

Futures Trading: The Way to Go?

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In the beginning... farmers would grow their crops and bring them to the market hoping to sell them off...





But without any indication of the demand, sometimes supply exceeds demand and crops were left to rot on streets...





Sometimes when the crop is out of season, prices becomes too expensive as the crop are unavailable...





Therefore, a central market is created to stabilize prices for buyers and sellers to meet and <u>agree</u> on a price today, for goods to be deliver in <u>future</u> to protect each others against huge price changes when the crop is due for delivery.



What is a Futures Contract?

 A <u>contract/agreement</u> to buy or sell a certain commodity at a <u>price</u> agreed <u>today</u> for <u>delivery</u> at a <u>future date.</u>



Who trades Futures Contract?

- Hedgers: producers of the commodity (e.g. a farmer, an oil company, a mining company) who trades a futures contract to <u>protect</u> himself from future price changes in his product.
- **Speculators**: include independent floor traders and private investors. Usually, they don't have any connection with the cash commodity and simply try to <u>make a profit</u> by -
 - buying a futures contract they expect to rise in price
 - sell a futures contract they expect to fall in price.



Types of Futures Contract

- Stock Indices (e.g. SiMSCI, STI, Nikkei, HangSeng, Dow Jones, Nasdaq etc..)
- Metals (Gold, Silver, Platinum, Palladium, Copper etc...)
- Energy Products (Crude Oil, Natural Gas etc...)
- <u>Soft Commodities</u> (Corn, Soya Beans, Cocoa, Coffee, Pork Bellies etc...)
- <u>Currencies</u> (Euros, GBP, CHF, Aussies etc...)
- Bonds and Interest Rates (SGD, JGB, T-Bond)





Characteristics of Futures Contract

- Allows you to go <u>Long</u> (buy) or <u>Short</u> (sell)
- <u>Leverage</u> investment. (Only require a Margin of the full contract value)
- Most futures markets are <u>very liquid</u>.
 - Huge amounts of contracts traded everyday
 - E.g. Top volume contract Mini S&P has an average of 300,000 contracts traded daily
- Each contract has an expiry date
- Exchange-governed. Therefore, the Exchange will undertake your counter-party credit risk



Trading without hassle

- Allows you to trade or invest in precious metals, energy, grains etc... without having to physically own the products.
- Futures Contract allow you to SHORT sell without any hassle and at a lower cost compared to shorting individual stocks.
- When the market is moving sideways, we can still profit by buying or selling within the range.



Trading the Indices

- Allows you to trade on general market sentiments rather than trading individual stocks.
- Trading individual stocks exposed you to insiders trading, scandals or accounting scam which makes it a less fairer ground for traders.

Hedging against your assets

Hedge your portfolio of stocks against unexpected news or uncertainty

- E.g. Fundamental of stocks is still strong. However, due to general market sentiments, the stock is sold down.
- In this case, you may short the index so that you may profit from the downside using futures contract to cover the losses from the stocks.
- Offers a <u>wide range of contracts</u> over 16 exchanges with <u>more than 100</u> products to trade in.



Indices that are traded globally:

Asia and Asia Pacific Indices

- MSCI Singapore Stock Index (SIMSCI)
- MSCI Taiwan Index
- Japan's Nikkei225, standard and Mini
- Hong Kong Hang Seng Index, standard and Mini
- India CNX Niffty Index
- Sydney SPI200 Index
- Kuala Lumpur Composite Index
- Crude Palm Oil



Indices that we can trade on:

Europe and U.S. Indices:

- London FTSE 100
- German DAX
- French CAC40
- Dow Jones Index
- S&P500 Index
- Nasdaq100



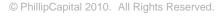
- Can trade in many different region's stock indices.
- Longer hours of trading. E.g. S&P500 is almost 24 hours.
- Some contracts has a choice of standard or mini to manage your risk.
- Can go long and short on the contract
- Hedge against your portfolio and risk

What can be worst than the recent act of God in Japan?

 What happen if you are holding a portfolio of Japanese stocks that may or may not include Tokyo Electric Power Company (TEPCo)







Source: POEMS PROFESSIONAL



Summary of Futures Trading

- Allows you to trade in both direction (long/short)
- Stock Indices allows you to trade on the general market sentiments instead of going into individual stock counters
- Trade the actual commodities (e.g. Crude oil) instead of buying commodities related stocks
- More than 100 over product for you to choose from
- Trade on Margin (leverage) freeing up your capital for other uses
- Can be use for hedging your stocks holdings against unexpected news or uncertainty



Phillip Futures : Overview

- Established in 1983 with more than 20 years market presence.
- One of the largest brokerage firm locally.
- Founding Clearing Member of SGX-DT (formerly SIMEX)
- Licensed by MAS under the Securities & Futures Act
- Phillip Futures Sdn Bhd started in September 2009
- First local broker to offer foreign futures



Our Services

- 24 Hours broking, execution services and IT support for a wide range of futures and options products.
- Large selection of global futures (over 16 exchanges), options, currency, commodity and precious metals products for trading.
- Continuous education. We support our clients with free one to one coaching and seminars to constantly keep them up to date with the market.
- Provides Professional trading platform including mobile trading software to retailers for more efficient and reliable execution.



Q&A

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