



## WHAT IS LONG & SHORT IN FUTURES TRADING ?

LONG POSITION

SHORT POSITION



### LONG POSITION

A long position is entered into by purchasing a futures contract. Long positions are profitable if the underlying futures contract increases in price during the holding period. A long position is offset by selling the same quantity and contract month that one initially purchased.

For example, if you buy one April FCPO at MYR 2,205 per contract, this position could be offset later by selling one April FCPO contract. If the resulting sale price is higher than the entry price, then a profit is earned. If the resulting price is less than the original purchase price, then a loss occurs. Long positions are typically used to hedge against rising prices.

### TRADING JARGON

**Offset** is taking a second futures or options position opposite to the initial position. To offset the purchase of a futures contract, a second futures contract on the same commodity with the same delivery month is sold. To offset the sale of a futures contract a second futures contract on the same commodity with the same delivery month is purchased.

### SHORT POSITION

A short position is entered into by initially selling a futures contract. In the futures market, unlike the stock market, it is just as easy to establish a short position as a long position. Short positions are profitable if the underlying futures contract decreases in price during the holding period. Short position are offset by buying the same quantity and contract month that initially sold.

For example, if you sell one April FCPO contract at MYR 2,210, this position could be offset by buying one April FCPO contract at a later time. If the resulting purchase price is less than the original sale price, a profit is achieved. However, if the resulting purchase price is greater than the original sale price, a loss is incurred.



NOTES

There are two basic positions one can have in the futures market:

- A long position entails the purchase of futures contracts in anticipation of rising prices.
- A short position entails the sale of futures contracts in anticipation of falling prices.



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