>10 REASONS TO TRADE
STOCK INDEX FUTURES

LIND | WALDOCK®
Your one source for futures trading
Because it’s difficult for almost anyone to select only the top-performing individual stocks, even in bull market conditions, investing in products that track stock indexes, which provide exposure to the whole market or a sector of the market rather than a few individual stocks, has become increasingly popular.

The advantage of indexing is available in mutual funds and exchange-traded funds. But, you should consider stock index futures instead for two main reasons: flexibility and leverage.

You’ll find the information in this brochure helpful and easy to understand, even if you’re just getting started as a futures trader. Stock index futures have attracted many new traders, and for good reason. These innovative futures contracts can serve you in a number of ways, and be used with a variety of trading strategies and different financial objectives.

As you’ll read later, the reasons to trade stock index futures are numerous and compelling. You can use them to take action on your opinion of the market, manage risk and gain exposure to various market sectors efficiently and cheaply.

Whether you prefer to trade stock index futures on your own, with broker assistance from our Lind Plus™ division or through a computerized trading system with our Lind Auto-Execute™ division, we’re ready to serve you— and at competitive commission rates.

Enjoy your reading, and if you have any questions, don’t hesitate to give us a call at 1-800-445-2000.

To learn more about stock index futures, visit our website at www.lind-waldock.com. Click on the “Education” tab, and then “Stock Futures Zone.”
Add flexibility to your investment portfolio.

Stock index futures add flexibility to your portfolio in a number of ways. First, futures are available on a wide variety of leading stock indexes such as the S&P 500® or DJIA®, on more technology-oriented indexes such as the Nasdaq-100®, on broad indexes such as the Russell 2000®, on international stock market indexes such as Japan’s Nikkei or the U.K.’s FTSE-100 and on many other stock market indexes. Virtually wherever there is stock market exposure, there is a stock index contract to cover or capitalize on it.

Second, there is now a stock index futures contract to fit almost any size account. While the S&P 500 futures margin may be $20,000 or more, you can trade the smaller E-mini S&P or DJIA futures for about one-fifth the amount. (These margin requirements can change as the markets move, so please call Lind-Waldock for more specific details on current conditions.)

Third, many of the major stock index futures also offer options on the futures contract, increasing the strategies available to fit almost any market condition. You do need to remember that stock index futures and options are short-term trading vehicles with a time limitation and are not buy-and-hold investments.

Create the possibility of speculative gains using leverage.

Because a relatively small amount of margin money controls a large amount of capital represented in a stock index contract, a small change in the index level might produce a profitable return on your investment if you’re right about the market’s direction.

For example, with the S&P 500 Index at 1150, the value of an S&P futures contract ($250 times the index) is
$287,500, but requires an initial margin of only approximately $20,000, or about 6.9% of the value of the contract. It is not unusual to have daily swings of 20 points (or $5,000) in S&P futures. If you happen to catch the whole move correctly, that's about a 25% return on your margin in one day.

Let's assume you had $12,000 to invest on October 1 and had several investment choices:

**Buy stock:** IBM shares are priced at $104, so your $12,000 buys 115 shares of IBM. On December 31, IBM shares have advanced to $139, which increases your account to $15,985, a $3,985 gain (or 33%) on your original investment (excluding commission fees.)

**Buy an ETF:** You decide you want broader market coverage than just IBM so you buy an ETF based on the S&P 500. Priced at $99, your $12,000 gets you 121 shares. On December 31, they have moved to $123. Your account grows to $14,883, a gain of $2,883, or about 24% (excluding commissions).

**Buy stock index futures:** Stock index futures based on blue-chip stocks in the Dow Jones Industrial Average stand at 7757 on October 1. The margin for DJIA futures is about $4,000 per contract. It is not likely that you would trade three contracts with this size account, but for purposes of showing return on investment, assume you buy three DJIA futures contracts with your $12,000. The DJIA rallies to about 9265 by December 31, a gain of 1,508 points per contract or 4,524 points altogether. At $10 per point, the account stands at $45,240, a gain of $33,240 (excluding commissions), or a return of more than 250% on the original $12,000 margin.

Of course, you can achieve better returns from the IBM stock, too, by buying on margin (50% minimum for stocks.) On a recent day when the DJIA had an approximate peak-to-trough range of about 255 points ($2,550
in DJIA futures on $6,000 margin), the range for one of these unit trust products was 2.71 points, from 98.35 to 101.06. On this day it would have taken $4,917.50 (98.35 X 100 unit trust index product shares at 50% margin) to make $271 on 100 index trust unit shares if you had the exact top and bottom of the day.

Few investments capitalize on the power of leverage more than futures. Of course, keep in mind that leverage is a two-edged sword. It can work against you very quickly if the market does not go your way. And it is possible that your loss in a day can exceed the margin you have on deposit.

3 You can trade stock index futures electronically as easily as you trade stocks online.

The E-mini® — for “electronic” mini — S&P stock index contract was the futures industry’s first market to use a small-order electronic order-routing and execution system. Now, many stock index futures contracts use an electronic platform to execute trades quickly and easily. In addition, these platforms often offer trading virtually around the clock.

4 Provide hedging or insurance protection for a stock portfolio in a falling market.

Although the stock market climbed steadily from the early 1980s to the late 1990s, it later became apparent that there is no guarantee that it will always do so. Even though you don’t expect a fire in your house or an accident with your automobile, you buy insurance in case that should happen. You can also get “insurance” for your stock portfolio by using stock index futures and options on futures to protect against the day a decline might come. And, unlike purchasing options as
insurance, there is no time value erosion of the futures
position.

5 Maintain your stock portfolio during stock market corrections.

You may not need “insurance” all of the time, but there are
certain times when you would like less exposure to
stocks. Yet, you don’t want to sell off part of a stock portfo-
lio that has taken you a long time to put together and looks
like a sound, long-term investment program.

Perhaps you are worried that the Federal Reserve or
Congress might do something to give the stock market
a jolt or that some national or international develop-
ments could cause a severe stock market correction.
Every market goes through periods when it is more
vulnerable to corrections, perhaps quite big ones. If you
feel you need protection for only a few days to
withstand a temporary weak period in the market, you
can sell stock index futures instead of disturbing your
stock market portfolio.

6 Sell as easily as you can buy.

One of the major advantages of futures markets, in
general, is that you can sell contracts as readily as you
can buy them and the amount of margin required is the
same. A few mutual funds specialize in bear market
approaches by short selling stocks but, for the most
part, it is very difficult for an individual to short stocks.
And selling naked stock index options is even more
prohibitive at many major brokerage firms unless you
have an account of at least $50,000.

In stock index futures, there is no “uptick rule” that
requires traders to wait until the market moves up
(trades on an uptick) to sell short. There are no special
restrictions at all on being short. It is as simple to sell if
you believe the market is going down as it is to buy if you think the market is going higher. If the initial margin is $20,000 to buy a contract, the margin is $20,000 to sell the same contract.

### Substitute for a future stock or mutual fund transaction.

Futures generally are defined as a temporary agreement for a future transaction, and that concept can be applied to the investor who suddenly has a sum of money and wants to invest it in the stock market. You may have won the lottery or you may have just received an inheritance or your quarterly bonus. You expect the stock market to go up, but you don’t know which stocks to buy and you don’t want your money sitting idle in the meantime.

Stock index futures can give you quick exposure to the stock market and give you time to decide what you want to do on a more permanent basis. If you are eager to get into what you consider a great buying opportunity, you can also use stock index futures as a proxy for purchasing a mutual fund while you are waiting for the fund company to process your request. Again, stock index futures are meant to be short-term positions, not a long-term holding strategy.

### Transfer risk quickly and efficiently any time during the day — or even at night.

Whether you are speculating, looking for insurance protection (hedging), or temporarily substituting futures for a later cash transaction, most stock index futures trades can be accomplished quickly and efficiently. Not every stock index futures market has sufficient liquidity to allow easy entry and exit with minimum slippage, but markets such as S&P 500 futures can handle almost any size order at any time during the trading session. With
electronic trading in contracts such as the E-mini S&P 500, trading sessions are now stretching almost around the clock.

Many mutual funds require investors to wait until the end of the day to see at what price they were able to purchase or sell shares. With today’s volatility, once-a-day pricing may not give you the maneuverability to take positions at exactly the time you want. Stock index futures give you the opportunity to get into or out of a position whenever you want and often within seconds of receiving your order. At Lind-Waldock, you can trade many electronically traded stock index futures contracts directly from your own computer and know where you stand almost instantaneously.

Benefit from transaction costs that are lower than the costs of trading stocks.

One thing to remember when you compare the commission costs of futures trading and stock trading is that futures trading usually lists commission rates as “roundturn,” meaning a “buy” and a “sell.” Commission rates for stock trading are normally quoted for only one side of a transaction — for a “buy” or a “sell.” So you need to double the quoted cost of a stock trade to make it comparable to the roundturn cost of a futures trade.

Futures trading typically lets you capitalize on stock market movement for a lower commission rate. For example, if you were to trade one E-mini S&P 500® futures contract, your stock market exposure to large cap stocks would be $57,500 ($50 times the S&P 500 Index with the index at 1150.) Say the commission rate to buy and sell your E-mini S&P 500 Index futures contract is $19 roundturn online. On the other hand, to trade $57,500 worth of stocks, you might purchase 1,150 shares of a $50 stock. Your stock trading commissions, based on some widely advertised
commission rates, could be around $20 for the buy side
of an online transaction, or $40 roundturn. The cost of
attempts of to buy each of the stocks represented in the
index would be far higher. As you can see, stock trading
commission fees can be 100% more than futures
trading commissions. Large stock index futures
contracts, like the S&P 500® with a $250 multiplier, are
even more commission efficient.

Enjoy a potentially lower
tax rate.

Profits on futures are taxed differently from short-term
profits you make trading stocks, and this difference can
work to your advantage.

Why? Because profits from stocks that you hold less
than 12 months are taxed, if you’re in the top tax
 bracket, at 39.6%. But profits on futures gains — both
realized and unrealized — are taxed at a blended rate
of 27.8%.

The blended rate is the result of an Internal Revenue
Service policy that classifies 60% of futures gains as
long-term gains and 40% as short-term gains —
regardless of the holding period.

For example, if you have a $10,000 short-term profit in
the stock market, and you’re in the top tax bracket,
you’re looking at taxes of $3,960. The same amount of
profit in the futures market would generate a $2,784 tax
bill — about 30% less than the taxes on the stocks.
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