Following are brief definitions of the various terms used in the market. We suggest you keep the following pages handy so that you have a reference when we use the terms in recommendations.

BASIS: The difference between the cash market price (spot market) at any particular location and the price of nearby futures. (Basis also may be used to designate price differences between cash and more distant futures, or other indicated differentials including between locations.)

BEAR: Person who is of the opinion that a market will go lower.

BEAR MARKET: A market in which prices over a period of time have gone lower.

BEARISH: Conditions that are prevalent causing a market to trade lower over time.

BID: An offer to buy a specific quality and quantity of a commodity at a stated price.

BROKER: A dealer in money, notes, bills of exchange, commodities, contracts, etc., an individual who actually executes orders in the pits, giving up the name of a commission house for which he performs the service. When reference is made to a floor broker, it is better to so call him/her and to call a brokerage firm a “commission” house or firm, as they do not work on a brokerage but on a commission basis.

BULL: Person who is of the opinion that a market will go higher.

BULLISH: Conditions that are prevalent causing a market to trade higher over time.

BULL MARKET: A market in which prices over a period of time have gone higher.

CARRYING CHARGES: (1) Those costs incurred in warehousing the physical commodity, generally including interest, insurance and storage. (2) Full Carrying Charge Market – A situation in the futures market where the price difference between trading months reflects the full costs of interest, insurance and storage.

C.F.T.C.: the Commodity Futures Trading Commission.

CLOSE: The period at the end of the trading session during which all trades are officially declared as having been executed “at or on the close.” (The closing range is the range of prices on trades made during this designated period.)

CLOSING RANGE: A range of closely related prices at which transactions took place towards the close of the market. Buying and selling orders might have been filled anywhere within such a range.

COMMERCIALS: Exporter or volume users of a commodity who will hold enormous positions in the market.

COMMISSION: The percentage or allowance made to a broker for transacting business for another person or entity.

CROP YEAR: Period of time from one harvest or crop to the next harvest in the following year; example, US wheat, oats, and barley crop years begin June 1 and end the following May 31.

COVER: (Long Cover) When a trader sells back futures contracts equal to the number of contracts he bought previously. (Short Cover) When a trader buys back futures contracts equal to the number of contracts he sold previously.

CURRENT FUTURES: The futures contract, which is currently nearest to its delivery month.

DAY ORDER: Those limited orders to be executed the day they are received; they are automatically cancelled at the close of that day if not filled. All orders are assumed to be day orders unless otherwise stated.

DELIVERY MONTH: The calendar month during which a futures contract is said to mature. Example: DEC CORN futures mature in December.

DELIVERY NOTICE: The notification of delivery of the actual commodity, issued by the seller of the futures to the Clearing House.

DISCRETIONARY ACCOUNT: An account for which buy and sell orders can be placed by a broker or other person without prior consent of the account owner; for such an account, specific authorization (Power of Attorney) must be previously granted by the account owner.

FILL OR KILL ORDER: A commodity order, which demands immediate execution or cancellation.

FIRST NOTICE DAY: The first day on which notices of intentions to deliver actual commodities against futures market positions can be made or received. First notice day will vary with each commodity and exchange. It usually precedes the beginning of the delivery period.

FUNDAMENTALIST: A market participant who relies principally on supply/demand considerations in price forecasting.

FUTURES CONTRACT: An agreement to buy and receive or to sell and deliver a commodity at a future date, with these distinguishing characteristics:

(1) All trades in the same contract, such as a 5,000 bushel round lot of grain, have the same unit of trading.
(2) The terms of all trades are standardized.
(3) A position may be offset later by an opposite trade in the same contract.
(4) Prices are determined by trades made by open outcry in the designated pit for that commodity within the hours prescribed.
(5) The contract has a basic grade, but more than one grade may be deliverable.
(6) Delivery is required during designated periods.
(7) The trades are cleared through a Clearing House daily. (Traders in cash or spot goods usually refer to sales for shipment of delivery in the futures as "deferred" or "forward" sales. Such sales, however, are not standardized as are futures contracts just described above.

<u>GOOD – TILL – CANCELLED (OPEN ORDER):</u> An order, which will remain open for execution at any time in the future until the customer cancels it. For example; sell a May soybean meal at 165.10 G.T.C.

<u>HEDGER:</u> Usually a dealer in physical commodities who holds a position in the futures market which is opposite his cash position.

<u>HEDGING:</u> Hedging is the sales of futures against the physical commodity or its equivalent, as protection against a price decline; or the purchase of futures against forward sales of an anticipated requirement of the physical commodity, as protection against a price advance. Hedging on the futures market consists of buying (or selling) futures contracts in the amount to which one is short (or long) the actual commodity. Usually the futures transaction is nearly simultaneous with the cash (spot) transaction. Hedgers thereby fix or protect a "carrying charge," a processing margin, etc. The futures hedge is thus a temporary substitute for an ordinary transaction, which will occur at a later date. Hedging also provides opportunities for added profit.

<u>INTER – COMMODITY SPREAD:</u> Price difference between two different commodities not necessarily of the same month such as a spread between May Wheat and May Corn or Feb Live Cattle and Aug Feeder Cattle or buying Chicago Wheat and selling Kansas City Wheat.

<u>INTRA-COMMODITY SPREAD:</u> The price difference of spreads between futures of different delivery months of the same commodity such as a spread between February Live Cattle and April Live Cattle.

<u>INVERTED MARKET:</u> A futures market in which the nearer months are selling at premiums to the more distant months; hence a market displaying "inverse carrying charges." These price relationships are characteristic of situations in which supplies are currently in shortage.

JOB LOTS: Size of contract has a smaller unit of trading in futures than the regular contract round lot. Multiples of 1000 or 2000 bushel lots of grain. Size is specified for each commodity by agreement.

LAST TRADING DAY: The day trading ceases for a particular delivery month. All contracts not offset by the end of the last trading day must there after be settled by delivery of the physical commodity or by agreement.

LIQUIDATING MARKET: A market in which extensive selling occurs.

LIQUIDATION: The closing out of a long position. It is also sometimes used to denote closing out a short position, but this is more often referred to as "covering".

LONG: The position of either owning cash commodities or one who is on the buying side of an open (unhedged) futures contract or futures option.

MARGIN: The amount of money deposited by buyers and sellers of futures to insure performance on contract commitments; serves as a performance bond rather than a "down-payment."

MARGIN CALL: A request to deposit money, either the original margin amount at the time of the transaction, or to restore the guarantee to "maintenance margin" levels required for the duration of the time the contract is held.

MARKET IF TOUCHED ORDER (M.I.T.): Also called board orders. This order becomes a "market order" when the market "touches" or "goes through" the price on the order, and is filled at the best price then available. The execution price may be either higher or lower than the "touched" price on the order.

MARKET ORDER: An order for immediate execution at the best price available at that time.

MOVING AVERAGE PRICE: A composite of individual prices over a given period of time. Often employed by chartists to define a price trend, as compared to short-term fluctuations.

NEARBY CONTRACT: The futures contract, which is nearest to maturity.

NOTICE DAY: Any day on which notices of intent to deliver on futures contracts may be issued.

NOTICE OF INTENT TO DELIVER: A document furnished by a short seller indicating his intention to fulfill his contract obligation by delivering the cash commodity specified in the contract.

ONE CANCELS OTHER (O.C.O.): This is a two-part order, which covers both ends of a pair of alternatives. Execution of one part of the order automatically cancels the other part of the order. For example: an O.C.O. order might be used by a cattle feeder who has previously hedged his cattle with a short position in June Live Cattle at $72.00. June Live Cattle are presently trading at $68.00 and the producer is selling his cattle today. He is willing to take the hedge profits if the contract trades lower to $67.50, but he also wants to protect the profit in his hedge if the market rises to $68.52. His order would be: Buy June Live Cattle at $67.50 or Buy June Live Cattle at $68.52 on a stop O.C.O.

OFFSET: Usually the liquidation of a long or short futures position by an equal and opposite futures transaction.

ON THE OPENING: A phrase used to specify execution of an order during the opening call.

OPEN CONTRACT: Contracts which have been bought or sold with out the transaction having been offset by subsequent sale or repurchase of the same contract, or actual delivery or receipt of the commodity.

OPEN INTEREST: The total of unfilled or unsatisfied contracts, on one side of the market. (In any one delivery month the short interest always equals the long interest, since the total number of contracts sold must equal the total number of contracts bought.)

OVERSOLD OR OVERBOUGHT MARKETS: When the speculative long interest has been drastically reduced and the speculative short interest increases, actually or relatively, a market is said to be oversold. At such times, sharp rallies often materialize. On the other hand, when the speculative long interest has increased rapidly and the speculative short interest decreases sharply, a market is said to be overbought. At such times, the market is often in a position to decline sharply.

OVERSUPPLY: A market situation in which available commodities exceed demonstrated demand. Result is usually seen in falling prices.

PITS: Designated location on the trading floor where futures trading takes place in particular commodities.

POSITION: To be either long or short in either the cash or futures market.

PRICE RANGE: The difference between the high and low prices for a commodity during a specific period.

PROFIT TAKING: Selling “long” positions that have advanced or buying “short” positions that have declined for the purpose of obtaining the profit. The term generally is used to account for a change in market trend where no other fundamental factors are available to explain the cause.

PURCHASE AND SALE STATEMENTS – (P and S): A statement sent by a commission merchant to a customer when his futures position has changed. It shows the amount involved, the prices at which the position was acquired and closed out, the gross profit or loss, the commission charges and the net profit or loss on the transaction.

PYRAMIDING: Using the profits on a previously established position as margin for adding to that position.

REACTION: Downward tendency in the price following an advance.

ROUNDLOT: A quantity of a commodity equal in size to the corresponding futures contract for the commodity, as distinguished from a JOB LOT, which may be larger or smaller than the contract.

ROUND TURN: The completion of both a purchase and an offsetting sale or vise versa. Commission fees cover the round turn.

SCALE BUYING OR SELLING: Refers to orders to buy/sell, at regular price intervals up or down.

SETTLEMENT PRICE: The daily price at which the Clearing House clears all the day's trades; also a price which may be established by the Exchange to settle contracts un-liquidated because of Acts of God, such as floods, market congestion or other causes.

SHORT: The selling side of an open futures contract; also refers to a trader whose net position shows more open sales than open purchases.

SPECULATOR: One who attempts to anticipate price changes and through market activities make profits, and one who is not hedging.

SPREAD: A spread trade is defined as buying and selling simultaneously two different options or months of the same commodity (either on the same or different exchanges), different commodities within the same complex (i.e., grains, metals, meats) or different commodities in different complexes as long as a definite price relationship between the two can be established. The purpose of spreading is to take advantage of price disparities that can be reasonably predicted to exist due to the predictable price relationship that exists between the contracts being spread. Spread trades are used primarily to limit risk as opposed to taking an outright position in a specific commodity.

SPREADER: A trader who buys futures in one market and sells simultaneously in another market, in the belief that one market is high relative to the other and that subsequently there will be a change in the existing relationship. The trading of a spreader helps to keep various markets in line. (The New York Exchange counterpart is a "straddler.") A spreader is one who buys and sells a commodity, such as wheat, simultaneously in two markets hoping to profit by the differing market forces.

STOP ORDER OR STOP LOSS ORDER: An order entered to buy or sell when the market reaches a specified point. A stop order to buy becomes a market order when the commodity sells (or is bid) at or above the stop price. A stop order to sell becomes a market order when the commodity sells (or is offered) at or below the stop price. The purpose of a stop loss order is to limit losses or protect a profit.

TECHNICAL RALLY (OR DECLINE): A price movement resulting from conditions developing within the futures market itself and not dependent on outside supply and demand factors. These conditions would include changes in the open interest, volume, degree or recent price movement, and the approach of first notice day.

TRADING LIMIT: In virtually all North American commodity contract markets there is a maximum price change permitted for a single session. These limits vary in the different markets. After prices advance or decline to the permissible daily limits, trading automatically ceases unless, of course, offers and bids appear at the permissible lower limits.

WEATHER MARKET: A market characterized by erratic price behavior based largely on weather developments or weather prospects, affecting a particular growing crop, its delivery conditions, etc.