

Comparing futures with stock trading

Start from what you know

The tomato and the tomahto

Familiar with stock trading? Then you already know a thing or two about futures. For starters, they're both traded on centralized exchanges. And they both allow you to express your views as a trader. Buying stock allows you to express your views on a company, while buying futures on indices allows you to express your views on whether the market as a whole is going to go up or down. But even though futures and stock trading are similar, there are some differences to note.

Helpful hint: Due to low margins and high leverage, a small up or down movement in the futures market could result in a significant gain or loss as compared with your initial margin investment. And since leverage involves these substantial risks, it's not suitable for all investors.

	Futures	Stocks
Diversification	Access to a wide variety of asset classes such as stock indices, energies, interest rates, metals, currencies, and agriculture	Access to a wide variety of publicly traded companies within different market sectors
Capital efficiency	Margin requirements range from 3% to 12% of the total value of the futures contract, and are set by the exchange	Regulation T margin sets the initial margin requirement at 50%
Trading hours	Trades virtually 24 hours a day, six days a week Please note: Different contracts trade at different times, and it's important to know those times before trading	Trade from 8 a.m. to 8 p.m. ET, Monday-Friday, which includes the extended-hours trading session
Liquidity	Most major futures have deep liquidity	Most major equities have deep liquidity
Hedging	A single contract could allow you to hedge an entire portfolio—for example, E-mini S&P 500 Index future (/ES)	Access to only one security type limits the ways you have available to hedge your portfolio
Day trading	No pattern day trader rule	Pattern day trader rule applies*
Short selling	No short selling restrictions; you can enter a short position just the same as entering a long position	To short a stock, shares must be available to borrow and you must have margin approval

* You are considered a pattern day trader if you place four day trades or more within a five-day period. You must also maintain an account balance of \$25,000 or more. TD Ameritrade does not recommend, endorse, or promote a "day trading" strategy, which may involve significant financial risk.

Please note: Diversification does not eliminate the risk of experiencing investment losses.

Bullish futures vs. stocks—going long

Trading futures offers the potential for a more macroeconomic exposure to the market. Let's say you're bullish on the FAANG stocks. Rather than buying shares of Facebook, Amazon, Apple, Netflix, and Alphabet—which are all components of the Nasdaq-100 Index—you could buy one E-mini Nasdaq-100 future (/NQ). By purchasing one /NQ future, you may potentially temper the risk associated with purchasing individual stocks.

	E-mini Nasdaq-100 Index (/NQ)	FAANG stocks (FB, AMZN, AAPL, NFLX, GOOG)
Price	\$8,210	\$2,035
Contract size	\$20 x Nasdaq-100 Index	100 shares
Notional value	\$164,200	\$203,500
# of shares/contracts	1 contract	400 shares
Commission and fees	\$6.90 round trip	\$0 round trip
Margin requirement	\$7,920	\$101,750 (50% margin)
Leverage	21 to 1	2 to 1

Market prices as of November 4, 2019. For illustrative purposes only. Not a recommendation.

These equities are heavily weighted in the calculation of this index; however, movements by other index constituents may cause fluctuations of the index independent of the FAANG stocks.

Bearish futures vs. stocks—a short comparison

Feeling bearish on oil and energy companies? You could consider taking a short position in one or more stocks. It's important to note that the stocks would also have to be available to borrow, and this strategy may leave you exposed to each company's individual movements in the markets. Instead, you may consider selling one crude oil (/CL) future, which requires potentially less capital—while providing a more pure market view.

	Crude oil (/CL)	Oil & energy stocks (XOM, MRO, BP, CVX)
Price	\$56.50	\$245
Contract size	1,000 barrels	100 shares
Notional value	\$56,500	\$24,500
# of shares/contracts	1 contract	400 shares
Commission and fees	\$7.54 round trip	\$0 round trip
Margin requirement	\$6,090	\$12,250 (50% margin)
Leverage	9 to 1	2 to 1

Market prices as of November 4, 2019. For illustrative purposes only. Not a recommendation.

Greater leverage creates greater losses in the event of adverse market movements.

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