This assignment is practice making daily decisions trading contracts and analyzing market developments on a daily basis. Simply act as a speculator for this assignment.

As a warm up, trade a commodity for as close to a full year as possible. Then, do it again, trying to make as much money as possible. Turn in your printouts and write a paragraph or two on what you learned and what you would do differently next time.

To trade:
Go to Heady Hall room 68 and use the computers in that lab (Currently only two PCs on the front row, left side have HedgeSim 3.0. If you need to log in, use the computer label above the screen as the password. Read the first screen. This tells you what the program does. Hit continue. Begin by clicking Start in the bottom left corner, then select Programs, Applications-Main, Hedgesim 3.0, Hedgesim 3.0.

Login:
The next step is to login to the program. HedgeSim 3.0 will prompt the player for his or her first name, middle initial, and last name. This information will show up on the printout.
After logging into the program, HedgeSim 3.0 will ask you whether you want to be a grain or livestock producer. Choose one.
After this selection, HedgeSim 3.0 will then present you with a scenario. The scenario will describe what type of enterprise you will be involved with, the current date, and the expected date that you will market your inventory. The specific commodity and year that you will be working with are selected randomly (unless designated...see section 3.2) In addition, HedgeSim 3.0 provides you with two months of past price data and the opportunity to view historical data that can be used to help make marketing decisions.
Hint: Make sure you remember this information, especially the expected marketing date, since HedgeSim 3.0 does not allow you to return to this window.
The main window will provide you with all the information and menus to proceed through the simulation.

GETTING AROUND IN HEDGESIM 3.0

Main Window
The main window displays the bar-charts (open, high, low, and close) of the nearby futures contract. The cash price is illustrated with a solid red line. Below, volume and open interest are graphically shown by the blue bars and purple line respectively.
The top right-hand corner of this window details the information shown in the graphs. Listed are the current date, the open, high, low, and close for the day, and the current cash price. Volume and open interest are also listed. You can click on to a different contract month by moving the mouse to where the current contract is listed and clicking on the desired month. The respective information will then be displayed for that contract.
The bottom right-hand corner of the screen displays all the functions you will need to proceed through the simulation. There are seven squares marked NEXT DAY, BANK, STATUS, TRADE, LOG, MARKET, and EXIT. Each one of these functions will be explained in the next section. To move through the simulation, just click on the function marked NEXT DAY. Keep clicking on NEXT DAY to proceed through the simulation. All information is updated each new
day. You may trade in the futures and/or options markets at any time. All trades are marked-to-market and this information is reflected under STATUS, LOG, and BANK. You may want to check your STATUS, LOG, and BANK often to monitor your performance. While working through the simulation, HedgeSim 3.0 may give you messages that will help guide you. Throughout the simulation, HedgeSim 3.0 will prompt you concerning the release of U.S.D.A. reports. These reports may prove useful when making your marketing and pricing decisions. To view the reports go to the main menu bar and click on REPORTS. You will then have a choice of viewing reports for either GRAIN or LIVESTOCK depending on what commodity you are in. Five year historical production and average prices for the respective commodities can be viewed at any time during the simulation under the heading HISTORICAL. Note, if you are in a grain simulation and click on livestock reports, HedgeSim 3.0 will tell you that you are not producing livestock. Grain STOCKS are reported for corn, soybeans, and wheat. Crop PRODUCTION estimates are reported for both corn and soybeans. For livestock, both the Quarterly Cattle on Feed report and the Quarterly Hogs and Pigs report are given under the category of PRODUCTION. All stock and production reports are made available on the actual day that the report was issued.

All of the above functions may be initiated from the top bar labeled File, Login, Actions, Reports, and Help.

HEDGESIM 3.0 FUNCTIONS

Next Day

This is the function that will guide you through the simulation. Each time you click on NEXT DAY, the information shown in the graphs and the numbers in the data section will change to reflect the new day. You may also move back to previous days by clicking the left arrow symbol. You may also move forward with the right arrow symbol, but HedgeSim 3.0 will not let you look into the future. At any time during the simulation, you may trade the respective futures and/or options markets. As you approach your projected marketing date, HedgeSim 3.0 will tell you when you are able to market your inventory. You may market the cash commodity any time after this message, however, you do not have to sell your inventory immediately (see MARKET). HedgeSim 3.0 will also tell you if it is a holiday. No trading or marketing activity may be executed on a holiday.

Bank

After clicking on BANK, a window will appear that shows all of the financial information relevant to your trading account. You may do banking at any time during the simulation. There may be times throughout the simulation when the computer will ask you to do some banking (i.e., if you get a margin call and don't have enough money in your margin account to cover it). If this happens, just follow HedgeSim 3.0's on screen instructions.

General Account:

You start with $20,000 in your general account. This is cash that can be used to post margin for your trading activities. Don't blow it all in one trade! While this money is in the general account, it compounds interest (rates similar to the actual time period of the simulation).

Margin Account:
This is the account that you have with a brokerage firm. Your margin account is \(\$0\) when the simulation begins. To place money in the margin account, click on **DEPOSIT IN MARGIN**. HedgeSim 3.0 will then ask you how much you would like to place in the account. All margins for futures positions, option premiums, and brokerage fees will be drawn from the margin account. All gains and/or losses from futures or options transactions will be credited or debited to the margin account accordingly. Money in the margin account does not draw interest. You may transfer money between the margin account and the general account.

**Margin Committed:**

Margin committed shows the amount of margin posted for a particular trade. For instance, if you buy a December futures contract, the computer will tell you how much margin you must commit. You must have at least that amount of money in your margin account.

**Loan Balance, Loan Limit, & Available Credit:**

You are allowed to borrow up to $25,000. This provides you with extra cash for trading activities. To take out a loan, click on the box **TAKE OUT LOAN**. HedgeSim 3.0 will then ask you for the amount that you would like to borrow. The amount borrowed will show up under Loan Balance. Interest is applied to the Loan Balance. You can pay off the loan or any portion of it at any time during the simulation by clicking on **PAY OFF LOAN**. The money will be taken from your general account to pay off the loan.

**Status**

Status shows your overall financial status and gives you a summary of your expected and actual situation before and after marketing decisions. There are several important pieces of information under status. The status may be checked at any time during the simulation.

**Product amount:**

Shows the amount of cash commodity that is predicted to be harvested or raised for a particular marketing season (bushels for grains and hundred weight for livestock).

**Cash Value:**

Expected- Shows the predicted price per unit based on the corresponding futures price. It also provides a predicted total revenue figure which is based on the production amount and expected price (futures price).

Sold- When you decide to sell the cash commodity, the actual cash price (the cash price the day you sell) will be shown along with a corresponding total revenue figure.

Effective Cash Price- This shows the per unit cash price taking into account any gains and or losses from futures or options transactions and provides a corresponding total revenue figure.

**Futures Gains & Losses:**

Realized- shows all gains and losses from futures transactions after positions have been closed (including brokerage fees).
Unrealized- shows all gains and losses from futures transactions for that date (marked-to-market).

Options Gains and Losses:

Realized- Shows all gains and losses from options transactions after positions have been liquidated (includes option premium and brokerage fees).

Unrealized- Shows all gains and losses from options transactions for that date (marked-to-market).

At the bottom of this window is a small income statement that shows the effective price, expected expenses, net profit, and rate of return (net profit per unit/expenses per unit). Any profit and or losses will be credited and/or debited to your general account under BANK only after an open position is closed and/or inventory is sold in the cash market.

Trade

This is where all of the trading action will take place. This window basically acts as your broker. With the mouse, designate a buy or sell, the instrument that you want to trade (either futures, call options, or put options), and the corresponding contract month. If you execute an options trade, HedgeSim 3.0 will allow you to pick from various strike prices and corresponding premiums associated with the options. If you execute a trade and you don't have enough money in your margin account to cover the transaction, HedgeSim 3.0 will ask you to do some banking. HedgeSim 3.0 will allow you to do your banking transactions at this stage without leaving the TRADE function. Note, you will be charged a thirty dollar commission charge for each time you enter and exit the market for both futures and options contracts. Therefore, the total round-turn commission charge is sixty dollars. HedgeSim 3.0 will not allow one to open a new options position on or around the first day of delivery of a contract month which is typically the first day of the contract month.

Log

This keeps track of all of your trading activities. It is basically just a record of all of the transactions made (both futures and options). You may also execute some trading functions at this window. If you want to liquidate a futures or options contract, highlight the contract you want to liquidate and then click on LIQUIDATE and the computer will do the rest. You may also EXERCISE an options contract in the same manner. These same procedures may also be executed in the TRADE function, provided you have enough margin (see ** above).
Market
To market the cash commodity, click on MARKET. You may only market the cash commodity once the computer signals that your inventory is ready to be sold. If you try to market before the marketing date, the computer will tell you that you can't market your inventory yet. You may only market your inventory after the computer prompts you.
For Cattle and Hogs, you will have one week after the time the computer gives the market signal to market the inventory. After one week, HedgeSim 3.0 will automatically market the inventory and liquidate all open futures and options positions. At this time you may view and the results of your hedging exercise in the STATUS, LOG and BANK. Upon exiting HedgeSim 3.0, you may also take a printout of the simulation results.

Exit

Once you have completed trading for a year, close out your position. If you sold you need to buy, if you have bought you need to sell. Print out your financial summary. Exit the program. Write your report.