

OneChicago ✕

*The exchange for single stock futures*

***Welcome to OneChicago  
The Exchange for Single  
Stock Futures  
May 15, 2008***

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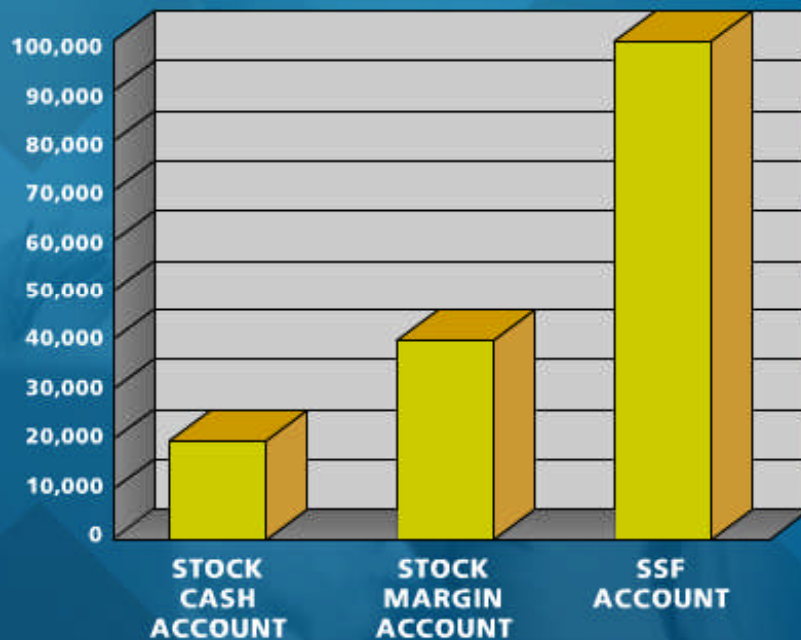


**BENCHMARK  
LIBOR INTEREST 3.00%**



**Single Stock  
Futures  
(SSF)  
Strategies  
Add Value!**

- **Strip Hedging**
- **Buy Writes**
- **Yield Enhancements**
- **Financing**
- **Leverage**
- **Pairs Trading**



LEVERAGE

**Leverage with SSFs!**

Leverage provides traders an important benefit when trading SSFs.

The concept of leverage is important to understand. Leverage is made possible through the use of margin. With SSFs the trader can use leverage to control a larger portfolio than is possible with stocks. The trader should understand that leverage can work either for or against the trader, accelerating profits as well as losses. Additionally, the cost of carry interest is built into the price.

**SSF Buying Power of \$20,000 = \$100,000**

**Stock Margin Account**

**Buying Power of \$20,000 = \$40,000**

## OneChicago Calculator

Evaluate the benefits of SSFs vs. margin trading

CLICK TO TRY THE

**OneChicago** Calculator

- The OneChicago calculator allows the investor to make a comparative analysis between the advantages of using Single Stock Futures versus the underlying equity.
- When using the calculator you can set your own criteria.
- Choose a stock along with the expiration date, number of shares, percent you will finance the trade at as well as long and short interest rates. What this then does is calculate the price you pay if you were buying the stock to the price of buying the single stock future.
- By placing your mouse over the areas of the calculator you are able to expand the details of your results and understand how the numbers were derived.

[www.onechicagocalculator.com/index.php](http://www.onechicagocalculator.com/index.php)



**SSF PRICING**

**SSF Pricing**


The price of a SSF typically tracks the price of the underlying security nearly tick for tick, so trading strategies followed in the stock market are generally transferable to the SSF market.

SSFs and ETF futures are priced by the market in accordance with a theoretical pricing model that considers the price of the underlying stock plus the interest rate cost of carry and minus the dividend.

**SSF Pricing:**

**SSF Price = [Underlying stock price X ((annualized interest rate / 365) X days to expiration) - Dividends due before expiration]\***

\*Approximate Theoretical Pricing Model



**As the technology  
segment underperforms  
the market, the investor  
can use SSF to  
protect themselves.**

#### FINE TUNING

### Fine Tuning Market Exposure

SSFs can be used to fine tune a traders market exposure.

For instance, lets assume that a trader is long an index fund that tracks a portfolio of stocks, such as the Dow Jones Industrial Average. If the trader believes that the technology sector will under perform the Dow, the trader could use SSFs to short Dow components IBM, Microsoft and Intel, for instance, while remaining long the Dow ETF. This strategy could enhance the traders profits if the technology sector under performs the Dow, or if the market moves lower this strategy could provide additional portfolio protection. Appropriate OneChicago SSFs can be sold to create the desired portfolio weighting for the sector. Given a margin requirement of 20% for SSFs, this fine-tuning can be achieved in a capital efficient manner without requiring the investor to liquidate holdings in the index fund.

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## **DIAMOND (DIA) ETF COMPONENTS**

MMM	HPQ	<b>Weighted percentages of DIA ETF</b>	
AA	HD		
AXP	INTC		
AIG	IBM		
T	JNJ		
BAC	JPM		
BA	MCD		<b>JNJ 4.200%</b>
CAT	MRK		<b>MRK 3.110%</b>
CVX	MSFT		
C	PFE		<b>PFE 1.476%</b>
KO	PG		
DD	UTX		
XOM	VZ		
GE	WMT		
GM	DIS		

**DIA ETF = \$124.15**

**DIA March SSF \$124.15 = \$12,415.00**

### **CLOSING STOCK PRICE**

JNJ \$63.20

\$521.43=8.25shares

4.200% \* \$12,415.00=  
\$521.43

MRK \$47.00

\$386.11=8.215 shares

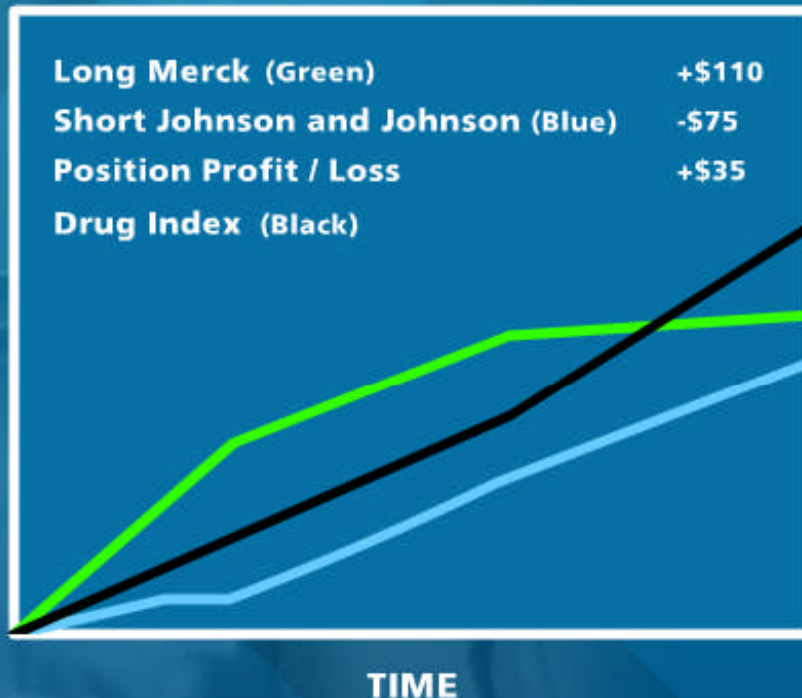
3.110% \* \$12,415.00 =  
\$386.11

PFE \$22.45

\$183.24=8.162 shares

1.47% \* \$12,415.00 = 183.24

SSF  
PRICING



PAIRS TRADING

**Pairs Trading**

SSFs are ideal for pairs trading due to the cost efficient margin requirements and the ability of the trader to quickly sell on a down tick at their desired price.

In pairs trading, one firm within an industry is bought, establishing a long position, and a competitor is simultaneously sold, establishing a short position. This provides an investor with exposure to the relative performance of the two companies with limited exposure to broader market and sector performance. SSFs are ideal in this type of trade because the instantaneous buying and selling of the trading pair is important. Because SSFs can be easily sold without the cumbersome and time consuming stock loan process, the trader can establish their short leg of the pairs trade without the need to wait for an up tick. Further, when pairs trading with SSFs the trader can use leverage to control a portfolio considerably larger than when trading stocks.

PREVIOUS

NEXT

***For more information click the link below:***

**[www.OneChicago.com](http://www.OneChicago.com)**

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**All investors will be required to review risk disclosure materials and meet suitability requirements established by their brokers.**

**You should carefully review all disclosure statements and ensure you understand the risks of trading security futures.**

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