# Frequently Asked Questions

**What's the difference between a stock exchange and a futures exchange?**

At a stock exchange, the stocks bought and sold represent partial ownership in the company which originally issued the stock. At a futures exchange, contracts are bought and sold. The contracts are standardized as to quality, quantity and delivery time and location. The only variable is price, which is "discovered" in trading on the exchange floor. The contracts represent the intent to accept or deliver a quantity of a commodity, for example, corn, soybeans, or Treasury bonds, at some future date.

**Why do we need futures markets?**

The price you pay for goods and services depends to a great extent on how successful businesses are in managing risk. By using the futures market effectively, businesses can minimize their risk, which, in turn, lowers their cost of doing business. This savings is passed onto you, the consumer, in the form of lower prices for food and other commodities, or a better return on a pension or investment fund.

**What is a futures contract?**

A futures contract is a binding, legal agreement to buy (take delivery) or sell (make delivery of) a commodity. The terms of a futures contract are standardized by type (corn, wheat, etc.), quantity, quality, and delivery time and place. The variable portion of the contract is the price, determined at the time of the trade in a process called price discovery that takes place on our trading floor.

**What is an option on a futures contract?**

A futures option gives the right (but does not impose an obligation) to buy or sell a futures contract at a certain price for a limited time. Only the seller of the option is obligated to perform. There are two types of options: calls and puts.

**What are calls and puts?**

A "call" is an option that gives the option buyer the right (without obligation) to purchase a futures contract at a certain price on or before the expiration date of the option for a price called the premium, determined in open outcry trading in pits on the trading floor.

A "put" is an option the gives the option buyer the right (without obligation) to sell a futures contract at a certain price on or before the expiration date of the option.

**What is hedging and speculating?**

Hedging is the practice of using the futures market for price protection involving the offsetting of price-change risk in any cash market position by taking an equal, but opposite position in the futures market. For example, a farmer may use futures or options to establish the price for his crop long before he harvests it. Various factors affect the supply and demand for that crop, causing prices to rise and fall over the growing season. The farmer can watch the prices discovered in trading at the CBOT® and, when they reflect the price he wants, will sell futures contracts to assure him of a fixed price for his crop.

Speculating is the practice of buying and selling futures contracts and options to make a profit. A speculator will buy and sell in anticipation of future price movements, but has no desire to actually own the physical commodity. Speculators, thus, assume market price risk and add liquidity and capital to the futures markets.

**What is the difference between a long and short position in the market?**

A short position involves selling futures contracts or purchase of a cash commodity without offsetting an offsetting futures transaction. (A cash commodity is an actual, physical commodity someone is buying or selling, such as corn or soybeans, also referred to as actuals.) A long position involves buying futures contracts or owning the cash commodity.

**What is a "bull" market?**

A bull market is a period of rising market prices.

**What is a "bear" market?**

A bear market is a period of declining market prices.

**Why are the trading areas called "pits"?**

Because each "pit" is a raised platform with descending steps on the inside that permit buyers and sellers to see each other. It also allows a customer's orders to move into the "pit" quickly.

**Why are the pits shaped that way?**

The octagonal pit shape actually makes the trading orderly. Each side of the octagon forms a "pie slice" in the pit. All the traders dealing with a certain delivery month (September for example) trade in the same slice.

**Why do traders wear colored jackets?**

Exchange rules dictate that personnel on the trading floor must wear jackets and ties, but business attire is not tailored to the physical demands of the trading pit. So the trading jacket was developed as a lightweight, loose-fitting alternative in which a trader may move more freely.
Some member brokerage firms have large floor staffs. In practice, all the staff from the same brokerage firm wear the same color jackets, which sometimes also bear the company name or logo, in much the same manner that sports teams wear uniforms. This helps the staff find each other on the crowded trading floor. The jackets also help for easy recognition during active trading.
Independent traders often wear trading jackets in colors of their own choosing or they sometimes wear the same color of jacket as that of the member firm that clears their trades.

**Why do traders shout and use hand signals?**

Trading is conducted through a public auction system. Their is no central auctioneer; each trader plays that role for himself. Through open outcry, the trader shouts the quantity of the commodity he is buying or selling, and the corresponding price he wants. The hand signals are a specialized sign language which clarify the traders verbal bids and offers, particularly when trading is highly active.

**What do the hand signals mean?**

A trader with his palm facing inward signals a wish to buy; one with his palm outward signals a wish to sell. Each finger held vertically indicates quantity. Fingers extended horizontally express the price at which the bid or offer is made.

**What is a broker? A local?**

A broker is a company or an individual who executes futures and options orders for financial and commercial institutions and/or the general public. A local is an individual who trades for himself.

**If you have specific questions about the futures markets, please call your Account Representative or the Compliance Department at Pioneer Commodities at 561.362.3945**