

## STOCK AND INDEX FUTURES:

### Chapter 1:

Please go through the basics of Futures provided in the Derivative Research Section which includes:

#### Introduction to Futures:

What are Futures?

Distinguish Between Futures and Forwards

How are Stock & Index Futures different from Stock & Index Options?

Methods of Arriving at the Future Price with illustrations

### Chapter 2:

Understand the major stock exchanges and the various Stock Market Indexes in India and its significance provided in the research section

#### Stock Exchanges:

- The National Stock Exchange of India Limited
- Bombay Stock Exchange Limited

#### Stock Market Indexes:

- The BSE SENSEX
- BSE-100 index
- BSE-200
- BSE-500 Index
- S&P CNX Nifty
- CNX Nifty Junior

### Chapter 3:

Understand the various trading aspects of futures provided in the research matter.

- Trading Days
- Trading Hours

Note: any trades passed after the market shuts, those trades will be treated as pending transaction and will be executed on the next trading day at the price at which the market opens.

### Chapter 4:

Understand the settlement procedure in stock and index futures; also understand the difference between going short and long.

Note: Presently, Stock futures are settled in cash. The investor can square up his position at any time till the expiry. The investor can first buy and then sell stock futures to square up or can first sell and then buy stock futures to square up his position.

### Chapter 5:

Understand the various concepts of Futures Trading. This information is available in the research section and in the quotes section and also be viewed in the detailed watch list.

**The standardized items in a futures contract:**

- Quantity of the underlying instrument
- Quality of the underlying instrument
- The date and the month of delivery
- The units of price quotation and minimum price change
- Location of settlement

**Chapter 6:**

(a) Understand the specification of the Stock and Index futures. This information is available in the research and quote section.

**Specifications of the Stock and Index Futures:**

- Tenure
- Expiry Date
- Tick Size
- Lot Size

Note: On the Stock and Index trading page take special notice of the lot size and tick size. You will notice that only multiples of lot size can be traded.

(b) Understand the types of margin the participant must deposit into his margin account at the time he places an order to buy or sell a futures contract. This Information is provided along with illustrations in the research and quotes section.

**Types of Margin Requirements:**

- Initial Margin
- Maintenance Margin
- Variation Margin

**Chapter 7:**

Understand the types of orders that can be passed. To understand the concept of the various orders please have a look at the Glossary.

**Types of Orders:**

Market Order

Limit Order

Stop Loss Orders

Modification and Cancellation of Orders

Note: Multiples of tick size prices can be input if limit or stop-loss order. The trades showing as pending transactions can be modified or cancelled.

### Chapter 8:

Once the trading specifications are clear, before trading one must try to track a stock or index. One must look out for the following aspects provided in the research and quote section:

- See the amount of price movement that takes place in that stock or index on a daily basis (volatility)
- Notice the tick size
- See amount of margin that gets locked in while trading that particular stock or index.
- Notice the day's open, high, low and close price on a daily basis.
- Understand the lot size for a particular stock or index.
- Stock or Index overview
- Market performance

### Chapter 9:

After tracking one stock or index later try to track another stock or index (probably from another sector) and compare the two in terms of it's:

- Volatility
- Lot size
- Tick size
- Margin
- Volume

### Chapter 10:

After understanding how a stock or index moves one can then start trading on the simulator by passing market, limit or stop loss orders. On portfolio notice that margin has gone up and that in gain/loss you can see the movement of price. Notice the marked to market the next morning or at the end of the day. Understand how the outstanding positions in stock or index futures are marked to market daily. The closing price of the respective futures contract is considered for marking to market. Notice the profits and losses on a daily basis which would depend upon the difference between the price at which the position is opened and the price at which it is closed. Notice how investment in that stock or index affects your portfolio for a week. If you want you can invest in more than one stock or index futures.

### Surveillance:

- Mark to Market Loss Monitoring
- Maximum Allowable Open Position
- Daily settlement price
- Final settlement price