Why Trade Emini S&P

Although this is not a beginner course on day trading, the Emini S&P, it is still necessary to cover some basics about the instrument so that everyone is on the same page. Officially, Emini S&P 500 is an index future contract that trades on the Chicago Mercantile Exchange under its Globex electronic exchange system. This contract expires by the third Friday at the end of every quarter.

Emini S&P is based on the S&P 500 cash index that is calculated by the company S&P Comstock (which holds the ownership of the index). The S&P 500 index has approximately 500 components, each being the stock of a company chosen by S&P Comstock to represent a part of the US economy. In other words, S&P 500 Index is an index created to represent the overall health of the US stock market, or even the overall health of US economy, using the companies that are deemed most important.

S&P 500 Cash Index currently trades at above 2800 as of August 2018. Emini S&P trades at a premium of the current price level of the cash index. The premium is the difference of the perceived value that the future contract holds above or below the current cash index level. When the premium is positive, meaning that the future contract is trading above the cash level, people are willingly paying a higher price for the contract, and vice versa.

Every point in the Emini S&P contract represents $50 USD. This means that at 2,800, each Emini S&P has a face value of 2800 x $50 = $140,000. To trade the Emini S&P, however, you do not need to have that amount of money. The current margin requirement for holding one Emini S&P contract is around $4,500 to $6,500 depending on the brokerage, but the amount is never lower than the minimum requirement set by the exchange. Compared to the margin in stock trading, it offers significantly higher leverage. But that is the nature of future contracts. At a $5,000 margin, the leverage is 28 times. If you are trading SPDR S&P 500 ETF (symbol SPY), an Exchange Traded Fund (ETF) similar to Emini S&P, the best you can get in margin would be 20% or so. That's just five-times leverage.