WHO IS A SPECULATOR?

speculate |ˈspekyəˌlāt|

To assume a business risk in hope of gain; to buy or sell in expectation of profiting from market fluctuations. In trading terms, speculating is the opposite of hedging, which is the transfer of risk in order to make one's costs more predictable. The two types of trading go hand-in-hand – you can't have a free market without a balance of both.

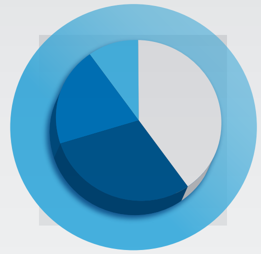
HOMEOWNER

Buys a home with hopes to sell it when the market value exceeds the original price.

COIN COLLECTOR

Collects and sells coins that are highly valued because demand far out-weighs the supply.

INDEX FUND INVESTOR

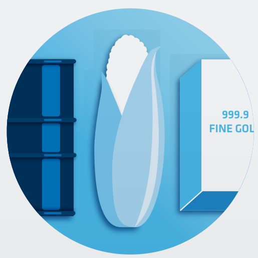


Contributes to a shared pool of investments where profits depend on the performance of each component index.

STOCK TRADER

Buys a piece of a company and sells it for a profit when that company's stock price increases.

COMMODITIES TRADER



Takes the position opposite hedgers seeking to sell (farmers) or buy (food companies), in an effort to profit from future change in price.

SMALL BUSINESS OWNER

Puts down capital in order to grow a business to a point where its profits exceed its operating costs.

ROLE OF THE SPECULATOR

Speculators play an essential role in maintaining effective markets because they assume the risk that other market participants may not want. The liquidity created by their participation in the markets creates the cornerstone of balanced, efficient markets.

Speculation involves a number of complex economic calculations and market forecasts that shape trading decisions. The speculator uses this research to anticipate future price movements and accept market risk in an attempt to profit from buying and selling futures and options contracts.

SPECULATION AND COMMODITY MARKETS

The role of speculators is often brought into question when price volatility increases for commodities such as wheat, crude oil and corn. The fact is that the participation of speculators adds liquidity to the markets. This liquidity helps to moderate price swings and closes the gap between bids to buy and offers to sell.

- The trading activity of speculators anticipates and warns others about shortages or surplus.
- Prices are determined by a number of factors such as weather, global demand, government policy, energy costs and currency fluctuations.