Blueprint For Professional Trading

MF Global SM

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Introduction

Mastering the fundamentals of any sport, business or other activity is important if you expect to succeed. Before going out on the PGA tour, players learn how to hold a golf club, address the ball, improve their swing and a myriad of other game fundamentals. It is no different when trading. Trading is a business, and it is up to you to learn the fundamental aspects of that business if you expect to be a winner.

What are the fundamentals of trading? Contract specifications, market behavior, exchange trading hours, money management, risk-reward parameters, and market analysis to name a few. And, of course, order entry. The types of orders available and how they differ, what to expect when placing orders, and how to enter orders properly are fundamental to the art of successful trading. That does not mean knowing proper order procedure will make you a great trader, just as knowing how to dribble a basketball does not make you Michael Jordan. But not knowing how to place orders properly could have a negative impact on your trading results.

Trading can be profitable; trading can be fun; trading can be a huge ego booster. Trading can also produce the opposite of those positive effects. The difference is not luck. The difference is mastering the trading business through learning and experience, the same way we would expect to achieve positive results in any new venture. We have tried to present this information on order entry in a straightforward, easy to follow format, and we hope that it will add to your fundamental knowledge about trading successfully.

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One of the most important aspects of successful trading is learning to enter orders correctly. You can analyze markets, subscribe to the best trade recommendation services, and learn to employ sound money management techniques, but if your order goes in wrong you will not get the position or market action you expected. Proper order entry is one of those basic, fundamental actions that should become second nature to you. You must enter your orders properly each and every time, and all orders must contain at least six vital pieces of information

IDENTIFICATION

Identify yourself with your Account Number. When entering an order by telephone or computer, the first information conveyed is your Account Number. A brokerage firm will not execute an order if the company can not identify the trader. The receiving computer, phone clerk or broker uses that number to identify you and determine whether or not there is enough equity in the account to cover margin requirements for new positions.

MARKET ACTION

Buy or sell. The broker must know whether to buy or sell for your account. Remember, if you hold a short position and are liquidating, or covering that position, your order is to buy, not sell. Under stressful conditions a trader might think, "I have to get out of my short position right now," and enter an order to sell the position. Instead of offsetting the short position by buying it back, the trader actually doubled the short position.

QUANTITY

Number of contracts to buy, sell or spread. It is possible to receive a partial fill when entering multi-contract orders, such as filling only 3 of a 5-lot. It is also possible to receive different fill prices, such as 2 filled at $3.00, 1 filled at $3.10 and 1 filled at $3.20 on a 4-lot order.

CONTRACT MONTH AND YEAR

Identify the month and year in which the contract expires. When entering orders by telephone, say the month. When entering by computer follow instructions on the screen, typically choosing the proper month and year from a pull-down menu.

CONTRACT

Description of contract or option traded. When entering orders by telephone, say the description. When entering by computer follow instructions on the screen, typically choosing the option description from a pull-down menu.

ORDER TYPE

This is how you tell the floor broker when or at what price to fill your order. The following section will discuss various types of orders in detail.

Certain types of orders require additional information that will be discussed in the following section on order types. Option orders require additional information that will be presented in the options section.

Most computer trading systems will ask you specific questions about the topics discussed above and will display a list of answer choices. As an example, assume that you are on-line and entering an order for "Account Number 12345" to "Buy 5 MARCH BONDS at 123.20" (see the following section on order entry). The on-line program will require you to 1. Identify yourself with an identification number and log-in number to gain access to the system. In our example you will have identified yourself as "Account 12345." The system will then take you through the proper sequence for entering an order by asking:

BUY OR SELL

You click on the correct response. Using our example you click "Buy."

QUANTITY OR NUMBER OF CONTRACTS

You enter the correct number of contracts. "5"in our example.

MONTH AND YEAR

Click the correct contract expiration month and year. All months and several years will be presented. In our example, click "March" on the month pull-down menu, then click "20—" on the year pull-down menu.

CONTRACT

You will be asked to identify the contract, typically clicking it on a pull-down menu. In our example click on "30 Year T-Bond."

ORDER TYPE

Choose the correct order type on the pull-down menu. In our example click on "Limit Order"and enter the limit price, "12320." Limit orders will be discussed in the following section.

Computer order-entry systems may prompt you to indicate the trading session in which the order is valid (day session, Globex, Project A, etc.). In our example choose "Day Session."

The screen will display your order in printed form and give you the opportunity to make any corrections. If the order is correct many systems will then display the order as it looks on an order ticket, at which time you activate the order and send it in. The receiving computer will reply:

Order Log for Account 12345	(Account Number)
Buy 5 Mar 19— T Bonds @ 12320 OB	(order)
Day Order.	(Valid Market)
Valid Day Session Only.	
Approval Status: Approved	(Order Confirmed)
Last Tic: USH9 12326	(Last Trade for March 19— T-Bonds)
Tic Time: 14:33:26	(Actual Time of 12326 Quote)

Your order is not valid if you do not receive a confirmation from your brokerage firm. And never assume anything. The brokerage firm computer receives information and instructions that you provide and can not know that you want the order to trade several sessions, or that you really meant to place a stop order. Be careful! Keep records!

When entering orders through a trading desk, keep in mind that you are giving instructions to a phone clerk who may or may not know anything about what you are doing. If you are short the market and want to get out of your position, the order is to "Buy" it back. But if you mistakenly say "Sell"the clerk will write "Sell" and does not know that you are covering a short position and should have said "Buy." Be careful! Keep records!

Even when entering orders through a live broker you must take the time to do things correctly. Be careful! Keep records!

FUTURES CONTRACT ORDERS

MARKET ORDER

The most common type of order is the Market Order. Market Orders are used primarily when immediate order execution is required. When entering a Market Order you state the number of contracts you want to buy or sell in a given contract month. You do not specify a price since your objective is to have the order executed as soon as possible at the best possible price. Once a Market Order is placed it is filled and cannot be cancelled.

As an example, in anticipation of a rise in gold prices you are long (you previously bought) two June gold contracts. On this day prices move lower and you decide to exit the market now, before prices deteriorate further. You enter an order to sell two gold contracts At The Market and your order is filled at the best possible price at that time. Assuming gold is not trading limit down, which halts further selling, you know that your order has been filled and you have exited your position successfully.

To enter a Market Order provide the following information:

Account Number:	12345
Market Action:	Sell
Quantity:	2
Month & Year:	June 19—
Contract:	Gold
Order Type:	Market

Enter the order as follows:

ACCOUNT 12345
SELL 2 JUNE GOLD at the MARKET

Assume in the example above that gold is trading at $300 when the order is entered. Your fill may be below, at or above $300, but the order will be filled immediately.

Brokerage Firm	Account Number	Data Entered	Floor Order Number
MF Global	12345		
		Date Filled	Fill Price

BUY	SELL
	2 JUN GOLD MARKET

Quantity	Month	Strike	Contract	Quantity	Month	Strike	Contract

PRICE	PUT ☐	CALL ☐	PRICE	PUT ☐	CALL ☐
	OPEN ☐	CLOSE ☐		OPEN ☐	CLOSE ☐

Limit Order

A Limit Order specifies a price limit at which the order must be executed. In other words it must be filled at that price or at a better price. The advantage is that you know the worst price you will get if the order is executed. The disadvantage is that you cannot be certain that the order will be filled because the market may not trade at your price.

BUY LIMIT

When buying, if the order price is lower than (below) the current market price, it is a Buy Limit.

As an example, with the Dow Jones Industrial Average Index trading at 7800 you decide to buy a contract but want it at a lower price and are willing to risk not getting in the market if your price does not trade. Your technical analysis indicates that 7600 is the place to buy.

To enter a Limit order provide the following information:

Account Number:	12345
Market Action:	Buy
Quantity:	5
Month & Year:	December 19—
Contract:	DJIA
Order Type:	Limit
Price:	7600

Enter the order as follows:

ACCOUNT 12345
BUY 5 DEC DJIA 7600 LIMIT

Brokerage Firm **MF Global**	Account Number **1 2 3 4 5**	Data Entered	Floor Order Number
		Date Filled	Fill Price

BUY				SELL			
5 DEC DJIA 7600 LIMIT							
Quantity	Month	Strike	Contract	Quantity	Month	Strike	Contract
PRICE		PUT ☐	CALL ☐	PRICE		PUT ☐	CALL ☐
		OPEN ☐	CLOSE ☐			OPEN ☐	CLOSE ☐

The order can only be filled at the stated price (7600) or lower (better). If the market never trades as low as 7600 you will not be filled. You may not be filled even if the market trades at 7600 but not lower because there is no guarantee that enough contracts changed hands at 7600 to fill all orders at that price. If the market trades below 7600 you are filled at your price or lower. Remember that the only time you can be certain your order was filled is if the market trades better than the stated price. When buying, a better price is lower then the stated price.

8000	
7900	
7800	Current Market
7700	
7600	Buy Limit – order filled at 7600 or lower
7500	
7400	

SELL LIMIT

When selling, if the order price is higher than (above) the current market price, it is a Sell Limit.

As an example, with the market trading at 7800 you decide to sell your long DJIA contract (the contract you bought earlier at 7600) at 8000 and book the profit.

To enter a Limit order provide the following information:

Account Number:	12345
Market Action:	Sell
Quantity:	5
Month & Year:	December 19—
Contract:	DJIA
Order Type:	Limit
Price:	8000

Enter the order as follows:

ACCOUNT 12345
SELL 5 DEC DJIA 8000 Limit

Brokerage Firm **MF Global**	Account Number **12345**	Data Entered	Floor Order Number
		Date Filled	Fill Price

BUY				SELL **5 DEC DJIA 8000 LIMIT**			
Quantity	Month	Strike	Contract	Quantity	Month	Strike	Contract

PRICE		PUT ☐	CALL ☐	PRICE		PUT ☐	CALL ☐
		OPEN ☐	CLOSE ☐			OPEN ☐	CLOSE ☐

The order can only be filled at the stated price (8000) or higher (better). You will not be filled if the market does not trade at 8000, and may not be filled even if it does. The market must trade higher then 8000 for you to be sure that the order was filled.

8200	
8100	
8000	Sell Limit – order filled at 8000 or higher
7900	
7800	Current Market
7700	
7600	

MIT ORDER (MARKET IF TOUCHED)

A Market If Touched Order may be executed only if the market reaches a particular price. An MIT to buy becomes a Market Order if and when a futures contract trades at or below the order price. An MIT order to sell becomes a Market Order if and when a futures contract trades at or above the order price. If the market trades at the stated MIT price, the order will be filled at the next best price. MIT can only be used on Limit orders (not Stops). Because your order becomes a Market Order once the MIT price trades, your fill may be at the MIT price, at a lower price or at a higher price. The advantage is that you can be certain the order will be filled if the MIT price trades. The disadvantage is that you do not know the worst price you will get if the order is executed.

As an example, assume that corn prices have been declining and the market is trading currently at $2.98. Your analysis indicates that $2.95 is a very strong support price and you want to be long if the market trades at that level but are afraid that prices could rally quickly after $2.95 is hit.

To enter a MIT order provide the following information:

Account Number:	12345
Market Action:	Buy
Quantity:	10
Month & Year:	July 19—
Contract:	Corn
Order Type:	MIT
Price:	$2.95

Enter the order as follows:

ACCOUNT 12345
BUY 10 JULY CORN 295 MIT

Brokerage Firm **MF Global**	Account Number **12345**	Data Entered	Floor Order Number
		Date Filled	Fill Price

BUY	SELL
10 JULY CORN 295 MIT	

Quantity	Month	Strike	Contract	Quantity	Month	Strike	Contract

PRICE	PUT ☐	CALL ☐	PRICE	PUT ☐	CALL ☐
	OPEN ☐	CLOSE ☐		OPEN ☐	CLOSE ☐

You could have placed a Limit Order, BUY 10 JULY CORN 295 LIMIT, however, if the market traded at $2.95 and turned higher you would not necessarily be filled. That order says to buy at $2.95 or lower. The MIT order says to buy AT THE MARKET if the market trades at $2.95. Your fill may be $2.95, $2.94, $2.96 – you do not know. But you will be filled after the market first trades at $2.95.

> 3.02
> 3.01 Sell MIT – order filled (Market Order)
>   after market trades at
> 3.01 (Sell MITprice)
> 3.00
> 2.99
> 2.98 Cur rent Market
> 2.97
> 2.96
> 2.95 Buy MIT – order filled (Market Order)
>   after market trades at
> 2.95 (Buy MIT price)
> 2.94

STOP ORDER

A Stop Order specifies a price that, when reached, converts the Stop Order into a Market Order. By placing a Stop Order you are saying that you want to buy or sell on a Market Order, but not at the current market price level. You want the market to trade at a certain price before your order is executed.

BUY STOP

When buying, if the order price is higher than (above) the current market price, it is a Buy Stop.

As an example, assume the bond market is trading at 120.16 and you are short 2 contracts from 120.13. You decide that you are comfortable with your position but want to exit the short position if bonds trade as high as 120.19.

To enter a Stop Order provide the following information:

Account Number:	12345
Market Action:	Buy
Quantity:	2
Month & Year:	September 19—
Contract:	Bonds
Order Type:	STOP
Price:	120.19

Enter the order as follows:

ACCOUNT 12345
BUY 2 SEP BONDS 120.19 Stop

Brokerage Firm **MF Global**	Account Number **1 2 3 4 5**	Data Entered	Floor Order Number
		Date Filled	Fill Price

BUY				SELL			
2 SEP BONDS 12019 STOP							
Quantity	Month	Strike	Contract	Quantity	Month	Strike	Contract

PRICE		PUT ☐	CALL ☐	PRICE		PUT ☐	CALL ☐
		OPEN ☐	CLOSE ☐			OPEN ☐	CLOSE ☐

If the market trades (or is "offered") at 120.19 or higher, your Stop Order will become a Market Order and your order will be filled. Your fill may be 120.19 but it may be higher or lower. If you had entered the Limit Order to BUY 2 SEP BONDS 120.19 LIMIT, when the market was trading at 120.16, you would have been filled immediately because 120.16 is a better price than 120.19. Your Stop Order told the broker to wait until the market reached 120.19 before executing the order.

120.20	
120.19	Buy Stop – order filled (Market Order) after market trades at 120.19 (Buy Stop price)
120.18	
120.17	
120.16	Current Market
120.15	

SELL STOP

When selling, if the order price is lower than (below) the current market price, it is a Sell Stop.

As an example, assume that bonds are trading at 119.20 and your analysis indicates that you should go short at 119.17.

To enter a Stop order provide the following information:
Account Number: 12345
Market Action: Sell
Quantity: 5
Month & Year: March 19—
Contract: Bonds
Order Type: Stop
Price: 119.17

Enter the order as follows:
ACCOUNT 12345
SELL 5 MARCH BONDS 119.17 STOP

If the market trades (or is "bid") at 119.17 or lower, your Stop Order will become a Market Order and will be filled. Your fill may be 119.17, but it may be higher or lower. If the market does not trade as low as 119.17 your order will not be executed.

119.21	
119.20	Current Market
119.19	
119.18	
119.17	Sell Stop – order filled (Market Order) after market trades at 119.17 (Sell Stop price)
119.16	

Brokerage Firm **MF Global**	Account Number **12345**	Data Entered	Floor Order Number
		Date Filled	Fill Price

BUY				SELL **5 MAR BONDS 11917 STOP**			
Quantity	Month	Strike	Contract	Quantity	Month	Strike	Contract

PRICE		PUT ☐	CALL ☐	PRICE		PUT ☐	CALL ☐
		OPEN ☐	CLOSE ☐			OPEN ☐	CLOSE ☐

STOP CLOSE ONLY ORDER

These are Stop Orders that limit the time of execution to the closing trading range. If the Stop price is hit prior to that time the order does not trade. However, if the Stop price is elected during the closing range, or if the market is trading higher than the buy stop price or lower than the sell stop price during the closing range, the order will become a Market Order and will be filled.

As an example, assume that June bonds are trading currently at 116.19. You are long 2 June bonds and want to liquidate your position if the market trades at 116.15 or lower in the closing range.

To enter a Stop Close Only order provide the following information:

Account Number:	12345
Market Action:	Sell
Quantity:	2
Month & Year:	June 19—
Contract:	Bonds
Order Type:	SCO (Stop Close Only)
Price:	116.15

Enter the order as follows:

ACCOUNT 12345
SELL 2 JUNE BONDS 116.15 STOP CLOSE ONLY

You will be filled in the closing range if June bonds trade at or below 116.15 at the close.

Brokerage Firm	Account Number	Data Entered	Floor Order Number
MF Global	12345		
		Date Filled	Fill Price

BUY				SELL			
				2 JUN BONDS 11615 SCO			
Quantity	Month	Strike	Contract	Quantity	Month	Strike	Contract
PRICE		PUT ☐	CALL ☐	PRICE		PUT ☐	CALL ☐
		OPEN ☐	CLOSE ☐			OPEN ☐	CLOSE ☐

STOP LIMIT ORDER

Because Stop Orders become Market Orders you can not be sure at what price your order will be filled, although you know that your order will be filled at some price if the Stop is elected. A Stop Limit acts as a Stop Order in all respects with the added proviso that you will not accept a price worse than the Limit stated. These orders are generally used to enter a market on a breakout from a trading range.

As an example, assume that November soybeans are trading at $6.03 and your analysis indicates that if the contract trades at $6.06 it will have broken out of its recent trading range to the upside and you want to be long. However, you would rather not have the position if you must pay more than $6.08.

To enter a Stop Limit order provide the following information:

Account Number:	12345
Market Action:	Buy
Quantity:	10
Month & Year:	November 19—
Contract:	Soybeans
Order Type:	Stop Limit
Price Stop	$6.06
Price Limit	$6.08

Enter the order as follows:

ACCOUNT 12345
BUY 10 NOV BEANS 6.06 STOP 6.08 LIMIT

Brokerage Firm **MF Global**	Account Number **12345**	Data Entered	Floor Order Number
		Date Filled	Fill Price

BUY				SELL			
10 NOV BEANS 606 STOP 608 LIMIT							
Quantity	Month	Strike	Contract	Quantity	Month	Strike	Contract
PRICE		PUT ☐	CALL ☐	PRICE		PUT ☐	CALL ☐
		OPEN ☐	CLOSE ☐			OPEN ☐	CLOSE ☐

If your analysis was correct and $6.06 really did indicate a break out to the upside there were probably many orders to buy at that price level by traders short the market. Once $6.06 was hit the market could jump much higher and a regular buy Stop might be filled at $6.10 or higher. Your Stop Limit order told the filling broker to execute the order at Market once $6.06 traded, but not above $6.08. You assume the risk that you will not be filled.

6.09	
6.08	Limit – Highest price at which order may be filled
6.07	
6.06	Buy Stop – order filled (Market Order) after market trades at
6.06	(Buy Stop price)
6.05	
6.04	
6.03	Current Market
6.02	

GTC ORDER

Good Till Cancelled (or Open Order). Orders are valid for the duration of the trading session in which they are entered. If an order is not designated Good Till Cancelled it is a trade session order and will expire at the end of the current trading session unless filled or cancelled prior to the close. By designating a Limit or Stop order as an Open Order, or Good Till Cancelled, the order will remain valid and working until you cancel the order, or it is filled, or the contract expires.

As an example, assume you are long 1 December bond at 119.02 and the market is trading currently at 120.12. You decide that you will hold your position but want to place a sell stop at your purchase price, 119.02, to protect yourself should prices reverse. Also, you are leaving town on vacation and will not be able to monitor the market for several weeks.

To enter a GTC order provide the following information:

Account Number:	12345
Market Action:	Sell
Quantity:	1
Month & Year:	December 19—
Contract	Bonds
Order Type:	Open Stop
Price:	119.02

Enter the order as follows:

ACCOUNT 12345
SELL 1 DEC BOND 119.02 STOP OPEN ORDER

Brokerage Firm **MF Global**	Account Number **12345**	Data Entered	Floor Order Number
		Date Filled	Fill Price
BUY		**SELL** 1 DEC BOND 11902 STOP OPEN ORDER	

Quantity	Month	Strike	Contract	Quantity	Month	Strike	Contract

PRICE		PUT ☐	CALL ☐	PRICE		PUT ☐	CALL ☐
		OPEN ☐	CLOSE ☐			OPEN ☐	CLOSE ☐

The order will remain valid and working until it is filled, until you cancel it, or until the contract expires. Selling the bond in our example on a different order does not automatically cancel the Open Order Stop.

Assume that when you return from vacation bonds are trading at 121.12 and the market never traded lower than 120.01 while you were away. You decide to sell your bond position (long 1 December at 119.02) and lock in the profit by placing the following order: ACCOUNT 12345 SELL 1 DEC BOND at the MARKET. Several days later the bond market takes a sharp dive and drops to 118.29. Because you did not bother to cancel your open order to SELL 1 DEC BOND 119.02 STOP OPEN ORDER, your order was filled and you now have a short position. Your GTC order was filled when the market dropped through 119.02.

GTC ORDERS DO NOT CANCEL AUTOMATICALLY! YOU MUST ALWAYS CANCEL A GTC ORDER IF YOU NO LONGER WANT IT WORKING!

OCO ORDER

One (order) Cancels (the) Other. An OCO is a two-sided order in which the execution of one side cancels the other. Whichever order is filled first causes the other order to be automatically cancelled. This type of order may not be accepted on all exchanges.

As an example, assume that you just bought 5 March Beans at $6.00. You have a price objective of $6.08 and a desired stop point of $5.96.

Enter the order as follows:

ACCOUNT 12345
SELL 5 MARCH BEANS 6.08 LIMIT OCO 5.96 STOP

Why an OCO instead of two separate orders? If two separate orders are working they might both be filled. In the example above one filled order would offset the long position established at $6.00 and the second filled order would establish a new short position. Your OCO told the broker to fill one order, not both of them.

608	Sell Limit Order (If Filled, Cancel Stop Order)
606	
604	
602	
600	Current Market
598	
596	Sell Stop Order (If Filled, Cancel Limit Order)

Brokerage Firm MF Global	Account Number 12345	Data Entered	Floor Order Number
		Date Filled	Fill Price

BUY				SELL			
				5 MAR BEANS 596 STOP OCO 608 LIMIT			
Quantity	Month	Strike	Contract	Quantity	Month	Strike	Contract

PRICE		PUT ☐	CALL ☐	PRICE		PUT ☐	CALL ☐
		OPEN ☐	CLOSE ☐			OPEN ☐	CLOSE ☐

CANCEL ORDER

You must place an order to cancel an order placed previously if you no longer want it active. Remember that you can not cancel a Market Order because Market Orders are executed immediately.

As an example, assume that you placed a GTC Limit Order to buy 2 June bonds at 120.16 on Order Number 117 several days ago when the market was trading at 123.04. The market rallied higher and now you decide that you no longer want the position if prices fall back to 120.16.

To Cancel an order placed previously provide the following information:

Account Number:	12345
Market Action:	Buy
Quantity:	2
Month & Year:	June 19—
Contract:	Bonds
Order Type:	Cancel Open Limit
Price:	120.16
Former Order No.:	656

Enter the order as follows:

ACCOUNT 12345
CANCEL OPEN ORDER NO. 656 BUYING 2 JUNE BONDS
120.16 LIMIT

The original buy Limit Order will now be cancelled unless it has already been filled. The cancellation is a new order and will have its own order number that should be kept with your records.

Brokerage Firm MF Global	Account Number 12345	Data Entered	Floor Order Number
		Date Filled	Fill Price

BUY				SELL			
CANCEL OPEN ORDER NO. 656 BUYING 2 JUN BONDS 12016 LIMIT							
Quantity	Month	Strike	Contract	Quantity	Month	Strike	Contract
PRICE		PUT ☐	CALL ☐	PRICE		PUT ☐	CALL ☐
		OPEN ☐	CLOSE ☐			OPEN ☐	CLOSE ☐

CFO (CANCEL FORMER ORDER)

All orders, except Market Orders, can be cancelled and replaced with a different order unless filled prior to cancellation. A CFO eliminates a previous order and replaces it with new instructions. It is used most often to change the price on Limit Orders or Stop Orders.

As an example, assume that cattle are trading currently at 62.50 and you are working a Stop Order (Order Number 647) to sell 3 October live cattle at 61.95 Stop and decide to raise your Stop price to 62.10.

To enter a CFO order provide the following information:

Account Number:	12345
Market Action:	Sell
Quantity:	3
Month & Year:	October 19—
Contract:	Live Cattle
Order Type:	CFO Stop
Price Stop	62.10
Price Stop (Cancel)	61.95
Former Order No.	647

Enter the order as follows:

ACCOUNT 12345
SELL 3 OCTOBER LIVE CATTLE 62.10 STOP
CANCEL SELLING 3 @ 61.95 STOP ON ORDER 647

The original sell Stop Order will now be cancelled unless it has already been filled. The CFO is a new order and will have its own order number that should be kept with your records.

Brokerage Firm **MF Global**	Account Number **12345**	Data Entered	Floor Order Number
		Date Filled	Fill Price
BUY		**SELL** 3 OCT LIVE CATTLE 6210 STOP CANCEL SELLING 3 @ 619 STOP ON NO. 647	

Quantity	Month	Strike	Contract	Quantity	Month	Strike	Contract

PRICE	PUT ☐	CALL ☐	PRICE	PUT ☐	CALL ☐
	OPEN ☐	CLOSE ☐		OPEN ☐	CLOSE ☐

SPREAD ORDERS

A spread order is the simultaneous purchase and sale of at least two different contracts. There are a variety of spread orders that can involve the sale and purchase of futures contracts of different delivery months, the same commodity on different exchanges, or different but related futures contracts.

As an example, assume that December corn is trading currently at $3.00 while March corn is trading at $3.12. You do not know if corn is going to go up or down, but your analysis indicates that the $0.12 spread, or difference, between the two contracts is too wide and will narrow over the next few weeks. To capture the anticipated move you decide to buy 5 December corn contracts and sell 5 March corn contracts at the current spread of $0.12.

To enter a Spread Order provide the following information:

Account Number:	12345
Market Action:	Buy/Sell
Quantity:	5 each
Month & Year:	December 19 – March 19—
Contract:	Corn
Order type:	Spread Limit
Price:	$0.12

Enter the order as follows:

ACCOUNT 12345
BUY 5 DECEMBER CORN
SELL 5 MARCH CORN
12 CENTS PREMIUM THE SELL SIDE

The order tells the broker to spread December/March corn at 12 cents premium March, and to execute that spread 5 times. Because it is a price limit you may or may not be filled. And, if filled, you may be filled on fewer then 5 spreads. Your objective in this trade is to have the value of December increase relative to the value of March, or to have the spread narrow. It doesn't matter if corn goes up or down, only what happens to the spread between the December and the March contracts. When exiting the position you can do so as a spread by reversing the order above, or you can leg out, i.e. exit the long or short positions separately

Brokerage Firm **MF Global**	Account Number **12345**	Data Entered	Floor Order Number
		Date Filled	Fill Price

BUY	SELL
5 DEC CORN	**5 MAR CORN** **12 PREMIUM MARCH**

Quantity	Month	Strike	Contract	Quantity	Month	Strike	Contract

PRICE	PUT ☐	CALL ☐	PRICE	PUT ☐	CALL ☐
	OPEN ☐	CLOSE ☐		OPEN ☐	CLOSE ☐

ENTERING OPTIONS ORDERS

You must enter orders properly each and every time, and all options orders must contain at least seven vital pieces of information.

1. IDENTIFICATION

Identify yourself with your Account Number. When entering an order by telephone or computer, the first information conveyed is your Account Number. A brokerage firm will not execute an order if the company can not identify the trader.

2. MARKET ACTION

Buy or sell. The broker must know whether to buy or sell for your account. Remember, if you hold a short position and are liquidating, or covering that position, your order is to buy, not sell. Under stressful conditions a trader might think, "I have to get out of my short position right now," and enter an order to sell the position. Instead of off s e tting the short position by buying it back, the trader actually doubled the short position.

3. QUANTITY

Number of contracts to buy, sell or spread. It is possible to receive a partial fill when entering multi-contract orders, such as filling only 3 of a 5-lot. It is also possible to receive different fill prices, such as 2 filled at $3.00, 1 filled at $3.10 and 1 filled at $3.20 on a 4-lot order.

4. CONTRACT MONTH AND YEAR

Identify the month and year in which the option expires. When entering orders by telephone, say the month. When entering by computer follow instructions on the screen, typically choosing the proper month and year from a pull-down menu.

5. CONTRACT

Description of option traded. When entering orders by telephone, say the description. When entering by computer, follow instructions on the screen, typically choosing the option description from a pull-down menu.

6. ORDER TYPE

This is how you tell the broker when or at what price to fill your order. The following section will discuss various types of orders in detail.

7. OPENING OR CLOSING TRANSACTION

Placing an option position in your account (either buying or writing) is an opening transaction and adds to the option's open interest calculation by the exchange. Removing the option position is a closing transaction. When entering by computer follow instructions on the screen, typically clicking on "Open" or "Close."

Certain types of orders require additional information that will be discussed in the following section on order types.

Most computer trading systems will ask you specific questions about the topics discussed above and will display a list of answer choices. As an example, assume that you are on-line and entering an order to "SELL 5 DECEMBER 12200 T-BOND PUTS at 36 to CLOSE ." The on-line program will require you to **1. Identify** yourself with an identification number and log-in number to gain access to the system. It will then take you through the proper sequence for entering an order by asking:

2. BUY OR SELL

You click on the correct response. Using our example you click "Sell."

3. QUANTITY OR NUMBER OF CONTRACTS

You enter the correct number of contracts. "5" in our example.

4. MONTH AND YEAR

Click the correct contract expiration month and year. All months and several years will be presented. In our example, click "December" on the month pull-down menu, then click "19--" on the year pull-down menu.

5. CONTRACT

You will be asked to identify, in succession, Strike: "12200"; Contract: "T-BOND";
Put or Call: " Put. "

6. TYPE OF ORDER

Choose the correct order type on the pull-down menu. In our example, click on
"Limit Order" and enter limit price, "36."

7. OPEN OR CLOSE

In our example, click on "Close."

The screen will display your order in printed form and give you the opportunity to
make any corrections. If the order is correct, many systems will then display the
order as it looks on an order ticket, at which time you activate the order and send
it in. The receiving computer will reply:

Order Log for Account 12345	(Account Number)
Sell 5 T-BOND Dec 12200p @ 36 Close (Order)	(Open or Close)
Approval Status: Approved	(Order Confirmed)
Last Tic: 34	(Last Trade)
Tic Time: 14:33:26	(Actual Time of Quote)

Your order is not valid if you do not receive a confirmation from your brokerage
firm. And never assume anything. The brokerage firm computer receives
information and instructions that you provide and can not know that you want
the order to trade several sessions (open order), or that you really meant to
place a stop order. Be careful! Keep records!

When entering orders through a trading desk, keep in mind that you are giving
instru ctions to a phone clerk who may or may not know anything about what
you are doing. If you are short the market and want to get out of your position,
the order is to "Buy" it back. But if you mistakenly say "Sell" the clerk will write
"Sell" and does not know that you are covering a short position and should have
said "Buy." Becareful! Keep records!

Even when entering orders through a live broker you must take the time to do
things correctly. Be careful! Keep records!

ORDER TYPES

MARKET ORDER

The most common type of order is the Market Order. Market Orders are used primarily when immediate order execution is required. When entering a Market Order, you state the number of contracts you want to buy or sell. You do not specify a price, since your objective is to have the order executed as soon as possible at the best possible price. Once a Market Order is placed it is filled and cannot be cancelled.

As an example, with the September S&P futures index trading at 1050 your analysis indicates that the market will turn lower for several days and you decide to buy an atthe- money put. You enter an order to buy a 1050 put "At The Market" and your order is filled at the best possible price at that time. You know that your order has been filled and that you have entered the market successfully.

To enter an option (call or put) Market Order provide the following information:

Account Number:	12345
Market Action:	Buy
Quantity:	1
Month & Year:	September 19—
Contract:	SP 1050 Put
Order Type:	Market
Open or Close:	Open

Enter the order as follows:

ACCOUNT 12345
BUY 1 SEP 1050 SP PUT at MARKET to OPEN

Assume in the example above that the puts are trading at 250 when the order is entered. Your fill may be below, at or above 250, but the order will be filled immediately.

Brokerage Firm **MF Global**	Account Number **12345**	Data Entered	Floor Order Number
		Date Filled	Fill Price

BUY				**SELL**			
Quantity	Month	Strike	Contract	Quantity	Month	Strike	Contract
1	**SEP**	**1050**	**SP**				

PRICE		PUT [X]	CALL [ ]	PRICE		PUT [ ]	CALL [ ]
MARKET		OPEN [X]	CLOSE [ ]			OPEN [ ]	CLOSE [ ]

LIMIT ORDER

A Limit Order specifies a price limit at which the order must be executed. In other words, it must be filled at that price or at a better price. The advantage is that you know the worst price you will get if the order is executed. The disadvantage is that you cannot be certain that the order will be filled because the market may not trade at your price.

When buying, if the order price is lower than (below) the current market price, it is a Buy Limit. As an example, assume that you do your analysis and conclude that December corn prices are headed higher. You decide to go long by buying calls. The December $3.00 calls are trading at $0.06, but you do not want to pay more than $0.05 for the calls.

To enter an option (call or put) Limit Order provide the following information:

Account Number:	12345
Market Action:	Buy
Quantity:	5
Month & Year:	December 19—
Contract:	Corn 300 Call
Order Type:	Limit
Open or Close:	Open
Price:	5

Enter the order as follows:

ACCOUNT 12345
BUY 5 DEC 300 CORN CALLS at 5 LIMIT to OPEN

Brokerage Firm	Account Number	Data Entered	Floor Order Number
MF Global	**12345**		
		Date Filled	**Fill Price**

BUY				SELL			
Quantity	**Month**	**Strike**	**Contract**	**Quantity**	**Month**	**Strike**	**Contract**
5	**DEC**	**300**	**CORN**				

PRICE		PUT ☐	CALL ☒	PRICE		PUT ☐	CALL ☐
5 LIMIT		OPEN ☒	CLOSE ☐			OPEN ☐	CLOSE ☐

The order can only be filled at the stated price (5) or lower (better). If the market never trades that low you will not be filled. You may not be filled even if the market trades at 5 but not lower because there is no guarantee that enough contracts changed hands at that price to fill all orders. If the market trades below 5 you are filled at your price or lower. Remember that the only time you can be certain your order was filled is if the market trades better than the stated price. When buying, a better price is lower then the stated price.

When selling, if the order price is higher than (above) the current market price, it is a Sell Limit.

As an example, assume that you do your analysis and conclude that December corn prices peaked and are headed lower (the reverse analysis of the example above). You decide to take advantage of the situation by selling calls. The December $3.00 calls are trading at $0.06, but you want to receive at least $0.10 for selling the calls.

To enter an option (call or put) Limit Order provide the following information:

Account Number:	12345
Market Action:	Sell
Quantity:	5
Month & Year:	December 19—
Contract:	Corn 300 Call
Order Type:	Limit
Open or Close:	Open
Price:	10

Enter the order as follows:
ACCOUNT 12345
SELL 5 DEC 300 CORN CALLS at 10 LIMIT to OPEN

Brokerage Firm	Account Number	Data Entered	Floor Order Number
MF Global	12345		
		Date Filled	Fill Price

BUY				SELL			
Quantity	Month	Strike	Contract	Quantity	Month	Strike	Contract
				5	DEC	300	CORN

PRICE	PUT ☐ CALL ☐	PRICE	PUT ☐ CALL ☒
	OPEN ☐ CLOSE ☐	10 LIMIT	OPEN ☒ CLOSE ☐

The order can only be filled at the stated price (10) or HIGHER (better). If the market never trades that high you will not be filled. You may not be filled even if the market trades at 10 but not higher because there is no guarantee that enough contracts changed hands at that price to fill all orders. If the market trades above 10 you are filled at your price or higher. Remember that the only time you can be certain your order was filled is if the market trades better than the stated price. When selling, a better price is higher then the stated price.

10	Sell limit ... order filled at 10 or higher
9	
8	
7	
6	Current Market
5	Buy Limit...order filled at 5 or lower
4	
3	

STOP ORDER

A Stop Order specifies a price that, when reached, converts the Stop Order into a Market Order. By placing a Stop Order you are saying that you want to buy or sell on a Market Order, but not at the current market price level. You want the market to trade at a certain price before your order is executed.

When buying, if the order price is higher than (above) the current market price, it is a Buy Stop.

As an example, assume your technical analysis indicates that if the March 12500 TBond calls trade at 150 they will have broken out to the upside and you want to be long. However, they are trading currently at 145, which is within the established range. You place an order to buy on a Stop should the market rally to 150.

To enter an option (call or put) Stop Order provide the following information:

1.	Account Number:	12345
2.	Market Action:	Buy
3.	Quantity:	1
4.	Month & Year:	March 19--
5.	Contract:	T-Bond 12500 Call
6.	Order Type:	Stop
7.	Open or Close:	Open
8.	Price:	150

Enter the order as follows:

ACCOUNT 12345

BUY 1 MAR 12500 T-BOND CALL at 150 STOP to OPEN

Brokerage Firm	Account Number	Data Entered	Floor Order Number
MF Global	1 2 3 4 5		
		Date Filled	Fill Price

BUY	SELL

Quantity	Month	Strike	Contract	Quantity	Month	Strike	Contract
1	MAR	12500	BOND				

PRICE		PUT	CALL	PRICE		PUT	CALL
		☐	☒			☐	☐
150 STOP		OPEN ☒	CLOSE ☐			OPEN ☐	CLOSE ☐

If the market trades (or is "offered") at 150 or higher, your Stop Order will become a Market Order and your order will be filled. Your fill may be 150, but it may be higher or lower. If you had entered the Limit Order to BUY 1 MAR 12500 T-BOND CALL at 150, when the market was trading at 145, you would have been filled immediately because 145 is a better price than 150. Your Stop Order told the broker to wait until the market reached 150 before doing anything.

150   Buy Stop…order filled (Market Order)
      after market trades at
150
149
148
147
146
145   Current Market

When selling, if the order price is lower than (below) the current market price, it is a Sell Stop.

As an example, assume that you were able to buy the options in the example above at 150 and decide that you will hold the position unless the market drops back to 146. With the current market at 150, you place an order to sell on a Stop should the market break to 146.

1. Account Number: 12345
2. Market Action: Sell
3. Quantity: 1
4. Month & Year: March 19--
5. Contract: T-Bond 12500 Call
6. Order Type: Stop
7. Open or Close: Close
8. Price: 146

Enter the order as follows:
ACCOUNT 12345
Sell 1 MAR 12500 T-BOND CALL at 146 STOP to CLOSE

If the market trades (or is "bid") at 146 or lower, your Stop Order will become a Market Order and will be filled. Your fill may be 146, but it may be higher or lower. If the market does not trade as low as 146, your order will not be executed and you will still be long the call option.

150   Cur rent Market
149
148
147
146   Sell Stop…order filled (Market Order)
      after market trades at
146
145

Brokerage Firm **MF Global**	Account Number **12345**	Data Entered	Floor Order Number
		Date Filled	Fill Price

BUY				SELL			

Quantity	Month	Strike	Contract	Quantity	Month	Strike	Contract
				1	**MAR**	**12500**	**BOND**

PRICE		PUT ☐	CALL ☐	PRICE		PUT ☐	CALL ☒
		OPEN ☐	CLOSE ☐	**146 STOP**		OPEN ☐	CLOSE ☒

GTC ORDER

Good Till Cancelled (or Open Order). Orders are valid for the duration of the trading session in which they are entered.
If an order is not designated Good Till Cancelled, it is a Day Order and will expire at the end of the current trading session unless filled or cancelled prior to the close.

By designating a Limit or Stop order as an Open Order, or Good Till Cancelled, the order will remain valid and working until you cancel the order, or it is filled, or the option expires.

As an example, assume you are long 1 December 1050 S&P call and the market is trading currently at 490. You decide that you will hold your position but want to place a sell stop at your purchase price, 300, to protect yourself should prices reverse. Also, you are leaving town on vacation and will not be able to monitor the market for several weeks.

To enter a GTC (open) order provide the following information:

1. Account Number:		12345
2. Market Action:		Sell
3. Quantity:		1
4. Month & Year:		December 19--
5. Contract		SP 1050 Call
6. Order Type:		Open Stop
7. Open or Close:		Close
8. Price:		300

Enter the order as follows:

ACCOUNT 12345
SELL 1 DEC 1050 SP CALL at 300 STOP OPEN ORDER to CLOSE

The order will remain valid and working until it is filled, until you cancel it, or until the option expires. Selling the option on a different order does not automatically cancel the Open Order Sell Stop.

Assume that when you return from vacation the option is trading at 600 and the market never traded lower than 390 while you were away. You decide to sell your option and lock in the profit by placing the following order: ACCOUNT 12345 SELL 1 DEC 1050 SP CALL at MARKET to CLOSE. Your option sold at 590. Several days later the market takes a sharp dive and drops to 260. Because you did not bother to cancel your open order to SELL 1 DEC 1050 SP CALL at 300 STOP OPEN ORDER, your Open Order was filled at 290 and you now have a short position. Your GTC order was filled when the market dropped through 300.

GTC ORDERS DO NOT CANCEL AUTOMATICALLY! YOU MUST ALWAYS CANCEL A GTC ORDER IF YOU NO LONGER WANT IT WORKING!

Brokerage Firm **MF Global**	Account Number **12345**	Data Entered	Floor Order Number
OPEN ORDER (GTC)		Date Filled	Fill Price
BUY		**SELL**	

Quantity	Month	Strike	Contract	Quantity	Month	Strike	Contract
				1	**DEC**	**1050**	**SP**

PRICE		PUT ☐	CALL ☐	PRICE **300 STOP OPEN ORDER**		PUT ☐	CALL ☒
		OPEN ☐	CLOSE ☐			OPEN ☐	CLOSE ☒

Many strategies involve the simultaneous purchase and sale of different options to establish a position with a specific risk-reward profile. This section will deal with structuring your orders to achieve the desired result. As we present examples of various spread orders, please keep in mind that the order types covered in the previous section are all operable when entering orders for option spreads. In other words, our upcoming examples of option spreads may be entered as Limit Orders, Market Orders, Stop Orders, or GTC Orders.

VERTICAL DEBIT SPREAD

A vertical debit spread results when simultaneously buying and selling puts or calls of the same option class and expiration date, but with different strike prices. Because it is a debit (net cash paid out), the option purchased is more expensive than the option sold. In other words, the option purchased is closer-to-the-money than the option sold, resulting in a bull call spread or a bull put spread. The maximum amount that can be earned on a Vertical Debit Spread is the difference between the strikes less the amount of premium paid out. The maximum risk is the amount of premium paid out.

CALL DEBIT SPREAD

As an example, assume that you are bullish the S&P market and decide to buy a bull call spread. Your analysis indicates that buying the June 1150 calls and selling the June 1160 calls should cost a net 110 per spread.

To enter an option (call or put) Vertical Debit Spread provide the following information:

1. Account Number: 12345
2. Market Action: Buy/Sell
3. Quantity: 3
4. Month & Year: June 19--
5. Contract: SP 1150 Call
                          SP 1160 Call
6. Order Type: Limit
7. Open or Close: Open
8. Price: 110

Enter the order as follows:

ACCOUNT 12345
BUY 3 JUNE 1150 SP CALLS to OPEN
SELL 3 JUNE 1160 SP CALLS to OPEN
at 110 PREMIUM THE BUY SIDE (OR 110 DEBIT)

Brokerage Firm **MF Global**	Account Number **12345**	Data Entered	Floor Order Number
		Date Filled	Fill Price

BUY				**SELL**			
Quantity	Month	Strike	Contract	Quantity	Month	Strike	Contract
3	**JUN**	**1150**	**SP**	**3**	**JUN**	**1160**	**SP**

PRICE **110 PREMIUM BUY SIDE**	PUT ☐	CALL ☒	PRICE	PUT ☐	CALL ☒
	OPEN ☒	CLOSE ☐		OPEN ☒	CLOSE ☐

The order was placed as a limit order at 110 (per spread) and each spread will be filled at a net price of 110 or better (less expensive). The order tells the broker to spread the 1150/1160 strikes at a net price of 110, and to do it 3 times. Since the order was placed as a spread it must be filled as a spread. That means that the broker can not buy all 3 of the 1150 calls and sell only 1 or 2 or the 1160 calls. When liquidating the position, the order can go in as a spread or as individual options.

1180	Strike
1170	Strike
1160	Strike Sell Calls
1150	Strike Buy Calls
1140	Strike
1130	Strike

PUT DEBIT SPREAD

As an example of a put debit spread, assume that now you are bearish and decide to establish a bull put spread by buying the June 1070 S&P put and selling the June 1065 S&P put at a net cost, or debit, of 170 per spread.

To enter an option (call or put) Vertical Debit Spread provide the following information:

1. Account Number: 12345
2. Market Action: Buy/Sell
3. Quantity: 1
4. Month & Year: June 19--
5. Contract: SP 1070 Put
   SP 1065 Put
6. Order Type: Limit
7. Open or Close: Open
8. Price: 170

Enter the order as follows:

ACCOUNT 12345
BUY 1 JUNE 1070 SP PUT to OPEN
SELL 1 JUNE 1065 S&P PUT to OPEN
at 170 PREMIUM THE BUY SIDE (OR 170 DEBIT)

1075	Strike
1070	Strike Buy Puts
1065	Strike Sell Puts
1060	Strike
1055	Strike

VERTICAL CREDIT SPREAD

A vertical credit spread results when simultaneously buying and selling puts or calls of the same option class and expiration date, but with different strikes. Because it is a credit (net cash received), the option sold is more expensive than the option purchased. In other words, the option sold is closer-to-the-money than the option purchased, resulting in a bear call spread or a bear put spread. The maximum amount that can be made on a Vertical Credit Spread is the amount of premium received. The maximum risk is the difference between the strikes less the amount of premium received.

CALL CREDIT SPREAD

As an example, assume that you are bearish T-Bonds and decide to enter a bear call spread. Your analysis indicates that selling the September 12400 calls and buying the September 12600 calls should yield a net 29/64ths per spread.

Brokerage Firm **MF Global**	Account Number **12345**	Data Entered	Floor Order Number
		Date Filled	Fill Price

BUY				SELL			
Quantity	Month	Strike	Contract	Quantity	Month	Strike	Contract
1	JUN	1070	SP	1	JUN	1065	SP

PRICE **170 PREMIUM BUY SIDE**	PUT [X]	CALL [ ]	PRICE	PUT [X]	CALL [ ]
	OPEN [X]	CLOSE [ ]		OPEN [X]	CLOSE [ ]

To enter an option (call or put) Vertical Credit Spread provide the following information:

1. Account Number: 12345
2. Market Action: Buy/Sell
3. Quantity: 10
4. Month & Year: September 19--
5. Contract: T-Bond 12400 Call
   T-Bond 12600 Call
6. Order Type: Limit
7. Open or Close: Open
8. Price: 29

Enter the order as follows:

ACCOUNT 12345
BUY 10 SEP 12600 BOND CALLS to OPEN
SELL 10 SEP 12400 BOND CALLS to OPEN
at 29 PREMIUM THE SELL SIDE (OR 29 CREDIT)

The order was placed as a limit order at 29 (per spread) and will be filled at a net price of 29 or better (higher). The order tells the broker to spread the 126/124 strikes at a net price of 29, and to do it 10 times. Maximum gain on the position is the net premium received. Maximum risk is the difference between the strikes less the net premium received.

12700	Strike	
12600	Strike	Buy Calls
12500	Strike	
12400	Strike	Sell Calls
12300	Strike	
12200	Strike	

Brokerage Firm **MF Global**	Account Number **12345**	Data Entered	Floor Order Number
		Date Filled	Fill Price

BUY				SELL			
Quantity	Month	Strike	Contract	Quantity	Month	Strike	Contract
10	SEP	12600	BOND	10	SEP	12400	BOND

PRICE	PUT ☐	CALL ☒	PRICE **29 PREMIUM SELL SIDE**	PUT ☐	CALL ☒
	OPEN ☒	CLOSE ☐		OPEN ☒	CLOSE ☐

PUT CREDIT SPREAD

As an example of a put credit spread, assume that your are bullish on T-Bonds and decide to take advantage of the situation by selling puts but limiting your risk by buying puts further out-of-the-money. Your analysis indicates that selling the June T-Bond 12000 puts and buying the June 11800 puts should yield a net 35/64ths per spread.

To enter an option (call or put) Vertical Credit Spread provide the following information :

1. Account Number: 12345
2. Market Action: Buy/Sell
3. Quantity: 2
   4. Month & Year: June 19--
5. Contract: T-Bond 11800 Puts
6. Contract: T-Bond 12000 Puts
7. Order Type: Limit
8. Open or Close: Open
9. Price: 35

Enter the order as follows:

ACCOUNT 12345
BUY 2 JUNE 118 BOND PUTS to OPEN
SELL 2 JUNE 120 BOND PUTS to OPEN
at 35 PREMIUM THE SELL SIDE (OR 35 CREDIT)

Brokerage Firm **MF Global**	Account Number **12345**	Data Entered	Floor Order Number
		Date Filled	Fill Price

BUY				SELL			
Quantity	Month	Strike	Contract	Quantity	Month	Strike	Contract
2	**JUN**	**18000**	**BOND**	**2**	**JUN**	**12000**	**BOND**

PRICE		PUT [X]	CALL [ ]	PRICE **35 PREMIUM SELL SIDE**		PUT [X]	CALL [ ]
		OPEN [X]	CLOSE [ ]			OPEN [X]	CLOSE [ ]

The order was placed as a limit order at 35 (per spread) and will be filled at a net price of 35 or better (higher). The order tells the broker to spread the 120/118 strikes at a net price of 35, and to do it 2 times. Maximum gain on the position is the net premium received. Maximum risk is the difference between the strikes less the net premium received.

12200	Strike
12100	Strike
12000	Strike Sell Puts
11900	Strike
11800	Strike Buy Puts
11700	Strike
11600	Strike

STRADDLES AND STRANGLES

A straddle is the purchase or sale of a put and a call of the same month, same underlying market and same strike price. A strangle has the same characteristics with one exception: Different strike prices for the put and call.

STRADDLE

As an example, assume your analysis indicates that volatility for T-Bond options is very low and you expect volatility to increase sharply. You are not sure if prices will move higher or lower, but want to take advantage of the coming increase in volatility. You decide to buy a December straddle but you do not want to pay more than 240 per spread for the position. The 12200 calls traded last at 131; the 12200 puts at 114.

To enter an option Straddle Order provide the following information:

1. Account Number:	12345
2. Market Action:	Buy
3. Quantity:	3
4. Month & Year:	December 19--
5. Contract:	T-Bond 12200 Calls
	T-Bond 12200 Puts
6. Order Type:	Limit
7. Open or Close:	Open
8. Price:	240

Enter the order as follows:

ACCOUNT 12345
BUY 3 DEC 12200 T-BOND CALLS to OPEN
BUY 3 DEC 12200 T-BOND PUTS to OPEN
240 to the BUY SIDE (Debit)

Brokerage Firm MF Global	Account Number 12345	Data Entered	Floor Order Number
		Date Filled	Fill Price

BUY				SELL			
Quantity	Month	Strike	Contract	Quantity	Month	Strike	Contract
3	DEC	12200	BONDc				
3	DEC	12200	BONDp				

PRICE 240 PREMIUM BUY SIDE	PUT [X]	CALL [X]	PRICE	PUT [ ]	CALL [ ]
	OPEN [X]	CLOSE [ ]		OPEN [ ]	CLOSE [ ]

As with any multiple position limit order you may only fill on one or two of the spreads but at a price no worse than 240 per spread. Maximum risk in the example above is the amount of premium paid; there is unlimited profit potential. When liquidating the position the order can go in as a spread or as individual options.

124	Strike	Calls		
123	Strike	Calls		
122	Strike	Calls	Buy	Calls
121	Strike	Calls		
120	Strike	Calls		

124	Strike	Puts		
123	Strike	Puts		
122	Strike	Puts	Buy	Puts
121	Strike	Puts		
120	Strike	Puts		

STRANGLE

As an example, assume that the S&P index has been chopping up and down in a range between 950 and 1150. Your analysis indicates that the market will remain in that range for several weeks and you decide to take advantage of the situation by selling S&P options on either side of the range. The December 950 puts traded last at 450; the December 1150 calls at 120.

To enter an option Strangle Order provide the following information:

1. Account Number:	12345
2. Market Action:	Sell
3. Quantity:	2
4. Month & Year:	December 19--
5. Contract:	S&P 1150 Calls
	S&P 950 Puts
6. Order Type:	Limit
7. Open or Close:	Open
8. Price:	570

Enter the order as follows:

ACCOUNT 12345
SELL 2 DEC 1150 SP CALLS to OPEN
SELL 2 DEC 950 SP PUTS to OPEN
570 to the SELL SIDE (Credit)

The above position carries unlimited risk while profit is limited to the amount of premium received. The order was entered as a spread and must be filled as a spread, although there is no guarantee that both, or either, spread will be filled. If filled, the short options may be covered as a spread or as individual option orders.

1150	Strike	Calls	Sell	Calls
1100	Strike	Calls		
1050	Strike	Calls		
1000	Strike	Calls		
950	Strike	Calls		

1150	Strike	Puts		
1100	Strike	Puts		
1050	Strike	Puts		
1000	Strike	Puts		
950	Strike	Puts	Sell	Puts

Brokerage Firm **MF Global**	Account Number **12345**	Data Entered	Floor Order Number
		Date Filled	Fill Price

BUY				SELL			
Quantity	Month	Strike	Contract	Quantity	Month	Strike	Contract
				2 2	DEC DEC	1150 950	SPc SPp

PRICE	PUT ☐	CALL ☐	PRICE **570 PREMIUM SELL SIDE**	PUT ☒	CALL ☒
	OPEN ☐	CLOSE ☐		OPEN ☒	CLOSE ☐

RATIO SPREADS

When the number of options that you buy in a spread differs from the number of options sold, you have a ratio spread.

CALL RATIO SPREAD

In a call ratio spread you typically buy one call at a lower strike and sell two calls at a higher strike. The premium received from the sale of the two calls will sharply reduce the net cost of the closer-to-the-money option or may even yield a net credit. These positions have unlimited risk if the underlying market explodes through the short strike price.

As an example, assume that you are establishing a call ratio spread in December 300, 305 Gold call options and want to receive a credit of at least $2.50 per spread. The 300 call traded last at $5.50; the 305 call at $3.80.

To enter a Call Ratio Spread Order provide the following information:

1. Account Number:		12345
2. Market Action:		Buy/Sell
3. Quantity:		5/10
4. Month & Year:		December 19--
5. Contract:		Gold 300c
		Gold 305c
6. Order Type:		Limit
7. Open or close:		Open
8. Price:		250

Enter the order as follows:

ACCOUNT 12345
BUY 5 DEC 300 GOLD CALLS to OPEN
SELL 10 DEC 305 GOLD CALLS to OPEN
2.50 PREMIUM SELL SIDE

Brokerage Firm **MF Global**	Account Number **12345**	Data Entered	Floor Order Number
		Date Filled	**Fill Price**

BUY				SELL			
Quantity	Month	Strike	Contract	Quantity	Month	Strike	Contract
5	**DEC**	**300**	**GOLD**	**10**	**DEC**	**305**	**GOLD**

PRICE	PUT ☐	CALL ☒		PRICE **250 PREMIUM SELL SIDE**	PUT ☐	CALL ☒
	OPEN ☒	CLOSE ☐			OPEN ☒	CLOSE ☐

This order, entered as a spread, must be filled as a spread and generate a minimum credit of $2.50 because it was entered as a limit order. The spread was trading at $2.50 when the order was entered which means that you may or may not get filled on all or any at $2.50. When liquidating the position the orders can go in as spreads or as individual options.

320	Strike	Calls	
310	Strike	Calls	
305	Strike	Calls	Sell 10 Calls
300	Strike	Calls	Buy 5 Calls
290	Strike	Calls	
280	Strike	Calls	

PUT RATIO SPREAD

In a put ratio spread you typically buy one put at a higher strike and sell two puts at a lower strike. The premium received from the sale of the two puts will sharply reduce the net cost of the closer-to-the-money option or may even yield a net credit. These positions have unlimited risk if the underlying market drops sharply through the short strike price.

As an example, assume that you are establishing a put ratio spread in December 290, 280 Gold put options and want to receive a credit of at least $3.00 per spread. The 290 put traded last at $7.80; the 280 put at $5.10. The spread is trading at $2.40 but you are willing to let the order work for several days.

To enter a Put Ratio Spread Order provide the following information:

1. Account Number:	12345
2. Market Action:	Buy/Sell
3. Quantity:	2/4
4. Month & Year:	December 19--
5. Contract:	Gold 290p
	Gold 280p
6. Order Type:	Limit Open Order (GTC)
7. Open or close:	Open
8. Price:	300

Enter the order as follows:

ACCOUNT 12345
BUY 2 DEC 290 GOLD PUTS to OPEN
SELL 4 DEC 280 GOLD PUTS to OPEN
3.00 PREMIUM SELL SIDE OPEN ORDER (GTC)

Brokerage Firm	Account Number	Data Entered	Floor Order Number
MF Global	**12345**		

OPEN ORDER (GTC)		Date Filled	Fill Price

BUY	SELL

Quantity	Month	Strike	Contract	Quantity	Month	Strike	Contract
2	**DEC**	**290**	**GOLD**	**4**	**DEC**	**280**	**GOLD**

PRICE	PUT	CALL	PRICE	PUT	CALL
	X	☐	**300 PREMIUM**	**X**	☐
	OPEN	CLOSE	**SELL SIDE**	OPEN	CLOSE
	X	☐	**OPEN ORDER**	**X**	☐

This order, entered as a spread, must be filled as a spread and generate a minimum credit of $3 because it was entered as a limit order. The spread was trading at $2.40 when the order was entered which means that you may get filled on only one spread, or none, at $3.00. When liquidating the position the orders can go in as spreads or as individual options.

310   Strike   Puts
305   Strike   Puts
300   Strike   Puts
290   Strike   Puts   Buy 2 Puts
280   Strike   Puts   Sell 4 Puts
270   Strike   Puts

BACKSPREAD

A strategy in which you buy more options than you sell, the opposite of call and put ratio spreads, is a backspread. In a call backspread you typically sell one call with a lower strike price and buy two calls with a higher strike price. Maximum loss occurs if the underlying is exactly at the higher strike at option expiration. In a put backspread you typically sell one put with a higher strike price and buy two puts with a lower strike price. Maximum loss occurs if the underlying is exactly at the lower strike at option expiration. These positions have limited risk and unlimited profit potential. And, if the position is established at a net credit, you have the opportunity to profit no matter which way the underlying market moves.

As an example of a call backspread, assume that you are spreading the July 240, 270 Corn calls and are anxious to establish the position. The 240 calls traded last at 17 1/2; the 270 calls at 10.

To enter a Call Backspread Order provide the following information:

1. Account Number:	12345
2. Market Action:	Buy/Sell
3. Quantity:	1/2
4. Month & Year:	July 19--
5. Contract:	Corn 240c
	Corn 270c
6. Order Type:	Market
7 . Open or close:	Open

Enter the order as follows:

ACCOUNT 12345
BUY 2 JULY 270 CORN CALLS to OPEN
SELL 1 JULY 240 CORN CALL to OPEN
MARKET

This order, entered as a spread, must be filled as a spread. You know that the order was filled because it went in as a Market Order. We can not be sure of the price for the spread, but it was trading at 2 1/2 debit when the order was entered (sell 1 @ 17 1/2; buy 2 @ 10 each = 2 1/2). When liquidating the position the orders can go in as spreads or as individual options.

280	Strike	Call	
270	Strike	Call	Buy 2 Calls
260	Strike	Call	
250	Strike	Call	
240	Strike	Call	Sell 1 Call
230	Strike	Call	

Brokerage Firm	Account Number	Data Entered	Floor Order Number
MF Global	**12345**		
		Date Filled	**Fill Price**

BUY				SELL			
Quantity	**Month**	**Strike**	**Contract**	**Quantity**	**Month**	**Strike**	**Contract**
2	**JUL**	**270**	**CORN**	**1**	**JUL**	**240**	**CORN**

PRICE		PUT ☐	CALL ☒	PRICE		PUT ☐	CALL ☒
MARKET		OPEN ☒	CLOSE ☐			OPEN ☒	CLOSE ☐

KEEPING TRADE RECORDS

Proper record keeping is another one of those basic, fundamental activities that should become second nature to you. There are three sets of records you should always keep up to date:

   Individual Trade Tickets
   Trading Log
   Open Order Log

INDIVIDUAL TRADE TICKETS

A trade ticket is a paper record of every order placed and it should be completed by hand before any order is entered. Computers can crash, brokerage firms can make mistakes, and traders often enter orders incorrectly. By writing a legible order ticket for each trade you can help eliminate, or at least reduce sharply, the incidence of trader order entry error. You will also have a complete record for each and every market action you take.

At the top of the trade ticket enter the name of the brokerage firm receiving the order, your account number, and the order date. Complete these three sections even if you have only one trading account now. You may have another account in the future and a completed ticket will help to identify exactly where and when you placed an order. It is also a good idea to number your tickets sequentially.

The middle section with BUY on the left and SELL on the right can be used to record futures orders. The bottom section of the order ticket is for options orders. Write the entire order in the proper section and then mark each word with a pencil as you enter the order. If your order is to BUY 5 DEC BONDS MARKET, then do the following: When you say or use the keyboard to select BUY, use a pencil to check through the word BUY on the order ticket. Use the pencil to place a check mark through each word of the order written on the ticket as you say it to the phone clerk or key it in on the computer keyboard. This method may seem tedious but it helps to eliminate many of the errors that occur on order entry.

Once the order is entered you will receive a confirmation number from your brokerage firm that should be recorded at the top of the ticket in the section "Floor Order Number." Later, when the fill is reported, record the price and date of the fill in the proper sections at the top of the ticket. If the order does not fill, or if it is cancelled, draw a diagonal line across the entire ticket to indicate that no action occurred. When canceling an order be sure to record the cancel date.

TRADING LOG

The trading log is a compilation of information taken from individual trade tickets. Why bother with the log if you have trade tickets? It is much easier to review a daily, weekly or monthly trading log then to sort through a bunch of trade tickets that may or may not be in sequence. You may remember trades made yesterday, last week or even two months ago, but what if you had to find information on a trade made two years ago? A trading log addresses that problem. Be sure to attach the individual trade tickets to the proper trading log for a complete record.

OPEN ORDER LOG

You have a long stock index position and an Open Sell Stop Order to protect the position in case the market turns lower. You log on to your computer and see that the stock index spiked 15 points higher at the opening and you decide to get out now. You are very excited; this was a great trade; you can not wait to tell your spouse; must find the nearest Lexus dealer. You sell your position and book the profit. That afternoon the market turns sharply lower, finds support, then rallies back to the highs. Big problem: You forgot to cancel your Open Sell Stop and are now short the market. Say good bye to the Lexus.

OPEN ORDERS DO NOT GO AWAY AUTOMATICALLY! YOU MUST ALWAYS CANCEL AN OPEN ORDER! These things do happen because traders forget to deal with their open orders. The Open Order Log will help to eliminate this problem. By simply scanning the sheet each day you know immediately which orders are still working and which ones should have been cancelled or filled. And if the brokerage firm reports a fill on an order cancelled previously, you have immediate access to very necessary inform ation. How much time should you spend on record keeping chores? As much time as needed to keep accurate, helpful, necessary records. Trading is a business for many people. Is it a business for you? Make copies of the Order Ticket, Trading Log and Open Order Log inserted in this publication or make up your own. But do keep records.

BE CAREFUL! KEEP RECORDS!

Brokerage Firm MF Global	Account Number	Data Entered	Floor Order Number
		Date Filled	Fill Price

BUY				SELL			
Quantity	Month	Strike	Contract	Quantity	Month	Strike	Contract

PRICE	PUT ☐	CALL ☐	PRICE	PUT ☐	CALL ☐
	OPEN ☐	CLOSE ☐		OPEN ☐	CLOSE ☐

Brokerage Firm MF Global	Account Number	Data Entered	Floor Order Number
OPEN GTC		Date Filled	Fill Price

BUY				SELL			
Quantity	Month	Strike	Contract	Quantity	Month	Strike	Contract

PRICE	PUT ☐	CALL ☐	PRICE	PUT ☐	CALL ☐
	OPEN ☐	CLOSE ☐		OPEN ☐	CLOSE ☐

TRADE LOG

Order Date	Buy Sell	Quantity	Contract Month	Security	Option Strike	Put Call	Order Price	Order Number	Fill Price	Fill Date

OPEN ORDER LOG

Order Date	Buy Sell	Quantity	Contract Month	Security	Option Strike	Put Call	Order Price	Order Number	Fill Price	Fill Date

GLOSSARY OF COMMONLY USED TRADING TERMS

ASK The price at which the party is willing to sell. Also called the offer.

ASSIGNMENT Notice to an option writer that an option has been exercised by the option holder.

AT-THE MONEY An option whose strike price is equal or near to the current market price of the underlying contract.

BETA The relationship between the movement of an individual stock or a portfolio and that of the overall market.

BID The price at which a party is willing to buy.

CALL OPTION An option that gives the buyer the right to assume a long position in the underlying contract at a specific price prior to the contracts expiration date. When assigned, a call option seller assumes a short position.

CLEARING HOUSE A division of an exchange through which all trades are adjusted and cleared.

COVERED OPTION An option written against an opposite position in the underlying market.

CREDIT SPREAD An option spread in which the value of the option sold exceeds the value of the option purchased.

DEBIT SPREAD An option spread in which the value of the option purchased exceeds the value of the option sold.

DELTA A measure of the price-change relationship between an option and the underlying contract.

EXERCISE The process whereby the holder of an option exercises his right to exchange his options position for a position in the underlying contract.

EXERCISE NOTICE A notice tendered by a brokerage firm to an exchange that exchanges an option for a position in the underlying contract.

EXERCISE PRICE The price at which positions are established upon the exercise of an option. The strike price of an option.

EXPIRATION DATE The last day an option may be exercised.

IN-THE-MONEY A term describing any option that has intrinsic value. A call option is in-the-money if the underlying contract price is higher than the option's strike price. A put option is in-the-money if the underlying contract price is below the strike price.

INTRINSIC VALUE The amount by which an option is in-the-money.

LIMIT ORDER An order that specifies an execution price. The order can be executed only if the market reaches or betters that price.

LONG POSITION   In options the long has purchased the call or the put option.

MARK-TO-MARKET   An adjustment of all open positions to reflect the current price. Each position is credited with profit or charged with loss.

MARKET ORDER   An order for immediate execution given to a broker to buy or sell at the best obtainable price.

NAKED OPTION   An option written without an opposite position.

OFFSET   Any transaction that liquidates or closes an open position.

OPTION CLASS   All put and call contracts on the same underlying contract.

OPTION HOLDER   Trader (buyer) who pays a premium to own the rights granted by an option contract.

OPTION SERIES   All option contracts of the same class, with the same exercise price and expiration date.

OPTION WRITER   Trader (seller) who, in exchange for the premium, agrees to assume the opposite side of an option's exercise at a fixed price any time prior to the contract's expiration.

OUT-OF-THE MONEY   An option with no intrinsic value. A call is out-of-the-money if the current price of the underlying contract is below the option strike price. A put is out-of-the-money if the current price of the underlying contract is above the option strike price.

PREMIUM   The total price paid for an option.

PUT OPTION   An option that gives the buyer the right to assume a short position in the underlying contract at the option's strike price. When assigned, a put option writer assumes a long position at the strike price.

SETTLEMENT PRICE   A figure determined by the closing range used to calculate position gains and losses.

SHORT POSITION   In options the short has sold the call or put and is obliged to take a position in the underlying contract if the option is assigned for exercise.

SPREAD   Simultaneously holding a long and short position in two related contracts or options with the object of capturing profit from a changing price relationship. Also refers to the price difference between the contracts.

STOP ORDER   An order to buy or sell at the market when a definite price is reached.

STRADDLE   The purchase or sale of both a put and a call having the same exercise price and expiration date.

TIME VALUE   That portion of an option's premium that represents the amount in excess of the intrinsic value.

UNCOVERED SALE   Writing an option without an offsetting position in the underlying contract.

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