



Using Futures & Options as a Portfolio Addition



PRICE Futures Group
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Gone are the halcyon days of the 1960's and 1970's when commodity trading was a game for insiders and market manipulators. Ever since the advent of financial futures, such as currencies, interest rate vehicles and stock index futures, the futures markets began attracting a gamut of new market participants ranging from individuals to large financial institutions. Businesses ranging from mortgage issuers to airlines to food processors can no longer do long range planning without using the futures market as a price discovery mechanism. These participants can now use the market to guarantee price for either their goods or guarantee price for materials needed.

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Individuals as well as institutions can take advantage of futures and options on futures to hedge portfolio risk. Think about it, you've worked and planned for decades for the day when you will no longer have to depend on working to provide you with income and the ability to maintain a life style you have become accustomed to. Stock index futures and options provide the mechanism by which you can hedge a broad portfolio of stocks by offering the ability to buy put options which in essence are an insurance policy against adverse market activity i.e. a downturn in the economy.

Of course these markets offer the speculator a broad range of diverse, regulated, and liquid markets ranging from orange juice, soybeans, treasury bonds, gold and silver, to Swiss francs. Given the devaluation of the U.S. dollar over the years and the broad rise in commodities in general, futures and options on futures have provided a great vehicle for the investor who can take on the risk of such leveraged investments. Markets such as these provide standardized contract specifications, liquidity, and transparency.

This article just scratches the surface of the complexity of the futures market, but hopefully it has demystified the concept of these markets just a bit. Like any other investment vehicle, I encourage you to do as much reading and research on the subject as you can. A plethora of information is available by such entities as The Price Futures Group and the Chicago Mercantile Exchange.

Meet the Author



Marc Nemenoff's 37 year career in the futures industry has given him experience in nearly every facet of the market. In 1973, while attending graduate school, he started as a runner on the trading floor of the Chicago Mercantile Exchange and quickly rose within his organization to operations manager, market letter writer, and hedging strategy designer in both the Livestock and Financial sectors. Mr. Nemenoff was also a member of the Chicago Mercantile Exchange until 1991 trading mostly as an independent trader. Since 1992 Marc has been an independent "off the floor" trader, lecturer, broker, and author of The Nemenoff Report.

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