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# BITCOIN INVESTOR KIT

A complete resource for strategy and insight to help inform your commodity futures trading.

**RELIABLE**

ACCESS TO THE GLOBAL MARKETS

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# 1 HISTORY OF R.J. O'BRIEN

Established in 1914, RJ O'Brien is the nation's largest and oldest independent FCM. RJO Futures takes that long-standing reputation as a leader in the commodity markets and delivers second to none trade execution as well as knowledgeable market insight through your dedicated trading support team. As a Chicago, Il based futures brokerage firm, we serve companies and private clients who expect only the best when it comes to trading the global futures and options markets. We work hand in hand with our clients using our Learn, Discuss, Trade approach to provide a customized trading plan and service level to meet your needs.

Through our team of dedicated, experienced, licensed futures brokers we provide you with a trading service level to meet your trading needs: full-service, online plus, online self-directed, system trading or managed futures. In addition, we support our clients with comprehensive trading tools, exclusive educational webinars, highly sought after third-party independent market analysis and daily in-house market commentary all designed to give you an edge in your trading. Clients of RJO know they have the vast resources of RJ O'Brien behind every trade they make.

RJO Futures is more than just a place to execute your trades. RJO Futures is committed to providing each and every client the resources and the service level they want and deserve. We understand that every client has unique needs and goals when it comes to trading. To view our Market Strategists bio's please click on the button below.

As you may have guessed, trading is also a big focus when it comes to the RJO client experience. Our clients enjoy access to intuitional level trading platforms giving you the confidence to trade these markets virtually 23 hours a day, 6 days a week. Whether it's managing account activity, executing single or multi-legged trades, charting a favorite market with detailed technical indicators, live support during all market hours, you will know RJO is there. RJO Futures clients are never alone when trading the commodity markets, the experience and knowledge of our Market Strategists coupled with our in-house support team are there for every trade you make.

VIEW OUR MARKET STRATEGIST'S BIO'S

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## 2 WHY TRADE MICRO BITCOIN FUTURES

With the success of Bitcoin and many other cryptocurrencies investors are looking for a way to gain exposure. The notional value of BTC has increased dramatically since the launch date causing the contract to be too high for many investors. The CME saw success in the first Bitcoin futures launch so they decided to make this smaller contract, 1/10 of one Bitcoin, so that more traders can have exposure to the market. The micro Bitcoin contract will be based on the CME CF Bitcoin Reference Rate. The BRR pools all trading activity for all major spot exchanges during the hours of 3pm and 4pm London time. With the CME launching this product, investors can gain access to an instrument regulated by the CFTC.

With all the uncertainties in the markets and volatility over the past year due to the pandemic – traders should look to diversify and have a well-rounded portfolio. Cryptocurrencies are here to stay and will be continuing to grow and be used in more and more areas of the world, so why not add a piece to your strategy? This Micro contract gives all traders an opportunity to add one of the most intriguing investments currently out to their portfolio.

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# 3 BASICS OF FUTURES TRADING

Let's start with, what is Futures Trading? Simply put, a futures contract is an obligation to buy or sell a specific quantity of a certain commodity or asset on a future date at an agreed upon price. Because the terms of futures contracts for each commodity or asset are standardized (i.e., same quantity, quality, delivery), they are traded on a regulated exchange such as the CME. The only variable is the price. Today, futures contracts represent commodities and financial instruments you hear about in the news every day, such as crude oil, corn, gold and silver, popular stock indices like the Emini S&P 500, Emini Nasdaq 100, Russell 2000, Dow Jones as well as most foreign currencies. In this Trading Kit we will focus on how to trade the Emini S&P 500 and the strategies experienced traders utilize to take advantage of the many opportunities that are present in the market every day. Before we go there, we want to discuss how futures trading works as well as the risks associated with it.

Futures trading occurs daily on federally regulated exchanges, which facilitate where buyers and sellers trade as well as post-trade clearing. In the United States, futures trading began in the mid-1800's as a way to bring together producers and end users of grains and cotton. Today, the CME Group in Chicago is the largest futures exchange in the world; its stock is publicly traded on the New York Stock Exchange

To better understand futures trading its important to know futures trading is a zero-sum game. A buyer and seller create a new contract with each trade, and the number of contracts that can be created is limitless (this is shown as Open Interest).

Remember, it's a "futures" contract. You are taking a position on what you think the price of something will be on the date the contract expires in the future. If you're trading crude oil and you believe the future price of oil will be higher, then you would buy the contract. If you believe the future price will be lower, you would sell the contract.

When buying a futures contract, most traders will trade the contract on margin. What is margin you ask? That's a good question. Margin is essentially a good-faith deposit, set by the exchange, that tells you how much capital is required to establish the position(s) in your trading account. It represents a small percentage of the total dollar value of the underlying contract you desire to trade. There are two types of margin. Initial Margin is the amount of risk capital you must have available in your account at the time you place your order and Maintenance Margin is the dollar amount that must be maintained in your account in order to hold your futures contract(s).

Now that you know the basic information on what is required to establish a futures contract (long or short), its important you know what comes next. That's where first notice, last trading day and possibly delivery (if you want to take or make delivery) can come into the picture. An important aspect of trading futures is understanding that futures contracts ultimately stop trading at the exchange on a predetermined day. The exchange lists the first notice and/or last trading day so traders know well in advance. Futures contracts, if held after a certain date, could call for physical delivery of the commodity or with some commodities they are settled in cash on the last trade date. But don't worry, when you make a futures trade, you are not required to make or take delivery of the underlying commodity. In fact, if you're like the vast majority of futures traders, you will generally offset or roll your futures position well before you are confronted with the delivery process.

To close out a position in a futures contract you offset the contract by taking an equal, but opposite, position in the same contract month. Thus, if you were long a futures contract (i.e., having bought a contract), you would sell a matching contract; if your initial position were a short, you would buy a position in the same contract month to offset or close out. Either of these actions exits your position and gets you what is known as "flat" which means you have no position on. This can be done any time during market hours before the contract stops trading.

What we have provided above is some comprehensive baseline information on futures trading. With the information above taken into account, we can now move on and get a bit more in-depth and explore options on futures trading. Of course, if you feel you still need some more knowledge on futures trading, please feel free to click here or contact one of our experienced Senior Market Strategists.

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# 4 BITCOIN FUNDAMENTALS ANALYSIS

Fundamental analysis drives the long-term trends of markets. Learning the basics of supply and demand is paramount to understanding the principles of investing on an intermediate and longer-term time horizon. However, there are differences in near-term fundamentals vs intermediate to longer term fundamentals that you'll need to be aware of depending on your personal time frame for the investment.

Technical or quantitative analysis often gives you clues as to the next "long" or "short" opportunity in the underlying asset in which you are trading, and further assists with the timing mechanism of the entry and exit point. There's a multitude of technical indicators in which you can choose from and with time you'll find your own personal preferences in terms of what works for you. But, first and foremost, you'll want to identify the market trend. More on this later.

Supply side fundamentals largely deal in the scarcity or abundance of a said commodity. Demand side fundamentals are represented by the price of a commodity and the demand for the said commodity over a set period of time. When supply side fundamentals meet demand side fundamentals, the price of the underlying commodity will reflect the balance or imbalance of the relationship, by expected future price increases or decreases in the value of the asset.

TRADING BITCOIN FUTURES

Bitcoin came into existence of January 3rd, 2009 with the founder, Satoshi Nakamoto mining the first block of 50 coins and serves as a decentralize currency, without a central bank on the blockchain. Within recent years, we have seen an explosion to the upside in the value of Bitcoin and many other crypto tokens have been created using the blockchain to create a store of money away from the fiat currencies created by global central banks. With the move higher and greater acceptance by the market, as more new participants getting into Bitcoin and crypto currencies. With this greater acceptance by the mainstream,

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the CME has created a micro Bitcoin futures contract that will launch on May 3rd, 2021 that is 1/10 the size of a Bitcoin. This new futures product will allow investors to know trade Bitcoin in their futures accounts.

Traditionally currencies are guaranteed by national governments and controlled to some extent by their central banks. The idea of a crypto-currency is based on the concept of fungibility of exchange of goods and services over the Internet and is backed by a technology known as blockchain; which is essentially a distributed ledger technology, where there is no centralized database per-se, and transactions of multiple users are updated on a distributed database, which is accessible by all users.

Bitcoin was the first cryptocurrency to be coined and now there are quite a few other including Etherium and Ripple. Myriad exchanges and platforms (more than fifty globally) have spawned over the last two years; where crypto-currencies such as Bitcoin can be traded with platforms such as Gemini, Coinbase and Bitstamp, being amongst the more popular ones.

There has been a fair bit of skepticism surrounding crypto-currencies with several governments and central banks taking a dim view, especially in regard to their legitimacy, validity and oversight mechanisms. However, the CFTC has recently allowed the CBOE, CME and NASDAQ to offer trading in Bitcoin futures, and the latest product offering is the CME micro Bitcoin futures which will be 1/10th the size of the Bitcoin contract. This product will trade on the RJO platforms with margins to be determined by the CME exchange. In addition, more and more commercial entities are beginning to accept Bitcoin as a medium of exchange, thereby enhancing its credibility. Without getting into the long-term prospects of cryptocurrencies; the answer to whether traders could profit from taking medium to short term positions on these popular, albeit historically untested, currencies would be a resounding yes.

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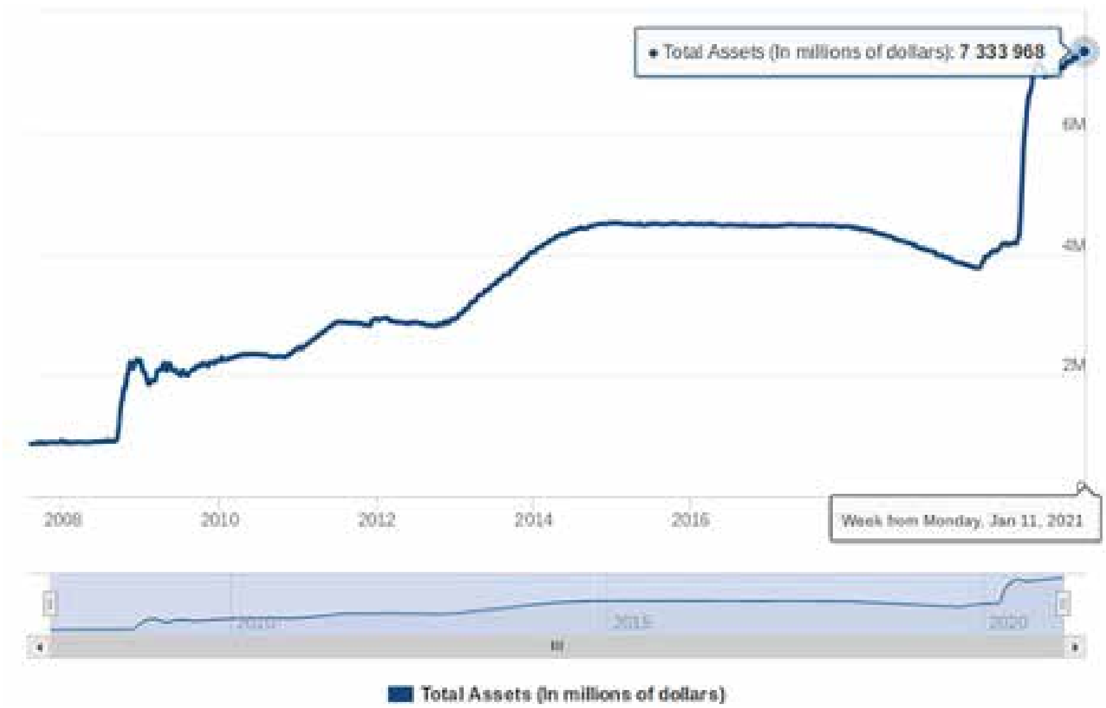
# 5 BITCOIN HISTORICAL AND TECHNICAL ANALYSIS

As Bitcoin has gained in popularity, the Fed has had no choice but to accept it and you can see this reflected on their balance sheet. It can be categorized as a Federal Reserve Balance Sheet Explosion!  And is expected to peak in 2022 over > $9T USD! It's of no coincidence the rapid explosion in BTC has come on the back of a massive debt explosion in the USA & around the World!




Now compare the chart above with the recent jump in the price of Bitcoin (chart below)…see anything familiar? The charts are eerily similar. Cash Bitcoin from 2011 up to the beginning of 2021 – price has since risen more than 170% since the start of 2021.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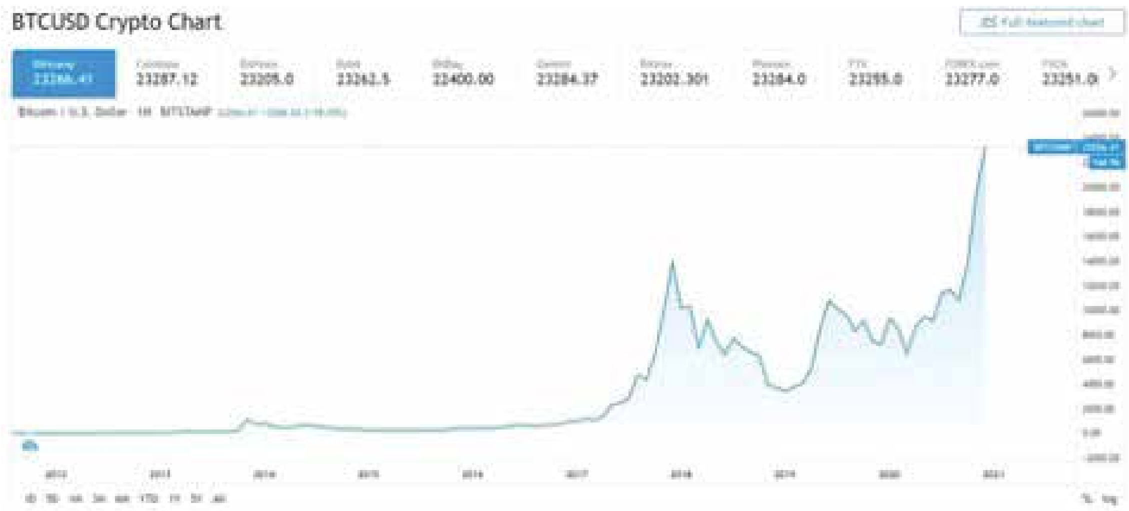
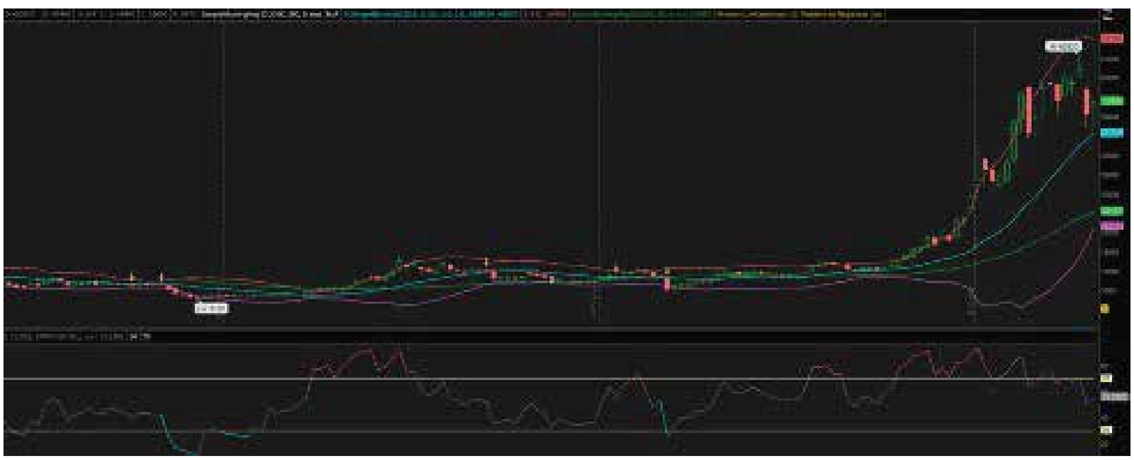



Now with these figures in mind, let's take a look at the Bitcoin futures weekly chart below.



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You'll see that momentum has recently broken to "negative" for the first time since October of 2020, following a peak and drop from 65,520 to 47,440. Although we saw a steep drop, the market strongly rejected trade below 50,000 BTC, but still has some work to do reclaim its "positive" momentum, but 50,000 seems to be a steady level of support.

With the bottom chart being the projection oscillator, an indicator of overbought vs oversold, BTC is approaching immediate overbought with bearish momentum. While we remain long-term bullish on BTC, we believe there could be a more favorable buying period coming over the summer months. We'd mark June/July period as a time frame for when BTC is likely to bottom based on the information present. With the micro Bitcoin futures contract coming on May 3rd, we believe it could be a strong option to look at come June/July. Buckle up, Bitcoin is here to stay! For more detailed information on potential Bitcoin futures entry and exit points, please do not hesitate to reach out to one of our Senior Market Strategists.

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MICRO BITCOIN FUTURES CONTRACT SPECS

| Contract Symbol | Contract Size | Price Quotation |
| --- | --- | --- |
| MBT | .10 Bitcoin | Dollars and cents per BTC |
| **Trading Exchange** | **Trading hours** | **Minimum Tick Value** |
| CME Globex | Sun-Fry 6:00-5:00 p.m. EST w/ 1-hour break between day and night session | Outrights: $5 per Bitcoin = $0.50 per contract<br><br>Spreads: $1 per Bitcoin = $0.10 per contract |

Coming in at 1/10th the size of a full Bitcoin futures contract, the micro Bitcoin futures contract aims to make Bitcoin accessible to all types of futures traders. We believe the micro contract will provide an efficient and cost-effective way for futures traders to add Bitcoin futures to their portfolio. The smaller size of the micro contract limits the risk traders will take on thus giving them the perfect opportunity to test the cryptocurrency waters. Traders will also notice the capital benefits and efficiency of the micro contract are similar to that of a regular futures contract offering further incentive to trade the micro.

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# 6 BITCOIN MARKET MECHANICS AND TRADING STRATEGIES


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# 7 TRADING TERMS GLOSSARY

**FCM** – a futures clearing merchant is a firm that has met requirements to be involved in the solicitation of buy or sell futures orders or options on futures orders in exchange for money

**Full-service** - With a full service account, your RJO Futures commodities broker will work with you to develop a complete trading plan based on your ideas, experience and goals.

**Online Self-directed** - Experienced traders that use their own market analysis to make trading decisions and manage risk are the perfect candidates for our Self-Directed Online Account

**System Trading** – the application of a sole trading system's guidelines which identifies whether to buy or sell

**Managed Futures** - A managed futures account is an investment portfolio consisting of futures and commodity investments in which the account is funded by an individual, but managed by an investing professional, such as a broker, CTA or another entity

**Trading Platforms** – a software that can be used to access the market and place buy or sell orders.

**Open Interest** - The total number of futures or options on futures contracts that have not yet been offset or fulfilled by delivery.

**Long** - One who has bought futures contracts or owns a cash commodity. Opposite of Short.

**Short** – selling contracts with the hopes of picking them up later for a discounted price
Last Trading Day - The final day on which trading may occur in a given futures or options contract.

**First Notice** - The first day, varying by commodities and exchanges, on which notices of intentions to deliver actual commodities against futures are authorized.

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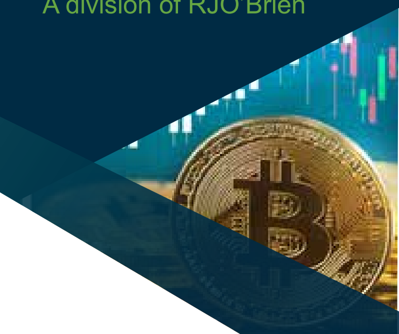

**Delivery** - The tender and receipt of an actual commodity, warehouse receipt, or other negotiable instrument covering such commodity in settlement of a futures contract.

**Roll** - Process whereby the settlement of a forex deal is rolled forward to another date. The cost of this process is based on the interest rate differential of the two currencies.

**Strike Price** - The price at which the holder (buyer) may purchase or sell the underlying futures contract upon the exercise of an option.

**Option Expiration** - The last day that an option may be exercised into the underlying futures contract. Also, the last day of trading for a futures contract.

**Time Decay** – The rate of decline of an options contract over time

**Out-of-the-money** - A call option with a strike price higher or a put option with a strike price lower than the current market value of the underlying asset, (i.e., an option that does not have any intrinsic value). Its value is time and volatility related.

**In-the-money** - An option with intrinsic value. A call option is in-the-money if its strike price is below the current price of the underlying futures contract. A put option is in-the-money if its strike price is above the current price of the underlying futures contract.

**Option Premium** - The price a buyer pays (and a seller receives) for an option. Premiums are arrived at through open outcry. There are two components in determining this price: extrinsic (or time) value and intrinsic value.

**Net Liquidating Value** - Also known as Net Liquidation Value, is the current value of all holdings in your portfolio. Your net liquidation value reflects how much the contents of your portfolio would be worth if you were to liquidate everything at the current market price.

**Pits** - The area on an exchange trading floor where futures and options on futures contracts are bought and sold by floor brokers.

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