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# Trading the US Stock Indices: Trends and Tiers

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# Trading the US Stock Indices: Trends and Tiers

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# Understanding the Four Horses

Future	Underlying Index	Sector Focus
ES	S&P 500	Broad Market
NQ	Nasdaq 100	Tech/Growth
RTY	Russell 2000	Small Caps
YM	Dow Jones	Blue Chip/Value

# Contract Mechanics & Tick Values

- **ES (E-mini S&P 500):** \$12.50 per tick (\$50.00/point).
- **NQ (E-mini Nasdaq 100):** \$5.00 per tick (\$20.00/point).
- **RTY (E-mini Russell 2000):** \$5.00 per tick (\$50.00/point).
- **YM (E-mini Dow):** \$5.00 per tick (\$5.00/point).

Micro contracts exist for all contracts at 1/10th the size

# The S&P 500 (ES)

The ES is the most liquid and widely traded equity index future in the world.

- **Composition:** 500 of the largest U.S. publicly traded companies.
- **Top Holdings:** Apple, Microsoft, NVIDIA, Amazon, Alphabet.
- **Market Role:** Used by institutions as the primary benchmark for the "entire" U.S. stock market.
- **Trading Character:** Typically more "stable" and "orderly" than the NQ.

# The Nasdaq 100 (NQ)

The NQ is known for high volatility and strong price swings.

- **Composition:** 100 of the largest non-financial companies on the Nasdaq exchange.
- **Sector Weighting:** Heavily skewed toward **Technology (approx. 50%)** and Consumer Services.
- **Excluded:** It specifically excludes banks and financial institutions.
- **Trading Character:** "Fast and thin." It moves quickly and can offer larger rewards (and risks) per tick.

# The Russell 2000 (RTY)

The RTY tracks the smaller companies that often react first to changes in the domestic economy.

- **Composition:** 2,000 small-cap U.S. companies.
- **Economic Sensitivity:** Highly sensitive to U.S. interest rates and domestic GDP growth.
- **Sector Weighting:** More balanced between Financials, Industrials, and Healthcare.
- **Trading Character:** Often used to gauge "risk-on" or "risk-off" sentiment.

# The Dow Jones Industrial Average (YM)

The YM is the "Granddaddy" of indices, representing the bedrock of American industry.

- **Composition:** Only 30 companies (Price-weighted, not Market Cap-weighted).
- **Top Holdings:** UnitedHealth, Goldman Sachs, Microsoft, Caterpillar.
- **Trading Character:** Often carries a "value" bias; moves differently when Tech is selling off but Industrials are holding steady.

# Futures vs. ETFs

## Differences between Equity Products / Futures

Feature	Futures (ES/NQ)	ETFs (SPY/QQQ)
Trading Hours	23 Hours / 5 Days	6.5 Hours (Standard Session)
Leverage	High	Low (Reg-T Margin 2:1)
Shorting	No locate requirement	Locate Costs / Margin difference
Settlement	Cash Settled	Share delivery

Trading Hours

Leverage

Shorting Markes

Settlement

# Leverage with Futures

Margin on futures gives traders the ability to control a large notional value relative to the initial capital required

Example: Micro Gold

Price: \$4,800/oz

Margin: \$3,900

Contract Unit: 10 troy oz

Notional Value: \$48,000

Example: \$GLD

Price: \$450

Share equivalent: 106



# Key Market Drivers

The equity indices see volatility from a variety of different catalysts

- Economic Data (Jobs, Inflation)
- Earnings Reports
- Fed Interest Rate Decisions
- Global Tensions / Trade

# Ways to Trade Products

## Simply Buying or Selling

- Buy ES @ Market
- Buy NQ @ Limit

## Buying or Selling Options Contracts

- Buy ES Call Option @ Strike Price
- Sell NQ Call Option @ Strike Price

## Creating spreads

- Buy ES, Sell NQ
- Sell RTY, Buy NQ

# Questions