RJOFutures
A division of RJO'Brien

TRANSFER YOUR TRADING SKILLS

Take your stock trading experience to apply it to becoming a futures trader.

rjofutures.rjobrien.com | 800-441-1616

Important Information About Trading Futures and Options on Futures

This communication is intended as a solicitation. Futures trading involves the substantial risk of loss and is not suitable for all investors. Trading advice is based on information taken from trades and statistical services and other sources which RJ O'Brien believes are reliable. We do not guarantee that such information is accurate or complete and it should be relied upon as such. Trading advice reflects our good faith judgment at a specific time and is subject to change without notice. There is no guarantee that the advice we give will result in profitable trades. All trading decisions will be made by the account holder. Past performance is not necessarily indicative of future trading results.

When analyzing option strategies, it is important to take into account the commission and fees associated with making a trade. Similar to trading futures, each contract executed in an option strategy is charged commission and fees. Commissions and fees from brokerage firms can be up to $99 per round turn with the vast majority of people paying significantly less. Your actual charges may vary based on the service level you choose. The two primary factors investors tend to overlook when trading options include:

- Each contract traded is charged a commission. TThis is often misinterpreted with a spread or strategy as each contract within a spread or strategy is charged a commission. If you trade one bull call spread, your account would be charged for 2 contracts rather than 1 spread.
- Customers often try to sell or collect premium on options that are far out of the money with the belief that they are collecting "easy money." The further away an option strike price is from the current market price, the lower the value of the option. Make sure that you are not paying more in commission and fees than what you are collecting. Keep in mind that until an option expires, you do hold risk in the positions. Is the net premium collected after paying commission and fees worth the risk?

Table of Contents

Welcome Stock Traders

Many of the savviest traders in the world trade futures. And, it's very likely that many of them traded stocks first. So, you aren't alone when you believe you can take your stock trading experience and apply it to futures trading.

RJO Futures, the premier brokerage firm for futures traders, has specialized in serving futures traders for 100 years. Everyone on our team is devoted to providing the service you need to become a successful futures trader.

Transfering Skills

This guide explains what is attractive about futures trading to those who are familiar with stock trading. We'll explain the similarities—and the important differences—between these two asset classes. We hope you see how you can apply what you know about trading stocks to the commodity futures markets.

A list of guides from RJO Futures covering more specific futures trading topics—as well as additional resources for learning the basics—is at the end of this document.

We hope you'll soon decide that futures trading is your next step on your trading path. When you do, we look forward to welcoming you as a new client at RJO Futures.

ADDITIONAL RESOURCES

Click for your RJO Futures guide, ***Introduction to Futures Trading*** for more detailed examination of trading the futures markets.

Or, call 800-441-1616 or 1-312-373-5478 to request your free copy.

Why Trade Futures?

Let’s get right to it. Why should you even be interested in futures trading? What’s in it for you? Here are some of the key reasons stock traders add futures trading to their skill set.

Leverage

This is the big one for most traders. In futures trading, the capital you devote to holding a position is substantially less than what you need to hold an equities position—even on margin.

A non-margined equities account requires you put up 100% of the value of the security. Even a margin account requires an initial deposit of at least 50% of the stock’s current value. In contrast, you typically are required to put up just 5%-20% of a contract’s value to hold a futures position.

Your gain or loss, however, is still calculated as if you had deposited 100% of the value of the contract.

Leverage is what gives futures trading its reputation for being risky. Although it can make your money work harder and deliver more profits when you are on the right side of the market, leverage is equally effective at magnifying your losses if the market is going against your position.

There is no doubt that leverage is a two-edged sword. Experienced futures traders will tell you that using stops, taking small losses and being vigilant about your risk-management practices will help you stay on the right side of the leverage beast.

Ask your RJO Futures representative about current minimum margin requirements for the markets you are interested in trading. Be aware that margin requirements can change at any time, and are particularly likely to do so when the markets are volatile. Also, you can always commit more capital to margin than the minimum requirements in order to reach a comfortable level of leverage for you.

Example of Leverage:

At $6 per bu., a 5,000-bu. corn futures contract is worth $30,000. If the price of corn rises by 10% to $6.60, the contract is then worth $33,000—a gain of $3,000 for someone who is long futures at $6.

If the margin requirement for one corn futures contract is $2,000, then a 10% price increase (and gain of $3,000 in contract value) means a futures trader made a 150% return on the capital required to hold the position.

Tax Advantages

Given their short-term nature, futures trading profits get a preferential 60/40 long-term/short-term capital gains tax treatment. This means that 60% of gains are considered long- term and are taxed up to 15%, while the remaining 40% of gains are considered short-term gains and are taxed up to 35% (regardless of the time the contract is held). Please discuss how this may affect your situation with your tax advisor.

Increased Opportunity

Futures trading appeals to those who embrace opportunity and freedom. For example, futures trading does not discriminate against someone who wants to trade on the short side of the market. The the margin and order-entry requirements to sell short are the same as if you want to be long. You don't have to "borrow" anything to get into a short position, and there's no uptick rule for selling short.

Second, many futures markets—even U.S. stock indices—are open virtually 24 hours day from Sunday night through Friday afternoon. You're able to trade when it's convenient for you—or whenever global news prompts you to take action.

Asset Diversification

Futures allow investors to broaden the range of asset classes held in their portfolios, thereby potentially reducing risk and improving long-term returns. According to a study published by the CME Group, portfolios with as much as 20% of assets in managed futures yielded up to 50% more than a portfolio of stocks and bonds alone.

Futures also allow a "pure play" with the underlying commodity that simply is unavailable with stocks, even those with strong correlation. For example, a mining stock could be considered as having exposure to the gold market. But it is not a "pure play" because other factors exist, e.g., sector influence and corporate management, that affect the value of the security but are not related to the commodity's price.

Financial Protection

Futures trading has its roots in protecting against the risk of adverse price movement. Indeed, the markets began in the mid-1800s as a way for commodity producers and users to "hedge" against prices going against their best interest. Today, companies worldwide do exactly that, particularly with financial futures contracts that cover stocks, interest rates and currencies.

What Exactly Are Futures?

Futures are financial instruments focused on discovering the price of a specific commodity or asset at a specific time in the future.

In Comparison

Stocks are ownership shares of a company, whose value rises and falls based on expectations for the company's performance.

In futures, as information about the supply and demand for the underlying asset changes over time, the price of the futures contract changes as traders take positions based on their opinion of what the asset's price will be at that certain point of time in the future.

What is a Futures Contract?

A futures contract is an obligation to buy or sell a specific quantity of a certain commodity or asset on a future date at an agreed upon price.

Because the terms of futures contracts for each commodity or asset are standardized (i.e., same quantity, quality, delivery), they can be traded on an exchange. The only variable is the price.

Today, futures contracts represent commodities and financial instruments you know and hear about in the news every day, including oil, corn, gold, popular stock indices and foreign currencies.

How Does Futures Trading Work?

Futures trading occurs on federally regulated exchanges, which facilitate the place where buyers and sellers trade as well as post-trade clearing. In the United States, futures trading began in the mid-1800s as way to bring together producers and users of grains and cotton. Today, the CME Group in Chicago is the largest futures exchange in the world; its stock is listed on the New York Stock Exchange.

In futures trading, the buyer and seller create a new contract with each trade, and the number of contracts that can be created is limitless. In contrast, a limited number of shares of stock are available to trade for each company that is publicly listed and traded.

Remember, it's a "futures" contract. You are taking a position on what you think the price of something will be on the date the contract expires. If you're trading crude oil and you believe the future price of oil will be higher, then you would buy the contract. If you believe the future price will be lower, then you sell the contract.

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Expiration and Delivery

One of the biggest differences between stocks and futures is that futures contracts ultimately expire and cease to exist. On the expiration date, futures contracts may call for physical delivery of the commodity, while others are settled in cash. But, don't worry. When you make a futures trade, you don't need to make or take delivery of the commodity today. In fact, if you're like the vast majority of futures traders, you will offset your position long before ever being faced with the delivery process.

To close out a position in a futures contract, and avoid delivery, you offset the contract by taking an equal, but opposite, position in the same contract month. Thus, if you were long a futures contract (i.e., having bought a contract), you would sell a matching contract; if your initial position were a sale, you would buy to offset it. Either of these actions exits your position, just as selling a stock in the equity markets would close a position.

Selling Futures

Selling a futures contract as your initial position is similar to shorting stock in the equities market: You believe the price will go down, so you sell. Unlike stocks, there is no borrowing or loan fees involved. You simply sell as easily as you buy.

Counterparty

Once you have a position in a futures contract, that contract is cleared and held at a clearinghouse, which ultimately is your true counterparty so that you may exit the position at any time. The futures exchange clearing corporations handle this process automatically.

Who Uses Futures and Why?

Participants in the futures market fall into two broad categories—speculators or hedgers. Speculators take risk and provide liquidity for hedgers who are seeking to dispose of any number of kinds of business risks they face.

Speculators

Speculators take risk and seek to profit from the ups and downs of futures prices. Speculators can be individuals like you to professional traders working alone or within trading groups. They also could be institutional money managers. But, whoever they are, profit is their primary objective.

Similar to stock trading, speculators in futures use both fundamental and technical analysis to generate signals as to the future price movements of a specific contract. They might trade support and resistance levels from a futures price chart. Or, they might study global supply and demand. Professional traders increasingly use computerized algorithms to monitor the markets and take advantage of very slim pricing opportunities. The volume of trading generated by speculators provides liquidity for hedgers.

Hedgers

Hedgers use the futures markets to get rid of the price risk that is inherent in their business. Farmers, food processors, energy producers—and even corporate treasury departments—are examples of hedgers who lock in prices using futures contracts to protect against price movement and volatility. Hedging becomes a form of price insurance as it establishes a price for something they intend to buy or sell in the cash market at a future date.

Stock traders can hedge, too. Let's say you hold a broad range of stocks or a stock index in your portfolio. You are concerned about near-term performance given market conditions, but do not want to lighten your holdings because of capital gains tax consequences — plus, long-term you're bullish. Selling a stock index futures contract could protect your exposure to a drop in the stock market.

Get Comfortable with Futures

	Futures	Stocks
Represents	A commitment to buy or sell something in the future at an agreed-upon price	Ownership of a corporation
Trading	Traded on a regulated exchange	Traded on a regulated exchange or through a dealer association
Issued by	A futures exchange writes the terms of each contract and makes it available for trading	A corporation
Maximum number that can be outstanding	No limit to the number of futures contracts that can be traded	Set by the company's charter; issuance regulated by filings with the SEC
Margin	Requires deposit of about 5%-20% of the value of the futures contract, depending upon price level and volatility	If purchased in a margin account, requires minimum initial deposit of 50% of the value of the security; the remaining 50% is considered a loan from the broker who charges interest
Selling short	As easy as buying	Requires borrowing stock, if available, and selling when price is rising
Timing	Fixed expiration date, usually less than one year	Stocks are perpetual instruments as long as the underlying company remains solvent
Fundamental analysis	For commodities, research analysts provide views of supply/demand and other economic factors or physical conditions (e.g., weather) that could affect values For financial futures, the same stock research applies	Research analysts provide views of micro and macro economic factors that could affect values
Technical analysis	Traders chart price movements to analyze patterns and support/resistance levels; this generates buy/sell signals	Traders chart price movements to analyze patterns and support/resistance levels; this generates buy/sell signals
Risk of loss	Because the purchase or sale of a futures contract requires only a small percentage deposit of the total value of the contract, a client can lose more money than the initial deposit	In terms of potential loss, a stock bought on margin works the same as a futures contract A non-margined stock purchase requires a 100% deposit and therefore represents the total potential loss

Chart information from CME Group

A Few Questions, Answered

Being knowledgeable is a key part to trading, so to help you get ahead of the curve we have some frequently asked questions already answered for you.

My stock brokerage firm offers futures trading. Why should I open a futures trading account with RJO Futures?

We believe that to have the best chance for success in any type of venture, you benefit from working with those who specialize in that arena. RJO Futures has been specializing in futures brokerage for more than 100 years. Our focus is on nothing but servicing futures traders. We are not distracted or conflicted by other asset classes.

Also, you'll enjoy flexibility in both markets and trading options. At RJO Futures, you have access to trade hundreds of markets on all major futures exchanges worldwide—not just online markets in the United States. And, you can choose from working with a dedicated futures broker or investing in a managed futures account if you prefer rather than strictly rely on your self-directed trading efforts.

I've heard trading futures is just too risky for the average trader. Is this true?

As with all trading, a disciplined approach to the market can reduce risk and increase the potential for profit. For a self-directed trader, this means doing your homework upfront to create a plan and then following your plan.

Futures have a time element—they expire—which requires a certain added diligence as compared with stocks. Working with an experienced futures broker or investing in managed futures products may be solutions in maintaining the necessary diligence.

Do all futures contracts end with a delivery of something?

No, some contracts are settled in cash. And even agricultural contracts like corn do not normally end in a delivery. Usually, traders place an offsetting buy or sell to close out a position and exit from any contractual obligation.

How do you sell something you don’t own?

A futures contract represents the commitment to either sell or buy an asset at a future date. So when you sell to initiate a position, all you’re committing to is selling at that price in the future. In the meantime, you don’t need to own the underlying commodity or financial instrument.

What is margin? How does a margin call work?

Margin is essentially a good-faith deposit. It represents a small percentage of the total dollar value of the contract you have agreed to buy or sell at a future date.

There are two types of margin. Initial margin is the amount of cash (or equivalent) you must have in your account at the time an order is placed. Maintenance margin is the dollar amount that must be maintained in the account to continue to hold the futures position.

How do options and futures differ?

Options (on either equities or futures) give the holder the right to buy or sell the underlying asset at expiration. The holder of a futures contract is obligated to fulfill the terms of the contract.

What does volume indicate?

Volume tells you how many contracts traded hands in a particular contract or market. Total volume equals all contracts traded. (The purchase and sale of a single contract counts as one, not two.) Volume helps measure the strength of price movements.

What does open interest indicate?

Open interest tells you how many contracts exist—are live or active—in the market at any given point in time. This is similar to the number of shares outstanding for a stock. The larger the open interest, the greater the liquidity (i.e., ease with which you can enter or exit the market).

More questions? Call us at 800-441-1616 for one-on-one answers.

Start Applying What You Know

Become Familiar with Prices

- **Open**. This can be confusing for stock traders, because many commodities have an opening range instead of an opening price like stocks. The opening price is generally the midpoint of the opening range or a single price designated by the exchanges.

- **High**. The maximum price paid by a buyer and received by any seller during the trading session.

- **Low**. The lowest price the futures contract traded at during the particular trading session.

- **Close**. The price or range of prices that occur during the closing moments of a given market session. The end-of-day value of a futures contract used to determine margin calls is called the "settlement" price. Settlement prices are determined by exchanges based on closing prices.

Learn the Commodity and Contract Month Symbols

Like stocks, each commodity has its own symbol. However, each market might have more than one symbol to represent contracts trading on different exchanges or on different platforms, e.g. trading pit or electronic. Your RJO Futures representative can help you find the contract symbol for the product, exchange and platform you wish to trade.

Each commodity contract has an expiration month that also is abbreviated by symbol:

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

As an example, the symbol for the May 2014 soybean contract at the Chicago Board of Trade would be SK4 for the pit-traded contract and ZSK4 for electronic trading.

Know Your Contracts

Commodity	Symbol		Unit of Trade	How Quoted	Value
Grain Futures	**PIT**	**GLOBEX**			
CME GLOBEX Corn	C	ZC	5,000 bushels per contract	Cents per bushel	1/4 cent = $12.50
CME GLOBEX Wheat	W	ZW	5,000 bushels per contract	Cents per bushel	1/4 cent = $12.50
CME GLOBEX Soybeans	S	ZS	5,000 bushels per contract	Cents per bushel	One cent = $50
Meat Futures	**PIT**	**GLOBEX**			
CME GLOBEX Live Cattle	LC	LE	40,000 pounds per contract	Cents per pound	1/4 cent = $10.00
CME GLOBEX Feeder Cattle	FC	GF	50,000 pounds per contract	Cents per pound	1/4 cent = $12.50
CME GLOBEX Lean Hogs	LH	HE	40,000 pounds per contract	Cents per pound	1/4 cent = $10.00
Metals Futures	**PIT**	**GLOBEX**			
CME COMEX Gold	GC	GGC	100 troy ounces per contract	Dollars per troy ounce	$0.10 per ounce = $10
CME COMEX Silver	SI	GSI	5,000 troy ounces per contract	Dollars per troy ounce	$0.005 per lb = $12.50
CME COMEX Copper	HG	GHG	25,000 pounds per contract	Cents per pound	$0.05 per lb = $12.50
Energy Futures	**PIT**	**GLOBEX**			
CME GLOBEX Crude Oil	CL	GCL	1,000 barrels per contract	Dollars per barrel	$0.01 per barrel = $10
CME GLOBEX Natural Gas	HO	GNG	10,000 mil mmBtu per contract	Dollars per mmBtu	$0.001 per mmBtu = $10
CME GLOBEX RBOB Gasoline	RB	GRB	42,000 gallons per contract	Dollars per gallon	$0.0001 per gallon = $4.20
Softs Futures	**PIT**	**ICE**			
ICE Coffee	KC	IKC	37,500 pounds per contract	Cents per pound	$0.05 per lb = $18.75
ICE Sugar #11	SB	ISB	112,000 pounds per contract	Cents per pound	$0.01 per lb = $11.20
ICE Cocoa	CC	ICC	10 metric tons per contract	Dollars per metric ton	$1 per ton = $10
ICE Orange Juice	OJ	IOJ	15,000 pounds per contract	Cents per pound	$0.05 per lb = $7.50
ICE Cotton	CT	ICT	50,000 pounds per contract	Cents per pound	$0.01 per lb = $5.00
Currency Futures	**PIT**	**GLOBEX/ICE**			
CME Euro FX	EC	6E	€125,000 per contract	Dollars per foreign currency	0.0001 = $12.50
ICE Dollar Index	BP	GB	$1,000 per contract	Dollars per foreign currency	0.005 = $5
CME Japanese Yen	JY	6J	¥12,500,000 per contract	Dollars per foreign currency	0.0000001 = $12.50
Stock Index Futures	**PIT**	**GLOBEX**			
NASDAQ 100 E-mini	SP	GNQ	$20 per contract	Dollars per index	0.25 index points = $5
CME S&P E-mini		GSP	$250 per contract	Dollars per index	0.10 index points = $25
Mini Dow		GYM	$5 per contract	Dollars per index	1 index point = $5

Take a Test Drive

If you trade stocks, becoming familiar with the futures order-entry process will be fairly simple. Order types found on a futures trading screen are the same as you would find within your stock trading account—market, limit, stop and stop limit.

We recommend test-driving a futures trading platform with its trial/demo account. At RJO Futures, we offer several trading platforms, including those we've built ourselves as well as those from leading ISVs. Please visit rjofutures.com/online-trading/ for our current offerings.

RJO Futures PRO

This full-featured downloadable platform provides online futures traders with fast, reliable access to the markets. Clients can create a completely customizable experience.

RJO Web OE

Web OE is a web-based, firewall-friendly platform. It uses a series of dynamic web pages to let you place, change and monitor order flow between any device with internet access and the futures markets.

RJO Order Desk

If you prefer placing orders with a person, or are not near your computer to trade online, the RJO Order Desk is ready to take your order.

Open an Account

Due to the separation of securities and futures regulators in the United States, you must open a futures account to trade in the futures markets. You are unable to trade futures in a stock account. Refer to our Additional Resources page for opening an account. The type of account you have can vary according to your needs, goals and experiences.

Full Service - With a full-service account, you'll work one-on-one with an RJO Futures broker who will help you understand the futures markets and develop a complete trading plan.

Self-Directed - If you want to make all your own trading decisions and execute them yourself, a self-directed account may be just the ticket.

Managed Futures - If you don't have the time to monitor the markets or if you want to remove the emotional component from your trading decisions, an RJO Futures managed account may be your best option.

Additional Resources

Thank you for the opportunity to provide you with this educational material. Anyone can offer online trading in online markets, but RJO Futures is not just anyone. We are specialists devoted to delivering the best possible trading experience for our clients. Whether you want to trade on your own, tap into the experience of our brokers or let a professional money manager make the calls, you can do it all at RJO Futures, the premier provider of futures brokerage services.

Open an Account Easily and Quickly:

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RJO FuturesCast Newsletter

For a longer-term view on the markets as well as pointers on trading techniques, subscribe to RJO FuturesCast, our free newsletter delivered to your inbox every week. You'll read insights from our team of professional futures brokers, whose commentary is often featured in major news media.

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RJO Futures Learning Center

We believe that knowledge makes better traders. In the RJO Futures Learning Center you'll find educational tools for every level of experience. We offer a library of guides and articles that help you learn about futures and options on futures from the basics to technical analytics. For an interactive experience, join us for our regularly scheduled live webinars.

Click to visit the RJO Futures Learning Center.

RJO Futures Brokers

The RJO Futures brokers provide the experience and background to help you with your trading needs and assist you with reaching your investment goals. We invite you to review each broker's profile, experience and techniques to help you select a partner that best fits your trading needs and style.

Click to meet our team.

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