TradeStation®

Risk & Position Management for Futures Spread Trading

Futures
Strategies

A guide to margins, position sizing, stops, and trade monitoring

Futures spread trading involves holding both long and short positions in related contracts simultaneously. This shifts your focus from predicting price direction to analyzing the relationship between the prices of two instruments. This creates a different risk profile compared to trading a single futures contract.

Spreads can offer some benefits.. Margin requirements are typically lower than outright futures trading, and they provide some protection against large price swings. However, these advantages come with challenges. You need to monitor how the two contracts move together, size your positions carefully, and stay alert to changing market conditions.

This article explains the key risk management tools you need for spread trading. You'll learn how to calculate margins, avoid overleveraging, set smart stops, and actively manage your positions. We'll also discuss scenarios when to roll positions, how to scale in and out, and when hedging is appropriate.

Understanding margins and risks

Exchanges typically set lower margin requirements for spreads than for single contracts. They understand that holding both long and short positions lowers your risk of significant losses from one-sided price moves. For example, a crude oil futures contract might require several thousand dollars in margin, while a calendar spread on crude oil may only need a few hundred dollars.

Clearing Code	Globex Ticker	Exchange	Product Name	Period Code	Risk Initial Margin
CL		NYMEX	CRUDE OIL FUTURE NYMEX	202601	5,750.03

<table>
<tr><th>Clearing Code</th><th>Globex Ticker</th><th>Exchange</th><th>Product Name</th><th>Period Code</th><th>Risk Initial Margin</th></tr>
<tr><td>CL</td><td></td><td>NYMEX</td><td>CRUDE OIL FUTURE NYMEX</td><td>202603</td><td rowspan="2">1,366.79</td></tr>
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But lower margins don't mean lower risk. The risk shifts to the spread relationship. Instead of worrying about oil prices jumping ten dollars, you're now concerned with whether the price gap between your two contracts widens or narrows. This is where understanding correlation becomes essential.

How to calculate spread margins

Always verify margin requirements before placing a spread trade. The CME Group website lists margin requirements for most futures contracts, including spreads. Refer to the margins page for any futures product you want to trade. You'll find maintenance margins listed for intra-market spreads (same commodity, different months) and inter-market spreads (related but different commodities).

GOLD FUTURES - MARGINS

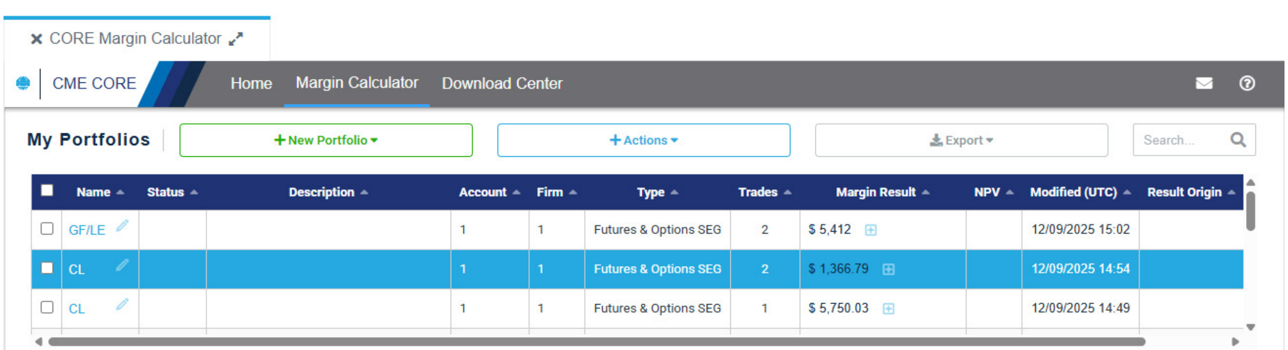
OUTRIGHTS/VOL SCANS | **INTRAS** | INTERS/INTEX/SUPERS | SHORT OPTION MINIMUM

EXCHANGE CMX ▾ ASSET CLASS METALS ▾ PRODUCT GC - GOLD FUTURES ▾ DOWNLOAD DATA

EXCHANGE	ASSET CLASS	PRODUCT	PRODUCT CODE	RATIO	SIDE	START PERIOD	END PERIOD	MAINTENANCE
CMX	METALS	GOLD FUTURES	GC	1 1	A B	12/2025 01/2026	12/2025 01/2026	300 USD
CMX	METALS	GOLD FUTURES	GC	1 1	A B	01/2026 02/2026	01/2026 02/2026	300 USD

The posted numbers show maintenance margins, which are the minimum amounts needed to keep a position open. To find the initial margin required to enter a trade, multiply the maintenance margin by 1.1. For example, if the maintenance margin is $300, your initial margin is $330.

Inter-market spreads can be more complicated. The CME displays a margin credit that applies to each leg's regular margin. You need to manually calculate by taking each leg's initial margin and subtracting the credit. The CME also provides a free Margin Calculator in its Customer Center to aid in these calculations.



Name	Status	Description	Account	Firm	Type	Trades	Margin Result	NPV	Modified (UTC)	Result Origin
GF/LE			1	1	Futures & Options SEG	2	$ 5,412		12/09/2025 15:02	
CL			1	1	Futures & Options SEG	2	$ 1,366.79		12/09/2025 14:54	
CL			1	1	Futures & Options SEG	1	$ 5,750.03		12/09/2025 14:49	

What is correlation risk?

Correlation risk refers to the possibility that the price relationship between your two positions may not behave as expected. For example, you might trade a corn-soybean spread, anticipating the price gap to narrow based on historical data. However, if a disease affects soybean crops while corn remains healthy, these related commodities can move in different directions, causing your spread to lose money even though you hedged against overall price changes.

Markets can remain disconnected longer than historical patterns suggest. Correlations that lasted for decades can break down in a matter of days when something changes. That's why it's crucial to understand what influences each leg of your spread, not just the historical price patterns.

Many factors can affect one leg differently from the other:

- Weather events that hit one crop but not another
- Government reports showing unexpected supply changes
- Political events affecting specific commodities
- Supply chain problems in one market but not the other
- Demand shifts that favor one product over another

Energy markets clearly illustrate this. A crack spread involves crude oil and refined products like gasoline. Usually, refining margins stay within a predictable range. However, a refinery shutdown, unexpected gasoline demand, or a change in crude oil quality can push the spread into unfamiliar territory.

Position sizing and leverage

Lower margins might make spread trading more accessible. However, they can also create a common pitfall for new traders. When you realize that you can trade ten spread contracts with money that would only buy two regular contracts, it's tempting to go all in. This often leads to overtrading and account blowups.

Your position size should be based on risk, not on how much you can trade. The goal is surviving losing trades so you can be around for the winners.

A simple position sizing formula

Start by deciding how much of your account you'll risk on a single trade. Conservative traders risk 1% per trade, while more aggressive traders might risk 2%. Risking more than 2% can lead to significant damage to your account after a few bad trades.

Next, determine your dollar risk. With a $20,000 account and risking 2%, you could lose $400 on a trade. Then, calculate your stop distance in ticks or points. Divide your dollar risk by the dollar value per tick to determine your position size.

Here's an example:
You have $20,000 and plan to risk 2%, which equals $400.

$20,000 x 2% (risk) = $400

You're trading a natural gas calendar spread. Your stop is five ticks away, and each tick is worth $10 per contract. That's a $50 risk per contract.

Stop: 5 ticks = $10 per contract = $50 risk per contract

Divide $400 by $50, and you get eight contracts.

$$\text{Risk} = \frac{\$400}{\$50} = 8 \text{ contracts}$$

But hold on. Those eight contracts still require substantial margin even with lower spread rates. You need a margin buffer for two reasons. First, spreads might move against you temporarily before bouncing back. Second, exchanges can increase margin requirements during market volatility. Keep your margin use below 50% of what's available so you're not forced out at the worst possible time.

The psychological factor

Position size influences your emotions during trading. If a position feels too large, you'll make poor choices. You might close winners too early because you're nervous, or you might freeze when you should take a loss because the dollar amount feels too painful.

The right size allows you to follow your plan without stress. If you can't sleep or you're constantly checking prices, the position is too big. Professional traders succeed by managing risk carefully, not by swinging for home runs.

Entry points, exit points, and stops

Successful traders plan their trades before entering. They know where they're buying, where they're taking profits, and where they'll cut losses. In spread trading, this involves analyzing the price relationship between two contracts rather than focusing on individual price charts.

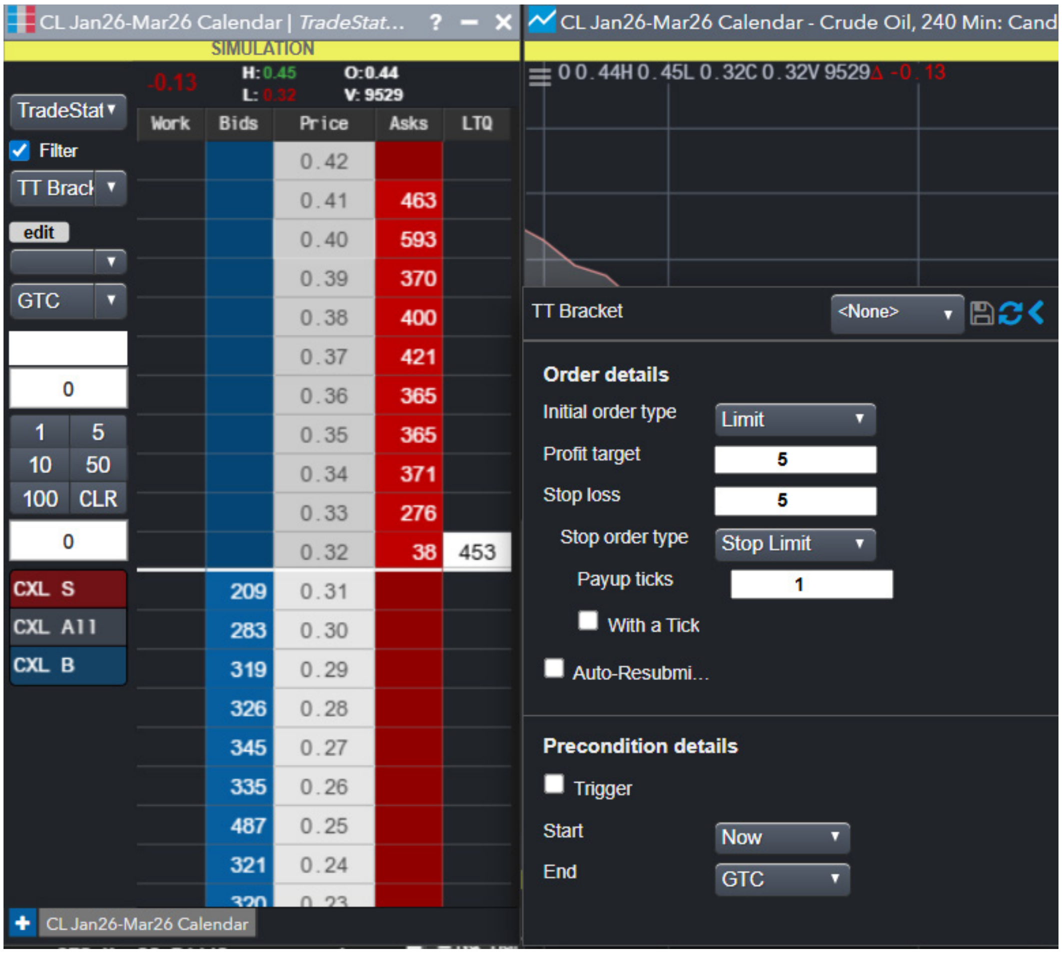
Using spread charts

TradeStation FuturesPlus allows you to create spread charts that show the price difference between your two legs. This helps you spot support and resistance within the spread itself. For example, a calendar spread may bounce off a price level multiple times, or an inter-commodity spread might reverse at a particular extreme. These patterns might help you find good entry points.

But past patterns don't guarantee future results. Markets evolve. Supply and demand fluctuate. Correlations that held for years can break down. Always consider what might cause support to fail. Is a major report approaching? Are seasonal patterns changing? Has the market structure shifted in some way?

Why stop losses matter

Every spread trade needs a predefined stop loss before you enter. The challenge is that you're managing two moving parts. TradeStation FuturesPlus addresses this by letting you place stops on the spread itself, not just on each leg separately.



Your stop should account for typical spread movement. If a spread usually shifts 35 ticks in a day, placing your stop 20 ticks away means you'll be stopped out by normal noise. Allow your trade room to breathe while still setting a clear exit point.

Two widely used approaches are:

- Place stops outside support or resistance levels on your spread chart.
- Use the Average True Range (ATR) and position stops at least one ATR away from the entry.

If the logical stop violates your risk rules, you have two choices. Reduce your position size or skip the trade. Never widen your stop just to fit a bigger position; it undermines risk control.

Setting profit targets

Your profit target should be realistic based on the spread's historical performance. Some traders use risk-reward ratios like 3:1. If they risk five ticks, they aim for a reward of 15 ticks. This approach works when your target aligns with that spread.

A better approach is to look at historical behavior. If a calendar spread has reversed at a 12-tick premium five times this year, that's a logical target. Even if your risk is only six ticks, the 2:1 ratio still makes sense because the market has shown it's achievable. But if the spread never exceeds eight ticks, aiming for 12 ticks is unrealistic and increases risk.

Liquidity and execution challenges

Spread trading isn't just one transaction. You're placing two orders that must execute together to achieve the desired price differential. Poor execution can damage your results before you even begin.

Understanding legging risk

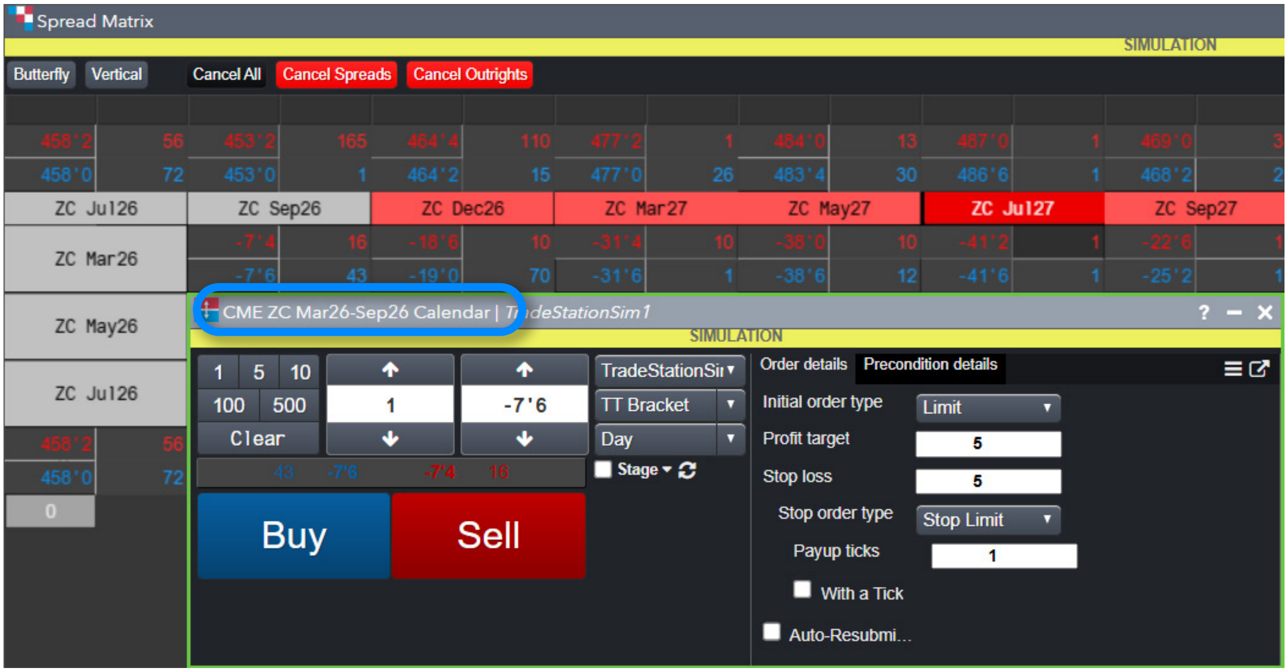
Legging risk occurs when one leg fills at your intended price, but then the market moves before the other leg executes. This results in a worse spread price than you planned.

Example: You want to sell the near month and buy the deferred month. You sell the near month successfully. But by the time your buy order hits the market, prices have moved up. You pay more for the deferred month than expected. Your spread entry is several ticks off from what was intended.

The most liquid contracts, like crude oil, gold, and E-mini S&P 500, usually have good liquidity in nearby months. But liquidity drops in deferred months and less-traded markets. That's when the risk of legging becomes a real problem.

Use spread orders

TradeStation FuturesPlus supports spread orders that treat both legs as a single unit for more efficient execution. The system tries to fill both legs at prices that give you your target spread. This reduces execution risk.



Spread orders work best in actively traded spreads where market makers quote spread prices directly. Although fills may take longer than separate orders, your execution quality is usually better.

Check liquidity first

Before trading any spread, check the volume and open interest in both legs. Volume indicates daily trading activity, while open interest shows how many contracts are still open. Both help you understand how easily you can enter and exit.

Watch for these warning signs:

- Very low volume (hundreds of contracts when thousands trade in the nearby month)
- Wide bid-ask spreads (4 ticks wide means eight ticks of round-trip cost)
- Low open interest compared to nearby months

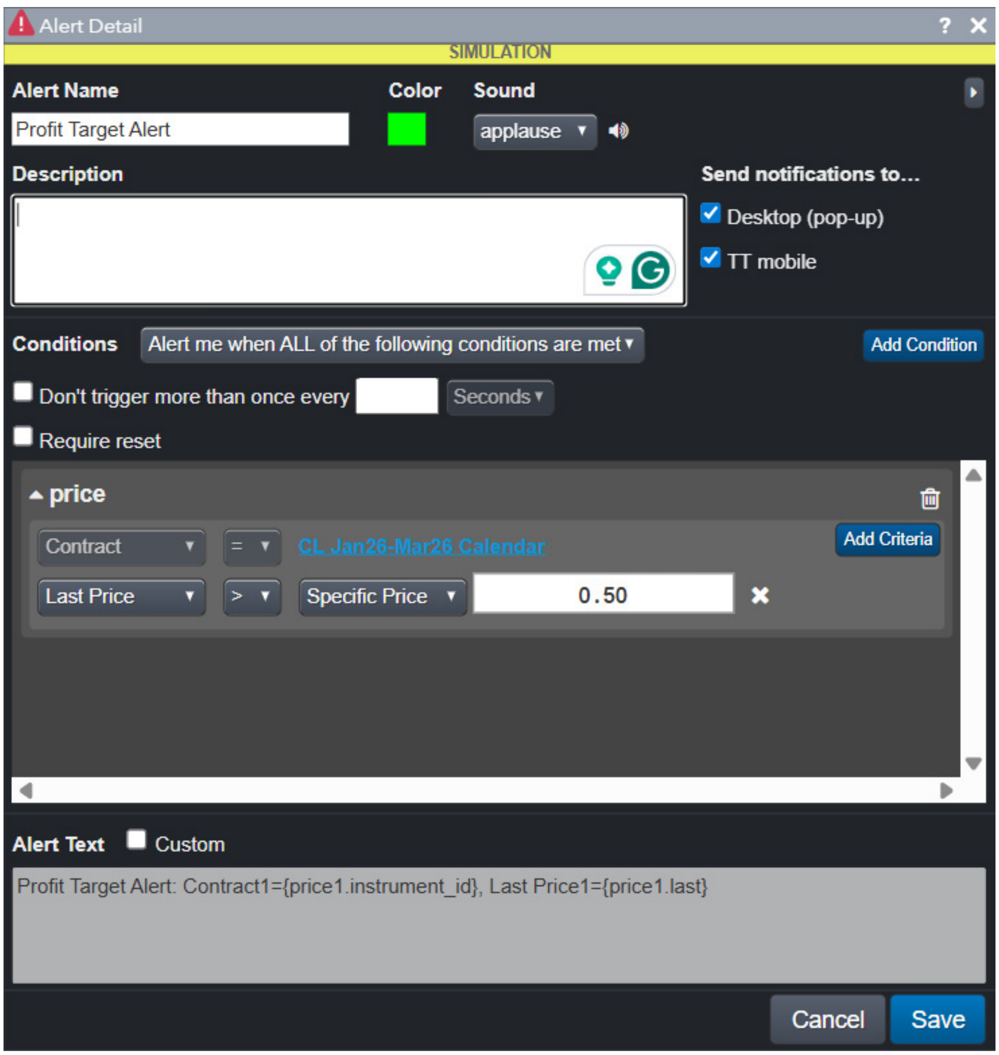
Larger positions make liquidity even more crucial. One or two contracts might fill quickly, but larger positions could push the market against you.

Monitoring and adjusting positions

Spread trading requires active attention. Relationships between contracts can shift quickly in response to news, economic data, or changes in supply and demand. You need to stay alert and be ready to adjust positions or exit when conditions change.

Track your spread in real time

TradeStation FuturesPlus shows you how your spread differential moves, not just each leg separately. Set alerts at key levels so you're notified when the spread reaches your target or gets close to your stop. This keeps you informed without needing to watch the screen constantly.



Also, keep an eye on the factors influencing your spread. For agricultural spreads, monitor weather conditions and USDA reports. For energy spreads, observe inventory data and refinery activity. For financial spreads, stay updated on central bank news and economic indicators. Knowing why your spread changes helps you decide whether to hold or exit.

Rolling calendar spreads

Calendar spreads force a decision as expiration approaches. You must either close the spread or roll it over to the next month. Rolling means closing your near-month position and opening a new one in the next month. This pushes your spread forward in time.

Decide to roll based on whether your trading idea still makes sense. Does the new month present a good entry? Sometimes rolling costs money (a debit) or refunds you money (a credit). TradeStation FuturesPlus allows you to analyze the roll before executing it.

Remember that the new contract months might behave differently. Factors like storage costs, financing charges, and supply expectations can cause distant months to move differently than nearby months.

Scaling in and out

Some traders choose not to enter or exit their full position all at once. They might begin with half of their planned position, then add more if the spread improves their entry point. Alternatively, they take partial profits when they are halfway to their target, then let the remaining position run with a tighter stop.

Scaling can lower risk and secure some gains, but it also increases complexity. You need clear rules for when to add or reduce, and you must follow those rules consistently. For beginners, entering and exiting complete positions is easier.

When to hedge spread positions

Sometimes you'll want to protect a profitable spread without fully closing it. Hedging can assist, but it costs money and adds complexity.

Simple hedging methods

The simplest hedge is to tighten your stop loss. Raise your stop to secure a minimum profit. This costs nothing except the possibility of exiting earlier than planned.

A more advanced strategy involves adding a partially offsetting position. For example, if you're long a calendar spread that profits when the near month rises faster than the deferred month, you might add a small short position in the near month. If the spread reverses, your hedge limits losses. If the spread continues moving in your favor, your hedge incurs a loss while your main position gains more.

You can also use options on futures. Buy a put option on whichever leg has gained the most. You pay a premium (like insurance), but you retain unlimited upside if the move continues.

The cost of protection

Every hedge has costs:

- Additional margin requirements that tie up capital
- Commissions and slippage on extra trades
- Hedging causes losses while your primary position gains

Base your hedging decision on facts, not fear. Is the risk you're protecting against worth the cost? Sometimes, just tightening your stop is smarter. Other times, especially with big unrealized gains, paying for protection makes sense.

Avoid over-hedging. If you add so many protective positions that you can't profit from favorable moves anymore, you've defeated the purpose of your original trade.

Building your skills

The principles outlined in this article form the foundation of disciplined spread trading. Understanding margin requirements keeps you aware of your real costs. Proper position sizing safeguards your account. Clear entry and exit plans provide a decision-making framework. Managing liquidity prevents bad fills. Active monitoring lets you respond to changes. Selective hedging protects your gains.

But knowing these concepts and applying them under pressure are two different things. Fear can cause you to exit winners too early. Greed can tempt you to neglect risk management. Stress often results in costly mistakes.

Practice in simulation first

Use TradeStation FuturesPlus' simulated trading mode before risking real money. Simulation lets you practice risk management in live markets without financial risk. Test your position sizing. Experience the emotions involved in managing spreads. Refine your execution skills. Make mistakes without the costly consequences.


Positions - USD

SIMULATION

Account	Exch	Product	Contract	SOD	BuyQty	SellQty	NetPos	P/L	AvgBuy	AvgSell	AvgOpen
TradeStation				0	0	0	---	344.38			
	CME			0	0	0	---	344.38			
		OZS		0	0	0	---	159.38			
		CL		0	0	0	---	140.00			
			CL Jan26	-1	0	0	-1	570.00			58.780
			CL Mar26	1	0	0	1	-430.00			58.360
		ZC		0	0	0	---	87.50			
			ZC Mar26	1	0	0	1	75.00			443.000
			ZC Sep26	-1	0	0	-1	12.50			451.750
		NQ		0	0	0	---	7.50			
		ZS		0	0	0	---	-50.00			
			ZS Sep26	-1	0	0	-1	137.50			1099.750
			ZS Jan26	1	0	0	1	-187.50			1093.500

Simulation also fosters discipline by reinforcing rule-based decision-making. It's easy to say you'll stick to your stops during planning. Actually taking that loss when it hurts takes practice—following through on partial profit targets when you want to let everything run tests emotional control. Build these habits in simulation, so they become automatic with real money.

How long should you practice? That depends on your experience. Complete beginners might need several months. Experienced futures traders adding spreads might need less time. The milestone is the consistent application of risk management. When you can demonstrate over many trades that you follow your rules, honor your stops, and manage positions according to plan, you're ready to consider live trading.

Keep learning and adapting

Your education continues after you start live trading. Markets change. Correlations shift. New patterns emerge while old ones fade. Keep a detailed trading journal. Record your entries, exits, and thought process. Review it regularly to identify patterns in your decisions.

You might find you perform better with certain spread types. Perhaps energy calendar spreads are more suited to you than agricultural inter-commodity spreads. Maybe you're more successful in trending markets than in range-bound ones. Focus your efforts where you have the biggest advantage.

Review your risk management regularly. Your position sizing might need adjustments as your account grows. Your stop strategies might need to change if market volatility shifts, and the markets you trade might need to adapt if liquidity patterns evolve.

Key takeaways

Spread trading provides a different way to engage in futures markets. Lower margins make it more accessible. Offsetting positions helps reduce some directional risk. However, spreads also come with their own challenges, including correlation risk, execution complexity, and the need for active management.

Success isn't about avoiding all losses. That's impossible. Success involves managing risk so your wins outweigh your losses. It requires staying disciplined when emotions tempt you to make poor decisions. It also means respecting the market while staying confident in your process.

Understanding your risk exposure, sizing positions properly, setting clear stops, managing execution challenges, actively monitoring, and using hedges selectively all work together with practice in TradeStation FuturesPlus' simulated environment to help you trade spreads with greater confidence.

Trading is a journey. Every trade, win or lose, teaches something. Stay patient. Stay disciplined. Stay committed to learning. The markets will always be there, but your capital only survives if you protect it carefully today.

Important Information and Disclosures

Futures trading is not suitable for all investors. To obtain a copy of the futures risk disclosure statement visit www.TradeStation.com/DisclosureFutures.

Margin trading involves risks, and it is important that you fully understand those risks before trading on margin. The Margin Disclosure Statement outlines many of those risks, including that you can lose more funds than you deposit in your margin account; your brokerage firm can force the sale of securities in your account; your brokerage firm can sell your securities without contacting you; and you are not entitled to an extension of time on a margin call. Review the Margin Disclosure Statement at www.TradeStation.com/DisclosureMargin.

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