

UNITED STATES OF AMERICA
Before the
COMMODITY FUTURES TRADING COMMISSION

KWAME EADDY,
Complainants,

v.

COMMODITY RESOURCE CORPORATION,
Respondent.

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CFTC Docket No. 02-R41

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COMMODITY FUTURES TRADING COMMISSION

INITIAL DECISION

Kwame Eaddy claims that Commodity Resource Corporation (“CRC”) mishandled two T-Bond futures orders on the same day, and seeks to recover \$6,250 in damages. In reply, CRC asserts that Eddy’s claims are without merit. After reviewing the parties’ documentary submissions, it has been concluded that Eddy has failed to establish any violations causing damages by CRC.

Factual Findings

Eaddy opened a discount, self-directed, on-line trading account. In exchange for discounted commissions, Eaddy traded without broker assistance and placed all orders via CRC’s Internet based order entry system. CRC customarily does not promote its on-line trading system and CRC recommends it only for experienced traders. In this connection, Eaddy does not dispute CRC’s assertion that before he opened his CRC account Eaddy had several years of trading experience, and that before he had placed the disputed orders Eaddy had placed numerous orders via CRC’s online system, including several market orders.

At the relevant time, CRC's order entry system bypassed CRC's office and trading desk and automatically transmitted T-Bond futures orders directly into the Chicago Board of Trade bond pit to a hand-held unit held by a pit broker.

At about 7:42 a.m., Eaddy placed an order to buy five December U.S. Treasury Bond futures ("USZ"), at 11102, market-if-touched. [See second page of "Addendum to Complaint."] At 7:42:26, the order was reported as filled at 11104. At 9:02:07, Eaddy placed a market order to sell the five USZ at the market, which was filled at 11114. Eaddy claims that at this point, he concluded that he "should have gotten a 12-point gain rather than a 10-point gain." However, he never called CRC to complain about the fill on the market-if-touched order, and would not complain about the fill until he filed his reparations complaint. Also, despite his purported dissatisfaction, Eaddy continued to place orders with CRC.

Shortly before 11:30 a.m., Eaddy placed an order to buy five USZ, at the market, which was filled, "within seconds," at 11216. [First page of "Addendum to Complaint," and second page of Answer.] At 11:30:12, Eaddy entered an instruction to cancel the market order. However, since the order had already been filled, the cancel instruction was reported back as "rejected," at 11:30:33. At 11:30:46, the fill was reported. "Shortly after 11:30," Eaddy called the CRC desk clerk who confirmed that Eaddy had no orders pending. Eaddy claims that he then dashed out for lunch, apparently without reviewing his screen. Thus, Eaddy purportedly did not notice the rejection report or the fill report until 12:15 p.m., when he returned from lunch. Eaddy then called the CRC desk clerk and asserted that he refused to take responsibility for the trade. The clerk referred the dispute to the owner of CRC, George Kleinmen, who called Eaddy and advised him simply that since Eaddy had placed the market order, the trade was Eaddy's. Kleinman also informed Eaddy that since the position had become under-margined, Eaddy

should either liquidate the position before the end of the trading session, or CRC would be forced to sell it. Eaddy decided to sell the five USZs, which he did at 12:43, receiving a fill at 6360.

Conclusions

Eaddy's claim that CRC mishandled the market-if-touched order by buying the T-Bond futures two points "over the instructed price" is without merit. A market-if-touched ("M.I.T.") order is a price order that automatically becomes a market order if the market moves to the designated price level. A market order is an order to buy or sell a future contract in a given delivery month to be immediately filled at the best obtainable price. In contrast, a limit order is an order with restrictions on price, *i.e.*, to buy or sell a contract at the designated price or better. A limit order never becomes a market order and may not necessarily be filled in certain market conditions even if the market trades at the designated price. Unlike a limit order, a M.I.T. order is always executed at the best obtainable price because it becomes a market order once the market trades at the designated price. [See CBOT's glossary at www.cbot.com.; and pages 354-355, Mark Powers, Starting Out in Futures Trading, Fifth edition (1993).] Thus, once the market hit Eaddy's "instructed price," his order automatically became a market order that had to be promptly filled, at the best obtainable market price, whether at, above or below the order price. Here, Eaddy has produce no evidence that CRC failed to promptly fill the order at the best obtainable price. Therefore, Eaddy has failed to show that he was entitled to a better price and has failed to establish any violation in connection with the M.I.T. order.

Similarly, Eaddy's claim that CRC mishandled his instruction to cancel the market order is without merit. Once Eaddy placed the market order via CRC's on-line system, his only reasonable expectation was that the order, upon receipt, would be executed as soon as possible at the best obtainable price, and that the fill price would be reported promptly, but not necessarily

simultaneously, via the on-line system. Here, the pit broker filled the order almost immediately and CRC reported the fill in less than a minute via the on-line system. In these circumstances, it was unreasonable for Eaddy to expect his instruction to cancel the market order to reach the pit before the pit broker had executed the market order. It was even more unreasonable and irresponsible for Eaddy to disregard his trading screen immediately after sending the futile instruction to cancel the market order, and then to refrain from mentioning his attempt to cancel the market order when he called the CRC's floor desk. Since Eaddy has not produced any evidence that CRC did not fill the market order as quickly as possible at the best obtainable price, and has not produced any evidence that CRC did not promptly report the fill via its on-line system, he has failed to show any violation in connection with the market order.

ORDER

No violations having been established, the complaint in this matter is DISMISSED.

Dated February 10, 2004.



Philip V. McGuire,
Judgment Officer