FUTURES MARKETS

01 SERIES

How did it all start?

Globalization has made markets more accessible and investing one's money in them more achievable for almost all individuals in the 21st century. There are many ways one could go about investing. Some may prefer their portfolios to lean towards equities (stocks) and some weigh a little more on bonds or other fixed income securities. In this interconnected global markets, many different combinations are possible; and that includes investing in the futures markets.

Futures markets have been around for a very long time. It goes as far back as to the times of Aristotle where he wrote a story about how a philosopher named Thales from Miletus (Turkey) developed a "financial device, which involves a principle of universal application".

Thales is known for using his talent to forecast the olive harvest. His confidence led him to agree with the local olives owners to deposit his money with them in the present, to guarantee him the exclusive use of the harvest once it is ready.

Thales got himself a low price for the harvest because since the harvest will only happen at a later date, no one could possibly know the outcome of that harvest; and so, the local olive owners were prepared to take up on Thales's offer because they can then hedge against the possibility of a bad harvest.

When the harvest time came, and if the demand for olives shot up, Thales sold them at any rate he pleased. In the end, he made himself a lot of money. The story of Thales proves that the principle of futures markets have been here for a long period of time.

In 1864, The Chicago Board of Trade listed the first ever standardized exchange traded futures contracts. It started off with trading grains futures, but slowly gaining popularity in other types of commodities later on during the years.

So what are Futures Markets?

Fast forward to the present day, financial instruments have been cleverly developed and improved. Futures trading today is more comprehensive as compared to the olden days after the advancement of new technologies and also due to the complex development of investors' psychology.

With the increasing numbers if business taking up more risks in today's ever-so competitive economy, an instrument, such as Futures is needed and used by these businesses to hedge against potential risks.

There are largely 2 categories in Futures and they can simply be segregated into financial futures and commodity futures.

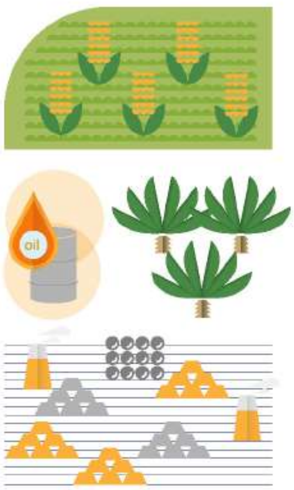
01 Financial Futures

trade interest rate products

In financial futures, one can trade interest rate products, such as: Eurodollar Futures, U.S. Treasury Futures (treasury bonds and treasury bills), Interest Rate Swap Futures, FX Futures; Stock Futures and Index Futures (KLCI Index, S&P 500 Index, Nasdaq-100 Index, Dow Jones Industrial Average, Single Stock Futures and Volatility Index Futures).

02 Commodity Futures

trade agriculture and metal products



In commodity futures, an individual can choose from a variety of different products ranging from Metal Futures, such as the popular Gold and Silver; Energy Futures, such as crude oil and natural gas; Agricultural Futures, such as crude palm oil, corn, soybeans and wheat, cocoa, coffee and sugar.

However, before one starts delving on how to get started in the Futures markets; it is important that one first grasps the fundamentals of how these markets work. The next part will cover the mechanics of how futures work, who are the main players and the profit opportunities available.