

CBOT[®] Dow JonesSM Complex

An Introduction

Introduction

Futures and futures options on the Dow Jones Industrial AverageSM began trading at the Chicago Board of Trade in 1997. Since their introduction, CBOT[®] DJIASM contracts have experienced one of the most impressive trading records of any new contract. Volume and open interest records are continually broken—an indication of a contract's strength and liquidity.



New Trading Opportunities for Investors

CBOT[®] Dow Jones AverageSM Futures

Two leaders within the financial industry, the Chicago Board of Trade and Dow JonesSM, have teamed up to bring you the latest within the derivative market sector—

CBOT[®] Dow Jones Industrial AverageSM futures and futures options

CBOT[®] Dow Jones Transportation AverageSM futures

CBOT[®] Dow Jones Utility AverageSM futures

CBOT[®] Dow Jones Composite AverageSM futures

These contracts provide investors a way to:

- *Profit by taking a position based on the performance of the Dow Jones AveragesSM*
- *Participate in the broad market using CBOT[®] Dow Jones Composite AverageSM futures as an inexpensive alternative to stock ownership*
- *Protect your portfolio against adverse changes in the stock market, allowing you to preserve investment value*
- *Participate in arbitrage opportunities among the different Dow Jones AveragesSM at substantially lower margin requirements*
- *Diversify your portfolio*

The Indexes

Dow Jones Industrial AverageSM (DJIASM)— The Barometer of the U.S. Stock Market

The Dow Jones Industrial AverageSM is the world's most recognized and followed stock index. It represents a portfolio of 30 large capitalization, “blue chip” stocks including General Electric, IBM, and Home Depot—all traded on the New York Stock Exchange—as well as Microsoft and Intel traded on the NASDAQ. These 30 stocks have a total market value of more than \$3 trillion and represent roughly one fifth of the market value of all U.S. stocks.

The DJIASM is the most widely quoted stock index as worldwide newspaper, television, radio, and electronic media reports continuously update the index during the business day. This continuous information flow makes the DJIASM the easiest stock index to track in the world.

Dow Jones Transportation AverageSM (DJTASM)— The Oldest Dow JonesSM Stock Index

The Dow Jones Transportation AverageSM (DJTASM), the first Dow JonesSM stock index created in 1884 by Charles Dow, is composed of 20 transportation issues. The mix includes airline, railway, trucking, and package shipping companies.

Originally, the DJTASM was composed of nine railroads including the New York Central and the Union Pacific (the only remaining original stock in today's index). Over the years, other transportation-related companies such as Delta Air Lines, Federal Express, and Ryder have joined the average. In 1970 the railroad average was renamed the transportation average.

Since earnings of companies included in the DJTASM have historically shown an inverse relationship to energy costs, CBOT[®] DJTASM futures offer you another tool for taking advantage of fluctuations in these costs.

How CBOT® Dow Jones AverageSM Contracts Work

Dow Jones Utility AverageSM (DJUASM)— Responsive to Interest Rate Movement

The Dow Jones Utility AverageSM (DJUASM), which debuted in January 1929, is a price-weighted average of 15 utility stocks. Included among the average's stocks are Consolidated Edison, Duke Energy, Consolidated Natural Gas, and Enron.

Many studies show there is an inverse relationship between utility stock prices and interest rates. This relationship provides investors another opportunity for using CBOT® DJUASM futures to participate in the market when interest rates are fluctuating.

Dow Jones Composite AverageSM (DJCASM)— A Combination of DJIASM, DJTASM, and DJUASM Stocks

The Dow Jones Composite AverageSM (DJCASM) consists of the 65 stocks that are in the Dow Jones Industrial (30), Transportation (20), and Utility (15) AveragesSM. Like the other three component averages, the Dow Jones Composite AverageSM is a price-weighted index.

Understanding a Futures Contract

With CBOT® Dow Jones AverageSM futures, investors can participate in a market move without having to buy all the stocks in a given index. Rather, you can simply decide which Dow Jones AverageSM is the relevant one and buy or sell futures. For example, if you believe the broad market will go up, you can buy CBOT® DJCASM futures. If, in fact, the market rises, you can sell the CBOT® DJCASM futures contract at a profit.

The value of a CBOT® Dow Jones Composite AverageSM futures equals the futures contract multiplier times the current index level. Suppose the Dow Jones Composite AverageSM is trading at 3,080. Since the CBOT® DJCASM futures has a contract multiplier of \$20, holding a CBOT® DJCASM futures contract at this level is equivalent to investing \$61,600 in a DJCASM portfolio.

In instances when you decide to let your futures contract expire, the settlement price is \$20 times the Special Opening Quotation of the index, as computed on settlement day. If the settlement price is higher than the price at which a futures contract was traded earlier, the buyer (long) of the futures contract will

have a net gain while the seller (short) of the futures contract will have a net loss.

Each CBOT® Dow Jones AverageSM contract has a different contract multiplier. (See trading unit information listed with the contract specifications on page 16.)

Understanding an Options Contract

Additional trading opportunities are available with CBOT® Dow Jones Industrial AverageSM futures options. Both put and call options are available to help you meet your objectives. When you buy an investment option, you have the right, but not the obligation, to assume a futures position at a predetermined price. Buying a put option gives you the right to go short CBOT® DJIASM futures, while buying a call allows you to go long CBOT® DJIASM futures. The price you pay for these rights is the option premium.

CBOT® DJIASM futures options offer a broad range of strike prices and delivery months. This allows you to match your market exposure or cost/benefit preferences with option positions. Different delivery months can be used to tailor the timing of your position.

Spreading Opportunities

The availability of futures on four Dow Jones AveragesSM provides investors with a new set of spreading opportunities. By buying and selling two related futures contracts, investors can profit from relative price changes between two contracts. Some of the more interesting Dow Jones AverageSM spreads are:

Composite, Utility, Industrial, and Transportation (CUIT) Spread

Investors wanting to establish a CUIT spread would buy (or sell) CBOT® Dow Jones Composite AverageSM futures and sell (or buy) CBOT® Dow Jones Utility AverageSM futures, CBOT® Dow Jones Industrial AverageSM futures, and CBOT® Dow Jones Transportation AverageSM futures. Since the composite average is a combination of the other three (utility, industrial, and transportation averages), investors putting on a CUIT spread expect to capitalize on differences in the ways the various averages respond to economic news.

Why Trade at the CBOT?

Dow Jones Industrial AverageSM vs.

Dow Jones Utility AverageSM

If you believe one market sector will outperform the other, you can trade a spread between CBOT® DJIASM futures and CBOT® DJUASM futures. For instance, if you expect industrial stocks to outperform utility stocks, you could buy CBOT® DJIASM futures and sell CBOT® DJUASM futures. If the market moves as you expect, industrials rising faster than utility stocks, you'll make a profit when you close out the futures positions—selling CBOT® DJIASM futures and buying CBOT® DJUASM futures.

Unparalleled Market Integrity

Counterparty risk is a major concern in today's marketplace. Trading at the CBOT is structured to protect all parties involved from such risk. The buyer and the seller each must put up a small percentage of the value of the contract as margin. A key feature of a futures contract is that payment in full is not due on the date of the transaction. Margin money is held in an account by the long's and the short's respective brokerage firms and serves as a performance bond, guaranteeing that each party will honor its commitment. So while futures do offer you the opportunity to enter into highly leveraged transactions, you can be certain that the CBOT's margin system prevents any losses due to nonperformance by a counterparty.

At the CBOT, the disbursement and collection of all margin funds is ultimately managed and monitored by the Board of Trade Clearing Corporation—an independent clearinghouse with an impeccable record for protecting market participants. The Board of Trade Clearing Corporation is rated as a triple-A credit risk by the Standard and Poor's Corporation and is the only futures clearinghouse in the world to achieve such a high rating. Moreover, the

Board of Trade Clearing Corporation has a \$100 million default insurance policy to guarantee the performance of the marketplace. With these safeguards, counterparty credit risk need not be an issue.

Superior Trading Environment

CBOT® Dow Jones AverageSM contracts trade on the Chicago Board of Trade's high-tech financial floor. The state-of-the-art electronic and communications systems support the best in open outcry pit trading, where a large pool of skilled professional traders can fill your orders efficiently. Furthermore, the stock index contracts trade adjacent to the exchange's highly liquid Treasury bond and note futures contracts which greatly facilitates spread trading between interest rates and equities on the same trading floor.

Market and Product
Development Department
141 W. Jackson Blvd.
Chicago, IL 60604-2994
312-341-7955
Fax: 312-341-3027

European Office
52-54 Gracechurch St.
London EC3V 0EH
United Kingdom
44-20-7929-0021
Fax: 44-20-7929-0558

Asia-Pacific Office
Level 67, MLC Centre
19-29 Martin Place
Sydney, NSW 2000
Australia
612-9238-2004
Fax: 612-9238-2140

Internet Web Site
www.cbot.com

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“Dow JonesSM,” “The DowSM,” “Dow Jones Industrial AverageSM,” “DJIASM,” “Dow Jones Transportation AverageSM,” “DJTASM,” “Dow Jones Utility AverageSM,” “DJUASM,” “Dow Jones Composite AverageSM,” and “DJCASM” are service marks of Dow Jones & Company, Inc. and have been licensed for use for certain purposes by the Board of Trade of the City of Chicago (CBOT). The CBOT's futures and futures options contracts based on Dow Jones AveragesSM are not sponsored, endorsed, sold, or promoted by Dow JonesSM, and Dow JonesSM makes no representation regarding the advisability of trading in such products.

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