Company-Specific Trading

SSFs can be used to initiate positions tied to a specific company that are neutral to changes in the overall market. This is done by spread trading the SSFs against the Kuala Lumpur Composite Index Futures (FKLI). Bullish corporate events can be exploited by selling FKLI and buying SSF, whilst negative corporate events can be exploited by buying FKLI and selling SSF. In reverse, you can also remove the effect of a single stock from a broader index – for instance, turning the Kuala Lumpur Composite Index ("KLCI") 100 stocks into the KLCI 99. A hedge ratio is used to determine the proper weighting to achieve a neutral spread between a stock SSF and an index future.

What are the risks of trading SSFs?

Leverage magnifies the effect of a price change and may also result in significant losses if the market moves against your SSF positions. An adverse price move may lead to a margin call, requiring an investor to send more money. If you do not maintain your margin balances, your SSF positions may be closed out at a loss.

What are the things to note when trading SSFs?

- ***Monitor your positions***
  Trading SSFs can be risky, so you need to check your positions regularly as part of your risk management strategy.

- ***Margin calls***
  Apart from collecting Initial Margin as a form of collateral, your broker will also 'mark-to-market' or revalue your SSF portfolio at the end of each business day based on settlement prices determined by Bursa Malaysia. If your position generates a loss, you will be asked to replenish your account within a stipulated time. Failure to do so may result in forced liquidation of your positions. Conversely, if your position results in a profit, you may be allowed to withdraw excess funds from your trading account.

- ***Effect of certain corporate events***
  When corporate events such as bonus or rights issues, and stock splits in the underlying stock occur, all open positions will be adjusted to the new reference price but the contract size will be retained at 1,000 shares per contract. Any resulting odd lots will be cash settled.

- ***Stop-loss triggers***
  You may place stop-loss instructions with your broker, if you are unable to actively monitor your positions.

How do I start trading SSFs?

You can trade SSFs through a Bursa Malaysia futures broker by opening a futures trading account. Futures brokers' contact information is available at our website.

SSFs will be available for trading soon.

FOR FURTHER INFORMATION, PLEASE CONTACT THE DERIVATIVES MARKETING TEAM AT:

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BURSA MALAYSIA

Trade blue chip stocks cheaper and faster..............

DISCOVER SINGLE STOCK FUTURES!

You can now buy or sell Single Stock Futures (SSFs) to add value to your portfolio. SSFs provide a way to hedge share exposure risk and speculate on share price movements. SSFs are geared products and are cheaper to trade than direct share investment.

This is a simple example of how you can make money with SSFs:

Investor A
Investor A is sure that AirAsia Bhd shares will rise from current price of RM1.64, and since he only has RM5,000 cash available, he buys 3,000 shares. 1 month later, the price of AirAsia Bhd is trading at RM1.84. Investor A then sells all 3,000 shares and makes RM600 profit (RM0.20 per share x 3,000 shares).

Investor B
Investor B is also certain that AirAsia Bhd shares will rise, but invests the same amount of money in AirAsia Bhd SSFs. His RM5,000 enables him to buy 40 AirAsia Bhd SSF contracts, thus making him a profit of RM8,000 over the same period of time, which is 13 times the profit made by Investor A (RM0.20 per contract x 40 contracts x 1,000).

What are SSFs?

SSFs have the following features:

- ***Standardised contract***
  SSFs have standard contract specifications as determined by Bursa Malaysia
- ***Exchange traded***
  SSFs are traded and cleared on Bursa Malaysia
- ***Standard quantity of a specific underlying asset***
  Each SSF contract is equivalent to 1,000 shares of the underlying asset
- ***Expiry on a predetermined future date***
  SSFs expire on the last business day of the contract month

How do SSFs Work?

This is an explanation of the mechanics of a June 2006 SSF on Genting Bhd, which has the reference FGEN JUN06:

- The letters "GEN" indicate that the underlying shares are in Genting Bhd
- The letter "F" indicates that this is a futures product, specifically, a SSF contract
- JUN06 indicates that the contract expires on the last business day of June 2006, which is Friday, 30 June 2006.

Assume that the FGEN JUN06 price is currently trading at RM22.80. You believe that it will rise over the short term and decide to buy 1 FGEN JUN06 contract, which is equivalent to 1,000 Genting Bhd shares. If your futures broker sets an Initial Margin (a form of collateral) of RM1,250 per contract, this amount will be debited from your trading account and deposited in trust with the broker.

Let us assume that the FGEN JUN06 contract rises steadily upwards and reaches RM24.80. You now believe that it has peaked and decide to close out the position. You will then sell 1 FGEN Jun06 contract to close your outstanding long position. The Initial Margin is then refunded along with the difference in the value of the underlying shares, which is 1,000 shares x (RM24.80 – RM22.80) = RM2,000.

Your capital has now increased to RM3,250 from RM1,250, a return of 160% during a period in which the share price only increased by 8.8%.

Note: This example does not take transaction costs into account

How can you benefit from trading SSFs?

- ***Profit from both bull or bear markets***
  You can sell short SSFs quickly, with less hassle than with borrowing shares and no up-tick rule to worry about. A short sale with SSFs is more efficient, and a short squeeze is less likely.
- ***Leverage/Gearing***
  The Initial Margin is between 10% and 25% of the underlying share value, which frees up cash, and enables you to invest the difference or make use of the funds for other purposes. Initial Margin may be posted in the form of RM cash, selected foreign currencies, approved stocks and letters of credit/bank guarantee.
- ***Transaction cost savings***
  The transaction cost for each SSF bought or sold will be approximately RM30 – RM45, which is generally lower than stock transaction fees. In addition, SSFs are cash settled, so it has none of the costs associated with transacting and delivering the actual shares.
- ***Enhanced trading strategies***
  - **Hedging**
    When experiencing periods of volatility in the share market, the need to hedge your risk exposure is increased. SSFs enable you to leave your original stock position in place while neutralising the risk of the position and allowing for continued dividends.
  - **Spread Trading/Pair Trading**
    SSFs allow trading in "pairs" of stocks when the belief is one will outperform the other. This strategy involves holding both long and short positions in related stocks to exploit the positive developments at one company against the negative or neutral developments of another company. This strategy enables you to profit in both up or down markets.
  - **Leveraged Trading**
    SSFs enable you to initiate outright directional trades in lieu of trading the underlying stock. The use of leverage will magnify the effect of a given change in price.