

Trading Corporate Bonds with Stock-Trak

You can trade a limited number of corporate bond issues with Stock-Trak. Currently Stock-Trak lists about 30 different bond issues. These are bonds that trade in sufficient volume for Stock-Trak to obtain accurate prices. The list may change from time to time, so you should consult the list available on the bond purchase screen on the Stock-Trak Web site. You do not need a ticker symbol for the bond as Stock-Trak lists the bonds by issuer name, coupon, and maturity. Here are three corporate bonds listed on Stock-Trak:

Bell South T	7.625	2035
Citigroup INC	7.75	2036
Sprint	6.875	2028

As in standard practice, corporate bonds on Stock-Trak trade in \$1,000 face values.

To find the current market price of the bond you are interested in, go to the quote link on Stock-Trak and follow the corporate bond link. This connects you to several online trading sites for corporate bonds. You can follow the links here to find current prices on the bond you are interested in. Your actual purchase price will be slightly higher than the quoted price, because you have to pay the interest that has accrued since the last coupon payment. We will discuss this in more detail in a later chapter. Suppose you want to buy 10 of the Citigroup 7.75 2036 bonds. Your order would look like this:

What type of trade will this be?	Number of bonds (99 max):	Click on the bond you wish to trade (Corporate Bonds are listed first, followed by Treasury Bonds and Strips):
Buy to open or increase a long position Sell to close or reduce a long position	10	<ul style="list-style-type: none"> Phillips Petroleum 7.00 2029 (B-COP29) Credit Suisse First Boston 6.13 2011 (B-CSFB) Citigroup INC 7.75 2036 (B-CX36) Dow Chemical 6.85 2013 (B-DOW) Delphi Automotive 7.125 2029 (B-DPH29)

After execution, you would have a long position in 10 of these Citigroup bonds. To sell the bonds, your transaction would look like this:

What type of trade will this be?	Number of bonds (99 max):	Click on the bond you wish to trade (Corporate Bonds are listed first, followed by Treasury Bonds and Strips):
Buy to open or increase a long position Sell to close or reduce a long position	10	<ul style="list-style-type: none"> Phillips Petroleum 7.00 2029 (B-COP29) Credit Suisse First Boston 6.13 2011 (B-CSFB) Citigroup INC 7.75 2036 (B-CX36) Dow Chemical 6.85 2013 (B-DOW) Delphi Automotive 7.125 2029 (B-DPH29)

Trading Options with Stock-Trak

You can trade any call or put option on Stock-Trak that currently trades in the market. With options, you need to enter the ticker symbol. The ticker symbol for a stock is not necessarily the ticker symbol for stock options, especially with companies listed on NASDAQ. We will discuss how an option ticker symbol is constructed later. For now, you can find the ticker symbol on a quote screen. On the option purchase screen, simply follow the link “Stock-Trak option ticker symbol look-up.” This takes you to a stock quote service. Here, you enter the stock ticker symbol and follow the “Option” link. Find the option you would like to trade, whether a call or a put, the strike price, and the expiration month. When you find the option, remember the ticker symbol. For instance, the quote service lists

Microsoft February calls with a strike price of \$25 as MSQJJ.OPA. The ticker symbol for options trading on Stock-Trak is the option ticker symbol, with a period and “OPA.”

There are four basic options transactions:

1. Buy to open or increase a long position.
2. Sell to close or reduce a long position.
3. Write an option to create a short position.
4. Buy to close an option previously written.

The important idea to remember is to close your position properly. If you buy an option, writing an option will net out your position, but Stock-Trak will give you a long position and a short position in the option. You must “Sell to close a position” to properly offset your long position. If you want to buy 20 of the Microsoft options, your transaction would look like this:

The screenshot shows the Stock-Trak options trading interface. At the top, there are tabs for 'Simple', 'Covered Call', 'Protective Put', 'Spreads', 'Combo', and 'Straddles'. The 'Simple' tab is selected. Below the tabs, there are three main sections: 'Option Symbol', 'Action', and 'Contracts'. The 'Option Symbol' section contains the text 'MSQJJ.OPA' and a link 'Find Chain'. The 'Action' section is a dropdown menu with four options: 'Buy to Open', 'Sell to Close', 'Write/Sell to Open', and 'Buy to Close'. The 'Buy to Open' option is selected. The 'Contracts' section contains a text input field with the number '20'. Below these sections, there is an 'Order Type' section with a radio button selected for 'Market'. At the bottom right, there is a 'PREVIEW >>' button.

To sell options to offset your position, your transaction would look like this:

The screenshot shows the Stock-Trak options trading interface. At the top, there are tabs for 'Simple', 'Covered Call', 'Protective Put', 'Spreads', 'Combo', and 'Straddles'. The 'Simple' tab is selected. Below the tabs, there are three main sections: 'Option Symbol', 'Action', and 'Contracts'. The 'Option Symbol' section contains the text 'MSQJJ.OPA' and a link 'Find Chain'. The 'Action' section is a dropdown menu with four options: 'Buy to Open', 'Sell to Close', 'Write/Sell to Open', and 'Buy to Close'. The 'Sell to Close' option is selected. The 'Contracts' section contains a text input field with the number '20'. Below these sections, there is an 'Order Type' section with a radio button selected for 'Market'. At the bottom right, there is a 'PREVIEW >>' button.

To write 30 call option contracts, your transaction would look like:

The screenshot shows the Stock-Trak options trading interface. At the top, there are tabs for 'Simple', 'Covered Call', 'Protective Put', 'Spreads', 'Combo', and 'Straddles'. The 'Simple' tab is selected. Below the tabs, there are three main sections: 'Option Symbol', 'Action', and 'Contracts'. The 'Option Symbol' section contains the text 'MSQJJ.OPA' and a link 'Find Chain'. The 'Action' section is a dropdown menu with four options: 'Buy to Open', 'Sell to Close', 'Write/Sell to Open', and 'Buy to Close'. The 'Write/Sell to Open' option is selected. The 'Contracts' section contains a text input field with the number '30'. Below these sections, there is an 'Order Type' section with a radio button selected for 'Market'. At the bottom right, there is a 'PREVIEW >>' button.

And to close out your short position, you would:

Simple	Covered Call	Protective Put	Spreads	Combo	Straddles
Option Symbol		Action		Contracts	
MSQJJ.OPA Find Chain		<input type="button" value="Buy to Open"/> <input type="button" value="Sell to Close"/> <input type="button" value="Write/Sell to Open"/> <input type="button" value="Buy to Close"/>		30	
Order Type		<input checked="" type="radio"/> Market			
<input type="button" value="PREVIEW >>"/>					

Trading Commodity Futures with Stock-Trak

Commodity futures are futures contracts on a physical asset such as corn, wheat, hogs, gold, palladium, crude oil, and natural gas. In addition to commodity futures, you can also trade financial futures such as index futures, interest rate futures, and currency futures on Stock-Trak. We will discuss financial futures later and concentrate on commodity futures for now. There are several things we need to discuss regarding commodity futures trading on Stock-Trak. First, you do not need the ticker symbol for the futures contract. Stock-Trak lists the commodity and expiration of the contract on the purchase screen. Second, when you buy a futures contract, you do not put up the entire contract value, but simply put up margin. Margin on futures is similar to margin on a stock. To find the amount you must put up in initial margin on a futures contract, click on the margin requirement link on the purchase page. This will give you the initial margin for each contract. To find the contract size, go to www.cbote.com or look in *The Wall Street Journal*. You will need this information to calculate your gain or loss at any point in time. There are four basic transaction types for futures contracts:

1. Buy to open, go long, or increase a long position.
2. Sell to close or reduce a long position.
3. Short to open a position.
4. Buy to close a previously short position.

As with options, you must pair your buy and sell orders correctly to close out your position. If you want to buy five July 2006 futures contracts on corn, your trade would look like this:

What type of trade will this be?	No. of contracts	Please click on the Future Contract you wish to trade
<input type="button" value="Buy to open, go long, or increase a long position"/> <input type="button" value="Sell to close or reduce a long position"/> <input type="button" value="Short to open a position"/> <input type="button" value="Buy to close a previously short position"/>	5	<input type="button" value="Grains & Oilseed Futures"/> <input type="button" value="Corn Jul 06"/>

To close this position, you would:

What type of trade will this be?	No. of contracts	Please click on the Future Contract you wish to trade
<input type="button" value="Buy to open, go long, or increase a long position"/> <input type="button" value="Sell to close or reduce a long position"/> <input type="button" value="Short to open a position"/> <input type="button" value="Buy to close a previously short position"/>	5	<input type="button" value="Grains & Oilseed Futures"/> <input type="button" value="Corn Jul 06"/>

If you think the price of corn will decline and want to sell 10 futures contracts, your transaction is:

What type of trade will this be? Buy to open, go long, or increase a long position Sell to close or reduce a long position Short to open a position Buy to close a previously short position	No. of contracts 10	Please click on the Future Contract you wish to trade Grains & Oilseed Futures Corn Jul 06
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And to close out this short position:

What type of trade will this be? Buy to open, go long, or increase a long position Sell to close or reduce a long position Short to open a position Buy to close a previously short position	No. of contracts 10	Please click on the Future Contract you wish to trade Grains & Oilseed Futures Corn Jul 06
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Remember, trades on Stock-Trak are not real money, so don't feel too bad if you lose money on these transactions. The idea is to learn from your mistakes.

Stock-Trak Exercises

- 1. Corporate Bonds** You decide to buy 10 corporate bonds. Go to Stock-Trak and find the list of available bonds. Before you purchase the bonds, get a price quote. Now go back and buy the bonds. Three days later you decide to sell your bonds. Make the necessary transactions. What is your dollar return for this transaction?
- 2. Option Purchase** Find a stock you think will increase in value, and buy 20 call option contracts. Now find a stock you think will decrease in value and buy 20 put contracts. One week later, close out each position. What was your dollar return on each transaction?
- 3. Option Writing** Find a stock you do not think will increase in value and write 10 call option contracts. Write 10 put option contracts on a stock you think will increase in value. What is the most you can make from each of these transactions? When you close your positions, calculate your dollar return.
- 4. Commodity Futures** Find the list of commodity futures available through Stock-Trak. Pick your favorite commodity and purchase five contracts. How much is the initial margin for each contract? After several days, close your position and calculate your dollar return.
- 5. Commodity Futures** Now choose a different commodity that you think will decrease in value over the next several days and short three futures contracts. How much is the initial margin for these contracts? After several days, close your position and calculate your dollar return.