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A Practical Introduction to Futures Trading

GFF Brokers

Table of Contents

Risk Disclaimer	3
Preface	4
Part 1 – Understanding Commodities.....	5
Part 2 –Market Participants: Hedgers vs. Speculators.....	6
Part 3 – The Exchanges	8
Part 4 – Elements of a Futures Contract	9
Part 5 – Margin and Leverage	11
Part 6 – Trading the Markets	14
Part 7 – Different Types of Contracts.....	18
Part 8 – Fundamental and Technical Trading Strategies	21
Part 9 – Choosing a Trading Platform	24
Part 10 – Simulated Trading.....	26
Part 11 – Different Types of Accounts	27
Part 12 – Is Futures Trading for Me?	29

Risk Disclaimers & Notes Regarding Procedures:

There is a substantial risk of loss in trading futures. If you have a savings account, the bank will pay you interest and your account balance will only increase. With futures trading, you have the potential to make more money than you would collect being paid interest on a standard savings account, yet you always have a chance of losing money and, in some cases, even going debit.

To help you understand concepts in this e-book, we have provided tables with quotes, including: price, volume and margins. Please be aware that price and volume on any commodity are constantly changing, so the numbers I provide are accurate only at the time I obtained those quotes; you should not rely on these numbers for making any trading decisions. A common risk disclaimer line you will hear about futures trading is: "past performance is not necessarily indicative of future results." This is absolutely true. Whatever the prices were when we prepared these examples have most certainly changed and will continue to fluctuate. Like price and volume, margins: both overnight margins from the exchange and day trading margins are also subject to change without notice.

If you decide that you want to trade futures, you will do so with the expectation of turning a profit, but you need to realize that you are also doing so with a risk of loss.

Preface

The commodity futures markets present plenty of opportunities to speculate for profit. Because futures are highly leveraged instruments, allowing traders to hold assets at a fraction of their net value, the changes in asset prices can be significant. That said, the effect of asset price fluctuations can produce significant gains as well as losses. The opportunities inherent to the futures markets do not come without its risks.

Learning how to trade futures is no easy task. There is no school or training manual that can prepare traders to trade upon completion of the lessons learned. Even seasoned traders continue to learn the details and nuances of his/her craft, and such learning can continue for years to come. In addition to this, the fundamental and/or industry dynamics of a market can change in several ways. When such changes take place, traders will have to re-adjust or modify their approaches and strategies to adapt to new or different market conditions. The main point is that trading is a lifelong learning and adjustment process.

The purpose of this e-book is to present the basic concepts a new trader must understand in order to begin one's journey into futures trading. This e-book is by no means all-encompassing, and further study and experimentation will be necessary. However, the basic concepts covered in this book should not be ignored as each section presents information that will be frequently encountered, and that presents both opportunities and risks one should be aware of.

We hope you find this e-book to be useful. Furthermore, we wish you the best in getting started as a futures trader.

Part 1 – Understanding Commodities

Futures are financial derivatives. *Derivatives* are financial instruments whose values are *derived* from an underlying product or good. In the case of futures, the underlying product or good are commodities. Before we discuss futures, let's explore what a commodity is, its function and participants in the marketplace, and its connection to futures.

What is a Commodity?

A *commodity* is a basic good used in commerce that can be supplied *interchangeably* across a market. There may be slight differences in the quality of a commodity, but they are nevertheless supplied in a uniform manner across the market and without qualitative differentiation. For instance, 5,000 bushels of corn supplied by one producer will be viewed as being interchangeable with 5,000 bushels of corn supplied by another producer regardless of the difference in quality.

To contrast, this interchangeability does not apply to many if not most consumer products. For example, although a quantity of corn, as a commodity, is interchangeable with another equal quantity of corn, products made with corn -- such as corn flakes cereal—are not interchangeable. Cereal Brand A may charge more for its corn flakes cereal than Cereal Brand B. One bakery may charge more for its corn bread than another bakery.

Commodity Groups/Classes

Commodities are categorized within *commodity groups or classes* (also called *asset classes*). There are several commodity classes within the United States including the following:

Asset Classes	Commodity
Agriculture	Corn, wheat, soybeans, soybean meal, soybean oil, oats, rice, orange juice
Livestock	Hogs, pork bellies, live cattle, feeder cattle
Energies	Crude oil, heating oil, natural gas, ethanol, gasoline
Precious Metals	Gold, platinum, palladium, silver
Industrial Metals	Aluminum, copper, steel
Financial/Equities	Treasury bonds, treasury bills, indices, currencies
Softs	Sugar, cocoa, coffee, cotton

Price Risk

Commodities are sold by producers (e.g. farmers, energy suppliers) and purchased by dealers or individuals/firms who have a commercial interest in the use of a given commodity (e.g. food processing companies). Both participants—commercial seller (e.g. producer) and buyer (e.g. dealer or manufacturer)—face *price risk*, or fluctuations in price that may affect the return on a sale and/or the cost of a purchase.

For instance, if the price of corn is significantly lower six months from now, then the farmer who produces corn will end up receiving less income from the sale; the buyer in this instance will end up paying less than he had anticipated. However, if the price of corn rises in six month's time, the farmer may be selling his corn for a price that is higher than he anticipated, which means a higher return; the buyer, on the other hand, will experience an increase in cost.

The uncertainty caused by price fluctuations constitutes price risk for the buyer and seller.

Part 2 –Market Participants: Hedgers vs. Speculators

Origin of the Futures Contract:

In order to help protect commercial sellers and buyers from price risk, a financial mechanism called a futures contract was developed. A *futures contract* is “a legally binding agreement to buy or sell a commodity or financial instrument at a later date.” Futures contracts are *standardized* according to quality, quantity, and delivery time and location. The only thing that is variable is price.

Some futures contracts provide for actual *physical delivery* of a commodity while other call for a *cash-settlement*. If the buyer wants to avoid *physical delivery* or the seller wants to avoid *cash-settlement*, the market participant (i.e. trader) may opt to *offset* (or close out) a futures contract prior to the delivery date.

There are two types of market participants: hedgers & speculators.

The Hedger:

The Long Hedge

If a food manufacturer (buyer) is expecting to purchase corn in several months’ time, that manufacturer may elect to buy (or *go long*) futures *now*, matching the quantity of physical corn he will buy in the “spot” or cash market *later*. If the price of corn rises significantly, the buyer will have *locked-in* a price (the amount he paid for the contract) that is (hopefully) lower than the current price of corn. If the buyer opts for delivery, the bushels of corn will be purchased and delivered at the price at which he purchased the futures contract(s). If the buyer decides to offset the futures contract prior to the delivery date, then the profit resulting from the appreciation of the futures contract may compensate for the rise in price of the physical corn which he will purchase in the cash market.

The Short Hedge

Let’s suppose that the price of corn were to significantly fall in several months’ time. For the farmer (the seller), this can mean a significant reduction of revenue from the impending sale. In anticipation of a reduction in corn prices, the seller can make a decision to sell futures contracts (a *short* position) matching the quantity of corn she is expecting to sell later in the cash market. Should the price of corn fall significantly, the farmer’s short position in the futures market will call for delivery of her corn at the price at which she sold her corn futures. If the farmer decides to offset her short position prior to the delivery date, then the potential loss in revenue due to the fall in physical corn prices may be offset by the profit accumulated in the short futures position.

A *hedge* is a type of investment aimed at mitigating the price risk of an underlying asset. The participants—buyers and sellers—who have a commercial interest in commodities and hedge against price risk in the futures markets are called *hedgers*.

Hedgers comprise one of two general types of market participants in the futures markets. The second type of participant is the *speculator*.

The Speculator:

Speculators make up the majority of participants in the futures markets. A speculator is a trader who assumes price risk with the end goal of making a profit.

Here’s a simple example. Let’s suppose a farmer sells corn futures to hedge against falling corn prices. He places an order to sell a specified quantity of futures contracts at market price. At the same time, a speculator who believes that corn prices will rise, places an order to buy corn futures at the same quantity of futures contracts at market price. Their

orders are matched, and the orders for both the hedger and speculator are filled (in reality, the matching of orders as well as trades between participants are much more complex, but we will stick to this simple example).

If the price of the underlying (corn) rises, then the speculator's long corn futures position will be profitable. If the price of the underlying falls, then the speculator's long position will be at a loss. As in the case of the majority of market participants (speculators), futures contracts are almost always offset before delivery. The speculator will end up offsetting his position at either a profit or a loss. In contrast, the hedger's goal is not to speculate in prices. His hedge is aimed at protecting, partially or completely, his underlying product from price risk by locking-in a given price through the use of futures. To the hedger, an un-hedged commodity (later to be bought or sold) constitutes speculation in the form of assuming price risk.

Part 3 – The Exchanges

A futures exchange is a centralized marketplace where people can trade standardized futures contracts. In the U.S., the exchanges in which most futures are traded are:

- **Chicago Mercantile Exchange (CME)** (since 2007 a Designated Contract Market owned by the CME Group)
- **Chicago Board of Trade (CBOT)** (since 2007 a Designated Contract Market owned by the CME Group)
- **New York Mercantile Exchange (NYMEX and COMEX)** (since 2008 a Designated Contract Market owned by the CME Group)
- **Kansas City Board of Trade (KBCT)** (since 2012 a Designated Contract Market owned by the CME Group)

This list does not include all of the exchanges in the U.S. where derivatives are traded, but they comprise the bulk of the markets in which most futures are traded.

Electronic Trading and Globex:

Globex, introduced in 1992 by the CME Group, is an electronic trading platform that provides traders with access to a number of markets and exchanges around the clock. A large majority of traders, particularly retail traders, trade electronically and are most likely connected to the markets via the Globex system.

Regulation:

- The **CFTC** provides government oversight for the entire futures industry.
- **NFA** regulates every firm or individual who conducts futures trading business with public customers.
- All U.S. futures Exchanges operate as self-regulatory organizations, governing their floor brokers, traders and member firms.

Part 4 – Elements of a Futures Contract

Standardization is fundamental to the commodity futures markets. Futures are standardized with regard to:

- Underlying commodity
- Quantity
- Quality (grade)
- Delivery time and location

The only variable is *price*.

The standardization of contract terms makes it easier to facilitate the transfer of risk (price risk) from those who do not wish to bear it (hedgers) to those who are willing to accept it (speculators). Facilitation is made easier because each contract for a particular commodity in a particular delivery month is interchangeable in all its terms with every other contract for that commodity and delivery month. None of the terms—quantity, quality, or delivery time and location—need to be negotiated; the trader need only make a bid or offer for a particular contract.

Aside from the standardized terms mentioned above, there are also a number of contract terms that are relatively fixed or consistent but variable, and they include:

- Type of settlement: whether a commodity is physically-settled or cash-settled
- Currency: what currency the contract is quoted in
- Ticks: the minimum price movement of the underlying covered in a futures contract
- Price unit: the price per unit quoted
- Trading hours: the hours of a day where trading of a contract may take place in the exchange
- Daily price limit: maximum price fluctuation allowed for a futures contract in a single day
- Margin requirement: initial and maintenance margin established by the exchange

It also helps to know the contract month symbols:

Monthly Symbols					
Jan	Feb	Mar	Apr	May	Jun
F	G	H	J	K	M
Jul	Aug	Sep	Oct	Nov	Dec
N	Q	U	V	X	Z

Example: ES-U4

Let's suppose you were interested in trading the E-mini S&P 500 contract. There are a number of things you should know (and/or investigate).

"ES" is the *contract symbol* for the E-mini S&P 500 contract (not to be confused with the "large" S&P 500 contract).

"U" is the *monthly symbol* for the contract indicating delivery month. It is important to know the *last trading day* for this contract and the *rollover week* in case you plan on holding an open position on the underlying commodity.

“4” indicates the year, in our case 2014. Some platforms will list contracts extending beyond the current year. In such a case, you will want to make sure that you are not only trading the contract month you that intend on trading, but that you are also trading the correct year.

E-mini S&P 500 contract is *cash-settled*. In other words, if you took delivery of the ES, you will NOT be receiving shares of the stocks that comprise the S&P 500. In contrast, if you were to trade Gold futures, such a contract can be physically delivered.

The full *value* and *size* of one contract of the ES (that you are responsible) for is $\$50 \times$ S&P 500 index. So if the current price of the ESU4 is 1952.25, the size and value of the contract is $\$97,612.50$ (50×1952.25).

The ES ticks by .25 increments, and that the dollar value per *tick* for the ES contract is $\$12.50$; you should also be aware that there are 4 ticks to a point so that each point has a value of $\$50$.

You should also make sure you know the trading hours of the ES and the margin requirement specified by the exchange and your clearing firm or brokerage (day trading margins will vary depending on brokerage).

Although the above example does not cover everything you should know about trading the E-mini S&P contract, the example illustrates some basic things that you should know prior to entering any trades.

Part 5 – Margin and Leverage

Two terms that every futures trader must understand are margin and leverage.

Margin and Leverage:

Every time you trade a futures contract, you are trading on margin. In other words, you are borrowing money from your brokerage to hold a contract and assume the risk of its price fluctuations.

Because you are trading on margin—or the use of borrowed capital to assume the full value of a given contract with a small percentage of the actual value deposited—you are trading with *leverage*. Leverage has the effect of dramatically increasing profits and losses; it's a double-edged sword that should not be taken lightly. A small movement in the price of a contract, referred to a "tick," reflects a much larger change in the value of full contract.

Example: the price of E-mini S&P goes from 1966.00 to 1970.00, which is a 4 point change. One tick in the E-mini S&P is equivalent to 0.25 point fluctuation in price, so in the example the price has moved by 16 ticks (4 ticks per point). The value of each tick for E-mini S&P is \$12.50, so \$12.50 per tick x 16 ticks = \$200. This 4 point price change reflects a \$200 change in the overall value of the contract.

Margin can be viewed as *good faith money* or a *performance bond* which the brokerage can draw on to cover any losses that you sustain on your futures position. Margin is often misunderstood to represent a fixed percentage of the value of the contract, but that is not the case - Margin is NOT a down payment (particularly in the case of speculators who are not looking to purchase or deliver any particular commodity but instead are assuming price risk with the aim of making a profit). The margin is held in your account to cover price fluctuations, which means that if the price drops too much, your position will need to be closed.

There are two margin-related terms you should be familiar with: Initial Margin and Maintenance Margin. Once you understand these terms, I will discuss a common variation in lingo and practice that most brokerages use in light of the popularity of day-trading participants.

Initial Margin is traditionally the amount of equity needed to hold a position on one contract. *Maintenance Margin* is the amount above which your trading account must maintain.

Contract	Initial Margin	Maintenance Margin
Commodity A	\$945	\$700

Commodity A has an initial margin of \$945 and a maintenance margin of \$700. This means that you will need to have at least \$945 in your account to hold an open position (long or short) on a contract of Commodity A. If your position takes a loss and your money on hand falls below the maintenance margin under \$700, you will need to deposit funds to restore your account to the initial margin level. A call for more funds is called a maintenance *margin call* (more on this later).

Given the increase of day trading activity, there is a slight variation to the way margin policies are exercised in many brokerages. Brokerages may choose to offer day trading margins, which are significantly lower than the initial margin. While the initial margin is established by the exchange and standardized for all market participants, day trading margins are offered by the brokerage and may vary from one brokerage to another. GFFBrokers offers day trading margins through all of our FCMs. As I mentioned before the Initial Margins will be the same across every FCM, but the day trading margins are going to vary depending on what FCM and brokerage your account is held with.

Please visit our website to view some of the day-trading/initial margins. www.GFFBrokers.com

A large majority of speculators who trade futures are intra - day, or day - traders. Day traders do not hold positions beyond the market close —in the case of the E - mini S&P, market close is from 4: 00 pm – 5:00 pm CST (Monday - Friday with a 5:00 pm open on Sundays). It would be best to liquidate open positions 10 minutes before each market closes if you do not have the overnight margin to carry the position. You may be subject to liquidation which includes fees assessed to it.

In the case of many broker ages, including GFFBrokers , you are not required to have the full initial margin in your account in order to place a trade; as long as your account balance exceeds the day trading margin + fees (and in some cases, a broker specified minimum balance), you will be able to enter a position.

For example, if you have a total of \$2,000 in your trading account, and you go long 4 contracts of the ES, technically your total funds will need to remain above \$1,600 (\$400 x 4). But add in commissions and fees of, let's say \$5.00 RT, for a total of \$20 (\$5 x 4), the remaining unused funds in your account will be at \$380 (2,000 - 1,620). If the market goes against your position and you lose more than \$380 in your account, then you are now under the required day margins of \$1,600 to maintain your 4 positions. In this case, you are subject to a margin call. Keep in mind that this example refers to day - trading, meaning that all positions would need to be closed prior to the market close. All positions left open, would be subject to initial margin rates.

Margin Call – Scenario 1 :

When you receive a margin call, your brokerage may either ask you to send funds (the time given to restore your funds will vary according to broker) or to close enough positions to remain above the required margin level. Note that margin calls are a courtesy! Based on the volatility of the market or the total positions held by a brokerage's clients, the brokerage's risk team often may immediately liquidate any or all positions should your positions (under margin) constitute a risk for the brokerage. Often, these liquidations will entail liquidation fees as well as fees for falling under the required margin.

Margin Call – Scenario 2:

Another common scenario is that of a day trader who accidentally leaves positions open beyond market close. Let's suppose that a day trader has a balance of \$3,000 in his account toward the end of the trading day. He goes short one ES contract at 3 : 59 pm CST not realizing that it is one minute before the markets close. At 4: 00 his short position is still open. Because he left a position open beyond the close, he is now subject to the full (or initial) margin of \$4,758. With only \$3,000 in his account—though well above the day margin—he is now \$1,758 short of the initial margin and therefore receives a margin call to either send more funds in or liquidate his position as soon as the ES market re - opens at 5:00 pm CST. Depending on the brokerage, his day margins may not re - set until the following trading day.

Debit Risk:

In futures trading, there is the risk of losing more than one has in his/her account. This possibility constitutes debit risk and should be avoided at all times.

HYPOTHETICAL EXAMPLE:

Let's suppose a trader with a \$12,000 enters buys 20 contracts of the 6E (Euro FX) futures. Assuming that the required day margin \$500 per contract and commissions + fees are a total of \$5.00 RT, the trader will need to pay \$100 total in

commissions and fees to open and close all 20 positions and \$10,000 to maintain his 20 positions. This leaves his account with only \$1,900 of unused funds.

Due to a sudden economic news event, the 6E reverses quickly and drops 25 ticks below his buying price. With 20 contracts—a dollar per tick value of \$250—his position sustains a loss of \$6,250. The problem is that he only has \$1,900 in his trading account. The brokerage immediately liquidates all of his positions (because they are now at risk) and in compliance with their liquidation policy, charges \$50 per contract liquidated for a total of \$1,000 (50 x 20 contracts).

Remaining Equity in Account (after comm. & fees)	1,900
Trading Loss	(6,250)
Liquidation Fees	(1,000)
Total Debit	(\$5,350)

The trader now owes the brokerage \$5,350.

The main point here is to avoid going under margin, and by all means avoid going into debit. Understand the brokerage and exchanges' margin policies (including fees for falling under margin and liquidation) and remain compliant with those policies at all times.

Part 6 – Trading the Markets

Liquid and Illiquid Markets

For every buyer there must be a seller, or there is no trade. When there are plenty of buyers and sellers in a given market, there are more opportunities to trade at prices that are relatively competitive for either side. With a high volume of trades due to many active participants—buyers and sellers—it is easier to enter and exit positions as there are plenty of market participants available to buy or sell your contract. This is what we call a *liquid market*.

When there are fewer market participants—fewer buyers and sellers—then it is more likely that the distance between the bid price—the price at which a buyer is willing to make a purchase—and the ask price—the price at which a seller is willing to make a sale—is wider. Although there is no absolute measure to define a market’s liquidity, when there are very few participants or very little trading volume, such a market would be considered an *illiquid market*.

Bid	Ask	Vol
	1934.00	17843
	1933.75	12279
	1933.50	14161
	1933.25	8919
	1933.00	5547
	1932.75	6071
	1932.50	3898
	1932.25	5779
	1932.00	6910
	1931.75	1573
	1931.50	1079
	1931.25	11678
	1931.00	1191
	1930.75	241
1344	1930.50	36
1702	1930.25	15568
783	1930.00	18718
478	1929.75	38784
340	1929.50	53162
821	1929.25	44474
574	1929.00	37684
649	1928.75	29395
980	1928.50	24902
841	1928.25	28522
	1928.00	26231
	1927.75	22050
	1927.50	16113
	1927.25	11932

Example – liquid market: the current month contract for the E-mini S&P is one of the more liquid markets one can trade. Now, we will review a chart of the E-mini S&P. Notice the high numbers of buyers on the Bid (left) side and sellers on the Ask (right) side. Notice that the last trade at 1930.50 is a point where buyers and sellers converged. If you bought one contract at 1930.50 and, for any reason, decided to liquidate it by placing a sell market order, there is a likely chance that you may be filled near the current price as you can see that there are plenty of buyers willing to purchase your contract. *Caveat: despite the high volume of participants in a given market, prices have a tendency to move very quickly, so it’s not atypical to see price quickly move lower or higher in a matter of milliseconds. This will cause slippage. Also, the more contracts you hold, the more slippage you are vulnerable to experience.*

The main point is that in this liquid market, there are more participants than in other, less liquid markets (as we will see next).

CHART A: E-MINI S & P

Bid	Ask	Vol
	3.3300	3
	3.3275	1
	3.3250	1
	3.3225	1
	3.3200	4
	3.3175	15
	3.3150	11
	3.3125	9
	3.3100	32
	3.3075	2
	3.3050	2
	3.3025	37
	3.3000	6
	3.2975	11
1	3.2950	1
	3.2925	14
	3.2900	1
	3.2875	12
	3.2850	2
	3.2825	31
	3.2800	1
	3.2775	1
	3.2750	5
	3.2725	2
	3.2700	1
	3.2675	2
	3.2650	1
	3.2625	3
	3.2600	1
	3.2575	1
	3.2550	1
	3.2500	1
	3.2475	1
	3.2450	1

Example – illiquid market: In contrast to the E-mini S&P example, the Depth of Market seen in Chart B is for December 2014 Oats. Note that the last trade was at the price of 3.2950. The highest bid price (at which someone is willing to buy) is at 3.2700, but the lowest ask price (at which someone is willing to sell) is at 3.3100. There is a 16-tick distance between the bid and ask. One tick per contract has the monetary value of \$12.50.

Let’s suppose you were the trader who had been filled with a buy at 3.2950. What if, for some reason, you changed your mind and wanted to liquidate your contract? If you place a market order to sell your long position, you would most likely get filled at 3.2700 which is a slippage of 10-ticks. At \$12.50 per tick, your loss on the trade would be -\$125, minus a commission of, let’s say \$5.00 RT, and exchange fees of \$3.95 RT, your total loss on the trade would be -\$133.95. The main point is that slippage and price volatility are greatly affected by the varying conditions of market liquidity.

CHART B: OAT

Liquidity and trading hours

Market liquidity also fluctuates with regard to time. If a market typically has a high level of trading volume (high liquidity), that volume will not be consistent around the clock, although trading for that particular market can take place around the clock (with the exception of its closing hours).

For example, the 6E (Euro FX) futures is one of the most liquid of FX futures. This instrument has as its underlying the EUR/USD spot. These currencies reflect the economic transactions taking place between two of the world's largest economies—Europe and the U.S.—which is one of the reasons why it is perhaps the most liquidly traded currency pairs in the world. In addition to this, there is also a large overlap in trading hours between Europe and the U.S. starting at 8:00 am EDT and ending at 12:00pm EDT. Although the 6E has generally high levels of trading volume, the hours in which the European and U.S. trading sessions overlap have the potential to be, for the most part (but not always) the most liquid hours for trading.

In contrast, other futures instruments might have different factors driving volume and trading activity. It's important to understand the hours in which markets are more likely to be liquidly traded.

Commissions and Exchange Fees

When you place a trade, you will be charged a rate which is comprised of various fees, the most basic being the exchange and NFA fees in addition to the commission. Sometimes, a trader may pay additional fees, such as: platform fees. Make sure you speak to your broker prior to trading to discuss all fees.

These fees have an impact on your trading profits and losses. Before we discuss how these can impact your P/L, let's first go over a few basics.

Understand Industry Lingo

First, it's important to understand industry lingo. Suppose you came across this language:

- \$3.00 commissions per contract
- \$3.00 commissions per side

Both examples are identical. It states that for each trade side—either a buy or sell—you will be charged \$3.00 in commissions. In many cases, commissions will be quoted per side, as are the examples above—that said, commissions can also be quoted round-turn, which includes opening and closing of the position. When evaluating a commission rate from your broker, make sure you understand if the commission quote is per side or round-turn, and if it includes any other fees.

Based on the above commissions, your statement might look something like this:

ES M4	
Buy	Sell
1	1
Exchange:	USD \$2.30
NFA:	USD \$0.04
Transaction:	USD \$1.00
Order Routing:	USD \$0.20
Commission:	USD \$6.00
Total:	USD \$9.54

Your \$3.00 commission per contract, trade, or side, is now a total cost of \$9.54 RT (round turn) all fees inclusive.

Effect of Commissions and Fees on P/L

So what kind of effect will this have on your P&L? Let's imagine a fictional scenario where you made 20 round-turn trades in one day. You are trading the E-mini S&P 500 contract with a fixed profit target of 2 points (8 ticks) or \$100 and a fixed stop loss of 1.5 points (6 ticks) or \$75. You placed 20 trades, 9 of which were profitable and 11 of which were losses.

Profit and losses are listed in a row and in a consecutive manner. The trades and their P/L (listed *without* commissions and fees) are as follows:

Trades	P/L
1	100
2	100
3	100
4	100
5	100
6	100
7	100
8	100
9	100
10	-75
11	-75
12	-75
13	-75
14	-75
15	-75
16	-75
17	-75
18	-75
19	-75
20	-75

Total P/L	\$75.00
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You can see here that your trades resulted in a trading profit of \$75.00.

Next, let's see what happens if we add the commissions (\$3.00 per side) and fees.

Trades	P/L	Comm + Fees		Net P/L
1	100	-9.54		90.46
2	100	-9.54		90.46
3	100	-9.54		90.46
4	100	-9.54		90.46
5	100	-9.54		90.46
6	100	-9.54		90.46
7	100	-9.54		90.46
8	100	-9.54		90.46
9	100	-9.54		90.46
10	-75	-9.54		-84.54
11	-75	-9.54		-84.54
12	-75	-9.54		-84.54
13	-75	-9.54		-84.54
14	-75	-9.54		-84.54
15	-75	-9.54		-84.54
16	-75	-9.54		-84.54
17	-75	-9.54		-84.54
18	-75	-9.54		-84.54
19	-75	-9.54		-84.54
20	-75	-9.54		-84.54

Net P/L	-115.8
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In the example, the trading results generated a profit of \$75.00 before commissions and fees. Add in the commissions and fees and the results generated a loss. Keep in mind that the commissions and fees erode profits and add to losses; in this case it erodes profits by 9.54% while adding -12.72% to the losses.

It is important to have some idea as to your average trading volume as well as your overall past performance statistics in light of your actual trading strategy. Only then can you make a reasonable calculation as to how your commissions and fees might affect your trading profits and losses.

Part 7 – Different Types of Contracts

Commodity Classes:

To review, commodity futures are generally listed by in terms of commodity classes. Commodity classes are generally listed as follows:

Class
FX (Currencies)
Energies
Financials
Indices
Metals
Grains
Meats
Softs

Within each class, individual instruments are listed:

Class	Instruments
FX (Currencies)	Euro FX, British Pound, Australian Dollar, Japanese Yen, etc.
Energies	Crude Oil, Natural Gas, Gasoline, etc.
Financials	30-Yr US T Bonds, 10-Yr US T Notes, Euro Bund, Euro Schatz, etc.
Indices	E-Mini S&P 500, Mini Dow, Mini NASDAQ, etc.
Metals	Gold, Mini Gold, Micro Gold, Silver, Mini Silver, etc.
Grains	Corn, Soybeans, Wheat, etc.
Meats	Live Cattle, Feeder Cattle, and Lean Hogs
Softs	Coffee, Cocoa, Cotton, etc.

Different Exchanges:

Although it is common for a trader to access various commodities through the electronic Globex system, commodity futures are traded on different exchanges. For instance, a large majority of commodities, including currencies and a majority of US equity indices, are traded on the CME (Chicago Mercantile Exchange). But not all products are traded on the CME. Most energy products are traded at the NYMEX (New York Mercantile Exchange), European interest products are traded at the EUREX, while some softs such as coffee and cocoa are traded on the ICE (Intercontinental Exchange). Through the Globex system, a trader is able to trade products at multiple exchanges through one trading platform.

Contract Months

As you learned earlier in this presentation, futures contracts have expiration dates. As such, each futures contract is assigned a specific contract month and year. The following are important concepts related to contract months:

- Futures for different commodities, not only have different expiration dates, but quantity of contracts per year differs as well. *For example, the ES market has 4 contracts per year: Mar, Jun, Sep & Dec, while Crude Oil by comparison has 12 contracts per year: one for each calendar month.*
- Multiple contract months of the same commodity are available to be traded at a given time, but liquidity will vary per contract month. The current contract month (also referred to as: front-end month) is likely to have the greatest liquidity (as compared to other “far-end” contract months); please be aware that commodities about to expire often become illiquid.
- Cost of Carry - Prices generally differ for each contract month. One major component affecting the difference in price of a commodity is the “cost of carry”. This term encompasses: storage, interest, and insurance. The “carrying costs” are factored into the price, so in a “normal” market, far-end contracts will generally be priced higher.

- Supply and Demand - Although carrying costs are a significant component in determining price, there are other factors involved, such as: supply and demand. Supply and demand play an important role in the valuation of commodity prices.
- Inverted Market - The term “inverted market” is used when current contract prices are higher than the far-end contract. *An example of an inverted market would be corn futures during after a news release of a possible corn shortage; in this case, there may be a spike in corn prices and corn futures prices due to current high demand as traders anticipated the upcoming shortage of supply.*

Additional considerations for trading far-end contracts:

There may be considerably fewer buyers and sellers when trading a far-end contract month. This means that if you were to place a market order to buy a contract, you can experience a significant amount of slippage if there is low liquidity in that market. It follows that if you are holding an open position (long or short) and wish to close your position, there is always the danger in an illiquid market that you may not be able to find a buyer or seller to liquidate your position at a favorable price.

As we have now discussed, there is typically more volume for the front-end contract month of a given commodity when compared to the far-end contract months (of course, this is NOT always the case).

Using Gold Futures as an example, let’s look at a table comparing volume across multiple contract months. You will notice that the volume for Aug-14 (the front-end month at the time these quotes were obtained) is significantly higher than the far end-months.

Gold Futures (GC)

Contract Month	Volume
Aug-14	104,288
Sep-14	1,326
Oct-14	2,154
Dec-14	5,425
Feb-15	573
Apr-15	174
Jun-15	165
Aug-15	0
Oct-15	0
Dec-15	31

As a reminder, the prices for each contract month will be different, so volume/liquidity is only one of many factors to consider when making trading decisions.

Standard, Mini, and Micro Contracts:

Futures contracts come in different sizes. You have the standard contract, which indicates the largest contract size for an underlying commodity and the mini contract which holds a smaller fraction of the underlying. Some commodities even have micro contracts whose size is smaller than the mini contract.

Note that each contract size is a completely *separate and distinct* contract that reflects the value of an underlying product (whether it is deliverable or cash-settled). A mini or micro contract is not simply a fractional distribution of a larger contract. Each contract size is a distinct contract and will most likely vary in price and trading volume.

Example: Take a look at these futures contracts for August 2014 Gold —Standard (100 troy ounces), Mini (50 troy ounces), and Micro (10 troy ounces). Each contract has a unique symbol, as well as its own price, volume, and expiration.

Contract Size	Commodity	Contract Month	Symbol	Last Price	Total Volume	Expiration
Standard (100 troy ounces)	Gold	August	GGCQ4	1271.6	94,711	8/27/2014
Mini (50 troy ounces)	Gold	August	QQQ4	1270.75	93	7/29/2014
Micro (10 troy ounces)	Gold	August	MGCQ4	1271.7	502	8/27/2014

If you look at the “last price” column on the table, you will notice that there are slight variations in price for the different contract sizes – this is due to inefficiencies in the market. You will typically find that prices for the same month of the same product across varying contract sizes will be similar although not usually identical.

In the August 2014 Gold example I have provided, the Standard contract has the highest volume. While the Standard contract size for Gold typically has the highest volume, please be aware that the standard contract size is not necessarily the contract with the highest trading volume for other products. I will use the E-mini S&P 500 as an example.

Suppose you are interested in trading a futures contract with the S&P 500 as the underlying. Would you trade the mini contract (E-mini S&P 500), or the large contract? Let’s take a look at the current volume of both:

Contract Size	Commodity	Contract Month	Futures Symbol	Last Price	Total Volume
Standard	S&P 500	June	SPM4	1941.00	423
E-Mini	S&P 500	June	ESM4	1937.50	801,509

You can see in comparing the volume of the large contract with the mini, that the E-mini S&P is a much more liquid contract and that it is the more commonly traded among the two.

Part 8 – Fundamental and Technical Trading Strategies

Speculative trading strategies are typically grouped into two general approaches: Fundamental or Technical

Fundamental Strategies:

A fundamental trading approach is based primarily on the economic law of supply and demand. The general assumptions regarding the relationship of supply/demand to price are as follows:

- When Supply is Greater than Demand → Prices are Lower
- When Demand is Greater than Supply → Prices are Higher

Although these expressions seem quite basic, analyzing the forces that create the supply and demand of a commodity can and often is a very complex task.

For example, let's consider agricultural commodities. The *supply* of a commodity can include amounts carried over from past production added to current output. Carryover stock, number of acres planted, availability of labor, crop disease, and weather all affect the supply levels. If the overall supply of a commodity contracts, it is likely that the price of that commodity will rise, especially if the demand for that commodity exceeds what can be supplied to the marketplace. When prices move higher, it can create an incentive for producers to increase production, which creates more supply. Over-production can eventually lead to lower prices, whereas under-production, during periods of high demand, can push prices higher.

In terms of *demand*, the consumption of a commodity drives prices up. Consumers are able to make choices among alternatives in response to price; these choices are reflected within the markets. If consumption decreases, or if a commodity's level of supply expands beyond the level of consumption, the price of a commodity will tend to fall. The demand for a commodity can also depend on the need for a particular commodity at a given time, under-production of a commodity, or the price of a commodity being perceived as under value. At such points, commodity prices may tend to rise.

The fundamental conditions of commodities change as the underlying forces of supply and demand undergo changes at different rates or cycles. Fundamental traders monitor the changes in the economic conditions affecting commodities as a basis for their trading approach.

Technical Strategies:

In contrast to fundamental analysis, which analyzes market instruments/assets based on underlying economic factors, technical analysis makes its evaluation based on historical price data (and volume) as can be viewed on a price chart.

Although there are numerous methods to chart analysis, most of them carry the following assumptions:

- Market movements—price, volume, and open interest—reflect actions based on fundamental data
- Human action in the marketplace creates identifiable and relatively consistent price patterns that can be used to forecast the probability of future price movements
- Prices either trend—up or down—or they move sideways

There are numerous technical approaches to trading, but the basis of each approach relies on an interpretation of price data and chart patterns. Many technical traders also opt to use indicators to assist them in analyzing price data.

I am going to show you a few popular patterns, indicators and oscillators, with corresponding charts:

PATTERNS: *In technical analysis, patterns are distinctive price movements that have been categorized based on relatively consistency of formation.*



Support and Resistance



Trend Lines

INDICATORS: *A class of metrics derived from price data that are used to analyze market activity.*



Moving Average(s)



Bollinger Bands

OSCILLATORS: A technical tool that is banded between two extreme values (deriving its data from price activity) and that is designed to estimate relative short-term over-sold and over-bought conditions.



RSI



Stochastics

IN CONCLUSION:

Whether one uses a fundamental or technical approach to trading or a combination of the two, every trader needs to implement risk management into his/her trading plan. Fundamental and technical analysis are used by traders to anticipate market movements, however there is no guaranteed way to know which way the market will move. A disciplined approach to risk management is a critical aspect of one's trading strategy; one that may be helpful in preventing serious losses that could otherwise have been prevented through probable foresight and execution (caveat: it is never a guarantee that all risks can be foreseen or losses prevented, but there are reasonable actions one can take to manage risk with the aim of preventing a certain degree of loss).

Part 9 – Choosing a Trading Platform

There are numerous trading platforms available in the market. Brokerages/FCMs who support electronic trading will offer clients one or more trading platforms to choose from. For example, GFFBrokers offers more than 10 trading platforms to choose from. Some trading platforms are exclusive to a specific brokerage, while others are created by 3rd developers and are available across multiple brokerages. Our proprietary trading platforms are Global Zen Trader and Turbo Trader, but we also support 3rd party platforms, such as: X_Trader, Trade Navigator, Sierra Charts, and a bunch more.

Some software developers have included additional and/or proprietary features to differentiate their trading platform from others. It is important to know 1) the basic functionalities common to most platforms, 2) the additional features that differentiate one platform from another, 3) general user-based opinions on the live performance of a platform, and 4) which functionalities you need based on your live trading.

The Dashboard:

Every trader is unique in terms of how s/her prefers to organize his/her overall trading dashboard. The dashboard is the at-a-glance organization of the entire trading platform. A trader must feel comfortable with the total arrangement of all the platform features so that s/he can access different features in a relatively easy manner. Some platforms are customizable so that the trader can access only what s/he needs and organize those features in a way that fits his/her organizational preferences.

Functionalities common to most platforms:

Let's talk about this first point. What features might you find in most platforms? Let's take a look at the list at some features that you might see:

- a) Order entry
 - Basic order entry
 - DOM (depth of market)
 - Chart trading
 - Advanced order entry (bracket orders; trailing stops; etc.)
- b) Charts
- c) Charting Tools (indicators/oscillators)
- d) Automation
- e) Spreader (charts and order entry)

Order Entry:

All trading platforms have *at the least* one basic order entry system. Due to popular usage, many trading platforms include a *DOM* (which is an acronym for "depth of market"). DOM windows are "price ladders" which allow a user to place stop or limit order (market orders as well) at specified price levels. Most DOM windows also allow the trader to see trading volume at each price level. For platforms that include charting, it's becoming common to see *chart trading* functionalities where traders can click directly on the chart to place orders.

There are some platforms that have *bracket order* capability – a bracket order is where the trader places a stop (for stop losses) and a limit (to close out trades at specified price if the trade is profitable) simultaneously when placing an order. *Trailing stop* functionality is also present in some platforms. Trailing stops allow a user to automate a specified incremental movement of their stop loss if a position hits a particular profit level.

An important thing to know about order entries, particularly in the case of advanced order entry systems, is where the orders are being held. Depending on the platform and the FCM, your advanced orders, like bracket orders, may be held

on your personal computer or with the FCM server. It is important to know what happens if you experience computer shut-down or internet failure. Do your orders disappear, in which case you have an open position with no stops or limits? Do your bracketed orders become two separate orders, in which case if one order is filled the other is still working? Knowing exactly how your platform works with regard to orders and how they are transmitted can save you a lot of inconvenience if something should go wrong.

Charts:

Charting functionalities are becoming more common among trading platform features, though not every platform will have them. In fact, chart features recently have become a primary area in product differentiation and competition between software developers. Since every trader uses charts differently, it is important to determine if a platform's chart capabilities are appropriate for the way in which you plan to trade. Do you need charts? If so, do you prefer to view charts on a separate window (separate from the dashboard)? Do you need to view multiple charts? Do the charts have the kind of price bars you prefer to use? Do your charts have historical data? Do you need to view tick charts or other forms of alternative charts (volume bars, range bars, etc.)? Do you need charts that you can trade directly from? Is there an extra cost for charting, or is it free? These are just a few questions you should ask yourself when deciding on which trading platform to use.

Charting Tools & Automation:

Many traders, particularly those who trade intraday, use technical analysis to aid in their trading decisions. If you rely on technical tools for your trading, then you should make sure that a platform has the technical indicators/oscillators you want to use. If you are looking to import a 3rd party indicator, make sure it is available with the platform you are considering.

The retail demand for automated trading has been steadily increasing over the years. Many trading platforms have been designed to compete in this retail segment. Sophisticated automation functionalities—from 3rd party software integration to easy programming features—are usually differentiated products that come at a higher cost. Since automation features often come with enhanced basic features, which are most often proprietary, traders will have to decide whether their total usage of the available features justify the overall costs.

Spreader:

A spread trade is the simultaneous purchase of one commodity and the sale of a related commodity. Let me give you a couple common spread types: the "calendar spread" involves 2 different contract months of the same commodity; the "inter-commodity spread" involves 2 different but related commodities, such as gold and silver. Spread traders typically have three needs: first – spread charting or the ability to see two instruments/markets of choice as a spread; second – the ability to trade spreads as "spreads" and not as individual instruments to be traded simultaneously; third – spread margins. Spread charting and execution is not a common feature in platforms and they tend to be expensive. If you are a spread trader, you will have to decide which of these three needs can be met by a platform as well as an FCM (spread margins).

The main points in this section are as follows:

- Knowing what kind of trader you are will help you determine your platform needs;
- Your trading platform's functionalities and dashboard should match your trading needs and preferences; and
- Know how to use your platform well in order to minimize user-error.

Part 10 – Simulated Trading

Trading a simulation (also called a platform “demo”) allows one to trade in real-time and most often using live market feed. The difference, however, is that the trader is risking virtual money (commonly referred to as “paper money”) instead of his/her real funds. Demos are primarily designed to help users learn how to effectively navigate and use trading platforms. Customers can learn the functionalities of the platform, such as: how to place orders, access charts, and more, at a relaxed pace, so when they are actually trading live they feel more prepared.

Many brokers, including GFFBrokers, can connect you with tutorial videos for their trading platforms to assist traders in learning all of the functionalities of their platform. GFFBrokers is unique in that we also offer free technical support and platform walkthroughs for our trading platforms. Many brokers have limited technical support, in some cases only email support is available, but GFFBrokers offers live support via phone, email, you can even schedule an appointment to come in to meet with one of our technicians for a platform walkthrough in our office. GFFBrokers never charges fees for our technical support, so do not hesitate to take advantage of this service. You should definitely take your time in simulated trading to make sure that you fully understand the platform.

That said, please be aware that you should NOT expect the same trading experience when trading live with real funds as when you are trading in simulated mode.

Limitations of Demo Trading:

Simulations are not necessarily a reliable proxy for live-market experience. The proximity between a simulated and live environment also greatly depends on the type of trading strategy one is using, the kinds of orders being placed, and the frequency of trades executed.

- **FILL TIME** – Live market trades are affected by real-time supply and demand which can change on a micro-second level. If you place a buy order, for instance, your order is placed sequentially in line to receive a fill at the current market price. Depending on the kind of order you place (market, stop, limit, etc.), you may or may not get filled in a live environment. Simulated fills are not subject to live-market dynamics. It’s possible that your order might receive a fill in a demo environment whereas in a live market environment your order might not have been filled or filled at a less favorable price. It’s fairly easy to imagine that if one is testing a high-frequency trading system (e.g. a scalping system) that requires little slippage and aims to attain small but frequent profits, the demo environment might produce trading results that drastically differ from live results.
- **EMOTION** – When trading a simulation, you will not feel the range of emotions that you will experience if you were risking real money. The risk of financial loss is not present in a simulated environment, so traders might feel inclined to take higher risks in a simulated environment. Because of this difference, a trader’s transition from simulated to live trading might feel uncomfortable to say the least. Because a simulated environment won’t accurately represent a live-market experience, the only “real” way to test a trading strategy is to trade in the live markets and to note the difference in results between simulated and live performance.

Despite its limitations, simulated trading is the closest thing you will experience to live trading. But it is important to note the difference between simulated and live trading, and to be prepared to face the difference when making the transition from simulation to a live market.

Part 11 - Different Types of Accounts

There are a number of different account types to choose from, and which account is appropriate for your goals depends on the services you need and the means by which you intend on trading the markets.

Self-Directed Accounts:

When trading a self-directed account, you are completely responsible for planning, executing, and managing your trades. Most self-directed traders do all of their trading electronically. Some brokerages will provide technical support; at GFFBrokers, we offer free tech support via phone and email during normal market hours. GFFBrokers, like most brokerages, also provides trade desk services should you need to open or close a position in cases where you are unable to access your electronic trading platform.

If you believe that you are self-sufficient in planning, executing, and monitoring your trades; if you have the necessary time to trade on your own; if you are confident in using an electronic trading platform; then the self-directed account option may be for you. Note that as a self-directed trader, you bear the full responsibility of your trading decisions, and will be expected to understand and abide by all of the regulations set forth by your financial institution and industry as they apply to self-directed accounts.

Broker-Assisted Accounts:

Sometimes traders will be fairly self-sufficient in making their trading decisions but will not always have the time or means to execute their trades. Or some traders might need the assistance of a second opinion in evaluating their trading plans or ideas. In these cases, a broker-assisted account might be the right option. Traders can utilize the services of an experienced broker to execute trades for them, or call upon a broker with market knowledge and experience to share his/her opinion with regard to trade ideas and risk. Broker-assisted accounts typically pay higher commissions as the broker expects to be compensated for his/her time and expertise.

The caveat here is that brokers, like any professional, can make mistakes. Mistakes in trade execution can be risky. With regard to a broker's assistance in evaluating trade ideas and risk, markets are unpredictable. If you are working with an experienced and well-informed broker, his/her consultation may be sound, but in the light of market unpredictability, may also at times result in a loss.

Automated Trading Systems:

Automated trading systems are algorithmically-based trading tools that mechanically analyze and execute trades based on specific and pre-determined rules and parameters.

Accounts that are set up for automated trading function similarly to managed accounts but with one primary difference: the trading system developer is most often NOT a registered money manager (i.e. a Commodity Trading Advisor). Some automated trading products are designed to integrate with a particular trading platform, in which case traders/subscribers will be responsible for downloading and integrating the system on their own.

If you are interested in subscribing to an automated system, you must be aware of the risks and practice due diligence in researching the system (or developer) to which you might subscribe:

- Are the results for past performance based on simulated or real accounts?
- Are you aware of the system parameters—for analysis and execution—and do they seem reasonable or logical?
- Do you have the knowledge and experience to evaluate a trading system’s parameters and performance?
- Are you aware of the drawdown parameters and expectation?
- How does the system manage risk—trade size, drawdown, loss, etc.?
- Do you have the suggested starting capital to trade the system in light of its risk parameters?
- Are you fully aware of the risks in electronic trading beyond the scope of the trading system (this is usually provided in a brokerage’s Risk Disclosure)?
- Does the system match your risk tolerance, speculative goals, and risk capital?

Automated systems are usually promoted as a means to take “emotion” and/or “lack of discipline” out of trading. This is not necessarily true in practice. If a subscriber feels that a system is underperforming, despite the fact that its underperformance may be within a system’s risk or loss parameters, that subscriber will feel some kind of emotion (fear of loss) and may even call the broker to disable the automation. In this case, instead of speculating on a position, the subscriber is speculating on a trading system. The psychological factors of emotion and discipline are still present.

Managed Futures:

A managed futures account is a type of alternative investment in which trading decisions are made by a registered money manager, in this case a Commodity Trading Advisor (CTA).

As defined by Investopedia.com, a CTA is: “an individual or firm who provides individualized advice regarding the buying and selling of futures contracts or options on futures, or certain foreign exchange contracts. The Commodity Trading Advisor (CTA) registration is required by the National Futures Association, the self-regulatory organization for the industry. A CTA acts much like a financial advisor, except that the CTA designation is specific to providing advice relating to commodities trading.”

Most established CTA programs have relatively high initial capital requirements. Specifics about capital requirements, fees, and trading objectives are disclosed in a CTA’s Disclosure Document. The Disclosure Document is usually accompanied by a separate document detailing a program’s track record of performance, which also indicates whether that performance is based on hypothetical or real accounts.

Investors who are interested in a managed futures program must be aware of the risks of engaging in such a program. Remember that futures trading involved high leverage which can increase the magnitude of profits and losses. A managed futures program is an alternative investment in which only risk capital should be allocated.

Part 12 – Is Futures Trading for Me?

Trading futures is a highly risky endeavor that is NOT for every trader or investor. In futures trading, it is the aim of every trader to be profitable, but there always a substantial risk of loss. Past performance is not necessarily indicative of future results.

Trading futures is not for everyone, and only risk capital should be allocated.

Debit Risk:

Avoid holding positions that are under-margined, and by all means avoid going into a debit situation. If you do go into a debit situation, make sure that you have the financial capacity to cover your debit losses.

Credit Risk:

Trading-related risks (market risk, technology risk, etc.) are not the only risks that a speculator faces when trading futures. Futures accounts are segregated accounts that are held at an FCM's bank. In the event that an FCM becomes insolvent, there is always a risk that clients might not be able to withdraw the total amount of funds deposited, or they may be able to withdraw only a percentage of total funds they had deposited. This constitutes credit risk.

It is in the Introducing Broker interest to monitor its FCM's financial data, but the IB is not wholly financially responsible if an FCM becomes insolvent. Clients must also take on the responsibility of monitoring their FCM's financial data and be aware of the risks must be when depositing funds with an FCM. FCM's financial data can be viewed on the CFTC website.

Conclusion:

It is important for you to fully understand the markets you are trading, the means by which you plan on trading, and the industry upon which this kind of trading takes place. Having a solid risk management plan in place is critical when trading futures.

RISK DISCLAIMER: Transactions in forex, securities futures, commodity and index futures and options on futures carry a high degree of risk. The amount of initial margin is small relative to the value of the futures contract or forex lot, meaning that transactions are heavily "leveraged". A relatively small market movement will have a proportionately larger impact on the funds you have deposited or will have to deposit: this may work against you as well as for you. You may sustain a total loss of initial margin funds and any additional funds deposited with the clearing firm or forex counterparty to maintain your position. For futures trading, if the market moves against your position or margin levels are increased, you may be called upon to pay substantial additional funds on short notice to maintain your position. If you fail to comply with a request for additional funds within the time prescribed, your position may be liquidated at a loss and you will be liable for any resulting deficit. With forex trading, if the market moves against your position to the extent that you are under the required margins levels, most forex software will automatically liquidate your positions.

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