

Single-Stock Futures (SSF's)

Single-Stock Futures or SSF's, are futures contracts on individual stocks. SSFs combine features of stock trading as well as features of traditional commodity futures contracts. They are traded in various financial markets around the world, including those of the United States, Europe, Middle East and Asia. To see a list of all U.S. stocks available to be traded as an SSF contract, go to www.OneChicago.com.

In the 1980's, SSFs were disallowed to be traded in the U.S. because the Commodity Futures Trading Commission (CFTC) and the U.S. Securities and Exchange Commission (SEC) were unable to decide which agency would have the regulatory authority over these products.

After the Commodity Futures Modernization Act of 2000 became law, the two agencies eventually agreed on a jurisdiction-sharing plan and SSF's began trading on November 8, 2002. SSFs are traded on the OneChicago Exchange in Chicago.

An SSF contract is an agreement between two parties (buyer & seller) to buy and sell 100 shares (per contract) of a particular stock in the future at a price determined today. When trading SSFs, the OneChicago exchange pairs buyers with sellers to complete the transaction.

The mechanics of how SSFs work for speculating are straightforward. If you believe that the price of a particular stock will move up, you 'buy' the SSF contract. If you believe a stock will decrease in price, you 'sell' the SSF contract. The price movement of an SSF is tied fairly closely to the underlying stock. If the market as a whole perceives a stock issue to continue upward in price then the SSFs contract months will be ascending as you go out in time. In other words, each SSF contract will be a little higher than the contract month preceding. If the market as a whole believes Microsoft Stock to keep moving up in price, the closest contract month will be followed by the next contract month priced at a premium with the one after that priced at a premium, etc. This is termed a normal carrying charge market where you have futures contracts ascending in price as you move out in time. The opposite can be true regarding a bearish outlook for a stock and could result in an inverted carrying charge market.

Example: Lets say you are bullish on Microsoft and decide to trade an SSF contract on the stock. When the underlying stock was trading at \$28.12/share, you bought 8 contracts of the April MSFT at \$28.30. Each contract controls 100 shares of the underlying stock. Margin on one contract is $\$28.30 \times 100 \text{ shares} \times 1/5$ or \$566. Margin on your 8 contracts is \$4,528. In other words, you are trading 800 shares of Microsoft worth over \$22,600 with only \$4,528. This is how to calculate margin on any SSF position. Capital requirement is always 1/5 of the value of the shares you are trading. (The '1/5' translates to your 20% margin requirement on SSFs Contracts). Let's say MSFT declined the next day to \$28.04. If you had decided to exit your long 8 contracts of April MSFT you would have computed your loss this way; $\$28.30 - \$28.04 = .26/\text{share} \times (100 \text{ shares per contract}) \times 8 \text{ contracts}$ or \$208 plus commissions and fees. Let's say you did not liquidate MSFT SSFs and 3 weeks later the April MSFT contracts are now priced at \$31.09. Liquidating your 8 contracts at \$31.09 would give you a profit of $\$31.09 - \$28.30 =$

\$2.79 per share x 100 shares per contract x 8 contracts= \$2,232 profit excluding fees and commissions. To recap, you bought at \$28.30/share and sold at \$31.09/share and had 8 contracts.

Advantages of Single-Stock Futures (SSFs)

- SSFs trading on the OneChicago Exchange are fully electronic. Trade processing and clearing are fully automated using state of the art technology.
- Trade 100 shares of a stock per one SSF contract.
- SSFs allow trader to profit in both bull and bear markets and hedge against some of the weak performers in their portfolio.
- Trade \$100,000 worth of stock with \$20,000 margin. The low margin requirement for trading SSFs provides the opportunity for a trader to trade the same amount of stock that a traditional investor does but for less than one-fifth of the cost. Compared to buying shares on margin through an equities account, SSFs require less money to trade. While gains are compounded faster when trading with 5:1 leverage of SSFs, loss can compound quickly as well. Always utilize stop-loss strategies and work closely with your broker.
- Traders can day-trade using SSFs without the stringent minimum capital requirements associated with an equities day-trading account.
- Trade with 5 to 1 leverage. Trading on leverage through a traditional stock equities account provides 2 to 1 leverage and perhaps 3 to 1 leverage to qualified investors.
- Due to lower margin requirements, traders can take part in more opportunities with a smaller amount of capital.
- The 5 to 1 leverage provided with SSFs requires no interest payment. When trading stock on margin through an equities account, you are borrowing money from your clearing firm and paying interest while you are in a leveraged position. Traders can implement strategies to further lower your margin requirement to 5% using SSFs.
- With SSFs, you can instantly change your entire position from a long to short position or visversa. Also, there is no up tick rule for OneChicago SSF products.
- You can establish a short position on a downtick-you don't have to wait for an up tick to go short as with an equities account. Short sellers may also benefit from eliminating the costs and inefficiencies associated with the stock loan process. There can be an interest proceeds benefit associated with a short SSF position as well.
- SSFs are traded electronically and provide narrow bid/ask spreads just as with trading other electronic markets.

When shorting a stock with limited capital, consider selling a SSF issue instead of buying put options. You have the leverage of a put option without the problem of option time decay working against your option position especially when the market is slow to move. In other words, if the underlying does not move much and stays near where you entered your trade, your SSF position wont loose value due to time decay. With an option position, there is even the possibility of loosing option value while the market is moving in your favor. Moreover, most out of the money options have a high probability of expiring worthless.

Disclaimer: This information provided is not to be construed as a solicitation to buy or sell Single Stock Futures Contracts or the Single Stock Futures Contracts herein named. The risk of trading Single Stock Futures Contracts can be substantial. Each investor must consider whether this is a suitable investment. Past performance is not indicative of future results.