

# Risk Warnings



**Risk warnings concerning general investments**

- Past performance is no guarantee of future performance.
- The value of investments and the income from them may go down as well as up and are not guaranteed.
- You may not get back the amount you invested.
- The current tax treatment of certain investments may be changed under future legislation.
- Rates of exchange may cause the value of investments to go up or down.

**Risk warnings in respect of non-readily realisable investments**

This notice is provided to you, as a private customer, in compliance with the rules of the Financial Services Authority (FSA). Private customers are afforded greater protections under these rules than other customers are and you should ensure that we tell you what this will mean to you. This notice cannot disclose all the risks and other significant aspects of warrants and/or derivative products such as futures, options, and contracts for differences. You should instruct us not to deal in these products on your account unless you understand their nature and the extent of your exposure to risk. You should also be satisfied that the product is suitable for you in the light of your circumstances and financial position. Certain strategies, such as a spread position or a straddle, may be as risky as a simple long or short position.

Although warrants and/or derivative instruments can be utilised for the management of investment risk, some of these products are unsuitable for many investors. Different instruments involve different levels of exposure to risk and in deciding whether to trade in such instruments you should be aware of the following points.

**1. Warrants**

A warrant is a time-limited right to subscribe for shares, debentures, loan stock or government securities and is

exercisable against the original issuer of the underlying securities. A relatively small movement in the price of the underlying security results in a disproportionately large movement, unfavourable or favourable, in the price of the warrant. The prices of warrants can therefore be volatile.

It is essential for anyone who is considering purchasing warrants to understand that the right to subscribe which a warrant confers is invariably limited in time with the consequence that if the investor fails to exercise this right within the predetermined time-scale then the investment becomes worthless.

You should not buy a warrant unless you are prepared to sustain a total loss of the money you have invested plus any commission or other transaction charges.

**2. Off-exchange warrant transactions**

Transactions in off-exchange warrants may involve greater risk than dealing in exchange traded warrants because there is no exchange market through which to liquidate your position, or to assess the value of the warrant or the exposure to risk. Bid and offer prices need not be quoted, and even where they are, they will be established by dealers in these instruments and consequently it may be difficult to establish what is a fair price.

We must make it clear to you if you are entering into an off-exchange transaction and advise you of any risks involved.

**3. Securitised derivatives**

These instruments may give you a time-limited or absolute right to acquire or sell one or more types of investment which is normally exercisable against someone other than the issuer of that investment. Or they may give you rights under a contract for differences which allow for speculation on fluctuations in the value of the property of any description or an index, such as the FTSE 100 index. In both cases, the investment or property may be referred to as the “underlying instrument”.

## Risk Warnings continued

These instruments often involve a high degree of gearing or leverage, so that a relatively small movement in the price of the underlying investment results in a much larger movement, unfavourable or favourable, in the price of the instrument. The price of these instruments can therefore be volatile.

These instruments have a limited life, and may (unless there is some form of guaranteed return to the amount you are investing in the product) expire worthless if the underlying instrument does not perform as expected.

You should only buy this product if you are prepared to sustain a total loss of the money you have invested plus any commission or other transaction charges.

You should consider carefully whether or not this product is suitable for you in light of your circumstances and financial position, and if in any doubt please seek professional advice.

### 4. Futures

Transactions in futures involve the obligation to make, or to take, delivery of the underlying asset of the contract at a future date, or in some cases to settle the position with cash. They carry a high degree of risk. The gearing or leverage often obtainable in futures trading means that a small deposit or down payment can lead to large losses as well as gains. It also means that a relatively small movement can lead to a proportionately much larger movement in the value of your investment, and this can work against you as well as for you. Futures transactions have a contingent liability, and you should be aware of the implications of this, in particular the margining requirements, which are set out in paragraph 9.

### 5. Options

There are many different types of options with different characteristics subject to the following conditions.

#### Buying options:

Buying options involves less risk than selling options because, if the price of the underlying asset moves

against you, you can simply allow the option to lapse. The maximum loss is limited to the premium, plus any commission or other transaction charges. However, if you buy a call option on a futures contract and you later exercise the option, you will acquire the future. This will expose you to the risks described under futures' and 'contingent liability investment transactions'.

#### Writing options:

If you write an option, the risk involved is considerably greater than buying options. You may be liable for margin to maintain your position and a loss may be sustained well in excess of the premium received. By writing an option, you accept a legal obligation to purchase or sell the underlying asset if the option is exercised against you, however far the market price has moved away from the exercise price. If you already own the underlying asset which you have contracted to sell (when the options will be known as 'covered call options') the risk is reduced. If you do not own the underlying asset ('uncovered call options') the risk can be unlimited. Only experienced persons should contemplate writing uncovered options, and then only after securing full details of the applicable conditions and potential risk exposure.

#### Traditional options:

Certain London Stock Exchange member firms under special exchange rules write a particular type of option called a traditional option. These may involve greater risk than other options. Two-way prices are not usually quoted and there is no exchange market on which to close out an open position or to effect an equal and opposite transaction to reverse an open position. It may be difficult to assess its value or for the seller of such an option to manage his exposure to risk.

Certain options markets operate on a margined basis, under which buyers do not pay the full premium on their option at the time they purchase it. In this situation you may subsequently be called upon to pay margin on the option up to the level of your premium. If you fail to do so as required, your position may be closed or liquidated in the same way as a futures position.



## Risk Warnings continued

### 11. Collateral

If you deposit collateral as security with us, the way in which it will be treated will vary according to the type of transaction and where it is traded. There could be significant differences in the treatment of your collateral depending on whether you are trading on a recognised or designated investment exchange, with the rules of that exchange (and the associated clearing house) applying, or trading off-exchange. Deposited collateral may lose its identity as your property once dealings on your behalf are undertaken. Even if your dealings should ultimately prove profitable, you may not get back the same assets which you deposited, and may have to accept payment in cash. You should ascertain from us how your collateral will be dealt with.

We do not normally require deposit collateral.

### 12. Commissions

Before you begin to trade, you should obtain details of all commissions and other charges for which you will be liable. If any charges are not expressed in money terms (but, for example, as a percentage of contract value), you should obtain a clear and written explanation, including appropriate examples, to establish what such charges are likely to mean in specific money terms. In the case of futures, when commission is charged as a percentage, it will normally be as a percentage of the total contract value, and not simply as a percentage of your initial payment.

### 13. Suspensions of trading

Under certain trading conditions it may be difficult or impossible to liquidate a position. This may occur, for

example, at times of rapid price movement if the price rises or falls in one trading session to such an extent that under the rules of the relevant exchange trading is suspended or restricted. Placing a stop-loss order will not necessarily limit your losses to the intended amounts, because market conditions may make it impossible to execute such an order at the stipulated price.

### 14. Clearing house protections

On many exchanges, the performance of a transaction by us (or third party with whom he is dealing on your behalf) is guaranteed by the exchange or clearing house. However, this guarantee is unlikely in most circumstances to cover you, the customer, and may not protect you if we or another party defaults on its obligations to you. On request, we must explain any protection provided to you under the clearing guarantee applicable to any on-exchange derivatives in which you are dealing. There is no clearing house for traditional options, nor normally for off-exchange instruments which are not traded under the rules of a recognised or designated investment exchange.

### 15. Insolvency

Our insolvency or default, or that of any other agents or counterparties involved with your transaction, may lead to positions being liquidated or closed out without your consent. In certain circumstances, you may not get back the actual assets which you lodged as collateral and you may have to accept any available payments in cash. On request, we must provide an explanation of the extent to which a firm will accept liability for any insolvency of, or default by, other firms involved with your transactions.

## IMPORTANT

If you are in any doubt whatsoever about the suitability of any of the investments or investment/trading services promoted by us you should seek independent financial advice from a suitably qualified adviser.

TJ Markets Limited is an appointed representative of TJ Markets (Holdings) PLC which is authorised and regulated by the Financial Services Authority.

Issued 11/01/2010

TJ Markets, 24 St Andrew's Crescent, Cardiff, CF10 3DD United Kingdom  
T +44 (0)29 2002 000 F +44 (0) 29 2039 4979 [tjmarkets.com](http://tjmarkets.com)