CMFAS Module 6A – Securities & Futures Product Knowledge

Summary of Updates

(February 2012 – Version 1.3)

The key updates / amendments made to the Study Guide for CMFAS Module 6A – Securities & Futures Product Knowledge (1st edition - November 2011) are summarized as follows:

**Updates / amendments are indicated in italics*

<table>
<tr><th>Chapter</th><th>Page No.</th><th>Update / Amendment</th></tr>
<tr><td>Chapter 4 – Technical and Statistical Analysis, 4.7.1 - Moving Average</td><td>Pg30-31</td><td>
3. The exponential moving average

Calculation for 5-day exponential moving average:-

<table>
<tr><td>A
Date</td><td>B
Price</td><td>C
Previous EMA</td><td>D
Exponent</td><td>E
B x D</td><td>F
1 – D</td><td>G
C x F</td><td>H
E + G</td></tr>
<tr><td>1-Mar</td><td>99.8</td><td></td><td>0.2</td><td></td><td>0.8</td><td></td><td>97.6</td></tr>
<tr><td>2-Mar</td><td>101.1</td><td>97.6</td><td>0.2</td><td>20.22</td><td>0.8</td><td>78.08</td><td>98.3</td></tr>
<tr><td>3-Mar</td><td>101.8</td><td>98.3</td><td>0.2</td><td>20.36</td><td>0.8</td><td>78.64</td><td>99</td></tr>
<tr><td>4-Mar</td><td>102.5</td><td>99.0</td><td>0.2</td><td>20.5</td><td>0.8</td><td>79.2</td><td>99.7</td></tr>
<tr><td>5-Mar</td><td>100.4</td><td>99.7</td><td>0.2</td><td>20.08</td><td>0.8</td><td>79.76</td><td>99.8</td></tr>
<tr><td>8-Mar</td><td>102.1</td><td>99.8</td><td>0.2</td><td>20.42</td><td>0.8</td><td>79.84</td><td>100.3</td></tr>
<tr><td>9-Mar</td><td>100.2</td><td>100.3</td><td>0.2</td><td>20.04</td><td>0.8</td><td>80.24</td><td>100.3</td></tr>
<tr><td>10-Mar</td><td>98.8</td><td>100.3</td><td>0.2</td><td>19.76</td><td>0.8</td><td>80.24</td><td>100</td></tr>
<tr><td>11-Mar</td><td>99.5</td><td>100.0</td><td>0.2</td><td>19.9</td><td>0.8</td><td>80</td><td>99.9</td></tr>
</table>

~~Note: exponent = 2 / period = 2/5 = 0.2~~

~~The exponent for various periods can be calculated using 2/period and hence the longer the period the less sensitive it becomes.~~

With the Exponential Moving Average (EMA), the weighting is such that the recent days' prices are given more weight than older prices. The theory behind this is that more recent prices are considered to be more important than older prices.

Exponent = 2 / (Period + 1)

Today's Exponential Moving Average
= (Current day's closing price x Exponent) + (Previous day's EMA x (1-Exponent))

Example - To calculate a 9-day EMA:-
</td></tr>
</table>

Chapter	Page No.	Update / Amendment
		Exponent = 2/ (9+1) = 0.2
Chapter 6 – Strategies for Futures Markets, 6.2.3 - Spread Trades	Example 3: Condor Spread, Pg60-61	This is a combination of 2 spreads, namely a bull spread and a bear spread, with no common middle contract. Eurodollar futures prices:- Mar 97.00 Jun 97.20 Sep 97.80 Dec 98.00 ~~Day 1 buy 10 TBM @ 99.58~~ ~~Day 3 sell 10 TBM @ 99.50~~ ~~(0.08)~~ ~~Gain = $25 x 10 x 13 = $3,250~~ ~~Buy/Long~~ ~~Sell/Short~~ ~~+ 5 Mar @ 97.00~~ ~~- 5 Mar @ 97.00~~ ~~-5 Jun @ 97.20~~ ~~+ 5 Jun @ 97.20~~ ~~- 5 Sep @ 97.80~~ ~~+ 5 Sep @ 97.80~~ ~~+ 5 Dec @ 98.00~~ ~~- 5 Dec @ 98.00~~ *Buy / Long Spread Day 1* *Day 3* *Net* + 5 Mar @ *97.00* *- 5 Mar @ 96.95* *(0.05)* -5 Jun @ *97.20* *+ 5 Jun @ 97.00* *0.20* *Sell / Short Spread Day 1* *Day 3* *Net* - 5 Sep @ *97.80* *+ 5 Sep @ 97.60* *0.20* + 5 Dec @ *98.00* *- 5 Dec @ 97.90* *(0.10)* *Gain = $25 x 5 x [(0.20 + 0.20 – 0.05 – 0.10) x 100] (tics) = $3,125*
	Example 4: TED Spread, Pg61	This is a spread between T-bill futures and Eurodollar futures and is normally bought during flight-to-quality. It can also serve as an indicator of stock market sentiment. ~~Jun T-bill futures @ 94.58~~ ~~Jun ED futures @ 93.73~~ ~~TED spread @ 85 basis points~~ ~~sell 10 EDM @ 93.73~~ ~~buy 10 EDM @ 93.52~~ ~~0.21~~ *Day 1 Buy 10 TBM @ 99.58 and Sell 10 EDM @ 98.73* *Day 3 Sell 10 TBM @ 99.50 and Buy 10 EDM @ 98.52*

Chapter	Page No.	Update / Amendment
		TBM 99.58 – 99.50 = (0.08) *EDM 98.73 – 98.52 = 0.21* *Gain = $25 x 10 (contracts) x 13 (tics) = $3,250*
Chapter 13 – Structured Funds and Structured ETFs, 13.2.7 – After Sales	Pg193, 4th para, 9th line	The open-ended feature of ETFs ensures that premium***s***/discounts in the secondary market ~~to the~~ can be corrected through the activities of market participants who are able to subscribe for or redeem ETF shares in the primary market.
Review Questions III – Structured Products (Structured Notes), Question 5	Pg 292-293	5. Which structured note/s ***would typically*** be structured with ***a*** principal preservation feature? a. Bond with call option; b. Range Accrual Note; c. Inverse Floater Note; d. ***Exchange-Traded Note*** ~~All of the above~~. (Answer – A (See pg303))