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January 27, 2022

# The Small Exchange

## Making Your First Futures Trade

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**Frank Kaberna**

The Small Exchange

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# Making Your First Futures Trade





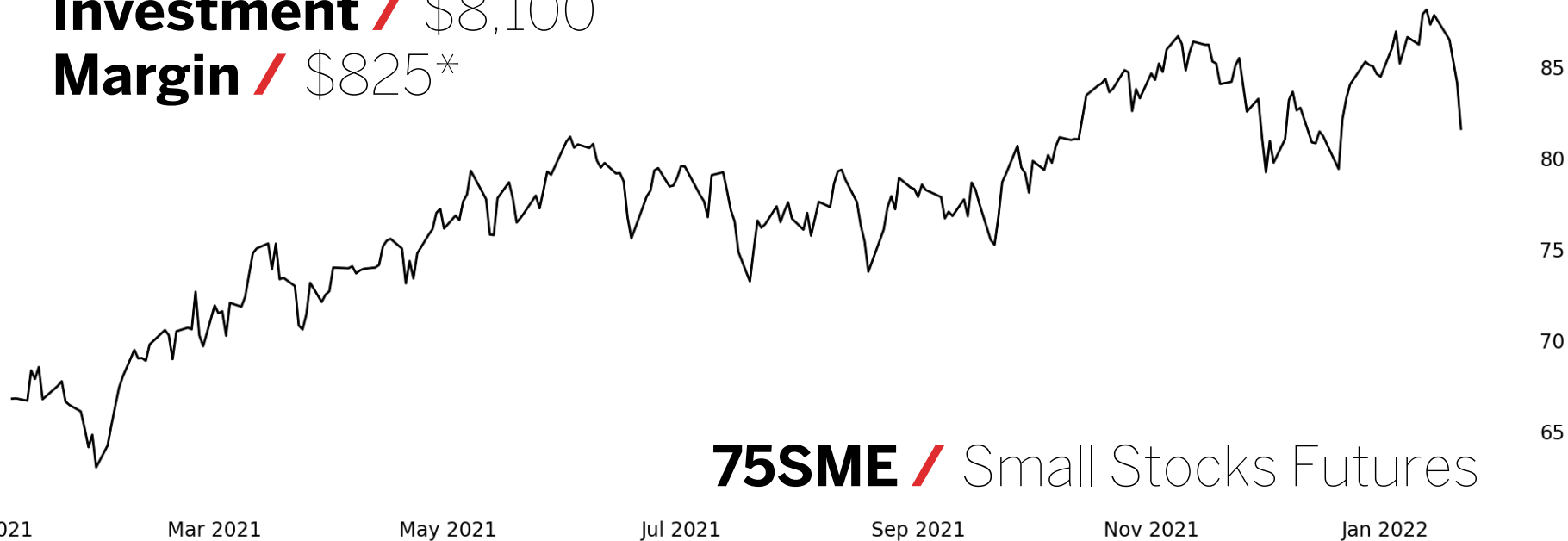
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Futures can allow you to **Invest for Less Capital.**

**Investment /** \$8,100

**Margin /** \$825\*



**75SME /** Small Stocks Futures

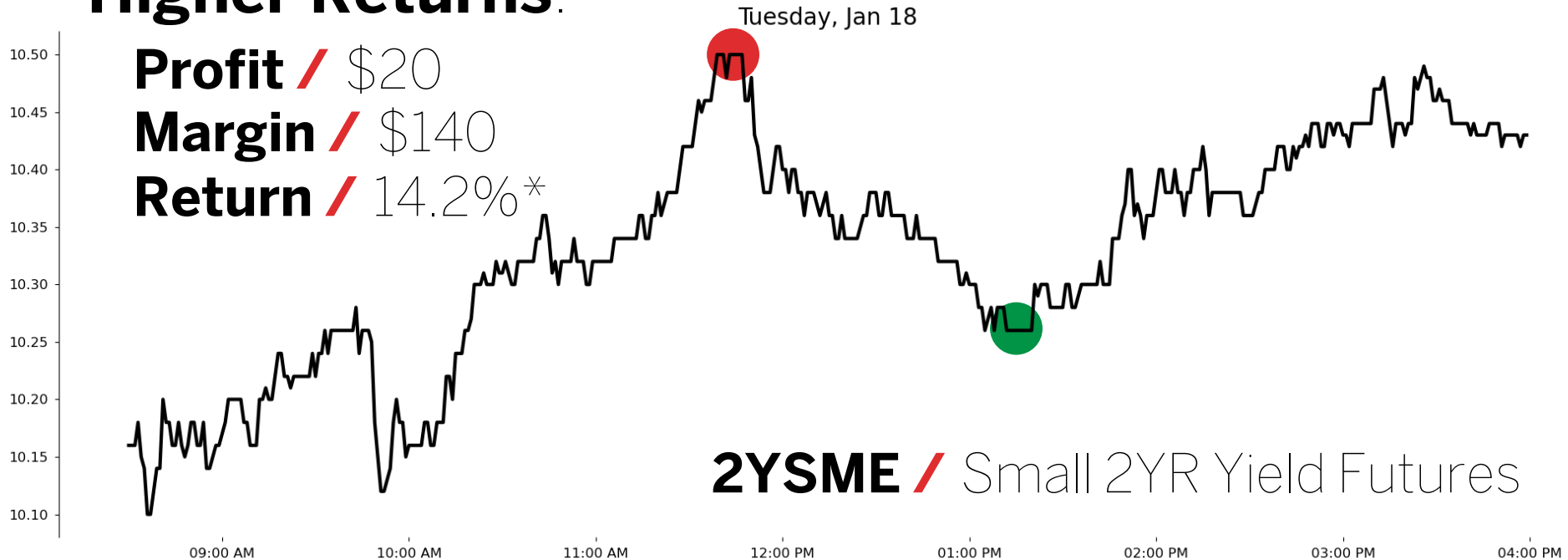
Source: dxFeed Index Services (<https://indexit.dxfeed.com>)

\*Values taken 1/21/22

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# Futures can allow you to **Day Trade with Higher Returns.**

**Profit** / \$20  
**Margin** / \$140  
**Return** / 14.2%\*



Source: dxFeed Index Services (<https://indexit.dxfeed.com>)

\*Trade example from 1/18/22 not indicative of future results

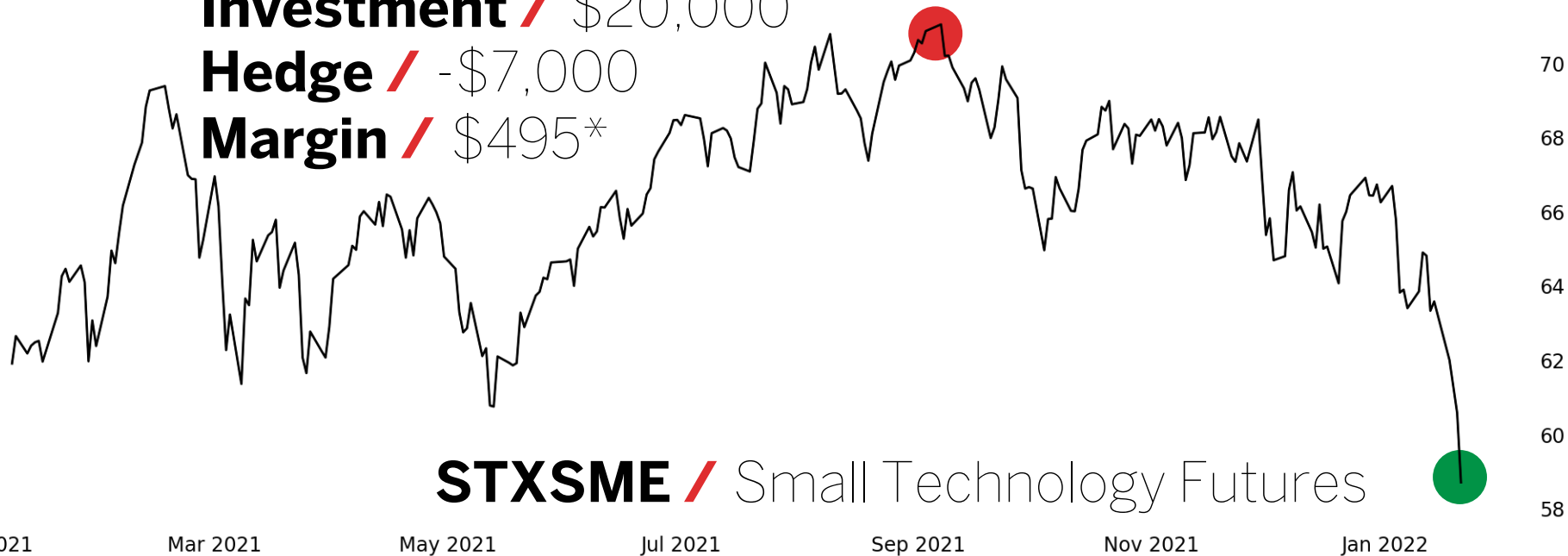
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# Futures can allow you to **Manage Risk Easily.**

**Investment** / \$20,000

**Hedge** / -\$7,000

**Margin** / \$495\*



**STXSME** / Small Technology Futures

Source: dxFeed Index Services (<https://indexit.dxfeed.com>)

\*Trade example from 9/1/21 to present not indicative of future results

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How can you get started?  
Try out one of the  
**Smallest  
Futures Markets  
in the World:  
2YSME.**

### Futures Specifications ?

Symbol	2YSME
Settlement	Cash-settled
Trading Hours	Monday - Friday from 7am-4pm CT
Size	\$1,000
Tick Size \ Dollar per	\$0.01 tick = \$1.00 per tick
Tick	
Contract Size	100x current price
Available Contracts	All Smalls are available for current and following month.
Intraday Limits	125 ticks and 250 ticks
Daily Limit	400 ticks
Initial Margin	\$138.00
Maintenance Margin	\$125.00
Termination	The contract expires at 3pm CT on the 3rd Friday of the contract month. If the 3rd Friday is a market holiday, expiration is on the Thursday prior to the Friday holiday.

Starting out with a **Day Trade** – opening and closing a trade in the same day – can reduce risk and stress.

Tuesday, Jan 18



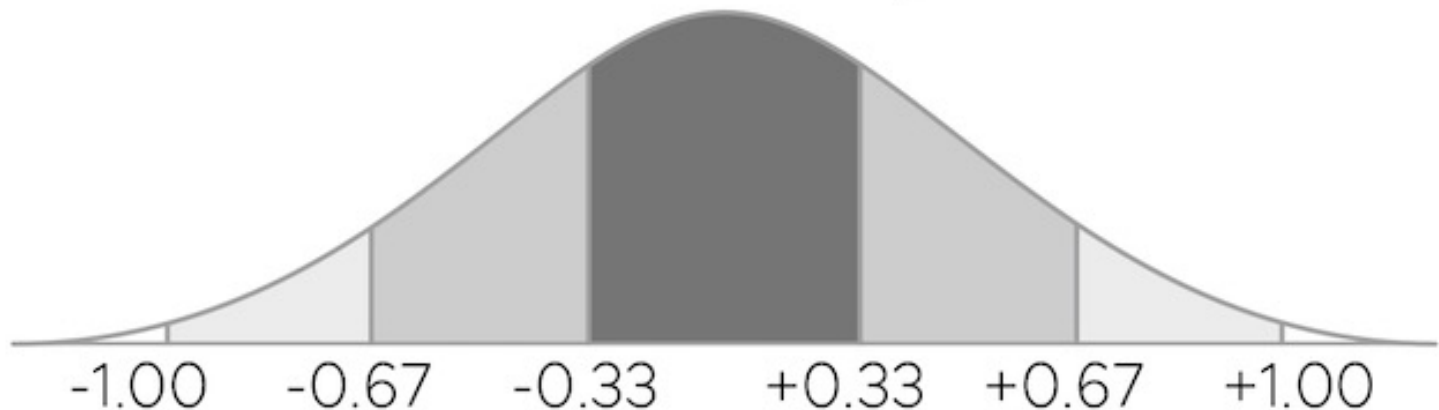
**2YSME** / Small 2YR Yield Futures

Source: dxFeed Index Services (<https://indexit.dxfeed.com>)

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The **Standard Deviation** can let you know how much a market moves on a normal day.

## 2YSME \ Small 2YR Yield Futures Daily Standard Deviations



Source: dxFeed Index Services (<https://indexit.dxfed.com>)

A 1 standard deviation of  $\pm 0.33$  means the market closes within that net change **68% of the Time.**

Tuesday, Jan 18



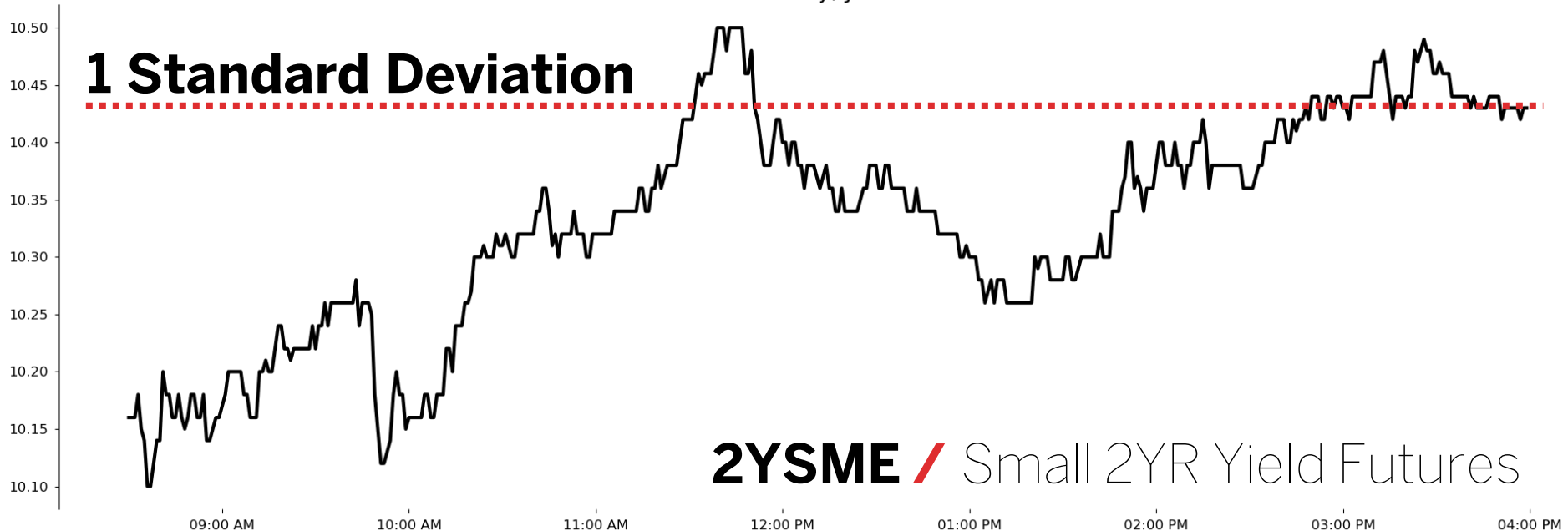
Source: dxFeed Index Services (<https://indexit.dxfeed.com>)

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One of the most popular day trading strategies: **Mean Reversion** when markets are outside 1SD.

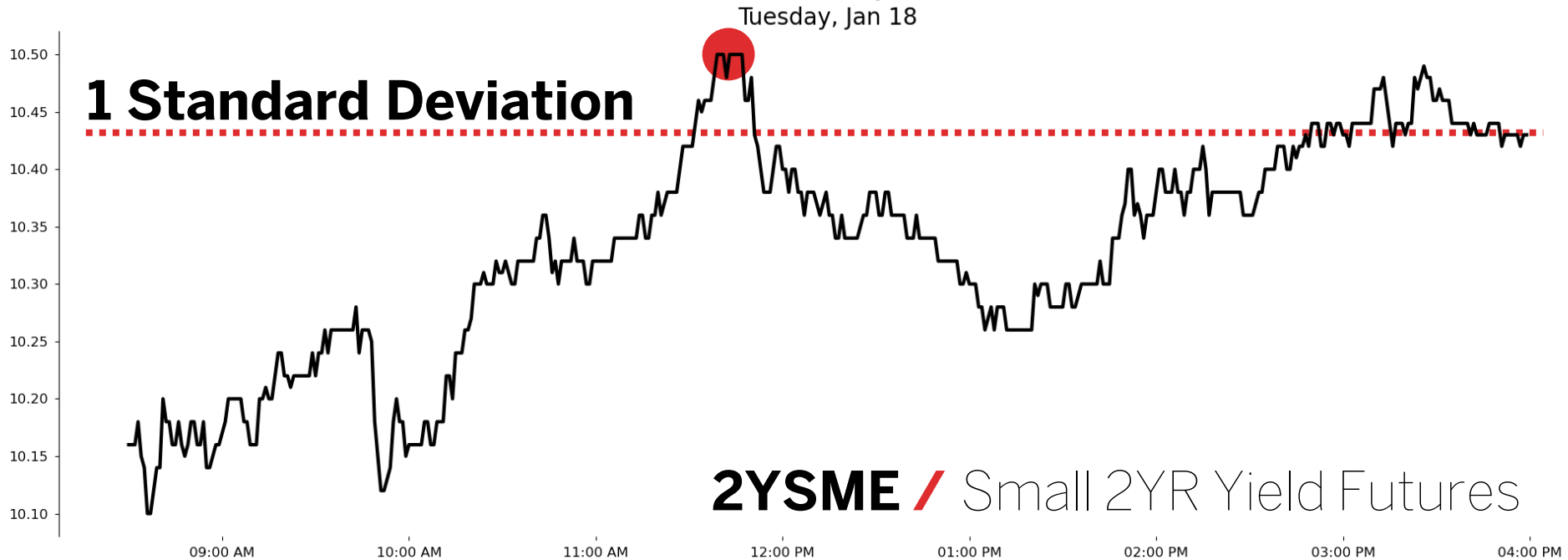
Tuesday, Jan 18

**1 Standard Deviation**



**2YSME** / Small 2YR Yield Futures

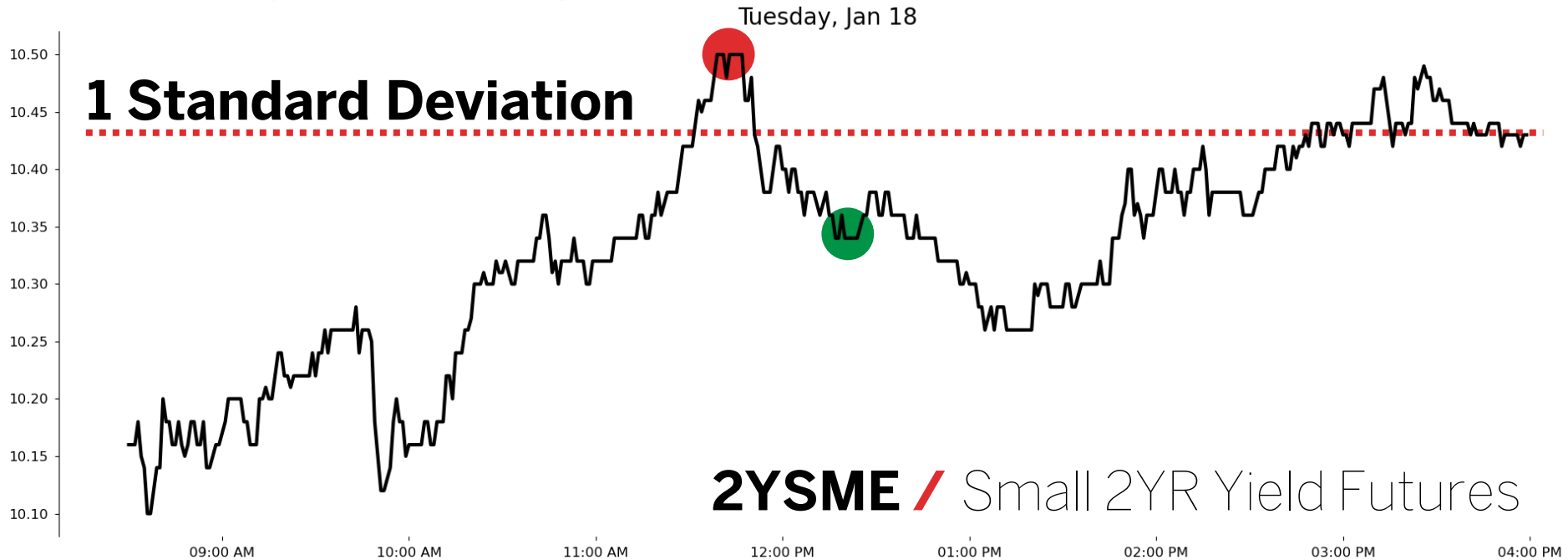
So, if the market's net change is **Above +1SD**, you can **Sell the Futures** looking to buy them back lower.



Source: dxFeed Index Services (<https://indexit.dxfeed.com>)

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Setting strict management mechanics can be helpful;  
for example, **Manage at +/- \$10 in P/L.**

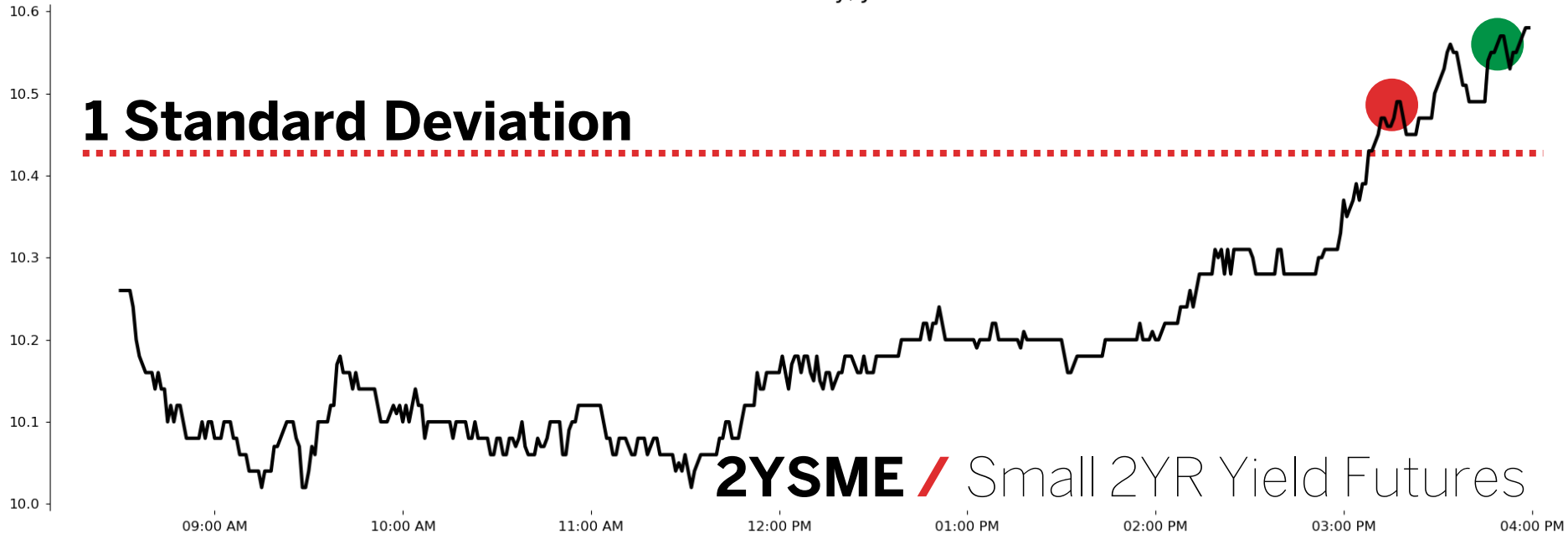


Source: dxFeed Index Services (<https://indexit.dxfeed.com>)

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If the market continues to move outside the 1SD, then you can take the quick loss and move on.

Wednesday, Jan 19

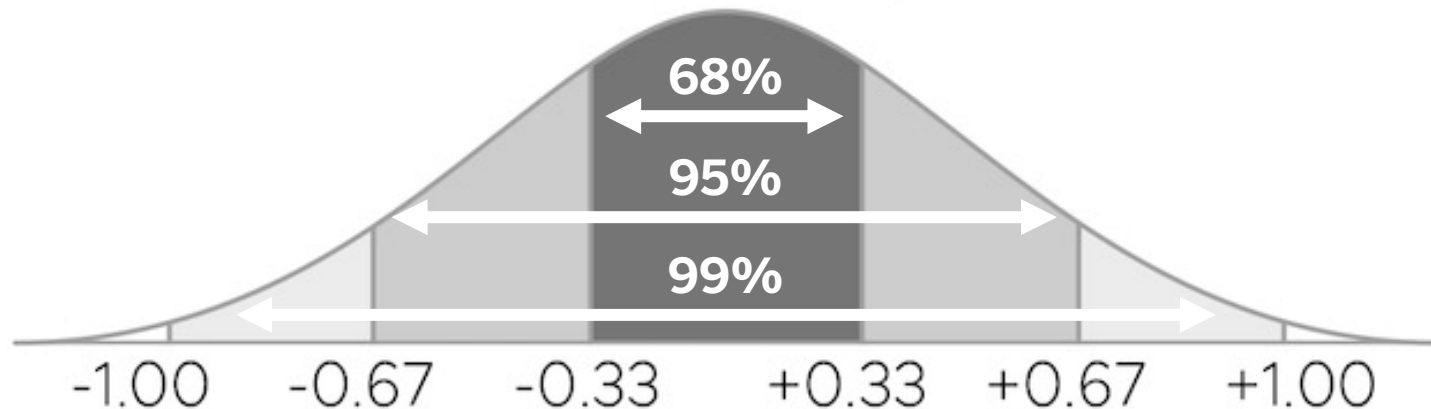


Source: dxFeed Index Services (<https://indexit.dxfeed.com>)

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**Net Change Mean Reversion** is a high probability strategy that can profit long term from many small trades.

## 2YSME \ Small 2YR Yield Futures Daily Standard Deviations



Source: dxFeed Index Services (<https://indexit.dxfed.com>)

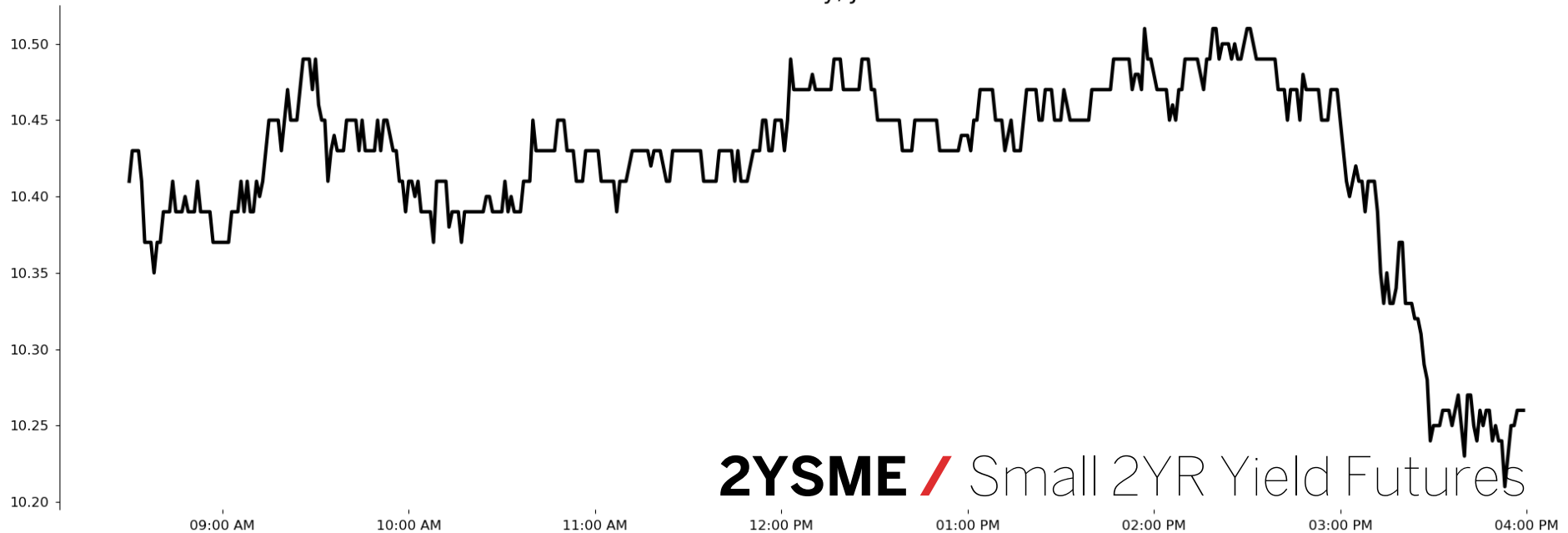
## THEORY OF LOSING

$$\left[ \begin{array}{l} (\text{WIN RATE}) \times (\text{AVERAGE PROFIT}) + \\ (\text{LOSS RATE}) \times (\text{AVERAGE LOSS}) \end{array} \right] > 0$$

**ONLY IF:** Win Rate > Loss Rate  
Average Profit = Average Loss

If the market doesn't reach a 1SD in either direction,  
then look to one of many other markets moving.

Thursday, Jan 20



**2YSME** / Small 2YR Yield Futures

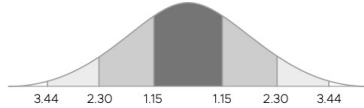
## A Day in the Life

Probability of daily net change inside these ranges

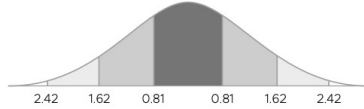
- 68%
- 95%
- 99%



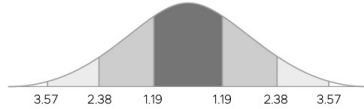
Small Stocks 75



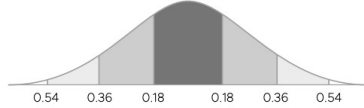
Small Technology 60



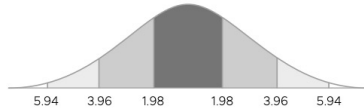
Small Cryptocurrency



Small Cannabis

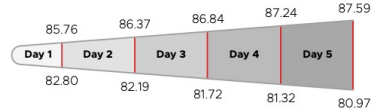
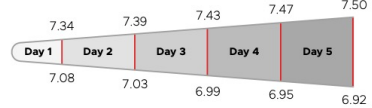
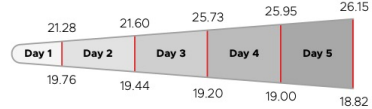
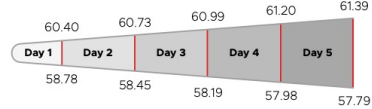
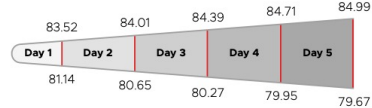


Small US Crude Oil



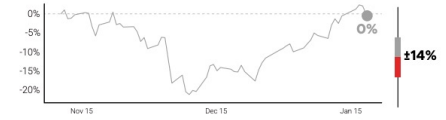
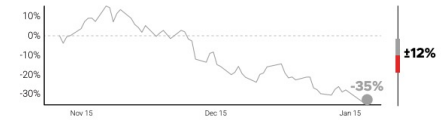
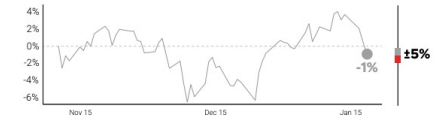
## 5-Day Forecast

Projected highs and lows for the next 5 days (via realized volatility)



## Recent Returns

Percentage path taken to current overall return



\*All statistics measure the last three months of data unless otherwise stated.

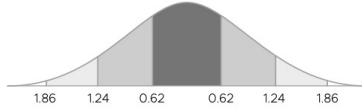
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## A Day in the Life

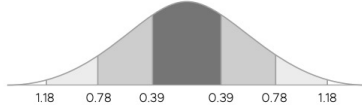
Probability of daily net change inside these ranges

- 68%
- 95%
- 99%

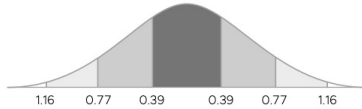
**SPRE**  
Small Precious Metals



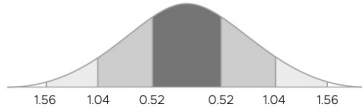
**SFX**  
Small US Dollar



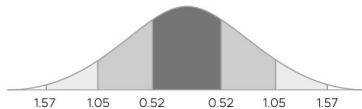
**S2Y**  
Small 2YR US Treasury Yield



**S10Y**  
Small 10YR US Treasury Yield

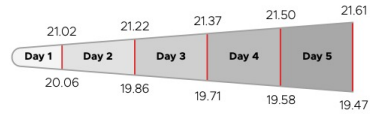
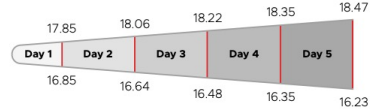
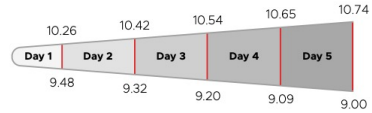
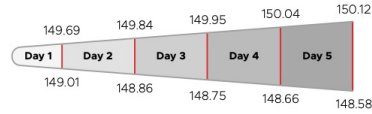
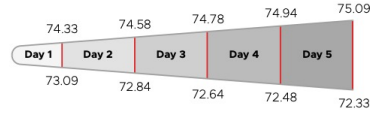


**S30Y**  
Small 30YR US Treasury Yield



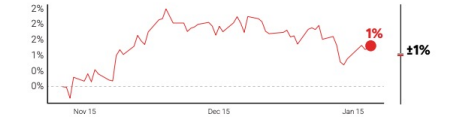
## 5-Day Forecast

Projected highs and lows for the next 5 days (via realized volatility)



## Recent Returns

Percentage path taken to current overall return



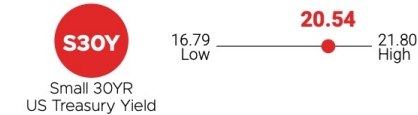
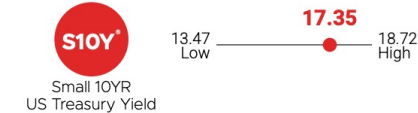
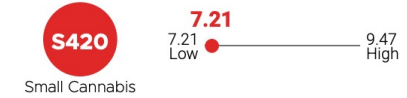
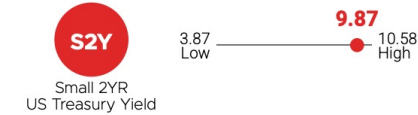
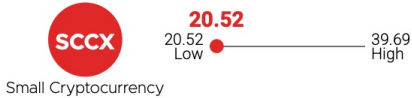
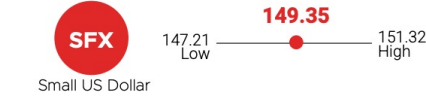
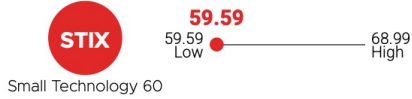
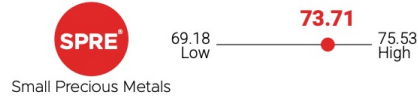
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Our Weekly Newsletter Exclusively for Community Members

## Where Are the Smalls?

Current prices relative to recent highs and lows\*



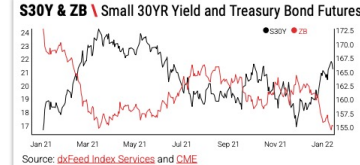
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## FEATURE

### Should You Trade Bond Price or Yield?

For decades, people formed opinions about the Fed and US interest rates in percentage yields only to then flip their assumptions trading traditional products like Treasury Bond futures and the TLT ETF presented in a price. The emergence of yield-based products from the Small Exchange® and CME, however, have now afforded you the choice between the two when you go to execute on your interest rate idea.



Before comparing them, it's worth noting that one is not "better" than the other. Yield is a direct reflection of a given note or bond's price. This is similar to how implied volatility, and the derivatives on top of it, comes from a given market's options while simply posing the same opportunity as the options themselves but in a different light.

#### What to Expect Trading Bond Price

Traditional bond futures tick in 32nds of a point, and each point is worth \$1,000. If you're bullish interest rates you can sell ZB, and vice versa for rate bears, since bond prices move inversely from their yields. Trading bond price can mean daily moves exceeding \$1,000, and a 1% change in 30YR rates could correlate to more than \$15,000 per ZB contract.



#### What to Expect Trading Bond Yield

New bond futures that trade in yield move in 10ths of a basis point, or 0.001%, and each tick equates \$1. You can buy S30Y futures if you think rates are moving higher, and sell them if you think rates will decline. Daily 30YR yield movement of 5 basis points corresponds to just \$50 per Small Yield futures contract, and rise or fall by 1% would mean exactly \$1,000.



#### 1% Rise in Rates Reflected in...

Price	Yield
-18,000	+10,000
-\$18,000	+\$1,000

No one knows the future path of rates, but the journey will be reflected in price and yield. And now you have access to both.



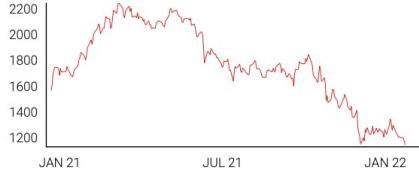
Frank Kaberna \ Chief Content Strategist

### PAIRS OF THE WEEK

#### Short 2YRs, Long 30YRs, and Stock Spreads

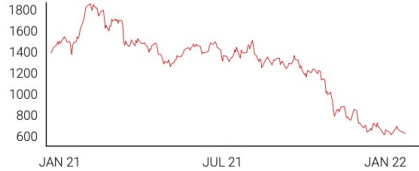
##### S30Y-S2Y \ The TUB Spread

While rates are higher across the board, the yield curve continues to flatten in the United States. Sure, this mean reversion play is taking longer than most people would have thought, but the small size and new extremes could make +1 S30Y:-1 S2Y a good long-term strategy.



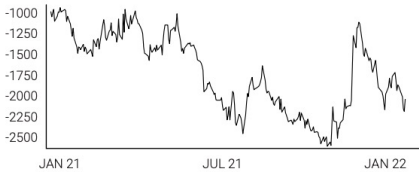
##### STIX-QQQ \ Small Technology vs Nasdaq

Tech stocks are falling hard, and the smaller names comprising STIX are falling even harder than the big names of QQQ. You can dip your toe in some long equity exposure across some of the weakest names while partially hedging in highly correlated outperformers with +1 STIX and -1 \$3-wide call spread in QQQ.



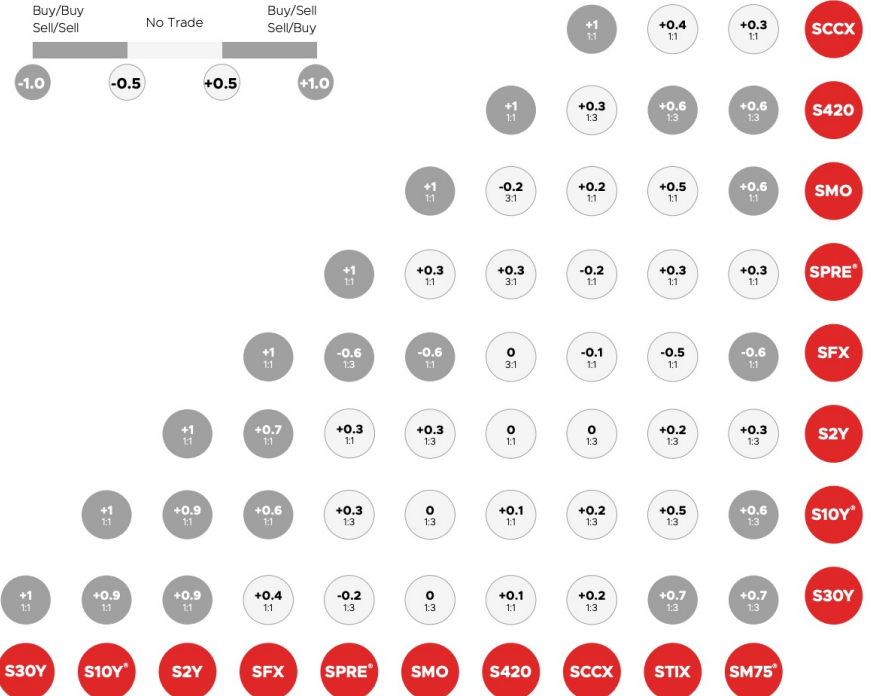
##### XLE-SMO \ Energy Sector vs Small Crude Oil

Though crude oil has managed to hang around its highs amid equity turbulence, the stocks that deal in the commodity have not performed so smoothly. You can get short crude oil at these elevated prices while laying off some of the risk in highly correlated energy stocks with -1 SMO and -1 put in XLE.



### Pairs Trading Ratios

Number of shares and futures needed to pairs trade the Smalls



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	Candidates Top 3 most correlated markets			ETFs # of Shares :: 1 Small			Futures # of Smalls :: 1 Contract		
<b>SM75<sup>1</sup></b>	+0.8 S&P 500	+0.6 Nasdaq	+0.9 Russell	20 SPY	25 QQQ	35 IWM	3 Micro ES	3 Micro NQ	2 Micro RTY
<b>STIX</b>	+0.8 S&P 500	+0.9 Nasdaq	+0.6 Russell	15 SPY	20 QQQ	30 IWM	3 Micro ES	3 Micro NQ	2 Micro RTY
<b>SCCX</b>	+0.9 Crypto Stocks	+0.8 Bitcoin	+0.7 Ethereum	100 BLOK	100 GBTC	100 ETHE	100 BTC	2 MBT	50 ETH
<b>S420</b>	+0.9 Pot Stocks	+0.6 Russell	+0.5 S&P 500	100 MJ	4 IWM	2 SPY	10 Micro ES	10 Micro NQ	6 Micro RTY
<b>SMO</b>	+0.9 Crude Oil	+0.5 Energy Sector	+0.5 Oil Stocks	150 USO	120 XLE	75 XOP	10 CL	5 QM	3 Micro ES
<b>SPRE<sup>1</sup></b>	+0.9 Gold	+0.9 Silver	+0.8 Gold Stocks	50 GLD	300 SLV	200 GDX	3 Micro GC	3 Micro SI	3 Micro ES
<b>SFX</b>	+0.9 US Dollar	-0.9 Euro	-0.9 Pound	600 UUP	100 FXE	100 FXE	1 Micro 6E	1 Micro 6B	1 Micro 6J
<b>S2Y</b>	-0.9 2YR Note	-0.8 10YR Note	-0.7 30YR Bond	500 SHY	25 IEF	5 TLT	5 ZT	40 ZN	100 ZB
<b>S10Y<sup>1</sup></b>	-0.8 2YR Note	-0.9 10YR Note	-0.9 30YR Bond	3000 SHY	125 IEF	30 TLT	1 ZT	8 ZN	20 ZB
<b>S30Y</b>	-0.7 2YR Note	-0.9 10YR Note	-0.9 30YR Bond	3000 SHY	125 IEF	30 TLT	1 ZT	8 ZN	20 ZB

<sup>1</sup>All statistics measure the last three months of data unless otherwise stated.

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## Hedging with the Smalls

Use your investment value and Small's price to find the number of contracts needed to hedge your chosen percentage.

### The Formula

$$\frac{\text{Investment Value} \times \text{Hedge Percentage}}{\text{Small Price}} \times 100 = \text{Number of Smalls}$$

### The Example

$$\frac{\$50,000 \times 25\%}{62.50} \times 100 = 2 \text{ Smalls}$$

### REMEMBER

Using 100% Hedge Percentage creates a pairs trade.

# The Smalls

help make  
futures trading  
more accessible  
to more people.



Small Crude Oil

\ **SMO**



Small Metals

\ **PRESME**



Small US Dollar

\ **FXSME**



Small Technology 60

\ **STIXSME**



Small Treasury Yield

\ **10YSME**



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