

# Futures 101

## Get a handle on the basics

### Why consider futures?

Since you can trade futures across six different asset classes, diversity is a key reason why many traders turn to them. Combine that with virtually around-the-clock trading hours (so you can respond to market conditions and economic events as they happen) and you've got one appealing offering on your hands. However, it's important to keep in mind that, along with these benefits, futures carry unique and significant risks that you need to understand before trading.

### Check the specs

A futures contract is an agreement to buy or sell a financial instrument (like the E-mini S&P 500 (/ES)), or a physical commodity (like crude oil (/CL)), for delivery on a regulated futures exchange. Each contract is made up of five key specifications.

#### 1. Contract size

A futures contract has a standardized size that does not change, but it can be different for each product. For example, one contract of crude oil (/CL) represents 1,000 barrels. And one contract of gold futures (/GC) represents 100 troy ounces. However, the E-mini S&P 500 futures (/ES) represents \$50 times the price of the S&P 500 Index, while the Micro E-mini S&P futures (/MES) represents \$5 times the price of the S&P 500.

#### 2. Contract value

Also known as a contract's notional value, contract value is calculated by multiplying the size of the contract by the current price. For example, the E-mini S&P 500 contract is \$50 times the price of the index. If the index is trading at \$2,250, the value of one E-mini S&P 500 contract would be \$112,500.

#### 3. Tick size

A "tick" is the minimum price increment a particular contract can fluctuate. Tick sizes and values vary from contract to contract. For example, a tick in /ES is 0.25 per point. Since /ES represents \$50 times the S&P 500 Index, every 0.25 move in /ES equals \$12.50.

#### 4. Trading hours

Futures markets are open 23.5 hours per day, 5.5 days a week, but each product has its own unique trading hours. Here's a list of each product's [trading hours](#).

#### 5. Delivery

Futures contracts have expiration dates and are either financially settled or physically settled at expiration.

- Financially settled futures contracts expire directly into cash at expiration. /ES is an example of a financially settled product.
- Physically settled futures contracts expire directly into the physical commodity. /CL is an example of a physically settled product. At expiration, anyone long a contract in /CL will receive 1,000 barrels of crude oil. However, TD Ameritrade Futures & Forex LLC doesn't allow clients to take physical delivery of a futures contract.

## The status on symbols

Because there are specific expiration dates, futures symbols are different from the symbols of other asset classes. That means the expiration date must be included within the product symbol. Here's what the E-mini S&P 500 equity index symbol looks like when broken down into its components.

| Symbol                       | Days | Exp    | Last X    | Net Chng | Bid X     | Ask X     |
|------------------------------|------|--------|-----------|----------|-----------|-----------|
| /ESU19 <small>ACTIVE</small> | 56   | SEP 19 | 3029.25 G | +22.75   | 3029.00 G | 3029.25 G |
| /ESZ19                       | 147  | DEC 19 | 3031.25 G | +21.75   | 3031.75 G | 3032.25 G |
| /ESM20                       | 238  | MAR 20 | 3035.00 G | +22.00   | 3035.25 G | 3036.75 G |
| /ESU20                       | 329  | JUN 20 | 3026.25 G | +13.75   | 3030.75 G | 3038.75 G |
|                              | 420  | SEP 20 | 2975.00 G | -39.00   | 3018.75 G | 3052.25 G |

For illustrative purposes only. Not a recommendation.

**/ESU20**

**Slash (/):** Identifies the product is a futures product in the thinkorswim® platform

**/ESU20**

**First two values:** Referred to as the root symbol, these identify the futures product that you're trading

**ES = E-mini S&P 500**

**/ESU20**

**Third value:** Uses a letter to represent the expiration month of the futures contract

**U = September**

**/ESU20**

**Fourth value:** Indicates the expiration year of the futures contract

**20 = 2020**

### Futures calendar month codes

**F** = January

**G** = February

**H** = March

**J** = April

**K** = May

**M** = June

**N** = July

**Q** = August

**U** = September

**V** = October

**X** = November

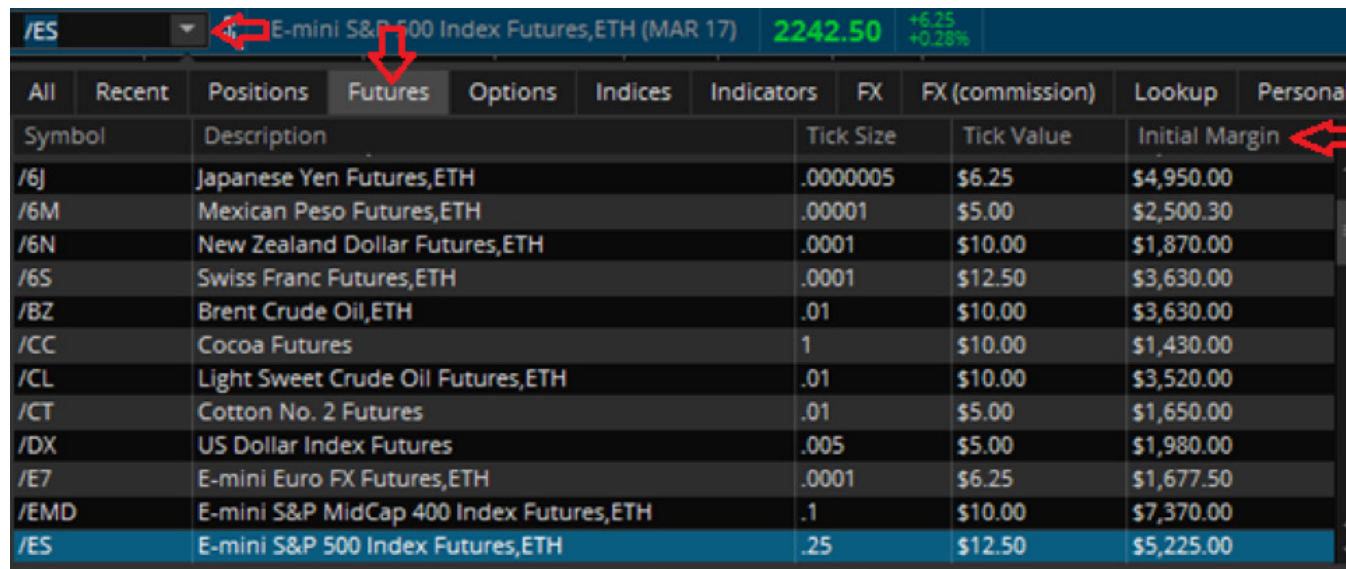
**Z** = December

**Helpful hint:** If you enter /ES into the Trade window in thinkorswim, you'll be automatically directed to the active month and can see all of the expirations that can currently be traded.

## Margin and leverage

The amount of capital required to enter into a position is the initial margin requirement. In futures, it represents a fraction of the total value of the futures contract (often 3% to 12%). That makes futures leveraged, since a futures contract represents a large value that can be controlled with a relatively small amount of capital. But that also means a small up or down market move could result in a significant gain or loss compared with your initial investment.

**Helpful hint:** The initial margin to buy or sell a futures contract can be viewed in the Futures tab in the thinkorswim platform. That amount is deducted from your buying power in real time before the order is sent to the market.



| All    | Recent                                  | Positions | Futures   | Options    | Indices        | Indicators | FX | FX (commission) | Lookup | Personal |
|--------|---|-----------|-----------|------------|----------------|------------|----|-----------------|--------|----------|
| Symbol | Description                             |           | Tick Size | Tick Value | Initial Margin |            |    |                 |        |          |
| /6J    | Japanese Yen Futures,ETH                |           | .0000005  | \$6.25     | \$4,950.00     |            |    |                 |        |          |
| /6M    | Mexican Peso Futures,ETH                |           | .00001    | \$5.00     | \$2,500.30     |            |    |                 |        |          |
| /6N    | New Zealand Dollar Futures,ETH          |           | .0001     | \$10.00    | \$1,870.00     |            |    |                 |        |          |
| /6S    | Swiss Franc Futures,ETH                 |           | .0001     | \$12.50    | \$3,630.00     |            |    |                 |        |          |
| /BZ    | Brent Crude Oil,ETH                     |           | .01       | \$10.00    | \$3,630.00     |            |    |                 |        |          |
| /CC    | Cocoa Futures                           |           | 1         | \$10.00    | \$1,430.00     |            |    |                 |        |          |
| /CL    | Light Sweet Crude Oil Futures,ETH       |           | .01       | \$10.00    | \$3,520.00     |            |    |                 |        |          |
| /CT    | Cotton No. 2 Futures                    |           | .01       | \$5.00     | \$1,650.00     |            |    |                 |        |          |
| /DX    | US Dollar Index Futures                 |           | .005      | \$5.00     | \$1,980.00     |            |    |                 |        |          |
| /E7    | E-mini Euro FX Futures,ETH              |           | .0001     | \$6.25     | \$1,677.50     |            |    |                 |        |          |
| /EMD   | E-mini S&P MidCap 400 Index Futures,ETH |           | .1        | \$10.00    | \$7,370.00     |            |    |                 |        |          |
| /ES    | E-mini S&P 500 Index Futures,ETH        |           | .25       | \$12.50    | \$5,225.00     |            |    |                 |        |          |

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Margin requirements were correct as of January 3, 2017, and are subject to change without notice.

## Want to test-drive your futures strategies without putting any real money on the line?

[Register for paperMoney®](#)

Futures and futures options trading is speculative and is not suitable for all investors.

Please read the [Risk Disclosure for Futures and Options](#) prior to trading futures products.

Futures accounts are not protected by the Securities Investor Protection Corporation (SIPC).

Futures, futures options, and forex trading services provided by TD Ameritrade Futures & Forex LLC. Trading privileges subject to review and approval. Not all clients will qualify.

Leverage carries a high level of risk and is not suitable for all investors. Greater leverage creates greater losses in the event of adverse market movements.

The paperMoney application is for educational purposes only. Successful virtual trading during one time period does not guarantee successful investing of actual funds during a later time period as market conditions change continuously.

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