

Index points, contract sizes and what a point is worth

INDEX POINT VALUE

What one index point is worth in your account currency. It is the contract size - money per point, per contract - multiplied by the number of contracts, converted into your account currency if the index settles in another. Two people holding the same index at the same moment can have entirely different amounts at risk.

This is the lesson the rest of the track leans on. Everything about risk, stops and position size is arithmetic performed on this number, and until it is done the screen is showing you points rather than money.

A point is not a unit of anything

An index level has no natural units, as lesson 1 established. So a point is not a pound, a dollar or a percentage. It is one increment of an abstract number, and the money attached to it comes entirely from the contract you hold.

The contract size is the whole of it

Money per point, per contract, is set by the product: a cash position at £1 a point, a spread bet at £5 a point, a futures contract with a fixed multiplier per point. Same index, same move, different money.

So "the index moved 40 points" is not a statement about anyone's account. Two traders watching that move can be up £40 and £400, and both are holding the index.

The currency step people skip

An index settles in a currency. If your account is in a different one, every point converts before it reaches your balance - so your position size moves with the exchange rate as well as with the index.

On a dollar-settled index in a sterling account, a 5% move in the exchange rate changes what your position is worth by 5%, with the index doing nothing at all.

Worked example - figures in USD

A dollar-settled index at \$5 per point, two contracts, moving 20 points, in a US dollar account. No conversion, which makes this the only reader for whom points and money line up directly.

1. The contract is \$5.00 per point, and you hold 2 of them - so one point is \$10.00 to you.
2. The index settles in USD. Your account does not, so every point converts before it reaches your balance.
3. A 20 point move is therefore \$200.00. The same 20 points, on a different contract size, would be a different number entirely - which is why 'it moved 20 points' says nothing about anyone's risk.

The habit worth building

Before a position exists, convert the stop distance into money. Not the entry, not the target - the distance to the point where you are wrong, in your own currency.

A stop 40 points away is a fact about a chart. The same stop at £7.90 a point is £316, and that is a fact about you. Only one of those two numbers can tell you whether the position is the right size, and it is not the first.

Try it yourself with the index-point-value calculator: <https://ticksprout.com/tools/index-point-value>

Check your understanding

1. Two traders hold the same index through the same 40-point move and lose different amounts. Why?

- a. One of them was charged a wider spread
- b. Their contract sizes differ, so a point is worth different money to each
- c. The index was recalculated between their entries

Answer: b. A point has no money attached to it until a contract supplies one. Same index, same move, different contract size, different money.

2. Your account is in sterling and the index settles in dollars. The index does not move, but the exchange rate falls 5%. What happens to your position's value in sterling?

- a. Nothing, because the index is unchanged
- b. It changes by about 5%, because every point converts
- c. It changes only when you close the position

Answer: b. The conversion is part of what the position is worth, not an afterthought at closing. Your size moves with the rate as well as with the index.

3. What is the useful way to express a 40-point stop?

- a. As a percentage of the index level
- b. As money in your account currency
- c. As a number of points, which is comparable across brokers

Answer: b. Points describe the chart. Money describes you, and only the money answers whether the position is the right size.