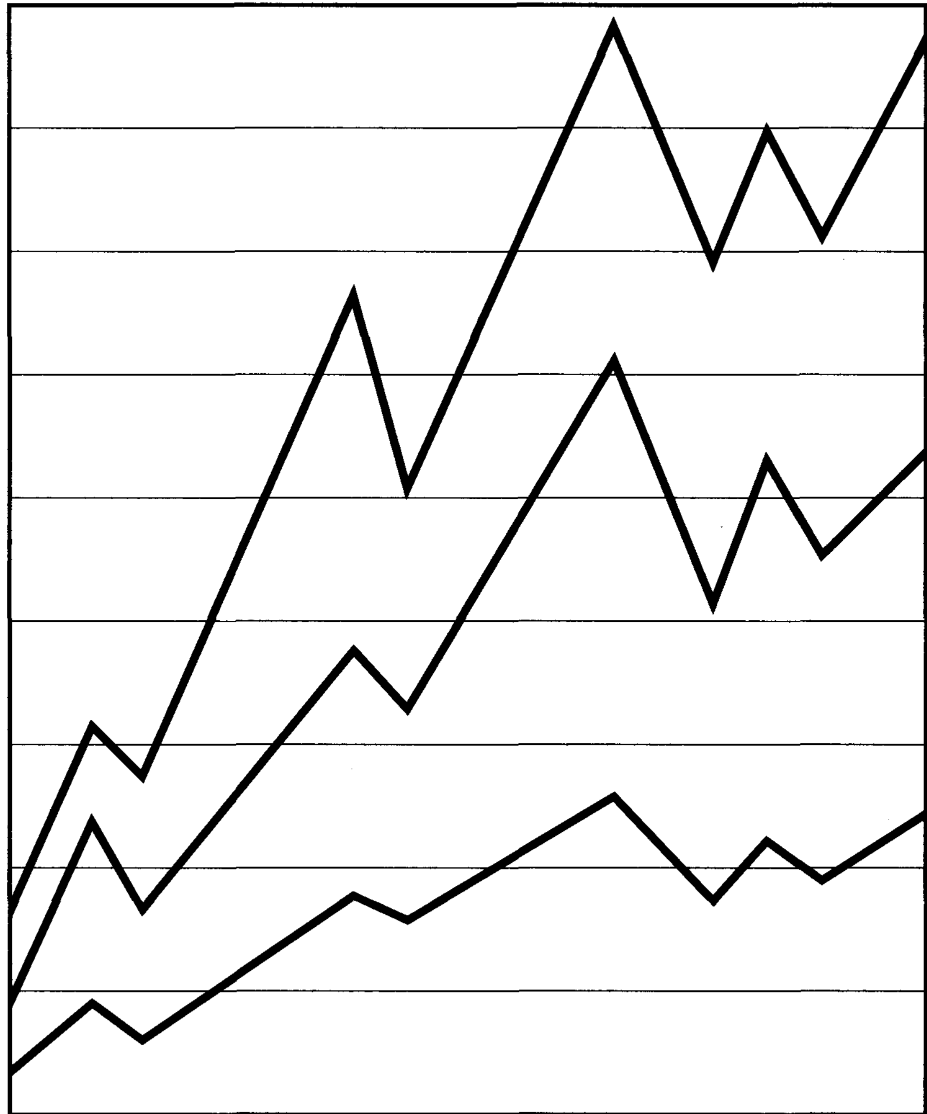
Trader's Notebook 3

by R. E. McMaster, Jr.



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TRADER'S NOTEBOOK
3

by

R. E. McMASTER, JR.

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FOREWORD

It is indeed ironic that in an arena such as the commodities markets, where success is heavily dependent upon objectivity in decision making, that there is so much froth. The half-truths, mysticism, witchcraft, jealously guarded "Holy Grails," and rampant subjectivity that pervades the markets is a tribute to the omnipresent ruling emotion of man. Emotion, money, and security are all linked in the same harness, and are sparked by the pursuit of the illusion of "any easy way," if not "THE easy way."

It is hoped that this work will shed a ray of reality on this fascinating market arena, and in so doing, convince a few that the road to meaningful success is marked by persistent learning, personal growth and hard work.

ACKNOWLEDGMENTS

A tip of the hat is appropriate to Commodity Research Bureau, Inc. (One Liberty Plaza, New York, N.Y. 10006) and to Commodity Perspective (327 South La Salle St., Chicago, Ill. 60604) whose excellent charts appear throughout this work. Their charts are a vital part of any successful trader's analytical tools.

A special thank you goes to the fine folks at Publisher's Management Corporation (2320 West Peoria Avenue, #122C, Phoenix, Arizona 85029), who not only put this book together, but who also provided me with the support necessary to make THE REAPER a reality.

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CONTENTS

PART I
PSYCHOLOGICAL SECTION

PAGE

One Way to Evaluate an Investment Advisor 1
The Generalist 2
Life Squared 4
The Stress Factor 6
Stand Still 7
The Old Man And The Market (Revisited) 8
The Cassandra Crossing 10
The Trade-Off 10
A Trading Perspective 12
Know Your Enemy 12
The Last Train Out 14
The More Things Change 15
The Same Coin 15

PART II
TECHNICAL SECTION

Trends, Turning Points, and Trading Ranges 19
Consulting Line Observations 21
Cash and Carry 23
Cycles, Spreads, and The Fed 27
Spread/Price Relationships 29
Checking Our Mettle 31
Great Britain Rules The Waves (Of Oil) 34
How Sweet It Is 36
Upside Down 39
A Gap In Our Analysis 41
Technical Tidbits 42
Intraday Clues 43
Time And Price (A Simple Application) 43
Moon and Markets 45
Technical Analysis And The Economy 48

PART III
GLOSSARY 55–74

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PART I
PSYCHOLOGICAL SECTION

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ONE WAY TO EVALUATE AN INVESTMENT ADVISOR

If one has read enough investment advisory services over a long enough period of time, one comes to the conclusion that advisors are much like markets — they have their good periods and their bad periods. They move up in accuracy of predictions; they move down in incorrect calls. All advisors are subject to this law of ebb and flow.

In my opinion the most dangerous advisors (from a financial perspective) are those that just give the broad brush overview, which will probably be correct, but not until they have been wrong for 10 years or so. For example, those who started predicting the next GREAT DEPRESSION in the late 60's will probably be right in the next 6 years (CYCLES OF WAR), but their people have had their financial throats cut in the past two business cycles. Today, timing of investments is critical.

One of my studies has been to see if I could ascertain the make-up of the advisors who, though incorrect, from time to time, do not get their clients killed. Almost to a man, those advisors who are able to minimize their "down wave of incorrect calls" possess the following characteristics.

1. They are flexible. When they are wrong, they recognize it quickly, and alter course. (A ship is constantly off course. But, with continual corrections, it makes it to its destination.) These advisors don't "stew" about being wrong, or justify it, they simply move on to what "now" appears to be correct.

2. These successful advisors remain students at all times. They are constantly learning, and love their work. It is their life. The difference between trees and bushes is that one keeps growing. There is very little fundamental difference in people. The decision to grow and learn is what enables some folks to tower over their peers. Be a student always is their watchword.

3. Both of the above two points require an openness and humility, which implies a lack of pride. Noah Webster gave us the dictionary, mastered 26 languages, and wrote texts on government, civics, geography, language, spelling, pronunciation, and history. After 50 years, he concluded, as did Ben Franklin, that man's greatest "sin" is his pride. Perhaps there is a lesson to be learned from these intellectual giants, particularly for investment advisors.

NOTES

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THE GENERALIST

There are basically two approaches to analyzing the commodity markets for the purpose of making money. The first approach is rational/logical. It may be technically oriented, utilizing such systems as cycles, probabilities, or bar chart analysis. It may be fundamental, involving the analysis of reams of supply and demand statistics in order to project price movement.

The second approach to trading commodities is psychological. It includes the theory of contrary opinion, and attempts to gain a "feel" for the market environment. It tests the market's emotional water so to speak. What are the expectations of the masses? How much greed or fear is present?

It is seldom that an analyst inclined to the technical approach will delve with much depth into fundamentals. It is equally rare to see a hard-core fundamentalist spend much time with the technical approach to the markets. What the technician and the fundamentalist neither one realize is that they are both warring factions of the same camp. The other camp, which has set up tent on the other side of the street, is the psychological camp. There are many successful traders in the psychological camp who use nothing more than the theory of contrary opinion and read the tape in order to develop a feel for market action.

The more things change the more they remain the same. In reading some philosophy recently, I stumbled across the works of Blaise Pascal, a 17th Century French mathematician, scientist, inventor, and religious writer. He was a generalist. At the age of 18, Pascal invented a calculating machine. He also developed the laws of pressure and equilibrium. He is thus renown for his revolutionary discoveries in the field of pneumatics, physics and mathematics. According to our above classifications, we have to place Pascal in the rational/logical camp. He would have been a superb fundamentalist or technician. But, he was more, too.

Despite Pascal's scientific and mathematical achievements, his real love was religion. He was a devout Christian who was convinced of the supremacy of both faith and revelation over reason. Such a stance is intellectual heresy to modern-day sophists. His writings, PENESEES and LETTRES PROVINCIALES show keen insight into the nature of man.

Pascal observed that men are basically possessed of one of two types of minds. Some men are mathematically oriented (statistics, engineering). Other men are primarily aesthetically oriented (literature, art). Each man, whether he is mathematically oriented or aesthetically oriented (my terms), tended to follow his natural inclination.

Isn't that interesting? Pascal's observations from three centuries ago are valid in today's commodity markets. Mathematically oriented minds are fundamentalists and technicians. Aesthetically oriented minds are trading psychologists. Let's take Pascal's observations and our own one step further.

Current thought in the field of management science places great emphasis on the principle of synergism. This is the concept that the whole is greater (worth more) than the sum of its parts. Applied to the market, if the psychological is blended with the technical and fundamental, one should have a more powerful trading approach than if one naturally follows one's own inclination. What we are coming back to again is the concept of a whole person. A competent generalist should be able to make better evaluations, judgments, and trading decisions than a limited specialist. We know this is true among upper-level corporate executives. Presidents of companies and chairmen of the boards usually have a broad view of things. They are synergistic. They are whole men. They are generalists.

Each of us is president of our commodity investing firm, regardless of the size of our account. As such, history, observation, and patterns of success suggest we are best served by being generalists — looking at the fundamentals, technical aspects, and psychological environment of the market prior to making investment decisions. This is the perspective THE REAPER has attempted to provide year after year. And, interestingly enough, I have found a disproportionate number of REAPER subscribers to be owners or presidents of businesses, — all types of businesses. Do birds of a feather flock together? Apparently so. But, perhaps more importantly, generalists are survivors.

It doesn't matter if a man is an administrator of a hospital, president of a commodity firm, a self-employed dentist, a physician, professional

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investor, owner of a farm or ranch — men and women in charge of operations remain there in part because they have learned the knack of surviving. And isn't surviving year-in, year-out the key to profits in commodities? . . . First and foremost, we have to survive financially, manage our money, so we can stay in the game. And, synergistic generalists do it better.

As far back as I can remember, I have never received a letter of complaint or heard a cross word from a generalist. Generalists know what the battle is all about. They stick it out. They survive in the markets year-in and year-out. The headaches come from those who have not quite grown to enjoy the wisdom and overview of the generalists, these top executives from all walks of life. And, perhaps this is why many commmodity traders come and go as passing ships in the night. They have not seen, that although growth is painful and requires change, it is the only road to success — both financial and personal.

Any newsletter worth its salt has a well-reasoned, well-established philosophy of why it exists. The best newsletters combine a depth of philosophy with a primary orientation of service to their reading public. The newsletters that exist exclusively for the purpose of "making money", just like any other business, don't enjoy the renewal rates or the editorial power necessary to survive a constantly changing financial, economic and political environment. In short, they lack the generalist overview.

I've been around this commodity business for over a decade. I've seen hundreds of fast buck schemes and shenanigans come and go. They are outrageous, and disgusting. The same can be said of all the so-called "super secret" trading systems that guarantee rags to riches overnight. The past and present claims of many brokerage firms and money managers belong somewhere in outer space. The changing of the rules by the big, old line exchanges, such as the CBT in the case of silver, is patently unethical as well as unprofessional. Likewise, the failure of the exchanges to have a commodity on hand for a trader to take delivery if he so desires invites government regulation, with the loss of freedom it entails. Heaven knows the CFTC is plagued with the contagious ambitions of those who run it and desire to build an empire. It is insanity for the commodity industry to invite trouble by rip-off schemes, outlandish advertisements and unprofessional operations. It is offensive to the public, who, by the way, provides all the jackals in the industry with their bread and butter, or pound of flesh, which is perhaps a more accurate way to state it. The short term, greedy, get-rich-quick approach is myopic. It is an anathema to a generalist.

Am I chasing too many rabbits here? Perhaps. But a generalist, in addition to enjoying an overview of the psychological, fundamental, and technical approaches to the market, must also recognize the treacherous as well as the positive aspects of the environment in which he is operating. It all is part and parcel to being a professional.

Getting down to details, it also means keeping excess cash in one's commodity account in cash reserve funds, or in T-Bills that earn interest when funds are not being utilized in the marketplace. It means recording telephone conversations with brokers so that all communications are of record. It means demanding, when appropriate, "time and sales" tapes when the execution of an order seems out of line with market action. It means holding the broker's, brokerage house's, order taker's, floor broker's, and exchanges' feet to the fire, to ensure they perform in a professional manner. The bottom line is, we, the public-at-large, are the best watchdogs of the commodity industry. And, we all know all too well that no one will look out for our financial interest better than we will. It is our responsibility as generalists.

NOTES

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Every evening I sit down and study the daily bar chart of each commodity followed in THE REAPER, It is somewhat like keeping tabs over twenty children, all rebels at that! Each commodity, however, lives its life over and over again as the years pass. Every year gives birth to a new contract of July soybeans, for example. The July, 1980 soybean contract will exhibit some of the characteristics of the July, 1979 soybean contract. It will resemble its other predecessors as well. But, it will be unique in many ways too.

July, 1980 soybeans may "zig" when I expect them to "zag." They may collapse when I expect them to rally. Hopefully, they will give me clues to their probable price direction and I will read those clues correctly. If I am lucky, I may discern where those nasty little beans are headed.

The world in which a commodity contract is born, lives, and dies is tracked by the time vs. price scales on the bar chart. If soybean prices rise on the vertical scale, optimism increases. If they decline, pessimism expands. As prices move to the right along the horizontal time scale, we learn more about the nature of the contract. Its history is revealed. That history gives us clues to the future, hopefully.

Greed being what it is to most men, the majority's attention will be focused on price. Oh, for sure, a few will make an in depth study of the time variable, but not many. What is important to the majority is that each cent rise in soybeans is worth $50, as is each one cent decline.

Each of our own lives has something in common with the life of a commodity contract as seen on a bar chart. Just like a contract, we are born, live, and die. We have our ups and downs, just like price movement. We leave our tracks in time just like a commodity does on a bar chart. In fact, as far as our physical existence on this earth goes, our series of days are really nothing more than the working out of price and time. Price is the equivalent of experience, events, and fundamentals. Time is the equivalent of the integration of superior linear time with subordinate cyclical time. It is important to observe, that just like in the markets, the majority focus on experience and day-to-day life — price, if you will. Very few think of the importance of time.

Our alloted time on this earth (linear time) is a consideration that most minds resist. It requires the contemplation of death. And, Americans will do most anything to avoid thinking about the linear end of a life cycle. After all, such considerations require one to ask, "What is important in life? What is ultimate? What is truth?" Rather, Americans have become what they own. And their identity with what they possess is dominated by a materialism which stresses youth and virility. Such a youth oriented philosophy postpones contemplation of old age and death for many, and eliminates it for some. We cast aside our senior citizens. Their age haunts us with a vision of our own future. We frantically build new houses and buy new cars rather than rest contentedly with our aging possessions. Their age has implications for us. Cosmetics cover facial lines. We paddle up stream to recover our own "year of the child."

We have insidiously instilled a government dedicated to stopping time. For, that's exactly what our government attempts to do. It legislates to maintain the status quo. It resists change. But, just like all things on this earth, because it fails to adapt, it is dying.

While the masses focus on price (experience, fundamentals, day-to-day life), wise men "zero-in" on time. The philosophical, scientific and practical implications of time have been the subject of discussion and debate among thinkers through the ages. Contemporary books, such as PASSAGES, touch on the subject. Such phrases as, "You only go around once in life," "You only get one chance in this life," "Make the best of today because it will be gone tomorrow," "Time is what you make of it," and "A fool loses tomorrow in search of yesterday," — all of these phrases are important in establishing priorities on how we spend our time. Just glancing through my library, I see such titles as TIME, SPACE, AND KNOWLEDGE, CYCLES: THE MYSTERIOUS FORCES THAT TRIGGER EVENTS, and THE DISCOVERY OF TIME. These are just three

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of thousands of works which comment on the critical "time" consideration. An accurate perspective on life requires one to first focus on time, and then determine how one will live the "fundamentals."

Most of us think about where we stand in our own life. For example, if we are in our 40s. we conclude that we are mid-way through life. Our children are about to leave the nest if they have not departed already. We are aware of what our "lot in life" is and what it probably will be. We have learned many lessons the hard way, far more than we learned the easy way. We can evaluate how successful we are based on what we hoped to become. When we make such deliberations, we are focusing on time.

Let's take this a step further, to a higher plain. Where do we stand in time regarding the rise and fall of nations? Let's tie our own personal linear and subordinate cyclical considerations into longer-term cycles and linear time. Do we notice a few mental light bulbs coming on? Isn't our nation and Western Civilization approaching a time of destiny? Stated differently, aren't events confirming cycles? Events, experience, fundamentals — price, if you will — tell us we're in the old age of our nation and civilization. For, what constitutes a mature civilization? Let's list a few "fundamentals." Our civilization has a pervasive, bureaucratic, central government which resists change and is unresponsive to the will of the people. Materialism is the philosophy of the day. Classical, ethical religion is in decline. Occultism is widespread. Raw materials, which can no longer be afforded, are imported in increasing amounts. We are, therefore, dependent upon outside and sometimes hostile powers for the resources necessary to maintain our way of life.

A sophisticated communication and distribution network supports a fragile, highly technical, life support system. Most of our people live in a city. Corporate agriculture is the norm. Our money is debased (inflation). Foreign imperialistic wars have increased. And so it goes with the "price" considerations.

How does all this fit with time? We are at the end of the 510-year cycle of Western Civilization as observed by Raymond H. Wheeler. We are at the termination of the 54-year Kondratieff Wave economic cycle. The fact that U.S. wholesale prices have deviated from all previous Kondratieff Waves suggests that the cycle may be coming to its linear end. This presupposes the end of Western Civilization. We are approaching the end of the 200-year Elliott Wave civilization super cycle. All of theses cycles converge with other economic, war, and earthquake cycles in the 1980s.

What must one think? The obvious conclusion is that we are at/near a massive turning point in history, of events confirming cycles in our civilization which will drastically and directly affect our personal lifestyles. We must anticipate and prepare for the turning point.

In the markets, the masses are usually right during the trend, but lose their shirts when the trend changes. So it is in life. The masses ride the trends and expect tomorrow to be like today and yesterday. They prosper for awhile. But, they miss the turning points in history because they fail to have foresight. They don't anticipate change. And, they suffer and endure pain accordingly.

They are out of touch with truth. They are out of touch with reality. Those who live close to the truth are seldom surprised by the future.

They have only looked at price. They have missed the integration of life, the tie-in between price and time. For it is only when the vertical scale (price) is harmonized with the horizontal scale (time) that life itself can be more fully understood.

NOTES

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THE STRESS FACTOR

Stress is an integral part of America's 20th century way of life. A sophisticated communication and distribution system which emphasizes the maximum utilization of time, a monetary system plagued by inflation which further hypes the pace of life — both result in increased, cumulative stress. Stress is particularly noticeable and takes its toll upon the male members of our society. All it takes to confirm this is to check the obituary column of any major newspaper in any large city. There, day after day, is the catalogue of men who have died, survived by their wives. (How about some Equal Rights?)

Stress is an important factor to consider when trading commodities. All it takes is a cursory inspection of the commodity pits to see one of the best illustrations of stressful activity in our society. But, stress is seldom discussed among commodity traders. It is a taboo subject. We can talk about trading strategies, technical systems, money management techniques, but never stress. It is assumed that the American male is invincible. How foolhardy! Stress is cumulative! Any time we "put on" a position, any time we "take-off" a trade, we saddle ourselves with the stress of decision-making regarding our investment capital. When shall we enter/exit the trade? Where should we put our stop loss? Is/was the trade a good trade to begin with? Have the fundamental and technical considerations changed since we put the trade on? Have other factors, which have added stress to our being, become manifest? Are we overworked? Are we tired, sick? Do we have family problems? Are we involved in a lawsuit? All these things compound the stress with which any trader must deal when he is in the market.

The reason why intense stress is present in trading commodities is because our money is on the line. Money and emotion are closely tied to our basic sense of security and well-being. Many traders and professional gamblers literally become "iron men." They build up a huge callous which blocks the stress from their decision-making process. They become more successful traders. One has to wonder if this "block" is not like the lid on a pressure cooker which explodes at some point of time, maybe in the form of a heart attack.

Perhaps the most insidious and yet most vicious agent of stress to the commodity trader comes from the brokerage community. Make no mistake about it, brokerage firms exist to make money. They make money by generating commissions from you, the commodity trader, or by utilizing your excess funds (free credit balances) to earn interest. Each of us, as traders, establish a pattern which an astute broker soon recognizes. Should the trader start to break his pattern of trading (generating commissions), brokers become nervous, worried. Their income is at stake. They begin to call more frequently, suggest trades, "see if you are all right." All of these calls, under the guise of being well-meaning, are, in fact, detrimental. They generate stress, more pressure to trade. It is contrary to a trader's best interest, psychologically, physically and financially.

Just like any good runner, a commodity trader must know when to trade and when to rest. A track man cannot run all the time and then perform on the day of the race. He must rest and recharge his batteries. The same is true for the commodity trader. He cannot exist in the markets under constantly building stress. If he does not take a break, he will not be able to perform when the good trades appear, or he will make faulty judgments.

The bottom line is this: There is a time to get out of the market totally. A trader needs to rest occasionally, to forget the markets, to blow them out. During this time, when/if your broker calls, tell him to "go fly a kite." If he refuses to go fly a kite, tell him that if he calls you again you will close your account. This will ensure that he leaves you alone. There is no sense in enduring stress and tension generated by someone who is your agent, your broker.

NOTES

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STAND STILL

I have learned from consulting line conversations that we are all pretty much alike, particularly when it comes to adversity. We all tend to experience the same types of troubles: personal illnesses, the sickness or death of loved ones, tension in a marriage or family, financial pinches, the trauma of relocations, IRS audits, peer pressure, work pressure, dissident secretaries, bosses and working associates, difficulty in ordering priorities, too little time and too much work, home fires, mechanical failures of various types, car wrecks, lawsuits, and weather which blows to "kingdom come" our best laid plans. Not only is this troubling "kit and caboodle" enough to test one's patience, it's downright distracting when it comes to trading the markets. Such problems cause irritation and inhibit one's ability to trade. What should one do? Before I answer that, a few further comments are appropriate.

For the past few years, I have kept a weekly and monthly bar chart of my life. Subjective as it is, it is still quite helpful. When I have an exceptionally good week, I chart a wide range with a high close. If the week which follows is good, I graph a higher high, a higher low, and a smaller range. The close is placed according to how the week ended. If the next week is a disaster, my life's chart reveals a wide range with a low close. If the week that follows is a so-so week with no appreciable change, I chart an inside week with a middle of the range close. And, so it goes.

Do you see the picture? Life is just like a market! On a good bullish day, the market has a wide range and a high close. On a good week, one's life chart will have a wide range and a high close on the graph. Markets are reflections of life itself. The mass mind of the market is just the sum of the individual minds which live, week by week, and month by month. Perhaps it is a law of nature, perhaps it has to do with biorhythms, but, in any case, life runs beautifully on a bar chart.

I have found that technical analysis works on my life's charts too. After three good weeks in a row, I can usually expect something to go wrong the fourth week (a reaction). Or, it may be a so-so week (an inside week). The same situation applies to my monthly life charts. Life is just a series of ups and downs, like the market.

Stick with me. I haven't gone off the deep end just yet. And this isn't all hocus-pocus, magic or psychological illusion. It all came about by observing life. In fact, it's gotten so that I can tell when I am about to enter a reactionary period of my life. No kidding. What I try to do during this reactionary time is simply STAND STILL.

During these reactionary life phases, I expect to strike out at bat for the softball team, stutter during a speech, screw up a trade, overlook a piece of important economic information, get a ticket for running a stop sign, have car failure, catch a cold, make stupid judgmental mistakes, and have other negative things occur — most of which I am not expecting. Trouble does come in bushel baskets!

I have learned to guard against unnecessary trouble with the markets in tough times. During these reactionary periods, I seldom trade. You will find less recommendations in THE REAPER, too, and more caution in my approach to the markets. I watch what I eat, hold my tongue, never make major decisions, and generally simplify my life and reduce my activities.

Summing it up, I stand still, do as little as possible, and wait for the reaction to pass. Remember, reactions in markets can be measured not only by the decline in price, but also by length of time. I have found I can minimize the damage which I would "naturally" do, by doing as little as possible during the reaction until it has run its course timewise.

The principle of standing still during difficult times in life may be life's version of the market adage, "When in doubt, stay out".

One final thought. The key to having more bull trends than bear trends in life is humility, personal learning and growth. The up trend just keeps on rolling when one is continually receptive to constructive change.

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It was again time for my punishing jog down the country roads. After just completing some brilliant short sales in gold and silver, which resulted in spectacular profits, I immediately jumped in on the long side of the soybean market only to be whipsawed out with a moderate loss.

The soybean trade was a dumb trade. I knew better than to hop right back in the market after taking a nice profit. My discipline rule states: "Once a profit has been taken, it is time to sit on the sidelines for awhile and recoup." I had violated my rule.

To make matters worse, I stayed with my losing position in soybeans for nearly a week. Instead of moving my original protective stop up and exiting the market with a minor loss, I stubbornly maintained my "original" stop loss and made the market take me out, which I knew it would.

Sometimes, it's correct to stick with one's plan, to put one's protective stop in the market and hang tight. But, when the market clearly does not do what one expects, one is foolish to maintain one's rigid original plan.

I looked in the mirror that afternoon. There, before me, was the market's jester. It was time to hit the road.

As I approached the "T" in the road, instead of veering to the right, I decided to veer left, to jog across the old red bridge and around the curve to where the old man lived. As I rounded that bend in the road, there, as expected, was the old gentleman rocking back and forth on his porch as he did this time every afternoon. He waved, and without hesitation I ran over, sat down on his porch and panted, "Good afternoon". He rolled his eyes slowly toward heaven, smiled ever so slightly, and quietly remarked, "You're in trouble again, aren't you, Mac?" I responded, almost under my breath, "Yes, I am." With that statement conveying my obvious willingness to listen, the old man pulled his gray coat around his chest, turned his antique rocking chair toward me, and assumed the role of teacher. "Mac", he said, "there is a lesson you haven't learned yet. You haven't learned there is a psychological price to be paid for carrying a position in the commodity market. You talk about profitable trading systems. You discuss, quite adequately, excellent money management techniques. You also cover the importance of discipline in executing one's trading system and money management techniques. But you've overlooked something — something that you will only learn with age. That is the importance of recognizing and understanding the psychological price one pays for carrying a position in the commodity market.

"But, you are not alone. All those boys talk about insulating themselves from the market by using computer programs. They're just fooling themselves. They don't see the emotional price they pay for carrying the position. Because, you see, regardless of whether the computer generates a buy or sell signal, they have to decide whether or not to take the trade. And, even the few who do trade mechanically have to go home at night, just like you do, and live with the pressure of the position. There is no way around it. It separates the men from the boys.

"You know, the psychological price of carrying a position never occurred to me when I was young, eager and aggressive in these markets. Of course, I didn't make any money then, either. Or, at least, not near as much as I'm making now. But, as I grew older, my thinking became more integrated, more mature. My judgment improved. Now I focus more and more on the drain the market has on me — emotionally, physically, and mentally. I never make any excuses anymore for exiting a position when it has hit my target. I never rationalize exiting the market when I'm no longer sure of what it is doing. I never apologize for jumping in and out of a major move four or five times. The cost of commissions is cheap compared to the psychological relief that comes with taking a week off, away from the market in order to recharge my batteries and review my perspective. Sure, there are those who can sit through an entire bull move, such as we have recently seen in the sugar market. But, they are few and far between. And they just may be more gifted than you or me. I'll tell you one thing for sure. They have far more assets than the average commodity trader, and they're really not hurt if the move goes against them. It's not even a dent in their financial armor.

"Most of us must seek psychological relief. We must take vacations from the market. They are necessary to keep us from becoming emotionally exhausted. We cannot do battle with the tide. We cannot always do battle with the market."

As the old man continued his instruction, he quit rocking, leaned forward, pointed a finger at me, and talked much as my father used to do when he warned me about water moccasins around river banks. It was instruction in survival. The intensity of his remarks was evidenced by the tension which I felt build in my body as the truth of his words hit home.

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Sensing my stress, the old man sat back up on his chair and rolled his eyes again skyward. He chuckled and then said, "Mac, have you ever noticed all those traders who are in and out of the market every day, always looking for constant action?" I nodded. He continued, "You know that they lack patience, that they will never win. But, there is another aspect to their 'losing' makeup. They never have any psychological relief. They are always paying too high a price. They never gain a relaxed perspective on the market, their positions, or themselves. You, my man, have missed that observation. I share it with you because it is critical to surviving in this business. And, I want you to survive.

"I've survived a long time. There are few situations in the market which catch me totally by surprise anymore. This is because I have learned what you so aptly teach, that human nature is a constant, that the more things change, the more they remain the same. It is just seeing how the same variables relate in a different way.

"Now, you may find this surprising, but when I count the costs of trading the market, I count the psychological costs first, before I consider the financial costs. You see, I have learned the only real asset, the only real security in this life, is what's in my head, — how I think, how I relate to people, my ability to be creative and to solve problems. If I 'have it together', as your generation puts it, then I know I will be able to earn. Having it all 'hang together' is partially a function of not paying too high a psychological price. Keep that in mind, not only as you trade the market, but as you go through life. Just what is the psychological price of a decision?"

With that, the old man closed his eyes and resumed rocking, I coughed, swallowed, and in a broken voice, whispered, "Thank you, sir." He nodded, never bothering to open his eyes. I quietly stood up, walked to the edge of the lawn, and began my jog back home.

The sun was setting, as it always is when I leave the old man. The darkness was settling in. But the light that he had shed would shine for many a night in my life.

NOTES

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THE CASSANDRA CROSSING

Over a year ago, O. J. Simpson starred in the movie, "The Cassandra Crossing". It was a thought provoking piece. A trainload of innocent, unsuspecting travelers were rumbling across Europe by train when a revolutionary, who had been infected by a biological warfare concoction, hopped aboard. The military, having located the revolutionary on board, would not let anyone off the train. The doors and windows were sealed. It was decided to reroute the train to a decontamination center, which necessitated traversing the Cassandra Crossing. Here's the kicker. The Cassandra Crossing was in extreme disrepair. It was ready to collapse. If the train tried to pass over the Cassandra Crossing the train, and everyone in it, would plunge to the bottom of the gorge. The rest of the movie dealt with the scramble of those on board to get off the train prior to the Cassandra Crossing . . .

Everyone goes through a period in their trading when everything goes wrong. A trader comes up with 5 potential trades and takes 2 of them. The 3 that aren't taken turn out to be winners. The 2 that are entered result in losses.

Next, he is whipsawed out of a profitable long position at the low of the day, prior to the market recovering. The market not only rallies back to his entry point, but to where he would have had a nice profit. What happens next? The soybean market is going higher, so he enters an "or better order." The market drops to just above his buy point before rallying. The move is missed.

Finally there is a miscommunication with the broker which results in a buy order when a sell order was intended. The incorrect placement of a protective stop results in a whipsaw loss; no stop in the market leads to a larger loss than expected, and the failure to cancel a "good until cancelled" sell stop results in an unwanted position. It is at this point that the trader is ready to "chuck" it all — tear up his charts, stomp on them and then burn them in the fireplace. He is ready to smash his broker in the mouth, kick the dog, drink too much, or more dangerous than any of the above, get mad at the market.

I do not know an honest trader who has not gotten mad at the market, at least once. Those who say they have never gotten upset at the market are either from out of this world, a zombie, or are lying through their teeth. Beyond question, the most suicidal, the most dangerous time to trade, is when one is angry at the market. One can best vent the anger by taking a vacation or by going out and running 10–12 miles. When one is angry at the market, one's judgment is severely impaired. The tendency is to try to make the market go one's way (plunge). This means that stubbornness, poor trading technique, and irrationality are the order of the day. It is the "call of the wild."

When one is on a deteriorating railroad track, and nothing seems to go one's way, one should jump off the train, get out of the market! To become angry, to become frantic, to plunge into the market is to risk riding that "beauty" over the Cassandra Crossing, with the likely result being a long, hard fall terminating in financial suicide.

THE TRADE-OFF

Mature thinking adults realize that one of the key issues in life is deciding how to spend one's limited time. If we do one thing, we can't do another at the same time! We are required, either by conscious action or default, to establish priorities. The more perceptive adhere to the adage, "If it's urgent it's seldom important. If it's important it's seldom urgent."

Two of the trade-offs many of us struggle with are:

1. The decision to live in a large city versus a small town. Cultural benefits, entertainment, restaurants, libraries, and conveniences come with life in a large city. This must be weighed against the likes of crime and congestion. Incomes are usually higher in cities too. On the other hand, life in a small town in rural America is characterized by peace and quiet, but smaller salaries and less activities. The negatives of a big city are the positives for the rural community, and vice versa.

2. If a man wants to be successful, he must work long, hard hours at his business. This is a trade-off with the time he spends with his family. Balance is key. Some men sacrifice their health, lose sleep, etc., in order to satisfy the demands of both their job and family. This is an effective near term "urgent" solution, but, longer term, the negative "important" effect is a shortened life.

All commodity trading systems involve a trade-off. One must always weigh the potential of gain versus the risk of loss. Long-term traders who desire to make huge profits in the markets

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usually assume large dollar risks in order to achieve their goals. They have a low percentage of wins in trading the commodity futures markets. Shorter term and intermediate-term traders grab quick profits. They risk less money and have a higher percentage of successful trades. But they never make the big killing. It's a trade-off . . . Which approach is most consistent with your personality?

As this writer has matured in the markets, I have become able to use many different trading approaches in the markets. Thus, I can better capitalize on short-term opportunities and long-term opportunities as well. Each is recognized now for what it is. Also, by integrating classic technical analysis, cycles, astro-cycles, market psychology, monetary variables, and climatological factors, I find that the primary influences on the market are more easily recognized. This increases the accuracy of forecasts and trades. Thus, research and hard work make the trade-off decisions less difficult.

One finds one principle of successful speculation that cannot be compromised. It is money management. One must be able to stay in the game. For that reason, THE REAPER focuses primarily upon minimizing risk. If one can minimize failure (loss of capital), success will take care of itself. If one throws in one's cards quickly enough when dealt a bad poker hand, sooner or later the odds are one will get a hand that will turn a profit. This poker playing principle applies to commodity trading. The first rule of gambling/investing is to survive. This means an investor must focus on maintenance of investment capital first, and appreciation of capital second.

NOTES

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A TRADING PERSPECTIVE

Regardless of what one does in life, a perspective is important if one is to fully achieve one's goals with a minimum of error. A commodity trader's "trading approach" to the market should include consideration of his temperament, capitalization, and technique for trading a particular commodity. In other words, an integrated perspective must exist.

Successful traders who "buy and hold," trade long-term, have the following characteristics: They look for major moves in a commodity no more than 3 or 4 times a year, usually only twice a year. They have a long-standing fundamental overview of the market. They have an extensive technical perspective on the market. They integrate the two when they enter the market. They usually take a large position.

A large trader is heavily capitalized and does not worry about the day-to-day swings. He may assume an initial risk of several thousand dollars per contract. He may not use a protective stop in the market. He looks at his positions as an investment rather than a speculation. He knows he will only make money on approximately 1 out of 3 trades.

By contrast, the small and medium account trader — $5,000/$25,000 — is a guerrilla warfare trader. He must hit and run, play the swings, and use close stops. His perspective is much different. He can't afford the loss of capital. Therefore, he must be more precise in his timing, catch the swings up or down. He must use precise and usually closely placed protective stops to preserve his "nest egg."

The swing trader, who has the small to medium size account, doesn't need a fundamental perspective. He is looking for excesses in the market — overbought and oversold conditions, commodities which can be purchased or sold short with minimum risk. His percentage of accuracy will be higher — 50%/75%. His "hit and run" philosophy is usually consistent with his emotional make-up. He prefers staying in the market for only a few days, up to a couple of weeks. The majority of traders fall in this camp — swing traders.

Both of the above perspectives are viable. The first perspective, the long term perspective, is a much slower paced, and a much more casual trading approach. It does not require constant monitoring. On the other hand, the less-wealthy swing trader must constantly be a sentry — on guard, watching over his position. The very nature of this close supervision results in tension and stress for most commodity traders. It's the accompanying price to be paid that goes with this necessary trading approach for the middle-class to moderately wealthy commodity trader.

Because long-term trades occur only once or twice a year per commodity, they are only recommended that often in THE REAPER. The majority of time is spent catering to the swing trader, because frankly, that is where most of the action is.

KNOW YOUR ENEMY

In the upper levels of karate training, — brown-belts, black-belts, and in higher ranks, — students are taught to defend against two or more attacking adversaries. In some exercises, the student will have the option of attacking one of the two or three adversaries first. He strikes before they attack him. In other training sessions, he is forced, at least initially, to restrain himself and wait for the attack by the superior number of assailants. In this case, he has to use his head. He is best served by picking the probable first assailant from cues given non-verbally. The closest assailant, or even the most vicious and impressive one, may not be the greatest threat, depending upon the exercise. The student is taught to distrust the obvious.

Intrigue and deception are oriental "art forms" far more highly developed in the Far East than here in the West. It is easy for a Westerner, accustomed to the honesty of head-on confrontation, to fall victim to sly deception.

This principle of knowing your adversary, being aware of the possibility of deception, and distrusting the obvious, has foremost application to commodity traders. By and large, the mass of commodity traders are the equivalent of beginning yellow or green-belt karate students. They know just enough to be dangerous — to themselves. As a yellow-belt's ragged round-house kick may be blocked and countered by a spinning back kick, so are the ragged technical and fundamental anal-

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yses made by sophomore commodity traders subject to a market blitz by experienced locals, professionals, and commercial interests.

It is no accident that many of the floor "thieves" refer to the trading public as pigeons. Just as a Central Park pigeon will follow the bread crumbs right into the trap, so will the trading public continue to buy on the same old fundamental news until the move is exhausted. They have bought at the top, and are subsequently trapped in the downside liquidation. The public is unwary, oblivious to the threat of deception. The public does not distrust the obvious.

The old market saw, "Buy on rumor, sell on news," has foremost application. Markets usually move up in anticipation of the release of news items. Buying on rumor requires some courage. It is an insecure approach to the markets. It involves the assumption of risk. It is painful. Thus, the assumption of risk financially is difficult for most men, because it is insecure, painful, and therefore requires discipline — courage.

It is difficult to buy corn and soybeans in May or June, when there are only rumors of a drought, and when little information is available. It becomes quite easy, on the other hand, to buy the corn and soybeans in late September or October, when everyone knows about the drought and resultant crop losses, and the information is widely distributed.

The pigeon is wary about picking up the first bread crumb. But, after the third or fourth one, it becomes "old hat." Just like the commodity trader, the pigeon forgets to suspect the obvious.

What must the yellow-belted, bread-picking, commodity pigeon do by way of metamorphosis to transform himself into the sly fox in the hen house. First of all, he must take seriously the market adage, "Buy on rumor, sell on news." The only time this adage does not apply is when there is some real surprise that hits the market, such as the unexpected outbreak of war. Such events usually are anticipated by the market and become apparent to a technician. (Insiders know about a war and buy gold. This accumulation is usually seen by the technician in technical indicators.)

Secondly, a trader must begin anticipating what the next most significant fundamental will be. He must discount the old news and begin paying attention to new rumors, see if they are logical, and make sense, in terms of future market action.

Finally, an astute trader must recognize that comprehensive fundamental understanding of the market helps him know where he stands in the scheme of things. However, confirmation of his fundamental analysis must come from technical buy and sell signals, which are vital to correct market entry.

Summing up, start from a comprehensive fundamental overview, anticipating what future news will be. Then, with that perspective, wait for the market to confirm the fundamental opinion, technically, before taking a position.

NOTES

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THE LAST TRAIN OUT

In this business, one needs an inner circle of friends to brainstorm with occasionally. One of my "think tank" people is Dr. Gary North, an economist/theologian. Gary does a good deal of economic consulting, and his Remnant Review entitled, "The Last Train Out" had some thoughts which pertain to commodity traders. For example, North's First Law of Speculation is, "Never buy or sell in a panic."

I tend to agree with Gary with one qualification. If a buying panic is under way, I want to sell when it exhausts itself. If a selling panic is under way, I want to buy when it exhausts itself. In other words, when mass action of either an optimistic or pessimistic nature becomes rampant in the market, one had better take profits if one is running with the crowd, or consider going the opposite direction to the panic once the panic is exhausted. This is usually indicated by a termination of rapid price movement and low volume, or extremely heavy volume with negligible price activity.

The reason for buying in a panic is based upon the idea that this is the last train out. There are quite a few bankrupt commodity traders who have caught the last train out, time and time again, only to find out sadly, it was just one of many trains coming down the track.

Gary has another law, The Law of Late Investing. It goes like this: "He who knows what to do in advance and hesitates will jump in at the top, or near the top, when what he knew would happen happens."

When I read this law initially I chuckled. It is so true, particularly among novice traders. A novice trader does not enjoy the confidence of the experienced trader. He will wait until the market confirms his price projections, and then enter. However, at this point, the trap is sprung since the market has already fully discounted and utilized the news upon which the novice trader based his analysis. A trader who fails to act upon his conviction early, due to lack of confidence or courage, and in turn, jumps in at the top, has entered the market when risk is maximized. In fact, risk is maximized when all information is known, which is usually when one's target has been realized.

Gary went on to point out that there are always two sides to every story, in other words, a bull and a bear argument at the same time. With regard to gold he noted, "Gold is rising rapidly. Everyone is getting on board. It is the final call for the last train out. The hordes are at the gate. There is no tomorrow."

On the other hand he noted that there are reasons not to buy, "Gold is rising rapidly. The lemmings are in the market. The weak holders are dominant. These prices cannot possibly be maintained. Wait."

Gary notes that the correct attitude is dependent upon the future. This is essentially correct. It's a matter of judgment. However, we must operate, as speculators, in line with the laws of probability. We know that it is very seldom that a market will run away. Therefore, probabilities favor a guerrilla warfare approach to the market. Wait for a minimum of an oversold condition in a bull market to buy, if not a break-out.

Two arguments can be applied to collapsing prices. Gary noted, "Gold is collapsing in price. It is at the bottom. The weak holders of gold are out of the market. All the bad news has been discounted. There will never be a better buying opportunity than this."

Contrarily, he argued, "Gold is collapsing in price. The lemmings are getting out of the market. Don't fight the tape. It may hit new lows. Panic has just begun. There will be good bargains later. I'm worried. Wait."

What's left? A buying panic has been covered. A selling panic has been discussed. Oh yes, stability. Gary notes, "Gold's price is stable. It's in one of its holding patterns. It has been stable for months. It's about to make one of its fast moves upward. Get in now before the lemmings come rushing into the market."

Contrarily, "Gold's price is stable. Why buy now? There's plenty of time. I can put my money into T-bills. It may go into a panic downward spiral. No use getting in too soon. Wait."

What all this discussion illustrates is that there are always two sides to every story, and for the novice or inexperienced trader, it is a flip of the coin which way he should jump. A novice is lucky if he makes any money at all. This is why paper trading is recommended for new traders. It is also why it is important to follow the advice of a competent commodity advisor. Ultimately, if one is to snag a soybean profit on one's own, one must build up a substantial data base (frame of reference), whereby one can compare historical infor-

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mation on price and market activity with present price activity. The price, financially and emotionally, of acquiring expertise in the commodity markets on one's own is quite high. Rewarding, yes, but quite demanding and time consuming. Make no mistake about it.

One of the most inexpensive commodities that can be bought in this country is good advice. Hopefully, this is why you are subscribing to THE REAPER. When your editor was a new trader, he read everything and floundered around. As his experience grew, he eliminated more and more of his reading requirement until he felt himself an expert. Then, this expert fell from grace. He learned that life is a growth process. Presently, your editor is back in the groove of reading as much as he can, recognizing there are always those who have different insights. Everyone has something meaningful to contribute. Your editor is able to assimilate much information now because he has confidence, historical experience, and many profitable trades under his belt. It is easier to discern truth from error.

THE MORE THINGS CHANGE

(Source: The Decline of the West, Vol. 2, By Oswald Spengler, copyright 1923, Pg. 484.)

"Lysias informs us in his oration against the corn-merchants that the speculators at the Piraeus frequently spread reports of the wreck of a grain-fleet, or of the outbreak of war, in order to produce a panic. In Hellenistic-Roman times, it was a widespread practice to arrange for land to go out of cultivation, or for imports to be held in bond, in order to force up prices. In the Egyptian New Empire, wheat-corners in the American style were made possible by bill-discounting that is fully comparable with the banking operations of the West. Cleomenes, Alexander the Great's Administrator for Egypt, was able by book transactions to get the whole corn-supply into his own hands, thereby producing a famine far and wide in Greece and raking in immense gains for himself."

Throughout history, markets have been manipulated by those with influence for the benefit of a few. Mankind has not changed. Should we expect markets to be any different today? After all, every day we have a new gold "fix."

THE SAME COIN

Market manipulation and contrary opinion are different sides of the same coin. If one looks at the market from the perspective of a contrarian, one reaches the same conclusions reached by a believer in market manipulation. The crux of contrary opinion theory is that the public is usually wrong. The crux of market manipulation theory is that the public is usually fleeced.

Whether the public is wrong (contrary opinion), or fleeced (market manipulation), the public takes it in their collective financial ear. And, since better than 80% of the trading public loses its investment money, one is best-served by trading contrary to the public. This is particularly true at market extremes which are marked by extreme optimism or desperate pessimism.

At an extreme in optimism, the follower of contrary opinion thinks, "Now that the public is loaded up in the market, and everyone has bought all they can buy, where do I go short?" The believer in market manipulation thinks, "Now that the public has been sucked into this market near the top, the big boys can take their profits and break the market back down."

The follower of contrary opinion avoids the investment herd with a vengeance. The believer in market manipulation goes with the so-called "market elite" and thereby, also avoids the thundering herd. Both in practice, trade the market the same way. Their reasoning is just different, two sides of the same coin.

NOTES

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PART II
TECHNICAL SECTION

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There are only three things a market can do. I. A market can trend. That is to say, it can rise or fall in some uniform way. 2. A market can reverse trend, from up to down, or from down to up (turning points). 3. A market can trade "randomly," chop up and down, with no clearcut price direction. This is known as a trading range.

If a trader will only remember that these three things are the only three things a market can do, then a trader can maintain his perspective on what to expect the market to do in the future.

The market seldom does next what it has just done last. For example, after a market has rallied for three days in a row, or three weeks in a row, or three months in a row, it probably is not going to rally the following day, week, or month. Expect it to rest (congestion/trading range), or decline.

One of the secrets of trading the market is to know the characteristics of trading ranges, trends, and turning points. Once one knows these things, one has a leg up on the market. Of course, one still has to deal with one's self, which, as has been stated repeatedly, is the most difficult task of all.

TRENDS: Uptrends are accompanied by increasing public euphoria and bullish news. Down trends are accompanied by increasing public gloom and bearish news. Standard technical tools such as channels, trend lines, ⅓ and ⅔ speed resistance lines, ⅓ to 61.8% retracements, and old high price levels holding as support, are effective technical tools in a bull market. A healthy bull market's bullish consensus figure will range between 53% and 78%.

In a healthy downtrend, channels, trend lines, ⅓ and ⅔ speed resistance lines, ⅓ to 61.8% retracements, and old low price levels holding as resistance, are effective technical tools. Bullish consensus figures between 48% and 27% accompany a healthy bear market. Bear markets can occur three times faster than bull markets.

The trends, up or down, are usually evidenced by wider ranges and heavier volume than that which occurred during the trading range. Minor reactions may be no more than an inside day. A healthy minor reaction will last up to two and a half days, whether it be a decline in a bull market, or a rally in a bear market. Intermediate reactions seldom last longer than three weeks (a three week decline in a bull market, a three week rally in a bear market).

How long will the bull market last? It often depends on the length of the trading range. The longer a market is in a trading range, usually the greater is the ensuing move. Generally speaking, a market that has been in a trading range for one year, and then begins an uptrend, will usually go higher, longer than a market that moves out upside after a three month trading range. In bear markets, the more extensive the distribution, the greater the probability that a significant bear market will ensue once the breakdown occurs. (Bear markets may begin with "spike" top bull markets.) A healthy bull market lasts 6 months, on average. A vigorous bear market lasts 3 months, on average.

TURNING POINTS: The end of bull markets are usually evidenced by public enthusiasm that the market is "going to the moon." Trading volume becomes very heavy. The bullish consensus is greater than 78%. Wide price swings can result in key reversals at the top. Or, there may be heavy volume trading with negligible price movement at the high. Or, daily volume may become very light (up to three days), during which time the daily ranges are very narrow.These three situations usually occur after price action has approached the vertical on a bar chart. A vertical decline normally transpires, witnessed by heavy volume, wide range, low closes, followed by a time period of minor congestion or an insignificant rally, followed by still further declines.

Bull markets may top by forming areas of distribution, which are just as tiresome and as dangerous as are the trading ranges which occurred prior to the up move. These distribution patterns, such as head and shoulders tops, are witnessed by declining bullish consensus figures, declining open interest, declining volume, whipsaw price action, and ultimate fatigue as the distribution gives way to liquidation and a new bear market.

A bear market terminates in much the same way a bull market tops. When a bear market terminates, usually the public is overwhelmingly bearish and expecting prices to drop to "0." Bullish consensus drops 11%-27%. A termination of bear markets is usually marked by disenchanted bulls liquidating positions, margin calls, and panic. On a bar chart, this appears as gap-down days and limit-down days. Price action approaches the vertical. Open interest declines. At the bottom, there can be heavy volume, with wide swinging price action, followed by a key reversal and a close near the high of the day. Or, there can be heavy volume, with negligible price movement, as

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new buyers call in the contracts of frustrated bulls who have turned sellers. Or, there may be low volume, accompanied by narrow ranges. In this case the market is exhausted. There are simply no more sellers. A V-bottom can occur. Or, the market can move into a trading range.

TRADING RANGES: Markets spend between two-thirds and three-fourths of their time in trading ranges. Trading ranges are noted for random and erratic price action. Trading systems such as the "congestion phase" system work well in trading ranges. Scalpers buy weakness, sell strength and profit. Seldom does a rally or a decline last more than three days.

During the initial stages of a trading range, open interest declines, and then, as the market stabilizes into a well-defined trading range, open interest usually levels off. Volume is low to moderate. As prices move out of a trading range upside volume, open interest, and the daily trading range increases. As prices come out of a trading range downside, volume and the daily trading range increases, but open interest often decreases.

If a trading range is evidenced by low volume and erratic daily ranges, while open interest increases, expect the breakout to be to the downside. If the trading range is evidenced by erratic daily ranges and low volume, while open interest decreases, expect the breakout to be to the upside. Bullish consensus figures during a trading range are often in the neutral 40% to 60% range.

NOTES

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CONSULTING LINE OBSERVATIONS

Assuming the problems discussed on the consulting line represent a meaningful random sample of problems experienced by REAPER commodity traders-at-large, the following observations and comments should be helpful.

1. "The rich get richer." Consistently, consulting clients who are economically secure and have rather large commodity trading accounts make more money (% wise) than the smaller traders who are interested in earning their fortunes from the commodity markets. Why is this so? It has to do with the fact that emotion and money are so closely tied together. A well-heeled speculator can be more patient and objective in watching the markets. He can withstand larger price swings. He has the ability, additionally, to trade multiple contracts which facilitates the accurate entry and exit of positions. He can trade more commodities, too.

By contrast, the small speculator has to be exactly right when he enters the market because he is usually only trading one contract. Therefore, his entry and exit precision must be better than the large account trader. The small trader tends to be whipsawed more often because he is unable to withstand large price swings. His problems are further complicated by the fact that each dollar of gain and loss is, in fact, significantly more important to him. This impedes sound judgment and objectivity.

2. "Taking a loss." This is by far the most overwhelming problem that traders face. Whether the trader has a large or small account does not seem to make any difference either. No one likes to take a loss! The pain of taking a loss is avoided by many consulting clients by "hedging the loss." For example, if a trader was long December copper, and the price went down, rather than taking the loss in December copper, he would go short March copper, thus spreading his position. This tactic in copper, or any other market, not only locks in and guarantees a loss, but it also opens up a whole can of worms for the trader. It usually results in even greater losses. Once such a locked-in loss is established, a trader must decide which "leg" to lift and when. If prices decline should he lift the short leg, take profits on it, and hope that the long leg which has a loss will recover? What is the best way to handle the situation? Is the spread working for him or against him? A trader who has spread a loss ends up thinking against himself because he is both long and short at the same time and is trying, in effect, to trade both the bull and the bear side of the market simultaneously. Needless to say, the mental energy required to resolve such a spread is enormous. The result is that the trader usually ends up totally concentrating on his problem situation and tragically ignoring other trading opportunities which could have been profitable.

The solution is easy. Avoid spreading a loss. Once an entry is established, pick a stop point where one will exit the market. Put the stop in the market and forget about it. Playing games with the market almost without exception, results in a greater loss than the trader would have incurred had he taken his loss initially.

3. "Focusing on the short term." The most difficult way to trade commodities is to play the short-term, day trading swings. It requires too much mental energy, finesse, timing, and precision. The preferred approach is to take an intermediate to long-term trading approach, which is a more relaxed approach. It is appropriate to add that the intermediate to long-term approach is by and large, also the most profitable approach for a commission house trader. One can only establish an intermediate and long-term trading perspective by thinking in those terms and watching a trading opportunity develop over a period of several weeks or several months.

4. "Zeroing in on one commodity." Why in the world some traders decide that they are married to the gold market, or the pork belly market, or the soybean market, or any market is beyond this analyst's comprehension. The object of trading commodities is to make money. PERIOD! Granted, most people trade commodities in order to be correct. But, this is not the direction the REAPER is oriented. The thrust here has been to watch a wide range of commodities and then focus on the ones that offer us the best trading opportunities, the maximum reward for the minimum risk. Over a period of time, given reasonable luck in keeping with the laws of probability, this approach will be profitable. It has been profitable in the past.

It is also in keeping with consistent money management for a trader to spread his risk over a number of commodities rather than trade just one. Additionally, one tends to become too emotionally involved, and too close to the market, when one trades just a particular commodity.

5. "Rather guess than miss." An overwhelming number of traders would rather guess where a commodity is going than take the chance of miss-

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ing a move. Experience has taught this analyst that this approach to trading is pure folly when looked at from the historical perspective. Moves in commodities are like city busses. One comes by every 15 minutes or so. Waiting and watching and catching a move that one is expecting increases the probability of profit. Guessing market direction almost inevitably is a losing proposition. Better to miss a move than to guess, because over a long period of time, guessing will result in far more losers than winners.

6. "Money management." It never pays to plunge in commodities. . . . Now this is not entirely true. One may get away occasionally with plunging into the market and reaping a quick profit. However, the law of averages will catch up with this type of trader. One who is accustomed to plunging will eventually turn from being a short-term winner into a long-term loser. While the subject has been discussed before, a good rule of thumb is to never margin more than one-third to one-half of one's account balance in any one commodity or trade. A better rule of thumb is to never risk (from entry point to stop loss) more than 5% of the account equity on any one trade. One must look at commodity trading from a probability's perspective. With this frame of reference, one can easily see how a plunge could wipe one out.

For example, if a $10,000 account bought 6 contracts of wheat, the margin required is $9,000 ($1,500 per contract). If one entered the market and wheat dropped 20¢, one's loss would be $6,000. At this rate, a trader would only have 2 trades in the commodity markets in which to be correct before he would be wiped out. In a highly leveraged game, such as commodities, it is best to take the conservative approach.

7. "Trading against the primary trend." When the trend is clearly up or clearly down, it is reckless gambling to try to grab quick scalping profits by playing for a quick reaction against the strong trend. The floor traders can play this game because they are on top of the market, can execute their orders more quickly than commission houses can, and do not have the cost of commissions that burden most traders. Can a commission house trader compete with the locals on the floor? No way! Some of the safest trades in commodity speculating are made buying reactions when the primary trend is up, or selling rallies when the primary trend is down.

8. "Close only stops." Occasionally this analyst will recommend using close only stops. True, some exchanges don't take close only stops. However, any competent broker can place a protective stop loss in the market during the last 5 minutes of trading. This suffices for a close only stop in markets that do not accept them as routine orders.

NOTES

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CASH AND CARRY

There are two types of commodities — storable and non-storable. Some traders refer to them as non-perishable and perishable commodities.

There are two types of commodity charts — charts plotting the cash price of a commodity and charts plotting a commodity futures price.

Cash Steers Omaha-Choice-Average

CATTLE (LIVE BEEF) FEB. 1980-CHI.
EACH HORIZONTAL LINE = 50 POINTS

CONTRACT COMPLETED FEB. 20
HIGH 75.70
LOW 59.70

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For the purpose of projecting future price movement, it is important to discern whether a commodity is a storable or a non-storable commodity. As a rule of thumb, storable commodities' charts, such as those on corn, wheat, and soybeans, are pretty much in harmony with cash charts. Cash and futures charts "look alike." Occasionally, cash price will deviate from futures' price patterns, providing a clue to upcoming price direction, but by and large, the cash chart of a storable commodity is not as important as are cash charts for non-storable commodities, such as hogs and cattle.

In this analyst's opinion, the cash charts for non-storable commodities, such as hogs and cattle, are vital for successful technical analysis of these markets. The logic is not too difficult to follow. When a hog futures contract expires, the hogs must be used now. When a cattle futures contract expires, the cattle must be utilized now. But the "now" price is "cash." So, as a result of "real time" utilization of the non-storable commodities, the cash charts take on an added importance in analysis.

Technically, there is often considerable variation or outright discord between the futures price chart and the cash chart of a non-storable commodity. For that reason, many technicians find it difficult to analyze, for example, the meat markets with a high degree of accuracy. Cash prices (present fundamentals) must be considered.

Notice the February, 1980 Live Beef Cattle chart and Cash Steers Omaha chart on page 31. Exact time periods (1 through 6) are marked on both the futures and cash charts. During period 1, the cash chart reveals a consistent downtrend, while the futures chart shows a break, a rally, and then a subsequent break. A trader of live cattle futures during period 1 would have been best served by keeping a close eye on the cash steer chart, and, instead of buying live cattle during the June-July, 1979 upswing, he looked for a place to go short in mid-July, consistent with cash price action.

Period 2 shows a consistent uptrend in cash steer prices. Period 2, however, on the cattle futures chart shows a steep rally, followed by an impressive decline.

Period 3 on the cash chart shows a consistent slide in cash steer prices while Period 3 on the live cattle futures chart shows a whipsaw-up, down, and then up.

Period 4 in cash steer prices indicates a trading range. Period 4 in the February cattle futures contract reveals a wild trading range — a steep rally, followed by an equally sharp decline, followed again by another steep rally.

Period 5 on the cash steer chart manifests a slight downtrend in prices while Period 5 on the futures chart shows a steep decline in prices, relative harmony for a change.

The cash chart in Period 6 reveals a slight incline in cash prices while the futures market indicates a steep rise in cattle prices. Again, coordination exists for a switch.

What conclusions can we draw regarding cash steer and live cattle futures prices? (1) We cannot expect consistent harmony between cash and futures prices. The futures market is more volatile and often gives conflicting, emotional signals which can bankrupt a highly-leveraged technical trader who follows just the futures market.

In Period 1, the futures market made three significant price moves while the cash market made one. In Period 2, the cash market made one significant move, while the futures market made two. In Period 3, the cash market made one significant move, while the futures market made three. In Period 4, there was no significant price change in the cash market, but the futures market had three significant price changes. In Period 5, cash prices declined in harmony with futures prices. They rose in Period 6, consistent with futures prices.

(2) Tops or bottoms in the cash market can often give clues to upcoming tops or bottoms in the futures market, and vice versa. Notice, for example, that at the end of Period 3, cash steers formed a double bottom while the futures clearly formed a higher bottom thus projecting higher prices during the initial phases of Period 4. This harmony between cash and futures, plus a higher bottom on the futures chart, gave a trader one of the better technical buy signals in the cattle market. Similarly, at the beginning of Period 5, cash markets peaked and declined and future prices broke sharply too, indicating, technically, a confirmed sell signal.

Next, notice the Cash Hogs and February Live Hogs charts on page 33. Here is the same song, second verse to the cattle charts. During Period 1, cash prices declined while the futures prices revealed three significant price moves.

Period 2 showed harmony between cash and futures prices, cash prices forming a higher bottom, confirmed by futures prices forming a higher low. Thus, a strong technical buy signal was issued with low dollar risk.

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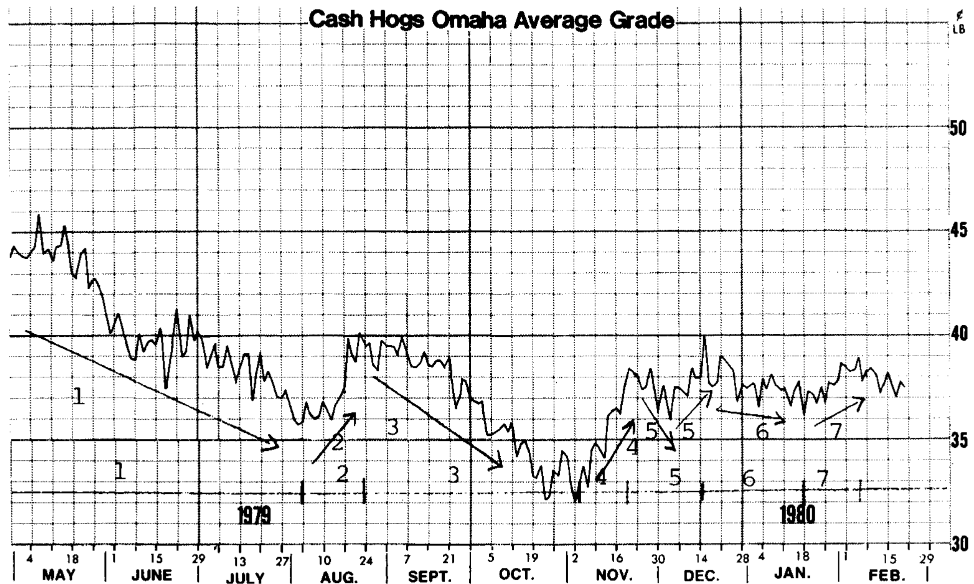

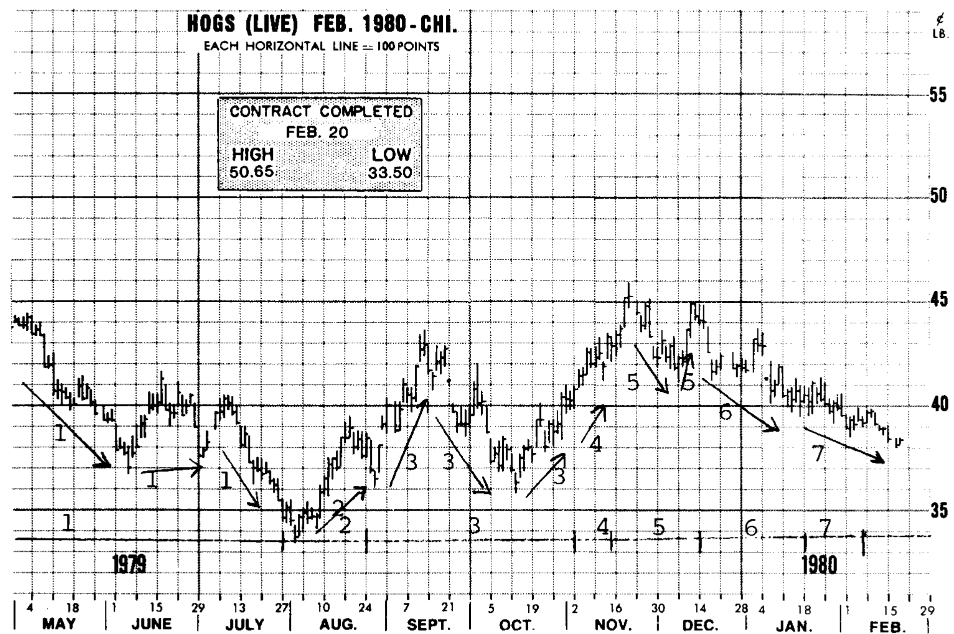

During Period 3, the topping pattern and subsequent decline in cash prices should have signaled a warning to futures traders that the breakout to new highs in the February Live Hogs contract was a false one. The real move in Period 3 in both cash and futures was down. Stated differently, during the initial stages of Period 3, the up move in the futures market was a bull trap.

Futures bottomed before cash in the up move in Period 4.

The harmony in price action during the early part of Period 5 between cash and futures prices gave the technical trader a solid sell signal. This accord carried through Period 6, but the disparity between higher cash prices and declining futures prices in Period 7 finally yielded to higher futures prices. (A buy signal for hog futures was issued in the February 28th REAPER.)

Is all this complicated? You bet! But this analyst has found no other way to consistently trade non-storable, perishable commodities, such as hogs and cattle, successfully. Waiting for conformity between the cash and futures market, or a significant deviation is vital to trading success.

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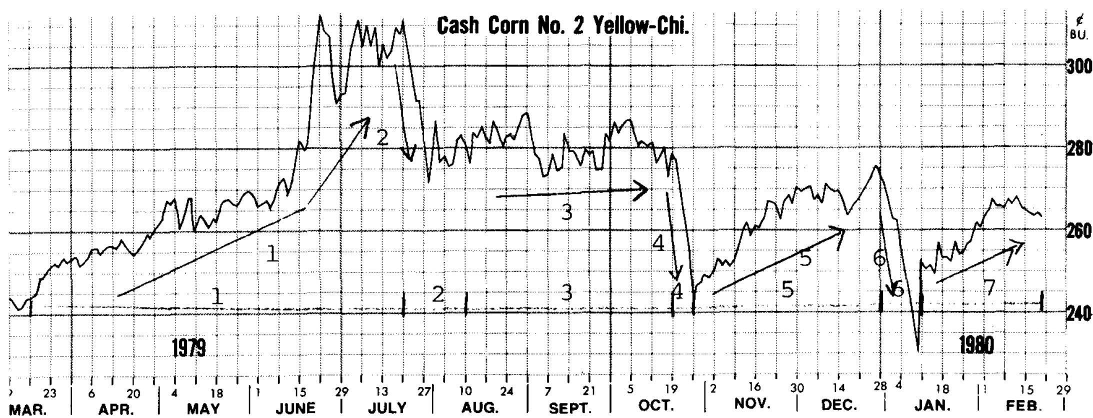

Finally, notice the Cash Corn chart and the March Futures Corn chart on page 34. The price patterns are almost identical. Why? Corn is a storable, non-perishable commodity. Futures charts have more validity. During Period 1, cash prices rose. So did futures. During Period 2, both cash and futures prices declined. During Period 3 cash prices were in a trading range while futures prices showed a slight up trend, but basically a trading range.

Incidentally, by keeping an eye on cash prices during early October, 1979, one would not have been suckered into the bull trap breakout in March corn futures above 300 the first part of October.

During Period 4, cash and futures prices declined. During Period 5, cash and futures prices rallied, but the higher high in the cash market was not confirmed by a higher high in the futures market at year-end, 1979. This alerted the trader to a forthcoming change in trend. Period 7 again revealed harmony between cash and futures prices in the corn market.

This cash/futures study is tedious. To some it may appear to be nit-picking. However, nit-picking is often the difference between winning and losing in commodity trading where competition is fierce. And, understanding the difference between storable and non-storable commodities and how their cash and futures prices relate is an important key to long-term profitability in these widely followed markets.

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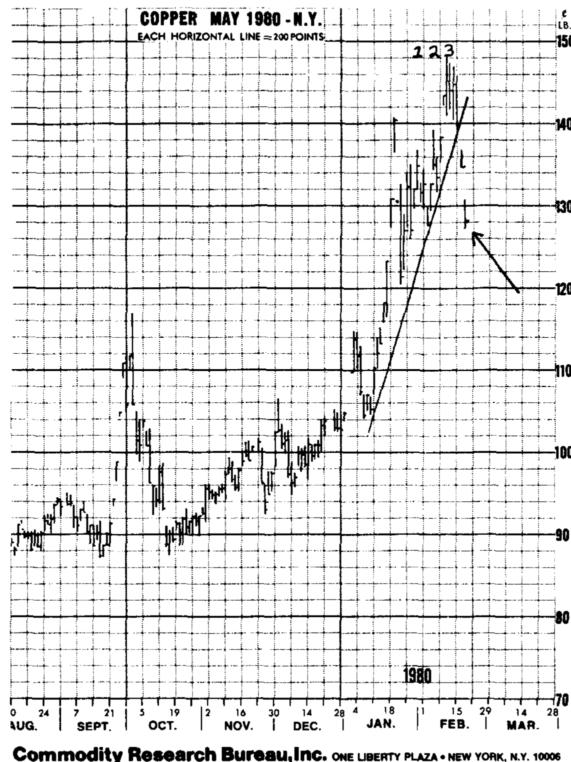
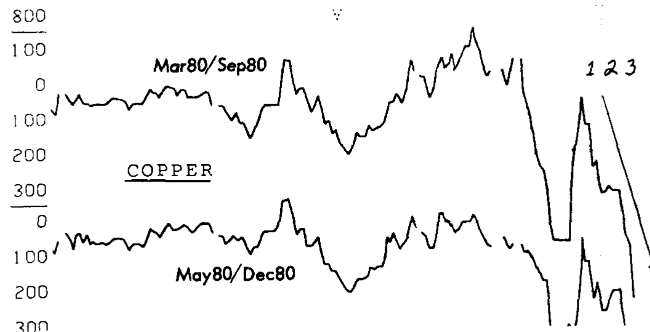
The February 7, 1980 REAPER stated, "Some astro-cycle data projects some significant trend changes the week ending February 15th. Incidentally, February 16th is a solar eclipse. This could be associated with high anxiety and monetary disruptions."

Monetary disruptions occurred all right. On February 15th, the Federal Reserve raised its discount rate one full point to 13%. On the same day, the Producer Price Index registered a staggering 1.6% increase. The following Tuesday, all the commodity markets, with the exception of cattle, sold off sharply. Were there any lead indications (tips) of a potential sell-off, particularly among the high flying commodities such as copper and cotton? In reviewing my indicators, I found such was the case. A clue was to be found in the spreads.

Three weeks prior to the free fall in copper prices, the March, 1980/September, 1980 spread peaked and headed down. (See #1 on the spread chart). While copper prices in the May contract advanced during week #2 and consolidated in week #3, the March/September spread continued to deteriorate. So, in the case of copper, the spread deterioration should have tipped us off to an upcoming reaction.





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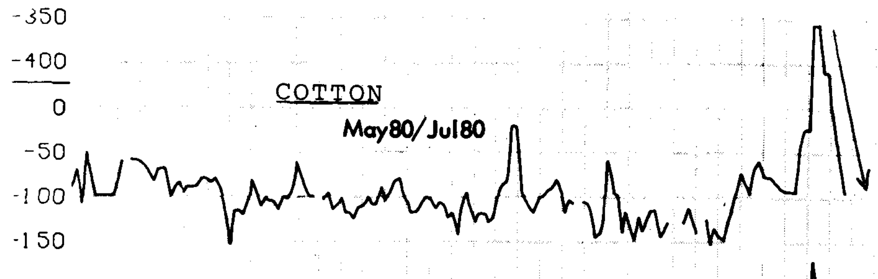
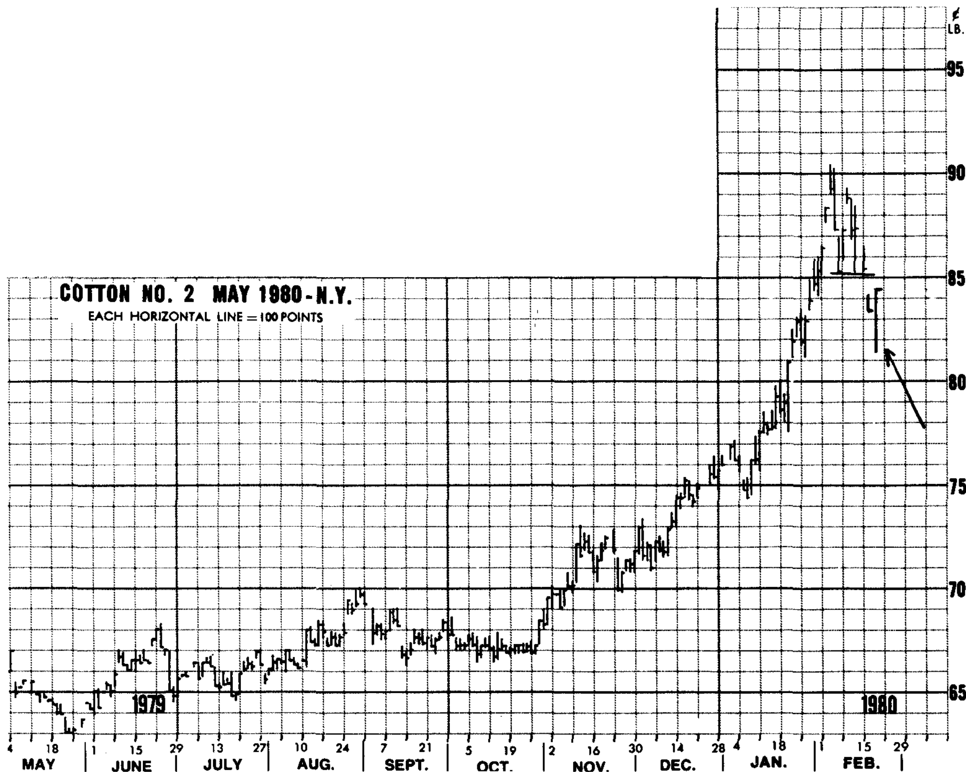
What about cotton? The same situation existed. While cotton consolidated between 85¢ and 90¢, the spread relationship between May '80/July '80 cotton deteriorated sharply. This deterioration should have tipped us off to the upcoming sharp decline in cotton prices from 85¢ to below 82¢.



Markets are seldom influenced by a single factor. Historically, the best trades I have made in the commodity market are those when a number of indicators and influences suggest either a change in trend or a continuation in trend following consolidation. In the case of both copper and cotton, we have two commodities which were high flying bull markets in which the public was heavily long. Better than 80% of all cotton traders were bullish. Better than 85% of all copper traders expected higher prices also.

The copper market had rallied sharply from 100 to almost 150 (a natural level of resistance) without a significant correction. After an 8-week advance (a Fibonacci number), some consolidation or reaction was to be expected.

Cotton had rallied from approximately the 75¢ level to 90¢ in five weeks (also a Fibonacci number). So, cotton, like copper, was due a reaction from its rapid 5-week price rise. The key to timing the steep reactions (sell-offs) in both copper and cotton was to be found in the deteriorating spreads, along with market history during a solar eclipse.



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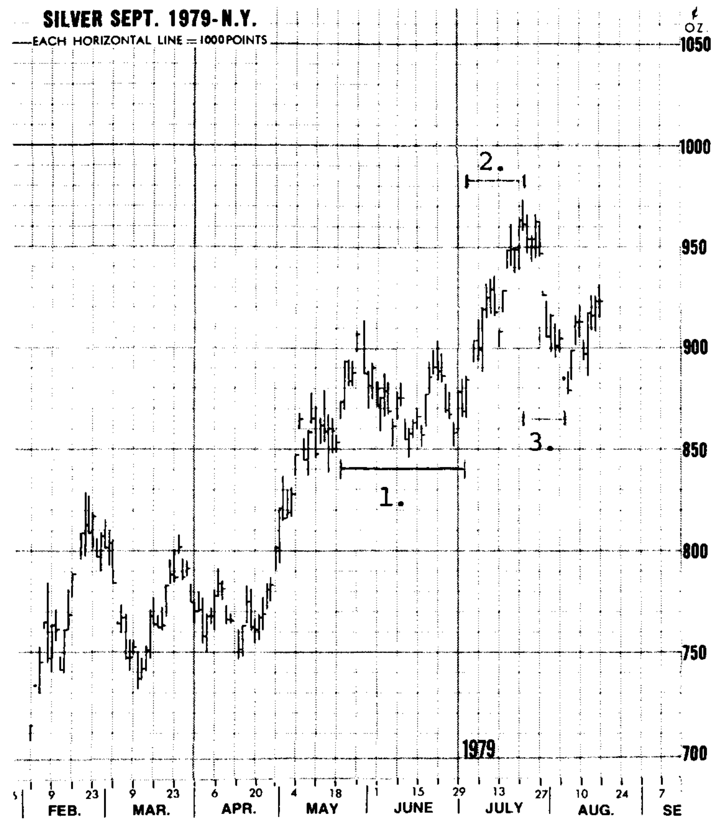
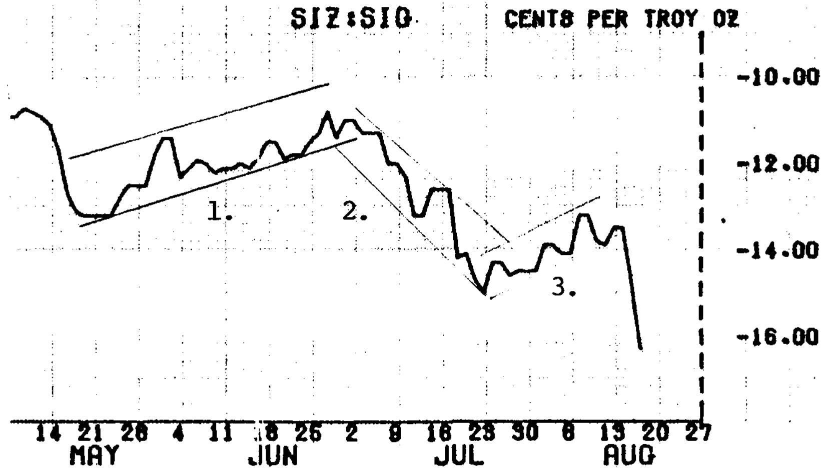
SPREAD/PRICE RELATIONSHIPS

The spread in price between two contract months of the same commodity often provides important clues to turning points in price action. In an earlier TRADER'S NOTEBOOK, we reviewed how the nearby contract often goes to a premium over the deferred contracts prior to a bull market in the grains (Wheat, Corn).



An inverse spread relationship applies in the Silver and Treasury-Bill markets. Notice the daily bar chart of September New York Silver. Next, notice the spread chart between December Silver (SIZ) and February, 1980 Silver (SIG.) During period one (1) on the September Silver chart, prices declined and then moved into congestion. At the same time, period one (1), the December: February Silver spread increased. During period two (2) silver prices increased sharply. Simultaneously, the December: February Silver spread declined (2). During the third period (3), as seen on the September Silver chart, prices declined. Again, the December: February spread increased (3).

The general rule held true. As silver prices rise, the spread between the nearby and distant silver contracts declines. As silver prices decline,



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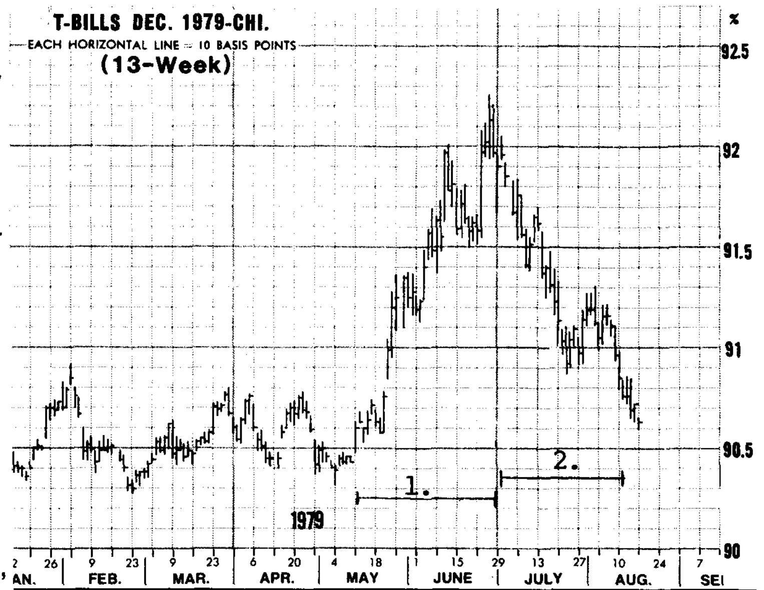
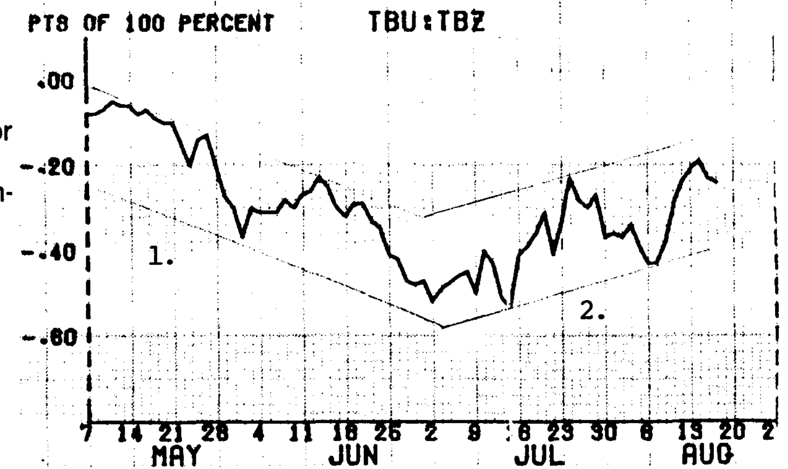
the spread between the nearby and distant contracts increases. A top in the spread may forecast a rise in silver prices. A bottom in the spread may be a prelude to a silver price decline.

Notice the December: February Silver spread chart following period three (3). The spread broke sharply. I reviewed this spread chart on the weekend of August 19th. My thinking was as follows. "Based upon past spread history, this sharp decline in the December: February Silver spread suggests that silver prices are about to rise sharply. Such, in fact, occurred. Silver went limit up two days later—Tuesday, August 21st (Not shown on the chart). Commercial buying was in the market. (Commercials play the spreads).



The same inverse relationship exists in the Treasury-Bill market. Notice during period one (1), December T-Bill prices rose while the spread between September T-Bills (TBU) and December T-Bills (TBZ) declined (1). During period two (2), T-Bill prices declined while the September: December T-Bill spread increased (2). The rule for observing Treasury-Bill spreads is the same as for silver. A bottom in the T-Bill spread between the nearby and deferred contracts may indicate an imminent decline in T-Bill futures prices. A top in the spread between the nearby and distant T-Bill contracts may indicate an upcoming price rise in T-Bill futures prices.



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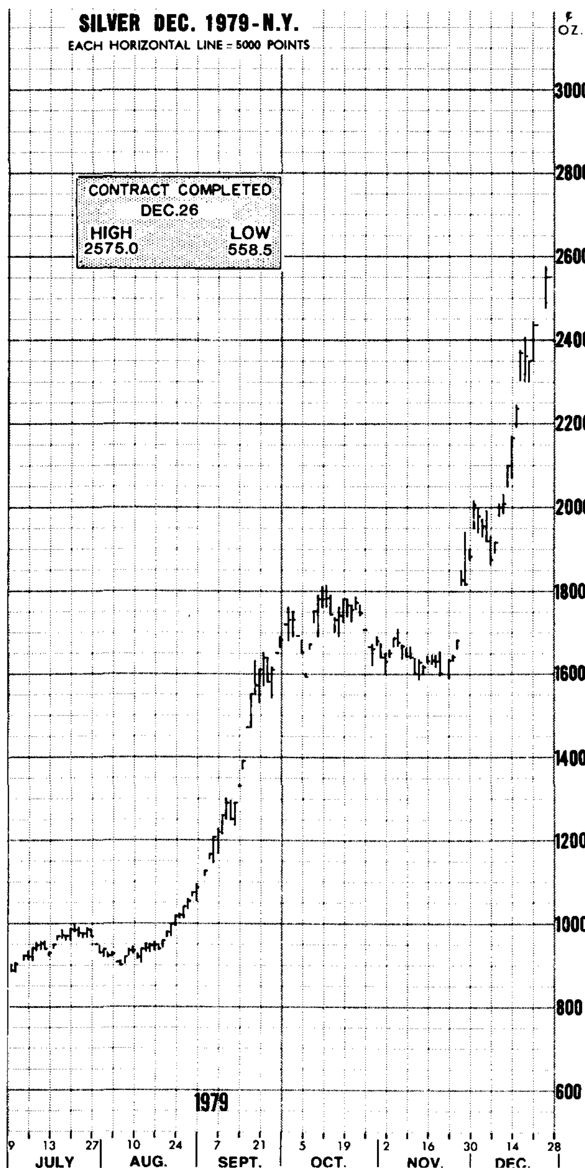

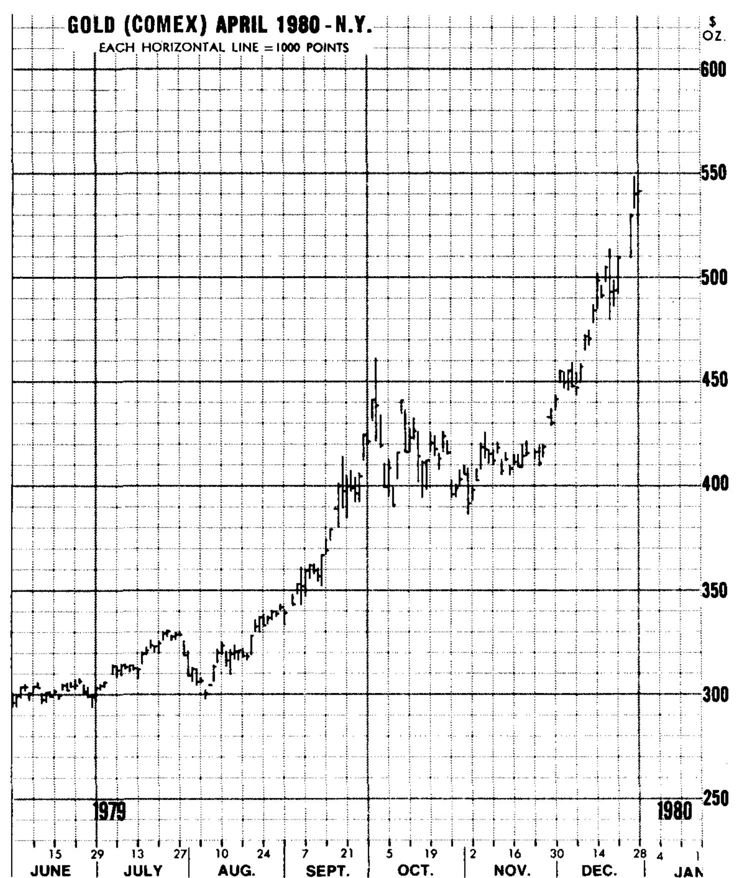

The past couple of REAPERS have zeroed-in on the fireworks in the metal complex. We have observed that the vertical price rises in the metals have been due to the rising price of oil, buying by frightened Middle East money, and a silver squeeze.

Silver prices led the way when they gapped up the week of November 26th. Gold also kicked into high gear, following silver, the same week. Platinum, too, joined the ranks, but did not make new contract highs until the week of December 17th. The remaining metals were sluggish until the first week of January, 1980 when, after an explosive rise in the silver and gold cash markets, copper rallied. This delayed effect, often called the "rubberband" effect, not only occurs in the metal complex, but is a phenomenon common to all commodity indices. If corn is rallying, oats and wheat will tend to follow. If soybean meal prices are going up, soybeans and soybean oil will rise in sympathy. If the price of lumber increases, plywood follows. And, so it goes.

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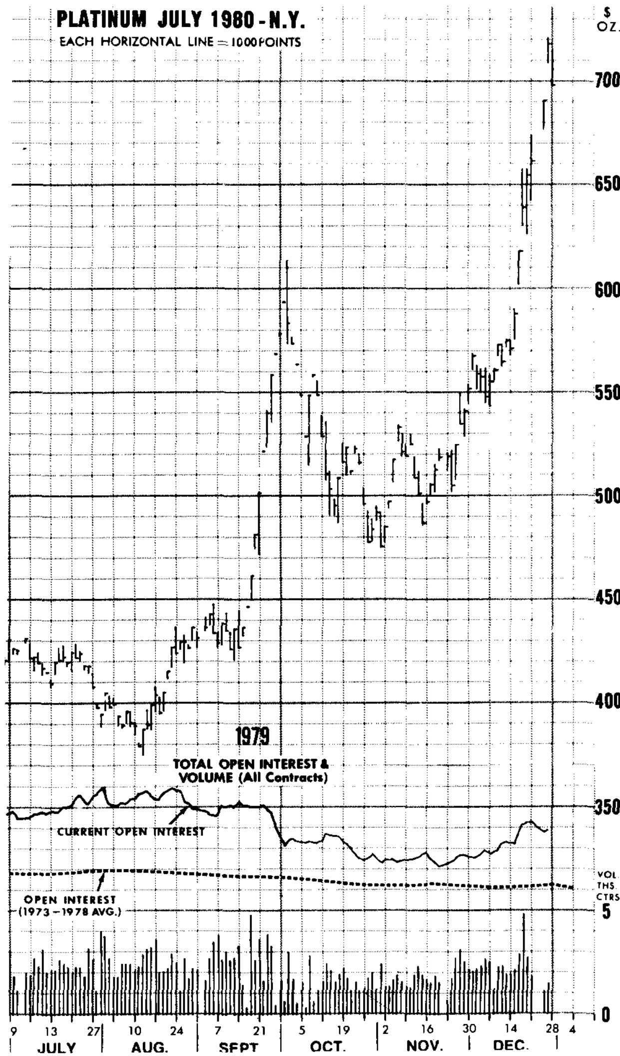
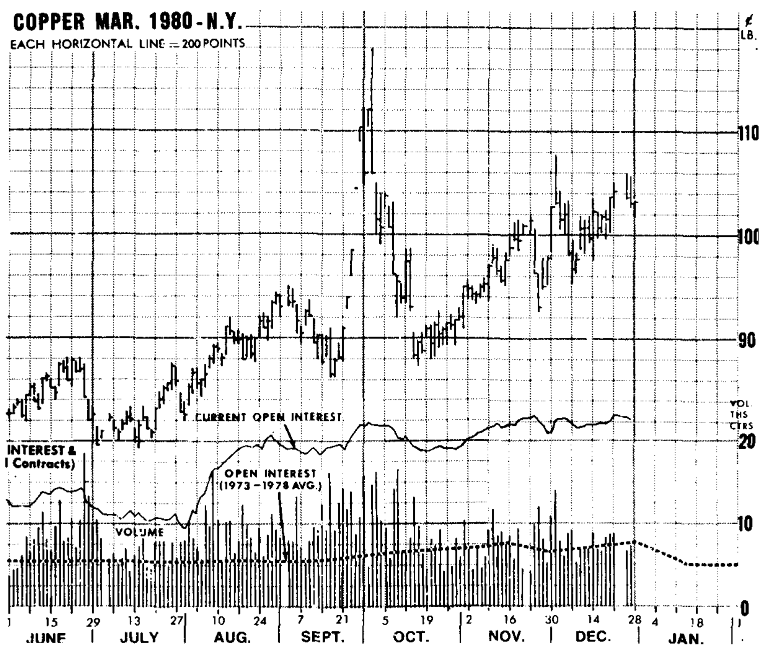
There are price relationships between the various metals. When the price of silver, gold, and platinum became absurdly overpriced compared to copper, a price adjustment by this lagging metal was to be expected. Speculators hop on the latest train, so to speak.

All the charts displayed here show the precious metal market pyrotechnics quite nicely.



vival'. He proposed that the Soviet Union deny the West those critical strategic war materials through a two pronged strategy of 'resource diplomacy': 1) Strangle Middle East oil supplies; 2) Block African strategic mineral flows to the West. This 20-year or so strategy may well reach a climax in the early 1980's."



Perhaps this is also why we are seeing runaway metal markets. The metal markets may be anticipating (discounting) international Soviet military strategy. Western Civilization's Middle East oil supplies are in jeopardy. Soviet military activity in Southern Africa, by way of Cuba and East German troops, is progressively achieving its goal of cutting off strategic mineral flows to the West. It is McAlvany's opinion, and mine also, "This 20-year Soviet strategy may well reach a climax in the early 1980's." (CYCLES OF WAR: THE NEXT SIX YEARS)

I was studying these fascinating charts when the December 1979/January 1980 ACSA Newsletter arrived (P.O. Box 733, Scottsdale, Arizona 85251). The comments in ACSA, together with these charts and my prior research set off all kinds of bells and alarms. Don McAlvany, a good friend who writes ACSA, noted, "In the late 1950's Soviet Major General Lagovsky pointed out that strategic mineral reserves were the 'Achilles heel' or the 'weak link' in the West's 'chain of sur-

ACSA also observed: "Soviet naval power now outnumbers the U.S. almost 3 to 1 in almost all categories, is rapidly expanding in the Pacific, Indian and South Atlantic Oceans, as well as the Caribbean and Mediterranean Seas." Additionally, the Soviet merchant marine, the largest in the world, is really a covert Soviet expionage fleet. Stated differently, the Soviet merchant marine has two purposes, one civilian, and one military/clandestine.

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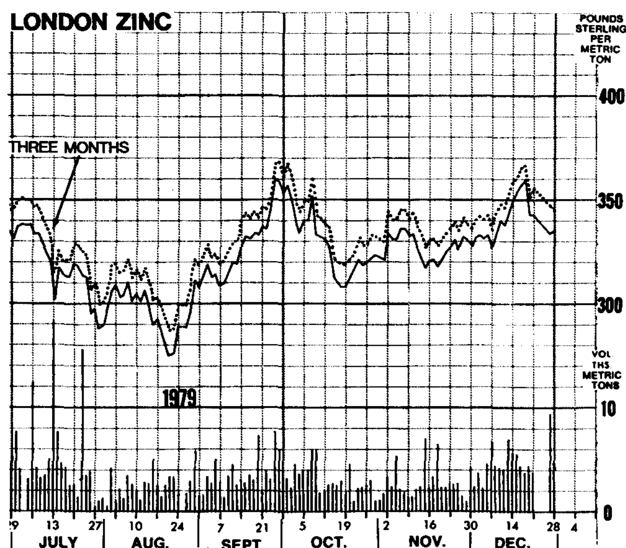
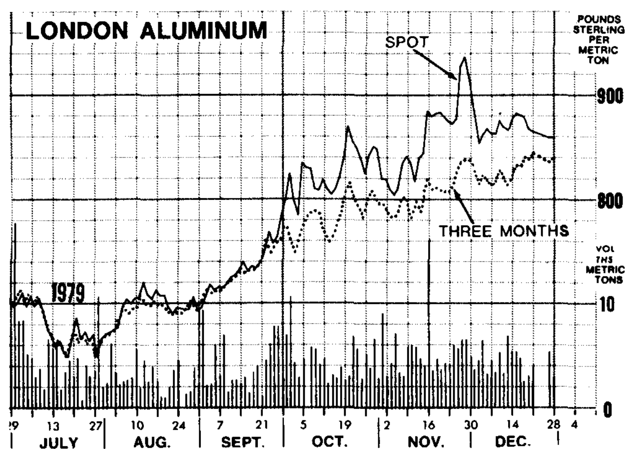
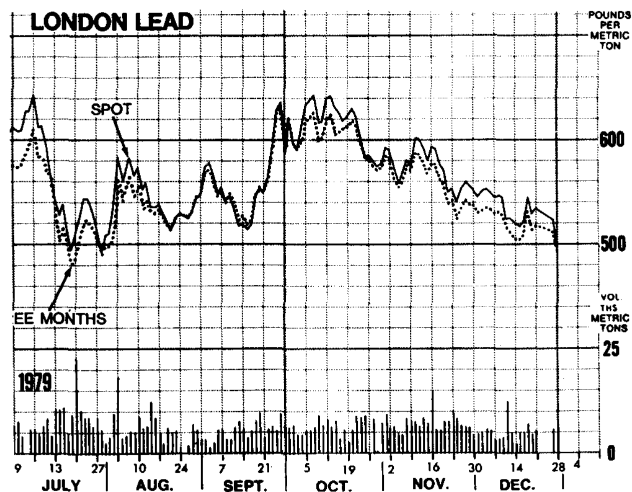
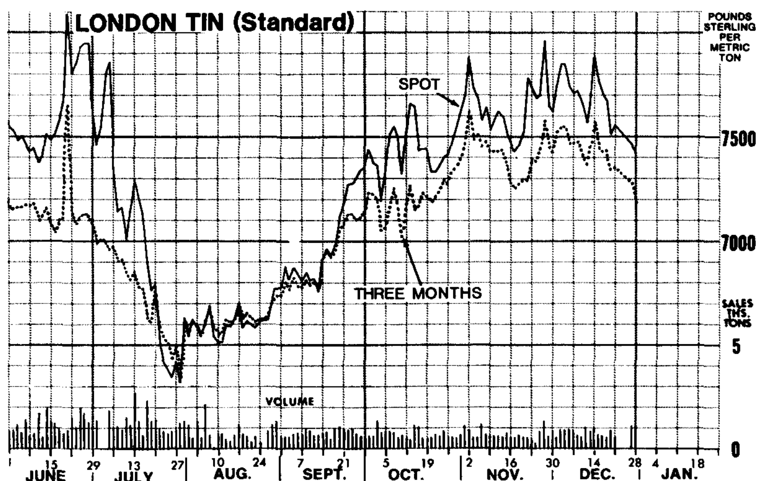
With the USSR navy ruling the waves, the Soviets can easily intercept not only oil tankers bound for this country, but also any other vessel loaded with key minerals from resource-rich Southern Africa. Chromium, cobalt, copper, manganese, titanium, platinum, and gold are all vital imports from Southern Africa.

Our mettle is being tested while we sit idly by. A sharp eye must be cast, not only on the Middle East, but also on Southern Africa. Upon further outbreaks of war and revolution in mineral rich Zaire, Zambia, South Africa, and Zimbabwe-Rhodesia, we will know that the vise is tightening. We will also have another explanation for these exploding metal pieces. Sadly, it will also be added confirmation of the imminent decline of the West, a turning point in history.









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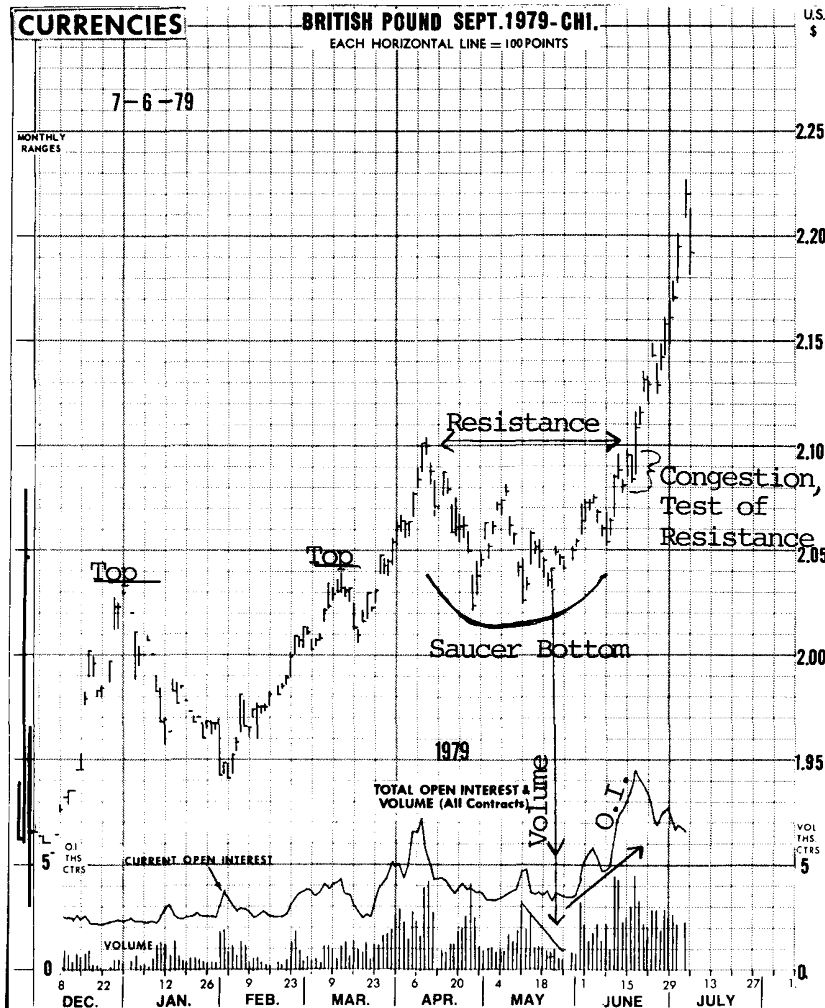
GREAT BRITAIN RULES THE WAVES (OF OIL)

Beginning approximately the middle of June, 1979, the British Pound began rising. It ascended from 2.10 to 2.20 in less than three weeks. If one had purchased one contract of the September British Pound at 2.10 and sold at 2.20 (consistent with REAPER recommendations), one would have netted a profit of $2,500.00 in two and one-half weeks.

What were the clues to this fantastic move/ opportunity: (1) The British Pound formed a nice saucer bottom between April and mid-June, 1979. (2) The saucer bottom lows were approximately the same level as the end of December, 1978 high and the early March, 1978, high. Previous resistance became support. (3) Volume declined precipitously during the price decline in the last half of May. This indicated a lack of selling pressure. Therefore, probabilities favored the next high



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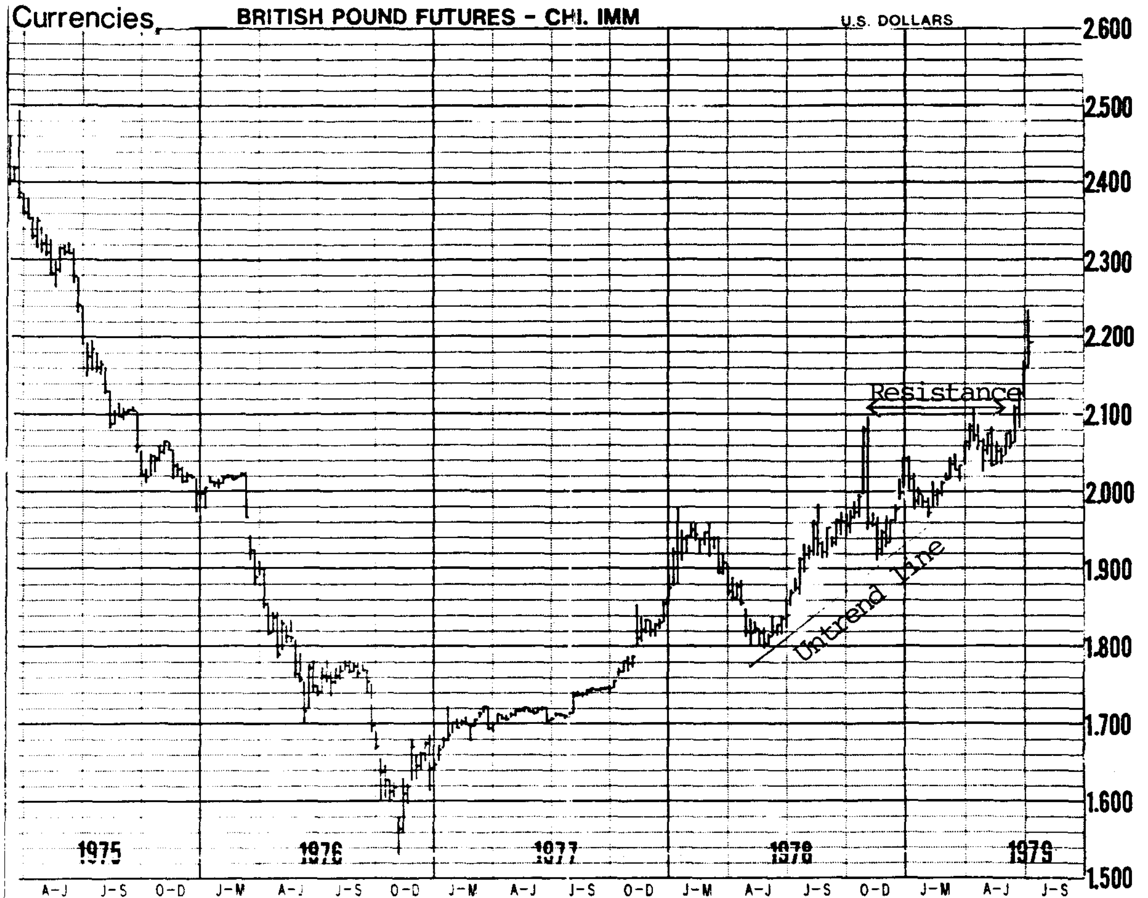
volume/price move to be on the upside.
(4) Toward the end of May, open interest began to increase along with volume. Prices also moved higher. Rising volume, open interest, and prices, coming out of a dull bottom, particularly a saucer bottom, are very bullish. (5) On June 13th, prices challenged the 2.10 critical resistance and fell back. On June 15th (Friday), prices again challenged the 2.10 resistance level and failed. When prices broke down on Monday, June 18th, they should have broken below the low of June 14th. They did not. Instead the market reversed on high volume, with a wide range, and closed (a high close) above the critical 2.10 resistance. This signaled an all-clear to higher prices.
(6) Notice the weekly continuation futures chart. (Page 42.) The weekly continuation chart reveals that this was not the second time, but the third time that prices had challenged the critical 2.10 resistance level within the past year. Under the "third time is a charm" rule, if the market could decisively break above the resistance level and maintain its gain then one could expect a substantial uptrend to follow. This, in fact, occurred.



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The very best trading opportunities in a commodity come along, at most, three to four times a year. The absolutely "Can't miss" opportunities come along only every few years. Such a "can't miss" situation emerged in sugar during third quarter, 1979. Let's get a perspective on this sugar market.

Observe the long-term weekly continuation chart of sugar. The bear market ended for all practical purposes in 1976. From that point forward, sugar entered an extended trading range between 6¢ and 10¢. This four-year trading range, or period of accumulation, worked out a head and shoulders bottom. This resulted in a breaking of the downtrend line as the uptrend and downtrend lines coverged in the last half of 1979.

Such a "sure thing" signal deserves a commodity trader's utmost attention and cash investment. [You will recall that THE REAPER gave a long-term buy signal in sugar in the last half of 1979 (March Sugar-10.61 and 11.6), and projected an initial move to 15-16¢. The long-term projected target was 35¢.]

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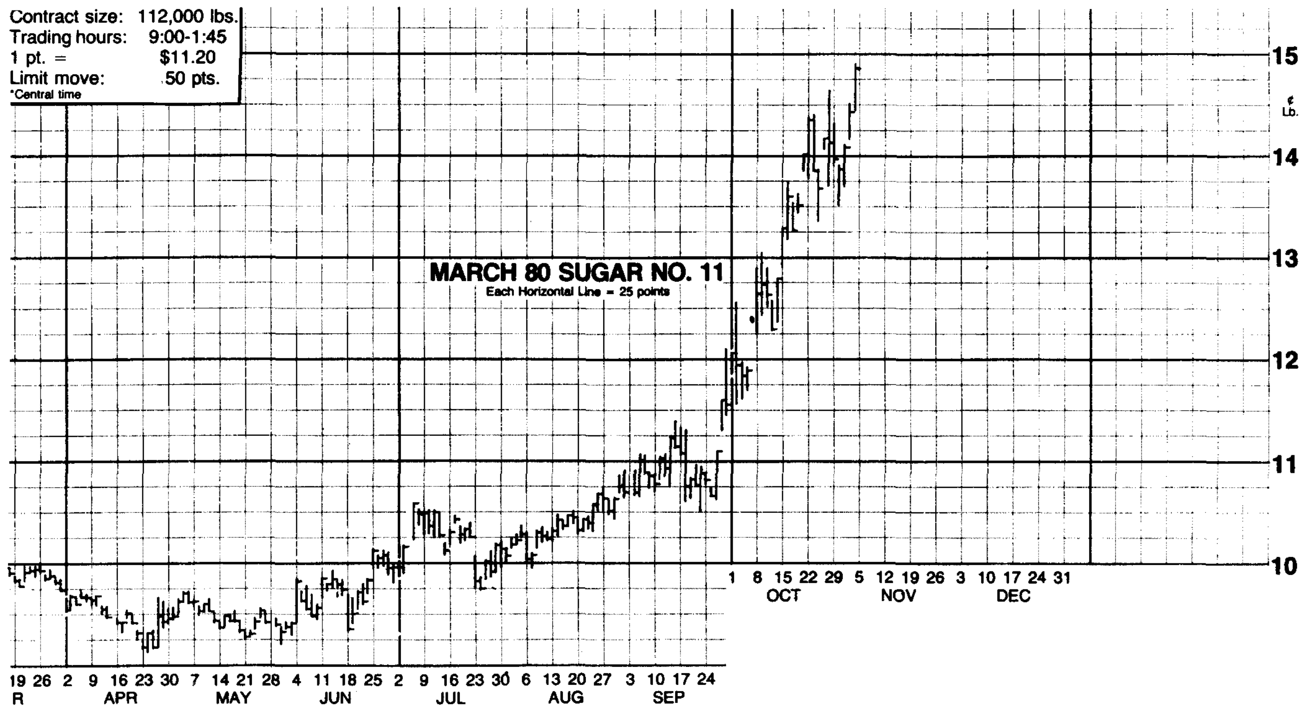
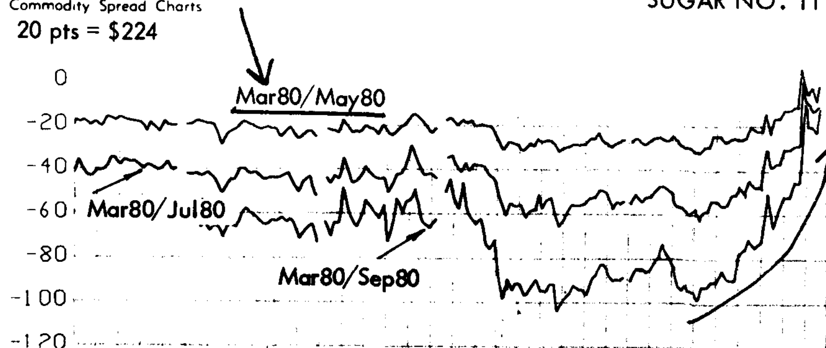
Riding a big move, such as sugar, is like riding "THE" big wave at the Hawaiian Pipeline. A trader must be patient, not exhaust his resources, and ride many smaller waves because he is never sure when the next wave is "THE" big wave. How does a trader protect himself against whipsaw? In sugar, once prices advanced to 15-16¢, it was time to become careful. After a vertical rise in eight weeks, the probability of reaction was great, particularly into such a significant historical zone of resistance (see 1975-1976 weekly continuation chart of sugar price action). Is the move over at 15-16¢ resistance? Will a trader have to suffer through a 2¢ or 3¢ reaction, resulting in a $2,000 to $3,000 per contract open loss? What can a trader do?

It is this trader's observation that once a trader hops out of a move, he seldom gets back in. Therefore, at significant resistance levels, in this case 15-16¢, when the market is overbought, has experienced a vertical advance, the bullish consensus is extremely high (82%), and price action favors a reaction, a trader, rather than exiting the position, can spread his position.

How does this work?

March and May sugar tend to move as two horses in the same team. They move up and down together. (There is only one month separating the two contracts.) In a bull market, many





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times the nearby month will move to a premium over the distant contract. Such was the case in the relationship between the March/May '80 sugar contracts. The spread between March and May widened in favor of March (see chart). Instead of exiting the position and losing his potential long-term capital gain status, a trader can simply offset his long position in March '80 sugar by selling short the equivalent number of contracts in May '80 sugar. Thus, he is spread and is effectively out of the market for the time being, awaiting further price action. However, he retains some of the benefits of being in the market.

In addition to maintaining his long-term capital gain status, if prices move higher, he would expect the March sugar to continue to gain over the May sugar. Therefore, his spread will become additionally profitable even though he will not make as much as when he had only a "naked" long position in March sugar. If prices decline sharply, he will have locked in his "long" profit and enjoy profits on his short sale in May sugar which offset his loss of profit in the March sugar during a price decline. Perhaps most importantly, the trader allows himself a psychological testing period until the market again tips its hand as to its next major direction. Once the trader again has a conviction as to, let's say, sugar going higher, he can cover his May sugar short positions (buy them back), and thereby reestablish a "naked" open long position in March sugar with hopefully little lost in the major price move.

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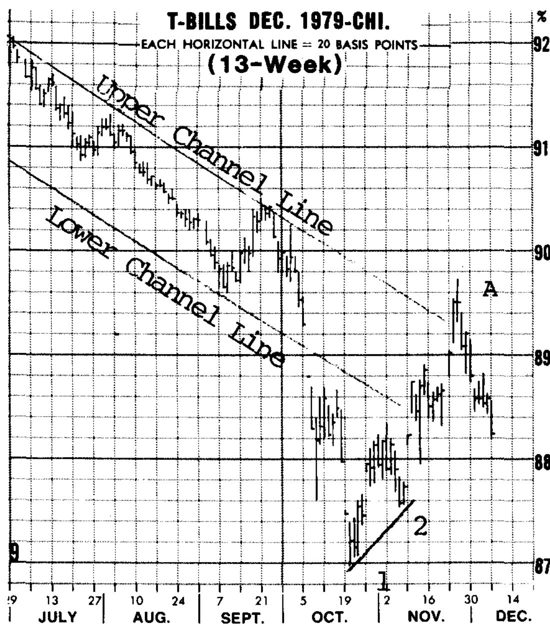

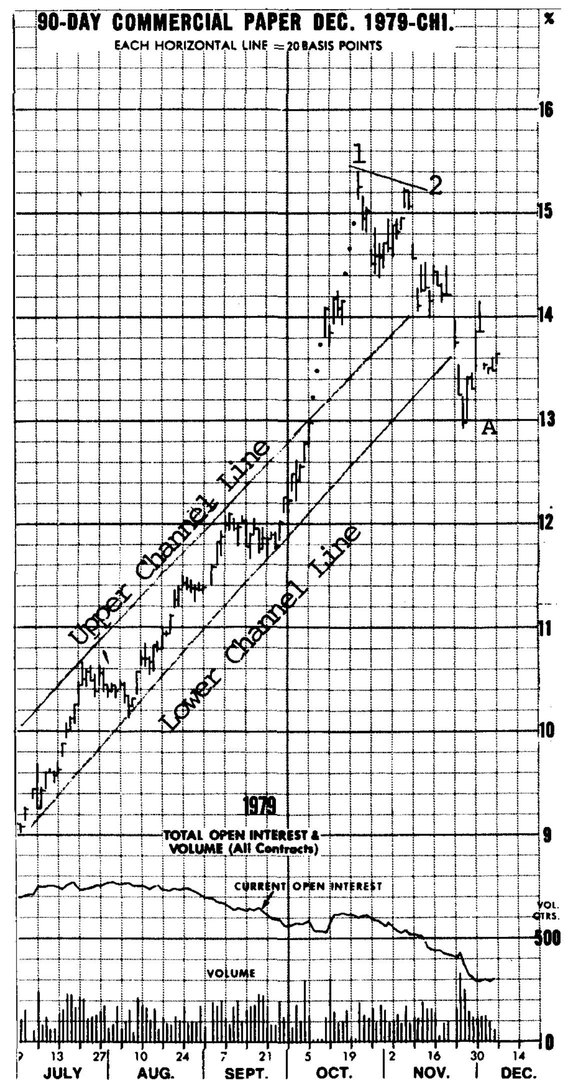

Now, it may sound crazy, but sometimes it's helpful to look at the world "upside down." Let's take just one example to support this seemingly ridiculous idea.

The T-Bill interest rate futures market and the commercial paper interest futures market are both short term interest rate futures markets. We chart 13-Week T-Bill and 90-Day commercial paper contracts. The 90-day commercial paper is virtually the same thing as 13-Week T-Bills as far as length of maturity. T-Bills are considered to be the safest short-term credit instrument. Quality commercial paper is not far behind.

Notice the December, 1979 T-Bill chart and the December, 1979 90-day commercial paper chart. From June through October, T-Bill prices moved down while commercial paper prices advanced. Why so? It's all simply a function of the way they are plotted. The vertical scale in T-Bills is charted by "price." The vertical scale in commercial paper is charted by the "interest rate."

These different scales are to our advantage. We have the opportunity to chart basically the same market as both a bull and a bear market. Looking at the market both ways broadens our perspective and allows us to see each market in a slightly different light. Hopefully, this will provide us with some clues as to upcoming market direction.

Notice from July through September, 1979 we had a clearly defined down channel in December T-Bills, and just as sharply a delineated up channel in 90-day commercial paper. When T-Bills broke through the lower channel line, commercial paper broke through the upper channel line. Rallies and reactions in both the channels were similar, as were the congestions once T-Bills broke-out below the channel and commercial paper rallied above channel.

At the mid-October turning point, T-Bills formed a bottom (1), and then a second higher bottom (2). Commercial paper formed a high (1), and then a second lower high (2). It is apparent that the T-Bill and commercial paper price action are "upside down" reflections of one another.

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At this point the critical trader may ask, "So what? If there's a bottom on one chart, there's obviously a top on the other!" True enough. But at the time a top or bottom occurs, we don't know that it is a top or bottom for sure. By viewing both contracts we have a better "feel" for the market. For example, notice that in late November, 1979 90-day commercial paper decisively broke the lower channel line (A). From looking at the commercial paper chart alone, one might conclude that the market had definitely topped out. However, when one views T-Bill price action in late November, one observes that prices just barely broke through the upper channel line (A). (This is the equivalent of the lower channel line on the commercial paper chart.) Therefore, from the T-Bill chart, one might suspect that the bear market was still intact, and that the rally from the mid-October low was simply a bear market rally into resistance. From the T-Bill chart, one might conclude that we should expect a retesting of the 87 low. Taking this analysis back to the commercial paper chart, one should expect a retest of the 15% resistance level. Therefore, by analyzing the T-Bill chart in order to gain a perspective on the commercial paper chart, one had evidence to conclude that the commercial paper market possibly had not topped out. . . .

Seasoned traders will often turn their charts upside down to see an additional perspective on market price action. I endorse this analytical approach. Trading commodities is an art, not a science. The more tools, the greater one's perspective, and the better one's judgment, the more one will profit consistently in the commodity markets. It's nice to know that being topsy-turvy has an advantage once in awhile.

NOTES

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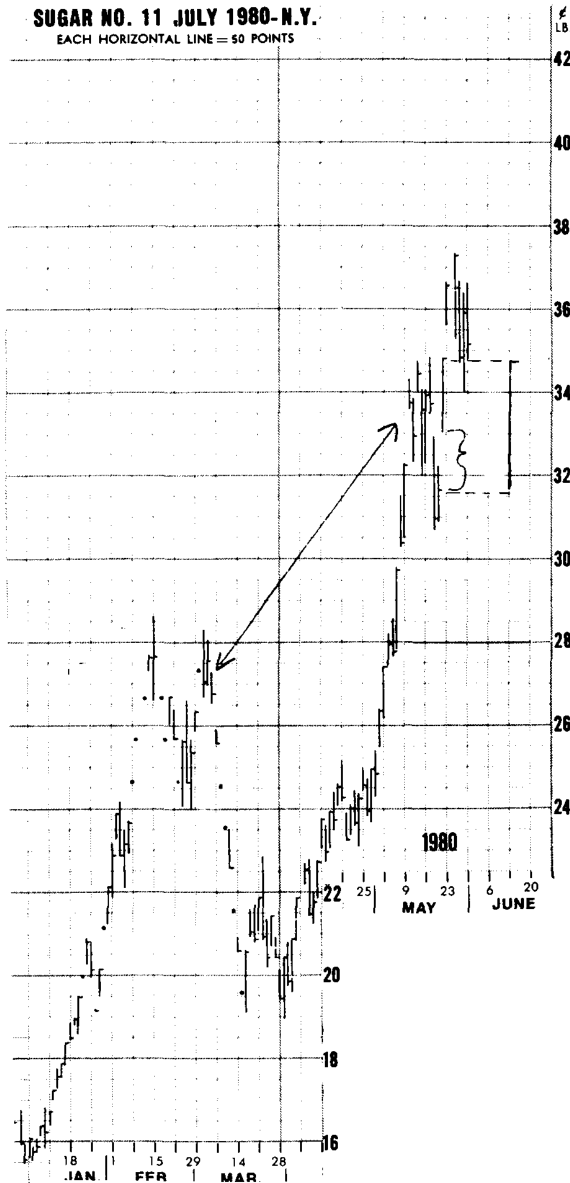
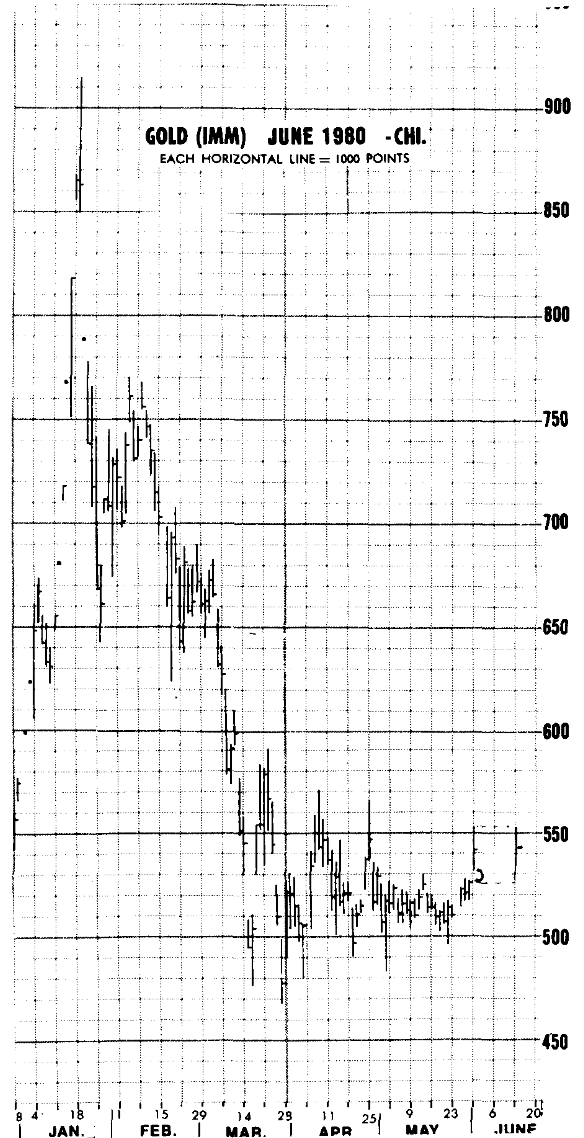
One of the key indicators which has served this analyst successfully over the years has been wide-range, heavy volume, high closes following an extended decline or a congestion period. Usually these wide-range, heavy volume, high closes are very easy to spot, because they often originate within the trading range of the previous day. However, when these wide-range, heavy volume, high close days are accompanied by gaps, they are often unrecognized by many traders. For example, on May 22nd, July sugar gapped up with a wide-range on heavy volume with a strong close. Sugar closed at new contract highs that day. This breakout, after congestion of eight trading days at price levels above the previous high, suggested sharply higher prices near term. The main point to be made is that prices on Thursday, May 22nd, gapped up from the close of Wednesday, May 21st. The true daily range of Thursday, May 22nd, extended all the way from the close of Wednesday, May 21, through the high (and close) of Thursday, May 22nd. This "true" daily range is drawn in to illustrate this point on the July sugar chart.



This same analytical insight was appropriate for the breakout in June gold which occurred on Friday, May 30th. From a typical bar chart (the CRB bar chart), it appears that gold closed mid-range on Friday. However, if one draws the "true" daily range, from Friday's high extending down to Thursday's close, thereby including the gap, one sees that gold broke out strongly with a wide-range and a close in the top two-thirds of the daily range, not in the middle of the range.

This is a minor technical point to be sure. But please recall that minor clues are often the way the market tips its hand.



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On Friday, October 26, 1979 December Comex gold gapped down and closed near its lowest level in five weeks. Clearly, the breaking of the small triangle to the downside, coupled with the violation of a base of support, issued an intermediate technical sell signal. The resistance became 390–405. The probable level of support fell to 340–350.

Not uncharacteristically after a gap down, gold rallied the following Monday–Thursday, filling the gap. The probabilities favored two days of ensuring gap-filling rallies, and possibly three. However, December gold rallied four days, filling the gap at 390. This was a red flag for the statistically oriented technical analyst. It suggested that the ensuing breakdown might not carry very far. The four-day gap-filling rally violated the technical probability that if the major trend was down, the market should rally for no more than three days.

Sure enough, on Thursday, November 1st, gold broke sharply, violating the support of the past seven weeks. However, it did not close on its low! In fact, it rallied some $7–$8 off its low to close above 370. This was the second red flag! If the gold market was weak, it should have closed at or near its low. An astute technical trader would have asked himself, "Who is buying this market?" "Where is the support coming from this late in the week after such a sharp break that gold closes this far up from its low?"

Finally, the fact that there was no follow through on the downside the ensuing day (November 2nd) alerted the technical analyst to the probability of a sharp rally, or at minimum, a neutral market.

Two warning flags: (1) Four days of rallies, following a breakaway gap downside. (2) A secondary break which did not close near its low. Recognition of these danger signals alerted the astute trader to the possibility of a corrective rally which did occur. Protective stops should have been moved lower to protect short positions.

This type of close observation of technical market action and "listening to the market" often marks the difference between a successful and an unsuccessful commodity trader. At a minimum, it makes a difference in the return on investment to the trader.

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INTRADAY CLUES

THE METALS

Often it will be unclear which way silver and gold intend to move during the last 15–30 minutes of trading. In other words, it is sometimes difficult to ascertain where they are going to go on close. Watching the copper market will occasionally give one a clue.

Since copper closes at noon Mountain time, and silver and gold (in Chicago) close some 30 minutes later, the close in copper may reveal the closing direction for silver and gold. For example, if December copper is trading at 66.60¢, and in the last five minutes of trading spurts and closes near its high at 67¢, one would expect gold and silver to close near their highs. This indicator is not infallible, but is another clue to market action.

SOYBEANS

Soybeans remain the trading darling of the general public. More importantly, however, the meal and the oil often reveal significant directional price action before it is manifested in the beans. If the beans have been inactive, and a trader is attempting to ascertain where they are going to go, he should keep a close eye on the oil and the meal. They will often tip their hand and move directionally before the beans do.

For example, last October 5, 1978, I made a note that March beans were trading at 684. The December meal, which had been hanging around the 179 level all day, started to move. It rallied to 179.6. Sure enough, approximately 10 minutes later, the March beans staged a rally from 684 to 687, a new high for the day. They were simply following the leader in the complex which was, in this case, the soybean meal.

TIME AND PRICE (A SIMPLE APPLICATION)

There are some simple rules of thumb in time and price analysis which are helpful to the novice trader. These simple time/price tools do not require an elaborate understanding of statistics, probabilities, or regression analysis. Neither do they require any tedious work with cycles. Let's take one example, the Swiss Franc. Our focus is on the weekly chart.

THE SWISS FRANC: Beginning the first week of November, 1978, the Swiss Franc declined for four weeks in a row. The Franc dropped from .6900 to .5800. This .11 drop was worth $13,750.00 per contract of Swiss Francs.

Beginning in early January, 1979, Swiss Franc prices again fell from the .6400 level to .5800, a drop of .06. If one had caught this move on the short side, one would have netted $7,500.00 per contract.

The point is that the price move down from early January, 1979, until the end of May, 1979 was only worth approximately half of the down move which occurred in four weeks from November, 1978, through early December, 1978 ($13,750 vs. $7,500). Prices fell nearly twice as far in four weeks as they fell on the 2nd down leg of twenty weeks.

The long-term momentum indicators were screaming for a technical correction. The low formed early December, 1978, at .5800 formed a double bottom with the low of May/June, 1979.

The outside week, marked by heavy volume, a high close, and a wider range of any week of the previous eighteen weeks, heavily weighted the probabilities in favor of an up move to test the .6200 resistance zone. This, in fact, occurred.

Time and price on the 2nd down leg provided the clues. On the 2nd down leg, prices declined only (approximately) half as much in five times the number of weeks required to complete the 1st down leg.

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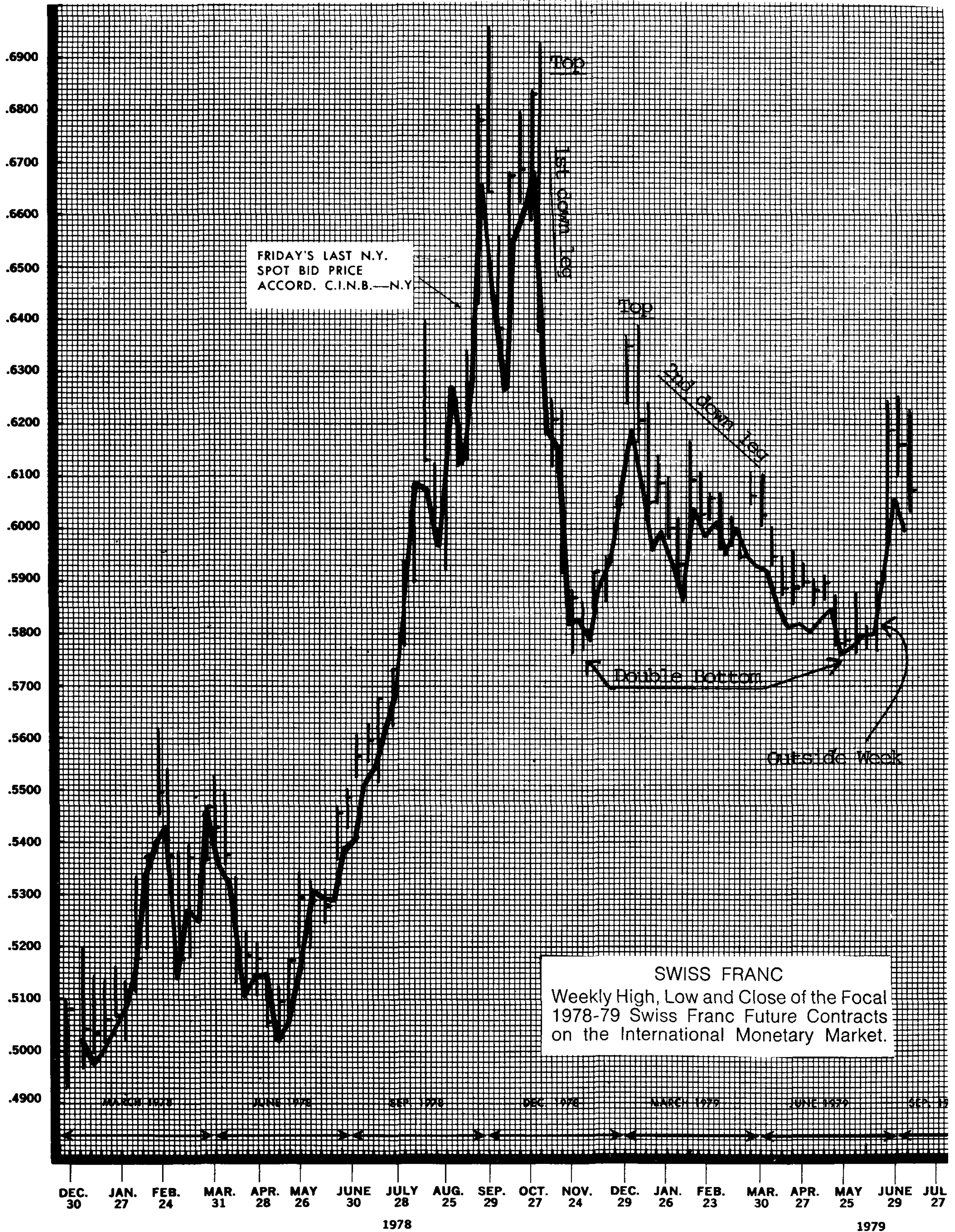

SWISS FRANC
Weekly High, Low and Close of the Focal 1978-79 Swiss Franc Future Contracts on the International Monetary Market.

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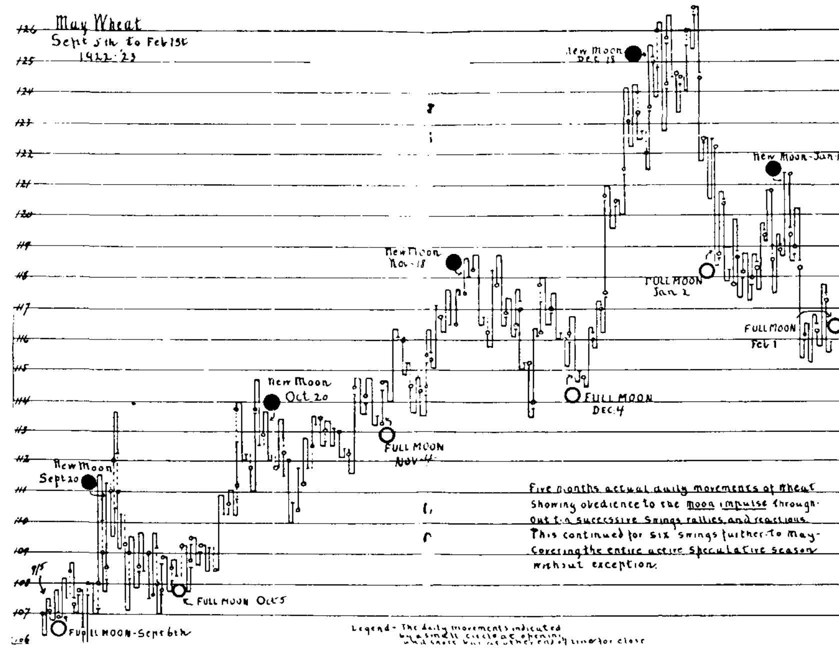
MOON AND MARKETS

Back in 1932, Burton H. Pugh wrote six small books entitled, Science and Secrets of Wheat Trading. (Pugh was an eminently successful grain trader.) On Page 20–21 of book #5 of Science and Secrets of Wheat Trading, Pugh published the May wheat chart of September 5 to February 13, 1922–23. One of Pugh's wheat trading secrets was that wheat prices tend to rise on a full moon and decline on a new moon. As his May wheat chart reveals, wheat prices did rise following five full moons. Wheat prices declined at approximately the same time as five new moons also. (Pugh's books are available from Lambert-Gann Publishing Co., Box 0, Pomeroy, Washington 99347.)



At first glance, Pugh's charts are enough to make Ichabod Crane again challenge the Headless Horseman of Sleepy Hollow. But, the question we must ask is, "Should we mount our trading horse and go galloping off into the sunset in pursuit of profits without first checking Pugh's system against present market action?" After all, we could have a stalking moon of a different color. It has been 57 years since Pugh did his thing.

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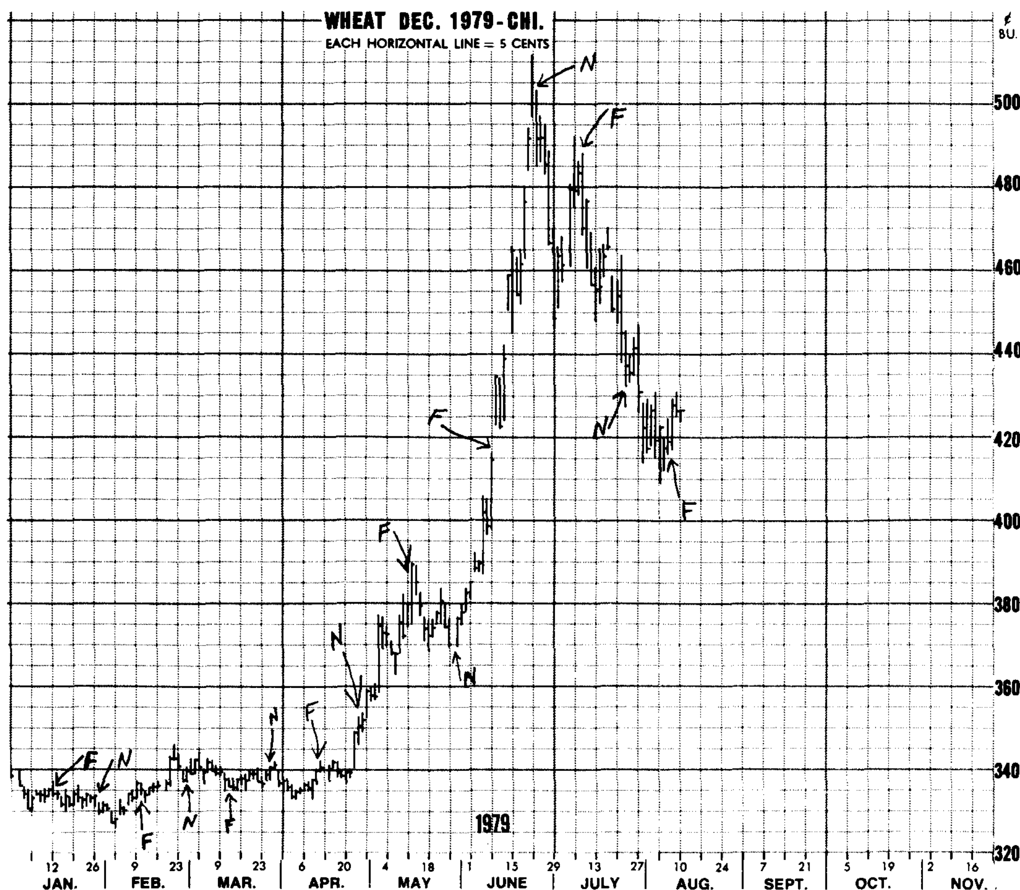
Sure enough, we find that it is prudent to tighten the cinch before we mount. Notice the December, 1979 Chicago wheat chart. Of the eight full moons (F) from January through August of 1979, wheat prices only rose during four of them. Not such a sparkling performance, and certainly not worthy of our investment capital.

During the seven new moons (N), wheat only declined in price three times. Bad. Really, bad. No, not just bad. Horrible! Thus, based on our cursory analysis of 1979 wheat price action, we would have been ill-advised to buy wheat on the full moon and sell it on the new moon as Burton Pugh recommended.



Is trying to tie moon cycles to market price action nonsense, fluff occultism, or some poor market's wives' tale? Is there any basis in logic or science? Well, let's see.

We know that the body is 90% water. We know that water (tides) respond to the gravitational pull of the moon. We know that full moons are accompanied by an increase in rapes, murders, and generally aggressive behavior on the part of man. More babies are conceived on full moon. Police divisions beef-up their staffs on full moons because more crimes are committed then. Hospitals overstaff their emergency rooms as well during the time of the full moon (to sew up all the hell raisers). Perhaps buying commodities during the full moon is another example of man's lunar aggressiveness. Such a theory, however, certainly didn't work out when it came to 1979 December wheat.

But, there is no reason to be blue. Let's see if the, "Buy on full moon, sell on new moon" phenomenon has application to other markets . . . And, what do we find, but a sterling example of the phenomenon in the silver market.

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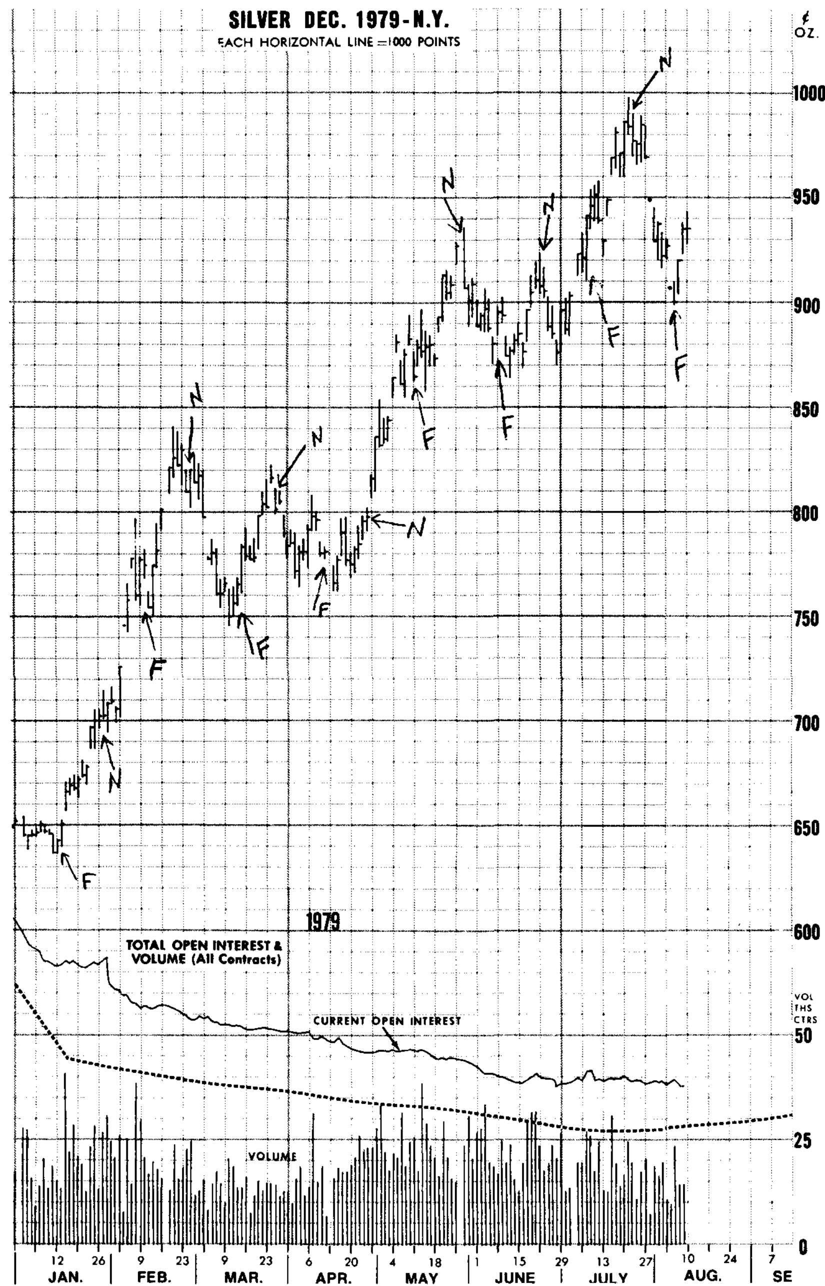
In the case of December, 1979 New York silver, silver rose in price on every full moon from January through August. Eight out of eight is right on! Of the seven new moons, silver declined in price five times. Again not too shabby. You could sail along quite profitably with the silver moon.



Does it make sense to monitor silver's price action during the new moon and the full moon? You bet! Stuff the wheat bushels for now. Focus on silver.

One word of caution. Don't let the moonbeams in your eye lead you into believing that this is the total answer to beating the silver market. It is one of many factors which affect silver's price action. Obviously, if silver prices have been rising, the bullish consensus is high, and a new moon appears, consider shorting silver. Conversely, if silver prices have been falling, the bullish consensus is low, and a full moon appears, consider buying silver. Intergrate your trading system. This seemingly loony lunar/silver cycle is just another of many helpful inputs to understanding the fascinating world of markets.

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A bar chart of any commodity is a graphic representation of mass human action. A bar chart of corn, for example, is a graphic portrayal of the sum and substance of the thinking of thousands of individuals and their resultant action in the corn market.

We should look at the economy in much the same way. Various economic indicators, portrayed graphically, are nothing more than a dissection of the economy-at-large. Individual indicators focus on mass human activity in a single area, rather than viewing the aggregate.

Market activity is a function of human action. The economy is a function of human action. Human action, taken as a whole, is predictable. Whether one looks at the economy or markets statistically, in terms of a bell-shaped curves, or psychologically in terms of the herd instinct, the conclusions drawn are generally the same. Collective human action lends itself to predictability.

Because technical analysis works on markets with reasonable probablistic accuracy, it makes sense that technical analysis would also work on individual economic indicators. After all, both are a function of mass human activity. If technical analysis works on one, it should work on the other.

You will recall that the February 29, 1980 REAPER featured an article entitled, "Clues To The Economy." In that article, technical analytical principles were applied to Gross National Product, Industrial Production, Employment, the Unemployment Rate, and the Adjusted Monetary Base. The conclusions drawn were: "All these statistics clearly reveal the existence of a sluggish economy and portend declining economic activity . . . So, the real problem for the Fed, Treasury, and the U.S. Government is how to stop this consumer spending steamroller, how to kill stampeding inflationary expectations. The government measures will necessarily be more severe, because the inflationary expectations are so great. By the end of the second quarter, 1980 expect the government to throw everything but the kitchen sink at the economy in an attempt to break it."

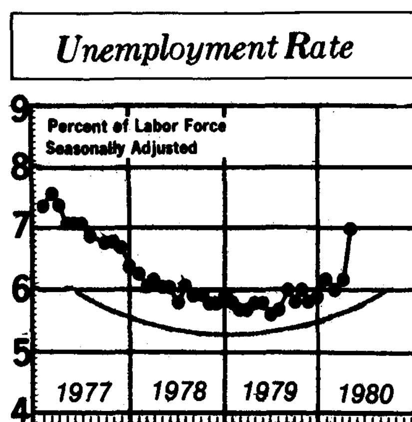
"I am convinced Volcker will try to stop this economic recovery at whatever costs. He will then deal, as will the President and Congress, with the ballooning Federal deficits which follow as a consequence of the decline in tax intake during a recession. The guns and butter economy will gush forth red ink."

Our conclusions were accurate. Our technical analysis of specific sectors of the economy was useful. (Incidentally, with each 1% rise in unemployment, the Federal deficit is projected to increase by $25 billion.)

Let's take another critical look at the economy, dissected by categories. And, let's apply technical analysis to these different areas. Remember, too, that this data was collected weeks ago. Thus, whatever conclusions we draw must be tempered by the realization that our expectations may be, at this point, partially fulfilled.

The 13 graphs displayed in this REAPER periodically appear on the front page of the Wall Street Journal. To make our point, technically, I have simply collected and arranged them in a logical sequence so that the worthwhileness of technical analysis can be readily seen:

1. Unemployment Rate: Throughout 1978, 1979 and early 1980, the unemployment rate formed a base and worked out a saucer bottom. A saucer bottom often results in an upside breakout. The upside breakout from the saucer bottom is evident on the Unemployment Rate graph. The result is higher unemployment.



2. Jobless Married Men: Here too, we see a saucer bottom formed in 1977, 1978, 1979 and early 1980. When the breakout occurred, it projected higher unemployment. Since married men make up the majority of the work force, the move toward higher unemployment among jobless married men parallels the increase in unemployment.

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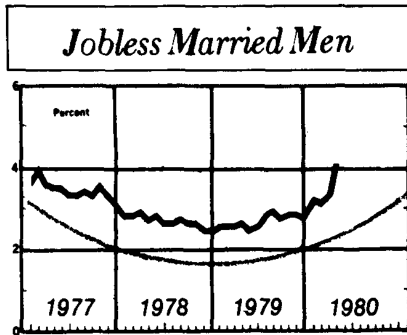
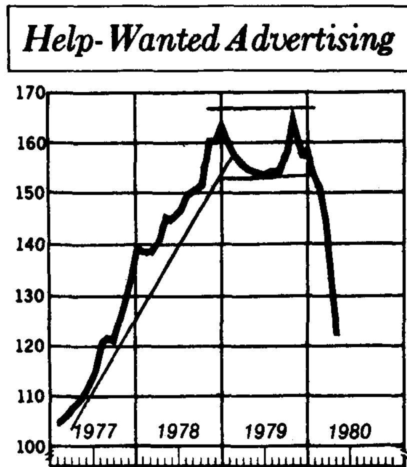
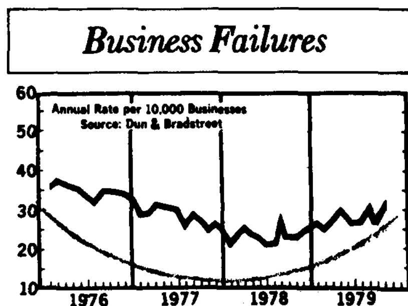


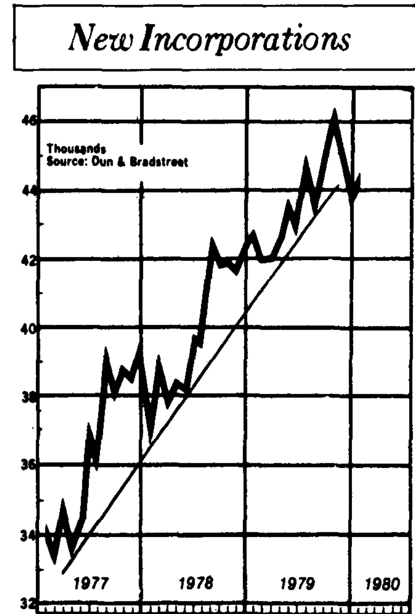
3. Help-Wanted Advertising: In early 1979, help-wanted advertising broke its two-year uptrend line. A double top was formed at the beginning and near the end of 1979. When the 1979 lows were broken, a major sell signal was issued, and help-wanted advertising plummeted. The correlation between increasing unemployment/increasing jobless married men and declining help-wanted ads should be apparent. If men and women are being laid off, there will be less advertising seeking new employees.



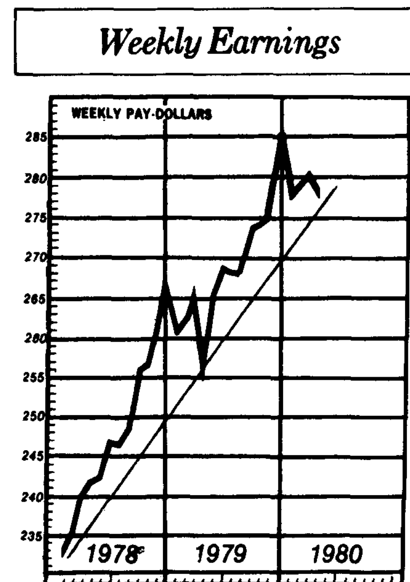
4. Business Failures: Here, too, like with the unemployment rate and jobless married men, we have a saucer bottom formed from 1976 through 1979. One would expect business failures to increase as economic conditions turn sour. The subsequent result is layoffs. We should expect the Business Failures graph to move to higher highs, probably breakout from the saucer bottom.



5. New Incorporations: When the economy turns down, we should expect fewer new businesses to attempt to enter the economy. Such became the case in late 1979. Technically, new incorporations broke its five point uptrend line, formed from 1977 through 1979, in late 1979. A major sell signal was issued by the break.



6. Weekly Earnings: The uptrend line in weekly earnings is being sorely tested. Breaking the uptrend line of this chart will be further confirmation of a softening economy. Since the chart is not adjusted for taxes or inflation, it does not truly reflect the declining disposable income of the American consumer.



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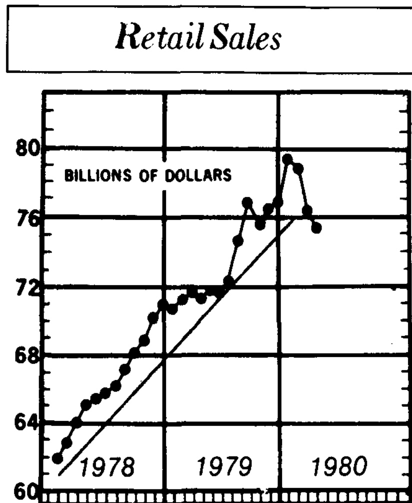
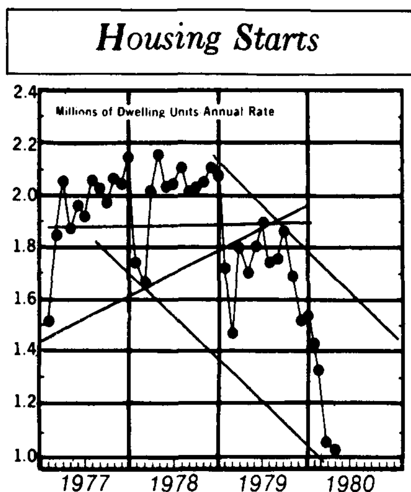
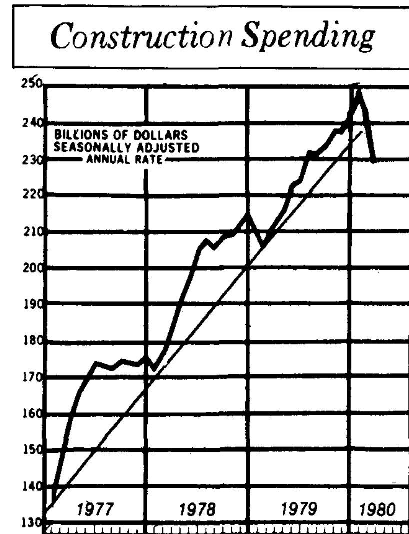
7. Retail Sales: The 1978–1979 uptrend line of retail sales was broken in first quarter, 1980. One would expect, with increasing unemployment and business failures, as well as declining weekly earnings, the consumer will have less to spend at the retail level.



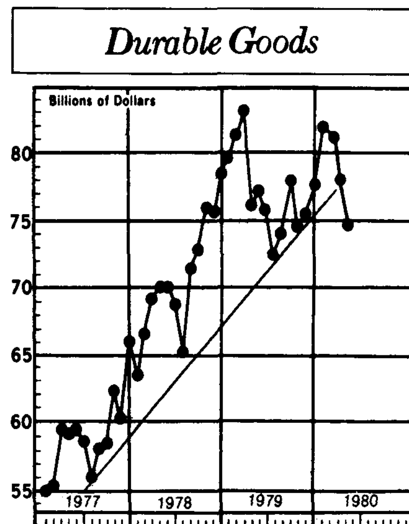
8. Housing Starts: Housing starts are a function of consumer spending. In 1977 and 1978, housing starts went through distribution, a top. They broke down sharply in early 1979 (a sell signal), entered congestion, and then broke again severely in late 1979 and early 1980. They are now confined in a down channel. The trend is lower.



9. Construction Spending: The three point uptrend line of construction spending, formed between 1977 and 1979, was broken in first quarter, 1980. A major sell signal was issued. Housing starts are only one aspect of construction spending. Industrial construction for warehouses, shopping centers and office buildings are included in construction spending. The breaking of the uptrend line in 1980 by construction spending is not only a function of declining housing starts, but also a reflection of declining commercial construction.



10. Durable Goods: The four point uptrend line of durable goods, formed between 1977 and 1979, was broken in first quarter, 1980. This projects a major downtrend, as did the breaking of the uptrend line in construction spending, retail sales, new incorporations and help-wanted advertising. Durable goods are such things as automobiles and home appliances. When times get tough and people are out of work, they keep their washing machines, dryers and automobiles longer than usual.



11. Industrial Production: The three-year, 1977–1979, uptrend line of industrial production was broken in 1980. A new bear trend has begun which should continue for many months, particularly since industrial production formed a top and went through distribution during all of 1979. When consumer spending

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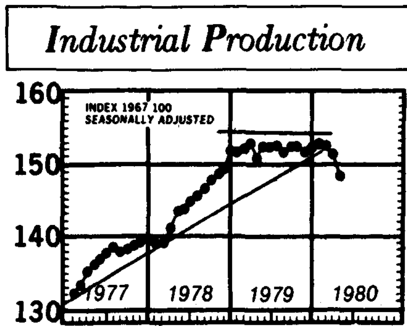
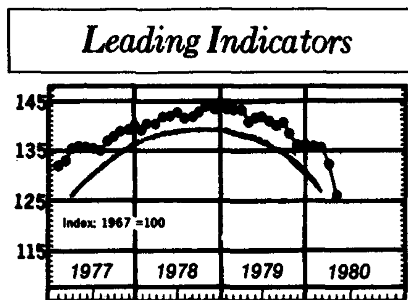
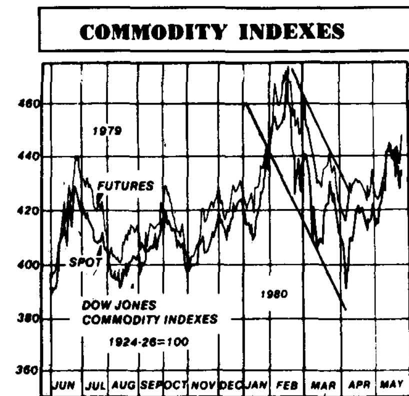
drops off, industrial production follows. Consumer spending makes up two-thirds to three-quarters of every economic business cycle.



12. Leading Indicators: Leading indicators project the economic future. Technically speaking, one of the most reliable topping formations is a rounded top. From 1977 through 1979, the leading indicators formed an ominous rounded top. They have now broken sharply lower. This rounded top in leading indicators projects the end of an era in our economy and hard times ahead.



13. Commodity Indexes: Commodities, like leading indicators, are trail scouts. They sniff out the future long before reality is known by government economists or the general public. The sharp break by commodity prices in first quarter, 1980 was a red alert to sharply declining economic activity in second quarter, 1980. . . .



By this time, our point should be well taken. Technical analysis is very useful in projecting the direction of the economy. Technical analysis, coupled with psychological analysis, fundamental input, and timing indicators (cycles), — all make up the tool box which helps us more accurately predict future economic activity.

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PART III
GLOSSARY

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GLOSSARY OF TERMS

ABC CORRECTION — (From Elliott Wave theory) — In a bull market, an ABC correction is a decline in price followed by a rally and a further decline which takes the market below the low of the first decline. In a bear market, an ABC correction is a rally in prices followed by a decline, followed by a subsequent rally which takes prices to higher highs than the high of the first rally.

ACCUMULATE — (As in accumulating a position) — Increasing the number of contracts either bought long or sold short over a period of time rather than all at once at the same price.

ACCUMULATION — Buying done by insiders or knowledgeable traders who intend to hold the position for a sizeable price rise. Usually occurs in oversold markets, or in "quiet" markets.

ACREAGE ALLOTMENT — The amount of acreage a farmer can plant in a particular crop and still be able to receive government assistance, such as price supports.

ACREAGE RESERVE — A farmer receives payment from the government for not planting part or all of his acreage with a particular basic commodity crop. The acreage not planted or partially planted is acreage reserve.

ACTUALS — The commodities themselves. The physical commodities. Example: A bushel of wheat, an ounce of gold. Not a futures contract.

ADVANCE — Rising prices. A rising market.

AFLOAT — The amount of a commodity aboard ships or barges enroute from one destination to another.

APPRECIATION — An increase in value, usually of one currency against another. Example: If the Swiss Franc appreciates against the dollar, it takes more dollars to buy the "X" amount of Swiss Francs.

ARBITRAGE — The simultaneous purchase and sale of the same amount of futures contracts in different markets to profit from a difference in price. Example: At 10 AM an arbitrage trader sells short December Chicago silver at 965.2 and simultaneously buys December New York silver at 963.2, thereby insuring a 2¢ spread/profit.

ASCENDING MARKETS — Rising markets

AT THE MARKET — A buy or sell order given to a broker authorizing the broker to execute the purchase or sale at the best price obtainable, as soon as the order is received in the trading pit. Also called "market orders."

BASIS — The difference between the cash/spot price and the price of futures. Example: If the December wheat futures contract is selling 5¢ over cash, the basis is 5¢ under December.

BEAR — A trader who believes prices are headed lower in the near term or over the long-term. To bear the market is to sell contracts in an attempt to force the price lower. One who is bearish on the market.

BEAR MARKET — A market in which prices are falling.

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BEARISH DIVERGENCE — Usually refers to technical indicators which indicate that lower prices are coming before the prices themselves fall. Example: A momentum indicator may turn down before prices turn down.

BID — An offer to purchase at a specific price.

BIG BASE OF SUPPORT — Refers to an extensive period of time in market history which has been marked by rather narrow price ranges and accumulation. Also called a trading range. When prices again fall to these levels, new buying should enter the market because this previous big base of support was where buyers purchased in the past.

BLOW-OFF STAGE — BLOW-OFF LEG — Occurs near the terminal stage (end) of a bull market. On a bar chart, prices are characterized by vertical advances, gaps, wide ranges and teeth-chattering reactions.

BOTTOM — A day or a series of days which mark a significant low in prices; the end or termination of a bear market.

BREAK — A sharp decline in prices. This usually occurs when the bullish consensus is high, when a market is extremely overbought, when there is unexpected news which catches traders by surprise, or all the foregoing.

BREAKAWAY GAP — Refers to price action, which is extremely strong in a bull market, or weak in a bear market. A breakaway gap results when the low of the breakaway day is higher than the high of the previous day in a bull market. A breakaway gap in a bear market results when the high of the day is lower than the low of the previous day. Breakaway gaps usually mark the culmination of a congestion phase or a trading range.

BREAKEVEN — Refers to the price where the trader entered the market. Example: A trader who buys December silver at 5.00 and sells at 5.00 realizes neither a profit or a loss. He exits the trade at breakeven, excluding the cost of commission.

BROKER — A person who executes the orders for the commodity trader. The commission house, floor broker, or pit broker, who executes the order in the pit for the trader who has placed the order through the commission house.

BROKERAGE FEE — The commission charged by a brokerage firm for its services as agent of the commodity trader. The brokerage commission house services a customer's account (buys and sells commodities) for a fee.

BUCKET SHOP — Slang. A disreputable brokerage firm. A bucket shop is now illegal. A bucket shop is a practice where a brokerage firm does not place buy and sell orders as dictated by clients, on the assumption that the customer will lose. When the customer, believes he has lost, the bucket shop informs the customer that that is in fact the case, and thereby benefits financially from the con job. The bucket shop pockets the commission plus the amount of the client's "loss".

BULL — A trader who believes prices are headed higher. One who believes prices will rise over the near or long-term. The opposite of a bear. A trader who bulls the market aggressively buys contracts in an effort to push the market higher. A trader who is bullish expects higher prices. A market marked by rising prices is called a bull market.

BULLISH CONSENSUS — Also called "contrary opinion" figures. Computations made by respected brokerage firms and advisory services that indicate the percentage of the advisory services who expect prices to advance. Example: If the bullish

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consensus on wheat is 80%, it means that 80% of all the advisory services surveyed by the statistician expect wheat prices to advance. This is a valuable indicator, because it tells which side of the market the public is on. (The public is usually wrong.)

BUOYANT — A market that rises far more easily than it falls. A bull market.

BUY — One who goes long a commodity.

BUY IN — One who covers or liquidates a previous short sale. A short sale is repurchased.

BUYING ZONE — The range in prices where buying is recommended in anticipation of an advance in prices. A buying zone is the price range where the price decline is expected to terminate.

BUY ON CLOSE — An order placed with a broker to buy at the end of the trading session within the closing price range. Also called (buy) market on close.

BUY ON OPENING — An order placed with a broker to buy at the beginning of a trading session within the price of the opening range. Also called (buy) market on open.

BUY STOP — A buy order which is resting in the market, which will only be triggered if prices advance up to and hit that price level. Becomes a market order once prices hit the price level where the buy stop is placed.

CFTC — Commodity Futures Trading Commission.

CALL — A designated time period, which varies with exchanges, during which time trading is conducted in order to establish a price or price range. Example: The opening call establishes the opening price or price range. Disputes are settled during this time by an officer of an exchange. A closing call also occurs on some exchanges.

CARGO — Usually refers to 350,000 bushels of grain.

CARLOAD — Usually refers to 1,800 bushes of grain. This is the amount of a commodity aboard a railroad car.

CARRYING BROKER — A member of a commodity exchange through whom another broker works to clear all or part of his trades.

CARRYING CHARGES — Fees for inspections, insurance, warehouse charges, and interest which are incurred as a result of holding the physical commodity. It includes all the costs incurred by holding and storing a commodity, usually as a result of taking delivery of a commodity. Some futures traders do this and retender or redeliver against an upcoming futures' contract month.

CASH CHARTS — Charts showing graphically the price of the spot commodity. A graph showing the price at which the actual commodity is being traded each day.

CASH COMMODITY — The actual commodity. Also called "spot" commodity. The cash commodity is ready for use now.

CERTIFIED STOCKS — A specific amount of commodity which has been certified as deliverable on a specific futures exchange.

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CHANNEL —	A technical tool used to define the boundaries of price movement. A rising channel line connects the highs of a bull market in a straight line. A parallel line connects the significant low of the bull market. In a bear market (falling prices), two parallel lines connect the highs and the lows. The upper channel line connects the significant highs; the lower channel line connects the significant lows.
CHART (BAR CHART) (POINT and FIGURE CHART) —	Graph paper on which price, time, open interest, volume, moving averages, etc. are displayed to better enable the analyst to forecast future price movements.
CHASE IT —	One way a novice trader loses money. When a trader wants in a market, long or short, and fails to enter prior to a price rise or price decline, he often has the urge to "chase it." (Chase the market). This higher than planned entry in a bull market, or lower than planned entry in a bear market usually leads to disastrous losses.
CHURNING (OF COMMISSIONS) —	A method employed by a greedy/unethical/unscrupulous broker, whereby the broker first gains the confidence of the speculator and then abuses that confidence by making an excessive number of purchases and sales in the commodity futures market in order to generate commissions. Brokers who churn accounts do not act in the best interest of their clients. They act in their own financial self-interest.
CLEARING HOUSE —	A separate, central agency established by an exchange through which futures contracts are cleared, offset, and financial settlements effected. Each day all transactions are matched. Purchases and sales are verified. Delivery procedures are supervised.
CLEARING MEMBER —	A member of the clearing house or association who is also a member of the exchange. A commission merchant who carries futures contracts for clients. Clearing members are required to have a stronger financial statement than other exchange members.
CLOSE —	At the end of each trading day, the period of time during which all trades are officially declared to have been transacted "on or at the close." The last price at which the commodity is traded that day is the close, or the closing price.
CLOSING RANGE —	The range at which prices trade during the close.
COMMERCIAL HEDGING —	Action taken in the futures markets whereby the commercials, (users) in the business offset their cash requirements. Example: A miller who has purchased 5,000 bushels of wheat (one contract) in the futures market for December delivery at today's price can thereby compute his cost for wheat in December (when he takes delivery). Example: The activity of the large grain companies — Continental, Bunge, Dreyfus, etc. These commercials buy and sell futures contracts to protect/enhance their interests. When they hedge, they are usually offsetting commitments in the cash markets.
COMMISSION —	The fee charged by the brokerage firm for servicing the customer's account. The "in and out" cost of trading a contract in the futures market.
COMMISSION HOUSE —	A brokerage firm. Acts as a middle man. Buys and sells cash commodities or futures contracts for clients (speculators, hedgers, users, etc.). Charges a commission (fee) for its services.
COMMISSION HOUSE BUYING —	Buying done by speculators who trade through brokerage firms/commission houses. Buying done by the general public.

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COMMITMENT — An obligation to make delivery or take delivery on a futures contract.

CONTRACT — A unit of trading. Also called a "round lot." The specific amount of a commodity that makes up one regular trading unit is called a contract. Example: Wheat 5,000 bushels equals one contract. Also, an agreement between the buyer and seller in the commodity futures trading market.

CONTRACT GRADES — That quality of the commodity which is deliverable on a futures contract. The grades are listed in the rules and regulations of the exchange.

CONTRACT MONTH — The month in which a futures contract expires. Users/the trade make or accept delivery of the commodity.

CONTRARY OPINION — Usually refers to an opinion about market price direction which is opposite to the consensus, or not in line with the consensus.

CONTRARY OPINION NUMBERS/ FIGURES — Bullish consensus figures refers to percentages computed by certain organizations which review the opinions of the majority of commodity writers. Example: A contrary opinion number of 90% means that 90% of the commodity writers/advisors surveyed by the computing house believe the price of this specific commodity will rise.

CONTRA-SEASONAL — Price movement in a commodity which is unusual for a specific time of the year. Example: Wheat prices usually decline during harvest (June — August). A rise in the price of wheat during harvest (June — August) is a contra-seasonal move.

CONSOLIDATION — Refers to a period of time following an up move or a down move, during which price action is erratic, random, and shows no clear cut direction. Consolidation is usually seen as a "resting" time for prices after an up or down move prior to the continuation of the move.

CORNER — Refers to a "corner on a market." When one or a number of traders have conspired and bought up the cash commodity, and thereby, created a monopoly of supply. A method used to manipulate prices in favor of those who have a monopoly on the commodity. Often in conjunction with a "short squeeze" in that the "cornerers" of the market raise the price to a level that force bears to cover their positions.

COUNTRY ELEVATOR — A grain elevator located in the local farming community. Local agricultural producers sell their grain to the country elevator or store it there.

COVER — Bears/shorts "cover" when they buy back the futures contracts that they previously had sold short. This results in liquidation of the bear's position. The purchase of a futures contract offsets the previously established short sale.

CROP REPORT — A report issued by the U.S. Department of Agriculture or other specialized firms on the status of the actual commodity. Reports include estimates of production and planting intentions.

CROP YEAR — The beginning of a new year for a commodity — not a calendar year. Used to designate old crop and new crop. Example: July 1st begins the new crop year for wheat.

CRUSH — Refers to processed soybeans which have been crushed so they can be transformed into soybean oil and soybean meal.

CYCLES — Deal with time. In commodity trading, cycles are used to compute the time when a commodity is due to top or bottom. The natural rhythm of rising and falling prices from highs to lows to highs.

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DAY ORDER — An order that is good for only one day. A day order is automatically cancelled at the close of the day if it has not been executed.

DAY TRADER — A trader who enters and exits a trade on the same day. He does not carry any positions overnight. Day trade commissions are usually less than normal "round turn" commissions.

DEFERRED CONTRACTS — Those contracts which expire later than the nearby contract. (The nearby contract is also called the spot contract, or the closest contract). For example, in late August, the September soybean contract is the nearby contract. The November and January contracts are deferred contracts.

DELIVERY — The tender of the actual physical commodity during the period specified by the futures contract. This tender fulfills a short sale commitment. The tendering may be in the form of a warehouse receipt delivered to the exchange during the delivery month.

DELIVERY MONTH — The month during which a futures contract expires. It is the month during which the delivery of the futures contract can be made.

DELIVERY POINTS — Locations designated by the exchange where commodities specified in the futures contract are delivered.

DEPRECIATE — A decrease in value.

DESCENDING MARKET — A falling market. A bear market. A declining market. A market in which prices are falling.

DEVALUATION — An official decrease in exchange rate of one currency relative to another.

DIFFERENTIALS — The price differences paid for different grades of a commodity. Premiums are paid for grades better than the basic grade and discounts are allowed for grades less than the basic grade.

DISCOUNT — A futures contract which is selling for a lower price than the spot price.

DISCRETIONARY ACCOUNT — A commodity trading account, the authority or control over which, is held by one other than the person in whose name the account is registered. A broker, brokerage firm, commodity trading advisor, or other organization, for example, may buy and sell futures for an account without the consent of account owner since the account owner has previously granted that authority.

DISTRIBUTION — Price action at market tops whereby long term bulls take profits and transfer ownership of contracts to "Johnny-Come-Lately" buyers prior to a price decline.

DOMINANT FUTURES CONTRACT — The contract which has the largest amount of open interest.

DOUBLE TOP — Two highs of a price rise which occur at approximately the same price level at different times.

EQUITY — The dollar value of a commodity trading account if all positions in the account are liquidated at the market. Includes cash in the account, T-bills, and the value of open positions.

ERRATIC — Refers to a market which is moving randomly and irregularly.

EURODOLLAR — U.S. dollars which are held or deposited out of the United States, usually in Europe.

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EVENING UP — Buying or selling to close out an existing market position.

EXCHANGE RATE — The price of one currency, such as the Swiss franc, stated in terms of another currency, such as the dollar.

EXIT — The closing out of a commodity position.

FALLING WEDGE — A bar chart formation which appears as a "falling wedge." Upper and lower trend lines tend to converge. Prices rise out of a falling wedge usually in a dull manner.

FIRST NOTICE DAY — The first day that notices of intention to deliver the physical commodity against a futures contract can be made. The shorts give notices to the longs of their intentions to deliver.

FLOOR BROKER — An individual who executes buy and sell orders for himself and clients in the trading pit of a commodity futures trading exchange.

FLOOR TRADER — A member of the exchange who executes only his own trades in the pit.

F.O.B. — Free on board. When a commodity is quoted for sale, the cost of transportation to the destination is not included.

FORWARD MONTHS — Also called deferred contracts.

FOREIGN MATTER — "Junk" which is discovered in the commodity during inspection which is not part of the commodity. Usually results in a fine or penalty to the seller unless it is removed. Example: A grain shipment which is "salted" with rocks, stones, and dirt.

FREE SUPPLY — The amount of a commodity which is available for sale on the open market. This excludes the amount held in government stocks.

FUNDAMENTALS — The supply and demand statistics for a specific commodity.

FUNDAMENTALIST — One who trades (buy and sells) a commodity based on the supply and demand statistics for the commodity.

GIVE-UP — A contract held by a commodity trader which is transferred from the executing broker to another broker at the trader's request.

G.T.C. — Good-Until-Cancelled. An open order which is effective and "sits" in the market until it is either filled or is cancelled by the trader who entered it.

HEAD AND SHOULDERS TOP — A high of a price move preceded and followed by a lower high. This price formation looks like a "head and shoulders." A reliable formation. Once price action breaks below the neckline, a major change of direction, and usually a significant move ensues.

HEAVY RESISTANCE — A price level where there has been, historically, heavy selling. Significant or "heavy resistance" areas will be met by new selling by hedgers, short-sellers, and previous buyers who seek to exit the trade at breakeven.

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HEAVY SUPPORT — The opposite of heavy resistance. A price level where, historically, there has been significant buying. When price declines to this level, it is usually met by new speculative buying, commercial buying, and buying by members of the public who were incorrect when they sold short earlier at this level and are, now seeking to get out at breakeven.

HEAVY VOLUME — A day of trading during which the volume (number of contracts traded) is in the top 30% of all volume days recorded historically for the particular market.

HEDGE — A sale of a futures contract against the purchase of a commodity in the spot market. Or, the purchase of a futures contract against the sale of the commodity in the spot market.

HEDGER — One who establishes a hedge. Established for protection (insurance) against loss from a commitment in the cash market.

HIGH — The top of a market. The highest price level of day, week, month, etc.

HIGH (MINOR) — A daily high surrounded by lower highs the previous and succeeding days.

HIGH (INTERMEDIATE) — The highest high between two lower daily highs.

HIGH (MAJOR) — Often a seasonal high, and many times the highest high the commodity makes during a calendar year. Surrounded by two lower intermediate highs.

HIGH-RISK (TRADE) — A (high risk) trade recommendation in a market whose price action is volatile. Usually a trade recommended for only well-capitalized, speculative traders. The number of contracts traded in a high risk trade should be less than usual. If one normally risks 5% of one's account equity in a trade, during a high-risk trade one should only risk about 2.5% of account equity. High-risk trades may be subject to surprise news which can send the market limit-up or limit-down to the benefit or detriment of the high risk trader.

HISTORICAL SUPPORT AND RESISTANCE — Price levels that, in past market history, have been significant levels of buying (support) or selling (resistance).

INTER-COMMODITY SPREAD — The price differential between two different commodities, such as the spread between July wheat and July corn.

INTER-FUTURES SPREAD — The price differential between the same commodity in two different markets. For example: The spread between December Kansas City wheat and December Chicago wheat.

INITIAL MARGIN — The amount of money that is required to be deposited with a brokerage firm in order to put on a position in the commodity futures market. The minimum margin is established by each commodity exchange. The amount of capital deposit required by the brokerage firm varies, depending on how conservative the firm's management is.

INVERTED MARKET — Usually, in the commodity futures markets, due to "carrying charges," the distant contracts sell for higher prices than the nearby contracts. An inverted market is a commodity futures market where the nearby contract month sells at a premium (greater amount) than the distant months. Usually occurs in a bull market.

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JOB LOT — A commodity futures contract which is smaller than the regular contract. The regular contract of wheat for trading purposes is 5,000 bushels. A job lot contract could be, for example, 1,000 bushels.

INTERMEDIATE TRADER — A trader who is in the market to trade price swings which may last from a few days, up to several weeks, and possibly a month.

KEY REVERSAL — A day which marks a change in trend. Prices make a higher high than the previous day, then a lower low than the previous day, and close below the close of the previous day.

LAST TRADING DAY — The day on which trading ceases for the nearest contract month of a commodity. All contracts which have not been liquidated by the end of the last trading day are subject to the delivery of the actual physical commodity.

LEVERAGE — The "clout" obtained by depositing a small amount of money with a brokerage firm in order to control a commodity position of large monetary value. As a result of "leverage," small price moves can result in substantial gains or losses. (That is why timing is critical in trading commodities.) The margin requirement in a commodity may be only 5% of the value of that commodity, thereby enabling the investor to enjoy 95% "leverage."

LIFE OF CONTRACT — The period of time from when trading begins for a contract until the trading of that contract ceases. Usually, less than a year.

LIMIT: LIMIT MOVE: LIMIT (UP OR DOWN) — The maximum price rise or decline allowed during one trading day by the rules of a particular exchange. This maximum price rise or decline is computed from the previous day's close. Its purpose is to establish orderly trading.

LIMIT ORDER — An order which contains a condition or sets a limit on the price at which the order can be filled, or the way it can be executed. Example: Buy December cotton at 94¢, limit 94.3¢. Example: Buy December wheat at 455 or better. These orders can only be filled within the limit specified.

LIQUIDATING MARKET — A market which is experiencing continuous, wide-spread selling, usually by disillusioned bulls and disinterested bears.

LIQUIDATION — The offsetting of a long position. Also used when referring to the closing out of a short position, but this is usually called "covering." Taking a position in the commodity futures market which offsets a previous position.

LOAN PRICE — Under government price support programs, the price at which primary producers may obtain loans. The farmer's crop is collateral for the loan.

LOCALS — Commodity traders and brokers on the floor of an exchange. Those who operate in the pit as opposed to those who operate through the offices of a brokerage firm.

LONDON — Refers to markets that are trading in London, such as silver, gold, copper, sugar, aluminum, zinc, lead, etc.

LONG — A commodity trader who has bought a futures contract in the hope of a price advance resulting in a profit. Also, one who owns the actual commodity without a hedge. Example: a farmer.

LONG (GO LONG) — The purchase of a commodity.

LONG PULL — An extended period of time during which a trader holds a position in the market.

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LONG-TERM —	See LONG PULL. Usually a several month period of time during which a commodity trader holds a position in the expectation of making a profit.
LONG-TERM INDICATORS —	Technical tools and analytical techniques used to forecast prices for the long haul (long pull). Also called "long-term analysis."
LOW —	The lowest price at which a commodity futures contract has traded for a day, a week, a month, a year, etc.
LOOK FOR A TEST —	Expect the market to attempt to rally or decline to this price level or range.
MARGIN —	The amount of money deposited by a client with his broker as security to protect the broker against futures contract losses. The margin is a good faith deposit. The amount of margin is set by exchanges and member firms which may set a higher margin than the exchanges.
MARGIN CALL —	The "Nemesis" of all commodity traders. A request by the broker for more money, in addition to the margin originally deposited in order to maintain the original margin. The margin call results from open commodity positions being at a loss.
MAJOR MARKETS —	Markets which are widely traded internationally and usually evidence good liquidity. Examples: Wheat, corn, soybeans, copper, gold, sugar, hogs, and cattle.
MARKET LETTER —	An advisory service published by a brokerage firm or a commodity trading advisor which usually forecasts future price action and/or recommends long or short positions.
MARKET ORDER —	An order to buy or sell a futures contract "at the market," — whatever price the market is trading when the order hits the pit. The execution is immediate. It is an order given by a commodity trader to this broker.
MARKETING QUOTA —	A restriction imposed by the federal government on the amount of a particular commodity a primary producer is permitted to sell.
MATURITY —	The period of time between the first notice day and the last trading day for a commodity futures contract. During this time the shorts may deliver on their positions. The expiration date is the last date the futures contract can be settled by delivery.
MAXIMUM DAILY PRICE FLUCTUATION —	The maximum limit the contract price of a commodity can fluctuate up or down during any one trading session. The limits are set by the exchange.
MEMBER'S RATE/ MEMBER'S COMMISSION —	The commission charge paid by one who has a seat on an exchange for the execution of a commodity order on that particular exchange. The amount is less than that charged a trader who does not have a seat on the exchange.
MINIMUM FLUCTUATION/ MINIMUM PRICE CHANGE —	The smallest price change, the minimum amount, that a commodity contract price can fluctuate during daily trading. The minimum fluctuation or price change is set by the exchange.
MINOR —	Refers to a minor low (a daily low which is preceded and followed by a higher low), a minor trend (a short term trend usually lasting no more than a week), or a minor swing target (the price amount a commodity is expected to rise or fall in a relatively short period of time).

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MIT (MARKET IF TOUCHED) — A price order entered in the market that automatically becomes a market order once trading hits the price level specified by the MIT order.

MOMENTUM/ OSCILLATOR — A technical tool which attempts to predict changes in price trend before they occur. For example: The momentum/oscillator usually turns down while prices are still rising, prior to a price fall. The momentum/oscillator usually turns up, registering a change in momentum, while prices are still declining prior to a price rise.

MONETARY FACTORS — Refers to the monetary statistics issued by the Federal Reserve Bank of St. Louis, The Federal Reserve and the like concerning such things as increases or decreases in the money supply (M1, M2), monetary base, business loans, currency in circulation, borrowing from The Federal Reserve, the discount rate, the Federal Funds rate, the balance of trade, the balance of payments, etc. These monetary factors influence commodity trading volatility and trend direction.

MONETARY POLICY — Attempted control of the economy by government expanding or decreasing the money supply. Usually used in conjunction with fiscal policy. Fiscal policy is usually associated with direct government spending in the economy — contracts, subsidies, etc.

MOVING AVERAGE — A mathematical/technical system of computation whereby the price swings in a commodity, on a high, low or closing basis (or some variation or combination thereof) are adjusted/smoothed in order to present a more clear trend direction. Recent and distant prices are effectively averaged in an effort to determine if the trend of the commodity is up or down.

NEARBYS — The trading month of a commodity futures contract which is closest to expiration. It is the nearest calendar month in which a commodity futures contract exists.

NEGOTIABLE (COMMISSIONS) — In its most common usage, refers to commission rates charged by a brokerage firm. These rates can be reduced through dickering by traders who trade a large number of contracts.

NET POSITION — The difference between the number of long contracts and the number of short contracts held by a commodity trader.

NEW CONTRACT HIGHS AND LOWS — Registered when a commodity futures contract makes the highest high it has made during its trading life or the lowest low it has made during its trading history.

NEW CROP — The amount of a commodity which will be on hand after the harvest season.

NOMINAL PRICE — Often the average between a bid and ask price in a commodity contract month in which no trading has taken place on the close. As such, it is an estimate of the price of a commodity futures contract.

NOTICE DAY — A calendar day in which a commodity futures contract is traded during which the intention to deliver the actual physical commodity against the short position in the nearby (spot) contract month is made.

OBV — On Balance Volume. A technical tool used to discover accumulation or distribution in a market.

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OCO: ONE CANCELS THE OTHER — Two orders placed in the same contract month of a commodity, one above the present market price and one below the present market price. The orders are entered with the contingency that if one order is filled, the other order is automatically cancelled. For example: If wheat was trading at 460, a trader could enter a buy stop at 465, and a sell stop at 455. If wheat rallied to 465, and the buy stop would be filled, then the sell stop would be cancelled automatically. The reverse would be true if wheat prices fell to 455. The sell stop would probably be executed and the buy stop subsequently cancelled.

OFFER — A price at which a seller is willing to deliver a specific amount of a commodity, or sell a futures contract. The opposite of a bid.

OFFSET — The liquidation of a long or short position in the commodity futures market. A bull sells out his long position. A bear buys back his short position. The result is an evening-up, and the trade is out of the market.

OMNIBUS ACCOUNT — An account carried by one futures commission merchant with another futures commission merchant in which the transactions of one or more persons are combined and not specifically identified.

ON THE CLOSE — An order given by a commodity trader to his broker to buy or sell a commodity futures contract within the last few minutes of trading.

ON THE OPEN — An order given by a commodity futures trader to his broker to buy or sell a commodity futures contract within the first few minutes of trading.

OPEN INTEREST — The number of unliquidated or open contracts in the commodity futures market. The number of longs and shorts are never totaled. One long and one short means the open interest is one. Therefore, open interest is the number of long positions in a market or the number of short positions. The number of longs and shorts is always equal.

OPEN ORDER — See G.T.C. (Good until cancelled). An order which is executed whenever the market reaches the specified price regardless of when (on what trading day) it occurs.

OPEN PROTECTIVE STOP — A stop order placed in the market either on the long or short side. If the price of the commodity futures contract either rises or falls to the stop location, as the case may be, the order becomes a market order.

OPENING BELL — Signals the opening of trading at an exchange for a specific day.

OPENING RANGE — The range during which a commodity futures price fluctuates during the opening seconds of a trading day.

OPTION — In the lingo of the commodity futures industry, refers to a specific commodity futures trading month . . . . An incorrect designation of a specific commodity futures contract month.

ORIGINAL MARGIN — The amount of initial margin (money) deposited with a brokerage firm for a specific commitment in a commodity futures contract . . . . The amount of money deposited with a broker in order to "cover" a new commodity position. The exchange sets the minimum margin amount. The amount charged by a brokerage firm may be higher.

OSCILLATOR — A technical tool usually employed by short-term traders to predict minor or intermediate tops or bottoms in markets. The oscillator measures market momentum and usually turns down before price action does, or turns up before a declining market advances.

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OVERBOUGHT — A term referring to a technical market condition where too many buyers in the market have run up prices too far, too fast. A drop in price is imminently expected.

OVERSOLD — Refers to a technical market condition where sellers have pushed prices down too far, too fast . . . . The opposite of overbought. A price rebound is expected imminently.

P & S (PURCHASE AND SALE) — An account statement issued by a brokerage firm indicating the purchase and sale of a commodity.

PANIC — A stampede in the market when buyers fall all over themselves to buy and sellers exit positions with reckless abandon usually during heavy volume,vertically rising bull markets. Alternately, bears fall all over themselves to sell contracts short, and bulls rush in to cover long positions, usually during heavy volume, vertically declining markets.

PAPER LOSSES — Losses generated in an open commodity position resulting from the present price being less than the price of purchase, or the present price being greater than the price at which a futures contract was sold short.

PAPER PROFITS — Profits generated in open commodity positions resulting from the market trading at a price level lower than the price at which the futures contract was sold short, or higher than the price at which the futures contract was bought long.

PAPER TRADING — An important preliminary step prior to actual trading for novice commodity traders and those just becoming interested in the commodity markets. A trading system is executed "on paper" (in theory) . . . . A game of following the market rather than actually risking money in long or short positions.

PARITY — The price of a commodity established by the government in an effort to maintain a desired relationship between the price of that commodity and other general prices. It is an artificial price predicated on what the primary producer needs to receive for his commodity crop in order to cover his cost of living and production.

PIT — The location on the exchange floor where a particular commodity is traded. Also called the trading ring.

POINT — The minimum price fluctuation in a commodity futures contract.

POINT AND FIGURE — A technical system of "X's and O's" whereby price changes are featured in an effort to determine the trend of the market. Time considerations are excluded.

POSITION — The holdings/interests in a commodity market in the form of long or short positions. Example: A trader who is long wheat has a "position" in the market.

POSITION LIMIT — The maximum holdings which may be controlled/held by a single person in a commodities futures market unless he is a legitimate hedger.

POSITION TRADER — A commodity trader who buys and holds either a long position or a short position in the market for a considerable period of time.

PREMIUM — The positive spread of the price of a cash commodity over the futures price in the same commodity, or over the cash price of a different commodity, or of one commodity futures contract over another. Most common usage is the excess that one commodity futures contract sells for over another commodity futures contract of the same commodity.

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PRICE ACTION — Refers to how prices trade or "act" during a trading session. Price action may be volatile, unpredictable, erratic, etc.

PRICE AVERAGING — Also called "averaging in." A technique whereby a trader buys or sells a commodity on a scale up or scale down basis in order to average the accumulation of his total position.

PRICE FIX — The price at which a commodity is set. Example: The London Gold Fix.

PRIMARY MARKET — Markets/centers of commerce where farmers and other primary producers bring their crops. Example: A country grain elevator. Commodities are sold and disbursed from these commerce centers.

PRIMARY MOVEMENT — Refers to the receipt and distribution of grain at primary markets.

PRIME RATE — The interest rate charged by banks to their most credit-worthy customers.

PROBABILITIES — In statistical analysis of commodities, refers to the percentage of likelihood of a specific event occurring, such as a rise or fall in price. Example: A 20% probability (likelihood) that the price of corn will rise 10¢ within the next five trading days.

PROFESSIONAL — A full-time speculator who dedicates his life's energy to trading commodities as a way of earning a living.

PROFIT AND LOSS — A statement issued by a brokerage house as a service to its clientele informing them of the results of their commodity transactions. Also called "purchase and sale."

PROTECTIVE STOP — A price order entered in the commodity futures market, the intent of which is to offset a previous purchase or sale, as the case may be. When prices rise to the "buy stop," or fall to the "sell stop" the protective stop becomes a market order.

PUBLIC ELEVATOR — Used for grain storage. Space is rented out to the general public. Grain is stored here in large amounts (Private elevators, by contrast, are company owned.)

PURCHASE AGREEMENT — The government buys a commodity from a primary producer at the loan price at a particular time in an effort to effect price support.

PYRAMID — A trading method whereby paper profits accumulated on previously established positions are used to add to a position without the deposit of any additional margin money. A high-risk/highly leveraged trading strategy.

RALLY — Rising commodity prices. A fast advance or up move in prices subsequent to decline.

RANDOM — Refers to non-directional price action. Trading range price action. Non-trending prices. Unpredictable price movement.

RANGE — The difference between the high and low prices during any particular time, such as the opening range, daily range, closing range, weekly range, or monthly range. For example, the daily range is the difference between the highest price and the lowest price at which a commodity was traded during a particular day.

REACTION — A fast decline in prices subsequent to an advance. A reaction is the opposite of a rally. A downward movement in price.

RECOVERY — A price advance following a decline. The opposite of a reaction. A rally.

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REGISTERED REPRESENTATIVE — A commodity broker who works for a brokerage firm.

REGULATED COMMODITIES — Commodities traded under the authority of the Commodity Futures Trading Commission.

RELATIVE STRENGTH INDICATORS — Technical indicators which reveal the degree of strength or weakness within a particular commodity index. For example, the Grain Index may be made up of wheat, corn and oats. Relative strength indicators will show which of these particular commodities are the strongest and the weakest.

REPORTING LIMIT — Applies to commodity traders who trade a large number of contracts. The number of contracts of any particular commodity, set by the Commodity Futures Trading Commission which, if reached or exceeded by a commodity trader in his commodity trading account, must be reported by law to the Commodity Futures Trading Commission. If a large commodity trader puts on the number of contracts equal to or greater than the limit set by the Commodity Futures Trading Commission, and does not report the size of his position, he is subject to fine, penalty, and other disciplinary action by the CTFC.

RESISTANCE — A price level in the market where concentrated selling is expected to blunt the price advance. It is a price level where previous buyers who have losses look to sell their positions in order to exit the market at breakeven.

RESTING ORDER — A price order that sits in the market waiting to be executed. It is also called an "open order," or a "good till cancelled (GTC) order." If a resting order is an order to buy, it is set at a price below the market. If it is an order to sell, it is at a price above the market.

REVALUATION — An official increase in the exchange rate (or the price) of a currency.

REVERSAL — A day's price action which is significant enough to change (or turn) the trend of the market.

RING — In a commodity trading exchange, the location on the trading floor where futures trading takes place. Often called "the pit." It is a circular structure where brokers execute orders.

ROUND LOT — A whole contract as opposed to a smaller amount. A full contract, as contrasted to a job lot.

ROUND TURN — The completion of a purchase and the following sale, or a sale and its subsequent repurchase. When a trader liquidates a previously established position and, thus, is out of the market.

RULES — Regulations that dictate how trading shall occur. Established by each particular exchange. Regulations are also established by the CFTC in order to ensure a just and orderly market, free from manipulation.

RUNAWAY MARKET — A market which is either rising or declining nearly vertically. In a vertically rising market, there are few or no reactions. In a vertically declining market, there are few if any rallies.

RUNS — A price spurt in the market, either up or down.

SAUCER BOTTOM — A chart formation formed by bottoming price action on a bar chart, where prices, as they begin to move up, form a saucer-like bottom.

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SCALE-UP BASIS/ SCALE-DOWN BASIS — A method of entering or exiting the market, whereby a trader does not put on or take off all of his positions at the same time, or price level. For example, a trader who is buying on a scale-down basis will purchase at different price levels as market prices decline. A trader who is selling on a scale-up basis will sell at progressively higher price levels as market price action advances.

SCALP — Refers to traders who trade for small gains, usually within the same day. A quick in and out trade, usually best achieved by locals.

SCALPERS — Those who scalp or trade the market for short-term gains. Usually locals on the floor of the exchange.

SEASONAL TREND/ SEASONAL TENDENCY — The inclination for a particular commodity to advance or decline during a specific time of the year. For example, wheat tends to decline into harvest lows between June and August.

SECURITY DEPOSIT (ALSO CALLED MARGIN) — The amount of funds a commodity trader must deposit with his broker for each commodity futures contract traded. It is a token payment guaranteeing fulfillment of the contract. Technically, it is not part of a payment for purchase.

SECURITY DEPOSIT CALLS/MARGIN CALLS — A brokerage firm's demand for additional funds from a customer who has experienced adverse price movement against his commodity position.

SELL-OFFS — A decline in price, which is often the result of liquidation by discouraged longs who expected higher prices.

SELL SHORT — To sell a commodity contract that a trader does not own.

SELL STOP — A price order resting in the commodity market to sell a commodity short if prices decline to the price level where the sell stop is placed. An order placed below present market price action, which becomes a market order once the sell stop's price level is hit.

SELLING ZONE — The price level where new short selling is expected or where bulls will take profits.

SETTLING PRICE — Each day, the clearing house clears all trades and settles all accounts between clearing members for each contract month. It is usually the closing price or near to it. Its function is to adjust margin payments between a clearing house and its members. It is often the average of the closing prices for a particular trading day.

SHAKE-OUT — Usually refers to a reaction in a bull market, whereby weak longs are washed out of the market and forced to take profits, and/or liquidate their long positions at a loss. Usually occurs prior to a resumption of the up move. Also called a reaction, or a sell-off.

SHORT — A commodity futures trader who has sold a commodity futures contract, in expectation of buying it back at a lower price for a profit. The opposite of a long. A trader who is selling something he does not own, which means he must either buy the contract back at some price level, or buy the cash commodity and deliver it against the position.

SHORT COVERING — Commodity traders who have sold a commodity short, and found adverse price action against them forces them to buy back or cover their positions, usually at a loss.

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SHORT HEDGE —	A short sale by a grower or a producer of a commodity, or someone who uses the commodity and has it in their inventory, whereby they offset their long positions in the cash market with a short position in the futures market for price protection.
SHORT SELLING —	The act of selling a commodity futures contract with the purpose of buying it back at a later date and a lower price for a profit.
SHORT SQUEEZE —	Usually occurs in a runaway bull market when commodity traders who have sold the market short are forced to repurchase their futures contracts due to their inability to obtain deliverable supplies against the contract.
SHORT-TERM INDICATORS —	Technical tools which predict the probable direction of prices over a period of several days.
SOIL BANK —	A federal government program that takes farmland out of production. The government pays the primary producer (farmer) to not plant crops.
SOLD OUT —	A market which is oversold and made up of traders who are no longer willing to sell the market short.
SPECULATION —	The act of buying or selling commodity futures contracts for the purpose of making a profit simply through price fluctuation.
SPECULATOR —	A trader who enters the commodity futures market for the purpose of making a profit based upon price fluctuation.
SPOT COMMODITY —	The actual commodity. Also called the cash commodity.
SPOT MONTH —	The month when the commodity futures contract will be delivered, and the futures are translated into the cash commodity.
SPOT PRICE —	The price at which the cash/physical/actual commodity is selling, or traded in the cash markets.
SPREAD —	A straddle. The difference in price between various contract months of a commodity, or the difference between the spot price and a particular commodity's trading month's futures price. The difference between two delivery months of the same commodity, or different commodities. The sale of a contract in one commodity month executed simultaneously with the purchase of a different contract month of the same commodity. If a spread works for a trader, he makes a profit on the position.
STOP LOSS ORDER —	Often referred to as a stop. A market price order placed at a specific price below where the market is trading in the case of a sell stop, when a trader is long the market. Or, a definite buy price order placed at a specific price level above the prevailing market price if a trader is short the market. A stop loss order is a sell stop if the trader is limiting his loss on his long position. The stop loss order is a buy stop if the trader is limiting his loss on his short position. The stop loss order becomes a market order if the market reaches the specified price level.
STRADDLE —	See Spread. The sale of one delivery month of a commodity against a simultaneous purchase of another delivery month of a commodity. The purchase and sale of different contract months may also involve different commodities.
STREAK —	Refers to a trader who has had a consistent string of wins or losses. Refers to a runaway market which is moving clearly in one direction.

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SUBSTANTIAL DOWNSIDE CORRECTION — A decline in a bull market which drops further than most technical indicators project or traders expect.

SUPPORT ZONE — A price level where new buying is expected, and concentrated purchases will be made of futures contracts. A price level where bears will take profits, buying back their short positions.

SURPLUS — The amount of supply of commodity which is greater than demand. With regard to balance of payments, surplus is income exceeding total payments due foreigners.

SWING ANALYSIS — A technical trading technique whereby previous price action is utilized to project future price levels. For example, a previous intermediate market rally may be used to predict the degree of the upcoming market rally. A recent price decline may be used to predict the extent of an upcoming price decline as prices "swing," or trade.

SWITCH — The liquidations of a commodity futures contract and the simultaneous establishment of the position in another contract month. For example, a trader may liquidate a long position in December gold, and re-establish a long position in March gold. This is usually done due to the expiration of a contract. The trader's present position is liquidated and simultaneously re-established in a more distant contract month of the same commodity. Also referred to as, "rolling forward."

TAPE — A tick-by-tick readout of every trade in a particular market on a thin ribbon of paper.

TAPE TRADER — A commodity trader who watches the tick-by-tick price action in a commodity futures market and bases his trading upon that price action. Usually a short-term trader.

TARGET — The objective of a price move. The price level where profits are taken on either a long or short position in the commodity futures market.

TECHNICAL RALLY/ TECHNICAL DECLINE — Price movements which are the result of developments within the futures market itself, such as computer buying, and not due to fundamental supply and demand factors.

TECHNICAL TRADING — Evaluation of market price action and upcoming price direction, based upon the internal action of the market itself. Focuses upon price, price movement, and related derived indicators rather than fundamental supply and demand statistics. Includes bar chart analysis, cycles, point and figure work, etc.

TENDER — The delivery of the actual commodity against a futures position. A commodity trader who has sold a commodity futures contract short may deliver or "tender" the commodity against the position.

TERMINAL ELEVATOR — Located at a major point of distribution. A grain storage facility. An elevator located at a commodity distribution point. Usually a grain elevator.

THIN MARKETS — Markets which are evidenced by low volume and/or low open interest. In thin markets, a trader may receive bad price order executions if orders to buy or sell are placed "at the market."

THRUST DOWN — A quick sharp decline in commodity futures prices.

TICK — The minimum price movement in a commodity futures market, either up or down. The minimum change in price.

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TOP — The peak of a market.

TRADE BALANCE — The net amount of goods imported and exported by a country.

TRADING LIMIT — The price above or below which trading is not allowed to take place during any one trading session. The maximum range in which a commodity can trade in any one trading day. Also, the maximum position any one trader is permitted to own or control in a commodity futures market.

TRADING RANGE — A market which is fluctuating within a very narrow price range, marked by a lack of trend. A directionless market. A random market.

TRADING SESSION — The period of time within a day when commodity futures contracts can be traded. The time period between the open and close of a commodity futures trading session.

TRANSFER NOTICE — The delivery notice. The indication by a bear that he intends to make delivery on his commodity futures contracts. Time and location of delivery are indicated in the notice.

TRANSFER TRADES — The exchange of futures contracts for cash commodities. The transfer of open trades from the books of one commission merchant to the books of another commission merchant where ownership remains the same.

TREASURY BILLS — Short-term government debt obligations. Sold at government auctions. Can serve as margin for original positions established in the commodity futures market on some exchanges.

TREND — The direction of a market. The general direction prices are moving, up, down, or sideways.

TREND LINE BREAK — Price action falling below an up trend line, or rallying above a down trend line.

UP THRUST — A quick, fast, upward movement of prices. Upward explosion. In volcano-like manner, the quick, fast upward movement of commodity prices.

U.S.D.A. — The United States Department of Agriculture. The department of the federal government which issues all reports on commodities grown and produced in the United States.

VARIATION MARGIN — The additional amount of margin (money) required during or following the close of a commodity trading session, due to adverse price movement. The amount of additional funds required by a broker when a market moves against a commodity trader's position.

VERTICAL RISE AND FALL — A runaway market either upside or downside.

VISIBLE SUPPLY — The quantity of a commodity, usually grain, that can be established (counted).

VOLATILE MARKET — A market in which the violent price direction is technically difficult or impossible to predict. Marked by wild price swings up and down, with no logic for the direction of movement.

VOLUME — The number of purchases or sales of a commodity futures contract made during a specified period of time. Purchases equal sales. Good volume refers to active trading, a liquid market, where entry and exit is facilitated.

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WAREHOUSE RECEIPT — A document which specifies the owner of a particular amount of a commodity which is located at a specific warehouse storage facility. A document evidencing a specific amount of a commodity located at a specific warehouse, naming a specific owner.

WASH SALE — A fictitious transaction, which is now illegal, made for the purpose of creating price activity in the market. Usually the simultaneous purchase and sale of commodities for the purpose of tax evasion.

WEAKEST COMMODITY — Usually refers to the commodity within an index which is performing least spectacularly in a bull market.

WEAK HANDS — Holders of commodity positions who are easily frightened out of their positions.

WEEKLY CHARTS — Charts depicting the open high, low and closing price a commodity traded during a calendar week.

WEEKLY CONTINUATION CHARTS — The open, highest, lowest and last price that the nearby month of a commodity futures contract traded during a specific calendar week, as graphed.

WIDE-RANGE — Refers to the range of prices during a specified period of time, such as a day or a week, which is much greater than normal.

WIREHOUSE — Usually refers to brokerage firms or commission houses. Technically, an organization which operates a private wire to other firms or its branch offices.

NOTES

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