

Trading Smaller Sized Contracts at CME Group

How smart money uses micro and mini sized contracts

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The **best investment**
you can make,
is an **investment in yourself...**
The more you **learn**,
the more you'll **earn**.

– *Warren Buffett*

AZ QUOTES

Source: AZ Quotes

Why Active Traders trade Smaller Sized Products at CME Group

01 Execution costs & Liquidity

05 Direct participation in markets and asset classes

09 Tax considerations

02 Capital efficiencies

06 Full offset with E-mini futures

10 Technical indicators used for stocks/ETFs applicable to Micros

03 Around the clock trading

07 Clearing house margining system forces active risk management

11 CME Group has been in business nearly two centuries

04 Strategic reasons

08 More precisely scale in or out of positions to fine tune exposure

Diversifying with small sized contracts

Meeting the needs of the active trader/hedger

With 14 Micro contracts spanning 3 different asset classes (**Equities, FX and Metals**), they offer a capital efficient way to enter the futures markets and diversify your portfolio.

Micro E-mini

Micro E-mini futures: S&P 500, Nasdaq-100, Russell 2000 & Dow Jones

Micro FX

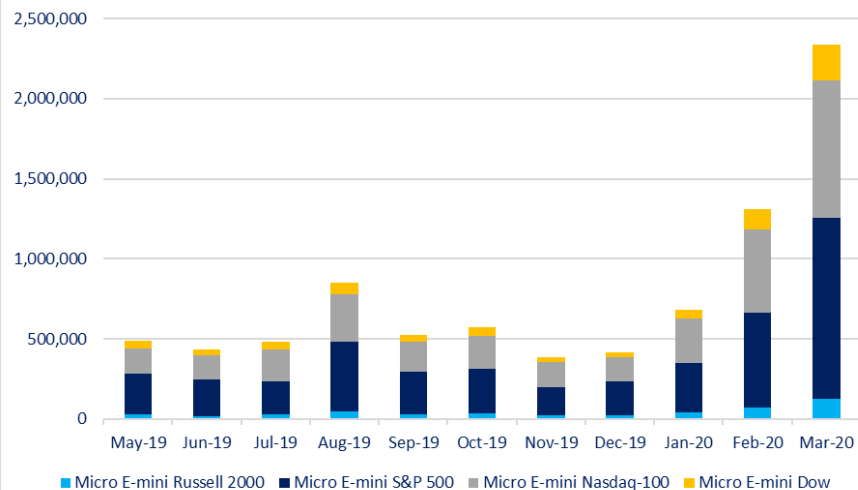
Micro futures: Euro FX, British Pound, Japanese Yen, Swiss Franc, Australian Dollar & Canadian Dollar

Micro Metals

Micro futures: Gold, Silver & Palladium

Micro E-mini Futures Performance

Micro E-mini Futures ADV by Month



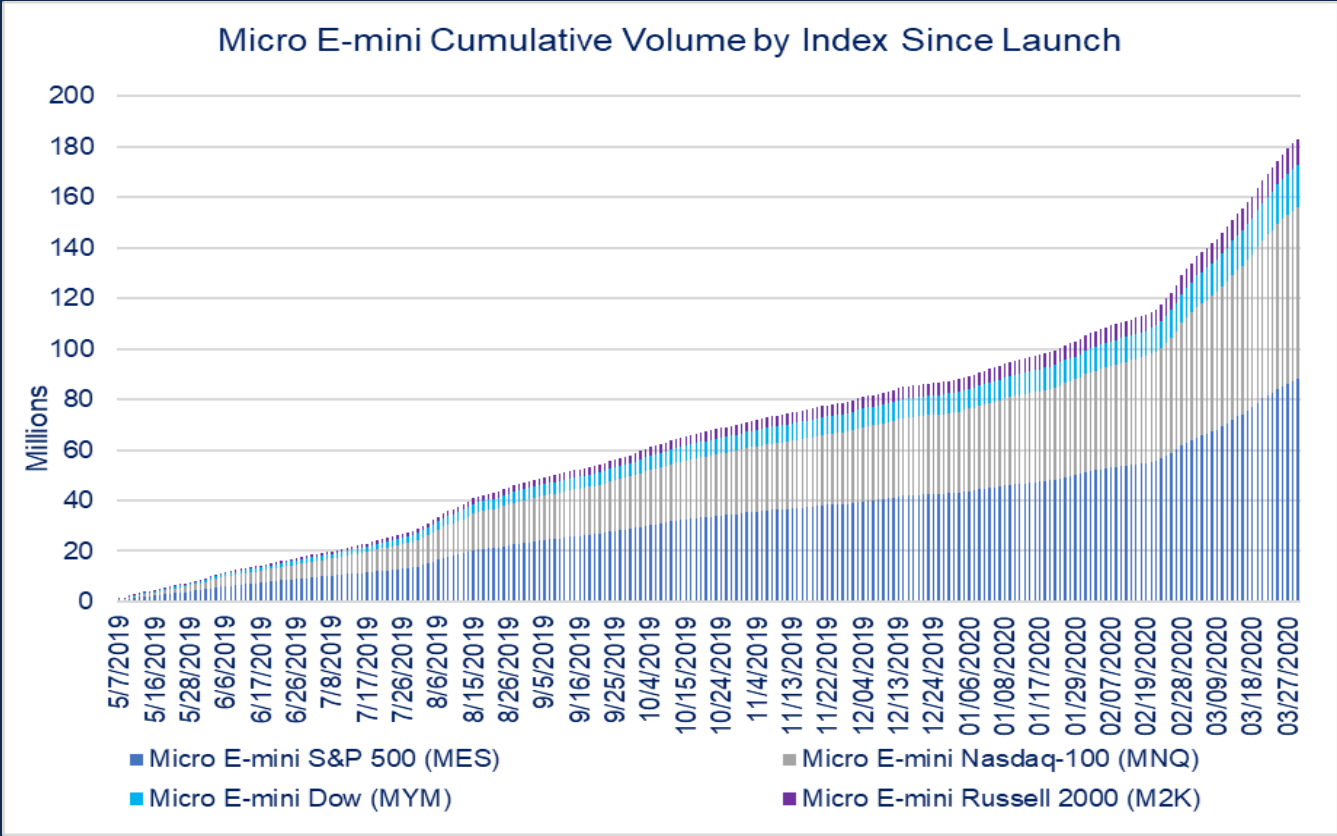
First 11 months of Micro E-mini futures

Approximately **180m** contracts traded in total, with average daily volume of **780K**

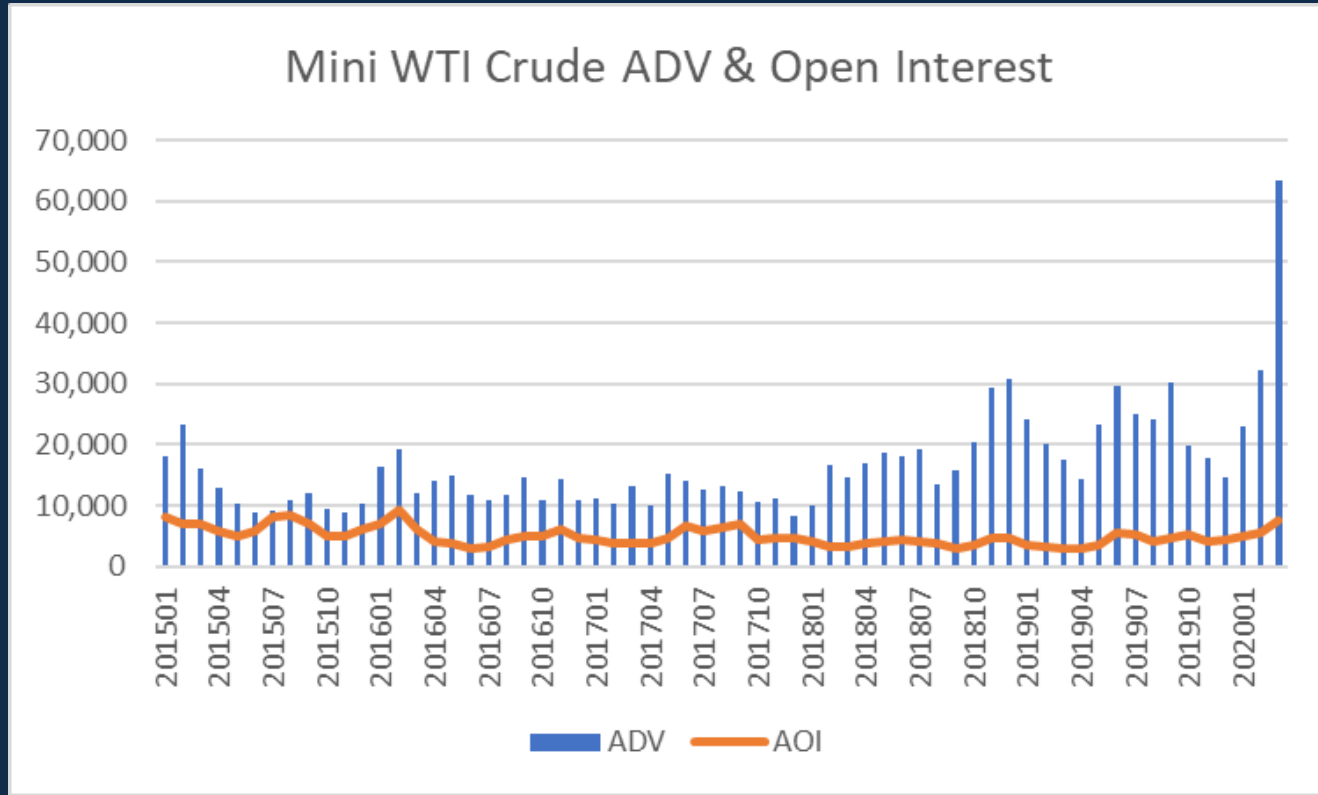
26% of volume came from outside of the US with trades submitted from **160+ countries**

*The data in these graphics is sourced from CME Group.

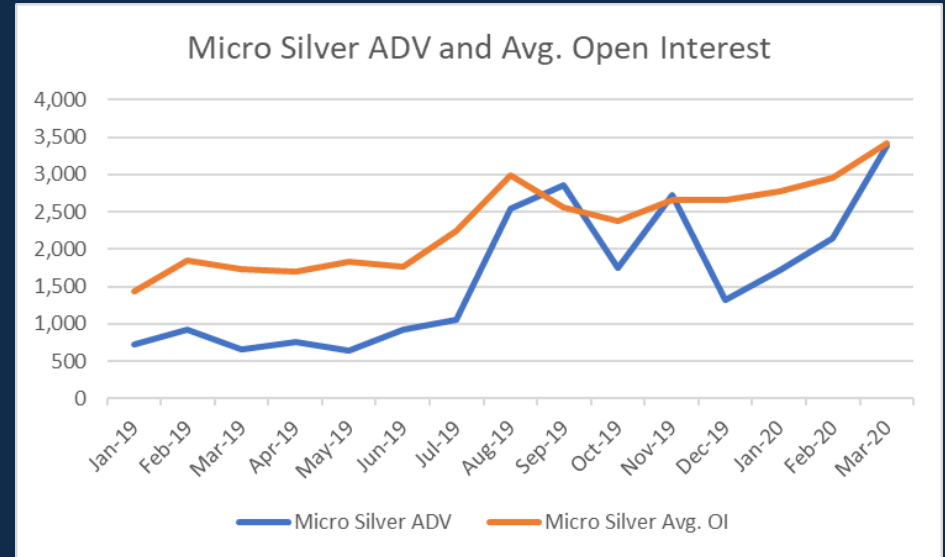
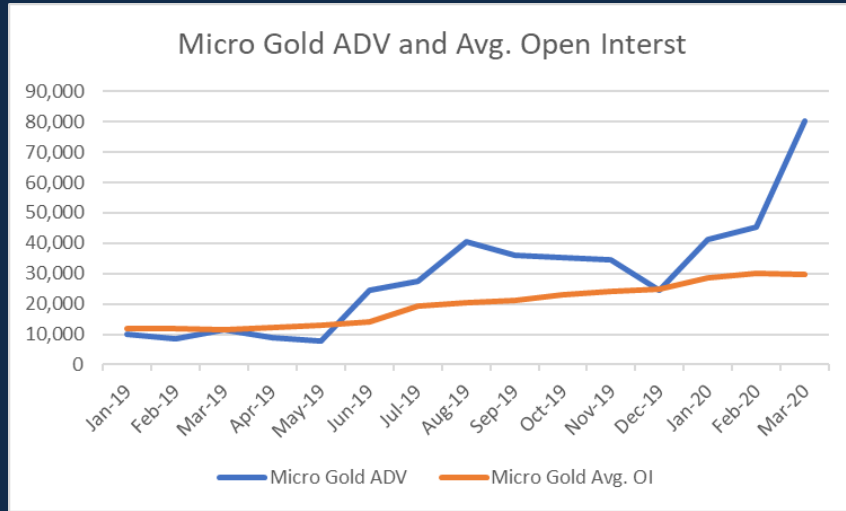
Micro E-mini Equities Volume/Open Interest Since Launch



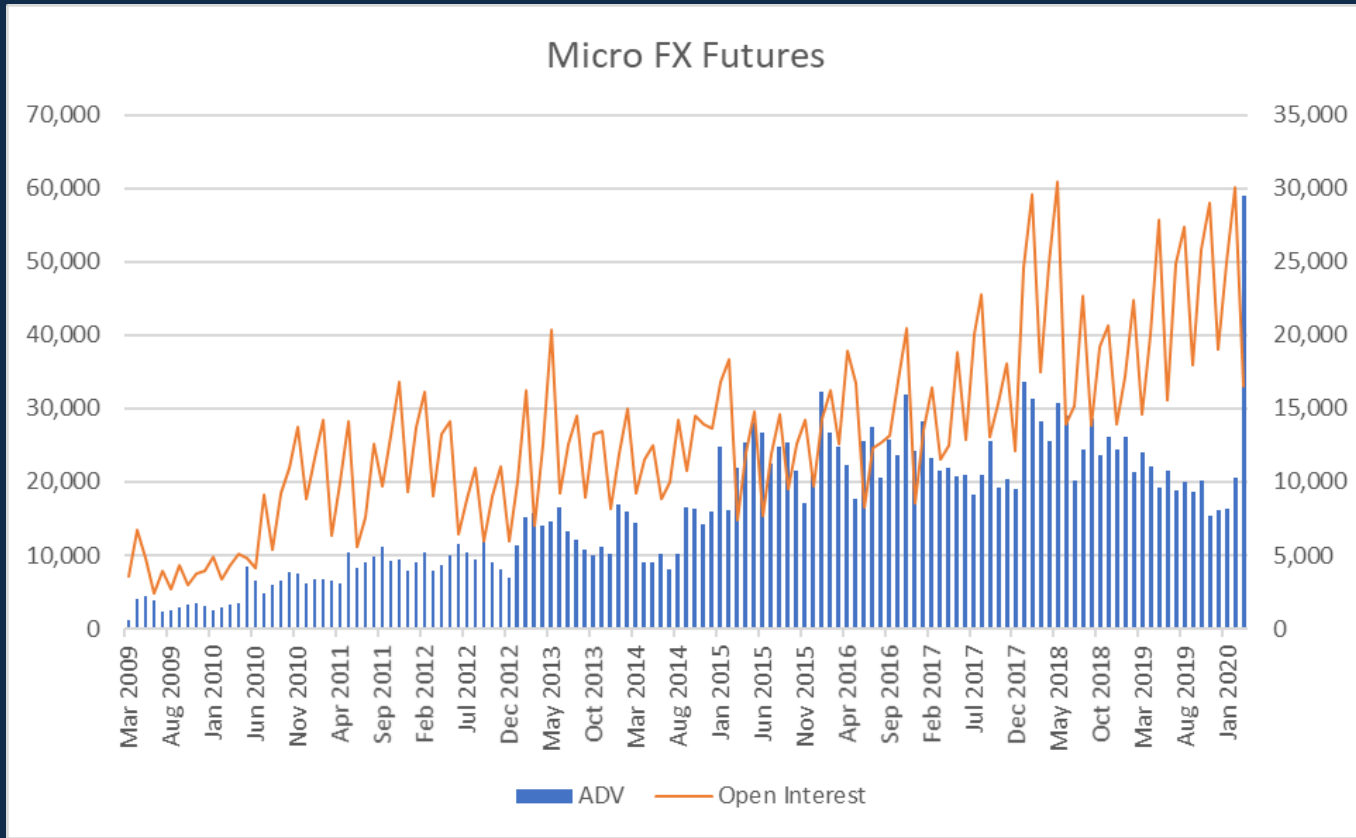
Mini WTI Crude—Volume/Open Interest Trends



Micro Metals Volume/Open Interest Trends



Micro FX Volume/Open Interest Trends



Average Daily Volume Stats for Smaller Contracts

Year ending 12/31/2019

Micro E-mini Contracts	ADV in contracts*
Micro E-mini S&P 500	240,802
Micro E-mini Nasdaq-100	176,977
Micro E-mini Dow Jones	49,046
Micro E-mini Russell 2000	27,209

Micro FX Contracts	ADV in contracts
Euro FX	10,479
Aussie Dollar	4,772
British Pound	2,581
Japanese Yen	1,263
Canadian Dollar	799
Indian Rupee	222
Swiss Franc	170

Micro Metals and E-mini Crude	ADV in contracts
Micro Gold	22,515
Micro Silver	1,409
Micro Palladium	Not yet traded
E-Mini WTI Crude**	21,710

*For micro E-mini equities ADV is from May 6 launch through Jan 2020

**There is no Micro WTI Crude; only the standard and a mini

Micro and Mini Contracts: Order Book

The order book and liquidity (Feb 12, 2019 @ 1:30pm)

X	CC	Product	Description	Status	+	Qty	Bid	Ofr	Qty
-		EUR/USD Future							
x	MES	Micro E-mini S&P 500 Future	Mar20	Open	+	70	3,375.25	3,375.50	13
x	MNQ	Micro E-mini Nasdaq 100 Index Future	Mar20	Open	+	3	9,605.50	9,605.75	2
x	MYM	Micro E-mini Dow Jones Industrial Average Index Future	Mar20	Open	+	2	29,468	29,469	4
x	M2K	Micro E-mini Russell 2000 Index Future	Mar20	Open	+	8	1,689.3	1,689.4	7
x	MGC	Micro Gold Future	Apr20	Open	+	3	1,569.1	1,569.2	8
x	STI	Micro Silver Future	Mar20	Open	+	5	17.46	17.47	45
x	QM	WTI E-mini Future	Mar20	Open	+	13	51.325	51.350	20
x	M6E	Micro EUR/USD Future	Mar20	Open	+	45	1.0891	1.0892	17
x	M6A	Micro AUD/USD Future	Mar20	Open	+	36	0.6740	0.6742	34
x	M6B	Micro GBP/USD Future	Mar20	Open	+	31	1.2976	1.2978	29
x	MJY	Micro JPY/USD Future	Mar20	Open	+	7	0.009099	0.009100	21
x	MCD	Micro CAD/USD Future	Mar20	Open	+	1	0.7544	0.7545	28
x	MIR	Micro INR/USD Future	Mar20	Open	+	50	139.19	139.75	50
x	MSF	Micro CHF/USD Future	Mar20	Open	+	20	1.0243	1.0245	55

The Advantages of Trading Futures vs ETFs

	Futures Standard, E-mini and Micro	Exchange Traded Funds (ETFs)
Annual Management Fees	No management fees with futures	Yes...deducted daily
Capital Efficiencies	Low upfront margin—usually less than 5%	Reg. T margins require 50% of purchase price .
Potential Tax advantages on ST gains	Yes 60/40 treatment per IRS	No tax advantage on ST gains
Around the clock Trading	Yes	Limited to pre/post market trading in general
Pattern day trading rules	None	Yes
Tracking Error	Futures track cash very closely	With some ETFs, considerable tracking error to their underlying exists

Source: CME Education

Futures vs. ETF flows

If you look at the average daily dollar volume comparisons between futures and their corresponding ETF, you will notice that futures trade multiple dollar amounts of their ETF counterparts.

Treasuries, Crude Oil and Gold futures trade substantially greater dollar volume than their corresponding ETFs each day. Moreover, the E-mini S&P 500 futures alone trades 2.4x more dollar volume than all 7,000 ETFs around the globe.

Futures/ETF	Futures ADV in \$	ETF ADV in \$	Futures /ETF Multiple
E-mini S&P 500/SPY	228bn	20.4bn	11x
E-mini S&P 500/all 7000 ETFs globally	228bn	95.0bn	2.4x
10-Yr T-note futures/IEF	178bn	0.51bn	349x
Nasdaq-100 futures/QQQ	69bn	5.55bn	12x
Crude Oil futures/USO	66bn	0.06bn	1097x
Gold futures/GLD	47bn	1.16bn	42x
Euro FX futures/FXE	29bn	.02bn	1542x
Copper futures/ COPX & COPA	6.5bn	.001bn	n/a

Futures and ETF data for year ending 2019

Micro E-mini Equity Contract Specs

	Micro E-mini S&P 500	Micro E-mini Nasdaq-100	Micro E-mini Russell 2000	Micro E-mini Dow
Ticker	MES	MNQ	M2K	MYM
Contract Unit	\$5.00 x S&P 500 Index	\$2.00 x Nasdaq-100 Index	\$5.00 x Russell 2000 Index	\$0.50 X DJIA Index
Initial Margin Requirement*	\$1,200 (\$660)	\$1,500 (\$750)	\$710 (\$320)	\$1,200 (\$550)
Contract Notional Value	\$12,500	\$15,000	\$5,410	\$10,700
Minimum Price Fluctuation (Tick)	0.25 index points (\$1.25)	0.25 index points (\$.50)	0.10 index points (\$.50)	1.00 index point (\$.50)
Contract Months	1 st 5 months in March quarterly cycle			1 st Four months in the March quarterly cycle
Trading Hours	CME Globex: 5pm to 4pm Sunday – Friday with trading halt from 3:15pm to 3:30 pm Monday - Friday			

*As of 4/02/2020 and subject to change (Margin req. in parenthesis are from Feb 10, 2020)

Micro Metals & E-mini Energy Contract Specs

	Micro Gold	Micro Silver	E-mini Crude
Ticker	MGC	SIL	QM
Contract Unit	10 Troy Oz of Gold	1,000 Troy Oz of Silver	500 Barrels of Crude
Initial Margin Requirement*	\$835	\$1,800	\$2,800
Contract Notional Value	\$1,640	\$14,600	\$12,500
Minimum Price Fluctuation (Tick)	0.1 index points (\$10)	0.01 index points (\$10)	\$0.025 per barrel (\$12.50)
Contract Months	Monthly contracts listed for 3 consecutive months and any January, March, May, July, September, and December falling within a 12-month period.		Monthly contracts for all 12 months and the next 5 calendar years
Trading Hours	CME Globex: 5pm to 4pm Sunday – Friday with trading halt from 3:15pm to 3:30 pm Monday - Friday		

* margins as of April 2, 2020 Subject to change

Micro FX Futures

	Micro Euro FX	Micro Australian Dollar	Micro British Pound	Micro Canadian Dollar	Micro Japanese Yen	Micro Swiss Franc	Micro Indian Rupee
Ticker	M6E	M6A	M6B	MCD	MJY	MSF	MIR
Contract Unit	EUR	AUD	GBP	CAD	JPY	CHF	INR
Initial Margin* Requirement	\$215	\$180	\$270	\$155	\$400	\$450	\$360
Contract Notional Value	12,500 EUR	10,000 AUD	6,250 GBP	10,000 CAD	1,250,000 JPY	12,500 CHF	1,000,000 INR
Minimum Price Fluctuation (Tick)	0.0001 per EUR (\$1.25)	0.0001 per AUD (\$1)	0.0001 USD/GBP (\$0.625)	0.0001 per CAD (\$1)	.000001 USD/JPY (\$1.25)	.0001 USD/CHF (\$1.25)	.01 US Cent per 100 INR (\$1)
Contract Months	Quarterly contracts (Mar, Jun, Sep, Dec)						
Trading Hours	CME Globex: 5pm to 4pm Sunday – Friday with trading halt from 3:15pm to 3:30 pm Monday - Friday						

*Margin as of 4/3/20 subject to change

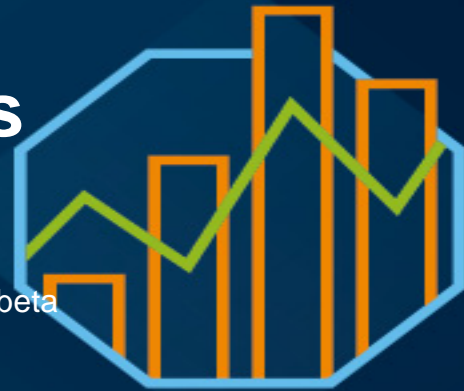
Potential Tax Advantages of Futures Contracts

Futures contracts are taxed at different rates than stocks, bonds, ETFs and mutual funds. Section 1256 IRS code allows for 60/40 treatment.

Futures Trade	ETF or Equities Trade
E-mini Nasdaq-100 futures short term profit. Assume 32% bracket	QQQ or Facebook short term profit. Assume 32% bracket
\$10,000	\$10,000
Trader A taxed according to 60/40 rule: <ul style="list-style-type: none"> • 60% of gain taxed at long term capital gains rate of 15% • 40% is taxed at ordinary income of 32% • Taxed at a blended rate of 21.8% 	Trader B taxed at ordinary income: <ul style="list-style-type: none"> • 32%
Trader A owes \$2,180 to the IRS and keeps \$7,820	Trader B owes \$3,200 to the IRS and keeps \$6,800

How smart money uses micro and mini sized contracts

- Using the Micro Complex for precision scaling
- Using Micro E-mini Indexes for spreading, hedging ETFs/mutual funds & beta replication
- Using E-mini WTI Crude to optimize energy trading: E-mini Crude vs. ETFs/Stocks
- Using Micro FX futures to hedge the currency risk in an international portfolio
- Using Micro Metals to trade the movement in the gold/silver ratio



Scaling In and Out with Micros

Individual traders are using micro futures to scale in and out of positions. 1 or 2 lot E-mini traders can trade 10, 15 or 20 micro contracts and scale in and out of the market.

For example, an E-mini trader sells one contract at 2929 and covers at 2926.

What if the trader executed 10 Micros instead? They could have covered 5 lots at 2926, another 2 at 2925 and the remaining 3 at 2924 for a greater profit.

The trader profited \$150 trading the E-mini but could have profited \$190 by scaling out with Micros.



Spreading with Micros & Margin Efficiencies

Certain spreads require ratios that are not 1:1. Because of differences in notional amounts, other ratios might be required.

	MES	MNQ	MYM	M2K
MES	x	1:1 (75%)	1:1 (75%)	1:2 (80%)
MNQ	1:1 (75%)	x	1:1 (55%)	1:2 (70%)
MYM	1:1 (75%)	1:1 (55%)	x	1:2 (70%)
M2K	2:1 (80%)	2:1 (70%)	2:1 (70%)	x

Spreading with Micros & Margin Efficiencies

Year	Russell Performance	S&P 500 Performance	Russell Minus S&P 500	Russell Outperforms
12/30/2000	1.64%	0.33%	1.31%	Yes
12/31/2001	1.02%	-13.04%	14.06%	Yes
12/31/2002	-22.39%	-24.22%	1.83%	Yes
12/31/2003	44.97%	27.02%	17.95%	Yes
12/31/2004	17.42%	10.59%	6.83%	Yes
12/30/2005	3.32%	3.00%	0.32%	Yes
12/29/2006	17.00%	13.62%	3.38%	Yes
12/31/2007	-2.02%	4.24%	-6.26%	No
12/31/2008	-38.22%	-40.97%	2.75%	Yes
12/31/2009	25.21%	23.45%	1.76%	Yes
12/31/2010	25.31%	12.78%	12.53%	Yes
12/30/2011	-5.45%	0.00%	-5.45%	No
12/31/2012	12.31%	11.52%	0.79%	Yes
12/31/2013	39.84%	31.80%	8.04%	Yes
12/31/2014	3.53%	11.39%	-7.86%	No
12/31/2015	-5.71%	-0.73%	-4.98%	No
12/30/2016	18.05%	8.50%	9.55%	Yes
12/29/2017	12.64%	18.87%	-6.23%	No
7/20/2018	10.50%	4.80%	5.70%	Yes
12/31/2018	-12.17%	-6.24%	-5.93%	No
12/31/2019	25.42%	31.29%	-5.87	No

Spreading with Micros & Margin Efficiencies

Margin offsets, which can be substantial, can only be achieved if spread is done in accordance with clearing house ratios.

Check CME Group website or check with your FCM/Broker for specifics of the spread you are interested in.

Contract	Exchange	Initial Margin/Leg
Micro E-mini Russell 2000 futures	CME	\$320 x 2 = \$640
Micro E-mini S&P 500 futures	CME	\$660 x 1 = \$660
Position Total Gross Margin		\$1,300
Margin Offset		80%
Total Margin		\$260

Example: Using Micro E-mini Futures to Hedge Mutual Fund Risk



Using the Micro E-mini Futures to Hedge Mutual Fund Exposure

Stock index futures have long been used as vehicles to hedge against adverse price moves.

They are efficient instruments to manage the risk in equity portfolios.

Let's examine a 59-year-old individual nearing retirement that has \$500,000 saved up in his 401k plan (or IRA). The account is allocated between large cap and small cap as well as fixed income and cash. Client is worried about a recession that could lead to a correction in the market and reduce his portfolio's value

Fund	Beta	R-squared	Balance
Vanguard 500 Fund	1.00	100	\$100,000
T. Rowe Price Blue Chip	1.05	96.5	\$100,000
DFA Small Cap	1.01	98.4	\$100,000
Fixed Income and Cash	n/a	n/a	\$200,000
Total Value of:			\$500,000

Using the Micro E-mini Futures to Hedge Mutual Fund Exposure

Beta: measures the sensitivity of security or fund relative to its benchmark. An index fund would have a beta of 1.0. A fund with a beta of 1.05 would be 5% more volatile than the underlying benchmark.

R-Squared: Measures the performance of a manager that's directly attributable to its benchmark. An index fund would have an R-squared of 100 as it duplicates its benchmark exactly. A fund that does not look very much like its benchmark would have a lower R-squared.

<u>Fund</u>	<u>Beta</u>	<u>R-squared</u>	<u>Balance</u>
Vanguard 500 Fund	1.00	100	\$100,000
T. Rowe Price Blue Chip	1.05	96.5	\$100,000
DFA Small Cap	1.01	98.4	\$100,000
Fixed Income and Cash	n/a	n/a	\$200,000
Total Value of portfolio:			\$500,000

Given that the Vanguard and T Rowe Price funds have betas at or near 1.00 and their R-squared values are 100 or near 100, they will track the S&P 500 fairly closely (the Vanguard fund will track almost identically).

The DFA small cap fund correlates very closely to its benchmark as well.

Hence, Micro E-mini futures (Micro E-mini S&P 500 and Micro E-mini Russell 2000) would be a very good hedge for the small cap and large holdings.

Using the Micro E-mini Futures to Hedge Mutual Fund Exposure

The notional value of the Micro E-mini S&P 500 contract is the index times the multiplier.

$$3,340 \times \$5 = \$16,700$$

The notional value of the Micro E-mini Russell 2000 is calculated the same way.

$$1,662 \times \$5 = \$8,310$$

Fund	Beta	R-squared	Balance
<i>Vanguard 500 Fund</i>	1.00	100	\$100,000
<i>T. Rowe Price Blue Chip</i>	1.05	96.5	\$100,000
DFA Small Cap	1.01	98.4	\$100,000
Fixed Income and Cash	n/a	n/a	\$200,000
Total Value of portfolio:			\$500,000

Hedging the large cap portion of the portfolio:

Each Micro E-mini S&P 500 has a notional value of about \$16,700.

With 200k spread across two large cap funds the hedge ratio or number of contracts needed to hedge this portion of the portfolio would be:

$$\$200,000 / \$16,700 = 12 \text{ contracts}$$

Using the Micro E-mini Futures to Hedge Mutual Fund Exposure

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Fund	Beta	R-squared	Balance
Vanguard 500 Fund	1.00	100	\$100,000
T. Rowe Price Blue Chip	1.05	96.5	\$100,000
<i>DFA Small Cap</i>	<i>1.01</i>	<i>98.4</i>	<i>\$100,000</i>
Fixed Income and Cash	n/a	n/a	\$200,000
Total Value of portfolio:			\$500,000

Hedging the small cap portion of the portfolio:

Each Micro E-mini Russell 2000 has a notional value of about \$8,310.

With 100k invested in the DFA Small Cap index, the hedge ratio or number of contracts to hedge the small cap exposure of the portfolio would be:
 $\$100,000 / \$8,310 = 12$ contracts

Using the Micro E-mini Futures to Hedge Mutual Fund Exposure

All hedging strategies need to be managed.

Factors involved in hedge management:

- 1) Current market outlook vs. original thesis
- 2) Profit or loss in hedge transaction

Lifting the Hedge

At some point, whether the market advances or declines, all hedges need to be managed and subsequently offset.

Should the market decline as anticipated, the short futures positions will effectively lock in a higher price. At this point, client and/or advisor would look to lift the hedge by buying back the all the futures contracts.

Should the market rally, one's concern would be to miss the rally. By lifting the hedge, the portfolios will participate as the market rallies and losses on futures legs hopefully are minimal.

E-mini Crude Futures:

An Alternative to Energy Stocks / ETFs



Getting Short Energy—The Great Bear Market of 2014-15:

What was the most optimal way to play the Bear Market in Crude?

Shorting Energy	E-mini Crude futures	Exxon Mobil common stock	Schlumberger Common stock	Select Energy Sector ETF
Notional Amount	\$57,500 (1 contract)	\$57,500 (553 shares)	\$57,500 (487 shares)	\$57,500 (575 shares)
Upfront margin required	\$1,750	\$28,750 reg T	\$28,750 reg T	\$28,750 reg T
Price Decline high to low	\$115 to \$29	\$104 to \$70	\$118 to \$60	\$100 to \$50
Price Decline %	-74.7	-35.6	-50.8	-50.0
<i>Profit on trade</i>	\$43,000	\$18,785	\$28,482	\$28,750
Around the clock trading	Yes	No	No	No
Spread efficiencies	Yes	No	No	Yes but costly
Dividends	No	Yes	Yes	Yes

Getting Long Energy—The Bull Market from Feb 2016 to Oct 2018:

What was the most optimal way to play the Bull Market in Crude?

Getting Long Energy	E-mini Crude futures	Exxon Mobil common stock	Schlumberger Common stock	Select Energy Sector ETF
Notional Amount	\$13,070 (1 contract)	\$13,070 (178 shares)	\$13,070 (198 shares)	\$13,070 (249 shares)
Upfront margin required	\$1,750	\$6,535 reg T	\$6,535 reg T	\$6,535 reg T
Price Advance low to high	\$26.14 to \$76.39	\$73.55 to \$86.00	\$66.10 to \$63.65	\$52.37 to \$78.36
Price increase %	+192.23%	+17%	-3.71%	+49.6%
<i>Profit on trade</i>	\$25,125	\$2,210	-\$485	\$6,484
Around the clock trading	Yes	No	No	No
Spread efficiencies	Yes	No	No	Yes but costly
Dividends	No	Yes	Yes	Yes

Example: Using Micro FX to Trade the Strengthening dollar



Using Micro FX vs. Currency ETFs

Are micro currencies a superior alternative to currency ETFs?

The recent slide in the Euro presented opportunities

Shorting micro FX is a simple transaction in a futures account

- No reg SHO
- No uptick rules
- No dividends to pay



Source: Bloomberg

Micro Currency futures vs. Currency ETFs—Euro FX

	Micro Euro FX futures	Euro FX ETF
Ticker	M6E	FXE
ADDV	\$142 million	\$19 million
Bid/offer	1 basis point	1-2 basis pts
Tax advantages on ST gains	Yes	No tax advantage
Around the clock Trading	Yes	limited
Pattern day trading rules	None	Yes
Notional value of open interest or AUM	\$176 million in open interest	\$279 million in AUM
Margin requirement	\$170 or 1.2%	\$5,100 (reg T margin of 50%)

Source: Bloomberg

Using Micro FX to profit from a strengthening dollar

Using Micro Euro FX futures.

Jan 3	Sells short 1 March Micro Euro FX (ticker: M6EH0) priced at 1.1217
Feb 10	March Micro Euro FX priced at 1.0938 for MTM gain of .0279
Overall P/L	$.0279 \times \$1.25 = \348.75

Example: Using Micro Metal Futures for Spread Trading



Using Micro Metal futures to trade the Gold vs. Silver Ratio

Long Term Gold/Silver Ratio



Short Term Gold/Silver Ratio



- *A trader believes that silver will begin to outperform gold.*
- *Is there a strategy whereby Micro Gold and Micro Silver can be used to profit off this opinion?*

Source: Bloomberg & barchart.com

Using Micro Metal futures to trade the Gold vs. Silver Ratio

	12/28/2019	2/1/2020	P/L
Long 1 Micro Silver	\$17.80/oz	\$20.00/oz	$\$2.20 \times 1000 = \$2,200$
Short 1 Micro Gold	\$1,515/oz	\$1,575/oz	$\$60 \times 10 = -\600
Gold/Silver Ratio	85	79	Total P/L = \$1,600
Margin Calculation			
Long 1 Silver	\$1,100		
Short 1 Gold futures	\$ 500		
Gross Margin	\$1,600		
Margin offset	70%		
Total Margin	$\$1,600 \times (1-.7) =$ \$480		

Gold/Silver Ratio Percentile Rank	Gold/Silver Ratio Level
High	93.62
90 th percentile	81.00
75 th percentile	75.34
50 th percentile	66.95
25 th percentile	56.96
10 th percentile	51.31
Low	31.9
Current Value of Gold/Silver	85 (94 th percentile)
Data from 4/2008 to 8/2019	

Key Takeaways:

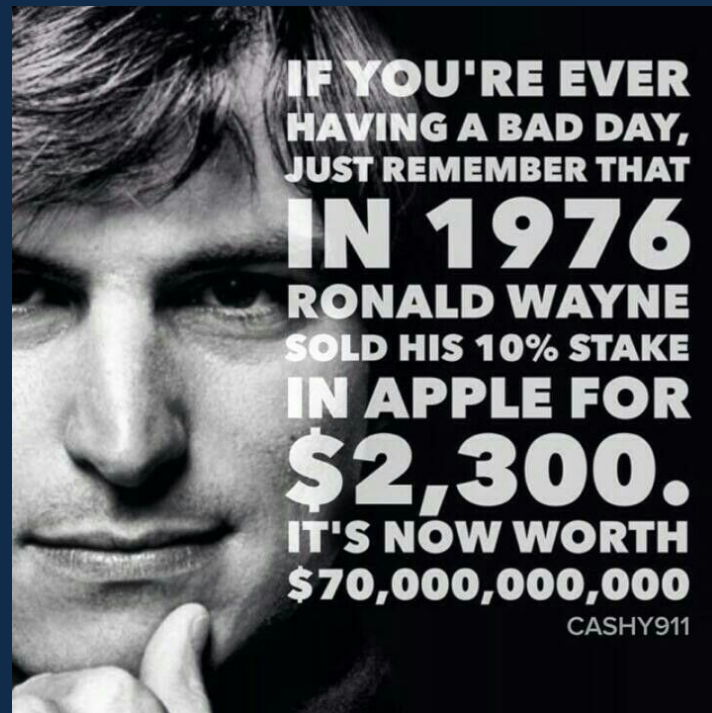
- The Micro contracts offer newer traders and those with smaller account sizes that desire trading flexibility/precision for scaling in/out of trades.
- Micros have many advantages when compared with ETFs.
- Micro contracts allow newer traders to reduce risk from two viewpoints: margin and dollars at risk.
- Micro contracts offer all the great advantages of our larger product suite at 1/10th the size (1/2 the size for mini WTI crude).
- Micros can be used by traders, hedgers and spreaders.
- Micro traders enjoy around the clock trading accessibility.



The most important quality for an investor
is temperament, not intellect.

— Warren Buffett —

AZ QUOTES



**IF YOU'RE EVER
HAVING A BAD DAY,
JUST REMEMBER THAT
IN 1976
RONALD WAYNE
SOLD HIS 10% STAKE
IN APPLE FOR
\$2,300.
IT'S NOW WORTH
\$70,000,000,000**

CASHY911

Source: AZ Quotes

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Thank you!