SIMON FRASER UNIVERSITY
Faculty of Business Administration
BUS 818 Derivative Securities

The Futures and Options Trading Game

The objective of the game is to develop understanding of various speculative trading strategies which apply to futures, forwards and options. The game is set up to be paper-traded without any computer intervention. This description assumes there are at least two classes per week, in this case Wednesday and Friday are taken to be the relevant class dates. This description assumes there is one lecture/tutorial per week, in this case Thursday is taken to be the relevant class date.

Every other Thursday, a specific trading strategy will be described. The game involves submitting, on that Thursday, your "ticket" for a number of designated trades. You will be responsible for recording the prices used for the trade which will be based on that day's closing prices as provided by the exchange. (Where these are not available, then Wednesday's prices from The Wall Street Journal, Globe and Mail and the New York Times are all accessible sources for the quotes, as well as the exchange websites). All trades will be reevaluated bi-weekly on the Thursday, at which time you will either close out the trade or continue the trade for another week, with all outstanding trades being **marked-to-market bi-weekly**. The student will be responsible for keeping a cumulative profit record of all trades. Please keep the record of all the bi-weekly trades together. Evaluation will be based on a combination of participation (number of trades submitted) and execution (accurately specifying the trade and doing accurate accounting). Nominal prizes are awarded to individuals with the highest cumulative profit record at the end of the game, who have successfully completed all the listed trades.

Rules for the Futures and Options Game

Starting Values: $1,000,000 cash

Procedure: Every Thursday, the trade you select will be entered in the "clearinghouse" log book under your name. The value of the position will be calculated using the closing prices for that Thursday's trade or from the previous Wednesday (or previous business day if Wednesday was a holiday). To enter your trade you must identify: 1) the commodity or commodities involved; 2) the type of trade selected, e.g., long, short, spread; 3) the number of contracts involved; 4) the values of these contracts based on the Thursday prices. A sample of the desired format is given below. The value of the position will be marked to market *biweekly*. Trades can only be placed on Thursday. If you are absent and you have violated the maintenance margin level, you will be closed out and a $50 penalty assessed. Transactions costs are roundtrip, i.e., assessed only upon initiation of the trade.

Parameters for Futures:

Initial Margin: For naked positions and spreads positions, use the margin values as stated in the exchange website. Set the maintenance margin for all trades equal to the initial margin.

Round-trip Transactions costs: i) Naked positions: $50/contract
ii) Intra-commodity Spreads: $5.00/spread

No interest to be paid on margin balances.

Parameters for Options:

Margins: No margin on purchased options positions. Margins the same as futures for written options positions.

Transactions Costs: $40 commission per option.

Bi-Weekly Trades

Trade #1) **Trading naked futures positions** (Long or Short)
Commodities: 4 currency futures, 1 Stock Index Future, 8 Energy Futures

Trade #2) **One-to-one futures spreads**
Commodities: 50 currency; 50 Tbond

Trade #3) **Tailed Spreads**
Commodities: 50 Energy Spreads; 50 Metal Spreads

Trade #4) **Inter-commodity Spreads**
50 currency tandem spreads; 100 Soy Crush Spreads

Trade #5) **Naked Position in Options**
Commodities: 25 at-the-money stock index options

Trade #6) **Spread Trade in Options**
Commodities: Either a vertical Spread in 50 foreign stock index futures options;
or, 25 Straddles in an oil complex option

Note: All trades are to be executed using prices from US exchanges, i.e., CBOT, CME, COMEX, NYMEX

EXAMPLE OF TRADE SHEET
WEEK 2 – First Trade

Name and Trade Date: Professor ABC, May 15, 1999

Starting Balance

				$0	**$1,000,000**
Beginning Position	***Delivery Date***	***Price***	***Position Size***	***MarginAcct.***	***Cash***
Short 4 Peso	Mar 2000	.0980	500,000 Pesos	2000	<2000>
					<200>
				$2000	$997,800

Ending Balance

EXAMPLE OF TRADE SHEET
WEEK 4 – Second Trade

Name and Trade Date: Professor ABC, May 29, 1999

Starting Balance

				$2000	**$997,800**
Beginning Position	***Delivery Date***	***Price***	***Position Size***	***MarginAcct.***	***Cash***
Short 4 Peso (Continue)	Mar 2000	.0988	500,000 Pesos	<1600>	
				1600 Credit	<1600> Debit
Short Dow Jones IA	Dec. 1999	10,960	$10/pt	5000	<5000>
					<50>
				$7000	$991,150

Ending Balance

Profit on Peso = 4 (.0980 - .0988) (500,000) = <1600>