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Foreword

Future trading is basically the trading platform where processes are done between two parties agreeing to transact a set of financial or physical commodities for future delivery at an agreed fixed price. Get all the info you need here.



Fantastic Futures

Futures Trading For The Common Guy

Chapter 1:

Futures Trading Basics

Synopsis

The exercise entails buying future contracts, meaning the investor is agreeing to buy something that the seller has not yet made for a set agreed price. However this type of transition does not in any way mean, that the investor will eventually be responsible for or expect to receive the inventories in its physical form.



The Basics

This is a platform for future contracts, where hedge risks or speculations are done rather than the actual exchange of physical material. These transactions are used not only as financial instruments for producers and consumers but also by speculators intending to make a quick and easy profit without having to deal with any tangible physical products.

This effectively creates an intense competitive state among the buyers and sellers alike, but more importantly it provides the central managements of price risks. Being an extremely liquid, risky and complex entity, it can still be easily maneuvered if well understood. It also provides the centralization of all marketplace activities for buyers and sellers globally who meet with the intention of designing and acquiring futures contracts. The pricing systems used can be in the most conventional ways, such as open cry systems or bids and offers that can be matched through the new electronic platforms available.

The future contracts will state the price that is meant to be paid and the date of the perceived delivery, perceived because there is no actual exchange of physical material through the delivery of any commodity. There are advantages to being able to lock in prices for future items being sold as this would not cause losses should the amount then take a downwards turn when compared to the agreed price.

Chapter 2:

How To Handle Futures Contracts And Exchanges

Synopsis

The various types of futures contracts reflect the many different kinds of tradable elements which the contract is designed to be based upon. These may include commodities, securities such as single stock futures, currencies or intangibles such as interest rates and indexes.



Future's Exchanges

Futures contracts can be based on foreign exchange market arrangements, money market arrangements, bond market arrangements, equity market arrangements, and soft commodities market arrangements. The existence of the derivative markets will provide the price discovery and risk managements. This will ensure the markets for the underlying assets are more efficient and permits trading at low transaction costs.

The exchange traded contracts are standardized according to the stipulations in the exchange platforms the trade from. The exchange contract will depict several details corresponding to the transaction, such as the currency it is being dealt in, the trade intended, the minimum tick value and the last trading any and expiry. The exchanges are normally regulated according the governing body in office at the time the futures contracts are drawn. These exchanges will accommodate the actual trading exercise and only the members can be involved in the exercise. These exchanges are also responsible for the futures contracts being kept and terms of the contracts fulfilled accordingly. As such an exchange effectively plays quite a pivotal role in ensuring all transactions adhere to the stipulations within the contract rules which are based on the exchange used. The exchange also has penalties in place to deal with discrepancies and any under handed techniques that are found to be used during transactions.

The validity of a futures contract depends largely on the understanding of the two parties involved in the transaction. The exchange used will be part of the organizing organ that play the role of a designated representative that acts to guarantee the validity of the contract and will act to enforce it according to the terms stipulated.



Chapter 3:

Defining The Arbitrage Arguments And Expectations

Synopsis

Sometimes complications may arise and then there would be a need to have such situation dealt with in a fair and manageable fashion. This could come in the form of having deliverable assets exists in plentiful supply or in surplus, thus causing the forward price which represents the expected future value of the underlying amount to be at risk. Here there should be a need to have the theoretical price which was agreed upon and afforded by the investors as a riskless profit opportunity, which is where the arbitrage arguments can sort out.



What To Do

In the ideal market scenario, the relationship between the futures and the spot prices would largely depend only on the variable visible as mentioned above. However, the various market imperfections more commonly entail a different playing field, where there are elements such as transaction costs, differential borrowing and lending rates, and restrictions on short selling that eventually prevent the complete arbitrage exercise from enfolding. This then will contribute to the futures price varying within the arbitrage boundaries around the theoretical agreed price.

When there is an opposite situation where the deliverable commodity is not in plentiful supply or surplus due to the fact it actually does not exist yet, the rational pricing cannot be fully applied effectively, ensuring the arbitrage mechanism cannot be applied. In such instances the price of the future is determined by the current supply and demand in place for the underlying assets in the future.

The design of the relationship is such, that the “no arbitrage” setting will not affect the positioning of the stipulation within the contract, where the risk neutral probability is still maintained. This would mean a futures price would accommodate the speculator to ensure the eventual break. This scenario is achievable even when the futures market fairly prices the deliverable commodity.

Chapter 4:

Who Trades Futures And How To Become One

Synopsis

There are two main categories of players within the futures market platform and they are commonly referred to as hedgers and speculators. Each has differing contributions and styles to the futures trading platform, but both are equally effective at their individual chosen exercise.



Examine It Well

The hedgers are usually entities such as farmers, manufactures, importers and exporters where the buying and selling process in the futures market is basically to secure the future price of the intended commodity. This is then to be sold at a later date in the cash market. This is where the profits are made while still ensuring the protection against price ricks. Thus the hedgers are the facilitators that provide a means to lock in as acceptable price margin between the cost of the raw material and the eventual retails cost the final product procures.

Speculators on the other hand do not focus too much on the aim to minimize the risk for the futures trading, but rather they focus on the benefits that may arise from the risky nature of the futures market. The speculators main aim is to profit from the price change that the hedgers are busy protecting themselves against. Speculators capitalize on the anticipations of high risks and therefore expect to maximize on the profits. Speculators do not seek to actually own the commodity featured in the transaction but will enter the market simply to seek profits by offsetting the resign and declining prices through the buying and selling of contracts.

There are a few ways to venture into the futures trading market but it should be notes that all involve some level of risks. It can be done simply by trading on one's own account or opting to have an account managed by professionals either as individual entities or

as companies. There is also the possibility of joining a commodity pool where working together with others may be beneficial in terms of garnering relevant information.



Chapter 5:

Cautionary Guide To Futures Trading

Synopsis

As with all things, there are some elements that need more cautious attention than others. This applies to the futures trading guide. Caution should be exercised in order to ensure the losses, if any, are limited at worst.



Be Aware

The following are some of the areas where caution should be exercised:

- The danger of leverage – as futures contracts typically can be bought or sold with a margin deposit, which would mean that some leverage ratio is evident from a calculation of 10 to 1 and 20 to 1 on the price movements of the underlying commodity. Therefore this margin provision should not be taken lightly as the losses can be considerable should the movements be on a downward trend.
- Caution should be exercised when viewing the futures contracts, as these products can be quite complicated. With the different size and price movement amount, the tracking of the transactions movements can be a challenge. Being aware of the final trading dates and the possible delivery options is considered very important.
- The price limits in place should also be observed closely as too much rapid movements will create a situation where the limit is reached quicker than anticipated, thus not giving the investor a chance to continue trading for the day. Caution should be exercised to ensure the investor is not caught on the wrong side of the trade making limit.
- In connection to the margin deposits the new trader may have to exercise more caution than normal as the margin requirement can

be quite substantial. For a start up, this may prove to be a little more than anticipated. If this is found to be overwhelming for the investor then exercising some level of caution would enable the investor to limit any possible losses, including that of the margin.



Chapter 6:

Why Futures Traders Fall Short Or Fail Altogether

Synopsis

After the initial excitement of making some money, most traders find they eventually encounter a lot of problems that seem to contribute to an endless losing streak. Being aware of the possible problems that might arise would help the trader avoid making mistakes or at least limit the risks, thus minimizing losses.



What To Watch Out For

The following are some of the more common mistakes the trader should be aware of to be able to consciously avoid making them and contributing to the losses:

- Most serious traders would usually start out with some sort of plan on how they envision their trading exercise to be. However along with the excitement of this very nature of trading, comes the adrenalin rush, that sometimes causes the trader to lose sight of his or her initially designed system and this can be very dangerous indeed. Not being able to stick to a re designed system would contribute to taking unnecessary risks.
- Some traders fail to have “safety” measures incorporated in their trading makeup style. Incorporating elements such as using sell or buy stops features will normally help to limit any losses while maximizing profits. This is especially useful when the trader is away from the trading station or when emotions are dictating the decision making process.
- Being too rigid in the way the trading exercise is run is also not a desirable style to adopt. Being open to new ideas and systems that could help to enhance the profit making positions would be better as there are always new and more innovative ways being designed. As the market trading styles and ideas

change the trader has to stay abreast and knowledgeable to such movements to ensure the competitive level is still retained. This will help to improve the trading results for both the new trader and the more experienced one.



Chapter 7:

What To Look For When Seeking Professional Futures Trading

Synopsis

If investment and profit making is the primary goal, then seeking out a suitable futures trading professional might be the answer to being able to enjoy both of these platforms.



Future Guidelines

The following are some guidelines on how to choose the most suitable professional trader to handle all the transactions with the intention of making profits for the principal:

- Perhaps the first and most obvious point to be aware of, right from the start, would be to avoid using the services of a beginner or armature futures trader. Using the services of a certified individual with the right credentials, would present the assurance that the said individual was fairly competent and certainly knowledgeable in the futures trading platform.
- Being a great planner is a good trait to have, however when all the planning does not materialize into tangible efforts then there are problems such as not capitalizing on opportunities or letting opportunities pass by. Thus too much planning and not enough action is also not a good trait to be observed in a competent futures trader. The likelihood of making phenomenal amount of money may not be forthcoming.
- When choosing a suitable futures trader, the investor should take the trouble to meet with a few different individual before actually setting on one choice made. Being able to note their different styles and the systems they use during the processes as a futures trader would give the investor an idea of how they would eventually run the investor's account. It would also give both parties the insight into the

compatibility issue that is a very important feature for business relationships.

- Futures traders who come highly recommended are worth exploring, as these recommendations would come from satisfied customers, therefore proving the competency and the track record of the trader.



Wrapping Up

Future can be a great way for individuals to get in contact with other professionals to conduct business such as investing and trading. Although Future may be tricky to grasp in the beginning, if you apply what you have learned from this book you are sure to succeed. I hope you enjoyed and good luck on your business ventures!

