

Single Stock Futures (SSF's) 101

Single Stock Futures or "SSF's" are futures contracts on individual stocks. SSF's 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 traded as a SSF contract, go to www.OneChicago.com

In the 1980s, SSF's trading was disallowed 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 investment 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 in the U.S. on November 8, 2002. SSF's are now traded on the OneChicago Exchange in Chicago.

SSF's contracts are 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 SSF's, the OneChicago Exchange pairs buyers with sellers to complete the transaction.

The mechanics of SSF's are straightforward. If you believe that the price of a particular stock will move up, you 'buy' a SSF contract on that particular stock. If you believe the price of stock will decrease in price, you will 'sell' the SSF contract on that particular stock. The price movement of an SSF is obviously tied closely to its underlying stock. If the market perceives a particular stock to follow an upward price move then the price of the corresponding SSF's contract months will also ascend-each proceeding SSF contract month will be higher than its predecessor (normal carry charge market). Using the example that the market as a whole perceives that Microsoft Shares will maintain an upward move 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 an additional premium, etc., etc. This is termed a normal carrying charge market where you have futures contracts ascending in price as you move outward in time. The opposite can be true regarding a bearish outlook for a stock and could result in an 'inverted carrying charge market'.

Example: Let's say, it's the beginning of the year, and you are bullish on Microsoft for the next 4 months and decide to go 'long' on the Microsoft SSF's contract. In the beginning of January, when the underlying stock is trading at \$18.12/share, you buy 8 contracts of the April MSFT (going out 4 months) at \$18.30 per contract. Each contract controls 100 shares of the underlying stock. Margin on one Microsoft SSF contract is calculated the following way: Multiplying the share purchase price of \$18.30 x 100 shares (per SSF contract) x 20% equates to \$366 margin on one MSFT SSF contract. Margin on your 8 contracts is \$2,928. In other words, you are trading 800 shares of Microsoft worth over \$14,640, with \$2,928 of capital. This is how you would calculate margin on any SSF's position. Capital requirement must always be maintained at 1/5 or 20% of the value of the underlying shares you are trading.

Let's say the MSFT SSF's contract declined the next day to a low of \$16.26. If you had decided to exit your long 8 contracts of April MSFT at that price, you would have computed your loss this way; $\$18.30 - \$16.26 = \$2.04/\text{share}$ times (100 shares per contract) times 8 contracts or \$1,632, not including commissions and fees. Let's say you did not liquidate MSFT SSF's and 5 weeks later the MSFT contracts you entered into are now priced at \$21.09. Liquidating your 8 contracts at \$21.09 would give you a profit of $\$21.09 - \18.30 (cost) = \$2.79 per share times 100 shares per contract times 8 contracts = \$2,232 profit, excluding fees and commissions. To recap, you bought 8 Microsoft stock futures contracts at \$18.30/share and sold the 8 contracts at \$21.09/share.

Disclaimer: Traders must keep in mind that losses can mount just as easily as gains. Traders must also realize that there is risk of losing large amounts of capital greater than your original investment. The information and opinions contained herein comes from sources believed to be reliable, but are not guaranteed as to accuracy or completeness. The risk of loss in trading futures and/or options can be substantial. Each investor must consider whether this is a suitable investment. When trading futures and/or options, it is possible to lose more than the full value of your account. All funds committed should be risk capital.

Provisions of Using Single Stock Futures (SSF's)

- SSF's 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's contract.
- SSF's allow traders to try and profit in both ascending and descending markets by going 'long' or 'short'. Traders can also attempt to hedge weaker performers in their portfolio using SSF's contracts. There is always risk, however, when trading with Single Stock Futures.
- Trade \$100,000 worth of stock with \$20,000 margin. The low margin requirement for trading SSF's 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, SSF's require less money to trade. While gains are compounded faster when trading with the leverage of SSF's, losses can also compound just as quickly. Always utilize stop-loss strategies and work closely with your broker.
- Traders can day-trade using SSF's without the more 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 2:1 leverage and perhaps 3:1 leverage to qualified investors.
- With lower comparable margin requirements, traders have the opportunity to diversify into a broader array of SSF's positions with a smaller amount of capital.

- The 5 to 1 leverage provided with SSF's contracts requires no interest payment, unlike trading stock on margin through an equities account where you are borrowing money from your clearing firm and paying interest while you are in that leveraged position. In addition, 'hard-to-borrow' stocks cost more interest to borrow.
- SSF's contracts allow you to instantly change your entire position from a 'long' to a 'short' position or vice versa. Also, there is no up-tick rule for OneChicago SSF products.
- When entering an SSF's contract, you can establish a short position on a down-tick. You do not have to wait for a price up-tick to go short as you do when shorting stock in an equities account. Short-sellers may also benefit from eliminating the costs and inefficiencies associated with the stock loan process. There can be interest-proceeds benefit associated with a short SSF's position as well.
- SSF's are traded electronically and can provide narrow bid/ask spreads just as with trading other electronic markets. To take advantage of a narrower bid/ask spread, traders must pay close attention to volume and open interest in that particular SSF's contract.

When shorting a stock with limited capital, consider selling a SSF's contract instead of buying put options. You have the leverage of a put option without the potential problem of option time decay working against you, especially when the price of the stock is slow-moving. In other words, if the underlying stock does not move much and stays near where you entered your short SSF position, it won't lose value as with option time decay. With an option position, there is even the possibility of losing option value while the market is moving in your favor—the majority of out-of-the-money put and call options expire worthless. It is important to develop a trading plan when investing using the SSF's markets. Always work closely with your broker and with your stop-loss parameters. A final suggestion is to have both a profit target and a stop-loss plan in place before you enter your position. Good luck in your trading!

Please copy/paste the following links from the OneChicago Exchange website to address your respective inquiries:

www.onechicago.com	(website)
www.onechicago.com/?page_id=751	(SSF's Contact Specs)
www.onechicago.com/?page_id=756	(SSF's Listings)
www.onechicago.com/?page_id=754	(ETF Listings)
www.onechicago.com/?page_id=10	(Prices, Volume & Open Interest)
www.onechicago.com/?page_id=27	(EFP Trading)
www.onechicago.com/?page_id=812	(OneChicago EFPs- quotes taken from BETS' (Block EFP Trading System) web-based Platform)
www.onechicago.com/?page_id=93	(Regulatory & Tax Information)

Contact Ventura Futures for additional information that will be helpful in your Single Stock Futures trading.

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