Futures Market Fundamentals

PRESENTED BY:

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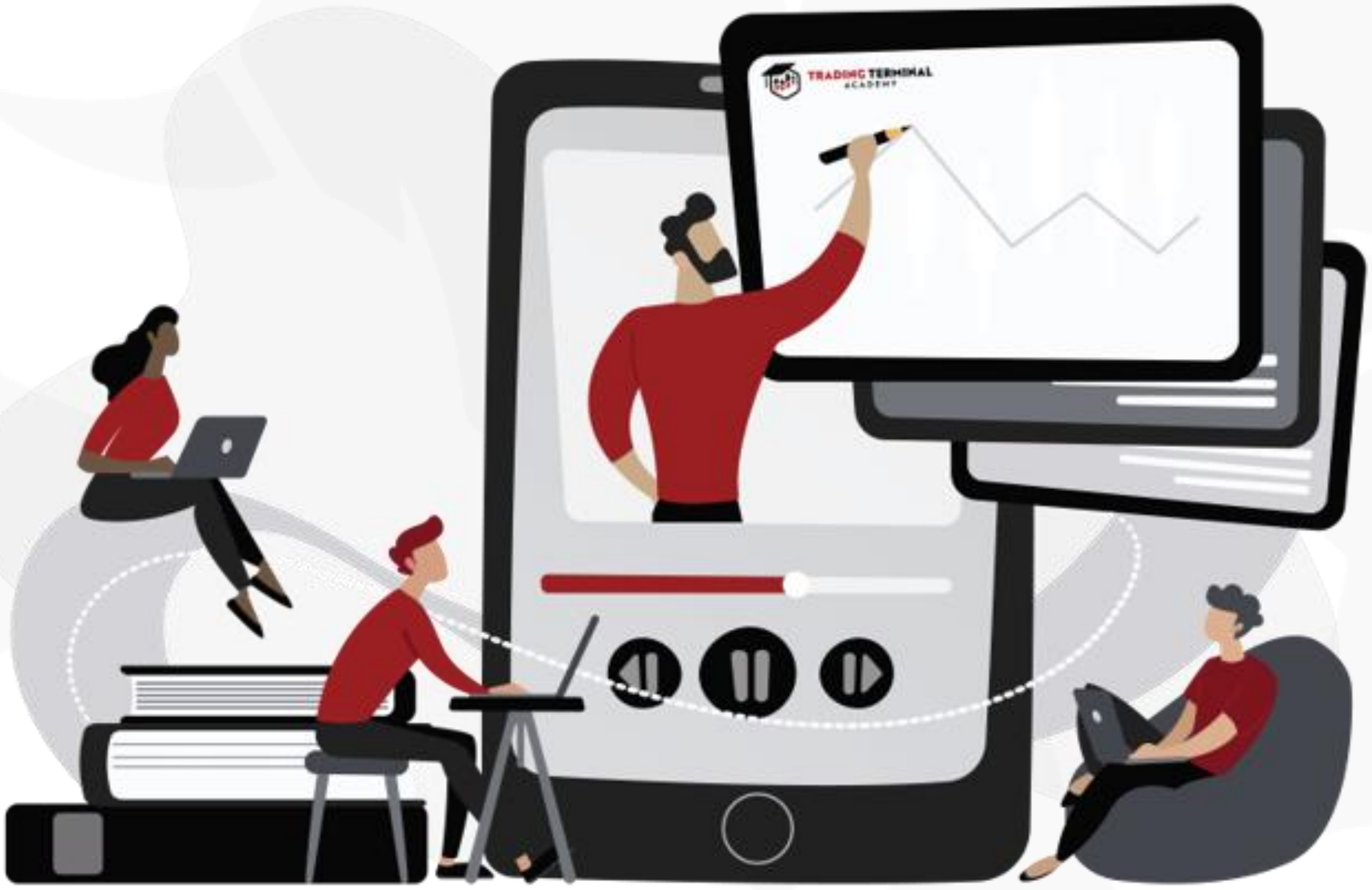
Overview

- What is a Futures Contract
- Why Trade Futures
- Index Futures
- Contract Specifications
- MES vs MNQ
- Leverage Explained
- Margin Requirements
- How P&L Moves
- Risk Calculation Basics
- Common Mistakes
- Lesson Assignment



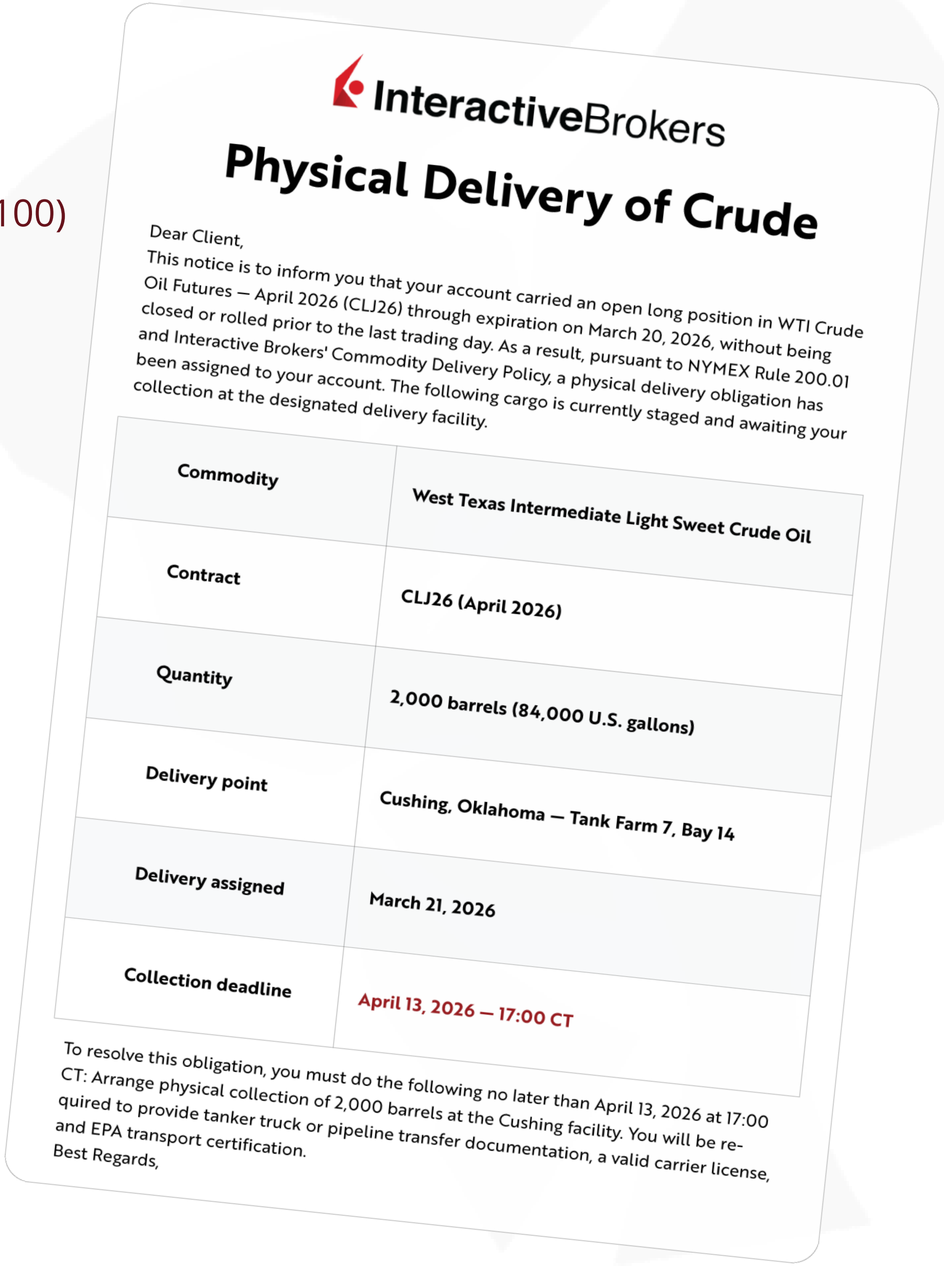
What is a Futures Contract

- **Futures are Derivative Instruments**
  - Value is derived from an underlying asset (e.g., S&P 500, Nasdaq 100)

- **Standardization is Critical**
  - Every MES or MNQ contract is identical
  - This allows:
    - High liquidity
    - Tight spreads
    - Efficient execution

- **Key Distinction:**
  - Stocks = ownership
  - Futures = contractual exposure

- **Centralized Exchanges (like CME) Ensure:**
  - Transparency
  - Regulation
  - Order matching



InteractiveBrokers

Physical Delivery of Crude

Dear Client,

This notice is to inform you that your account carried an open long position in WTI Crude Oil Futures — April 2026 (CLJ26) through expiration on March 20, 2026, without being closed or rolled prior to the last trading day. As a result, pursuant to NYMEX Rule 200.01 and Interactive Brokers' Commodity Delivery Policy, a physical delivery obligation has been assigned to your account. The following cargo is currently staged and awaiting your collection at the designated delivery facility.

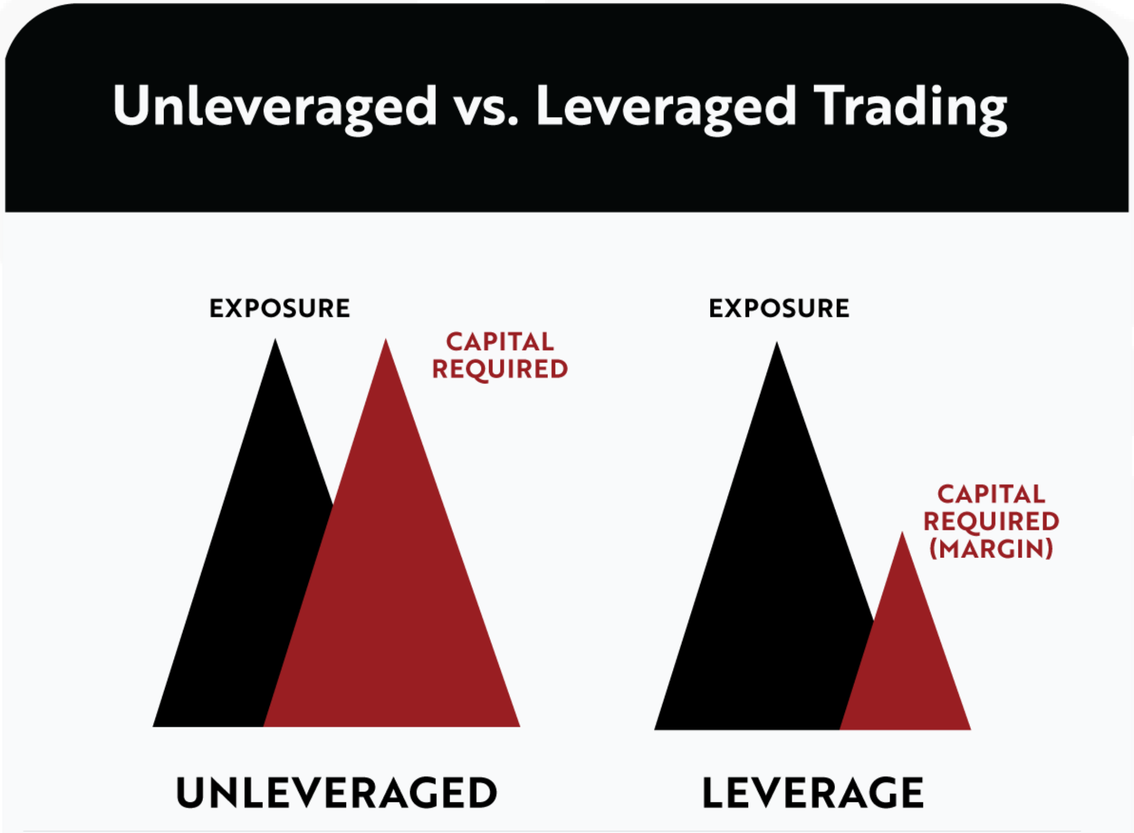
Commodity	**West Texas Intermediate Light Sweet Crude Oil**
Contract	**CLJ26 (April 2026)**
Quantity	**2,000 barrels (84,000 U.S. gallons)**
Delivery point	**Cushing, Oklahoma — Tank Farm 7, Bay 14**
Delivery assigned	**March 21, 2026**
Collection deadline	**April 13, 2026 — 17:00 CT**

To resolve this obligation, you must do the following no later than April 13, 2026 at 17:00 CT: Arrange physical collection of 2,000 barrels at the Cushing facility. You will be required to provide tanker truck or pipeline transfer documentation, a valid carrier license, and EPA transport certification.

Best Regards,

Why Trade Futures

- **Leverage**
  - Futures allow notional exposure far greater than account size
  - Example:
    - MES controls ~$20K+ of market exposure with a small margin
- **Liquidity**
  - MES and MNQ are among the most liquid instruments globally
  - Results in:
    - Tight bid-ask spreads
    - Minimal slippage (in normal conditions)
- **Market Access**
  - Futures trade nearly 24 hours:
    - Globex session (overnight)
    - Regular Trading Hours (RTH)
- **Capital Efficiency**
  - You are not paying full contract value
  - You are using margin → more efficient use of capital
- **Long / Short Flexibility**
  - No restrictions like short-sale rules in stocks
  - Equal ease trading both directions



A comparison of leveraged vs. unleveraged trading, highlighting the difference in capital requirements.

Index Futures

- **Underlying Index Differences**
  - MES → tracks S&P 500
    - Diversified across sectors
    - More balanced movement
  - MNQ → tracks Nasdaq 100
    - Heavy tech weighting (Apple, Microsoft, Nvidia, etc.)
    - More momentum-driven
- **Volatility & Behavior**
  - MES:
    - More controlled movement
    - Cleaner structure
    - Easier for beginners to read
  - MNQ:
    - Larger intraday ranges
    - Faster moves
    - More aggressive pullbacks
- **Psychological Impact**
  - Faster markets = more emotional pressure
  - Beginners often:
    - Gravitate to MNQ (more movement)
    - But perform better in MES (more structure)

Contract Specifications

- **Tick Size**
  - Minimum increment price can move
  - MES & MNQ:
    - 0.25 points per tick
- **Tick Value**
  - Dollar value of one tick
  - MES:
    - $1.25 per tick
    - $5 per point
  - MNQ:
    - $0.50 per tick
    - $2 per point
- **Contract Size / Notional Value**
  - Represents total market exposure
  - Example:
    - MES ≈ S&P 500 × $5
    - MNQ ≈ Nasdaq × $2
- **Why This Matters**
  - Every movement = real money
  - This directly impacts:
    - Stop loss size
    - Position sizing
    - Daily risk limits

Equity Index Futures

Symbol	Contract	Tick Size	Tick Value
CME_MINI:ES	E-mini S&P 500	0.25	$12.50
CME_MINI:MES	Micro E-mini S&P 500	0.25	$1.25
CME_MINI:NQ	E-mini Nasdaq-100	0.25	$5.00
CME_MINI:MNQ	Micro E-mini Nasdaq-100	0.25	$0.50
CME_MINI:RTY	E-mini Russell 2000	0.10	$5.00
CME_MINI:M2K	Micro E-mini Russell 2000	0.10	$0.50
CBOT_MINI:YM	E-mini Dow Jones	1.0	$5.00
CBOT_MINI:MYM	Micro E-mini Dow	1.0	$0.50

Breakdown of MES vs MNQ

- **Behavioral Differences**
  - MES
    - Cleaner trends
    - Slower rotations
    - Easier to manage entries/exits
  - MNQ
    - Sharp impulses
    - Quick reversals
    - Requires faster decision-making
- **P&L Impact vs Perception**
  - Even if MNQ pays less per point than MES:
    - It often moves more points → higher real volatility
  - Traders underestimate:
    - Speed of movement
    - Slippage risk
    - Execution pressure
- **Volatility & Stop Placement**
  - MNQ requires:
    - Wider stops
    - Faster reactions
  - MES allows:
    - More controlled execution
    - Better learning environment
- **Psychological Component**
  - MNQ:
    - Triggers impulsive behavior
    - Increases FOMO and panic
  - MES:
    - Encourages discipline
    - Easier to follow plan

MES *S&P 500 micro*

BEHAVIOR

- Cleaner trends
- Slower rotations
- Easier entries & exits

MNQ *Nasdaq micro*

BEHAVIOR

- Sharp impulses
- Quick reversals
- Faster decision-making required

P&L IMPACT VS PERCEPTION

REALITY

MNQ moves more points → higher real volatility, even with lower tick value

WHAT TRADERS UNDERESTIMATE

→ Speed of movement
→ Slippage risk
→ Execution pressure

Leverage Explained

- **Notional Value vs Margin**
  - Traders often confuse:
    - Margin = cost → ❌
    - Margin = collateral → ✅
  - Example:
    - MES at 4500:
      - Notional value ≈ $22,500
      - Margin required ≈ a few hundred dollars
  - You are controlling far more than you put up

- **Amplification Effect**
  - Leverage magnifies:
    - Gains
    - Losses
  - A small move against you:
    - Can exceed acceptable risk quickly

Leverage Explained

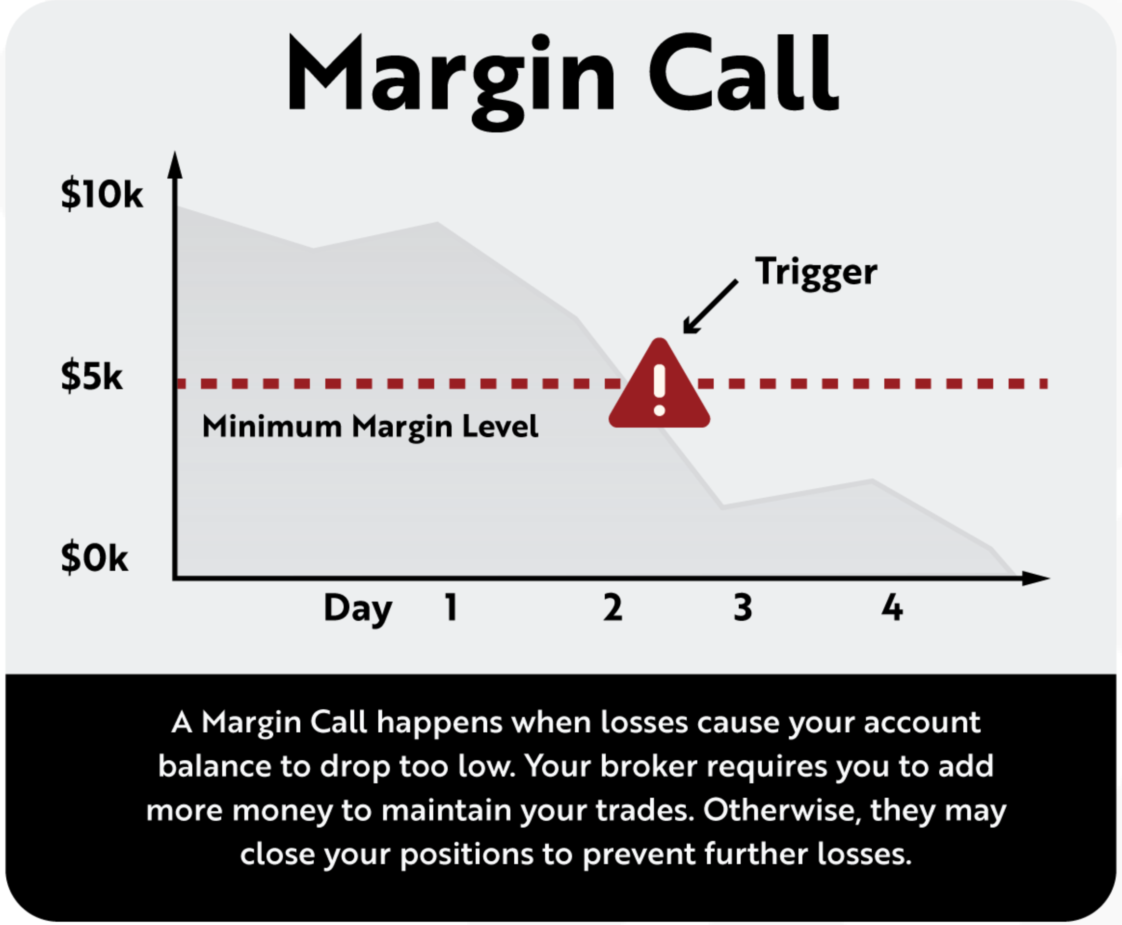
- **Why Beginners Fail Here**
  - They:
    - Trade too many contracts
    - Base size on account balance instead of risk
    - Underestimate speed of loss

- **Leverage + Volatility = Risk Multiplier**
  - Especially dangerous in MNQ
  - Fast moves + oversized positions = account damage

- Reframe leverage from:
  - "Advantage" TO "Responsibility and risk amplifier"

Margin Requirements

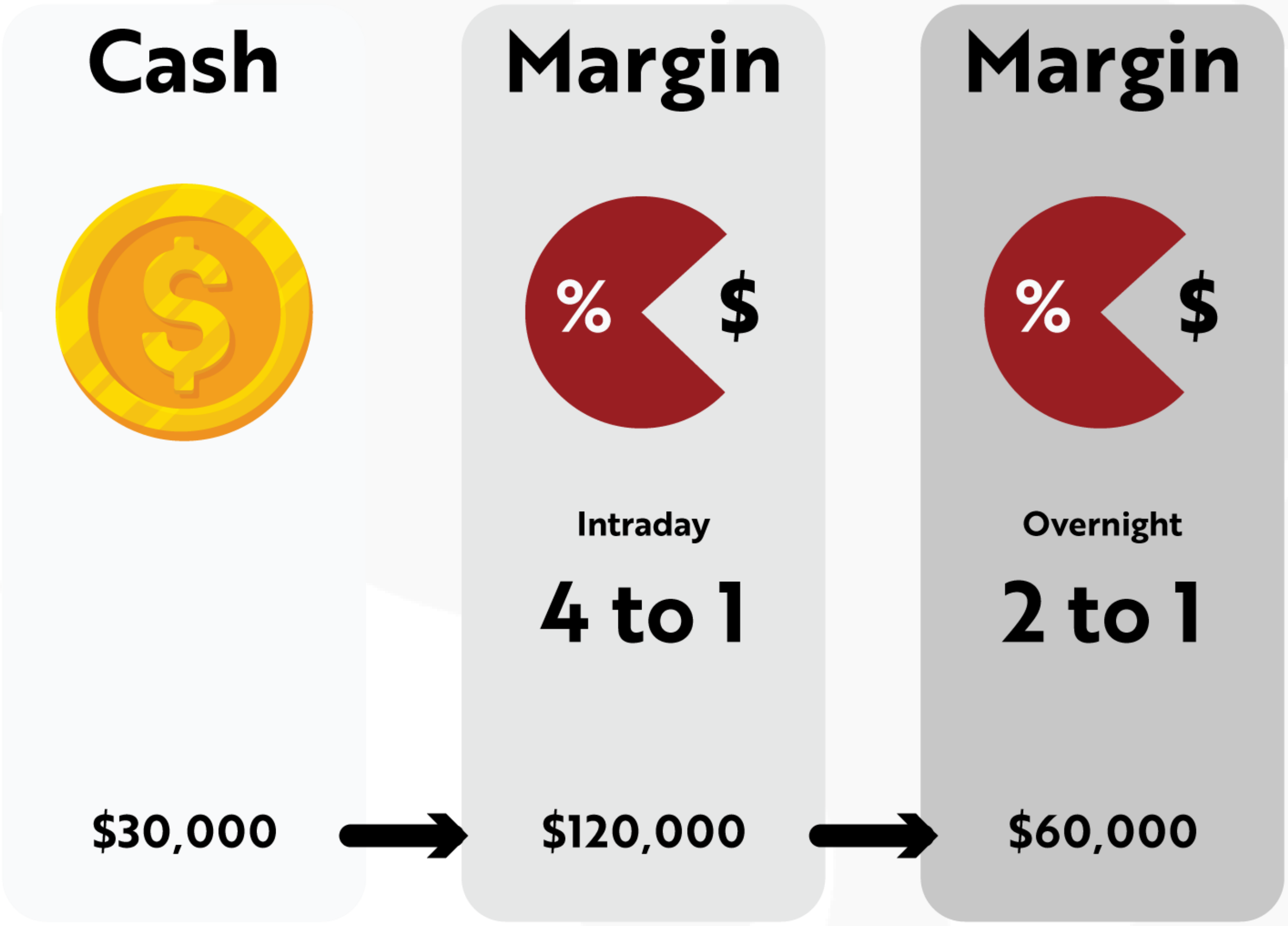
- **Initial vs Maintenance Margin**
  - Initial Margin
    - Required to open a position
  - Maintenance Margin
    - Minimum balance required to keep position open
- **Liquidation Mechanics**
  - If account drops below maintenance:
    - Broker may:
      - Issue warning
      - Auto-liquidate positions
  - Futures brokers often:
    - Liquidate **immediately**, not gradually



Margin Requirements

- **Intraday vs Overnight Margin**
  - Intraday margin:
    - Lower (day trading)
  - Overnight margin:
    - Higher (holding positions)

- **Common Misunderstanding**
  - Traders think:
    - “If I have margin, I’m safe”
  - Reality:
  - Margin is just the minimum requirement
  - It does NOT protect you from loss



How P&L Moves

- **Mark-to-Market**
  - Futures accounts are updated continuously
  - Gains/losses are reflected immediately as price moves

- **Tick-by-Tick P&L**
  - Every tick:
    - MES → $1.25 per contract
    - MNQ → $0.50 per contract
  - P&L formula (real-time):
    - Tick × contracts × value per Tick

- **Unrealized vs Realized P&L**
  - Unrealized (Open P&L)
    - Fluctuates while trade is active
  - Realized (Closed P&L)
    - Locked in after exit

Key Formula Box

P&L Formula:

(Tick Value × Number of Ticks Moved) × Number of Contracts

How P&L Moves

- **Speed & Volatility Impact**
  - Fast markets (MNQ):
    - P&L swings quickly
    - Harder to manage emotionally
  - Slower markets (MES):
    - More controlled P&L movement

- **Psychological Layer**
  - Constant P&L fluctuation:
    - Triggers fear and greed
    - Leads to:
      - Early exits
      - Overholding
      - Revenge trading

P&L Examples Section (Visual Calculator)

Price Move	Points	Ticks	NQ P&L	MNQ P&L
1.001	point	4 ticks	$20.00	$2.00
5.00	5 points	20 ticks	$100.00	$10.00
10.00	10 points	40 ticks	$200.00	$20.00
50.00	50 points	200 ticks	$1,000.00	$100.00

These are comparisons for NQ/MNQ and ES/MES. Make them with the same fields in 2 separate images but alike. ES/MES is at the bottom and missing Price move but you can use the same as the NQ/MNQ

Movement	Ticks	ES P&L	MES P&L
1 Point	4	$50.00	$5.00
2 Points	8	$100.00	$10.00
5 Points	20	$250.00	$25.00
10 Points	40	$500.00	$50.00
30 Points	120	$1,500.00	$150.00

Risk Calculation Basics

- **The Core Formula**
  - Risk ($) = Points × Contracts × Value per point
  - Examples:
    - MES:
      - 5-point stop × 2 contracts × $5 = $50 risk
    - MNQ:
      - 10-point stop × 1 contract × $2 = $20 risk

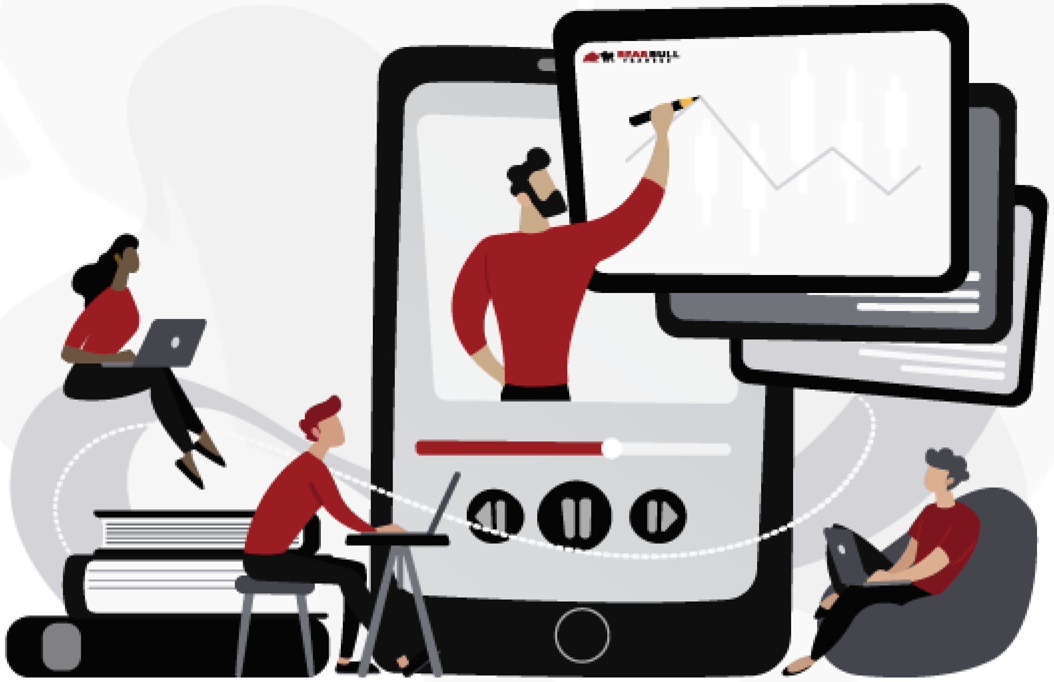
- **Stop Loss Defines Risk**
  - Entry does NOT define risk
  - Stop distance defines risk

Risk Calculation Basics

- **Position Sizing**
  - Contracts should be based on:
    - Max acceptable loss per trade NOT:
    - Account size
    - Confidence level

- **Compounding Risk Mistakes**
  - Doubling contracts = doubling risk
  - Small sizing errors → large account impact

- **Professional Mindset**
  - Professionals think:
    - “How much can I lose?”
  - Beginners think:
    - “How much can I make?”



Common Beginner Mistakes

- **Oversizing = Primary Failure Point**
  - Root cause of most blown accounts
  - Comes from:
    - Misunderstanding leverage
    - Desire to make money quickly
- **Ignoring Contract Specs**
  - Traders don't know:
    - Tick value
    - Point value
  - Leads to:
    - Miscalculated risk
    - Unexpected losses
- **No Defined Risk**
  - Entering trades without:
    - Stop loss
    - Predefined risk level
  - Leads to:
    - Holding losers too long
    - Large drawdowns

Common Beginner Mistakes

- **P&L-Driven Decisions**
  - Watching unrealized P&L:
    - Causes early exits
    - Causes hesitation
    - Causes overtrading
- **Chasing Volatility**
  - Traders gravitate to MNQ for movement
  - Ignore:
    - Execution difficulty
    - Emotional pressure
- **Outcome vs Process Focus**
  - Beginners:
    - Focus on money
  - Professionals:
    - Focus on execution quality

Lesson Assignment

Formula: P&L = Points x Contracts x Value per Point
Tip: Use positive points for winners and negative points for losers.

Trade	Mkt	Entry	Exit	Points	Contracts	P&L ($)
1	MES	4500	4505		2	
2	MNQ	15500	15490		1	
3	MES	4510	4507		3	
4	MNQ	15620	15635		1	
5	MES	4520	4515		2	
6	MNQ	15700	15680		1	
7	MES	4490	4498		1	
8	MNQ	15800	15810		2	
9	MES	4530	4520		1	
10	MNQ	15900	15870		1	

Risk Planning and Reflection

Complete this section after you finish the 10 trade calculations.

Risk Planning

Account Size ($)

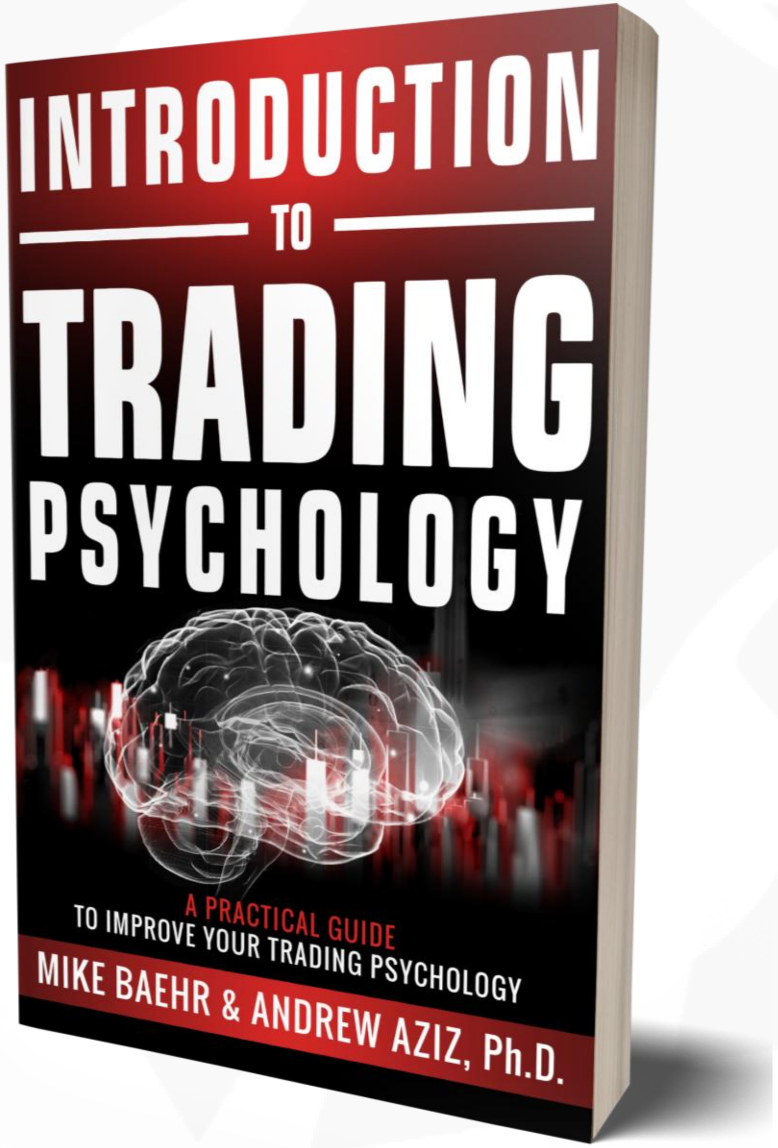
Max Daily Loss (%)

Max Daily Loss ($)

If risking 5 points on MES, what is your max contracts?

How many points of loss equals your max daily loss?

Reflection Questions



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