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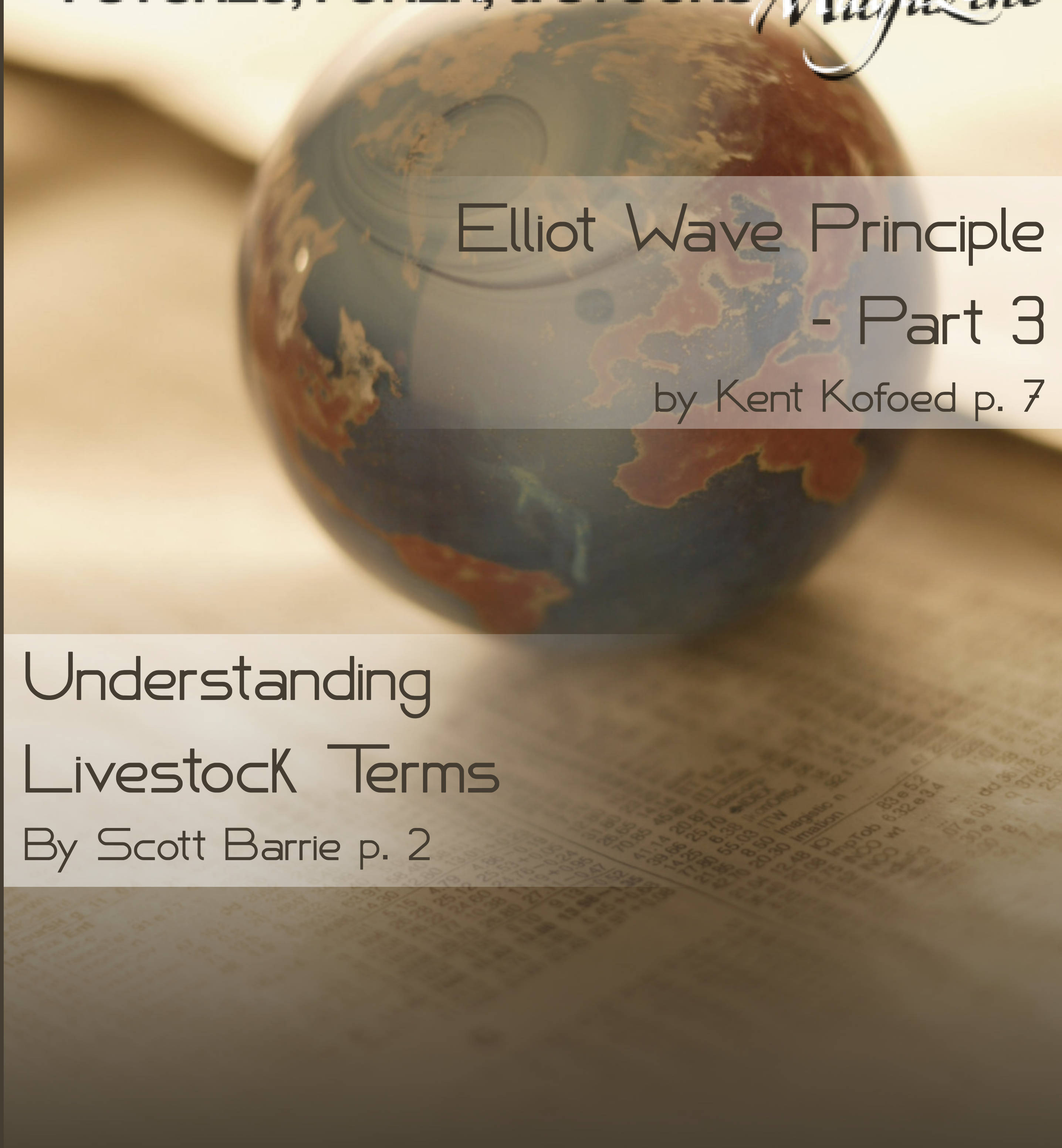

Elliot Wave Principle - Part 3

by Kent Kofoed p. 7

Understanding Livestock Terms

By Scott Barrie p. 2

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FUTURES, FOREX, & STOCKS *Magazine*

In this issue......

Understanding Livestock Terms

By Scott Barrie

All professions use terms which at first seem extremely foreign - like another language - when used. The Livestock futures are no different.

The first thing a participant in the Livestock futures market should understand is the terminology regarding markets. There are four different Livestock futures markets, all traded on the Chicago Mercantile Exchange (CME): Live Cattle (LC), Feeder Cattle (FC), Lean Hogs (LH), and Pork Bellies (PB).

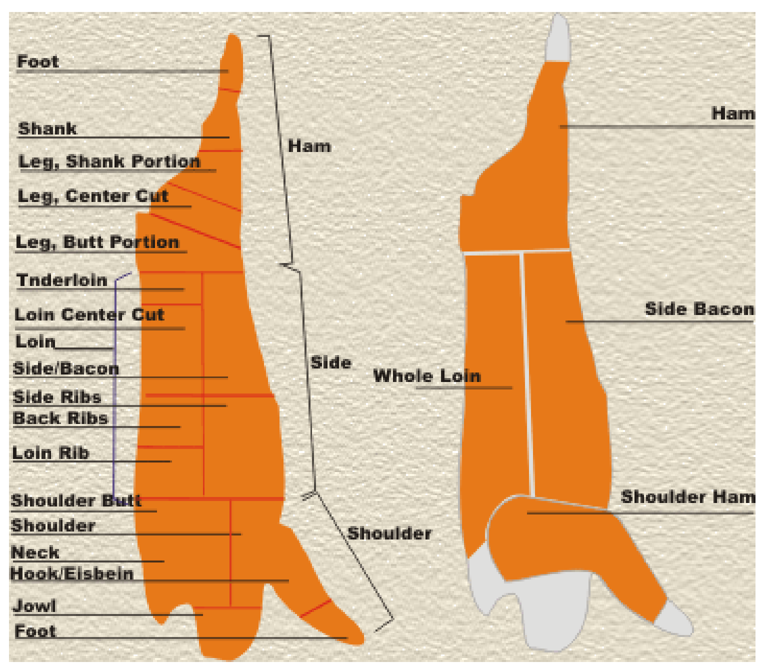
Live Cattle refers to cattle of slaughter weight - between 900 and 1,400 pounds (lbs). Feeder Cattle (FC) are cattle weighing between 600 and 800 lbs that are put into Feedlots to be fattened up to slaughter (or "Live") weight through a three - six month regiment of intensive feeding. Typically one Feeder Cattle contract (FC) yields 2 Live Cattle contracts (LC) after the animals are fed (i.e. 50,000 lbs of Feeders are fattened up to roughly 80,000 lbs of Live Cattle). Though Live Cattle are sold for slaughter, they are sold (or "marketed") on the basis of their weight pre-slaughter. As such, Live Cattle are often referred to as "Fats," while Feeder Cattle are referred to as "Thins."

Unlike the Cattle market, pork products are marketed on a post slaughter, or "hanging weight" basis. As such, Lean Hogs are not slimmed down versions of Hogs, as the "Lean" refers to post slaughter hanging carcass weight. Prior to February 1997, the Chicago Mercantile Exchange (CME) traded Hog futures on a Live weight basis, but now they trade on a Lean basis. Typically, a "lean" Hog weighs about 74% less than a "Live" Hog. The other pork complex futures contract is Pork Bellies - used to make bacon.

There are a couple of major reports issued during the year which have a tremendous effect on Livestock prices.

Cattle on Feed Report
On the third Friday of each month, the United States Department of Agricultural/ National Agricultural Statistics Service (USDA/NASS) release a report which highlights the current situation in the cattle industry, known as the Cattle On Feed Report.

The report highlights the total number of cattle and calves on feed, including how the population changed on a month to month basis. Though the report is a



USDA Cattle on Feed Report Released September 21st, 2012

Number of Cattle on Feed, Placements, Marketings, and Other Disappearance on 1,000+ Capacity Feedlots - United States: September 1, 2011 and 2012

Item	Number 2011	Number 2012	Percent of previous year
	---- 1,000 head ----		percent
On feed August 1	10,579	10,656	101
Placed on feed during August	2,246	2,002	89
Fed cattle marketed during August	2,053	1,960	95
Other disappearance during August	72	61	85
On feed September 1	10,700	10,637	99

Number of Cattle on Feed, Placements, Marketings, and Other Disappearance on 1,000+ Capacity Feedlots - United States: August 1, 2011 and 2012

Item	Number 2011	Number 2012	Percent of previous year
	---- 1,000 head ----		percent
On feed July 1	10,433	10,710	103
Placed on feed during July	2,135	1,922	90
Fed cattle marketed during July	1,918	1,913	100
Other disappearance during July	71	63	89
On feed August 1	10,579	10,656	101

simple accounting of Cattle, many of the terms used are somewhat confusing to those of us not raised in the business.

The term "On Feed" refers to the number of cattle and calves being fed a ration of grain or other concentrates and are expected to produce a carcass that will grade select or better at slaughter. Each month you have two On Feed numbers presented, the previous month's On Feed number and the current month's On Feed statistic, March and April respectively in the sample above.

In order to obtain a count of the new Cattle On Feed number, one must be aware of the number of cattle and calves Placed On Feed during the previous month. Known as placements, these are new animals entering the feedlot. Placements are indicative of future supply as well as the demand for feeder cattle.

The number of animals leaving the feedlots for slaughter is accounted for in the Fed Cattle Marketed during the month. Known in shorthand as marketings, this indicates the supply of Live Cattle ready for slaughter. Because beef is a perishable item, marketings are also indicative of demand, as all slaughtered animals will eventually be consumed. Other Disappearance refers to death loss, movement from feedlots to pasture, and shipments to other feedlots for further feeding. Though a small percentage is moved out due to these reasons, disappearance is often unaccounted for, and can sway supply and demand balances.

The final Cattle On Feed estimate is made by adding the number of placements to the number of Cattle On Feed in the previous month and subtracting Marketings and Other Disappearance.

Current Cattle on Feed = Previous Cattle on Feed + Placements - Marketings - Disappearance

Cattle statistics are usually disseminated in both absolute number of head, as well as a percentage of

USDA Hogs & Pigs Report Released March 30th, 2012

Hogs and Pigs Inventory by Class, Weight Group, and Quarter - United States: 2011 and 2012
[Blank data cells indicate estimation period has not yet begun]

Item	2011	2012	2012 as percent of 2011
	---- 1,000 head ----		percent
March 1 inventory 1/			
All hogs and pigs	63,684	64,937	102
Kept for breeding	5,788	5,820	101
Market	57,896	59,117	102
Market hogs and pigs by weight groups			
Under 50 pounds	18,863	19,232	102
50-119 pounds	16,060	16,411	102
120-179 pounds	12,361	12,779	103
180 pounds and over	10,612	10,695	101
June 1 inventory 1/			
All hogs and pigs	65,320	65,759	101
Kept for breeding	5,803	5,862	101
Market	59,517	59,897	101
Market hogs and pigs by weight groups			
Under 50 pounds	19,543	19,558	100
50-119 pounds	17,321	17,531	101
120-179 pounds	12,174	12,202	100
180 pounds and over	10,479	10,606	101

the previous years monthly statistic. For example, on April 1st 2007 the USDA/NASS estimated that 10.644 million head of cattle were on feed, or 99% of the April 1st 2006 figure, and 107% of the April 2005 number. Because cattle feeding is extremely seasonal and cyclical in nature, it makes sense that these statistics are presented in percentage of the previous year's terms, as this gives a better feel for increases or decreases than absolute numbers.

The Cattle on Feed Report gives livestock traders a good basic outline of what is happening on the Feedlot side of the business - comings and goings. However the report is not extremely timely, with a three week delay between its readings and its release. Normally, the marketplace has often already anticipated the events described in the report. As such, it is not uncommon to see Cattle futures react in almost an opposite fashion as would be dictated by conventional readings of the report, which is why many Chicago Mercantile Exchange (CME) traders refer to this report as the "Cattle on Fade."

Hogs & PIGS Report

The USDA releases a quarterly accounting of the Hog situation as well in its Hogs &Pig report every March, June, September and December. The report starts with an inventory of Hogs and Pigs per quarter. The Inventory of Hogs and Pigs are broken down between those "Kept for Breeding" and those sold at "Market." Next, the report highlights the number of Sows (female pigs), the Pig Crop, and the number of Pigs per litter. Each of these areas are explored in more detail in the report, such as on a state by state basis.

The next major section of the report highlights market hogs and pigs by weight groups. This is a useful section in that it shows the trader how many Hogs are currently ready for slaughter (market) as well as when others will be. For example, Hogs over 180 lbs are ready for market, while those in the 120-179 lb group are probably very close to market.

USDA Hogs & Pigs Report Released March 2012
Inventory by Weight Group

Market Hogs and Pigs Inventory by Weight Group - States and United States: March 1, 2011 and 2012
[Weight groups may not add to market hogs and pigs due to rounding]

State	Under 50 pounds 2011	Under 50 pounds 2012	50-119 pounds 2011	50-119 pounds 2012	120-179 pounds 2011	120-179 pounds 2012	180 pounds and over 2011	180 pounds and over 2012
	1,000 head							
Colorado	290	275	105	100	70	95	115	110
Illinois	1,290	1,380	1,190	1,260	760	800	690	700
Indiana	1,080	1,110	870	920	610	710	700	720
Iowa	4,630	4,930	5,630	5,820	4,490	4,640	3,120	3,300
Kansas	490	500	365	355	280	275	505	520
Michigan	300	290	230	200	200	215	190	195
Minnesota	2,440	2,360	2,150	2,180	1,430	1,570	1,020	940
Missouri	1,080	1,000	580	530	410	370	420	390
Nebraska	910	880	800	790	595	605	425	435
North Carolina	2,820	3,030	1,760	1,810	1,620	1,560	1,450	1,340
Ohio	675	680	515	540	415	425	235	270
Oklahoma	810	790	350	380	260	260	480	500
Pennsylvania	240	250	360	340	200	200	205	200
South Dakota	390	360	300	300	230	250	215	205
Texas	150	230	110	150	125	140	180	230
Utah	285	270	120	125	110	130	120	120
Other States 1/	983	897	625	611	556	534	542	520
United States	18,863	19,232	16,060	16,411	12,361	12,779	10,612	10,695

USDA Hogs & Pigs Report Released 2012 Farrowings

Sows Farrowing, Pig Crop, and Pigs per Litter - United States: 2010-2013
[Blank data cells indicate estimation period has not yet begun]

Item	2010	2011	2012	2013	2012 as percent of 2010	2012 as percent of 2011	2013 as percent of 2012
	1,000 head				percent		
Sows farrowing							
December-February 1/ 2/	2,872	2,843	2,864	2,821	100	101	99
March-May	2,929	2,917	2,919		100	100	
December-May 1/ 3/	5,801	5,760	5,783		100	100	
June-August	2,944	2,927	2,892		98	99	
September-November 4/	2,881	2,929	2,850		99	97	
June-November 3/ 5/	5,824	5,857	5,742		99	98	
Pig crop							
December-February 1/	27,596	27,866	28,550		103	102	
March-May	28,730	29,252	29,441		102	101	
December-May 1/ 3/	56,326	57,118	57,990		103	102	
June-August	28,871	29,355	29,286		101	100	
September-November	28,488	29,365					
June-November 3/	57,359	58,720					

The last section of the Hogs and Pigs report covers farrowings. Farrowing is the hog term for birthing. The Pig crop = Farrows X Pigs per litter.

The quarterly Hogs and Pigs report is an influential report to the Hog Industry. Examining the Hogs & Pigs report, especially right after its release, can give traders an excellent idea of populations of Hogs and how those populations could change in the coming months. However, because this report is only released quarterly, as time passes much of its effectiveness is lost.

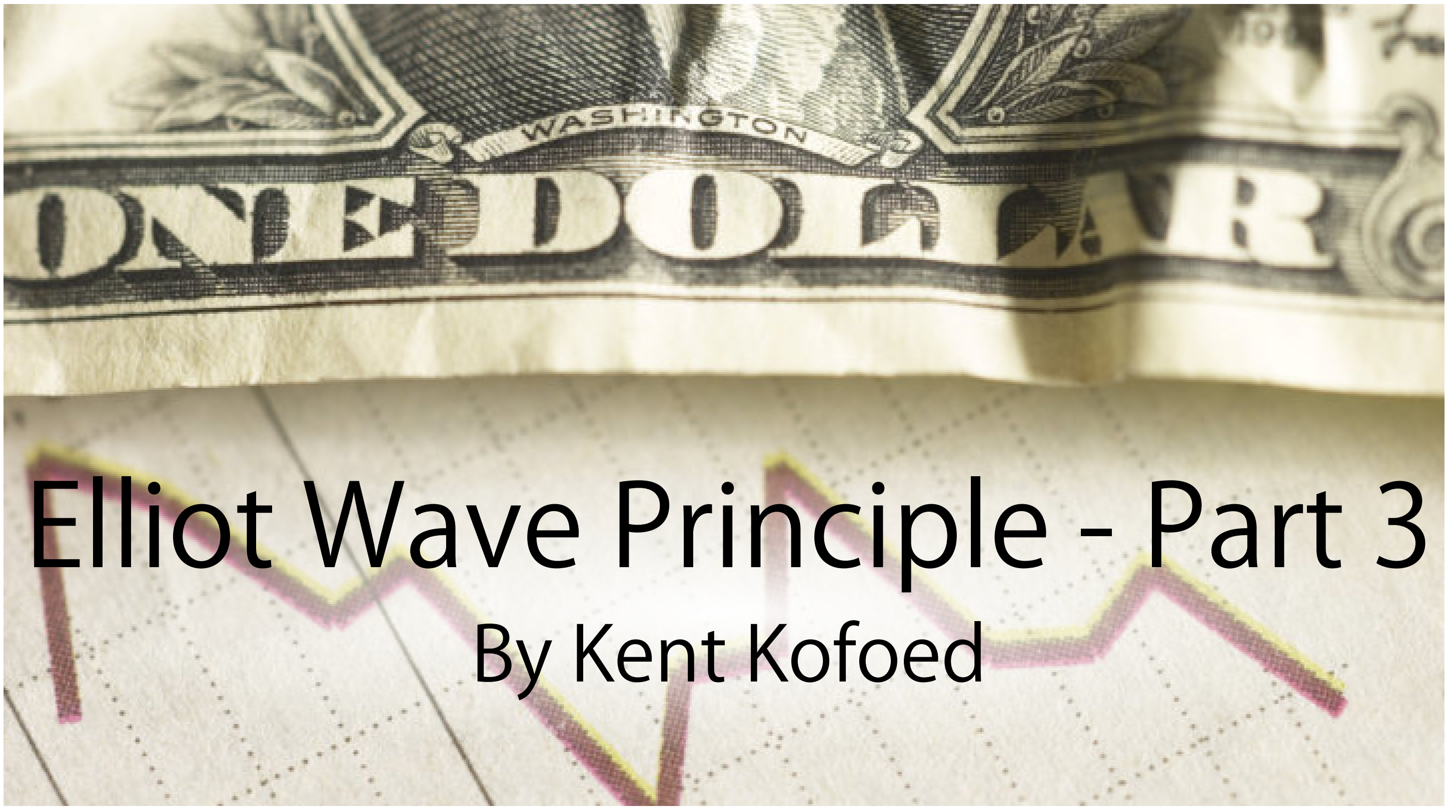
Conclusion

Like any other industry, the Livestock Industry is full of terms which at first can be confusing to an outsider. However, once an individual can tell the difference between marketing and farrowing, as well as the difference between a steer and sow, the livestock reports become much less confusing.

A simple understanding of the major supply/demand trends in the Livestock market - as presented by the USDA reports - can help speculators make more informed decisions, which may well lead to better trading.

About the Author

Scott Barrie was a former Chicago Exchange Member and Private Hedge Fund Operator. He was also a well respected speaker, author as well as contributing author to PitNews Magazine. Scott passed away 9/13/10, we suffered a great lost that day. At PitNews, we want to honor and keep his memory alive.



Elliot Wave Principle - Part 3

By Kent Kofoed

Review of the Elliot Wave Principle:
As I mentioned in part 1 and part 2 of this series, the Elliot Wave Principle has three main aspects, and these main aspects include patterns (i.e., the wave formations), ratio analysis (i.e., the retracement levels and price projections), and time (i.e., specific time periods that are used to confirm both the patterns and ratios). Additionally, each individual wave in the overall wave pattern tends to have its own unique characteristics and, therefore, it is important to understand the market psychology that underlies each of the individual waves, in order to more fully understand the Elliot Wave Principle.

Since I have now covered a majority of the concepts that underlie the Elliot Wave Principle, in this article I am going to wrap up this series by covering the actual implementation of the Elliot Wave Principle for trading analysis purposes. If you haven't already read the first two articles in this series and you do not currently have an understanding of the main concepts that underlie the Elliot Wave Principle, you will want read both part 1 and part 2 of this series before reading the rest of this article.

Using the Elliot Wave Principle:
Most successful traders understand that markets tend to repeat themselves over time and that this repetitive price movement creates many reoccurring price patterns. Numerous tools have been developed, in order to help traders analyze these patterns, and if traders want to be able to make some sense out of these patterns there needs to be a way to count how often the patterns occur and measure the average length of the typical pattern. This is exactly what the Elliot Wave Principle does, in its most basic form, making it a great technical analysis tool that can help traders make more profitable trading decisions by showing you when to "buy the valleys and sell the rallies" (or, conversely, "buy the dips and sell the rips").

As I have mentioned in my previous articles, many times, there are a total of eight waves in an Elliot Wave pattern. This does not mean, however, that there will always be exactly eight waves and it simply means that an eight wave pattern is the most common pattern. The five waves that make up the typical advancing portion of the pattern can sometimes be shorter than a regular five wave pattern and, additionally, it can also be longer than a regular five wave pattern (which is appropriately called an "extension" of the advancing portion of the pattern). The key point to remember is that the even though the five wave pattern is the most common, there are still times when it is shorter (or longer) than what is typical.

In figure 1-1, I have provided a real example of what a typical Elliot Wave pattern will look like. This contract (which is the E-mini S&P 500 Futures contract) was in a downtrend up until it bottomed out and started to rally off of its recent lows. The point where the contract bottomed out is where the beginning of wave 1 is typically drawn and, after the market rallies off of its lows, there will typically be a retracement whenever resistance is reached and this peak is where wave 1 should end. The retracement from the peak of wave 1 is what makes up the entirety of wave 2, which ends when prices find support and begin to rally (this is where wave 3 begins). This process continues to repeat itself until the top of wave 5 is reached, which is when the typical advancing portion of the pattern ends, and, as soon as it does, the declining portion of the pattern takes over (which includes waves A, B, and C). Lastly, an important piece of information to remember is that the length of the wave 1 rally will typically depend on the length of the prior downtrend.

Measuring the Waves:
Using the Fibonacci Ruler tool, in Track 'n Trade Live, you are able to measure each of the waves of the Elliot Wave pattern, and forecast where you expect the market to move to next based on expected retracement levels. In figure 1-2 (p. 9), the first wave of the pattern is being measured with the Fibonacci Ruler tool and, as you can see, the bottom-left corner is positioned where the market bottomed out and the top of the ruler is placed right where the wave 1 peak was made. Now that the ruler is in place, you can easily forecast where you expect the market to retrace to, using the Fibonacci retracement levels, which are given in percentages (61.8%, 50.0%, and 38.2%)

Figure 1-1: Figure 1-1 shows a basic Elliot Wave pattern that was drawn using the Elliot Wave tool in Track n' Trade Live.

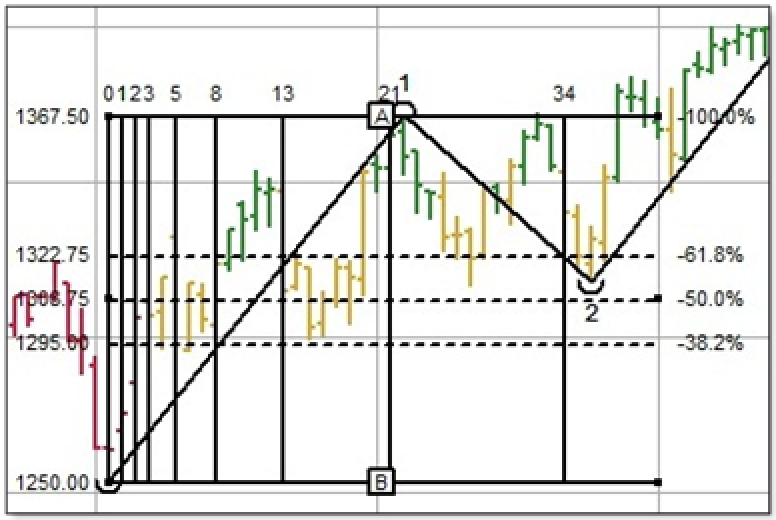


Figure 1-2: Figure 1-2 shows an example of the first wave of the Elliot Wave pattern, which was previously shown in figure 1-2, being measured with the Fibonacci Ruler tool in Track n' Trade Live.

on the right-hand side and market prices (1324.25, 1310.00, and 1295.75) on the left-hand side. Additionally, in order to help with forecasting the most likely turning points of the market, the Fibonacci time zones are provided along the top of the ruler. As you can see, the major turning points occurred right around the 21-day time period and the 34-day time period.

After you have a forecast of where you think the market is headed and, assuming you are looking to enter into a long position, a good price level to enter into a long trade will typically be somewhere in-between the 61.8% to 38.2% retracement levels (which part of this range you enter into the trade will depend on individual risk tolerances and the typical percentage retracement of the market being analyzed).

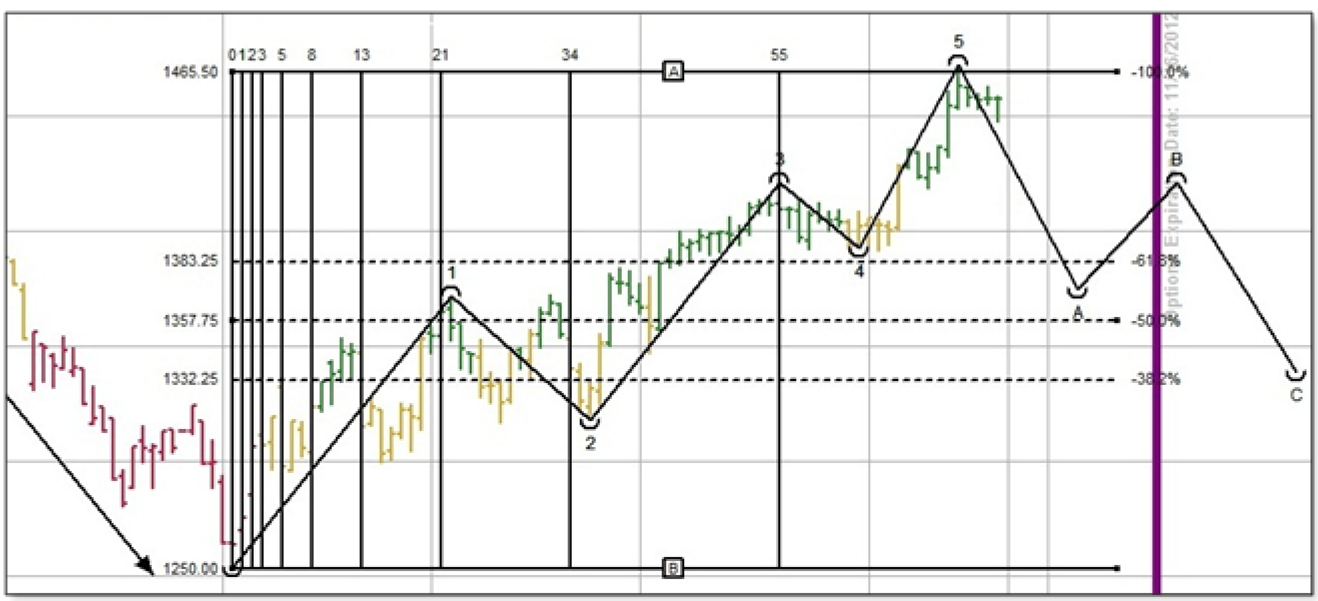


Figure 1-3: Figure 1-3 shows the entire Elliot Wave pattern being measured with the Fibonacci Ruler tool in Track n' Trade Live.

If you look at the chart closely you can see that the upper end of the range of these retracement levels were hit once, prior to the market bottom actually being reached, and if the position would have been entered into at that time, it would have been entered into a little bit early (from a timing perspective). Watching the market pull back for a bit and entering into the trade when it starts to get close to a Fibonacci time zone is a much less aggressive approach, not to mention that it is a lot less stressful!

In addition to measuring each of the individual waves, you can also measure the entire advancing portion of the pattern with the Fibonacci Ruler tool. As figure 1-3 shows, the bottom-left corner of the ruler is placed in the same spot as before (i.e., at the reversal point of the prior trend) and the top of the ruler is placed near the trends most recent resistance level (extending the length of the ruler until the next Fibonacci time zone shows up). Possible entry points for this market (for going long), occurred near the 34th day of the time zone (which was covered in the previous paragraph) and once again near the bottom of wave 4, which took place right after the trend reversal that occurred on the 55th day of the time zone. Lastly, the next time zone is still a bit away so there is a good chance that the market will trend sideways for a bit (or possibly rally a bit further), prior to the wave A retracement, which is where you would want to enter into a short position.

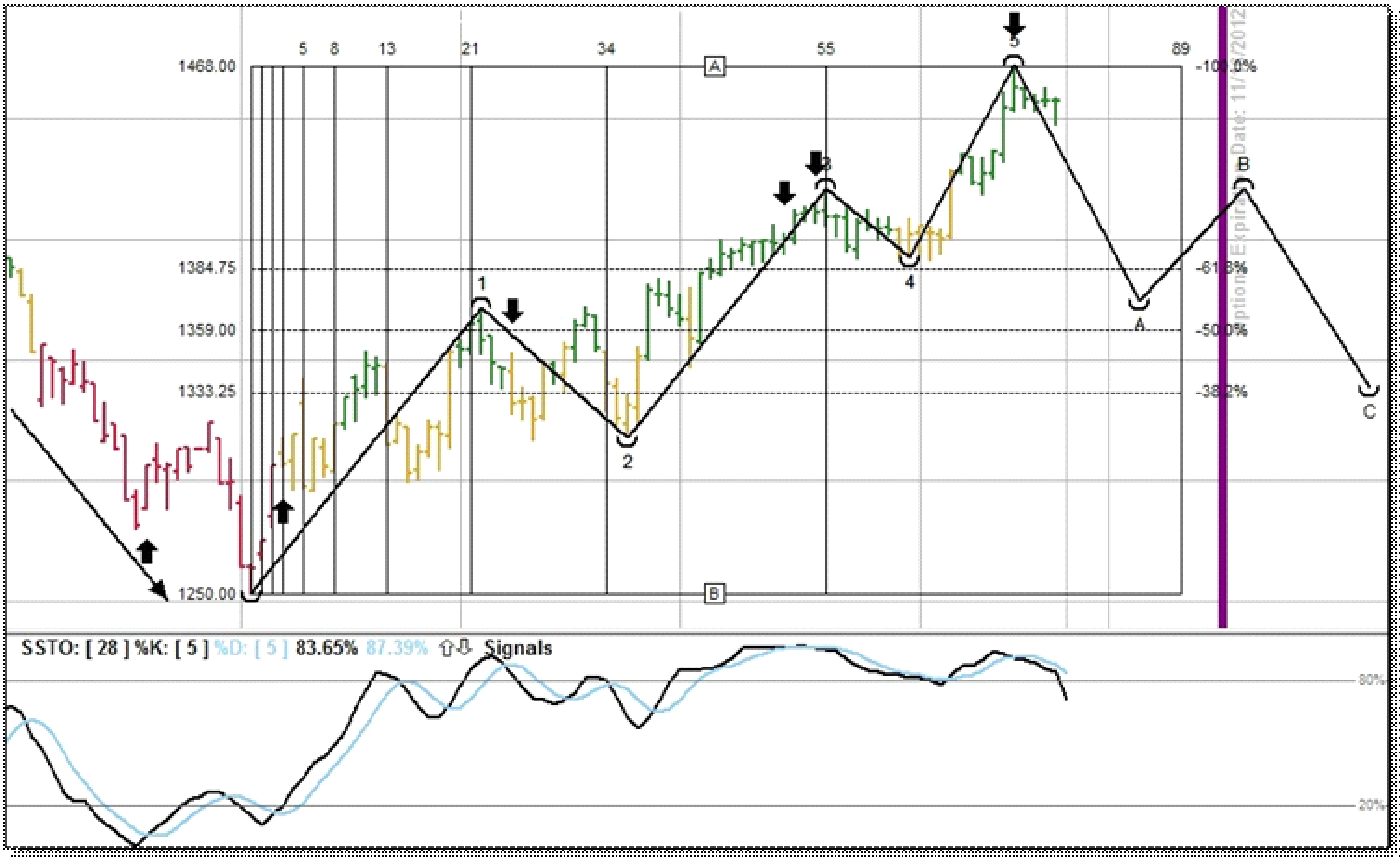


Figure 1-4: Figure 1-4 highlights the use of Slow Stochastic indicator arrows in conjunction with the Elliot Wave tools in Track n' Trade Live.

Confirming the Wave Patterns with Stochastic Indicators:
It is a good idea to use other technical analysis indicators (such as stochastic indicators) for the confirmation of the Elliot Wave price projections. In figure 1-4 I have added the SSTO (Slow Stochastic) indicator to the chart, which is an oscillating indicator that measures price momentum. Depending on what direction the market is heading, the SSTO indicator arrows will signal a reversal of that trend (i.e., when the market is in a downtrend the SSTO will signal a potential rally and when the market is in an uptrend the SSTO will signal a potential pullback). As you can see, the SSTO indicator provided "buy" signals near the market bottom and provided multiple "sell" signals near the end of each individual wave.

Projecting Future Prices with the 1-2-3 Projection Tool:
Using the 1-2-3 Projection tool in Track n' Trade Live you are able to project the future price action of the market you are analyzing, including the expected price level that the market is likely to hit and the time period when that price level is expected to be achieved. In figure 1-5, I selected the first three Elliot Wave trend reversal points and used to 1-2-3 Projection tool to project where the market is expected to be near the end of wave 3. Since the third wave typically tends to be 100% of the length of the first wave (depending on what market you are in), the 100% point is typically where you will expect the market to go to. However, since things are rarely 100%, it is a good idea to plan on exiting your position a little bit early, instead of waiting for a move that is exactly 100%, so that the market doesn't start to retrace before you have had a chance to exit your position. That is why I have added a 90% line in-between the other projection levels (which, as you have probably already noticed, are from the Fibonacci sequence as well), as figure 1-5 shows.

Summary:
As you probably know by now, there is a significant amount of information that can be learned when learning about the Elliot Wave Principle; however, once you get the hang of things, it is actually pretty

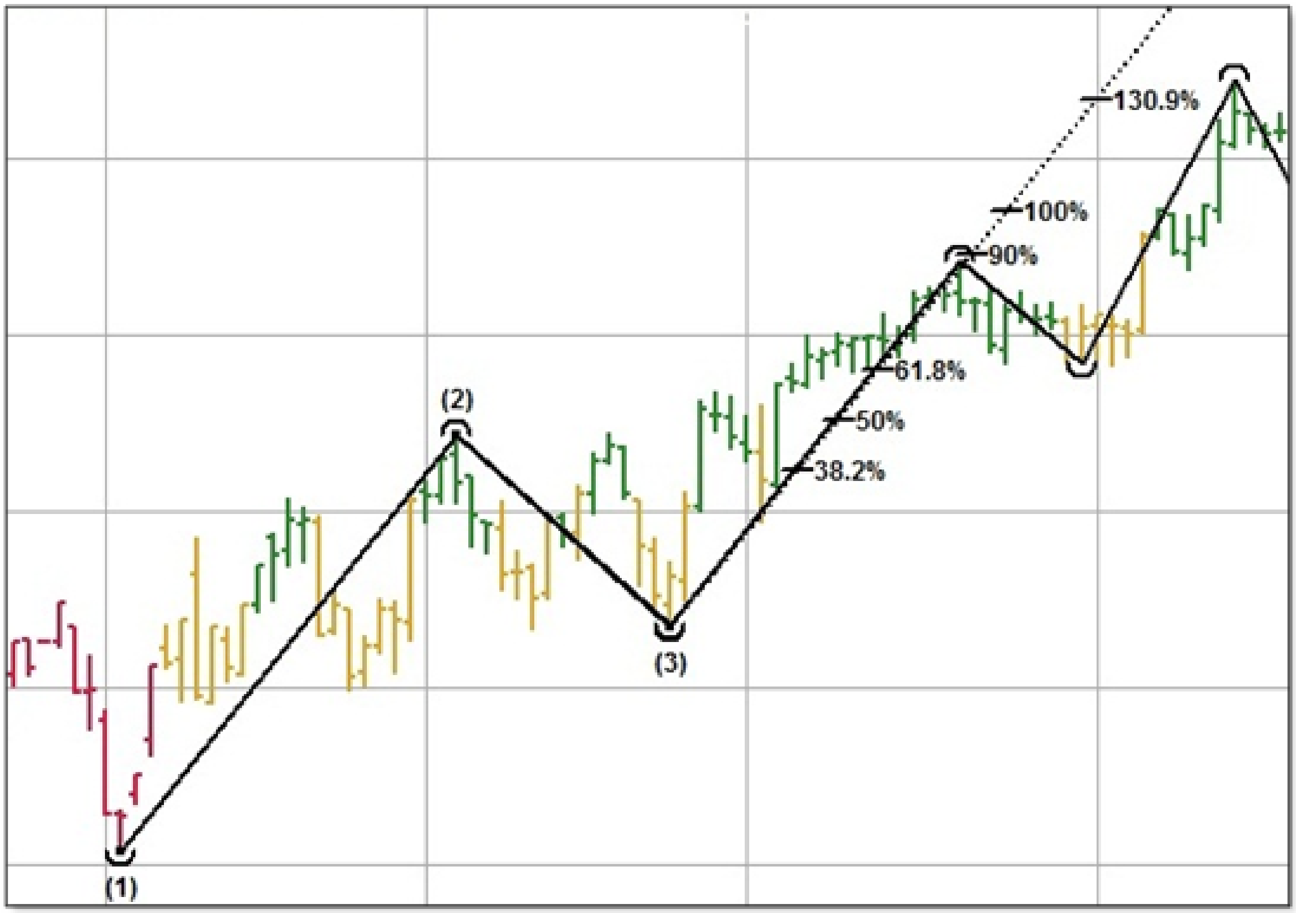


Figure 1-5: Figure 1-5 shows the 1-2-3 Projection tool, in Track n' Trade Live, being used to project the third wave of the Elliot Wave pattern.

easy understand and remember. All that you have to do is identify the expected reversal points, measure and count each of the waves, and project future price targets. It is also important to understand that not all wave patterns are going to be "picture perfect" and that prices don't always follow the Elliot Wave pattern exactly. That is why it is important to use all of the Elliot Wave tools that I have covered in this article, as well as any other indicators that you would like to use for confirming the patterns in the Elliot Wave Principle (i.e., you are not required to only use the SSTO indicator).

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Author Biography:

Kent Kofoed is a technical analysis specialist, as well as an individual trader, who has a Bachelor's in Business Administration, from Utah State University, and a Master's in Security Analysis and Portfolio Management, from Creighton University.

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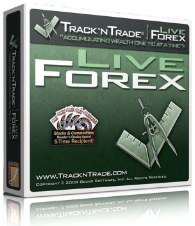

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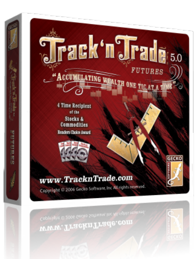

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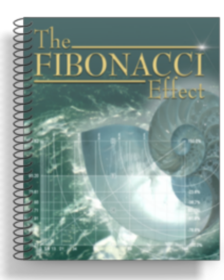

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