

# Single Stock Futures

Providing you with access to the Derivatives Market.



## Introduction

Momentum Securities is a member of the South African Futures Exchange (SAFEX) and are able to offer you access to the Derivatives market which includes: Index Futures, Single-Stock Futures (SSF's), International Derivative Futures and Currency Futures.

## What are SSFs?

- SSFs are futures contracts on individual equities. The contracts are specified for March, June, September and December delivery.
- SSFs are listed, regulated and traded on SAFEX.
- One futures contract provides an exposure equivalent to 100 shares in the underlying equities market.
- SSFs can be settled into physical shares on expiry of the futures contract, closed out before expiry or rolled over.
- Gearing ranges from 6 to 12 times, depending on the underlying stock volatility and price.

## Common uses

- To hedge stock positions: if you expect a short-term fall in stock price, or are concerned about an uncertainty, short futures can be used to hedge against the risk without selling the physical position.
- To increase exposure: the low margin requirements have a gearing effect allowing you to increase exposure based on a fixed capital amount.
- For pairs trading: pair trading involves the buying of one share and selling of another. The objective is to take a position on the relative performance of the two shares, which are usually from the same sector or have common price drivers. SSF's make these trades more cost effective.
- To reduce risk when composing an index: SSF's make it possible for fund managers to hedge against the inclusion or exclusion of a share on a particular index. To maintain their portfolio weightings, index tracking fund managers

can use SSF's to ease their way gradually into or out of a desired stock or to hedge against a particular component of the index.

## Benefits

- Regulated exchange: SAFEX is regulated by the Financial Services Board (FSB) and Financial Markets Control Act.
- Gearing: you only need to deposit approximately 20% of the total exposure to each share. Gearing means that you earn or lose a greater percentage of your investment, compared to a direct investment in the underlying share.
- Hedging: SSF's can also be used as an effective tool to hedge your portfolios or a particular holding against short-term weakness or uncertainty.
- Short trades: through SSF's you can sell a share short without the complications and costs of first borrowing scrip. Short trades allow you to benefit from a decline in the price of a share.
- Liquidity: SSF's can be used to free up capital for other investments whilst maintaining exposure to the original investment.
- Transparency: the pricing of SSF's are transparent.
- Low funding costs: wholesale interest rates are used in the calculation of fair value.
- SSF's are available for most large cap international equities.
- Currency and indices trading of a geared nature are also available .

## Margining

SAFEX requires buyers and sellers of a futures contract to pay and maintain an initial margin for each individual stock. This margin is treated like a deposit on the actual value of the trade, therefore providing the gearing typical of these contracts.

The margin at SAFEX needs to be maintained as this is facilitated through a process of mark to market. Mark to

market ensures that the profit or losses from the change in value of your position is credited or debited to your account daily.

You should allow sufficient funds in your account to cover adverse movement in your positions. Should your account go into debit, you will be required to deposit additional funds or reduce your position by 12pm the following day.

## Eligibility

- Minimum investment: R150 000
- High-risk appetite
- Suitable for the experienced investor

*\* Trading in leveraged products can result in losses that exceed your initial investment.*

Should you require assistance with the activation of a SSF account, please contact your portfolio manager, or the Derivatives Desk on **011 550 6251**.

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Please note: Eligibility and affordability criteria apply. Momentum Securities has the right to refuse any application on the basis of internal policies. Momentum Securities does not provide advice on SSF's or the underlying tax consequences thereof. SSF's are only suitable for experienced investors with a high risk tolerance.

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