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OG/) **Review of Vanguard Personal Advisor Services**

Thursday, April 2, 2020

*Editorial Note: The content of this article is based on the author’s opinions and recommendations alone and is not intended to be a source of investment advice. It has not been previewed, commissioned or otherwise endorsed by any of our network partners.*



(<https://www.magnifymoney.com/blog/author/bethbraverman/>) **Beth Braverman**

(<https://www.magnifymoney.com/blog/author/bethbraverman/>)

Vanguard Personal Advisor Services is the investment advisory service offered through AD  
Vanguard Advisers, a wholly owned subsidiary of Vanguard, Inc., one of the world’s largest investment management firms. Vanguard Personal Advisor Services focuses on serving individual investors, including high net worth individuals. Clients work with human advisors, but also have access to Vanguard’s digital advice platform.

*All information included in this profile is accurate as of April 2, 2020. For more information, please consult Vanguard Personal Advisor Services website.*

**Assets under management:** \$83.7 billion

**Minimum investment:** \$50,000

**Fee structure:** A percentage of AUM; one-time financial planning fee for some workplace retirement plan participants

**Headquarters:** 100 Vanguard Boulevard  
Malvern, PA 19355  
[vanguard.com](https://vanguard.com/) (<https://vanguard.com/>)  
800-416-8420

**Do you have a question?**

## In this review, we'll cover:

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Overview of Vanguard Personal Advisor Services

What types of clients does Vanguard Personal Advisor Services serve?

Services offered by Vanguard Personal Advisor Services

How Vanguard Personal Advisor Services invests your money

Fees Vanguard Personal Advisor Services charges for its services

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Vanguard Personal Advisor Services disciplinary disclosures

Vanguard Personal Advisor Services onboarding process

Is Vanguard Personal Advisor Services right for you?

## Overview of Vanguard Personal Advisor Services

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Vanguard Personal Advisor Services is the investment advisory arm of Vanguard Advisers, a wholly owned subsidiary of Vanguard. The advisory part of the business launched in 2015, decades after Vanguard was founded in 1975 by the late John "Jack" Bogle.

Bogle introduced the first-ever index fund

(<https://www.magnifymoney.com/blog/investing/what-is-an-index-fund/>) to retail investors and encouraged them to buy and hold a diverse basket of low-cost investments. Though Bogle passed away last year, the firm aims to continue his legacy.

Vanguard Personal Advisor Services is focused on providing ongoing advisory account services for individual investors as well as point-in-time financial planning for retirement plan participants. Vanguard Personal Advisor Services oversees \$83.7 billion of Vanguard Advisers' total \$221 billion in assets under management (AUM).

## Which types of clients does Vanguard Personal Advisor Services serve?

[Do you have a question?](#)

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Vanguard Personal Advisor Services primarily serves individuals, including high net worth investors and those who get services through their workplace retirement plans. For reference, the SEC defines high net worth individuals as those with at least \$750,000 under management or a net worth above \$1.5 million.

The individual investors either come for financial planning via their workplace 401(k) (<https://www.magnifymoney.com/blog/investing/401k/>) plans (<https://www.magnifymoney.com/blog/investing/401k/>), or they are retail investors with an IRA or other account with Vanguard. In the latter case, there's a minimum investment requirement of \$50,000. The firm does not provide financial planning services to clients who do not have accounts with Vanguard.

## Services offered by Vanguard Personal Advisor Services

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Vanguard Personal Advisor Services offers financial planning and point-in-time advice to participants in Vanguard workplace retirement plans. Those participants are not eligible for managed account services for assets in those plans.

Clients who have an IRA or other retail account worth at least \$50,000 with Vanguard can use Vanguard Personal Advisor Services to get a customized financial plan and enroll in the firm's "ongoing advised services." That gives an advisor the authority to make trades on the client's behalf in accordance with their agreed-upon plan. It also allows participants to call advisors about advice on financial issues that arise as they hit life's milestones, such as buying a new house or having grandchildren.

Here is a full list of services offered by Vanguard Personal Advisor Services:

- Investment advisory services/portfolio management
  - Asset allocation strategies
- Financial planning
  - Retirement planning (<https://www.magnifymoney.com/blog/investing/retirement-planning-basics/>)
  - Estate planning
  - Charitable giving
  - Succession planning
  - Tax planning and management

**Do you have a question?**

# How Vanguard Personal Advisor Services invests your money

All participants in Vanguard Personal Advisor Services get a financial plan, including the creation of a portfolio with a diverse asset allocation (<https://www.magnifymoney.com/blog/investing/asset-allocation/>) that reflects your personal financial situation, goals and risk tolerance. To do that, the advisors rely on an algorithm, which recommends an investing track and glide path, or asset allocation strategy, that meets your needs. The investment tracks range from very conservative to very aggressive, and the glide paths adjust over time, depending on your goals.

Each portfolio includes a variety of Vanguard index funds with holdings in a specific asset class, such as international stocks or short-term bonds, but it does not recommend investments in individual stocks or bonds. In addition to diversification, the portfolios take taxes into account, aiming to keep the investments as tax-efficient as possible. In general, Vanguard encourages a long-term, buy-and-hold approach rather than switching strategies based on market performance.

## Fees Vanguard Personal Advisor Services charges for its services

Employees who use Vanguard Financial Planning Services through their workplace retirement plan pay \$1,000 for the service if they have less than \$50,000 in assets with Vanguard, and \$250 if they have \$50,000 to \$500,000 with Vanguard. The firm may waive that fee for clients who are over the age of 55 or who have more than \$500,000 invested with Vanguard.

For clients of Vanguard Personal Advisor who don't have a workplace retirement plan and are enrolled in the ongoing advised services, the firm charges a percentage of assets under management (<https://www.magnifymoney.com/blog/investing/financial-advisor-cost/>). Rates run from 0.30% for accounts of less than \$5 million to 0.05% for accounts over \$25 million.

Assets under management	Annual rate
Under \$5 million	0.30%
\$5 million to under \$10 million	0.20%
\$10 million to under \$25 million	0.10%

**Do you have a question?**

Assets under management	Annual rate
\$25 million and over	0.05%

In addition to the above fees, you may also pay fund fees, annuity fees, account fees or retirement plan fees.

## Vanguard Personal Advisor Services's highlights

- **A dedication to low fees.** Vanguard literally invented index investing, and the firm remains dedicated to keeping its fees low. Its fee schedule is substantially lower than the industry average total fee rate of 1.17%, according to RIA in a Box (<https://www.riainabox.com/blog/2019-ria-industry-study-total-average-fee-is-117>).
- **Excellent reputation.** Vanguard Personal Advisor Services was named the “Brand of the Year” in 2019 for digital investing by Harris Poll EquiTrends. The title was awarded based on consumer devotion and respect.
- **Fee-only model.** Advisors don't receive commissions for selling products or making recommendations, so they do not have a financial incentive to do so, which can pose a potential conflict of interest.

## Vanguard Personal Advisor Services's downsides

- **High minimum balance for young investors.** You need to have \$50,000 invested with Vanguard (outside of your workplace retirement plan) to access its investment management services if your employer is not enrolled in the program. That could be a high bar for young investors or for those who haven't been saving for long.
- **Less potential upside:** Since Vanguard's investment philosophy is built on a buy-and-hold strategy (<https://www.magnifymoney.com/blog/investing/active-vs-passive-investing/>) comprised of low-cost funds, you can expect your investments

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to perform in line with the markets, but advisors aren't actively trading to try to "beat the market."

- **Large digital component:** While you'll work with a human advisor to create your initial plan, future check-ins may take place via the platform's digital interface. Clients with \$500,000 or less in assets do not have an assigned financial advisor, though they can call to schedule an appointment at any time.

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## Vanguard Personal Advisor Services disciplinary disclosures

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Vanguard Personal Advisor Services does not have any disciplinary disclosures. All registered investment advisors are required to disclose any legal, regulatory or criminal events in their Form ADV (<https://www.magnifymoney.com/blog/investing/form-adv-financial-advisor/>), documents they file with the SEC.

## Vanguard Personal Advisor Services onboarding process

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To learn more about working with Vanguard, you can call (800) 414-8740 or create an account online (<https://personal.vanguard.com/web/c1/personal-advice/log-on>) to set up an appointment to talk with an advisor. In your initial conversation, you'll discuss your financial situation and goals, and share information about all your financial accounts. Your advisor(s) will spend a few weeks creating a plan, and then you can decide whether you want to implement that plan and allow them to manage the account on your behalf.

If your portfolio is worth less than \$50,000, you'll work with a team of advisors, while those with a portfolio worth more than \$500,000 have a specific, dedicated financial advisor. Advisors will check on your portfolio on a quarterly basis, making adjustments as needed to your asset allocation. You can check in online or call your advisor or team at any time.

## Is Vanguard Personal Advisor Services right for you?

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The firm may be a good choice if you're an investor with at least \$50,000 looking for a low-cost, low-maintenance way to manage your money (or your employer has chosen Vanguard as its retirement plan provider). Vanguard Personal Advisors offers extremely low fees and

**Do you have a question?**


boasts a clean disciplinary record.

For investors who have less than \$50,000, or who are looking for a more active approach to asset management, another firm might be a better fit. As is always the case when choosing a financial product or service, it's important to shop around, ask questions of financial advisors (<https://www.magnifymoney.com/blog/investing/questions-to-ask-a-financial-advisor/>) and make the choice that's best for your unique situation.

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	0.25% management fee	See Offer ( <a href="https://www.magnifymoney.com/redirect/?www.betterment.com&amp;MzE&amp;QkIN&amp;YmxvZw&amp;Yl8xMzA0MzFzYWRzX2ludmVzdG1bnRfRkEtMg">https://www.magnifymoney.com/redirect/?www.betterment.com&amp;MzE&amp;QkIN&amp;YmxvZw&amp;Yl8xMzA0MzFzYWRzX2ludmVzdG1bnRfRkEtMg</a> )
	0.30% management fee	See Offer ( <a href="https://www.magnifymoney.com/redirect/?www.ally.com&amp;NDQ&amp;QkIN&amp;YmxvZw&amp;Yl8xMzA0MzFzYWRzX2ludmVzdG1bnRfRkEtMw">https://www.magnifymoney.com/redirect/?www.ally.com&amp;NDQ&amp;QkIN&amp;YmxvZw&amp;Yl8xMzA0MzFzYWRzX2ludmVzdG1bnRfRkEtMw</a> )
	0.89% management fee	See Offer ( <a href="https://www.magnifymoney.com/redirect/?&amp;ODA&amp;QkIN&amp;YmxvZw&amp;Yl8xMzA0MzFzYWRzX2ludmVzdG1bnRfRkEtNA">https://www.magnifymoney.com/redirect/?&amp;ODA&amp;QkIN&amp;YmxvZw&amp;Yl8xMzA0MzFzYWRzX2ludmVzdG1bnRfRkEtNA</a> )

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- ▶ Deal with a Collections Agency (<https://www.magnifymoney.com/blog/consumer-watchdog/debt-in-collections/>)
- ▶ Credit Monitoring & Identity Theft Guide (<https://www.magnifymoney.com/blog/identity-theft-protection/guide-credit-monitoring-and-identity-theft-protection886376409/>)
- ▶ Guide to Eliminate Credit Card Debt (<https://magnifymoney.com/blog/balance-transfer/the-fastest-way-to-pay-off-10000-in-credit-card-debt/>)
- ▶ Compare Personal Loans (<https://www.magnifymoney.com/compare/personal-loans/>)
- ▶ Compare Debt Consolidation Loans (<https://www.magnifymoney.com/compare/debt-consolidation-loans/>)

Recommended by  **comparecards**  
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### This Cash Back Number May Surprise You

(<https://www.magnifymoney.com/redirect/?www.comparecards.com&MjgyMA&Qk9Q&YmxvZw&Yl8xMzA0MzE>)



### Best Travel Credit Cards With No Annual Fee

(<https://www.magnifymoney.com/redirect/?www.comparecards.com&MjgyMg&Qk9Q&YmxvZw&Yl8xMzA0MzE>)



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### Credit Cards Charging 0% Interest until 2021

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# Review of Iconiq Capital

Friday, April 10, 2020

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(<https://www.magnifymoney.com/blog/author/miranda/>) Miranda Marquit

(<https://www.magnifymoney.com/blog/author/miranda/>) Iconiq Capital, LLC is an investment advisory firm based in San Francisco that focuses on providing services mainly to high net worth individuals and organizations. The private capital firm, which has about 260 employees on staff, offers boutique services that focus on venture capital, technology growth, real estate and market buyouts. It currently has \$42.5 billion in assets under management (AUM).

*All information included in this profile is accurate as of April 10, 2020. For more information, please consult Iconic Capital's website.*

**Assets under management:** \$42,457,958,000

**Minimum investment:** \$10,000

**Fee structure:** Either a flat fee or a percentage of AUM, up to 1.50%, for advisory services; performance-based fees

**Headquarters:** 394 Pacific Avenue  
2nd Floor  
San Francisco, CA 94111  
<https://iconiqcapital.com> (<https://iconiqcapital.com/>)/  
(415) 967-7763

**In this review, we'll cover:**

**Do you have a question?**

## Overview of Iconiq Capital

What types of clients does Iconiq Capital serve?

Services offered by Iconiq Capital

How Iconiq Capital invests your money

Fees Iconiq Capital charges for its services

Iconiq Capital's highlights

Iconiq Capital's downsides

Iconiq Capital disciplinary disclosures

Iconiq Capital onboarding process

Is Iconiq Capital right for you?

## Overview of Iconiq Capital

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Iconiq Capital is privately held and has a number of affiliates and fund families associated with it. Founded in 2011, Iconiq Capital is known for working with influential families and organizations around the world, including Facebook mogul Mark Zuckerberg.

Currently, the firm employs about 260 people, about 98 of whom perform investment advisory functions. In addition to its headquarters in San Francisco, Iconiq also has offices in the U.S. in New York City and Palo Alto, Calif., as well as in Singapore.

## Which types of clients does Iconiq Capital serve?

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Iconiq Capital almost exclusively works with high net worth individuals and organizations. It is capable of serving the following client types:

- High net worth individuals
- Family offices
- Trusts
- Estates
- Charities
- Corporations
- Private pooled investment vehicles

**Do you have a question?**

In general, the firm's clients have a net worth of at least \$25 million, although there are some who are below that threshold. To invest in a private fund, clients must invest at least \$10,000 and be an accredited investor, defined by the Securities and Exchange Commission as someone with an earned income of at least \$200,000 (or \$300,000 with a spouse) per year for the last two years or who has a net worth of at least \$1 million.

## Services offered by Iconiq Capital

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As a boutique firm with exclusive clientele, the services offered by Iconiq Capital are tailored to meet the needs of these clients. Many of the services offered by Iconiq Capital are designed to help individuals manage their wealth more effectively and take advantage of various opportunities that might not be available to the general public.

Some of the services offered by Iconiq Capital include:

- Investment policy development, including establishing parameters and restrictions
- Asset allocation (<https://www.magnifymoney.com/blog/investing/asset-allocation/>) advice
- Performance evaluation of accounts and portfolios
- Selection of portfolio managers, Iconiq private funds and external funds
- Asset management
- Tailored investment advice

In addition to these services, Iconiq Capital also serves as the sole investment advisor to the Iconiq Private Funds, which certain qualified investors are allowed to invest in.

## How Iconiq Capital invests your money

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Iconiq Capital mostly provides non-discretionary services, meaning that, for the most part, clients have to approve trades and portfolio changes. However, there is also the option to allow Iconiq to trade at its discretion or to set up an agreement that includes limited discretion.

When analyzing your accounts and portfolios to make recommendations and changes, Iconiq might use a variety of methods, including using charts, as well as fundamental, technical and cyclical analysis. All of these types of analysis take into account different aspects of stocks, such as company management, prices and trends.

**Do you have a question?**

On top of that, common investment strategies include making long- and short-term securities purchases, trading and making margin transactions. Iconiq is also involved in writing options (<https://www.magnifymoney.com/blog/investing/options-trading-strategies/>), including potentially risky strategies like uncovered options.

When building client portfolios, Iconiq focuses more on overall asset allocation — or how your portfolio is divided up between different types of investments — rather than on individual securities. While Iconiq doesn't have preset portfolio strategies to choose from, it does offer a number of private investment funds of its own making, as well as access to various opportunities that might be considered nontraditional. These include technology growth equity, venture capital and middle-market buyout, as well as real estate.

## Fees Iconiq Capital charges for its services

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**Advisory services fees:** Iconiq Capital doesn't have a set fee schedule for its advisory services (<https://www.magnifymoney.com/blog/investing/financial-advisor-cost/>). Some clients pay flat fees for certain services, which are negotiated on a client-by-client basis. In general, though, advisory clients can expect to pay an annual fee based on a percentage of assets under management. This fee is also negotiated on an individual client basis, though it is capped at 1.50% of assets under management.

**Other fees:** Clients may also pay other fees (<https://www.magnifymoney.com/blog/investing/investment-fees/>), such as portfolio management fees and non-advisory service fees. In order to see your total investing costs, it's important to read through the agreement.

**Performance-based fees:** Additionally, the firm may charge performance-based fees, depending on the type of affiliate used, especially if a certain private fund family is used. These fees include an additional "carry." For example, when an investment series under the ICQ Investments family is distributed, a manager might receive up to a 20% carry in addition to the on-going management fee. However, this only comes into play when the investment in private equity or a hedge fund is paid out.

For those investing in ICONIQ Strategic Partners, though, the annual management fee might be up to 2%, and the carry up to 30% for profit distribution. It's an arrangement that is related to the type of private equity investments that you'd get access to through Iconiq Capital.

**Do you have a question?**

**Bundling of fees:** There is no wrap fee program offered by Iconiq Capital. However, some of the portfolio managers affiliated with the company might choose to participate in a wrap fee program, and some services might be bundled.

## Iconiq Capital's highlights

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- **Personal attention:** Because this is a boutique firm, you'll get personal attention with your investments. A portfolio manager will talk to you about specific goals and create an investing plan designed to meet your needs.
- **Access to private equity:** If you're interested in private equity, or other exclusive investments, Iconiq Capital can help out. You can get access to specially made hedge funds, startups and other investments that are unique and not commonly offered.
- **No disciplinary disclosures:** Even though the firm deals with complex investments, it doesn't have any disciplinary disclosures that it's required to report in its SEC filing. See more on this below.

## Iconiq Capital's downsides

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- **Steep requirements to access Iconiq's funds:** You need to invest at least \$10,000 and be an accredited investor to access one of Iconiq's funds. This requires a certain level of sophistication as an investor.
- **Preference for high net worth investors:** Iconiq Capital's clients usually have a net worth of at least \$25 million and many are highly influential families and organizations. This means Iconiq Capital likely won't be a suitable choice for most investors.
- **Performance-based fees:** Iconiq Capital charges performance-based fees, which can drive up the cost of investing. On top of that, in the interest of trying to boost income, some managers might take additional risks.

**Iconiq Capital disciplinary disclosures** Do you have a question?

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Because Iconiq is registered with the SEC, it is required to disclose material facts about legal action and disciplinary events against the firm and its affiliates in its Form ADV (<https://www.magnifymoney.com/blog/investing/form-adv-financial-advisor/>), paperwork filed with the SEC. At this time, Iconiq Capital has no disclosable disciplinary actions to report.

## Iconiq Capital onboarding process

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To start working with Iconiq Capital, you need to contact the firm using the email address provided on its website. Iconiq Capital usually leans toward those with a high net worth.

The firm will then analyze your portfolio and goals to help you come up with an investment policy for your accounts, as well as decisions regarding which types of investments you want to make. After your account is established, it will be reviewed periodically, based on the nature of your portfolio and your own preferences. Additionally, when major economic or market events are in process, an additional review might be instigated.

## Is Iconiq Capital right for you?

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For the most part, unless you have a net worth of \$25 million, Iconiq Capital is unlikely to work for you. To access the firm's funds, you must invest at least \$10,000 and be an accredited investor. Its services are also largely geared toward the wealthy.

If you fall within this investor group, however, Iconiq Capital focuses heavily on private equity investments and also includes real estate opportunities and leveraged buyouts. These are unique offerings that you might not have access to in the general run of investing.

Before making a decision, though, it's important to do your research, ask advisors questions (<https://www.magnifymoney.com/blog/investing/questions-to-ask-a-financial-advisor/>) and compare your options to ensure you find the right advisor for you.

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 management fee

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 management fee

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 management fee

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 management fee

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- ▶ Best Auto Loans (<https://www.magnifymoney.com/blog/reviews/6-best-auto-loans-buying-used-car114605026/>)
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**Do you have a question?**



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## How Does Futures Trading Work?

Friday, April 10, 2020

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(<https://www.magnifymoney.com/blog/author/davidrodeck/>) David Rodeck

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Futures trading is a fast-paced market where investors, speculators and companies agree to buy and sell assets at some point in the future. The profit potential is high but so are the risks — especially if you don't know what you're doing.

**Do you have a question?**

If you've ever wondered "how do futures work" and whether they are a good fit for your portfolio, this guide covers the fundamentals along with how you can get started.

## What is a futures contract?

### How does trading futures work?

### Types of futures contracts

### Should I trade futures?

### How to trade futures

## What is a futures contract?

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A futures contract is an agreement between two parties: a buyer and a seller. The contract lays out that, at a set deadline in the future, the buyer will purchase some type of asset (<https://www.magnifymoney.com/blog/investing/asset-classes/>) at an agreed-upon price and the seller agrees to sell.

Let's say an airline is worried about the price of oil going up. They could enter into a futures contract with an oil company that agrees to sell them 10,000 barrels in May at \$55 each. This way the airline doesn't have to worry about prices going up and the oil company doesn't have to worry about prices going down.

While futures contracts can involve the actual delivery of a physical good, like in the example above, they don't have to. Instead, investors can buy and sell contracts without ever handling the underlying asset. For example, two investors could enter a futures contract for oil in which one investor agrees to buy 1,000 barrels at \$55 and the other investor agrees to sell.

Before the contract matures, each investor can get out of their position by buying another contract that offsets their original purchase, so the buyer will then purchase a contract to sell 1,000 barrels and the seller will buy a contract to buy oil. This cancels out their positions so they never have to transfer any oil.

In this futures contract, the buyer makes money when the market price ends up above \$55; if it goes below \$55, the seller makes money. If the buyer decides to close their position when oil is at \$58, they would make a \$3,000 profit ( $\$58 - \$55 \times 1,000$  barrels). The seller, on the other hand, would lose this amount.

## How does trading futures work?

**Do you have a question?**

There are many different futures markets in the United States and around the world. They differ based on the types of assets listed on each exchange, when they are open and the amount of activity. Some of the major U.S. futures exchanges include the Chicago Mercantile Exchange, the Minneapolis Grain Exchange and the Nasdaq Futures, Inc. Globally, you can find futures markets in most large financial hubs like the Tokyo Financial Exchange in Japan or the European Energy Exchange in Germany.

In the past, traders physically went to these markets to buy and sell futures contracts. Some still do and make trades in a verbal auction. But now, you can access most of these markets electronically, from anywhere in the world.

Like with other investments, you can only buy or sell a futures contract when the market you trade on is open. That being said, futures contracts give you more flexibility to trade outside of normal business hours because you aren't restricted to the U.S. futures market. This means you can make these buy or sell transactions anytime a futures market is open somewhere in the world. During the workweek, you can trade 24/7 because when you look around the globe, at least one market should be open at any point.

## Futures trading strategies: Hedging vs. speculation

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Investors use futures contracts for two common strategies: hedging and speculating. With hedging, an investor is trying to protect themselves from a price change. It's like buying insurance. For example, the airline mentioned above was using a futures contract to hedge against losses from the price of oil going up.

In a hedging strategy, the investor usually takes two opposite positions to limit their potential losses. For example, an investor owns stock in a company but is worried about the price falling over the next few weeks. They could sell a futures contract on the same stock. If the investor was wrong and the price goes up, they miss out on that profit but if the price does drop, they protect their portfolio against a large loss.

With speculating, an investor aims to profit off of price changes. They try to predict the future price of an asset and then enter in a position that would make money off the change. So, if they think the price of oil will rise, they might buy a futures contract. The speculator usually just bets on one direction, either the price going up or down, so they can make a larger profit. In exchange, the risk is higher because they'll lose more for being wrong.

## Margin and leverage with futures trading

**Do you have a question?**

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Margin is another key part of futures trading. Let's say you enter a futures contract to buy 10,000 bushels of corn at \$3.70 in June. In theory, that's a \$37,000 deal. But if you're going to offset that contract before it expires, your loss or gain will be a fraction of the amount.

As a result, the investment broker will only require you to put down a fraction of your trade at first, like \$2,000. This is called the initial margin. They will also set a minimum account value to keep the contract active.

If the price of corn starts to go down, making it more likely you will lose money in the future, the value of your futures position will also go down. Once you go past the minimum value, the exchange will give you a margin call, asking you to deposit more money to make up the difference. If you don't, they could reduce your investment or even close out your entire position at that time.

Since you don't need to put down the entire value of a contract, you can use leverage for your trades, meaning you can make larger investments on a small deposit. If an exchange gives you 10x leverage, a \$1 price gain actually earns you \$10. However, the risk is higher because small losses become much larger.

## Futures trading and liquidity

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When you enter into a futures trading contract, you don't have to stay until the very end of the agreement. You can exit your position by trading with another investor. In other words, futures contracts are a liquid asset (<https://www.magnifymoney.com/blog/banking/what-are-liquid-assets/>) because you can turn your current investment into cash.

That being said, some futures markets are more liquid than others, depending on demand for the asset. In addition, you aren't guaranteed to get all of your money back, especially if the market is going against your position.

## Types of futures contracts

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With the basics in mind, let's look at a few of the most common types of futures.

### Commodity futures

Commodities were the first type of futures contracts, and they deal with physical goods. Farmers originally used commodity futures to get price guarantees for selling their goods, but now they are also available as an investment.

**Do you have a question?**

There are all kinds of commodity futures including:

- Grains (corn, soybean, rice)
- Softs (coffee, orange juice, sugar)
- Livestock (cattle, pork belly, lean hog)
- Energy (oil, coal, propane, electricity)
- Metals (gold, silver, copper, platinum)

## OG/) **Equity futures**

You can also set up a futures contract based on shares of a certain stock (equity). The stock futures contract will lay out how many shares you'd buy or sell in the future, the contract closing date and the agreed-upon price.

This is similar to an options contract

(<https://www.magnifymoney.com/blog/investing/options-trading-2/>), where the investor buying the contract has the choice to buy a stock at a certain price from the seller of the option. But one key difference is that the futures stock contract locks in an agreement on both sides: The buyer must buy at the contract end date, either from the seller or by purchasing an offsetting equity futures contract.

## **Bond futures**

With bond futures, you're agreeing to buy or sell a certain bond by the contract end date, such as bonds issued by a government or by a company.

## **Index futures**

Rather than setting up a contract on one stock or bond, you can use index futures to make investments based on an entire market. S&P futures set an agreement using index funds that track the S&P 500 (<https://www.magnifymoney.com/blog/investing/what-is-an-index-fund/>), while DJIA futures (also known as Dow futures) use funds that track the Dow Jones Industrial Average.

In these contracts, you pick which index fund you'd trade, the number of fund shares you'd buy or sell, the future price and the contract end date.

## **Currency futures**

**Do you have a question?**

Currency futures are one more major market. With currency futures, you can lock in future agreements on a currency exchange rate. For example, let's say a Euro is currently exchanging at \$1.118 USD. Someone might buy a contract to purchase Euros at \$1.125 for May.

Not only is this useful for investing, but it can also help companies lock in terms for an upcoming international deal.

## Should I trade futures?

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If the idea of trading futures has caught your attention, it's first important to determine whether you really are a good fit for this type of investment.

### Why to trade futures

Some of the reasons to consider trading futures include:

- 👍 **Access to commodities, currencies, metals and other assets:** Futures contracts let you invest directly in the value of these assets. For example, you can buy a contract on the price of copper rather than just investing in the stock of a company that mines copper.
- 👍 **Ability to make trading decisions constantly, not just during business hours:** Unlike U.S. stock markets, where trading primarily takes place during business hours, you can trade futures any time an exchange is open, which is 24/7 during the workweek.
- 👍 **Easy to take sell positions:** Futures contracts are a convenient way to bet that the price of an asset will drop.
- 👍 **Large potential gains from leverage:** With leverage, you can turn small price changes into much larger gains.

### Why to avoid futures

Trading futures is not for everyone though. Some reasons to be cautious about entering this market include:

- 👎 **Margin calls require cash:** Price swings are common in the commodities market. Even if your long-term prediction is accurate, prices might go against you in the short-term, which means you'd need to deposit more money for a margin call or you'd have to close out your position.
- 👎 **Leverage can lead to large losses:** Leverage is great when your investments work but can be a disaster if you bet wrong.

**Do you have a question?**

- 🗨️ **A lot of research required:** If you're going to invest in futures contracts, especially using leverage, make sure that you know what you're doing. You're competing against lots of tough investors, including Wall Street pros.
- 🗨️ **May involve active trading:** The downside of a near 24/7 market is that it means keeping up with information from around the world.

## How to trade futures

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If you decide that futures trading is a good fit for your portfolio, here's how to get started:

### 1. Choose a futures trading platform

First, you need to find a broker to start making trades. Many discount brokers (<https://www.magnifymoney.com/blog/investing/best-discount-brokers/>) offer futures trading — including the larger full-service brokers — but more specialized futures brokers also are available.

Brokers will have different rules for the minimum amount you need to open an account, the margin you'd need to put up for a trade, fees involved and the support offered to investors. Be sure to check each of these factors carefully as you decide where to open an account.

### 2. Develop a futures trading strategy

Before you start putting money into futures contracts, you need to develop your investment strategy (<https://www.magnifymoney.com/blog/investing/futures-trading-strategy/>). A key part of making successful trades is predicting the future value of the underlying assets. To do so, traders often use two main underlying strategies: fundamental and technical analysis.

Fundamental analysis looks at the broad economic and global factors to try and find pricing inefficiencies in the market. For example, this could be predicting a glut in oil production that will cause future prices to fall. Technical analysis looks at trading and pricing patterns — not the economic data — to find trends.

When you sign up for an online broker, they may also offer market research, trade ideas and other support tools for trading futures. There are also online courses, videos and books that can give you a more in-depth analysis of possible futures trading strategies. Finally, you could contact a financial advisor (<https://www.magnifymoney.com/blog/investing/financial-advisor/>) to see what they would recommend for your portfolio. With the help of these resources, you can develop a profitable futures trading strategy and get started.

**Do you have a question?**



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