GFF
BROKERS

Order Placement Guide

GFF Brokers, Inc.

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Please be reminded, that if you ever experience an outage or have trouble with a platform you should contact our 24-Hour Order Desk (Sun 2:00 PM – Fri 3:00 PM PST) for any new orders or working orders at 866-249-4582 (Toll-free: US/ Canada) or 1-818-510-3482(Local/International).

Please read this guide BEFORE placing orders with us!

This guide is not meant to be a complete tutorial on every aspect of proper order entry procedures, however it is a resourceful guide on how to place your orders in a most efficient and precise manner.

Considering that the highest percentage of errors occurs at the time of order placement, it is essential that you understand proper order placement. It is also extremely important that you understand what you are attempting to accomplish with any single order. As simple as it seems, probably the most common order placement error is saying "BUY" instead of "SELL" or vice versa.

How to Place Orders

The first thing to understand about order placement is that there is a standardized way in which to place an order. When placing an order, there are several pieces of information that need to be conveyed.

- Name
- Account Number
- Order Type (Day, Open, Option)
- Buy or Sell
- Number of Contracts
- Month
- Commodity

Here is an example:
“This is John Smith, Account 650-12345. Day Order: Buy 10 March E-Mini S&P at 1285.50”

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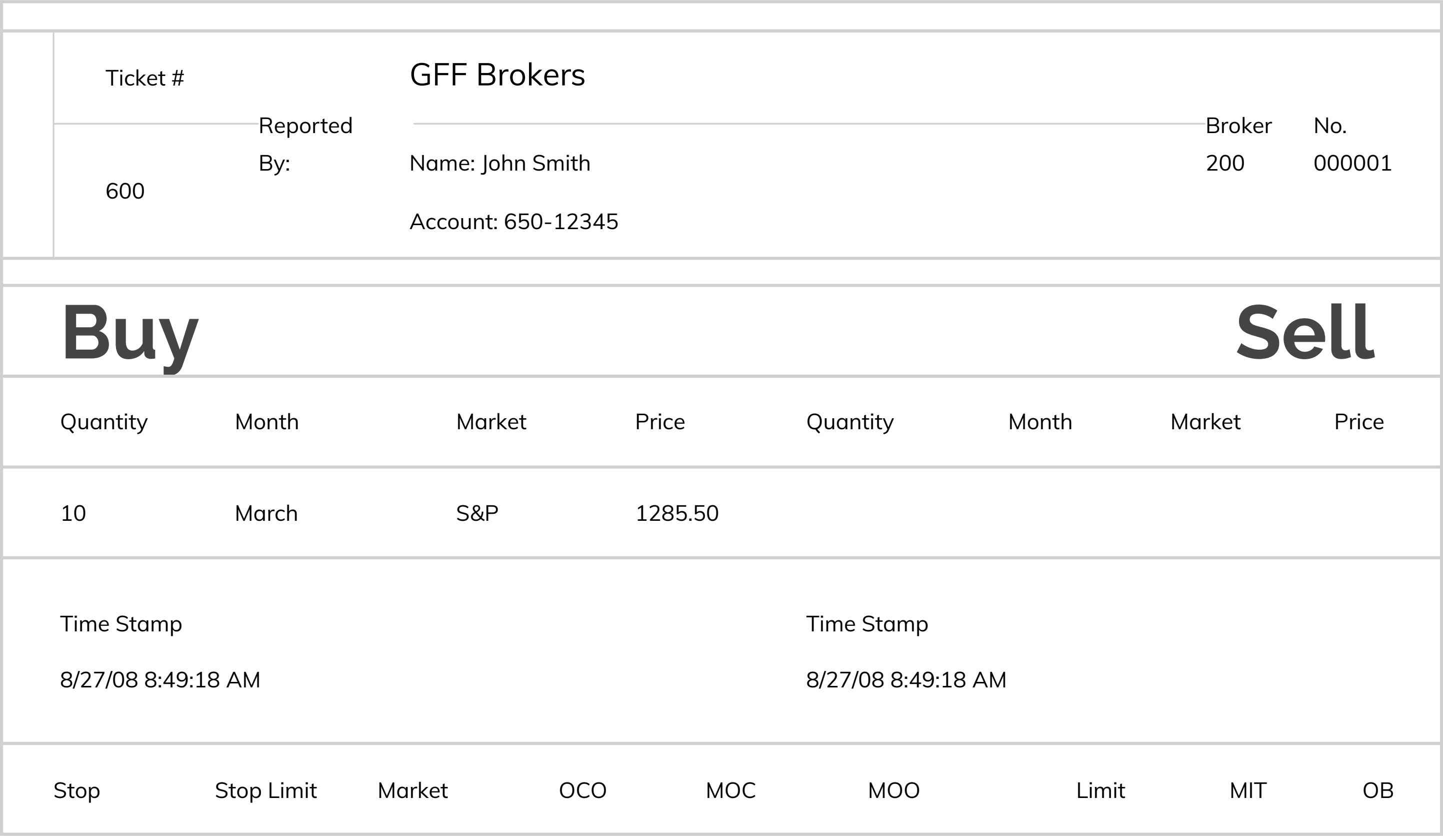

Ticket #		GFF Brokers		
	Reported By:		Broker	No.
600		Name: John Smith	200	000001
		Account: 650-12345		

Buy							**Sell**
Quantity	Month	Market	Price	Quantity	Month	Market	Price
10	March	S&P	1285.50				
Time Stamp 8/27/08 8:49:18 AM				Time Stamp 8/27/08 8:49:18 AM			

Stop	Stop Limit	Market	OCO	MOC	MOO	Limit	MIT	OB

Let's look at each of these order parts in detail so you'll understand the importance of each.

"John Smith, Account 650-12345" - identify yourself and your account number

Order Entry

Once you have identified yourself, the order taker needs to know if you are placing a:

- Day Order
- Good-til-Cancelled (GTC) Order
- Option Order

Each order is kept separate according to its specific category and written on a different type of ticket.
NOTE: All orders are day orders UNLESS specified otherwise.

Day Order

An order that, if not executed, expires automatically at the end of the trading session on the day it was entered.

Good-til-Cancelled (GTC) Order

If you want your order to be a GTC order, you must say so.

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Buy/Sell Order

Indicate whether you are buying or selling. This is self-explanatory; however, as mentioned earlier, this is the most common error made in the world of commodity order placement. Write down your order before calling. This will eliminate simple, but costly, errors. By writing down your orders, you also have a log of your trading activity.

"10 March E-Mini S&P"

This tells the order taker how many contracts you want to buy or sell, which month and which commodity. Always express the quantity in the number of contracts you want to trade.

"at 1285.50 or better"

This is the price at which you want to buy. If you just want to get into the commodity at the closest price to where it is presently trading, then substitute "at the market" for the price. This will tell the floor broker that you want to buy or sell at whatever the market is bidding or offering at the time your order is placed.

Types of Orders

Market Order

Market orders are orders to buy or sell at the best possible prices as soon as possible. They are the first orders to be filled at any given price, and are used to enter or exit the market quickly, regardless of the current market price.

Example: Buy 1 March S&P 500 at the market

Market orders are generally not used in thin markets, where the fill could be substantially different from the last-trade price.

Good-til-Cancelled (GTC) Order

GTC orders remain on the books until cancelled.

Example: Buy 1 March S&P at 1220.00 GTC

One Cancels Other Order (OCO)

One executed order cancels an alternate order. These orders often are used when a price breakout is expected, but the direction of the breakout is uncertain.

Example: Buy 1 March S&P 500 at 1240.00 OCO 1250.00 Stop

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Price Orders

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 better. The advantage of a limit order is that you know the worst price you'll get if the order is executed. The disadvantage is that you can't be certain that the order will be filled.
Example: Buy 1 March S&P at 1236.50

Stop Order

Stop orders are not executed until the market reaches a given price, at which time they become market orders. They are normally used to liquidate earlier positions.

Stop orders can be used to enter the market. Suppose you expect a bull market (rising market) only if the price passes through a specified level. In this case, you could enter a buy-stop order to be executed if the market reached this point.

The following example illustrates how stop orders are placed:
1233.50 Buy Stop (above the market price)
1229.00 Market Price
1226.00 Sell Stop (below the market price)

Stop orders may be inappropriate in very thin or choppy markets, and in any case, placement must be varied depending on price volatility.

Buy Stop Orders

A ***Buy Stop Order*** is placed above the current market price, and is transformed into a market order when the futures price trades or is bid at or above the stop price.

A Buy Stop Order can be used to limit losses (a stop loss order) on a short position, or to establish a long position. When a stop loss order is used and the trader's position is offset due to market movements, the trader is said to have been "**stopped out.**"

Buy Stop orders have several specific uses. If you are short a March S&P 500 at 1240.00 (you sold at 1240.00), and wish to limit your loss to 5 points, a Buy Stop order at 1245.00 would be appropriate. However, such "stop loss" orders do not actually limit the loss to exactly 5 points when activated because they become market orders and must be executed at whatever price the market conditions dictate.

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Another use is when you have no position and believe that if March S&P 500 reached 1250.00, it would signal the beginning of an important upturn in S&P prices. Thus, the order to "**Buy 1 March S&P 500 at 1250.00 Stop**" would be appropriate.

Sell Stop Orders

A Sell Stop Order is placed below the current market price, and is transformed into a market order when the futures price trades or is offered at or below the stop price. A sell stop can be used to limit losses (a stop loss order) on a long position, or establish a short position.

Sell Stop orders have the same uses as buy stops, but in reverse. That is, if you are long 5 March S&P at 1225.00 and wish to limit this loss to 3 points, an order to sell 5 March S&P 500 at 1222.00 stop would be appropriate, recognizing that there is no guarantee of a fill at 1222.00. Similarly, if you have no position and believe that a sale of March S&P 500 at 1222.00 would signal a downtrend in S&P prices, you could use these orders to "**Sell 5 March S&P 500 at 1222.00 Stop**" for this purpose.

When deciding where to place a stop order, either to prevent losses or to protect profits, market volatility is usually the most important factor.

A stop placed too close in a volatile market may result in the investor being "stopped out" too soon, while a stop not placed close enough in a relatively quiet market may not be triggered when the trader would have preferred a fill.

Spread Order

Spread Order is simultaneous long and short positions in the same or related commodities. Thus, a Spread order buys one month of a certain commodity and sells another month of the same commodity, or buys one month of one commodity and sells the same or another month of a related commodity.

A spread position is the simultaneous purchase and sale of two related futures or option positions. Spread positions are used when the prices of two futures contracts are considered to be out of line with each other.

Futures spreads can be divided into four broad categories:

- Intramarket Spreads
- Intermarket Spreads
- Intercommodity Spreads
- Commodity-Products Spreads

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Intramarket Spreads

An intramarket spread, also called a time spread, comprises a long position in one contract month against a short position in another contract month, in the same futures contract on the same exchange. An example would be long March sugar futures vs. short July sugar futures on the Coffee, Sugar & Cocoa Exchange or long October cotton futures vs. short December cotton futures on the New York Cotton Exchange.

The spread, or difference, between the prices of various futures delivery months reflects supply, demand and carrying costs. Because carrying costs generally increase over time, in many futures markets, the price of each succeeding delivery month is higher than that of the preceding delivery month. This is called a carrying-charge, or contango.

In contrast, in some futures markets, the highest price is for the nearby or spot month, and each successive delivery month is priced lower than the preceding month. This is called an inverted market, or backwardation. Inverted markets sometimes occur when demand for the cash commodity is strong relative to its current supply.

Example: Buy 5 July Soybeans and Sell 5 May Soybeans at the Market

Intermarket Spreads

An intermarket spread consists of a long position on one exchange and a short position on another exchange in the same, or a closely related commodity. An example would be long July light, sweet crude oil futures at the New York Mercantile Exchange vs. short July brent crude oil futures on The ICE. Examples of other intermarket spreads are wheat contracts traded on the Chicago Board of Trade, the Kansas City Board of Trade.

Example: Buy 5 July CBOT Wheat and Sell 5 July Kansas City Board of Trade Wheat at the market.

Intercommodity Spreads

An intercommodity spread is made up of a long position in one commodity currency or security and a short position in a different but economically related commodity, currency or security. An example is the "TED" spread - the difference between the prices of a three-month US Treasury bill futures contract and a three-month Eurodollar time-deposit futures contract on the Chicago Mercantile Exchange. The TED spread changes with alternations in the relationship between short-term interest rates for price and government debt. Another financial intercommodity spread is the NOB spread, or US Treasury notes over US Treasury bonds, on the Chicago Board of Trade. This spread reflects the difference in interest rates on US Treasury securities of different maturities. Other intercommodity spreads include gold/silver, as well as platinum/palladium spreads.

Example: Buy 10 December Gold and Sell 10 December Silver at the Market

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Commodity-Products Spreads

A commodity-products spread is comprised of a long position in a commodity against short positions of an equivalent amount of the products derived from the commodity, or vice versa. Examples are the soybean crush and the petroleum crack spreads. A crush spread involves a long soybean futures position, representing the raw, unprocessed beans, against short positions in soybean meal and soybean oil futures. a reverse-crush is a spread in which soybean futures are sold and soybean oil and meal futures are bought. The petroleum crack spread involves purchasing crude oil futures and selling the products - heating oil and/or Gasoline futures. The contrary, purchasing the products and selling crude oil futures, creates the so-called paper refinery.

All orders, except the market orders, can be cancelled, prior to execution. Naturally, a market order is executed almost immediately upon reaching the pit, so its cancellation is virtually impossible.

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Glossary of Terms

Day Traders: Commodity traders, who take positions in commodities and then offset them prior to the close of trading on the same trading day.

Day Trading: Establishing and offsetting the same futures market position within one day.

Bear: One who expects a decline in prices. The opposite of a "bull." A news item is considered bearish if it is expected to result in lower prices.

Bid: An offer to buy a specific quantity of a commodity at a stated price.

Break: A rapid and sharp price decline.

Buyer: A market participant who takes long futures positions or buys an option. (Opposite of seller.)

Buyer's Market: A condition of the market in which there is an abundance of good availability and hence buyers can afford to be selective and may be able to buy at less than the price that previously prevailed. The opposite of a seller's market.

Closing-out: Liquidating an existing long or short futures or option position with an equal and opposite transaction, also known as offset.

Closing Price (or range): The price recorded during trading that takes place in the final moments of a day's activity that is officially designated as the "close".

Delivery Month: The specified month within which a futures contract matures and can be settled by delivery.

Futures Contract: A standardized agreement to purchase or sell a set quantity and quality of a commodity at a specific time and place at a price determined on the exchange floor. The terms on the standardized agreement are set by exchanges.

Limit (Up or Down): The maximum price advanced or declined from the previous day's settlement price permitted during one trading session, as fixed by the rules of an exchange.

Liquidate: Refers to closing an option or futures position. For an open long, this would be selling the contract. For a short position, it would be buying the contract back. (Short covering or covering his short)

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Liquidity: Refers to a market, which allows quick and efficient entry or exit at a price close to the last traded price. This ability to liquidate or establish a position quickly is due to a large number of traders willing to buy and sell. The market flows like liquid, or has liquidity.

Long: The purchase of a futures contract, generally in anticipation of a price increase. Also, going net long. Long also is used to describe a person who has bought a futures contract or the physical cash commodity. A trader holding a long position hopes to profit from a price increase.

Managed Accounts: Many investors choose to use managed futures accounts. With a managed futures account an account manager has a written power of attorney to execute trades on your behalf. He/she will have discretionary authority to buy and sell for your account. You will get confirmation slips for the trades he/she makes.

Margin: Margin, as used in futures trading, is a good faith deposit of cash. It assures the brokerage firm of one's intention to purchase, sell or fulfill the futures contract. Minimum margin requirements represent a very small percentage of a contract's total value, usually between 3-5%.

When a client opens a position, the margin deposited is called "initial margin."

While futures exchanges set minimum margin levels, brokerage firms can, and often do, require a larger margin than the exchange minimum.

Based on the closing prices, your account is then debited or credited each day you maintain your position.

For example, assume you bought 10 Gold futures contracts at a price of $300.00 per troy ounce and posted initial margin. At the end of that trading day, the market closed at $305.00. As a result, the market has moved in your favor by $5 per troy ounce, or a total of $5,000.00. This amount will then be credited to your account and is available for withdrawal. Losses, on the other hand, will be debited. This process is called marking-to-market.

Subsequent to posting initial margin, you must maintain a minimum margin level called maintenance margin. If debits from your market losses reduce your account below the maintenance level, you'll be asked to deposit enough funds to bring your account back up to the initial margin level. This request for additional funds is known as a "margin call." The maintenance margin varies with the commodity and exchange, but is generally 75% of the initial margin; thus, when the money on hand falls below the maintenance level, more money must be deposited.

Offset: Liquidating a purchase of futures contracts through the sale of an equal number of the same delivery month, or liquidating a short sale of futures through the purchase of an equal number of contracts of the same delivery month.

Offer: An indication of willingness to sell at a given price; opposite of a bid.

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P&S (Purchase and Sale Statement): A statement send by a FCM to a customer when any part of a futures position is offset, showing the number of contracts involved, the prices at which the contracts were bought or sold, the gross profit or loss, the commission charges, the net profit or loss on the transactions and the balance.

Position: When you are in the market, you are said to have a "position." The position may be a long or a short position, but it indicates you are holding a position as opposed to being out of the market. A position does not in any way refer to any "working orders" you might have given us. Positions and orders are totally separate. It is very important that you learn the distinction between open positions and orders.

Rally: A rally is a price rise.

Range: The difference between the high and low price of a commodity during a given period.

Recovery: An upward price movement after a decline.

Reversal: A change of direction in prices.

Short: The sale of a futures contract. It is opposite of a long position. This sale is a legally enforceable agreement to make delivery of a specific quantity and grade of a particular commodity during a specified delivery period. This term is also used to describe someone who has sold a contract short.

Spreading: The purchase of one futures contract and the sale of another in an attempt to profit from the change in price differences between two contracts.

Volatile: A Market that often is subject to wide price fluctuations is said to be volatile. This volatility is often due to a lack of liquidity.

Working Order: This is an order you have given us that is not yet filled. Since it is still being held and waiting to be filled, it is said to be "working."

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Plan To Succeed

Many futures traders trade without a plan. They do not define specific risk and profit objectives before trading. Even if they establish a plan, they second guess it and don't stick to it, particularly if the trade is a loss. Consequently, many traders overtrade and use their equity to the limit, which puts them in squeeze and forces them to liquidate the good trades and keep the bad ones.

Having a plan is the obvious first step to avoid this all too common fate; yet the plan is of little value if the trader cannot maintain the necessary discipline to follow that plan through both good times and bad times. Many successful traders will agree that discipline contributed more to their financial success than their trading philosophy itself.

For Self-Directed Online Accounts

WE DO NOT GIVE MARKET ADVICE!

Customers who receive deeply discounted commissions are assumed to be professional traders. As a self-directed trader, you are responsible for obtaining all of the various bits of information that are significant to your trading from market hours to analysis. Customers who don't understand how to place orders and need additional advice about trading are welcome to inquire about our broker-assisted accounts with higher commission rates.

The information herein has been obtained from sources believed to be reliable, however it cannot be guaranteed as to accuracy or completeness, it is subject to change without notice.

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