

S | X | MTM

Mini Futures Contracts
on the S&P/TSX 60TM Index

SXM

Gaining Market Exposure with SXM Futures



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Trading a Directional View

- SXM futures are valued based on the S&P/TSX 60 Index.
- An investor may wish to take advantage of a directional view bias on the Canadian equity market.
 - Bullish → Buy SXM futures
 - Bearish → Sell SXM futures

Bullish on the S&P/TSX 60

- View is that the S&P/TSX 60 will go up.
- The index is valued at 800.00.
- 1 SXM futures contract could be purchased.
- As a comparison, 2,000 units of an index tracking exchange-traded fund could be purchased at \$20.00 per unit.

SXM Futures vs. Index ETF

	SXM Futures	Index Tracking ETF
Price	800	\$20.00/unit
Contract value	\$40,000.00 \$50 X index value (800)	\$40,000.00 \$20 (market price) X 2,000 ETF units
Margin requirements (Note that margin requirements are subject to revision)	\$1,500.00 Minimum margin per contract required by clearing house	\$12,000.00 30% minimum margin required by broker

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Results of S&P/TSX 60 Increase

	SXM Futures	Index Tracking ETF
Increase	800 to 840 = 40 points	\$20.00 to \$21.00 = \$1.00/unit
Profit	\$2,000.00 40 points X \$50.00	\$2,000.00 2,000 ETF units X \$1.00
Profit as percentage of margin requirement	133%	17% (Note that profits do not reflect transaction costs and interest on margin loan for buying the ETF)

S&P/TSX 60

Considerations

- Investor realizes the same profit using the SXM contract as the ETF.
- Accomplishes this with significantly less capital.
- Results in much larger percentage rate of return.
- This allows for the remaining capital to be allocated elsewhere.

Bearish on the S&P/TSX 60

- View is that the S&P/TSX 60 will go down.
- The index is valued at 800.00.
- 1 SXM futures contract could be sold (shorted).
- Note that margin requirements are the same for both long and short SXM positions.

Results of S&P/TSX 60 Decrease

S&P/TSX 60

S&P/TSX 60 Value	Short 1 SXM Contract P&L
810.00	-\$500.00
801.00	-\$50.00
800.10	-\$5.00
800.00 starting value	0
799.90	+\$5.00
799.00	+\$50.00
790.00	+\$500.00

SXM Advantages

- Using SXM futures offers:
 - Efficiency
 - Flexibility
 - Leverage
 - Low transaction costs