

Contents

ABOUT THE SERIES 3 EXAM	xiii
ABOUT THIS BOOK	xvii
ABOUT THE TEST BANK	xix
ABOUT THE SECURITIES INSTITUTE OF AMERICA	xxi
CHAPTER 1	
FUTURES AND FORWARDS	1
Introduction	1
The Spot Market	1
Forward Contracts	2
Futures	3
The Role of the Futures Exchange	3
Trading Futures on the Floor of the Exchange	4
Clearinghouse	5
Clearing Member Margin Calculations	7
Basis Grade	8
Cornering the Market	8
Delivery	8
Speculators and Hedgers	9
Pretest	11

CHAPTER 2	
TRADING COMMODITY FUTURES	15
<hr/>	
Introduction	15
Types of Orders	15
Market Orders	16
Buy Limit Orders	16
Sell Limit Orders	16
Stop Orders/Stop Loss Orders	17
Buy Stop Orders	18
Sell Stop Orders	18
Stop Limit Orders	19
Other Types of Orders	19
Commissions	26
Delivery Months	27
Pretest	29
CHAPTER 3	
FUTURES PRICING	31
<hr/>	
Introduction	31
Contract Sizes and Pricing	31
U.S. Treasury Futures	35
Stock Index Futures	36
Index Future Settlement	37
Foreign Currency Futures	37
Pretest	41
CHAPTER 4	
PRICE FORECASTING	43
<hr/>	
Introduction	43
Futures Market Pricing Structure	43
Agricultural Futures Pricing	46
Crop Year	46

Technical Analysis	47
Open Interest	50
Pretest	53

CHAPTER 5 SPECULATION AND HEDGING **57**

Introduction	57
Speculation	57
Margin	60
Maintenance Margin	62
Open Trade Equity	63
Changes to the Margin Requirement	66
Hedging	67
Case Study: Long Hedger	68
Case Study: Short Hedger	69
How to Manage an Imperfect Hedge	71
A Change in Basis Price	72
Hedging Financial Risks	75
Using Index Futures as a Hedge	75
Beta Hedge	76
Currency Hedge	77
Interest Rate Hedge	79
Pretest	83

CHAPTER 6 COMMODITY FUTURES OPTIONS AND COMMODITY FUTURES SPREADS **87**

Introduction	87
Option Classification	87
Call Options	87
Put Options	88
Option Classes	88
Option Series	88
Bullish vs. Bearish	88

Bullish	88
Bearish	89
Possible Outcomes for an Option	89
Exercised	89
Sold	90
Expire	90
Exercise Price	90
Managing an Option Position	90
Buying Calls	90
Maximum Gain Long Calls	91
Maximum Loss Long Calls	91
Determining the Breakeven for Long Calls	91
Selling Calls	92
Maximum Gain Short Calls	92
Maximum Loss Short Calls	93
Determining the Breakeven for Short Calls	93
Buying Puts	94
Maximum Gain Long Puts	94
Maximum Loss Long Puts	94
Determining the Breakeven for Long Puts	95
Selling Puts	95
Maximum Gain Short Puts	96
Maximum Loss Short Puts	96
Determining the Breakeven for Short Puts	96
Option Premiums	97
In the Money Options	98
At the Money Options	98
Out of the Money Options	98
Intrinsic Value and Time Value	99
Premiums for Options on Treasury Bond Futures	99
Premiums for Options on Treasury Bill Futures	100
Multiple Option Positions and Strategies	100
Long Straddles	100

Maximum Gain Long Straddle	101
Maximum Loss Long Straddle	101
Determining the Breakeven for Long Straddle	102
Short Straddles	103
Maximum Gain Short Straddle	104
Maximum Loss Short Straddle	104
Determining the Breakeven for Short Straddle	104
Spreads	106
Price Spread/Vertical Spread	106
Calendar Spread/Time Spread	106
Diagonal Spread	107
Analyzing Spreads/Price Spreads	107
Bull Call Spreads/Debit Call Spreads	107
Maximum Gain Bull Call Spread	108
Maximum Loss Bull Call Spread	109
Determining the Breakeven for a Bull Call Spread	109
Spread Premiums Bull Call Spread	109
Bear Call Spreads/Credit Call Spreads	110
Maximum Gain Bear Call Spread/Credit Call Spread	110
Maximum Loss Bear Call Spread	111
Determining the Breakeven for a Bear Call Spread	111
Spread Premiums Bear Call Spread	112
Bear Put Spreads/Debit Put Spreads	113
Maximum Gain Bear Put Spread/Debit Put Spread	113
Maximum Loss Bear Put Spread	113
Determining the Breakeven for a Bear Put Spread	114
Spread Premiums Bear Put Spread	114
Bull Put Spreads/Credit Put Spreads	115
Maximum Gain Bull Put Spread	115
Maximum Loss Bull Put Spread	115
Determining the Breakeven for Bull Put Spread	116
Spread Premiums Bull Put Spread	116
Synthetic Risk and Reward	117
Long Futures Short Calls/Covered Calls	118

Long Futures Long Puts/Married Puts	118
Short Futures Long Calls	118
Short Futures Short Puts	118
Delta	119
Spreading Futures Contracts	119
Pretest	123

CHAPTER 7

CFTC & NFA AND REGULATIONS

127

Introduction	127
The Commodity Exchange Act of 1936	127
The National Futures Association	128
Futures Commission Merchant	129
Introducing Broker	130
Commodity Pool Operator	130
Commodity Trading Advisor	132
Risk Disclosure Documents	132
Customer Accounts	138
Individual Account	139
Joint Account	139
Joint Tenants with Rights of Survivorship	140
Joint Tenants in Common	140
Transfer on Death	140
Death of a Customer	141
Partnership Accounts	141
Corporate Accounts	141
Discretionary Trading Authorization	141
Managing Discretionary Accounts	142
Arbitration	142
The Arbitration Process	143
The CFTC Reparation Process	144
Awards Under Arbitration	144
Currency Transactions	144

The Patriot Act	144
U.S. Accounts	145
Foreign Accounts	145
Annual Compliance Questionnaire	146
Ethics Training	146
Violations and Complaints	146
Position Reporting and Speculative Position Limits	147
Written Communication with the Public	148
Customer Confirmations	148
Customer Account Statements	149
Record Keeping	149
Business Continuity Plan	150
Pretest	151
ANSWER KEYS	155
Chapter 1: Futures and Forwards	155
Chapter 2: Trading Commodity Futures	156
Chapter 3: Futures Pricing	157
Chapter 4: Price Forecasting	157
Chapter 5: Speculation and Hedging	158
Chapter 6: Commodity Futures Options & Commodity Futures Spreads	159
Chapter 7: CFTC & NFA and Regulations	160
GLOSSARY OF EXAM TERMS	163
INDEX	177

<http://www.pbookshop.com>