WHICH MARKET IS RIGHT FOR YOU?

Thomas Wood

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Introduction

We've all heard the expression "Money makes the world go 'round," which is actually a song from the 1960s Broadway hit "Cabaret," and is supposed to be a cynical dig at a world where money is more important than love, family and everything else. Without taking a side in that argument, I think we can all agree that having money is an important part of our existence. And since the global economic crisis began in 2008, we've been reminded that having money for basic necessities such as food, clothing and housing shouldn't be taken for granted.

As the global economy continues to recover, one lesson we've all hopefully learned is the importance of taking care of your own finances. The days of spending frivolously today because we know we'll be handed more tomorrow are gone. Those fortunate enough to continue to have a source of income and/or money in the bank know how hard we've had to work to get security in the first place, and we'd just as soon not see it squandered.

Another expression we've all heard is the rhetorical question "Is your money working for you, or are you working for your money?" That's a line used by people who are looking for others to invest in everything from real estate to various business ventures. Today, though, it's not a question you should consider, it's a question you have to consider. It's not just about having some money left over at the end of the month to splurge a little, it's about planning in order to be financially secure for years and even decades to come.

Today, as it has been for more than 100 years, one of the safer, more productive places you can invest your money is "the stock market." (That's a general term that represents several distinct markets, including equities, FOREX, options and futures. We'll get to that.) Many people, somehow, think you can just buy a few stocks here and there, and then 10 years from now will have this substantial portfolio just because "the market always goes up over time." While there is truth in that statement, the fact is that investing is actually very hard work. Investing contains substantial risk, and it's only through the investor's dedication and efforts that it may become lucrative.

If you're tired of having just enough money to get by, or you're concerned you won't have enough money to retire with, or if you'd just like to put together an impressive portfolio so your family can be more comfortable, investing in a market might be just the way to help you reach your financial goals. Each market has its advantages and disadvantages, so it's up to you to do your homework and figure out where your money will be best invested. In the coming pages we'll introduce you to each market so you can get an idea of which one you'd like to further investigate, and then at the end we will offer some tips on taking the next step—a step that will hopefully lead to your desired level of financial security and freedom.

Equities

When the average person thinks about investing in “the market,” generally he or she is envisioning the equities market. This is Wall Street. This is the New York Stock Exchange. This includes Nasdaq, the Dow Jones and the S&P 500. This is what is depicted in the movies and is what you most often see referenced on TV.

What makes this a particularly attractive market to get into is that most people are fairly comfortable with the way it works. What further makes this market attractive is the feeling of control investors believe they have. When you invest in equities you are buying part ownership in a company. Therefore—theoretically—if you do your homework and find a great company to invest in, then you will make money. Simple, right?

The main reason for getting involved in equities is that—generally speaking—the market goes up over time, so if you have the patience and means to invest your money for 10 years or more, you should—repeat, *should*—realize a substantially better return than had you left the money in a bank over the same period of time collecting simple interest. Of course, any individual stock can tank without warning (think Enron), and many people took a hit during the tech bubble burst in the early 2000s and the economic crisis that hit the United States in 2008, so there are no sure things. But with hard work, diligence and sound strategies, equities trading can be quite the lucrative avenue.

Advantages

So why invest in equities? Simply put, equities provide high potential returns, and over the long term no other market or investment type tends to perform better. There's also that sense of control, where—like the stereotypical old guy with the hat in the movies reading through the paper trying to figure out what horse to bet on—the investor feels like his or her success is based on their ability to pay attention, do homework, research and spot the hidden gem that's about to take off. Every person can probably name 10 companies they wish they could go back in time and invest in. Imagine getting in on the ground floor of Google or Apple or Microsoft or Polaroid or Xerox.

Did You Know?

The first stock exchange in the United States was actually the Philadelphia Stock Exchange, founded in 1790. In 2007, it was purchased by Nasdaq for $652 million.

The New York Stock Exchange began in 1792 when 24 stock brokers and merchants signed the Buttonwood Agreement—*buttonwood* being the local name for the sycamore tree.

In terms of market capitalization—the total value of the publicly issued shares traded—the New York Stock Exchange ($14.1 trillion USD) is nearly the size of the next four largest exchanges combined (Nasdaq $4.6 trillion, Tokyo Stock Exchange $3.5 trillion, London Stock Exchange $3.4 trillion, Hong Kong Stock Exchange $2.8 trillion)

The Dow Jones Industrial Average was created in 1896, and consists of 30 stocks. The only original company that remains on the Dow is General Electric, which originally sold for a hefty $108 per share—but after nine splits, would be worth $106,000 per share in today's terms.

In 1602, needing funds to compete with the English East India Company, the Dutch East India Company became the first company in the world to sell shares of itself to the public.

Because the NYSE and Wall Street are the polarizing figures in the investment world, the good news for all equities traders is that there is no shortage of information out there—in fact there might even be too much. Between newspapers, magazines, television and a countless supply of websites, all the information you could possibly want regarding potential investments is at your fingertips. You can analyze and research to your heart's content.

With literally thousands of companies available to invest in, an equities trader has more versatility than an investor in any other market—and in some cases has the added advantage of investing in a company he or she is already familiar with or to which he or she has some type of connection. If you like coffee you can invest in Starbucks, if you like chocolate you can invest in Hershey's, if you can afford to invest in a huge, proven company there are hundreds to choose from, and if you want to go smaller with a stock that costs only a few dollars a share there are even more options.

Another advantage unique to the equities market is the dividend. The shares you buy in a stock make you a part owner of the company, and with that comes benefits. At the end of the year, if the company was successful and showed a profit, the leadership of the company will decide where that profit needs to go, and often will return a certain amount for each share owned in the form of a dividend. The benefit of doing this—besides that the people running the company likely own considerable stock in it—is that dividends promote a healthy company and attract new investors. Given all this positive news about the company, it stands to reason that its stock prices should be on the rise, further improving the investors' portfolios. If these returns aren't happening, people won't invest, so it's in the best interest of every public company to do well not only from an internal business standpoint, but to keep external investment funds flowing in as well.

Challenges

Equities have consistently proven to be solid investments over long periods of time, but that doesn't mean you can't lose money in the short term—or the long term for that matter. If you're invested in the wrong companies, all the positives above can become negatives. Just because you enjoy the food at a particular restaurant chain doesn't mean the corporation has good leadership or sound business fundamentals. Tasty chicken wings does not a good investment make. Equities, more than any other market, requires hard work (in the form of research) and dedication in order to become a successful trader.

Ask the Pros: **Thomas Wood**

Thomas has been a student of the markets for more than eight years. He graduated from Liberty University with Bachelor's degrees in finance, economics and marketing. He started his professional trading career as an account manager for MicroQuant, where he has developed new trading strategies that utilize the next generation of technical analysis.

What are some of the benefits of investing in equities?

Equities is probably the easiest market to get into, in terms of paperwork you have to fill out and risk waivers you have to sign. Beyond that, though, most people have a sense of familiarity with the stock market, as it's the most widely followed, most recognized and most talked about market in the world. And because the NYSE is kind of the face of the market, most trading is confined to "normal" business hours; 9:30 a.m. to 4 p.m. EST.

What advice would you give to someone new to the market?

To start with, make sure you pick the right broker. The odds of a new trader coming in and figuring out something that no one has ever thought of before aren't great, so lean on the knowledge and experience of others as you get started. You can never spend enough time learning about the market or the companies that interest you, and there's plenty of information out there, so there really are no excuses. Don't invest any money you can't live without, and be prepared to handle losses in the early going.

MicroQuant's Equities Live Trading Room is currently being developed. Visit www.valuecharts.com for more information.

Challenges Cont.

Even for those who are thorough, do their homework and find a great, fundamentally sound company, there's still no guarantee it will be a good investment. Even some of the most successful business people of all time have experienced bankruptcy, and many businesses that are great today have struggled in the past. There's also no telling when external economic factors—trends bursting, economies failing, markets plummeting—will negatively affect the company in which you are investing. Bad luck and poor timing can decimate a portfolio.

As a final thought, because most of us can think of those 10 stocks we wish we'd gotten in on early, many people entering the equities market allow their good judgment to be clouded by greed. Don't think of the stock market like a lottery where if you pick the right one you'll be automatically set for life. Traders content to make small, short-term gains and solid long-term investments tend to do best.

FOREX

For the new investor, the Foreign Currency Exchange (FOREX), is actually an easy and extremely accessible market in which to become involved. For as little as $250 USD an investor can get into this market—with a lower-leverage mini-account—and still have the potential to realize a sizeable return. Unlike the "traditional stock market" (a.k.a. equities) where the New York Stock Exchange, Nasdaq and other exchanges offer literally thousands of companies that you can buy shares of, the FOREX market heavily revolves around four major currencies and only has 34 total pairings in which you can invest (see Major Investments, page 15). This makes it significantly easier to track markets and become an informed trader.

What you're actually investing in—or in this case "betting on" might be more accurate—is how the exchange rates of two currencies will compare against one another. There's little "inside information" to worry about as currency fluctuations are generally caused by real economic conditions and global macroeconomic events, so everyone is basically operating on an even playing field. And because FOREX is by far the largest financial market in the world, topping $4 trillion USD in trades every day, it offers numerous built-in advantages for investors.

Advantages

One of the great advantages of the FOREX market is its flexibility. Unlike some of the other markets, a new trader can get involved in FOREX for a modest investment. The reason a modest investment can still turn into significant gains is because the FOREX market is highly leveraged, with a 50:1 ratio available in the U.S., compared to the stock market which is generally 2:1. This means $2,000 in the FOREX market could be used to hold $100,000 of currency. So in other markets while it might take a $100 million account to influence a directional trend, because of leverage it can be done with a significantly smaller account in FOREX, which means individuals are trading on par with international banks.

Another example of the flexibility of the FOREX market is because it doesn't operate out of a central location, it is virtually always open, allowing an investor to make trades any time that is convenient for him or her. The FOREX market opens at 5 p.m. EST on Sunday (this is when the Asian market is opening) each week and is open 24 hours a day until it closes Friday at 4 p.m. EST. Unlike the New York Stock Exchange, for example, that is clock-dependent for its business hours, the FOREX market can remain open constantly because it's always within "business hours" somewhere around the globe. Be it in Australia, Asia, Europe or North America, somebody is open. This is significant for someone who works or is otherwise occupied during local business hours, as he or she can go home and trade just as effectively at night.

As you first get involved in the FOREX market it may be worth using a paid, full-service broker, however as you gain experience most FOREX traders use brokers who do not charge commissions on each trade. Instead, when you see a currency pair quoted there will be two different prices, the *bid* and the *ask*. The difference between the two is usually a nominal amount called the *spread*, which goes to the broker. Generally this commission-free method saves the trader a considerable amount of money over time compared to other trading markets that charge per trade.

Because there is no centralized location for FOREX, all its transactions take place on an electronic exchange. And because the market is so large, it has great liquidity, which is to say that trades get filled virtually instantaneously, and therefore the price you see—minus the spread—is the price you get (whereas in other markets there can sometimes be a slight fluctuation in price between the time the order is placed and the time it is filled). FOREX trades can be made effortlessly thanks to (often) free software that can be supplied through any brokerage firm. These programs will deliver a live price feed, real-time charting and generally some indicators to help you get started. Once you gain some experience, software programs that offer advanced features, such as value indicators, can be purchased.

Major Investments

When it comes to trade volumes, there are four main currencies that stand out: the U.S. Dollar (USD), the Euro (EUR), the Yen (JPY) and the British Pound (GBP). In addition to those four, other highly traded currencies include the Swiss Franc (CHF), Canadian Dollar (CAD), Australian Dollar (AUD) and the New Zealand Dollar (NZD).

Currencies are typically broken into three trading categories: Majors, Crosses (or Minors) and Exotics. The Majors are any of the common currencies above that get paired with the US Dollar, namely: EUR/USD, USD/JPY, GBP/USD, USD/CHF, USD/CAD, AUD/USD and NZD/USD. The Majors account for about 85 percent of the market.

There are 21 Crosses, which are any of the common currencies mentioned above that aren't paired with the US Dollar (EUR/JPY for example). The Exotics are the least common. These are any pairings that involve the currencies of the emerging economies, such as the Turkish Lira (TRY), the Mexican Peso (MXN), the Singapore Dollar (SGD), the Norwegian Krone (NOK), the Swedish Krona (SEK) and the South African Rand (ZAR).

Most brokers will trade the Majors and many of the Crosses, however, the lesser known brokers tend to have fewer currencies to choose from because it costs money for each pair they represent

A final advantage offered by the FOREX market is that everyone involved in it is truly on a level playing field, meaning everyone has equal access to make and lose money as the market moves along. The market is sensitive, and as such often rises and falls based on news and trends from around the globe. So if you have a feel for the way things ebb and flow, this might be the perfect spot to invest. And, unlike other markets, there are no short-selling restrictions, which is to say if you have a strong feeling about a currency that turns out to be correct, it could turn into quite the profitable transaction.

Ask the Pros: **Nate McGee**

Nate has always been interested in finding out how things work, and continually uses his management information systems background to analyze the markets and write algorithms that tame them. His love of analysis and his passion to help others is what fuels him as he tries to make the complex become simple.

What's the most common problem most new investors face?

Unrealistic expectations. Most new traders believe the typical sub-culture that surrounds trading with things like, "I'm going to make $1,000 working from home for five minutes a day." This is simply false. But the stereotype exists and it causes new traders to let greed cloud their common sense. You need to realize that trading takes hard work and dedication. It doesn't happen overnight. And no, not everyone can be a trader.

What's the best advice you would give someone just getting into FOREX?

Find the broker that's best for you. Some brokers follow the "dealing desk model" when it comes to trading, while others follow the "straight-through processing model." The difference is that in a dealing desk model, the broker trades in the opposite direction of what the new trader trades. That way the broker makes money every time you lose. With straight-through processing, the broker doesn't trade against you, but acts as a gateway that passes you through to the liquidity providers.

Always do thorough research before choosing a broker. Most new traders don't take the time to do this correctly and rush into getting an account with whoever picks up the phone.

Nate McGee hosts the FOREX Live Trading Room daily for MicroQuant. To learn more visit www.valuecharts.com.

Challenges

As with all financial markets, there are no sure things. Just remember, for every trade you make thinking one thing will happen, there are thousands of people betting against you, equally as sure the opposite of what you think will happen. To be successful, you need to work hard, do your research and gain experience in the trenches trading the market.

One of the main things that makes the FOREX market desirable is also what makes it risky: leverage. As mentioned previously, leverage allows you to hold a bigger position with less of an investment. So if your broker allows 50:1 leverage, then you can trade at $250,000 with only a $5,000 account. This can certainly cause significant gains to your trading, but it also leads to increased losses—at a rapid rate! The fact is, because they use leverage incorrectly, most new FOREX traders zero an account within several months. Fortunately FOREX brokers will set up a minimum margin requirement, so if your account falls below the balance you'll lose what you invested, but won't go into the negative despite the leverage used.

To avoid this serious pitfall and become a successful FOREX trader, you need to go in with a solid plan. Realize that you shouldn't over-leverage yourself, and don't let the emotions of greed and fear get the best of you. Understand your taste for risk and stick to it. Set an allowable amount of money you are willing to lose in a day (or a week) and if you get to that point then get out of the trade. Keep a log of all your transactions, and analyze what went right and what went wrong. Make any needed adjustments to your plan, and then proceed wiser for the experience.

Options

The options market—more than equities, FOREX and futures—has a wide spectrum in regards to its advantages and disadvantages. On the positive side, options can get you involved with great companies for a relatively small investment, and more than any other market you can tailor an investment strategy that best suits your needs and taste for risk. On the negative side, options are a fairly difficult market to understand for those without experience, complete with a language and style all its own.

Simply put, an option contract enters the buyer into a binding agreement to buy or sell a contract (100 shares) for a certain amount, at a certain time. By putting money down to enter the agreement, the buyer then has the right—but not the obligation—to purchase that contract at the agreed upon time. So basically you pay a fee that locks in a certain price, and you make money by having what you thought would happen (either have the option gain or lose value) become reality. Where this begins to differ from other markets, however, is that the investor is less concerned with the actual price of the stock in question as he or she is in the value of the option—although, the value of the option is of course dictated by the price of stock. The reason for this is because most traders get rid of the option before it expires.

When looking at an options chart for a particular stock, there will be a list of "strike prices" that you choose from. The strike price is the price that you are agreeing to buy (or sell, as you'll see) that share for at the end. You can purchase a strike price that is significantly below the actual value of the stock, but it is going to cost you significantly more to purchase than a contract that is close to the actual stock's price. The strike price you go with gets set, and then you have to decide if you will "call" (buy the shares for that price) or "put" (sell the shares for that price). So if the strike price for a stock is $100, and you buy a call share, and the price by the end rises to $105, you have the right to purchase $10,500 worth of the stock (100 shares) for $10,000. Thus you profit $500.

Had you bought a put option on that same deal, you would just let the contract expire and lose what you paid for the contract, otherwise you would be on the hook to pay $10,500 for stock that you could only sell for $10,000. Had that stock gone the other way, however, and dropped to $95, the person buying the put would have profited since he or she would have right to sell $9,500 worth of stock for $10,000.

Common Options Terms:

American Option: An option contract that can be exercised at any time between the purchase and expiration dates. A European option can only be exercised at its deadline.

At the Money: When the stock's price and the option's strike price are the same.

Call: The option buyer has the right but not obligation to purchase the security at a certain price for a specified period of time.

CBOE: The Chicago Board Options Exchange.

Contract: The number of shares covered in an option contract—generally 100.

Greeks: A set of mathematical criteria involved in the calculation of stock option prices. They include Alpha, Beta, Gamma, Delta, and Theta.

Hedge: Transactions that protect against loss through compensatory price movements.

In the Money: When the option holder is ahead because a call option's security is higher than the strike price or a put option's security is below the strike price.

Intrinsic Value: The current value of an option if it were to expire immediately.

Out of the Money: When the option holder is behind because a call option's security is lower than the strike price or a put option's security is higher than the strike price.

Over-the-Counter Option: As opposed to a listed stock option. A "made-to-order" option, so to speak.

Put: The buyer has the right to sell the security at a certain price for a specified period of time.

Time Decay: The option's extrinsic value goes down as the expiration date approaches.

Strike Price: The price at which the buyer or seller will pay for the stock at the end of the contract.

Chances are, though, you'll get out of the trade by buying or selling your call or buying or selling your put before the contract expires, thus any profit you would like to realize is based on the value of the option itself, which is dictated by the value of the share and the time left on the contract.

Advantages

The biggest advantage to trading options is that you can truly tailor your trading style to match your individual personality and goals. If you feel strongly that a particular stock is going to move one way or the other, you can increase the amount of money you'd like to invest (put at risk) and substantially increase the return you will make should your instincts be correct. Options are attractive to hedgers (buyers) because they protect against loss in value without sacrificing potential gains.

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Many people also view options as one of the safest investments you can make—not necessarily from the point of view that you won't lose money frequently, but from the standpoint that you can only lose what you invest to purchase the option, which is often minimal compared to the money you'll need on the table when investing in other markets. For an amount that can literally be just a few dollars, you can have the opportunity to profit using 100 shares of some of the best performing stocks in the industry. This leverage is key to making successful options trades.

Options aren't necessarily suited to be the focus of a long-term investment strategy, but instead are more suited for short- and medium-term gains. At the same time, when used as part of a diverse trading strategy involving various markets, "protective put options" can help insure your overall trading plan by protecting your investments as you hedge against sharp drops in stock prices.

Challenges

Generally speaking the options market is a little more difficult to follow than other markets for the new investor, so it certainly takes some practice, patience and the ability to endure a steep learning curve. Because stock prices are unpredictable, it is impossible for even the most knowledgeable investment professionals to predict short-term movements with any degree of certainty. And because options have relatively short expiration dates—time is not on your side—you can't just suck it up and try to ride it out as you might in another market.

Because you can choose your own entry point on an options chart, it becomes the ultimate risk/reward scenario as you try to put as little money at risk as possible, yet the more you risk the more you stand to gain should it payoff on the other side. Options are actually very much like horse racing, in that the better the horse the better chance it has of winning—but that equates to worse odds and thus a smaller payoff. Options, like with horses, require being in the right place at the right time with the right decision to get a meaningful payoff.

Ask the Pros: **Dave Aquino**

Dave has more than 20 years of financial experience, building impressive clientele bases at both Merrill Lynch and Vanguard Group. In his 12 years at Vanguard's Asset Management Service Group, he worked with ultra-high net worth clients and oversaw portfolios in equities, options and mutual funds.

What advice do you have for someone looking to get into options?

Don't trade everything and every setup. Learn how to trade one good setup in one investment class first. For example, directional stock options with divergences. When you get really good at it, then move to the next thing.

What's a common problem you see with new investors?

I call it "nervous squirrel" trading. Newcomers jump from one stock "opportunity" to another, and from one "surefire trading system" to another. A good trading system may only work five or six times out of 10. So that means it won't work a few times as well. When the failures come up front with a new trader, they tend to throw it away. New traders need to really settle down, and really learn how to trade.

Dave Aquino hosts the Options Live Trading Room daily for MicroQuant. To learn more visit www.valuecharts.com.

FUTURES

Futures, or more formally a futures contract, is an agreement between two parties to transfer an agreed amount of a commodity (be the commodity tangible or intangible) for an agreed upon price at an agreed upon time. The practice took root with farmers who would lock in the price they would receive for their crop before it was even planted, rather than risk showing up to a saturated marketplace where buyers could drive down the prices to the point where the farmer would take a loss for a season of hard work. These forward contracts became protection against price volatility for both buyers and sellers in such commodities as crops, livestock, oil and precious metals. Once a forward contract becomes standardized and is eligible to be exchanged by a third party, it is a future.

The downside for locking in a future price as a seller is that should the price of that commodity go up, you are obligated to sell the agreed-upon quantity for less than the market value. The advantage for both the buyers and sellers is that each is choosing to enter the agreement for a price that makes sense to the individual, one that theoretically will allow each party to turn a profit regardless of what happens to the market.

There are two types of investors in futures: hedgers and speculators. A hedger is like the farmer above trying to get a price locked in, or a city with a fleet of service vehicles that can't afford to have its budget busted by a summer jump in gasoline prices. A speculator has no interest in ever taking possession of the object, but is simply trying to make a profit by betting on the market going one way or the other.

Advantages

The futures market is highly leveraged, and as such investors can trade amounts five or 10 times greater than their actual investment. This allows traders to work with large contracts in some of the most solid, sought-after and interesting markets in the world. A futures investor is able to profit from short-term price movements and trends in both directions, and therefore can make money regardless of how the overall market is doing.

A Zero-Sum Game

Unlike investing in stocks, where if the company does well the stock goes up and everyone makes a profit, futures are a zero-sum game. That is, for every dollar you make, someone else loses a dollar. To invest, you put up a fraction of the contract's value, as does the person who you are selling or buying with. Each day the price is settled, and money is moved from one account to the other to reflect changes in the market. If your account dips below a certain value, the broker is going to make a margin call, which requires you to replenish the account. Many traders will use a stop order—a standing amount with the broker to close the account if it hits a certain level to keep you from being obligated to purchase the underlying security and losing huge amounts—but futures trading requires vigilance and dedication to be successful.

The person buying the contract is called the long, and the person selling is the short. There are no restrictions on going short, so if you are correct in the opinion that a particular market is going to be going down, you have the opportunity to make a substantial profit. To short the market, you "borrow" shares of a particular commodity that you immediately sell for the current price. When it's time to get out of the trade, you do so by paying the current price for the shares you borrowed. Thus if the price went down, the price you are repaying could be significantly less than the price you received for them at the beginning of the transaction.

Another tremendous advantage to trading futures that not everyone understands initially involves tax breaks. In the other markets, capital gains are taxed at your normal tax rate for positions held less than a year. So if you make a $10,000 profit on a particular stock (that you owned less than a year) you are going to owe the IRS somewhere around $3,500 or $4,000 in taxes. Futures, however, are going to be significantly less. (Futures operate at a 40/60 split. So 40 percent of your profits get taxed at the same "normal" percent rate as the other markets, but 60 percent gets taxed at only 15 percent.) If you make a $10,000 profit trading futures, therefore, your share of taxes is only around $2,300.

A final advantage to futures trading is that the fundamental analysis needed for the market isn't as critical or cumbersome as it is in other markets. You certainly have to do your homework and be educated on the market, but unlike investing in a particular company where you would evaluate its financial statements, organizational health, management, market position, competitors, industry trends, the overall market and more, a futures investor needs to focus on considerably less, to include the overall economy and market, and any market-specific factors that may be important. A futures investor can simply bet prices will rise or fall based on the economy, general market movements or specific commodities becoming volatile.

Challenges

You've heard the expression "It takes money to make money," well, nowhere is that more true than the futures market. Based on the broker, you will need a minimum of $3,000 to $5,000 to get started in futures, but realistically most people recommend a minimum of $10,000—and others say it's more like $25,000 or $50,000. Remember, this is not money you're putting in a bank to collect interest, this is investing. Obviously you are looking for a sizeable return over everyday interest, but in order to have that opportunity you are putting your money at risk.

Ask the Pros: **Jim Alswager**

Jim has been working in finance for more than 20 years, including owning his own mortgage company and serving as a Senior Vice President for J.P. Morgan Chase. What started out as a hobby, though, has turned into a career as he has spent the last seven years successfully trading futures.

How much should you have in your account to get started in futures?

It varies by broker, but the minimum you're going to need to get started is $3,000 or $5,000. However, in reality, I would recommend that someone new to futures starts with a minimum of $10,000. You don't invest all that at once, but you need to have a reserve available in case you are called on margin.

What advice do you have for someone looking to get into futures?

First, you need to do your homework. It's important to have a basic understanding of how futures trading works, such as contract expirations and tick values and such. Plus it would probably be helpful to have a basic knowledge of technical analysis. After that you need to find a trading platform you are comfortable with. After that, I would say it's important to find a mentor—someone who can answer your questions and walk you through different aspects of trading. Not to sound like a shill, but the best way to find a mentor who will work with you regularly will probably require joining a live trading room. That's where I learned.

Jim Alswager hosts the Futures Live Trading Room daily for MicroQuant. To learn more visit www.valuecharts.com.

Challenges Cont.

When you purchase a commodities future, you are actually entering into an agreement to take possession of that commodity at a certain date, although less than 3 percent of trades lead to the actual physical delivery of a product. In fact, today, the most popular futures trading has nothing to do with actual physical products, but instead deals with financial futures including stock market indexes themselves, as well as global interest rates and currency exchange rates.

Unlike other investments, both parties involved in a futures contract must fulfill the contract at the agreed upon date. To avoid having 20,000 pounds of pork bellies delivered to your house or having to produce 1,000 barrels of oil, you need to exit the commitment prior to the settlement date. That is, you have to take the opposite position and either buy or sell the commodity before the settlement date, which determines whether or not you make a profit.

Summary

Investing in one of these four markets certainly has many advantages and can be an excellent way to help ensure your financial future is what you would like it to be. At the same time, investing requires hard work and dedication and is not for everyone. The best advice anyone can offer when it comes to investing your hard-earned money is to do your homework: Research the market you are interested in, become familiar with the financial instruments that are available in that market and find a broker with whom you are comfortable.

Most brokerage houses will have a free demo version of their investing software that you can download without having to make any commitments or investments. These trial versions work just like the full versions, and will allow you to gain trading experience with a simulated account. If you're going to make a $10,000, rookie mistake, better to do it with virtual money!

As you are gaining familiarity with trading and the markets, one of the best educational investments you can make is to join a live trading room. Here, you can watch, listen and ask questions of professional traders as they analyze the market, teach you about market indicators and show you what setups they are looking for. By learning from live traders and working with a simulated account, a new trader can quickly learn and hone trading tactics until he or she is confident enough to move forward and fund an actual account.

All investing comes with risk, but if you're willing to put in the work, be patient and develop a specific investing strategy that you are going to stick with, there is plenty of opportunity to make money.

Good luck. And, Happy Trading!

Thomas A. Wood

Tips for the New Investor

1. ***Don't trade with money you can't afford to lose.*** Most aspiring new traders only see the profitable upside to trading. When the first losses come, reality sets in. At least this way, you're not worried about losing your rent payment.
2. ***Focus on learning how to trade first, then think about making money.*** Most new traders have it backward. If you learn first, the profits will follow.
3. ***Don't always go for the homerun.*** You can't always try to make big money with one trade. Professional traders hit singles and doubles—and limit strikeouts.
4. ***Use a trade journal.*** New traders tend to keep making similar mistakes over and over again without realizing it. Reading a journal will help you see what's going on so you can eliminate those mistakes.
5. ***Don't chase the money.*** Everybody takes a loss now and then. Don't jump into the next trade trying to make up the money you lost in the last one. It'll only cause you to enter into mediocre trades.
6. ***Don't hold on to losers!*** The most telling sign of a new trader is one who says "I'm holding on to this stock until it comes back, then I'll sell it." Dump it when you realize it's a loser, and have the discipline not to chase the money.

These tips are courtesy of Dave Aquino, host of the Options Live Trading Room daily for MicroQuant.

To learn more visit www.valuecharts.com.

Author/Contributors

Thomas A. Wood has been a student of the markets for more than eight years. He graduated from Liberty University with Bachelor's degrees in finance, economics and marketing. He started his professional trading career as an account manager for MicroQuant, where he has developed new trading strategies that utilize the next generation of technical analysis. He is currently managing trading accounts for MicroQuant, and the Head of Live Trading. In addition, Thomas teaches training courses on trade origination and money management. Recently, using signals generated during the live trading room, Thomas earned a 100 percent return in just 10 weeks.

Jim Alswager has been working in finance for more than 20 years, including owning his own mortgage company and serving as a Senior Vice President for J.P. Morgan Chase. What started out as a hobby, though, has turned into a career as he has spent the last seven years successfully trading futures. Today he serves as the host of MicroQuant's Futures Live Trading Room.

Dave Aquino has more than 20 years of financial experience, building impressive clientele bases at both Merrill Lynch and Vanguard Group. In his 12 years at Vanguard's Asset Management Service Group, he worked with ultra-high net worth clients and oversaw portfolios in equities, options and mutual funds. Today he serves as the host of MicroQuant's Options Live Trading Room.

Nate McGee has always been interested in finding out how things work, and continually uses his management information systems background to analyze the markets and write algorithms that tame them. His love of analysis and his passion to help others is what fuels him as he tries to make the complex become simple. Today he serves as the host of MicroQuant's FOREX Live Trading Room.

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MicroQuant is based in North Carolina and has offices in six states. The company is creating and expanding its product lines with industry education and customer satisfaction in mind. In addition to its technical analysis trading indicators, MicroQuant offers various educational tools and resources to assist traders, the most popular being its Live Trading Rooms, where subscribers can watch and listen as accomplished professional traders walk them through the trends and happenings of each market in real time.

With several exciting new products in the pipeline, MicroQuant is committed to providing superior, practical tools for any level of trader, keeping ease-of-use for the user in the forefront of everything it does. Its goal is to continue giving its customers practical technical analysis tools—and the knowledge to use them—in order to help further their trading success.

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