

# E-mini™ NASDAQ COMPOSITE®

FUTURES

**cme**   
Chicago Mercantile Exchange

## INTRODUCTION

Since the launch of its first stock index futures product in April 1982, Chicago Mercantile Exchange (CME) has been building its reputation as the “Index” Exchange. It is now the world’s largest exchange for trading stock index futures, with 95 percent of the market share in U.S.-listed stock index futures. CME has a stellar line-up of stock index futures products on almost every major benchmark including the S&P 500<sup>®</sup>, NASDAQ-100<sup>®</sup>, Russell 2000<sup>®</sup>, S&P MidCap 400<sup>™</sup> and Russell 1000<sup>®</sup> Indexes. The single major flagship index without a futures contract has been the NASDAQ Composite Index<sup>®</sup>.

CME is again expanding its stock index offerings with the introduction of E-mini<sup>™</sup> futures contracts on the NASDAQ Composite Index. E-mini NASDAQ Composite futures provide a product that

**tracks the entire NASDAQ Stock Market®, in contrast to the NASDAQ-100 which includes only the top 100 non-financial stocks listed on The NASDAQ Stock Market. The NASDAQ Composite Index measures all listed NASDAQ domestic and international-based common-type stocks. As of September 30, 2003, the NASDAQ Composite was comprised of over 3,300 companies. The Composite is one of the most widely followed and quoted major market indexes in the U.S., and exposure to these stocks can prove useful for retail and institutional traders. The Composite began in February 1971, while the NASDAQ-100 Index began in January 1985.**

## **WHY TRADE E-MINI NASDAQ COMPOSITE FUTURES?**

### **Exposure**

With futures on the E-mini NASDAQ Composite Index, traders can gain exposure to the value of the entire NASDAQ stock market with just one transaction.

### **Affordability/Ease of execution**

E-mini NASDAQ Composite futures require a small upfront performance bond relative to the notional contract size. This offers investors access to the value of a large basket of stocks with relatively minimal upfront capital.

### **Opportunity**

As with other futures contracts, E-mini NASDAQ Composite futures offer a variety of trading opportunities, including outright bullish or bearish positions, spreading against other CME index products and the ability to hedge a portfolio of stocks. Also, as with other index futures, the E-mini NASDAQ Composite futures will likely track the underlying cash index closely.

### **Accessibility**

E-mini NASDAQ Composite futures trade completely electronically on CME's GLOBEX® trading platform, virtually 24-hours a day, Sunday evening to Friday afternoon. This extensive access enables traders to take advantage of ongoing trading opportunities as they arise.

### **Integrity**

CME customers and members are protected from the risk of counterparty default on trades by the Exchange's sophisticated risk management and surveillance processes. The CME Clearing House acts as a guarantor to each of its clearing members, thus ensuring the integrity of all trades. CME's Clearing House has proven to be remarkably effective, even under the most stressful market conditions.

## ABOUT THE UNDERLYING INDEX

The NASDAQ Composite Index has long been a key market barometer. A market-capitalization-weighted index (share price X number of shares outstanding), the NASDAQ Composite contains large, medium and smaller capitalization securities. While the Index is heavily weighted in technology, the Composite also covers a range of other sectors, such as financial and industrial companies. (See table below.)

### Sector Breakdown—NASDAQ Composite Index (as of 9/30/03)

Computer Software and Hardware	53.6%
Health Care	13.6%
Financials	10.9%
Consumer Discretionary	8.1%
Telecommunications and Media	5.9%
Industrials	5.2%
Consumer Staples	1.3%
Materials	0.8%
Energy and Utilities	0.5%
Other/Non-classified	0.1%
<b>TOTAL</b>	<b>100%</b>

Source: NASDAQ and FactSet Research Systems, Inc.

The index value is disseminated every 15 seconds during normal trading hours, beginning at 8:30 a.m. CT.

A complete list of the securities included in the Index can be found at [www.nasdaqtrader.com](http://www.nasdaqtrader.com) including tickers, shares outstanding and total market value and weightings in the Index.

The top 10 securities in the Composite Index appear below.

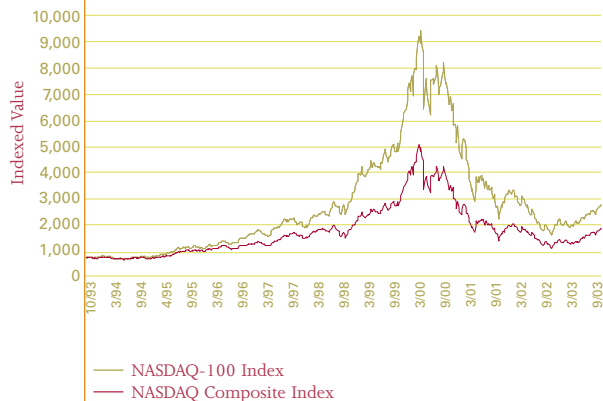
### Percent Weighting—NASDAQ Composite Index (as of 9/30/03)

Microsoft Corp.	11.4%
Intel Corp.	6.8%
Cisco Systems Inc.	5.2%
Dell Inc.	3.2%
Amgen Inc.	3.2%
Oracle Corp.	2.2%
Comcast Corp.	1.6%
eBay Inc.	1.3%
QUALCOMM Inc.	1.3%
Fifth Third Bancorp	1.2%

Source: NASDAQ

Even though the NASDAQ Composite and NASDAQ-100 Indexes are highly correlated, one important difference between the two is that the NASDAQ Composite is not governed by the same index eligibility criteria as the NASDAQ-100. The NASDAQ Composite is a market-capitalization-weighted index and the NASDAQ-100 is a modified market-capitalization-weighted index. So, for example, Microsoft is the top-weighted stock in both the NASDAQ Composite and NASDAQ-100. However, Microsoft comprises 11.4% of the NASDAQ Composite, while it has a weighting of 10.1% in the NASDAQ-100 as of September 30, 2003. Also, the NASDAQ Composite Index represents a more diversified stock universe, whereas the NASDAQ-100 is more reliant on the large cap issues listed on the NASDAQ Stock Market. The following relative performance graph compares the NASDAQ Composite Index versus the NASDAQ-100 Index.

**Comparative NASDAQ Index Performance, 1993 – 2003**



Note: NASDAQ-100 Index re-based to October 1, 1993 = NASDAQ Composite Index Level of 763.23.

Source: FactSet Research Systems, Inc.; weekly prices as of September 19, 2003

## COMPARATIVE STATISTICS

**Comparisons between NASDAQ Composite Index and NASDAQ-100 Index as of September 30, 2003**

	NASDAQ Composite	NASDAQ-100
<b>Description</b>	Composed of common type securities on The NASDAQ Stock Market	Composed of top 100 non-financial securities on The NASDAQ Stock Market based on market capitalization
<b>Index Weighting</b>	Cap-weighted	Modified Cap-weighted
<b>Inception date</b>	1971	1985
<b>Number of constituents</b>	3359	100
<b>Total Market Cap</b>	2.64 trillion	1.57 trillion
<b>Recent price level</b>	1786.94	1303.70
<b>Related products</b>	Futures/ETFs	Futures/ Options/ETFs

Source: NASDAQ and FactSet Research Systems, Inc.

**NASDAQ Composite Index and NASDAQ-100 Index historical correlation of weekly returns by two year periods: October 8, 1993 through September 19, 2003**

	% Return Composite	% Return NASDAQ-100	Correlation of Weekly Returns
<b>1993 – 1995</b>	36.73%	52.84%	0.9371
<b>1995 – 1997</b>	61.21%	89.17%	0.9167
<b>1997 – 1999</b>	62.90%	116.80%	0.9700
<b>1999 – 2001</b>	-48.07%	-53.04%	0.9871
<b>2001 – 2003</b>	33.90%	23.54%	0.9839

Note: Percent return is calculated as cumulative return for each two-year period.

Source: NASDAQ and FactSet Research Systems, Inc.

## ABOUT E-MINI NASDAQ COMPOSITE FUTURES CONTRACTS

E-mini NASDAQ Composite futures contracts move in minimal increments called “ticks.” The E-mini NASDAQ Composite futures tick value is .50 points or \$10.00 per contract. Thus

- A move of one tick from 1800.00 to 1800.50 equals \$10.00
- With this move, a long (buying) position would be credited \$10.00, and a short (selling) position would be debited \$10.00
- A move of one full E-mini NASDAQ Composite futures index point is worth \$20.00

## EXPIRATION AND CONTRACT MONTH SYMBOLS

E-mini NASDAQ Composite futures trade in quarterly expiration cycles—March, June, September and December expirations. CME uses the following ticker symbol for the E-mini NASDAQ Composite futures along with a corresponding symbol for the expiration month. You should be aware that various quote vendors may display these products in a different format.\*

### E-mini NASDAQ Composite Futures Ticker

QCN

### Expiration Month Symbols

Mar	Jun	Sep	Dec
H	M	U	Z

\* The NASDAQ Composite Index can be found on vendor terminals and Web sites under the following symbols: Bloomberg (CCMP); Reuters (.IXIC); Yahoo.com (^IXIC); NASDAQ.com (IXIC); Bridge (US;COMP); Thomson, including ILX (COMP); FactSet (COMP); Hyperfeed (Comp); and S&P Comstock (COMPX).

## E-MINI NASDAQ COMPOSITE FUTURES CONTRACT SPECIFICATIONS

**Ticker Symbol** QCN

**Contract Size** \$20.00 times the NASDAQ  
Composite Index

**Contract Value:  
(Approximate)** \$36,000 (1,800 x \$20)

**Contract Months** March quarterly cycle (Mar, Jun, Sep, Dec)

**Trading Hours  
(Chicago Time)** Virtually 24-hours/day  
Sunday evening through Friday afternoon

**Minimum Price  
Fluctuation** .50 futures index point (= \$10.00)  
.05 for calendar spreads (= \$1.00)

**Price Limits** 5%, 10%, 15% and 20% limits.  
See [www.cme.com](http://www.cme.com) for details.

**Final  
Settlement** The third Friday of the contract month  
based upon the Special Opening Quotation  
of the E-mini NASDAQ Composite Index

**Last Trading Day** Trading can occur up to 8:30 a.m.  
(Chicago time) on the third Friday  
of the contract month.

### Trading Example 1

## GETTING MARKET EXPOSURE

An investor wants exposure to a broad-based index consisting of NASDAQ stocks. His capital is limited; therefore he would have to limit his purchase to a few well-chosen securities. An alternative would be to go long (purchase) E-mini NASDAQ Composite futures.

### Day 1

On November 17, this trader goes long one E-mini NASDAQ Composite futures contract QCN at **1800.00**

He deposits his required performance bond, approximately **\$3,000** at that time (estimated).

At the end of trading on November 17, QCN is still trading at **1800.00**.

His variation margin (change in account) that day is **\$0**  
Value of this account remains **\$3,000**.

### Day 2

At market close next day, November 18, QCN is trading at **1780.00**.

The trader now has a loss in his position:  
20 pts. x \$20 per point = **\$400**

His variation margin (change in account is now):  
**\$400** debit

Value of margin account:  
**\$2,600**

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**Day 3**

At the market close two days later, November 19, QCN is trading at 1810.00.

Gain in position:

30 pts. x \$20.00 per point = **\$600**

His variation margin (change in account):

**\$600** credit

Value of margin account:

**\$3,200**

**Day 4**

At close of trading on November 20, the trader sells his QCN contract at 1820.00.

He calculates the gain in his position:

10 pts. x \$20 per point = **\$200**

Variation margin (final change in account):

**\$200** credit

Value of margin account:

**\$3,400**

The trader has now closed out of his position.

Gain or loss on entire trade is sum of each days' variation margins:

0.0 - \$400 + \$600 + \$200 = **+\$400**

While the position did show a gain, had the trader closed the position out after day two, he would have had a loss of \$400.

**Trading Example 2****HEDGING A PORTFOLIO**

An investor has a large portfolio consisting of high growth technology, biotechnology and telecommunications stocks. He believes that the current stock market rally in these securities has run its course and will decline significantly in the next few quarters. Because of transaction costs as well as tax consequences, he does not want to liquidate the portfolio.

He decides to sell short E-mini NASDAQ Composite futures at CME. Should the market decline as expected, his portfolio would show losses, as would the E-mini NASDAQ Composite futures (assuming his portfolio tracks the underlying Index fairly well). Since he is short the futures, his futures account would reflect a gain. This gain from the futures hedge would offset the losses on his portfolio, thereby mitigating the effects of a declining market.

On the other hand, if the trader was wrong about the direction of the market and it advanced instead of declining, his short futures position would show a loss, which would offset the gains in the portfolio. Hence, the investor would have to manage the hedge and offset it by buying back the futures position if he felt the market decline had run its course or if the market rallied significantly.

## Trading Example 3

## SPREADING ACROSS INDEXES

A trader wants exposure to the broad-based NASDAQ stock market, but doesn't want to limit his exposure to the larger capitalization NASDAQ-listed companies. The trader can execute an inter-commodity spread by going long (buying) one E-mini NASDAQ Composite futures contract at 1850.00 and simultaneously going short (selling) one NASDAQ-100 futures contract at 1300.00.

The trader was correct in anticipating a broad market move, with large-cap issues lagging. The E-mini NASDAQ Composite is now trading at 1900.00 and the NASDAQ-100 is trading at 1320.00. The trader offsets both the long and the short "legs" of the spread and takes the profit.

**Profit/Loss:** Long E-mini NASDAQ Composite leg  
 $1900.00 - 1850.00 = 50$  pts.  
 $50$  pts. x  $20 = \$1,000$  gain on the long leg

Short NASDAQ -100 leg  
 $1320.00 - 1300.00 = 20.00$  pts.  
 $20.00$  pts. x  $\$20 = \$400$  loss on the short leg

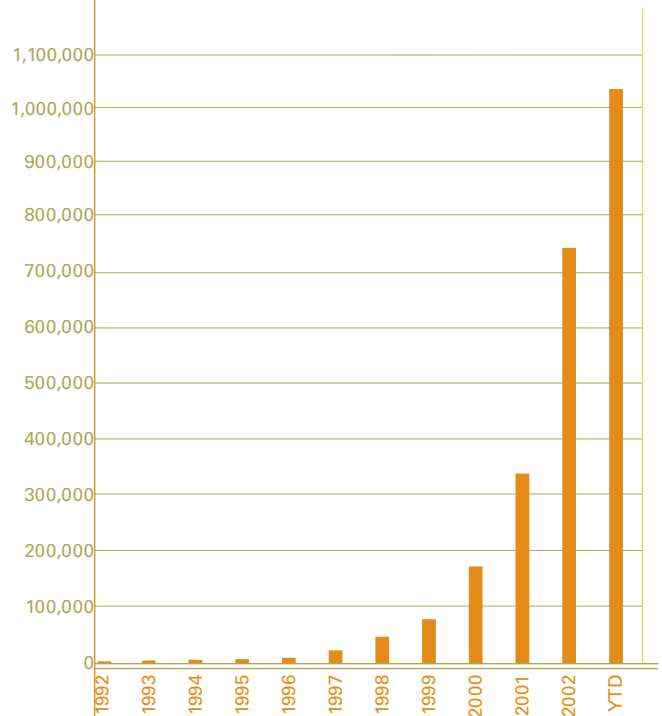
**Overall P/L:**  $\$1000 - \$400 = \$600$  overall profit on spread

On the other hand, if the E-mini NASDAQ-100 outperformed the E-mini NASDAQ Composite in this example, the spread trade would have resulted in a loss.

## GLOBEX AND ELECTRONIC TRADING AT CME

Average Daily Volume: 1992–2003

Since its introduction by CME in June 1992, electronic trading has grown at a geometric rate. As the graphic below depicts, average daily volume on the GLOBEX platform now exceeds 1,000,000 contracts a day (YTD 9/30/03) with much of the volume coming from electronically traded equity products. This product line-up includes the fastest growing products in Exchange history – the E-mini S&P 500 and E-mini NASDAQ-100. The E-mini NASDAQ Composite futures contract will trade on this successful platform, alongside some of the most liquid futures contracts in the world!



Growth of Electronic Trading on the GLOBEX Platform  
 1992 through third quarter 2003

## TRACKING YOUR TRADING POSITIONS

Information on E-mini NASDAQ Composite futures and its underlying cash index is widely available. Investors, large and small, can get trading data, quotes and specific Index information and research from the following sources:

- Series 3 Licensed Futures Brokers
- The Internet, such as CME's Web site ([www.cme.com](http://www.cme.com)) and NASDAQ's site ([www.nasdaqtrader.com](http://www.nasdaqtrader.com))
- Information and quote service vendors such as CME E-quotes, Reuters, Bloomberg and CQG
- Major daily and weekly newspapers
- Private advisory services and newsletters
- Financial programs on television and radio

## FOR FURTHER INFORMATION

Chicago Mercantile Exchange offers several publications and materials that explain stock index futures and options on futures. To obtain any of the following, or other information about CME, call 1-800-331-3332 or contact your broker. Many of these publications are also available in PDF format on CME's Web site at [www.cme.com](http://www.cme.com).

- *Equity Index Futures and Options Information Guide* (spiral bound book)
- *E-mini Stock Index Futures and Options* (brochure)

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