

**Title:**

Forex And Commodities Futures And Options. What To Know Before You Trade.

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894

**Summary:**

The popularity of trading futures and options has been growly rapidly for several years. The ease of accessing constantly updated data online has prompted an increased fever by day traders to attempt to be successful and make money in this risky investment area. Individuals can now trade these markets with the same ease and speed as large companies.

Trading forex ( foreign exchange ) and commodity futures and options is not for everyone. It is a complex and risky business...

**Keywords:**

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**Article Body:**

The popularity of trading futures and options has been growly rapidly for several years. The ease of accessing constantly updated data online has prompted an increased fever by day traders to attempt to be successful and make money in this risky investment area. Individuals can now trade these markets with the same ease and speed as large companies.

Trading forex ( foreign exchange ) and commodity futures and options is not for everyone. It is a complex and risky business that experiences volatile price and value swings. Before you invest any money in forex, commodities futures or option contracts, you should:

- Consider your financial trading experience, goals, and financial resources and know how much you can afford to lose above and beyond your initial payment.
- Understand commodity futures and option contracts and your obligations before committing your finances into trade contracts.
- Understand your risk exposure and aspects of trading by thoroughly reviewing the risk disclosure documents your broker is required to give you.
- Know who to contact if you have a problem or question.

- Ask more questions and gather more information before you open an account.

Commodity futures and option contracts:

A futures contract is a legally binding agreement between two parties to buy or sell a specific financial product or commodity in the future, on a designated exchange, for a specific quantity of a commodity at a specific price. The buyer and seller of a futures contract will agree now on a price for a product to be delivered, or paid, for at a specifically set date and time in the future, which is known as the "settlement date." Actual delivery of the commodity can take place in fulfillment of the contract, but most futures contracts are actually closed out or "offset" prior to delivery.

An option on a commodity futures contract is a legally binding agreement between two parties that gives the buyer, who pays a market determined price known as a "premium," the right (but not the obligation), within a specific time period, to exercise his option. Exercise of the option will result in the person being deemed to have entered into a futures contract at a specified price known as the "strike price." In some cases, an option may confer the right to buy or sell the underlying asset directly, and these options are known as options on the physical asset.

In the United States, an individual, cannot trade futures contracts and options on futures contracts directly on an exchange. A person or firm must trade on your behalf. People and firms who trade on your behalf as a customer generally must be registered with the Commodity Futures Trading Commission.

Two general categories of trading accounts:

- Individual Account. In an individual account, trading is done only for you. An individual account may be setup as either a "non-discretionary" or a "discretionary" account. A "non-discretionary" account, means that you will make all of the trading decisions and the broker may not execute any transactions without your prior approval and consent. A "discretionary" individual account, means that you give permission to the broker firm carrying your account or some third party to make trading decisions on your behalf.

You may open an individual account with a registered Futures Commission Merchant or through an Introducing Broker. An Introducing Broker may accept your orders and transmit them for execution to a Futures Commission Merchant with which the Introducing Broker has a relationship. You deposit funds directly with the Futures Commission Merchant. In an individual discretionary account, you grant

power-of-attorney to a Futures Commission Merchant, an Introducing Broker, one of their Associated Persons, or a Commodity Trading Advisor to make trading decisions on your behalf.

Commodity Pool. You may also trade commodities through a "commodity pool." This means you are purchasing a share or interest in the pool, and trades are executed for the pool as a whole, rather than for the individuals who have interests in the pool. Pool participants share in any gains or losses.

If you have a dispute or a problem arises out of your commodity futures or option account, first try to resolve the problem with your broker. If that is not successful, then you have options for resolving disputes: (1) the CFTC Reparations program; (2) industry sponsored arbitration; or (3) court litigation. In selecting a particular approach, you may want to consider the cost, length of time involved and whether or not the assistance of an attorney is required. More information on dispute resolution is available from the CFTC's Office of Proceedings (202-418-5250).

#### A Checklist "Before You Trade":

Make sure you have:

- Clearly identified your financial goals, including the amount of risk and loss you can handle?
- Determined how much assistance and help you may want from a trading advisor in making trading decisions?
- Checked the registration status and disciplinary history of the advisor or pool you select with the National Futures Association?
- Received and thoroughly reviewed the disclosure document -- before you open an account?
- Clearly understood the disclosure document, including the statement of fees, the potential for loss, your right to withdraw your funds and the "break-even analysis?"

Make sure you ask questions for anything that you do not understand. Remember, it is your money, make sure you know where it is going.

Call the CFTC or the NFA with any questions you may have?

<http://www.cftc.gov>

<http://www.nfa.futures.org>