

Position Offsets Explanation

Although the way your positions offset may appear haphazard, our clearing system actually matches your trades in a very predictable and consistent fashion. Our offset logic, which is used throughout the futures industry, is based on trade date and trade price criteria.

The first rule is that, without exception, contracts bearing the same trade date ("daytrades") are always offset first, by matching the lowest-price long with the lowest-price short, the next lowest price long with the next-lowest-price short, etc. The second rule is that if the number of contracts purchased is not equal to the number of contracts sold within a given trading session, the unpaired trades are matched against open positions bearing the oldest trade date ("first-in, first-out," or "FIFO"). In the event that there are multiple contracts from the oldest trade date, we select a specific contract from this earlier date by taking the lowest-price long or the lowest-price short, whichever is appropriate in your particular situation.

Because Insignia Futures & Options provides you with real-time account information, things can become a bit confusing on an intraday basis. As an example, let's say that you enter this morning's trading session long one Live Cattle contract from 68.50. You purchased this contract on some prior day. At some point this morning, let's say that you sell one Live Cattle contract at 69.25. Our account system will show this morning's 69.25 sale offsetting the previous purchase from 68.50, and the Account Detail screen will show that you no longer have any open positions in the Live Cattle. But to complicate the example, let's suppose that later this morning, the market looks strong, you decide to re-establish a long position, and you purchase a Live Cattle contract for 69.35. At this point, our position-offset program will match this morning's 69.35 purchase with this morning's 69.25 sale, and the 68.50 long position from some previous trading session will be reinstated as an open long in your Account Details page. While you perhaps intended in your mind to liquidate the 68.50 long from the earlier date--and indeed, that's what our system showed during much of the day--purchases and sales in the same trading session are always matched and offset first. So, your position won't change--you'll still be long one futures contract--but it will not be *the* futures contract that you perhaps were expecting.

The most important thing to remember is that, despite the differences between how you intend to offset your positions and how they actually offset, your net position and money balances are always correct on our system! Need proof that money balances aren't affected by the futures industry's position-offset logic? Go back to the above example. Let's assume that the Live Cattle closes at 69.70 today. In your mind, you bought a contract the other day for 68.50 and sold it this morning from 69.25, a profit of \$300. You also think that you currently should have an open long position from 69.35, which, given today's closing price of 69.70, implies a profit of \$140. Total profit is therefore \$440, right? Now, let's do the math our way: We say that you sold one contract this morning at 69.25 and bought one contract this morning for 69.35, for a loss of \$40. On the other hand, we show a long position from 68.50 in your account from some previous session, which, given today's 69.70 close, implies a \$480 profit. Total profit...\$440, the same figure you calculated by doing the offsetting your way!

The math works out the same under both scenarios because open futures positions are "marked-to-the-market." A gain or loss on a futures position is realized immediately, while gains or losses on other types of financial instruments (stocks and bonds, for example) are unrealized until the position is actually liquidated. This is the difference between "futures-type" and "stock-type" settlement, and it's one of the most unique characteristics of futures contracts.

Remember, the manner in which trades offset has absolutely no impact whatsoever on your net positions or on your money balances—as we have just proved above!