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Gold and Silver are becoming interesting for a potential long, but I am putting up my Platinum chart for April here as it does have a nice pattern (in my view).

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Commodities futures trading is considered a mighty risky enterprise by most folks.

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**17 Billion Dollar Bailout: Opportunity for Platinum**
*By: Scott Barrie*

Platinum is the rarest of all the precious metals. Often referred to as “white gold”, Platinum is 16 times more rare than Gold and 100 times more rare than Silver.
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This Month’s Off the Wall Chart comes from Stewart:

Using the SSTO, Stewart looks at what Platinum.

“Gold and Silver are becoming interesting for a potential long, but I am putting up my Platinum chart for April here as it does have a nice pattern (in my view).

Signals are telling me cautiously to consider a potential long!

My charts tell the story, but beware new traders with Platinum, it’s a thinly traded market at times and this April chart give little more than an average of 1,300 contracts traded per day over the last 5 days!

Platinum tends to help in gauging silver and gold and I have only traded it once in my whole trading career.”

Get into the action! Start posting on The Wall, and maybe you’ll see your article or chart highlighted here in our next issue of PitNews.com Magazine! http://thewall.pitnews.com
Commodities futures trading is considered a mighty risky enterprise by most folks. And they are right if you examine the way most traders trade. Market lore holds that 80% (or even 90%) of futures traders lose money. This fact seems impossible, given the plethora of books written on the subject, as well as the various “courses”, seminars, software, and other materials available to educate one about futures. Yet, this remains a fairly static fact, which during my time as an analyst for a brokerage firm I could confirm as being true.

Naysayers will point out that commission rates have dropped substantially (a decade ago, I remember “discount” accounts being in the $20 to $30 a side range… with no broker support), access to information has increased thanks to affordable PC's as well as the internet. Surely all of these factors have changed caused more traders to make money? Sadly, the answer is probably NO!

The futures, as well as the options markets are a “zero sum” game, meaning that for every dollar made, there is a dollar lost as each “long” contract has a corresponding “short” contract and only one side can win. Multiple “longs” and “shorts” may move in and out of the market, making and losing money, but at the end of each day the dollars won and lost on contracts are totaled and allocated. Typically, over the long run, 80% of the loses go to pay 20% of the market participants.

The 80/20 Rule

In the futures market, the small collective who makes money while the bulk do not is known as the 80/20 rule. This is a variation of Pareto Principle, which states that roughly 80% of the effects come from 20% of the causes. In business, it is “20% of your customers create 80% of your income.” This 80/20 rule of thumb is commonly stated throughout business and is the basis for the Six Sigma approach, as well as the Small Business Associations figures which state that only 1 of 5 new restaurants are profitable after 5 years.

Honestly, I have never seen the landmark study – which sup-
posedly exists - that shows that 80% of futures/options traders lose money. However I believe, from personal experience ranging from the trading floor, risk management, as well as brokerage that the Pareto Principle is fairly close to truth (note: I also believe in Santa Clause, the Easter Bunny, the “single shooter” or “magic bullet”, as well as Loch Ness, UFO’s and other fringe ideas.) I believe that the reason may well be that as traders, we all study the same materials, apply the same principles, which by logical association will lead us all to the same result – failure!

**Efficient Market?**

The first principle of technical analysis is that price represents all that is known. Price represents all known supply and demand considerations, after all price is the arbitrator between buyers and sellers. Price represents the point where a seller is willing to part with his/her goods as well as the point where a buyer is willing to pay for such goods. If this is true, and price does reflect all known information, then nobody should be able to beat the market!

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**The first principle of technical analysis is that price represents all that is known.**

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However, our industry is full of people who beat the market. Floor traders do it… as I know a few who live in very nice houses, as well as the “rock stars” of Speculation like George Soros (of “I broke the Bank of England fame”), John Henry (of “I own the Boston Red Sox’s” fame), as well as Tom Baldwin (of “I own several blocks surrounding the CBOT as well as had a floor hand signal named after me” fame), and Steve Fossett (of “I made enough money in options to balloon around the world” fame, god rest his soul, he was a nice guy… I actually met him once and he was nice under unpleasant circumstances) just to name a few.

Of course, in a large, random system a few people will always make money just by chance. But, some of the accomplishments (earnings and profits) of these individuals can not be explained by sheer randomness.

What they all have in common is that they found their own way, outside the beaten path. After all if “common knowledge” made great traders, the most well read of us all would be millionaires multiple times over. Of course, knowledge is useful, but knowledge is subjective and no one has the answer for you, but you! However, I have a suggestion that may prove fruitful for a few traders who are patient, and more interested in making a decent return out of the market, while maintaining risk at an acceptable level which should ensure they will stay in the “game.” Risk management does come at the expense of making an overnight fortune, but Risk Management also ensures that one will be able to put on another trade.
Managing Risk

The older I get and the more I watch the markets, the more I like options. Option strategies allow a trader to set-up positions where risk is defined, and the likely outcome has a high probability – at the time of trade initiation – of being successful.

Futures, by their very nature, have unlimited risk... if you don't believe me, read your account paper work and the beginning of this magazine where it state “it is possible to lose MORE than your initial investment.” Some option strategies do also – such as “naked” or unprotected written (sold) options. In the futures market, stop losses are used to manage risk, as orders are placed to exit a position at a specific price. However, market conditions vary and many markets can move through a stop loss order like a hot knife through butter, leaving the trader with a loss much greater than he/she expected.

The only way to completely limit risk is by using options! However, risk reduction comes at the expense of giving up reward potential. An option buyer gives up the premium paid in return for unlimited reward potential. However, most options – like traders – end their lives being either worthless or being worth less than when they started. However, options can be either bought or sold, and as such traders can set-up positions which have a solid probability of being profitable to a finite extent, and at the same time risk can be managed down to the exact penny. One example of this is the “Bull Call Spread.”

An option buyer gives up the premium paid in return for unlimited reward potential.

This strategy is used when you believe a market will go up, as Bull Put (Credit) Spreads are a low risk, limited reward strategy. Bull Put Spreads are generally “Out Of The Money” trades. A Bull Credit Spread can also be put on at-, or in- the- money, which essentially increases both the risk and the potential profit, depending upon how bullish you are on the market.
This strategy is basically a bet that prices will stay or end up above the short Put (higher strike price) option and not end up below the long Put (lower strike price) option. In other words, this strategy is often used to bet that prices will not go somewhere, as opposed to betting that they will go somewhere.

The difference in betting where prices will be and where they won't may well be the key. Small traders, those of us with limited means who want to practice good money management and not risk more 10% of their account balance (that's $500 for a $5,000 account and $1,000 for a $10,000 account) on any one trade, or even better 5% or less like the professionals do, should become familiar with this strategy. Though the rewards are limited (the premium received less the premium paid, or short option premium – long option premium), the risk is limited as well. Traders, who are paying attention can set-up such strategies to maximize their potential for profits, as well as limit their risks, ensuring that no unwanted surprises will occur.

**A Quick Sample**

Based on the research from the 2009 Commodity Trader's Annual (available at www.COMMODITYALMANAC.com) traders may wish to take note that May High Grade Copper futures (HG) have increased in price from the end of December through to the end of April in 15 of the last 20 years, including each of the last 5 years when the “Real Estate Bubble” has been in full force as well as its bust in 2007.

This position also takes advantage of the over-sold nature of the copper market as well as natural support, both from an old trading range as well as a Fibonacci Retracement level.

This long-term strategy also has the advantage of being off the radar of most traders. Most futures traders – shall we say the

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**May High Grade Copper Futures**

**Prices and Changes in Cents/LB and %**

<table>
<thead>
<tr>
<th>YEAR</th>
<th>DEC CLOSE</th>
<th>JAN-APR HIGH</th>
<th>JAN-APR LOW</th>
<th>APR CLOSE</th>
<th>DEC-APR CHANGE</th>
<th>DEC-APR RALLY</th>
<th>DEC-APR BREAK</th>
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<tr>
<td>1989</td>
<td>127.85</td>
<td>147.00</td>
<td>121.40</td>
<td>141.70</td>
<td>13.85</td>
<td>19.15</td>
<td>-6.45</td>
</tr>
<tr>
<td>1990</td>
<td>105.20</td>
<td>125.00</td>
<td>94.50</td>
<td>116.90</td>
<td>11.70</td>
<td>19.80</td>
<td>-10.70</td>
</tr>
<tr>
<td>1991</td>
<td>113.75</td>
<td>116.25</td>
<td>102.10</td>
<td>105.90</td>
<td>-7.85</td>
<td>2.50</td>
<td>-3.15</td>
</tr>
<tr>
<td>1992</td>
<td>97.45</td>
<td>104.00</td>
<td>94.30</td>
<td>99.85</td>
<td>11.1%</td>
<td>6.55</td>
<td>-3.15</td>
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<tr>
<td>1993</td>
<td>103.40</td>
<td>107.50</td>
<td>81.60</td>
<td>83.70</td>
<td>-19.1%</td>
<td>4.10</td>
<td>21.80</td>
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<td>83.60</td>
<td>93.20</td>
<td>79.00</td>
<td>91.35</td>
<td>9.3%</td>
<td>9.60</td>
<td>-4.60</td>
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<tr>
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<td>132.60</td>
<td>139.40</td>
<td>125.30</td>
<td>129.15</td>
<td>-3.45</td>
<td>6.80</td>
<td>-7.30</td>
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<td>1996</td>
<td>117.75</td>
<td>124.70</td>
<td>109.30</td>
<td>121.15</td>
<td>2.9%</td>
<td>6.95</td>
<td>-8.45</td>
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<td>95.95</td>
<td>114.50</td>
<td>96.10</td>
<td>112.50</td>
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<td>79.10</td>
<td>86.70</td>
<td>73.15</td>
<td>82.60</td>
<td>4.4%</td>
<td>7.60</td>
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<td>61.60</td>
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<td>5.3%</td>
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<td>79.00</td>
<td>-9.1%</td>
<td>2.60</td>
<td>-13.40</td>
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<tr>
<td>2001</td>
<td>84.15</td>
<td>85.30</td>
<td>74.80</td>
<td>76.65</td>
<td>-8.9%</td>
<td>1.15</td>
<td>-9.35</td>
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<td>2002</td>
<td>66.50</td>
<td>77.30</td>
<td>66.40</td>
<td>73.25</td>
<td>10.2%</td>
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<td>2003</td>
<td>70.85</td>
<td>80.35</td>
<td>70.65</td>
<td>72.50</td>
<td>2.3%</td>
<td>9.50</td>
<td>-0.20</td>
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<tr>
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<td>139.90</td>
<td>105.60</td>
<td>120.95</td>
<td>16.80</td>
<td>35.75</td>
<td>1.45</td>
</tr>
<tr>
<td>2005</td>
<td>141.60</td>
<td>153.60</td>
<td>129.50</td>
<td>149.30</td>
<td>7.70</td>
<td>12.00</td>
<td>-12.10</td>
</tr>
<tr>
<td>2006</td>
<td>198.35</td>
<td>341.50</td>
<td>195.80</td>
<td>333.55</td>
<td>68.2%</td>
<td>143.15</td>
<td>-2.55</td>
</tr>
<tr>
<td>2007</td>
<td>288.60</td>
<td>369.25</td>
<td>240.00</td>
<td>354.15</td>
<td>22.7%</td>
<td>80.65</td>
<td>-48.60</td>
</tr>
<tr>
<td>2008</td>
<td>305.20</td>
<td>403.90</td>
<td>307.50</td>
<td>393.40</td>
<td>28.9%</td>
<td>98.70</td>
<td>2.30</td>
</tr>
</tbody>
</table>

| #Up | 15 |
| #Down | 5 |
| Average | 16.91 | 8.5% | 24.99 | 15.6% | -8.45 | -6.8% |
“80%” – look for short-term moves. But, looking longer-term allows traders to position themselves for major moves, and when combined option strategies like the BULL PUT SPREAD – which has limited risk – allows the speculator to move above the fray and noise.

Given that Copper is a very macro economically sensitive commodity, especially towards real estate, a long Copper position looks fool hardy at present… but of course, you can’t tell till you bet. A conservative trader may wish to look at establishing the following BULL PUT SPREAD…

Sell May 150 Put
Buy May 140 Put
HG2009K @ 156.45
... establish for a net credit of +5.00 cents/lb ($1,250 before commissions and fees) or better

The maximum risk on this position is -5.00 cents/lb (-$1,250 before commissions and fees) which is equal to the reward potential. However, traders should note that this position is profitable (at +5.00 cents/lb) above 150, giving the position 6.45 cents/lb “wiggle room” before the maximum profitability begins to deteriorate. The “break even” on the position is 145 before commissions and fees, and the maximum loss will occur below 140.

Though the end of April (04/27/09) is a long ways away, traders should take comfort in the fact that the proposed financial rescue plan should be in force by then, pumping money into building and the economy… two factors which should benefit Copper.

Using this strategy, traders are looking for an equal return to risk, with the added edge that if prices stay flat – unchanged – or do not decline much, this position will be profitable.

This position also takes advantage of the over-sold nature of the copper market as well as natural support, both from an old trading range as well as a Fibonacci Retracement level.

CONCLUSION
By going against conventional wisdom, traders may be better off. Usually when one runs with the herd, the greatest risk they have is being trampled. Conventional wisdom in the futures markets is most likely wrong! After all, if it were correct, then more people would make money.

The trick may be to practice solid money management and risk control, as well as trade in a time frame which is unpopular so one does not have as much competition.
Pilots are not only skilful in their ability to competently take off, fly and land massive pieces of machinery, but they also have a considerable amount of psychological pressure with the need for a high level of emotional control. To take hundreds of people’s lives into their hands, both within the plane and those below, takes guts and confidence within their own ability and the plane itself.

Emotional control makes a massive contribution to the success of a trader. The secret to trading is not in a particular secret plan or set of strategies that you need to uncover, instead it is the ability to always remain emotionally in control; detaching from any external influences that will be tempting you to take actions which are outside of your Trading Plan rules.

**Emotional control makes a massive contribution to the success of a trader.**

A pilot will be faced with many different external conditions; high winds, rain, fog, clouds, birds and even other aircraft. These sometimes arrive with no warning. Traders experience the very same onset of conditions, and the point I am trying to make is; it is their reaction to these conditions that determines their level of continued success.

The financial markets are based upon emotion and are the pure reflection of each individual market participant’s perception, and therefore reaction to what they see and hear. It also goes much deeper than their perception to events. A trader’s success can also be affected by their ‘money habits’; these habits are acquired through the conditioning of their childhood.

If the child is brought up in an environment where the household spends what they earn, especially on unnecessary items (they acquired little or no assets); or spends more than they earn (large household debt), then this person will most certainly have the same
money handling skills into their adult life. Unless they make a conscious decision to gain better money skills, because regardless of how much they make, it will dissipate the same way.

You know, when I first heard the concept of 'Trading Psychology' and how significant it was to being successful in the markets, I first thought to myself ... “well I have good emotional level headed and don’t get flustered too easily”. It was until much further down the track did I realize that this wasn’t enough – it went so much deeper than that.

My money habits, my money handling skills were really bad. Anytime money came into my hands I had to spend it. With the financial markets being highly liquid I could access my cash almost immediately, and spend I did.

It is really hard to see what our habits are until we make the conscious decision to ‘see’ them.

Otherwise we are simply operating from a preconditioned state – our habitual state. And all this seems very ‘normal’ to us, and often we think it is how everyone else functions too.

If you want to know how you ‘think around money’ look at what your current results in your life are.

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**It is really hard to see what our habits are until we make the conscious decision to ‘see’ them.**

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What sort of annual income are you on? Do you have many or any Assets? What is your Net Worth? - add up your Assets and then deduct all of your Liabilities to find out your Net Worth. Are you forever chasing your tail with bills? Are you Asset rich but Cash poor?

The answers and reflection upon these questions will allow you valuable insight into what your thinking has been up, until this point, around money – do you respect money?

The good thing is that you can change it.

Some people have had the right upbringing in so far that they received the right money handling skills and emotional control that allows money to flow into their lives and is retained within the right forms. Their money is spent mostly on appreciable assets than depreciable assets.

If this is their ‘normal’, these people do find it hard to ‘see’ how emotional control could be one of the most important things to obtain and therefore succeed in trading. They already have it. It is only when we need to change our habits, do we realize how hard they can be to change.

Emotional control spans across the traders’ ability to research the necessary skills and strategies required to create and retain wealth – not just being able to enter and exit the market in a timely manner. Profits need to be handled and reinvested correctly.

Our emotional control also stems from our childhood conditioning. Most of our reactions to external events were copied and learned off of our parents; the way we react to conflict, to busy traffic jams, to unforeseen events, to losing money, to making large sums of money.

Do you get anxious when faced with adversity, or over elated when faced with euphoric situations?

Trading the financial markets entails emotional ups and downs like a flight on a stunt plane – looped de loops, quick turns, high and low altitudes, followed by steep dives. Watching profits come and then go can make any person feel sick to their stomach, and if you haven’t been following, or have confidence within, your trading plan, then these feelings will be intensified and can swing from one emotion to another very quickly and without warning.

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**Trading the financial markets entails emotional ups and downs like a flight on a stunt plane**

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Our emotions stem from our perception of external events. Most people live at the mercy of their emotions – when they
see or hear something they automatically react from a habitual
state rather than with actions that are the most advantageous for
themselves and any other party concerned.

Their decisions are based emotionally rather than logically or
upon a system. Systems, when followed religiously, can give fairly
predictable results. But if the trader deviates from the systems
variables the prediction of the outcomes becomes obsolete.

If a person is unaware that they are reacting emotionally, rather
than an approach that is nonemotional and mechanical with every
part of their system followed step-by-step, they will be wondering
why they are not finding consistent success.

The emotions that drive the market are fear, greed, ego and hope.
Traders will be experiencing one or more of these simultaneously
or at rapidly changing time frames. It is ok to feel these emotions,
what is not ok is reacting to them in ways that are outside of your
trading plan guidelines. If your trading plan tells you to close out
your entire position, even though you have just made a massive
profit your ego is most likely enticing you to hang in there longer
to make more profits. Not only that, but this ego is also fantasizing
about the new convertible it can see itself in. “Just a little longer
in this trade and I can afford a deposit on that new luxury car”.

The weakness displayed in the market, which was why your
system was giving sell signals, suddenly becomes very apparent as
the market plummets and goes against you, eating up all profits.
Feelings of anxiety and fear replace those happy feelings of elation.
If you continue to hang on to the position hoping it will go back up,
you have moved through another of the emotional states again.

It is amazing how well our mind and emotions can trick us
into thinking that ‘this time it is different’.

And often becomes much worse when the outcome is fruit-
ful by chance. This causes the trader to experience delusions of
their ability, thinking that they either have a ‘natural’ ability or
’intuition’ around the market – but sooner or later will become a
slap in the face.

I believe that intuition for the markets movement is created
when the trader has taken the time to research, study and prac-
tice their system over various market conditions so that it has
become internalized.

Regardless of our background conditioning anyone can
become successful, you just need to have the passion, desire and
drive to succeed. If you have a good understanding and vision of
what the Forex market can offer, then you will do what it takes
– the lifestyle it can bring is certainly worth it.

Don’t try to take short cuts in your learning either – as you
will need to eventually go back over what you missed and will
invariably lengthen the total learning process. This is enhanced
by our psychological makeup whether we naturally try to ‘skip’
over new material or sometimes we assume that we ‘know it
already’. However, I believe we don’t really know something at a
deep level until we are successful at it

There are a number of books written on the psychology
of trading, I would suggest you source and read these books.
One brilliant one is called ‘The Disciplined Trader’, by Mark
Douglas.
Spanish Conquistadors discovered platinum approximately 400 years ago when they were panning for Gold in Choco region of what is known today as Colombia. Considered a nuisance as Platinum interfered with gold panning, Platinum was discarded as worthless until a Swedish Assayer, Scheffer, in 1751 successfully melted and worked the substance the Conquistadors could not “melt by fire or by any of the Spanish arts”.. By 1780, French glass workers were using Platinum to make crucibles for glass production since Platinum did not melt at the extreme heat used to make glass. Platinum’s resistance to heat, corrosion, and strength made it an important industrial metal.

Platinum is the rarest of all the precious metals.

Platinum is the rarest of all the precious metals. Often referred to as “white gold”, Platinum is 16 times more rare than Gold and 100 times more rare than Silver. To put the supply of Platinum in perspective, more than twice as much steel is poured each day in the United States, than Platinum is produced in the world each year!

The industrial and materialistic uses of Platinum have grown over the years. In the 19th century when jewelers were able to melt Platinum, “white gold” began to replace Silver in jewelry. The lustrous white color of Platinum better accentuates diamonds and the bands can be much smaller as it is over 100 times stronger than Silver. Jewelry demand for Platinum
accounts for roughly 21% of total usage. The bulk of demand comes from industrial applications, making this metals more Industrial than Precious on a usage basis.

The usages of Platinum in the modern world are far reaching, it is estimated that 20% of all the goods manufactured today either contain Platinum or were produced using Platinum containing equipment. However the largest industrial usage of Platinum is from the Automotive Industry. Because of Platinum’s catalytic qualities, it is used in catalytic converters by the automotive industry. Catalytic converters are used to take toxic gasses produced using unleaded gasoline and turn them into carbon dioxide and water. Demand for Platinum from the automotive industry accounts for roughly 80% of the use of Platinum each year.

Given the current recession, it is no wonder that Platinum prices have fallen, after all the demand component of this metal is mainly Industrial. But recent Government actions may well push this metal higher! Not to mention that both historically as well as technically, Platinum appears to be ready to move higher, not only absolutely but also relatively.

The Bail Out
The White House has approved a $17.4 billion rescue package for the troubled Detroit auto makers that allows them to avoid bankruptcy and allows the US Automotive Industry to continue to build cars and stay in business, avoiding bankruptcy and all its nasty implications – like voiding the dealer warranties (those 5 year/50,000 mile promises) which everyone expects. Bankruptcy would spell the “kiss of death” to any automobile company, as all warranties would be void, hence discouraging consumers from buying these cars.

The multi-billion dollar bailout package came with some strings, but most of which are not that important for the average trader (though if you own GM or F shares or bonds, they are EXTREMELY important):

Companies receiving Government Funds will require their CEO’s to not fly on company owned Jets and their compensation will be curtailed - like Lee Iiacocoa did when Chrysler was bailed out last time and the combination of Government contracts and handouts shot his stock up, he made a fortune by taking the “DEAL.”

Companies receiving Government funds will have to prove their solvency by March 31st, 2009. Of course “solvency” can be explained many different ways and the current situation clearly shows that the big 3 Detroit manufactures (The US Automotive Industry, sans (F) Ford, which did not ask for Government funds specifically) are too big to fail, hence “financial solvency” under this bailout package can be explained many ways. Even the most
recent press release on the matter (12/19/08) declares that the term “solvency” will be relatively lenient – open to negotiation and/or interpretation. But, what most likely what the money will do, to not only appease the Politicians but also to try to help their bottom line, is to build cars!

What do cars need? Platinum!

Current Technical Picture in Platinum
Platinum prices have basically been a free fall this year, and for good reason. Plunging Platinum prices should have been a tip off to the true extent of the distress in the automotive industry. From March 2008 through to October 2008, Platinum prices have fallen from a high of $2,251.1/oz to a low of $761.8/oz, a decline of over 66% in just about 8 months.

For the last 6 weeks, Platinum prices have been stuck in a trading range. This range is bounded by support at 785.0 and resistance at 897.8, basis the April 2009 futures (+PL2009J). (Note: the chart below is a long-term daily chart using front-month futures and a 15 day look-ahead period) pushing a spring together does. Eventually the sideways movement builds enough energy to create a sustained trend. In this case, an upside breakout above the sideways channels resistance at 897.8 basis the April futures (+PL2009J) would signal a move higher, quite possibly to 1430, which would represent a 50% retracement of the most current downleg of this decline. However, a break below 785.0 would signal a continuation

Charts courtesy of Track ‘n Trade.
Visit [www.TracknTrade.com](http://www.TracknTrade.com) for a FREE Trial!
of the downtrend in Platinum.
This range broke the sharp decline in prices during the previous 6 months. The sudden and severe drop in prices created extremely over-sold (and/or over done) conditions technically. The sideways movement in the market currently may be just a pause to refresh, setting the stage for more lower prices – after all, the expression says “the trend is your friend” and there is no arguing that the medium and long-term trends are lower.

However, this basing may well be a reversal. Momentum based indicators – such as trendlines as well as MACD – are pointing to a shift in the market. Many market technicians believe that sideways (or basing) price action is the market's way of building up potential energy, much like pushing a spring together does. Eventually the sideways movement builds enough energy to create a sustained trend. In this case, an upside breakout above the sideways channels resistance at 897.8 basis the April futures (+PL2009J) would signal a move higher, quite possibly to 1430, which would represent a 50% retracement of the most current downleg of this decline. However, a break below 785.0 would signal a continuation of the downtrend in Platinum.

**Historical Bias**

Historical, annual, or seasonal biases try to capture typical or “normal” movement in the market. Obviously,
the current situation of recession, imminent failure of the Big 3, the global credit crunch and more are anything but normal. However 66% drops in prices and $17 billion bailout packages may well put the Platinum market back onto a normal course.

According to the 2009 Commodity Trader's Annual (www.COMMODITYALMANAC.com) April Platinum futures have gained in 20 of the last 25 years from the end of December through to the end of February.

On average, April Platinum futures have gained $47.7/oz (5.1%) from the end of December through to the end of February on a monthly settlement basis. On average during the first two months of the year, Platinum prices have seen gains of $69.6/oz (9.9%), as measured by the Jan/Feb Rally which is the difference between the January/February highest monthly high and the December close. These gains are much larger on average than the breaks usually seen this time of the year, as measured by the Jan/Feb monthly lowest price – the Dec close, which have averaged -$19.8/oz (-4.6%).

Track ‘n Trade has the ability to chart and represent SPREAD trades, like the Platinum/Gold trade. However, traders will find studying the Platinum/Gold spread a lot easier if they follow this advice.

The Platinum/Gold spread is a equity spread when done 1 contract vs 1 contract, as Platinum futures are based on 50 troy ounces and Gold futures are based on 100 troy ounces, hence a $1/oz move in Platinum is worth $50/contract while a $1/oz move in Gold is worth $100/contract. As such, the Platinum/Gold spread is typically done – recognized by the exchanges, and eligible for spread margin requirements – using 2 Platinum contracts (two 50 ounce contracts or 100 ounces) versus 1 Gold contract (100 ounces).

However, when charting this spread, I have a little “cheat” I use in Track ‘n Trade. I change the contract size in the programs “Key” as well as the Full Point Value to 100.0, representing 2 contracts of Platinum. Then the charts all work out to straight differences. Do this trick, and your charts will work excellently!
More Than One Way to Skin a Cat... Platinum vs. Gold Spread

As mentioned earlier, Platinum is 16 times more rare than Gold and its uses surround us all in our daily lives – from our cars to light switches, electronics and even jewelry. Though the major consumer of Platinum is the automotive industry, Platinum is also used in jewelry and electronics – just like Gold. Relative to Gold, Platinum is the cheapest it has been in over a decade.

In the last 25 years, Platinum has commanded a premium of $186.3/oz over Gold

### APRIL PLATINUM – APRIL GOLD $/OZ CHANGES

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<th>Year</th>
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<th>PL-GC Changes</th>
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<td>524.8</td>
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HYPOTHETICAL PERFORMANCE RESULTS

| AVG   | 153.4 | 199.9 | 46.6 | 8.8% |
| #UP   | 21    | 21    |      |      |
| #DOWN | 4     | 4     |      |      |
In the last 25 years, Platinum has commanded a premium of $186.3/oz over Gold (i.e. Platinum has traded $186.3/oz above the price of Gold). Of course, Platinum has not always traded above the price of Gold. For example, in both 1985 as well as 1991, Platinum traded at a discount to Gold. The largest discount Platinum has traded to Gold was in 1985, when Platinum futures traded -$53.0/oz below the price of Gold. Given the current pricing of very close to “even money” between Platinum and Gold, traders may wish to look at this relationship.

The timing of the Federal bail-out of the Automotive Industry may be coming at a very opportune time. Historically, April Platinum futures have gained relative to April Gold futures in 21 of the last 25 years from the end of December through to the end of February by an average of $46.6/oz (8.8% of the price of Gold). In most years, this gain is attributed to increasing automotive demand for Platinum at the same time that demand for Gold diminishes, post Holiday shopping. In years when the demand for Gold (jewelry) is high, Platinum usually benefits as well, while years when demand from jewelry in the New Year is “punk” Platinum does not fall as much.

The relative demand structures may well drive Platinum higher relative to Gold this year as well. If Gold takes off, due to financial instability or even increased jewelry demand, the demand for Platinum should also get a boost. Couple this with $17 billion in Government funds to revive the automobile industry, and Platinum may well take off.

Technically, the April ’09 Platinum/Gold spread (=1+PL2009J:1+GC2009J, or officially long 2 April ’09 Platinum and short 1 April ’09 Gold)) is looking somewhat bearish. However, this spread could reverse course any day. The spread is in a descending narrowing channel, and an upside breakout above resistance at +$65.0 would signal an upside breakout and a change of trend. Shorter term, and upside breakout above +12.0/oz would signal minor higher highs and lows and therefore at least a very short-term change of trend.
Conclusion

As the Scottish hero, poet and philosopher Robert Burn’s once quipped “the best laid plans of mice an’ men, gang aft agley (often go astray).” In the futures market, often is usually the case. However, in the current circumstances, looking at the Platinum market seems very logical and probably practical.

The $17 billion bail-out is being focused on a specific industry (Automotive) which is the largest single consumer of a specific commodity – Platinum! The proverbial “Big 3” will have to make more vehicles in the coming months with the funds, just like banks receiving Federal bail-out funds have to lend it out. Politically, the Auto Industry bail-out is about saving jobs, which means the funds will be used to build cars, pay workers, suppliers, and buy raw materials (such as Platinum). Even if the vehicles being built are more fuel efficient, or hybrids, they still have to have a catalytic converter… a fact that equates a $17 billion stimulus package to the Platinum market.

Even if the Bail Out package goes “aft agley” Platinum may well gain relative to Gold in the coming weeks, or months. Despite the state of Detroit and the Big 3 US auto producers, Platinum is still 16 times more rare than Gold. Even if another vehicle never rolls off of the assembly lines in Detroit the Japanese, Korean, European, as well as Chinese and Indian car producers will still be buying Platinum. In the US if we can not buy American cars, we will buy foreign brands – like we have been for years anyway, as both Honda and Toyota outsell the Big 3 anyway! In other words, in the current economic environment, if people can afford to buy vehicles, they can and will support Platinum. Given the relative cheapness of Platinum relative to Gold, if they can afford jewelry, Platinum jewelry will make it into the mix. As such, if Gold increases so should Platinum. But with $17 billion going into an industry which only benefits Platinum – not Gold – it looks like the best laid plan may well be Platinum, either absolutely or relative to Gold.

Scott Barrie is a former Chicago Exchange Member and Private Hedge Fund Operator. He is also a well respected speaker, author as well as an editor of Pitnews Magazine and a major contributing author. His firm, Commodity Futures and Equity Analytics (CFEA) offers newsletters, as well as consulting services for Individuals, Funds, and Brokerages involved in both Speculation as well as Hedging. For current research and products available from Scott Barrie and CFEA visit www.COMMODITYALMANAC.com
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