Appendix THE ART OF HAND SIGNALS

HAND SIGNALS

Hand signals — the sign language of futures trading — represent a unique system of communication that effectively conveys the basic information needed to conduct business on the trading floor. The signals let floor brokers and order clerks know the quantity, price and expiration month of an order, the specific type of order, and to check on the status of an order. The signals are the favored form of floor communication, especially in the financial futures pits, for three main reasons:

» 1.) **Speed and efficiency**

Hand signals enable fast communication over what can be long distances (as much as 30 or 40 yards) between the pits and order desks and within the pits themselves.

» 2.) **Practicality**

Hand signals are more practical than voice communication because of the number of persons on the floor and the general noise level.

» 3.) **Confidentiality**

Hand signals make it easier for customers to remain anonymous, because large orders do not sit on a desk, subject to accidental disclosure.

HAND SIGNAL DEVELOPMENT

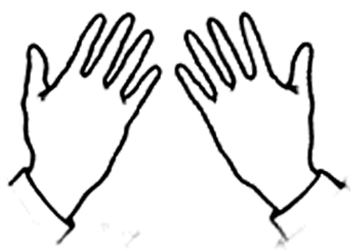
Hand signals began being used extensively at CME in the early 1970s, after the Exchange created the International Monetary Market (IMM) and became the first U.S. futures exchange to offer financial (rather than agricultural/mineral) futures. Although speed had long been a key element in futures trading, it became even more important when financial futures entered the trading scene. Why? Because traders discovered they could take advantage of arbitrage opportunities between CME and other markets if they could trade quickly enough. (Arbitrage refers to the simultaneous purchase and sale of the same or an equivalent commodity or security to profit from price discrepancies. When price discrepancies emerge in the marketplace, the arbitrageur buys/sells until it is no longer profitable, or until prices are back in equilibrium.) Hand signals met the need to speed up communication in the fast-moving financial futures pits.

Following are the signals most commonly used at CME. Some are unique to particular pits on the CME floors. But take note, some signals may mean one thing in a certain pit, while a similar signal may mean something entirely different in another pit.

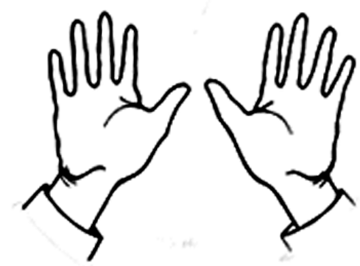
BUY/SELL

When indicating you want to buy (signaling a bid), the palm of the hand always faces toward you. You can remember this by thinking that when you're buying, you're bringing something in toward you. When making an offer to sell (offering), the palm always faces away from you. Think of selling as pushing something away from you.

BUY



SELL



Your palms face you when you are signaling a "buy," and face away from you when you are signaling a "sell."

PRICE

To signal price, extend the hand in front of and away from the body. For the numbers one to five, hold your fingers straight up. For six through nine, hold them sideways. A clenched fist indicates a zero or "even."

Note: Price signals indicate only the last digit of a bid or offer. For example, a "0" signal may refer to a "40" bid.

ONE

TWO

THREE

FOUR

FIVE

SIX

SEVEN

EIGHT

NINE

EVEN

QUANTITY

To indicate quantity - the number of contracts being bid or offered — touch your face.

To signal quantities one through nine, touch your chin.

To show quantities in multiples of 10, touch your forehead.

To show quantities in multiples of 100, make a fist and touch your forehead.

ONE

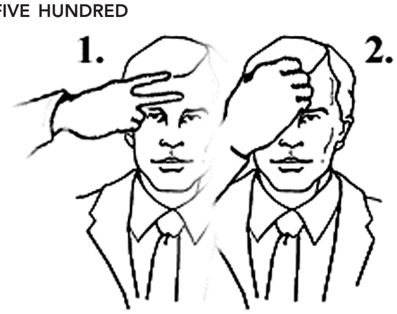
TEN

SEVEN

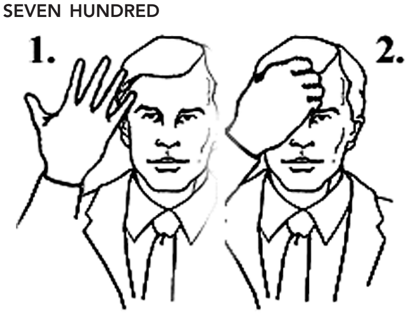
NINETY

ONE HUNDRED

FIVE HUNDRED



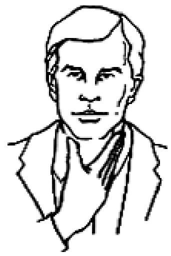
SEVEN HUNDRED



EXPIRATION MONTHS

All futures contracts have an expiration month; thus, there are standard hand signals that indicate each month.

JANUARY
put hand in front of throat

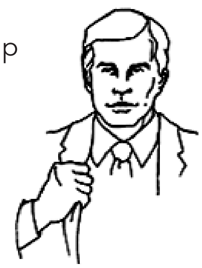


FEBRUARY
thumb down, index and middle finger out

MARCH
wiggle fingers, thumb tucked in

APRIL
wiggle fingers while lowering hand and arm

MAY
hold jacket flap



JUNE
make bunny ears pointed downward

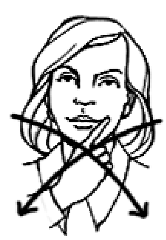
JULY
point to eye

AUGUST
rub forehead with four fingers, circular motion

SEPTEMBER
hold palm open, pointing up

OCTOBER
victory sign

NOVEMBER
make an X in front of face



DECEMBER
cross index and middle finger, as in good luck sign

EXPIRATION CYCLES

Trading Eurodollars involves a set of hand signals that convey expiration cycles. Eurodollars are listed in quarterly cycles, extending out 10 years. They are traded in 12-month "packs," consisting of four 3-month quarters, with expiration months of March, June, September and December. Each 12-month pack is assigned a certain color. For example, the first series of contracts — those that are up to one year out — are called the "whites,"although they're usually just referred to as the "front months." After "the whites" come the "reds," (the series of contracts one to two years out), followed by the "greens" (which are two to three years out), and so on. (The colors for the years four through 10 are, respectively, blue, gold, purple, orange, pink, silver and copper.) There is a hand signal that indicates each of these packs, except for the whites or front months. Below are some packs signals.

REDS
one motion; hand moves down from vertical to touch shoulder

GREENS
index finger and thumb joined as in "ok"

BLUES
fingers wiggle back and forth

GOLDS
thumb on ring finger

MARKET SIGNALS

Other hand signals convey the following:

FILLED
thumb up; indicates that an order is completely filled

WORKING
index finger rotates forward; means that the broker has not filled the order but is still attempting to do so; also used for partially filled orders on which the broker is still working to fill completely.

STOP
fist into palm; means that the order is a stop order (activated when the price reaches a certain level).

At that point, a stop order becomes a market order and the broker must attempt to get the best price when filling it. Can be used to enter or exit both long and short positions. For example, if you are long and fear a drastic price drop, you can issue a stop order to be activated when the contract drops to a given price. Your stop then becomes a market order that the broker will attempt to fill before the price drops even more—even if it requires selling at or below the stop price. Likewise, a short can issue a “buy” stop order if he fears the price will rise.

OUT/CANCEL
hand moves across throat; shows that the order has been canceled.

OPTIONS

In options trading on the CME floor, traders need to indicate whether an order is a put or a call, in addition to using the standard signals to convey other information about the order.

PUT

CALL

SUMMARY

This has been a brief introduction to CME's hand signals. Anyone who works on the Exchange floors needs to know and use these signals perfectly. Hand signals are essential for successful pit trading at CME, and using the **wrong signal** could result in a **substantial loss**.

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