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Seasonality in the Markets

by Kent Kofoed p. 2

Look Inside For Your Special Offer!

A Special Look at Track 'n Trade's Seasonals Plug-in p. 8

Keller's Tips and Tricks!

by Jeff Keller p. 6

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In this issue......

Seasonality in the Markets

By Kent Kofoed

Seasonality can occur in many different markets as patterns and trends repeat themselves over time. These patterns and trends occur for various reasons, but one of the main reasons is due to seasonal factors that impact the supply and demand of various goods. These seasonal factors tend to happen around the same time each year and will typically have close to the same magnitude of impact on the market as it has had in previous years. This leads to the formation of seasonal patterns and trends that have an above-average probability of repeating themselves over time. A seasonal price pattern is the likely rise and fall of prices depending on what time of the year it is, and when the price of an asset has a tendency to move in a certain direction (up, down or sideways), at certain times during the year and typically lasting for similar lengths of time, this pattern will usually be caused by a seasonal factor, or multiple seasonal factors, which create a seasonal trend and have a tendency to repeat themselves over time.

There are numerous seasonal factors, which impact the various markets and, simultaneously, create multiple seasonal trends in each of these markets. Most people, when thinking about seasonality, will typically think in terms of the various "supply" factors (i.e., the impact that weather has on farming and the subsequent impact that it has on the production of various crops) when thinking about seasonality. In addition to the "supply" factors, the seasonal nature of the various markets are also impacted by "demand" factors (i.e., factors that impact the demand for goods such as economic cycles, trends in consumption, etc). Since different markets are impacted in different ways by the various factors, certain markets will tend to have relatively more seasonality than other markets, with some markets not having any reliable seasonal patterns at all.

Since seasonality is a major distinguishing characteristic of commodities, in general, and agricultural commodities, specifically, a large majority of the research on seasonality will usually focus on the various commodities. The grains (i.e., corn, wheat, soybeans, etc) can have some of the most consistent seasonal patterns out of all of the different categories. Soybeans, for example, have a tendency to hit their lowest price of the year around October, when farmers start to harvest their crop, selling it right out of their fields. Once this selling pressure dies down, soybeans will tend to have a nice post-harvest rally. Corn, on the other hand, is a little more complex due to the three different seasonal periods that it will typically go through, throughout the year. Starting in late spring to mid-summer, the current crop will start to age and there will usually be a good amount of uncertainty over the new crop harvest, and this will typically cause prices to peak around July. The decline in prices after the July peak will typically last

Figure 1-1

until October/November and this low coincides with the period that the new crop is harvested. Lastly, after the harvest prices have a tendency to rise until February, and this is when the cycle has a tendency to start again.

The soft commodities (i.e., cotton, coffee, oranges, etc) also tend to have reliable seasonal patterns as well. Cotton will typically be the highest from March to April, which is when the major cotton producers begin to sow their crops, and will typically be the lowest from September through December, which is when the cotton crop is subsequently harvested. In Figure 1-1, which was created with the Track 'n Trade Futures Live software, you can easily see the seasonality of the cotton market. The price action of cotton over the last year is shown on the top of the chart, and the historical seasonal indicator is shown on the bottom (which, in this figure, was based on the price action over the last 10 years).

Cocoa, on the other hand, rarely follows a reliable seasonal pattern and analyzing the seasonality of the cocoa futures contract is much less effective (especially when compared to a commodity like corn).

In addition to agricultural commodities, other types of commodities, as well as other asset classes, will also have various seasonal trends. The price of crude oil, for example, has a tendency to rise during the winter due to increased demand for the commodity, and once again in the summer as the driving season starts and demand picks back up after dropping off in the spring. Natural gas, on the other hand, has a seasonal tendency to rise from the middle of February to the end of May, as the winter inventory levels start to decline. If you look at the natural gas chart in Figure 1-2, however, you will see that the recent price action hasn't been matching up with the seasonal trend. This type of price action is considered to be a counter-seasonal trend, which means that prices are not following the typical seasonal pattern.
Other markets, in addition to the commodities markets, will also have seasonal price patterns. Seasonal price patterns can be found in the stock markets and the Forex market, as well. An example of stock market seasonality would be the tendency of the stock market to follow an "election cycle" pattern that

Figure 1-2

is based on the first two years, as well as the last two years, of each term. The first two years of the term typically have a bearish bias, and this bearish "seasonal" bias is mainly due to the greater frequency of wars and recessions at the beginning of a term, relative to the end of a term, which has a greater tendency to be bullish. The Forex market has seasonal trends as well and this is due to tendency of different currencies to relatively outperform other currencies during certain parts of the year and underperform in other periods. The Japanese Yen, for example, has a tendency to rally from mid-March, until early April, as its fiscal year comes to a close and companies start buying Yen in order to repatriate any of funds that were earned oversees during the prior year, which increases the relative demand for their currency.

The historical seasonality of an asset will never be perfectly correlated with the future price action of that same asset, which would quite an unrealistic expectation if you ask me, and seasonal trends, therefore, should not be the sole reason for making any particular trade. The current trend of the general market, the current trend of the asset being analyzed and many of the various technical indicators that are readily available should be used in combination with the historical seasonal trends, in order to make an informed trading decision. When using seasonals as an indicator for trading, it is a good idea to watch for markets that have been trending down and are entering their seasonally low period, and wait for a reversal of the trend that is also in line with historical seasonality. Another important thing to remember is to make sure you manage your risk by cutting losses whenever a trade turns against you or taking gains whenever a trade goes your way. There is nothing worse than letting losses continue to compound or giving back all of your gains.

In summary, trading is a game of probabilities and it is a good idea to have those probabilities on your side. Any trader can easily get the probabilities on their side by analyzing the seasonal trends of the various markets and using those trends to make informed trading decisions, and, even though "past performance does not guarantee future results," knowing the past seasonality of the many markets that have seasonal characteristics can be an extremely beneficial tool when trying to analyze these markets and make profitable trades.

Kent Kofoed is a research analyst with Gecko Software, & PitNews Magazine. You can find more details about Gecko Software, and their line of trading platforms on the web at: www.GeckoSoftware.com

Keller's Tips and Tricks

Why Seasonals?

Gecko Software CEO Lan Turner always likes to say:

"Remember, past performance is not necessarily indicative of future results, but its the best indicator we've got."

I'm here to tell you that I couldn't agree more. Since the first creation of Track 'n Trade over 10 years ago, our company has heavily focused on cycles, patterns and the seasonal nature of markets.

"What happened at this time last year?"
"What about for the five and ten years before that?"
"Is this year somehow different than the last?"
"I'm not trading a grain, what good is a seasonal indicator for metals or indices?"

I've heard these and other similar questions hundreds of times, here is what I've found works for me.
So the seasons changing, the snow outside is gone and you are ready to place some long term trades. It's time to begin your research, que the TradeMiner and Seasonals indicators. Pick specific markets you like or just pick a month and start digging. Gather a handful of potential trades, check that the charts look right (trading volume is good, the trend hasn't already happened early) and move on to the next step.

First and foremost when using seasonal analysis, the first question you should ask yourself is, "Is this year like the last?"

Check your NewsMiner, start your web searches and do your homework. Ironically, sometimes the best news NewsMiner can give you, is no news at all. If you are trading a seasonal trend and there is little to none in the way of news articles about your market, great! When a market is doing what it historically does, it probably won't be interesting enough to write a news article about. "In other news, farmers are still planting grain at the same time they do every year, now on to sports", Who is going to read that?

You do your research, pick your market and you are in a trade. Do you know that the Nikkei 225 has seasonally gone up in value from mid January to April over the last 15-20 years? March 11th 2011, an earthquake and tsunami devastated Japan and it's markets. Long trades on the Nikkei 225 Jun contract would see a loss of 1750 points in as little as four trading days. You should probably check your NewsMiner daily for your trades that are held. Never be so confident in your seasonal trend that you do not protect yourself with a stop loss. There is always a worst case scenario, and you must be protected from these.

Figure 1

Figure 2

Is something happening in the news that actually strengthens your already pre-determined seasonal trend? If you are trading the January orange juice contract, the headlines beamed "Fungicide detected in Brazilian orange shipments". Orange juice already has a seasonal trend of higher prices going into the beginning of the year, add in a possible cut off from the worlds single largest orange producer and the seasonal trend isn't just your friend, it's a godsend. All of you TradeMiner users out there, do a Dig for the January contract of Orange Juice (figure 2), and see how many buys vs sells you get at the tail end of the year over the last 7 years. You will see an almost 10-1 ratio of buying over selling. No crystal balls, just plain old historical fact.

Once the markets know what will happen to the orange crop, right around the start of spring, prices often go down (barring bad news of course). After all, it's always the 'what if' that speculation on risk is all about. No weather reports of bad weather in Florida the last few months. Nothing like a few hurricane weather advisories to send Orange juice through the roof. No news is good news, just one more thing in favor of an already pre-determined seasonal trend. Take a look at this next figure 3 and see just how closely this year is following the seasonal trend.

Figure 3

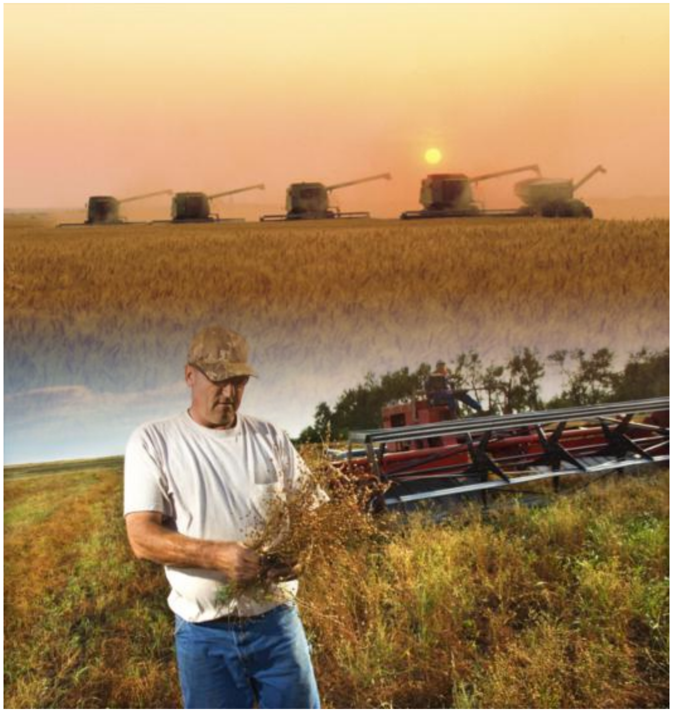
Being in Gecko Software support for half a decade has taught me a thing or two over the years. I may never trade at Lan Turner's level, but I'll continue learning right along with everyone else. For more information on seasonal trading, two free Lan Turner educational videos are available online here:

Understanding Seasonals Webinar:
www.LanTurner.com/seasonals.htm
TradeMiner & Seasonals Explained:
www.LanTurner.com/seasonals-tm.htm

Jeff Keller has been with Gecko Software for almost five years, and is currently the Track 'n Trade Technical Support Manager. You can find Gecko Software online at: www.GeckoSoftware.com. Jeff makes himself available for calls and consultation during regular business hours, call Jeff at: 1-800-862-7193 Ext 3.

Track 'n Trade Plug-In

The NEW Generation of Trading Platforms!



How To Profit From Trading The Seasonal Nature of Markets.

What Is...

Seasonal Trading

And How Can I Profit From It?

The seasonal nature of markets is derived from events that continually reoccur month after month, or year after year, on a repeated basis.

- Futures contracts are easy examples: Corn, Wheat, Soybeans, Orange Juice, Coffee, Sugar, etc...

  These crops are all planted at the same time each year, harvested at the same time each year, susceptible to damage, brought to market, assessed storage and transportation costs, all at the same time each year.

- Prices generally move in the same direction throughout these seasonal "Cycles & Trends," therefore taking advantage of these seasonal occurrences is one of the most powerful tools of the trading industry.

- If you're not using the seasonal nature of markets in your trading, you're leaving out half of the profit formula.

Seasonal Trends:

The Cornerstone Of Trading

Often times, as in this example, the market follows the Average Seasonal Trend, (Blue Trend) like a train on rails.

The Seasonal Nature Of Markets

Track ‘n Trade Seasonals Plug-In

Here at Gecko Software, we created the “Seasonals Plug-in” back in 1998, which was the very first Plug-in upgrade to our now famous Track ‘n Trade trading software platform. **The three pillars of trading success are:**

1. The **“Technical Nature of Markets,”** which drives the short term trends, and provides us with triggers and entry signals. (Best Technical Tools = “Bulls ‘n Bears Advantage Plug-in”)

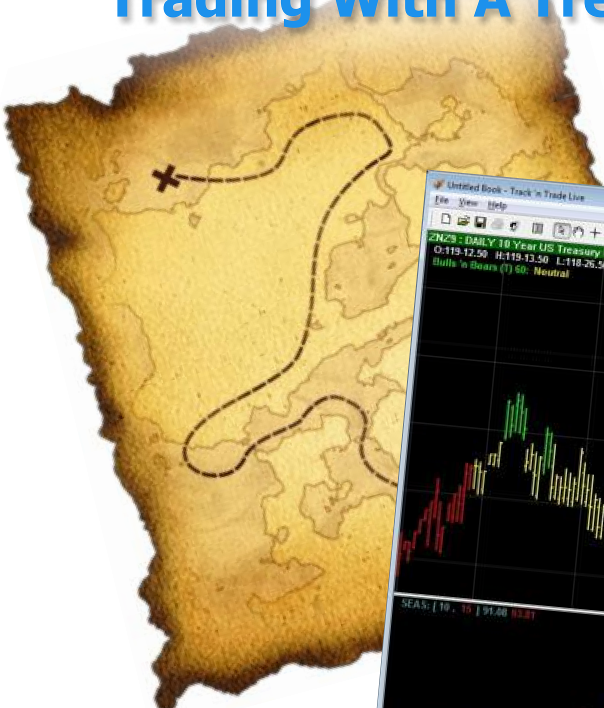
2. The **“Fundamental Nature of Markets, (News)”** which drives the long-term trends, and provides us with insight as to why a market moves the way it does. (Best Fundamental Tool = “NewsMiner”)

3. The **“Seasonal Nature of Markets,”** which shows us the combined historical repeating trends of the market, and shows us when a market has a tendency to make extreme, or significantly profitable trends year after year. (Best Seasonal Tools = “TNT Seasonals” & “TradeMiner”)

It’s through the use of the Seasonal Trend, and Market Cycles that we are able to know when the best time is to trade any given market.

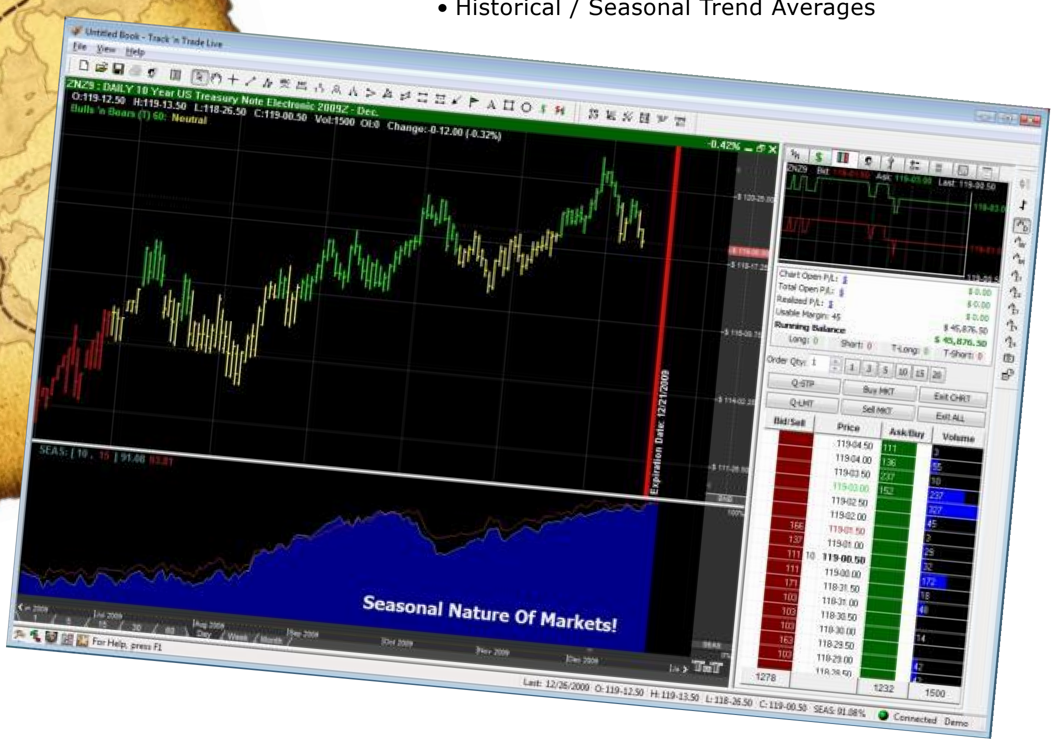
Trading The Seasonal Nature of Markets, Is Like:

Trading With A Treasure Map To The Markets



Track ‘n Trade’s Seasonal Plug-in Includes:

- Historical / Seasonal Price Averages
- Historical / Seasonal Trend Averages



1-2-3 Knock-Out-Punch!

How do I trade, using the Seasonal Nature of Markets & Track 'n Trade Seasonals?

Trading with the Seasonal Trend is accomplished through following the predictive nature of the Seasonal Plug-in.

> The Seasonal Plug-in actually projects out into the future, beyond the current price chart, which direction the market is most likely to trend; Bullish, Bearish, or Neutral.
>
> My favorite technique is to use the lower "Indicator," seen in most of the chart examples on this page, as the blue trend. This trend is created from historical price averages, and tells us which direction the market has consistently trended in past history.

Using the historical trend averages, as exampled in the above chart, gives us a road map, or trend direction. This indicator is NOT a price indicator, and has nothing to do with the actual price of the market, or the historical price, this particular indicator is strictly dedicated to providing us, the trader, with an overall trend direction.

Which Markets To Trade, & When?

Which Market Has A Strong Bullish Trend

From September Through December?

DON'T BUY GOLD!

There is a "Right Time," and a "Wrong Time" To Buy / Sell Any Market. Knowing when that is, is the key to your trading success or failure.

For example, Gold is a great market to trade, but if you hold gold all year long, you will suffer through many whip-saw draw-down market trends, but holding gold between the months of September to December, is one of the strongest trending time frames for Gold, and you'll most likely experience a much stronger profitable bullish trend during that time frame.

Use The Historical Trend, & Price Averages To

Tell Me Where I Can Expect Markets To Go!

Historical Price Averages?

How Can Price Averages Help Me?

Know Where Prices Have Been!

Ask Yourself, What's Normal?
Do you know if your market is normal this year?

Knowing what's a "normal" price average and "normal" trend is key to your trading success. Without knowing what a normal price average is, or a normal trending year is, you'll never know when the markets are performing "normally," or if they're in "Counter Seasonal" or non-normal price range.

- Track 'n Trade Seasonal Plug-in helps the trader identify what time of year markets generally trend.
- It helps traders identify what is a "normal" trend.
- The Seasonals Plug-in identifies where prices were last year, compared to this year.
- It shows us the average price trend of any given market, directly over the current market's price chart.

What's A Counter Seasonal Trend?

Do Markets Always Follow The Historical Trend?

Counter Seasonal Trend

- Identify when markets not only move with the historical trend, but when they're going absolutely in the "wrong" or opposite direction.
- One of the most powerful indicators we have, is a failed indicator.

Know Your Market!

What To Do When A Market Is NOT Following The Seasonal Trend?

Generally speaking, in my experience, when a market is not following the Seasonal, or historical market price averages, or performing as it would during a "normal" year, we generally see it go in a strong apposing trend, almost in direct proportion trend and price wise of what would be a normal year.

This is reflected within the chart as a trend that goes in the direct opposite direction of what is anticipated or projected by the Seasonals tools. This trend reversal is known as a "Counter Seasonal Trend," and once identified can be one of your most powerful trend signals.

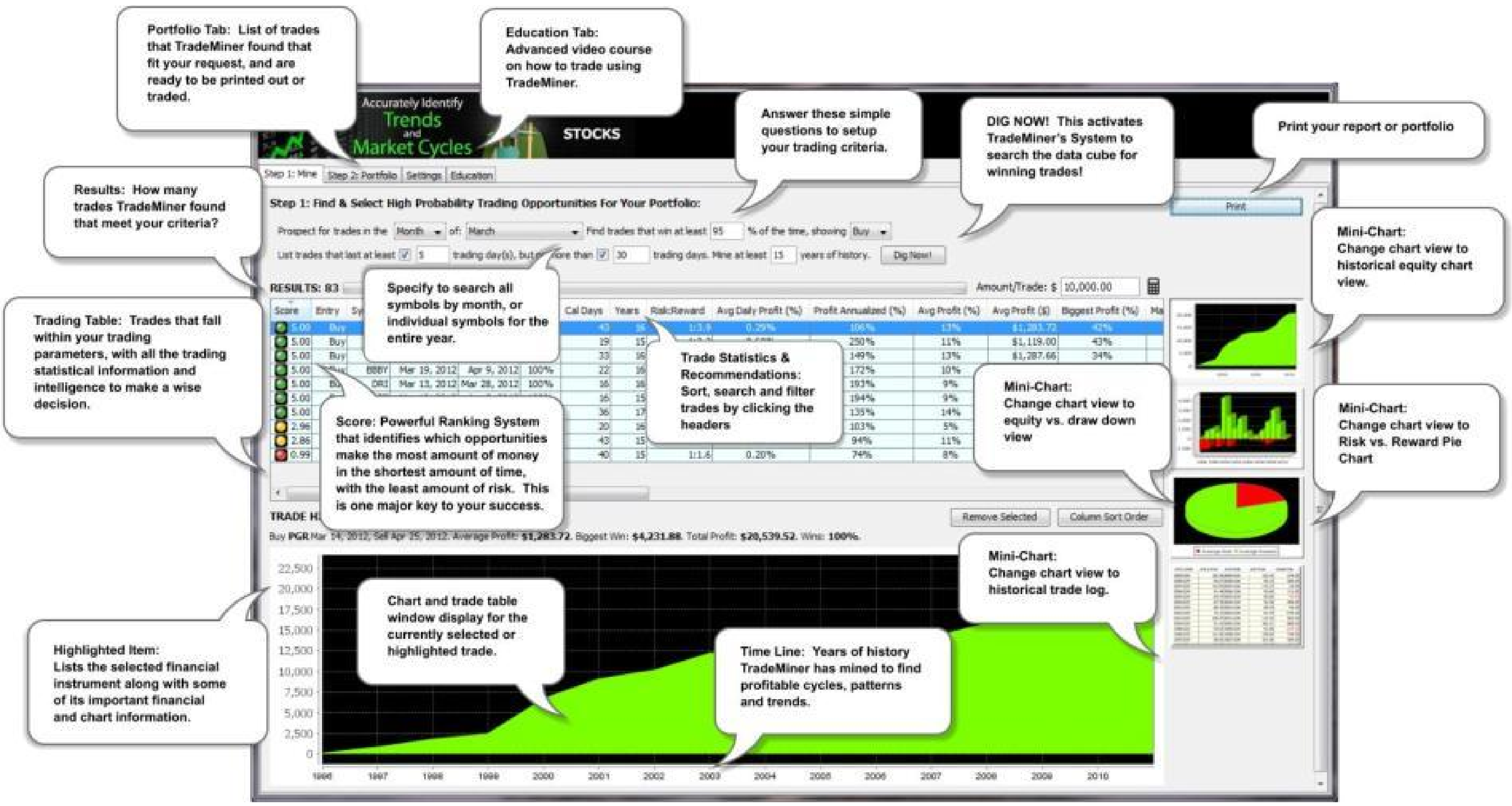
Trading Counter Seasonal Trends:

1. First identify when a market is supposed to be starting a new seasonal extreme trend
2. Identify a technical indicator (Bulls 'n Bears) Buy / Sell signal, that corresponds with the seasonal trend.
3. If your technical indicator is "opposite" to the upcoming trend, look for fundamental confirmation that the trend will be different this year.
4. If the fundamentals confirm that this nis not going to be a "normal" year, execute a counter seasonal trade, based off the technical trigger.

How Do I Scan To Find Seasonal Trends?

TradeMiner & Track 'n Trade Seasonals

Two Amazing **Seasonal** Tools That Work **Hand-In-Hand**



TradeMiner, a stand-alone research tool that scans for, and identifies seasonal trends. [Click Here for details.]

Scan The Entire Market, Stocks, Futures Or Forex!

Scan by Month, Or By Symbol…

Our Powerful NEW Ranking System was developed to help users quickly identify the best trading opportunities out of a list of highly probable trades.

> We've developed a ranking system, which **works on a scale from zero to five, and given each rank a quick reference color coded key**; red for avoid, yellow to approach with caution, and green for go for it!

The math formula used to calculate these opportunities is a proprietary system based upon past market performance, future market expectations, and a number of other factors that help us make wise decisions.

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Data: Free (Active Traders)

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This amazing charting software package gives you the ability to analyze commodity markets technically with various tools, unique market calculators, and customizable indicators.

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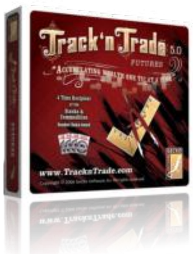

Track 'n Trade 5.0

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Price: $197
Data: $19.95/month
*Get Advanced Tools Plug-in FREE when you buy TNT 5.0

This amazing charting software package gives you the ability to analyze commodity markets technically with various tools, unique market calculators and customizable indicators.

Learn More

Charting Software

TNT High Finance

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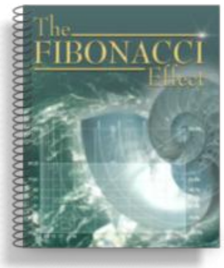
Track 'n Trade High Finance Stock Trading package allows a trader to monitor, track and chart the popular stock market, giving the trader intra day snapshots and price activity throughout the day.

Learn More

Trading Education

It seems that we spend 90% of our time studying and trying to figure out the best timing techniques for market entry, but we spend very little time actually learning the techniques of exiting the market. Getting into a market is easy, but getting out of the market, with a profit, is the true test of a traders skill.

Learn More



Learn how, and what to count, and how and what to measure, and how to read each new setup, and how to set up a trigger, then how to follow through with the final exit strategy. Stop watching your portfolio shrink, and start doing something about it? Learn what you can do, in the next 10 days, to protect your wealth!

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