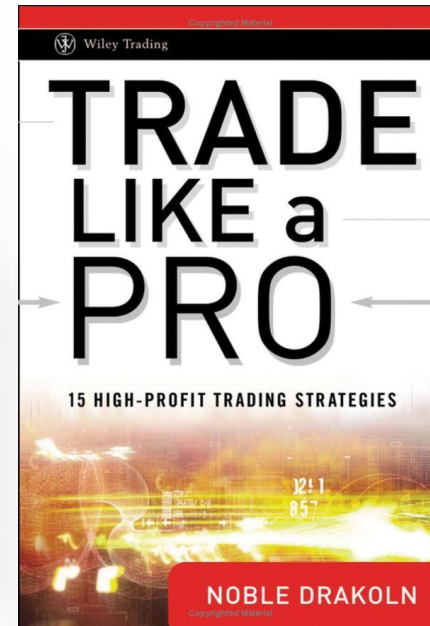


Don't fear leverage, respect it!

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Topics covered in this seminar

- What is futures leverage?
- Strategies to trading futures leverage
- Brief overview of Foreign Exchange leverage

Leverage is defined by the Webster's dictionary as "the use of investment capital in a way that a relatively small amount of money enables the investor to manage a relatively large value".

Futures are Obligations not Ownership

Stocks represent ownership.
There is a finite quantity.

Ownership is what creates
interest/credit obligations.

Margin is an outright
extension of credit.

Futures represent contracts.
There is an infinite number
of contracts available.

There is no true credit
obligation, but there is a
debt obligation.

Margin is simply earnest
money to prove your
creditworthiness, but it has
no real relationship to
contract value.

Futures Margin Life Cycle

- **Initial Margin:** Customer's funds put up as security for a guarantee of contract fulfillment at the time a futures market position is established
- **Maintenance Margin:** Minimum amount of funds that can guarantee a futures market position
- **Margin Call:** A request from a brokerage firm to a customer to bring margin deposits up to initial levels.
- **Forced Liquidation:** The situation in which a customer's account is liquidated (open positions are offset) by the brokerage firm holding the account, usually after notification that the account is undercapitalized (margin calls).

Good Leverage versus Bad Leverage

Purchasing a home is the perfect example of good leverage.

You put up a down payment and benefit from any increases in value.

While you wait you get full use of the property.

Car is a prime example of poor leverage.

The car is a wasting asset.

You put a down payment so you get use of the car, but between maintenance and gas, there is no real value added to your investment.

Strategies to trading Futures Leverage

- Using options as stops
- Covered calls and covered puts
- Spreads – calendar being the most popular
- Use futures as a true hedge
- 90-10 strategy for your retirement portfolio

Forex leverage is different

- Forex market is a cash market like stocks
- The leverage is extreme to encourage day trading
- No margin calls, ever.

- Discussed Futures Leverage
- Touched on a few strategies to reduce leverage anxiety.
- Briefly looked at Forex