

< [Trading Futures at Schwab](#)

Understanding futures

Learn about the basic components of futures contracts and why you may want to consider incorporating them into your trade plan.

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What are futures?

Futures are a type of derivative contract agreement to buy or sell a specific commodity asset or security at a set future date for a set price. Futures contracts, or simply "futures," are traded on futures exchanges like the CME Group and require a brokerage account that's approved to trade futures.

A futures contract involves both a buyer and a seller, similar to an options contract. Unlike options, which can become worthless at expiration, when a futures contract expires, the buyer is obligated to buy and receive the underlying asset and the seller of the futures contract is obligated to provide and deliver the underlying asset.

Uses for futures.

Futures generally have two uses in investing: hedging (risk management) and speculation.

Hedging with futures: Futures contracts bought or sold with the intention to receive or deliver the underlying commodity are typically used for hedging purposes by institutional investors or companies, often as a way to help manage the future price risk of that commodity on their operations or investment portfolio.

Speculating with futures: Futures contracts are generally liquid and can be bought and sold up to the time of expiration. This is an important feature for speculative investors and traders who don't own the underlying commodity nor wish to. They can buy or sell futures to express an opinion about—and potentially profit from—the direction of the market for a commodity. Then, prior to expiration, they will buy or sell an offsetting futures contract position to eliminate any obligation to the actual commodity.

Why trade futures?

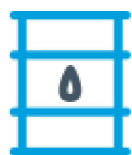
Individual investors and traders most commonly use futures as a way to speculate on the future price movement of the underlying asset. They seek to profit by expressing their opinion about where the market may be headed for a certain commodity, index, or financial product. Some investors also use futures as a hedge, typically to help offset future market moves in a particular commodity that might otherwise impact their portfolio or business.

Of course, stocks or ETFs can similarly be used to speculate on or hedge against future market moves. They all have their own risks you need to be aware of, but there are some distinct benefits the futures market can offer that the equities market does not.



Leverage

Establishing an equity position in a margin account requires you to pay 50% or more of its full value. With futures, the required initial margin amount is typically set between 3-10% of the underlying contract value. That leverage gives you the potential to generate larger returns relative to the amount of money invested, but it also puts you at risk of losing more than your original investment.



Diversification

Futures provide a few ways to diversify your investing in ways stocks and ETFs can't. They can give you direct market exposure to underlying commodity assets vs. secondary market products like stocks. Additionally, they allow you to access specific assets that aren't typically found in other markets. Futures might also be used if you are looking for strategies designed to help manage some risk surrounding upcoming events that could move the markets.



Short Selling

With futures, the margin requirement is the same for long and short positions, enabling a

with futures, the margin requirement is the same for long and short positions, enabling a bearish stance or position reversal without additional margin requirements.



Tax Benefits

Futures can provide a potential tax benefit compared to other short-term trading markets. That's because profitable futures trades are taxed on a 60/40 basis: 60% of profits are taxed as long-term capital gains and 40% as ordinary income. Compare that to stock trading, where profits on stocks held less than a year are taxed 100% as ordinary income.

Schwab does not provide tax advice. Clients should consult a professional tax advisor for their specific tax advice needs.

Types of futures.

The types of futures available to trade include a wide range of financial and commodity-based contracts, from indexes, currencies, and debt to energies and metals, to agriculture products. Examples of futures contracts available are below (not an exhaustive list).

Types
Financial Futures Index contracts and interest rate (debt) contracts are two types of financial futures. Index contracts provide exposure to specific market index values, while interest rate contracts are used for exposure to the interest rate of a specific debt instrument.

Examples

- E-Mini S&P 500
- E-Mini Nasdaq
- E-Mini Russell 2000
- Mini Dow Jones
- E-mini Mid-Cap 400
- Micro E-minis (multiple indices)
- Bloomberg Commodity Index
- Nikkei 225 (CME)
- Volatility Index
- U.S. Treasury Bonds
- U.S. 10-Year Notes
- U.S. 5-Year Notes
- U.S. 2-Year Notes
- Eurodollars
- Federal Funds
- Ultra Bonds

Types

Currency Futures

Currency contracts provide exposure to the exchange rate of a real currency or crypto currency.

Examples

- Euro
- British Pound
- Japanese Yen
- Swiss Franc
- Canadian Dollar
- Australian Dollar

- Australian Dollar
- CME Bitcoin
- U.S. Dollar Index
- Brazilian Real
- Korean Won
- Mexican Peso
- New Zealand Dollar
- South African Rand
- Swedish Krona

Types

Energy Futures

Energy contracts provide exposure to the price of common energy products used by companies (for manufacturing, production, and/or transportation) and by governments and individuals for consumption purposes.

Examples

- Crude Oil
- Natural Gas
- Heating Oil
- Gasoline
- Ethanol
- Brent Crude Oil

Types

Metal Futures

Metal contracts provide exposure to the price of certain metals that many companies rely on as materials for manufacturing and construction (e.g., gold for computers or steel for housing).

Examples

- Gold
- Silver
- Copper
- Platinum
- HRC Steel Index
- Palladium

Types**Grain Futures**

Grain contracts provide exposure to the prices of raw grain materials used for animal feed and for commercial processing into other products (e.g., ethanol and corn syrup), plus processed soybeans.

Examples

- Corn
- Soybean
- Wheat
- Oats
- Rough Rice
- Soybean Oil
- Soybean Meal

Types**Livestock Futures**

Livestock contracts provide exposure to the prices of live animals used in the supply, processing, and distribution of meat products.

Examples

- Live Cattle
- Feeder Cattle
- Lean Hogs

Types**Food & Fiber Futures**

These contracts provide exposure to the prices of specific agricultural products that are grown vs. extracted or mined (also known as Softs) and the prices of dairy products.

Examples

- Coffee
- Sugar
- Cocoa
- Cotton
- Orange Juice
- Lumber
- Milk
- Cheese

Options on futures.

An option on a futures contract works similarly to an option on an equity contract—you can even use some of the same options strategies. Trades in options on futures can include market neutral, multi-leg, and directional trades, depending on how you think the market will move and your risk/reward goals.

An advantage of options on futures is the ability to reduce risk in your portfolio in different ways. Whether you are looking to trade in an uncorrelated market to diversify risk, hedge existing positions to limit risk, or directly trade more volatile markets at a reduced cost versus the futures contract alone, options on futures can be a way to do this.

Why trade futures with Schwab?

Many types of futures to trade

Access a variety of futures products, including energies, metals, currencies, indices, interest rates, grains, livestock, and softs.

Expert commentary and research

Get market news and reports from industry-leading analysts, including Hightower, Wyckoff, Gramza, and more.

Live trade help from futures specialists

Let our dedicated team of specialists review your trades and even place them for you.

\$2.25 futures per contract trade commission

\$2.25 futures per contract trade commission

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