

Futures Basics & Essentials: The Beginners Guide to Trading Gold Futures



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About the eBook Creator

Drew Rathgeber is a senior market strategist at Daniels Trading. He has been heavily involved in numerous facets of the Gold community for nearly 10 years and has an enormous understanding of how the intricacies of the Gold markets work. He started trading spot physical metals dealing in Gold coins & bars. In 2006, he became a licensed series 3 trader, trading all futures markets but specializing in precious metals. Drew has handled everything from complex deliveries, coins, physical hedging and has seen it all with regards to precious metals complex. He also authors a newsletter titled “The Rath Overlay” that is published on a weekly basis to help the everyday trader further their understanding of the futures markets.

Authors Note: I remember when I was trading the Physical/Spot market, gold futures seemed very intimidating. So I created this Beginners Guide for Gold Futures to help everyday people. Remember, these are real markets with real money. The losses and risks involved are very real. Any investor that has ANY gold allocation should learn gold futures. Initially, there will be a few difficult concepts to learn and understand, but stick with it and you will learn and appreciate the significant advantages of trading futures.”

When it comes to the Gold Market, you need a professional trader that talks straight. I’m here to help and have several years of experience to share with you.

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Introduction

The Beginners Guide to Trading Gold Futures

Thank you for requesting “The Beginners Guide to Trading Gold Futures” eBook. This eBook is designed to help you understand Gold Futures and how you can trade these precious metal instruments. Once you learn Gold Futures, you will eventually learn the entire precious metals’ complex.

Who could potentially benefit most from this course? This course was created for those who seek to understand where the professionals trade precious metals, how futures contracts work, details of the margins and market hours, and ideally have more in depth knowledge.

What are Gold Futures? Offered in (3) sizes: Full size 100oz, Mini 33.2oz, and Micro 10oz. These units are referred to as contracts and are an alternative to bullion coins, mining stocks, and leveraged bullion dealers. Gold Futures are an extremely cost effective way to trade these products, without the high fees that spot and ETFs transactions carry. If you can learn Spot Metals trading, you can learn Futures Gold, and then you will realize the significant costs savings and flexibility of Futures.

Regulated Marketplace – Gold Futures are exchange traded instruments that are backed by these exchanges. Investors are protected from default on a futures contract by the exchange’s sophisticated risk management and surveillance techniques. The ‘exchange’ itself provides the integrity for each and every transaction. It’s a whole market – for every winner, there is a loser. The Gold Futures markets are also monitored by the Commodity Futures Trading Commission (CFTC) and National Futures Association (NFA).

Almost 24hr Market – The gold market opens on Sunday at 6:00pm EST then closes the following day at 5:15pm EST. The market re-opens at 6pm EST Monday repeating all week till Friday’s close at 5:15pm EST for the weekend until Sunday’s re-open. The Gold Futures market only closes for 45 minutes each day, except for weekends.

Low Participation Cost – The new Micro 10oz contract has opened up precious metals for everyone. Currently (as of August 20, 2013) Micro margins are as low as \$880 to control 10oz of Gold!

Electronic Trading – Trading Gold Futures has never been easier with the invention of the Internet and electronic trading. You are no longer required to call your broker or have delayed quotes. Everything is displayed in real-time, leveling the playing field for the everyday trader. However, having a licensed Gold Futures broker can be an invaluable resource when making decisions for your account.

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Gold Futures Basics

One of the most overlooked aspects of Gold futures is the value of what a contract is really worth in dollar terms. I'm going to use the Micro 10oz for my example.

Example

Current Gold Futures Price: \$1,200.00

Micro Gold Size: 10oz

Total Value of a 10oz Bar at \$1,200 X 10 = \$12,000.00

The current purchase price for delivery for a 10oz bar is \$12,000 – excluding any delivery and insurance charges. You can pay in full, or use the minimum margin to control the 10oz bar.

Minimum Overnight Margin: \$880

Note: You can control a 10oz bar with as little as \$880, but you must realize that you are controlling \$12,000 worth of Gold in this example.

THE RISK OF LOSS IN TRADING COMMODITY FUTURES AND OPTIONS CONTRACTS CAN BE SUBSTANTIAL. THERE IS A HIGH DEGREE OF LEVERAGE IN FUTURES TRADING BECAUSE OF SMALL MARGIN REQUIREMENTS. THIS LEVERAGE CAN WORK AGAINST YOU AS WELL AS FOR YOU AND CAN LEAD TO LARGE LOSSES AS WELL AS LARGE GAINS.

Day Trade Margin: \$440

Note: Day margin is only when you buy/sell same day, and **do NOT** hold any overnight position at the electronic market close.

In my opinion, margin can best be explained through an example. It is similar to purchasing a home. Like buying a future, in home-buying you place a down payment on a home, but you control the entire home and incur any profits or losses when you sell the home. The same applies with futures. However, unlike home-buying, futures are cheaper and as a result, a loan is not required to buy futures.

Market Fluctuation: For every \$1.00 the market moves up or down, your account balance will go up or down by \$10.00. For every \$100 move in Gold, you will make or lose \$1,000.

Leverage: Leverage allows a trader to control a greater investment, but leverage also heightens a trader's risk, and thus leverage magnifies both gains and losses. This is why speaking with a trading professional who is Series 3 licensed can be invaluable; typically, they will help you manage your risk.

Key Points: 10oz (Contract Size), Fluctuation, Overnight Margin, Day Margin

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Full Size Contract (100oz)

Product Symbol	GC
Exchange	CME Globex (Electronic), Open Pit Outcry
Hours (All times are EST)	CME Globex Sunday – Friday 6:00pm – 5:15pm with a 45-minute break each day beginning at 5:15pm Pit Outcry Monday – Friday 8:20am – 1:30pm
Contract Size	100 troy ounces
Price Quotation	U.S. Dollars and Cents per troy ounce
Minimum Fluctuation	\$10.00 per tic
Termination of Trading	Trading terminates on the third to last business day of the delivery month.
Listed Contracts	Trading is conducted for delivery during the current calendar month; the next two calendar months; any February, April, August, and October falling within a 23-month period; and any June and December falling within a 72-month period beginning with the current month.
Settlement Type	Physical Gold
Delivery Period	Delivery may take place on any business day beginning on the first business day of the delivery month or any subsequent business day of the delivery month, but not later than the last business day of the current delivery month.
Grade and or Quality Specifications	Gold delivered under this contract shall assay to a minimum of .995 fineness pure gold.
Exchange Rule	These contracts are listed with, and subject to, the rules of regulations of COMEX.

Key points: 100oz, \$10.00 per tic, and trading hours.

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Mini Contract (33.2oz)

Product Symbol	YG
Exchange	NYSE Liffe U.S. (Electronic), Open Pit Outcry
Hours (All times are EST)	CME Globex Sunday – Friday 7:16pm – 5:00pm Regular Daily Settlement 1:30pm EST
Contract Size	33.2 troy ounces
Price Quotation	U.S. Dollars and Cents per troy ounce
Minimum Fluctuation	\$3.32 per tic
Termination of Trading	Trading terminates on the third to last business day of the delivery month.
Listed Contracts	The current month (for delivery purposes) plus the next 11 calendar months.
Settlement Type	Physical Gold
Delivery	New York Exchange approved vaults. 33.2 fine troy ounces (+.10%), no less than 99.5% fineness. Seller’s discretion to deliver one vault receipt representing one bar or one warehouse Depository Receipt (WDR) representing either 1/3 interest in one 100 ounce Gold NYSE Liffe U.S. vault receipt or full interest in NYSE Liffe U.S. Mini Gold vault receipt.
Grade and or Quality Specifications	Gold delivered under this contract shall assay to a minimum of .995 fineness pure gold.
Exchange Rule	NYSE Liffe U.S.

Key Points: 33.2oz, \$3.32, and trading hours.

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Micro Contract (10oz)

Product Symbol	MGC
Exchange	CME Globex (Electronic), Open Pit Outcry
Hours (All times are EST)	CME Globex Sunday – Friday 6:00pm – 5:15pm with a 45-minute break each day beginning at 5:15pm Pit Outcry Monday – Friday 8:20am – 1:30pm
Contract Size	10 troy ounces
Price Quotation	U.S. Dollars and Cents per troy ounce
Minimum Fluctuation	\$10.00 per tic
Termination of Trading	Trading terminates on the third to last business day of the delivery month.
Listed Contracts	Trading is conducted for delivery during the current calendar month; the next two calendar months; any February, April, August, and October falling within a 23-month period; and any June and December falling within a 72-month period beginning with the current month.
Settlement Type	Physical Gold
Delivery Period	Delivery may take place on any business day beginning on the first business day of the delivery month or any subsequent business day of the delivery month, but not later than the last business day of the current delivery month.
Grade and or Quality Specifications	Gold delivered under this contract shall assay to a minimum of .995 fineness pure gold.
Exchange Rule	These contracts are listed with, and subject to, the rules of regulations of COMEX.

Key Points: 10oz, .10 per tic, and trading hours. Also, it is one of my favorite markets because of its low margin, and versatility! The micro market, in my opinion, should be mastered by EVERY Gold trader.

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Gold Futures vs. Gold ETFs

Liquidity

Currently, the SPDR Gold ETF trades an average of 20 million shares (GLD) on a daily basis representing 2.0 million ounces of gold. On the other hand, the average daily volume for COMEX Gold futures is over 100,000 contracts which equates to 10 million ounces being traded on a daily basis. Plus, gold ETFs are only backed by 1/10th the actual gold, which is an insignificant value compared to COMEX Gold Futures.

Leverage

One of the major advantages of Gold Futures vs. SPDR Gold ETFs is your leverage capabilities. You can use as little as 3%-5% margin requirements thus giving you the option to use zero leverage, or maximum leverage. You have the choice, depending on your unique financial circumstances.

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COMPARATIVE RETURNS: ETF VS. FUTURES

	SPDR Gold ETF	Gold Futures	miNY Gold Futures
Initial Investment	\$5,000	\$5,000	\$2,500
Amount of Gold	4 oz.	100 oz.	50 oz.
Value of a \$10.00 move in Gold	\$40.00	\$1,000	\$500
Return on investment	0.8%	20.00%	20.00%

You can see significant differences. Again, you can use as little or as much leverage as needed, but must realistically and reasonably recognize your unique threshold.

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Physical Delivery

Both futures and gold ETFs offer physical delivery for gold. However, varying quantities and delivery procedures are much more complex to deal with, and you have to deal with the trustee SPDR GLD ETF and its London location. Conversely, gold futures are pretty simple. After contract expiration, you'll pay off any balance, and then arrange for courier delivery or have it mailed, registered and insured via USPS. I've personally handled this for many clients, and it's not as complicated as many portray.

Tax Implication

Futures may present certain tax advantages as well. By no means am I offering tax advice, but I do know the difference between long term capital gains and short term capital gains, and futures are treated differently than ETFs. I'd recommend consulting your tax attorney for specific advice.

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DISCLAIMER

THIS MATERIAL IS CONVEYED AS A SOLICITATION FOR ENTERING INTO A DERIVATIVES TRANSACTION.

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