COMMODITY TRADING

Commodity trading is an exciting and sophisticated type of investment. While this type of **trading** has many similarities to stock **trading**, the biggest difference is the asset that is **traded**. **Commodity trading** focuses on purchasing and **trading commodities** like gold rather than company shares as in stock **trading**

A commodity is either grown or produced naturally in the environment. Some examples of commodities include platinum, gold, cotton, wheat, cattle, lumber, oil, orange juice, pork bellies and sugar. Generally, the most traded commodities are oil, gold and silver and are included in both international and national marketplaces along with a variety of other commodities.

Individual Investors and Commodity Trading Methods

With the advent of the internet and online brokers, individual traders can now get involved in the commodities market. These individual investors do not need these commodities as companies do. Therefore, the reason that they trade commodities is to generate a profit. Investors, just like companies or other investment institutions, are able to make a profit from the changes in commodity prices. In order to make a profit from the commodities market, investors must purchase or trade the commodity at the correct time depending on the increase or decrease in price. There are several methods that investors can use to trade commodities. First, commodities can be traded in futures – these are contracts that direct the purchase or trade of a commodity at a certain price. Commodities can also be traded with options – this means the commodity is purchased or traded at a particular date and price.

Commodity broker

A commodity broker is a firm or individual who executes orders to buy or sell commodity contracts on behalf of clients and charges them a commission. A firm or individual who trades for his own account is called a trader. Commodity contracts include futures, options, and similar financial derivatives.

Firms and individuals who are often collectively called commodity brokers include:

Floor Broker/Trader: an individual who trades commodity contracts on the floor of a commodities exchange. When executing trades on behalf of a client in exchange for a commission he is acting in the role of a broker. When trading on behalf of his own account, or for the account of his employer, he is acting in the role of a trader. Floor trading is conducted in the pits of a commodity exchange via open outcry.

Futures Commission Merchant is a firm or individual that solicits or accepts orders for commodity contracts traded on an exchange and holds client funds to margin, similar to a securities broker-dealer. Most individual traders do not work directly with a FCM, but rather through an IB or CTA.

Introducing Broker is a firm or individual that solicits or accepts orders for commodity contracts traded on an exchange. IBs do not actually hold customer funds to margin. Client funds to margin are held by a FCM associated with the IB.

Commodity Trading Advisor is a firm or individual that, for compensation or profit, advises others, on the trading of commodity contracts. They advise commodity pools and offer managed futures accounts. Like an IB, a CTA does not hold customer funds to margin; they are held at a FCM.

CTAs exercise discretion over their clients' accounts, meaning that they have power of attorney to trade the clients account on his behalf according to the client's trading objectives. A CTA is generally the commodity equivalent to a financial advisor or mutual fund manager.

Commodity Pool Operator is a firm or individual that operates commodity pools advised by a CTA. A commodity pool is essentially the commodity equivalent to a mutual fund.

Submitted by : Aparna Sreekumar