

Futures Trading Strategies

"For Educational Purposes Only"
"please read disclosure"

Follow:

- Patience for real clear situation.
- Trend and sound fundamentals are almost perfect market tone.
- Calculate risk reward! At least 1 to 3 ratio.
- Place stop beyond some technical barrier. A hard to reach spot.

Thanks to:<http://www.econ.iastate.edu/faculty/wisner/ChartingCommodity.htm>

Follow These Technical Indicators:

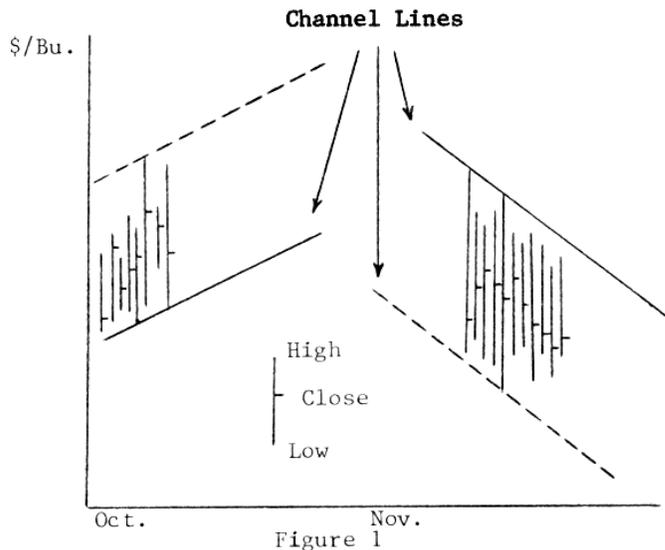
- 1) Channel Lines
- 2) Key Reversal or Outside Day Key Reversal
- 3) Gaps
- 4) Double Tops and Double Bottoms
- 5) Head and Shoulders Formation

Channel Lines. Charts of futures price movements can guide agricultural producers in timing farm marketing's and can be of some help in forecasting short-term price movements. Charting techniques often are viewed as a supplement to fundamental (supply-demand based) price forecasting and outlook analysis. While charting is not a fool-proof method of forecasting price movements that will occur in a period of a few days or a week or two, it does provide additional information on price objectives and market psychology that can be helpful to producers, and to speculative commodity traders. For commercial hedgers such as grain elevators who buy grain or other commodities in the cash market and immediately re-sell the product through hedges on the futures market, charting should be of little or no value.

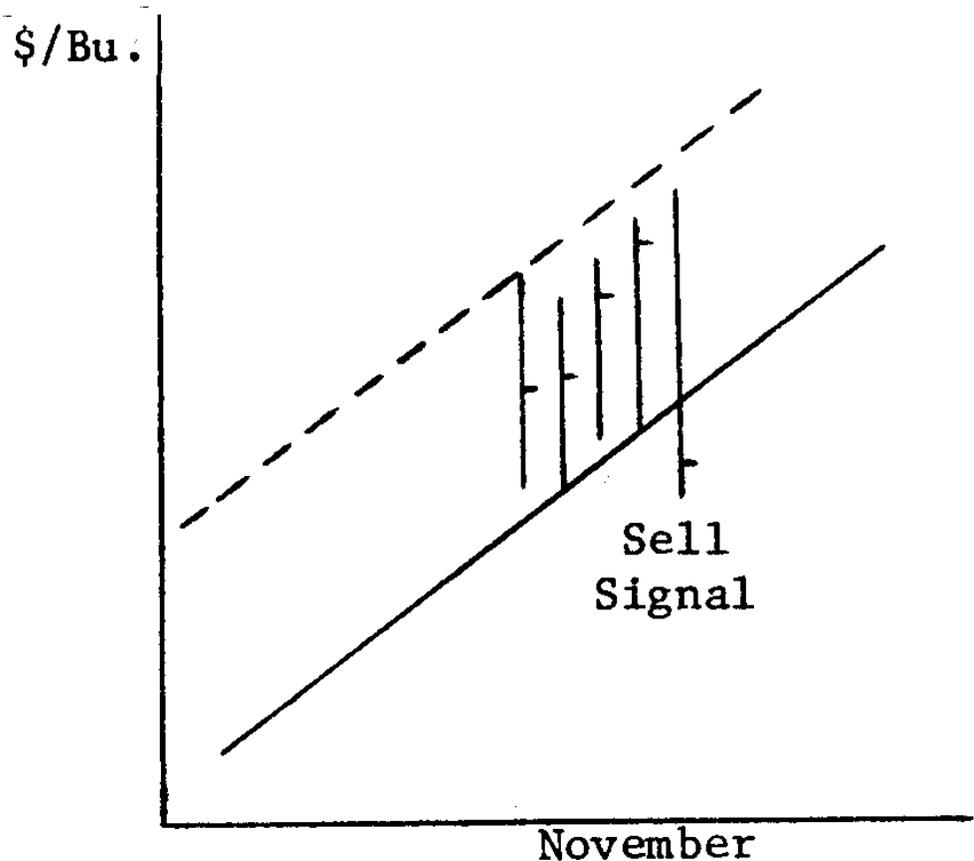
Futures prices tend to follow accepted charting rules because those rules are understood and used by a large number of professional traders. Trading actions that are based on the rules cause those rules to work. The most common type of commodity price chart is the *bar chart*, where daily prices for a particular contract month are plotted as a vertical bar. The top of the bar (or line) represents the high price for the day. The bottom is the day's low and a small horizontal tic on the right side is the closing price.

Over a period of several days or weeks the price trend can be identified by *channel lines*. If prices are trending up, the base of the channel is drawn as a straight line just *touching the two lowest possible points on the price movement*. The upper channel line is then drawn parallel to the base and just touching the *one highest possible price in the series being charted*. Figure 1 illustrates how channel lines are drawn.

If prices are trending downward, the first channel line should be drawn from the *tops of the prices*--with a straight line just touching the two highest possible prices in the series. The lower channel line is drawn parallel to the top line--*and just touching the single lowest possible price of the series being charted*. As long as prices are within the two channel lines, the price trend remains intact



Buy and Sell Signals. Professional commodity traders watch the charts for signs of a change in the direction of price movements. Figure 2 shows a sell signal, with the futures price *closing below* the bottom of the channel line. A low for the day that is below the channel, with the close being above the bottom of the channel would not be a sell signal. One close below the channel is a signal that prices may work lower and is a sell signal for the professional speculator. Figure 3 shows a buy signal--*two* closes above the channel line. *That's a strong indication that prices are about to begin moving higher.* Notice that the rules for a sell signal require only one close below the channel, while the buy signal requires two closes above the channel. This is an indication that prices require less affirmation to move into a downtrend than to move into an up-trend. These signals have a high degree of reliability in forecasting the short-term direction of price movements, but are of limited value in forecasting price movements a month or more in the future, when fundamental supply-demand forces will influence price direction.



November
Figure 2.

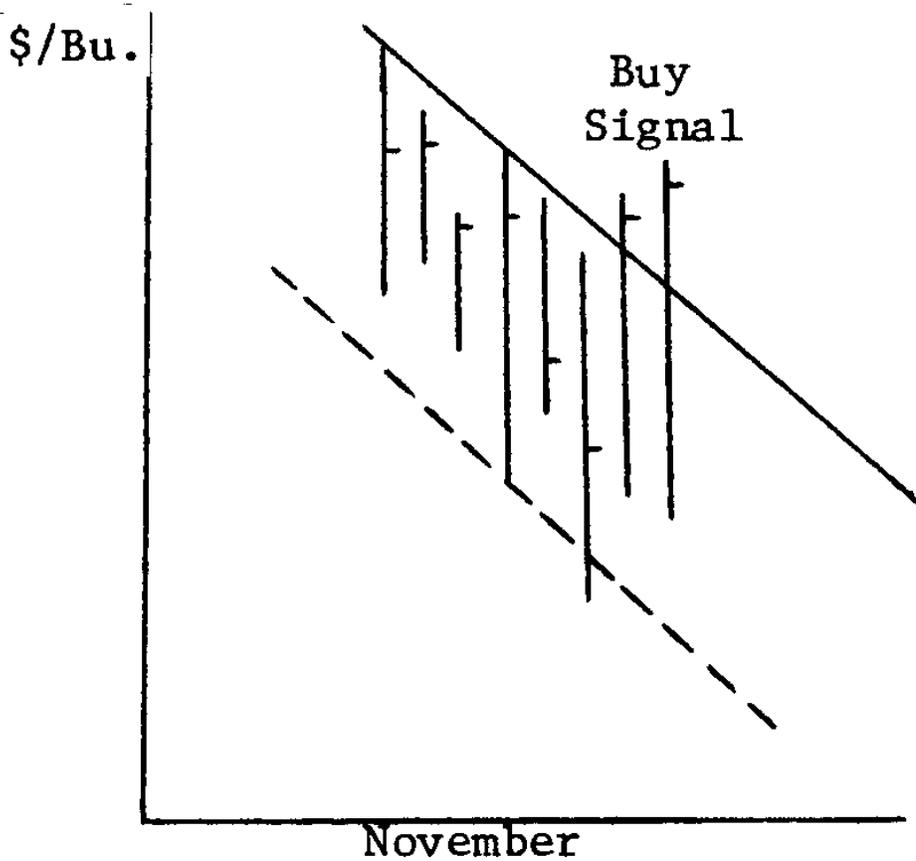


Figure 3

Key Reversal or Outside Day Key Reversal. Figure 4 shows a bearish outside day key reversal. This information is a caution sign that prices may begin to work lower. A key reversal is identified by daily high and low prices that exceed the high and low prices for the previous two trading days. With a bearish key reversal, the close is below the closing prices of the previous two days. A key reversal would be bullish (indicating higher prices) if the close exceeded closing prices for the previous two trading days. Key reversals often appear near the top or bottom of an extended price move. Some chartists consider key reversals to occur when the price range exceeds only the previous day's price range, rather than the previous two days' range, although that is a weaker indicator than a reversal based on a two-day price movement. Key reversals can be thought of as a yellow light in the commodity markets, signaling that price movements are about to change direction. Analysis some years ago at ISU in agricultural markets showed about a 70 to 80 percent probability that short-term price trends would follow the direction indicated by key reversals. Since then, we would expect the advent of computerized speculative and commodity fund trading would have strengthened the reliability of this market signal, although such reversals are not 100 percent reliable.

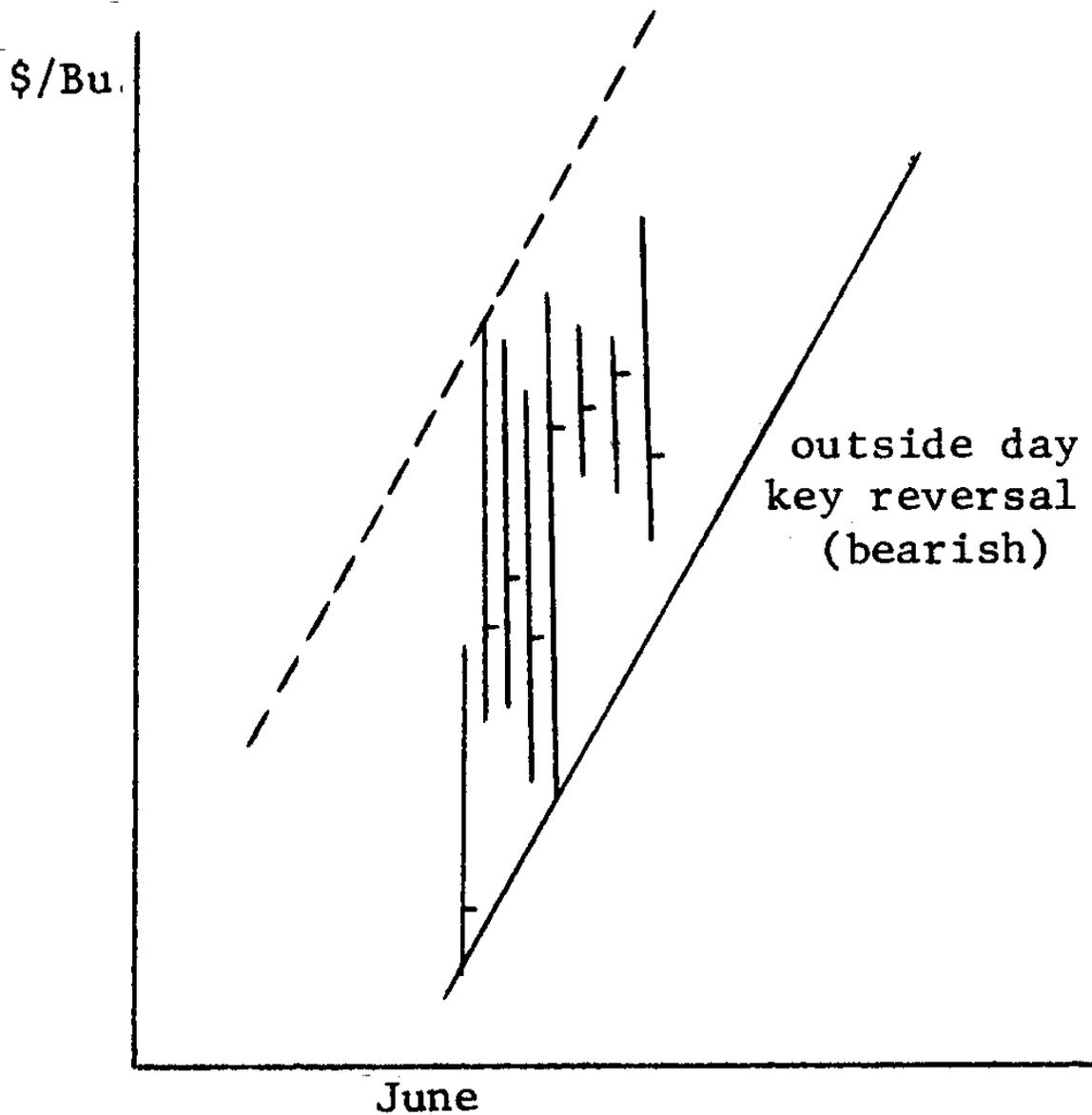


Figure 4

Gaps. A gap occurs when futures prices suddenly drop lower, *with the high price for the day being below the previous day's low or with prices moving abruptly higher with the day's low exceeding the previous day's high.* Examples of gaps are shown in Figure 5. Trading rules and trading history indicate there's a high probability that gaps will eventually be filled. A gap is filled if prices later trade in the range at which the gap occurred. Since gaps are usually (but not always) filled, they become price objectives for the chartist. Gaps typically occur when major new market information becomes available, such as a change in medium-range weather forecasts, a major government report relating to prospective supply-demand conditions, or a U.S. or foreign policy change that affects the market.

There are several important kinds of gaps. Break-away gaps (see Figure 5) occur at the start of a major new price move, and are a strong confirmation of that move if they are not filled within the next few days after they occur. Measuring gaps (see Figure 5) identify the half-way point in a price move, but are much easier to identify from hindsight than from foresight. Exhaustion gaps represent the final phase of a lengthy price move and may indicate the market is about to peak out. If you see what could be an exhaustion gap after a long upward trend in prices, watch carefully for a sign that the market is topping out, such as a bearish key reversal.

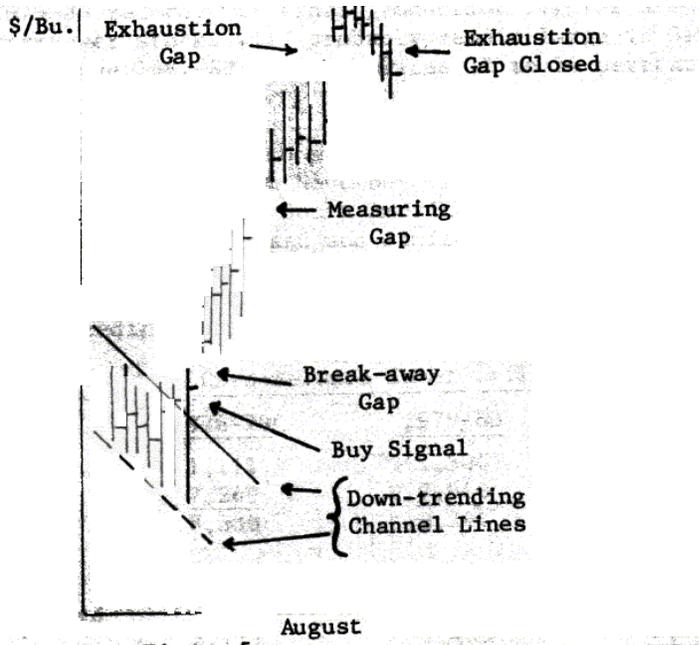


Figure 5.

Double Tops and Double Bottoms. Figure 6 shows a typical double top formation, indicating prices have reached their peak and are about to decline. Double tops are identified by two daily price highs reaching the same level. The days can be back to back, or several days apart. They identify an area of major technical resistance, which the market is unable to move above. Double bottoms are the inverse of double tops, and indicate prices may be ready to change from a down-trend to an up-trend. Triple tops or bottoms are even stronger indications of a potential change in price trends.

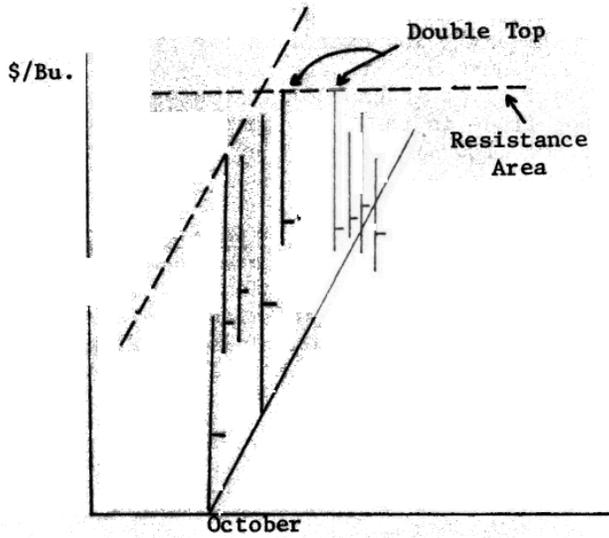


Figure 6.

Head and Shoulders Formation. A typical head and shoulders formation is shown in Figure 7. This formation is difficult to spot until it is about two-thirds completed. *Once the head has been formed, the professional chartist anticipates prices will retreat to the neckline, then rise to form the right shoulder, then retreat to the original break-out level where the left shoulder began.* If one turns Figure 7 upside down, it would illustrate an inverse head and shoulders formation. *An inverse head and shoulders formation would signal that a bottom of a long bear market may be approaching.* Price objectives are derived from an inverse head and shoulders formation in much the same way as for a head and shoulders formation.

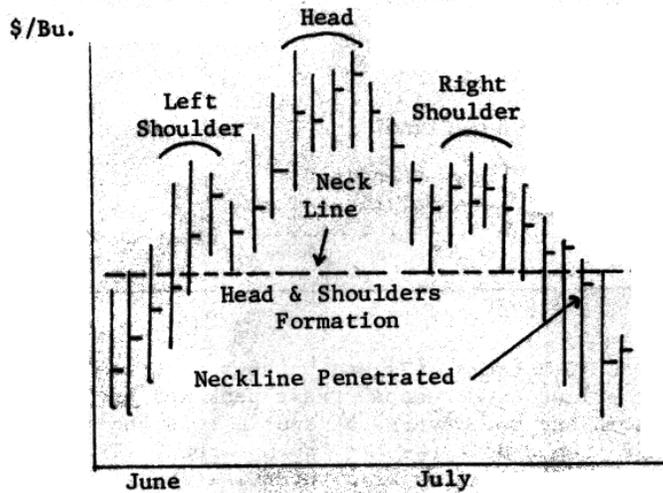


Figure 7.

Watch For:

- Risk control, poor money management, and too many correlated trades.
- Make Rational Bets.
- "Don't Wish", "Don't Hope", Diagnose the process of trading.
- Cut losses. Ride winners. (Close positions you are not comfortable with).
- Don't over trade.
- Expect the unexpected in this business or the extreme. Don't be too tied to the past.
- Use different approaches, and therefore, you don't have all your orders going in at one point. Use different strategies.
- Buy on break outs. New Highs! New Lows!
- If there is a major trend, your approach should assure that you get in that trend (sooner or later) depending on how the market reacts to news.
- Decrease your trading volume when you trade poorly.
- Increase your trading volume when you trade well.

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