

Derivatives - db1 creative writing examples

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Derivatives - DB1

Future trading is a kind of investment involving speculation of commodity price movements in the future. The commodities in question vary and the trading is referred to as speculative paper investing. This implies that the investor does not hold the physical commodity but a paper called a futures contract. Like any other contract, the futures investment has expiry dates. Future trading is a lucrative business opportunity for organizations and individual investors. This is because it can be used by organizations to avoid market risks as well as currency risks.

There are many benefits that can be derived from futures markets. When a firm invests in futures markets, it has leveraged investments. This means the company can trade huge amounts of a commodity compared to when it buys or sells the products outright. Futures are just paper investments where the firm does not have to own the commodity it is trading. The investing company can make huge sums of money easily and quickly. Furthermore, futures markets are fairer when compared to other investments in other markets like the stocks market. Futures are also very liquid hence the firm can access the money they have invested easily. Finally, the charges and transaction costs are very minimal hence; the company can benefit greatly from investing in futures markets. Futures help firms avoid interest rate risks where the value of investments are affected by changes in interest rates. Futures are not affected by interest rates. It is also not affected by changes in the value of a currency. This is because it is a predetermined contract.

The clearing house is an important institution that verifies and ensures investors get value for their money. The clearing house approves every transaction to avoid cases of fraud or any other illegal practices in the futures markets and other markets. A mark to market is a fair valuation of accounts that are subject to changes over time like liabilities and assets. It helps give a realistic assessment of an organization's present financial situation. Valuation of underlying liabilities or assets may not be accurately reflected by market measurements, especially during tough financial periods like crises. Therefore, the concept of mark to markets gives investors an accurate valuation of their assets and liabilities to avoid unnecessary losses or gains.

The futures markets are regulated by two bodies, the Commodity Futures Trading Commission (CFTC) and the National Futures Association. The NFA ensures that integrity in the futures market is upheld by all participants as well as intermediaries. This is to promote investor confidence in the market. Both of these bodies are independent agencies working to regulate the trading of futures transparently without cases of fraud.

In conclusion, the futures market provides companies an opportunity to diversify their investments and make more money. The futures market benefits investing companies because the companies can gain a lot from a small investment. Futures can help companies hedge risks associated with interest rates and currency. Companies can be confident of their investments in futures because the market is regulated by two regulatory bodies, the NFA and the CFTC. These bodies ensure transparency in trading futures.

Important concepts of investment such as the mark to market concept are observed strictly by the clearinghouse to ensure investors earn what they deserve from their investments.

References

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