explained in the Glossary, a spread is holding simultaneous long and short positions in the same or related commodities. Thus, a spread order is to buy one month of a certain commodity and sell another month of the same commodity, or buy one month of one commodity and sell the same or another month of a related commodity.

EXAMPLE: “Buy 5 July Beans Market and Sell 5 May Beans Market” or “Buy 10 Dec Wheat Market and Sell 10 Chicago May Wheat Market.”

ANOTHER EXAMPLE: “Buy 5 May Corn Market and Sell 5 May Wheat Market.”

In the example of the related commodity spread, normally the reason you would use such a spread is that you expect to make a profit out of an expected tightness in the Corn Market, in the hope the corn contract will gain in value faster than wheat.

There may be a situation where you have a position either long or short in a commodity and want to change to a nearer or more

distant option of the same commodity. For example you are long 5,000 bushels of May Soybeans on May 20 and want to avoid a delivery notice by moving your position forward into the July option. The basic spread order would be:

“Buy 5 July Beans Market and Sell 5 May Beans Market.”

Sometimes you may prefer not to use market orders, in which case you use the difference spread.

EXAMPLE: “Buy 5 July Beans and Sell 5 May Beans July 2 cents Over.” Even though the prices of the two options are not specified, the broker is allowed to execute at any time he can do so with July selling at 2 cents or less above May. Over or under designations are a necessity for clarity to the floor broker. Omitting either is like omitting the price.

All orders, except market orders, can be cancelled prior to execution. Naturally, a market order is executed immediately upon reaching the pit, so its cancellation is almost impossible.

There are other variations of orders, but for you, the new speculator, the types mentioned are sufficient for your trading.

Glossary

Some of the Terms Commonly Used in Trading
are as Follows:

ACTUALS—The physical commodities on hand, ready for shipping, storage, or manufacturing, as distinguished from futures contracts.

APPROVED DELIVERY FACILITY—Any stockyard, mill, store, warehouse, plant, or elevator that is authorized by the exchange for delivery of exchange contracts.

AT THE MARKET—Orders entered to buy or sell “At the Market” are executed immediately by the floor broker at the best available price.

BASIS—The price difference between the actuals or spot commodity and the futures price.

BEARISH and BULLISH—When market conditions suggest lower prices, and prices are trending lower, a **BEARISH** market is in existence. Conversely, with higher prices forecast and prices moving upward, the situation is termed **BULLISH**.

BID—An offer to buy a specific quantity of a commodity that is subject to immediate acceptance.

BREAK—A sharp swift decline in price.

BROKER—A registered representative, either an account executive or floor broker who is given the responsibility for the acceptance and/or execution of an order.

BUY IN—A purchase that will offset a previous short sale. Covers or liquidates a short position.

CARRYING CHARGE—The cost to store and insure a physical commodity over a period of time. Also, involves an interest charge and other incidental costs, involved in ownership.

CASH COMMODITY—The actual physical commodity.

CFTC—Commodity Future Trading Commission.

CLEARING—The process of matching Buy and Sell orders which have been executed during the day, and making any adjustments needed.

CLEARING HOUSE—A department or agency of the Exchange, through which all trades on the Exchange are cleared and adjusted.

CLOSE—A period of time at the end of the trading sessions at which all orders are filled within the closing range.

COMMISSION—The fee paid for buying and selling commodities in a futures or cash market.

CONTRACT MONTH—The month in which a futures contract may be satisfied by making or accepting delivery.

DAY ORDER—An order that expires on the close of trading if not filled during that day.

DELIVERY NOTICE—A notice of a clearing member's intentions to deliver a stated quantity of a commodity in settlement of a futures contract.

DELIVERY—The tender and receipt of the actual commodity or the warehouse receipt in settlement of a futures contract.

FIRST NOTICE DAY—The first day notices of intentions to deliver actual commodities against futures contracts can be made.

FLOOR TRADER—An exchange member who fills orders for his own account by being personally present on the floor. Usually called a "local."

FUTURES—A term used to designate all contracts covering the sale of commodities for future delivery on a commodity exchange.

GTC—"Good Till Cancelled." An order instruction to the broker to keep the order open until either executed or cancelled.

LAST TRADING DAY—This is the final day in which trading may occur for a particular delivery month. After the last trading day, any remaining commitment must be settled by delivery.

LIMIT—The allowable price move for a given commodity during one day of trading.

LONG—A long position is established by owning the actual commodity unhedged or by purchasing a futures contract.

MARGIN—The money or collateral posted with a broker or the clearing house to guarantee the fulfillment of a futures contract.

MARGIN CALL—A demand by the brokerage firm or clearing house for additional funds because of adverse price movement.

NEARBYS—The nearest active trading month of a commodity futures market.

OFFER—An indication of a willingness to sell at a certain price, as opposed to a “Bid.”

OPEN INTEREST—The total number of futures contracts entered into during a specified period of time that have not been liquidated either by offsetting futures transactions or by actual delivery.

OPEN—A brief period of time, at the start of trading. During the opening period, all orders are executed within the opening price range.

PIT—The area on the trading floor where trading in futures contracts is conducted. Also called “ring.”

P AND S—A purchase and sales statement sent by a broker to his client showing both the purchase and sale of a contract that has been closed out.

POSITION—An interest in the market in the form of an open commitment either long or short.

PYRAMIDING—The practice of using accrued paper profits to margin additional trades.

RANGE—The difference between the high and low price of a futures contract during any given period.

REGULATED COMMODITIES—Those commodities over which the Commodity Futures Trading Commission has regulatory supervision for the purpose of seeing that commodity trading is conducted in the public's interest.

SCALPER—A speculator operating from the trading floor who provides the market with liquidity by buying and selling.

SETTLEMENT PRICE—The price at which the clearing house clears all transactions at the close of the day.

SHORT SELLING—This is selling a futures contract with the idea of purchasing it at a lower price at a later date. The speculator expects the market to decline. For example: The speculator sells a February Pork Belly at 54.40 in October, and then repurchases that February Belly at 51.50 in December. Until the time in December that he repurchased the contract, this market position was known as a short position.

SPOT PRICE—The price quoted for the actual commodity, same as cash price.

SPREAD OR STRADDLE—Simultaneous long and short position in the same or related commodities. In the grain business, the term spread is mostly used, elsewhere straddle is used.

TENDERS—The issuance of transferable delivery notices for the purpose of delivering the actual commodity.

VOLUME—The number of purchases or sales of a commodity made during a specified period of time.

This concludes this booklet on the fundamentals and techniques of trading the futures market. We hope that we have given you some insight on how to be an intelligent trader.

The information and opinions expressed in this booklet do not constitute a solicitation by us for the purchase or sale of commodities. We do not guarantee its accuracy; however, the information was gathered from sources believed to be reliable.

