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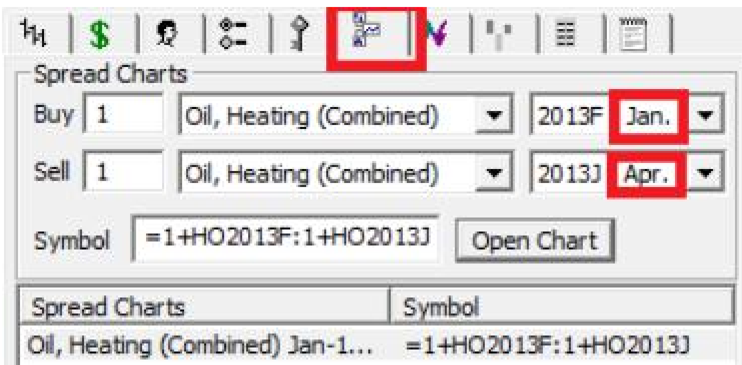
KELLER'S TIPS AND TRICKS

Spreads Trading in Track 'n Trade

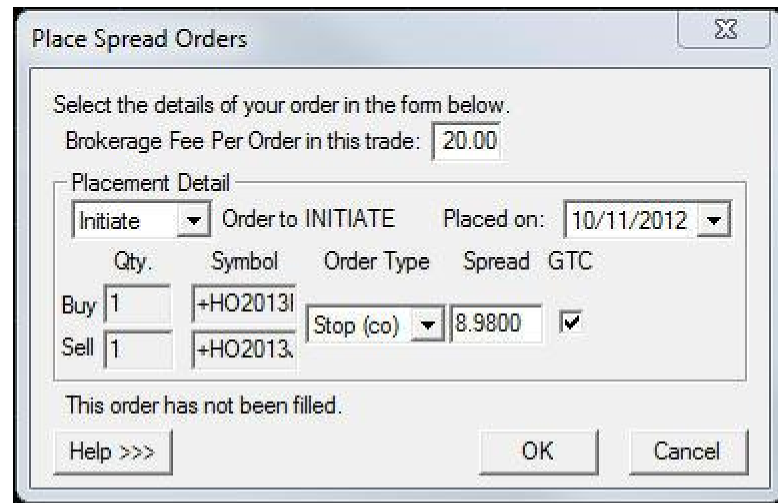
Gecko Software has been providing spreads trading for almost as long as there has been a Track 'n Trade. Now that Track 'n Trade has gone live, let's discuss how to chart spreads using Track 'n Trade 5.0, and how to place these spreads trades into Track 'n Trade Live.

To open a spread in Track 'n Trade 5.0, open your Spreads tab found in the control panel on the left-hand side of the software. Once here, you will enter the trade quantity to Buy/Sell along with choosing your commodity and contract months. As an example I will load a January-April calendar spread of Heating Oil buying 1 contract of January and selling 1 contract for April. Our hope here is that is that heating oil will rise in price heading towards winter and then decrease in price heading into summer.



Once your spread chart has been created in Track 'n Trade 5.0, customize your technical analysis to include tools which utilize the closing price of any given set of price bars. It is important to note that spread charts in Track 'n Trade 5.0 will provide the close for each day, so ensure that your technical tools specifically utilize changes in price bar close values. *The Bulls 'n Bears & Know Sure Thing buy & sell signals make a good 1-2 combo for my spread trading.

Now that you have chosen your analysis tools, you may place a new simulation of your spread trade using your Place Order Tool. The quantity traded and the choice of long versus short will be determined by the spread chart opened initially. If you are trading a real money spread, I recommend waiting to create your simulated trade until after you know the exact fill prices received in the live market.



Once you are ready to create your real money spread trade, open Track 'n Trade Live. From the Charts tab, open the two separate contracts that you wish to trade. Each contract will be listed as an individual chart within your Charts list. In this instance, I would open both the January and the April contracts for Heating Oil. You may then toggle to your Quick Trade Tab, and enter into a short/long trade based on your desired spread. You may enter using an exact stop order price, or by simply entering a new buy or sell market order. You will place one trade into each contract to begin your spread. For those new to spread trading, yes indeed, you will pay two commissions, that's the way it works.*For real money traders, note the fill prices of your spread trade and use this ratio when determining what values to enter into your 5.0 system.

That said, you're ready to chart this going forward. You can monitor the live real money trades in Track 'n Trade Live Futures, while using the technical analysis

and follow along simulation of Track 'n Trade 5.0. For anyone new or interested in spread trading, I highly recommend Gecko Software CEO Lan Turner's 'Intro to Spreads Webinar' available online here: www.LanTurner.com/spreads.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.

A Layman's Guide to Understanding Spread Trading in the Commodity Futures Markets

by Larry Schneider (concept by Neal Weintraub)

The following article is a a special preview of '52 Year-Round Spreads' by Neal Weintraub for publication in 2013.

When most people think of markets, they think only in terms of prices going up or down. For example, gold has gone up from $1,200/ounce to $1,700/ounce; and the appraised value of my home has gone down from $150,000 to $100,000. This is referred to as directional thinking (prices moving up or down). But spread trading focuses on the change in the price relationship between two stocks, or two commodities, or even two different kinds of homes. This is referred to as relative (or relationship) thinking. Let's use an everyday observation to help explain.

Imagine you are standing in the mall, in front of two escalators. Someone has just stepped onto the Up escalator. His objective is to move higher from where he is presently standing. In trading terms, he is "forecasting" that his action will be profitable if he is taken to a higher level in the mall. Someone else, on the second floor of the mall, has just stepped onto the Down escalator. Her directional movement - her absolute objective - is to move lower.

Mr. Going Up and Ms. Going Down start off considerably apart. But their actions bring them closer and closer and until they are at equal points and then their position in the mall actually switches, with Mr. Going Up now standing at a higher level, well above where Ms. Going Down is at.

Still with me? Let's throw in a change. Due to mechanics, the Up escalator is rising at one foot every 5 seconds. The Down escalator is going down at slower rate - one foot every 8 seconds. Now I know this sounds like a grade school math class question. But as you can visually imagine, Mr. Going Up will reach his upper plateau faster than Ms. Going Down will reach hers. Simply put, Mr. Going Up is rising at a rate faster than Ms. Going Down is descending. This does happen very often. Why? People have problems going down an escalator. Maybe they are afraid of falling down the escalator as opposed to ridding up. So slowing the ride for those going down makes them more comfortable.

OK? How about one more. Mr. Going Up gets on the escalator at the same time as Timmy Two-Step. Timmy is taking two steps at a time, while Mr. Going Up stands on his platform. Both will reach the upper level of the mall, but not at the same time. Timmy's rate of increase is twice that of Mr. Going Up even though they are riding the identical escalator.

Now if we substitute price - the price of gold or corn or General Electric stock, for Mr. Going Up, Timmy two-Step and Ms. Going Down, we arrive at what is known as a spread relationship. All spread trades share the same investment rationale - the trader preview to Spread Book by Lan turner and Neal Weintraub for publication in 2013 is seeking to profit from a change in the price relationship between related commodities or indices.

In the world of futures trading, there are four unique kinds of spreads, each with a different purpose and different method of analysis. But regardless all spread trades involve establishing simultaneously, a long position in one commodity futures contract or stock index, and a short position in a related commodity futures contract or stock index. Each of these positions is known as a "leg" of the spread. A spread trade therefore consists of a Long Leg and a Short Leg. Referring back to our escalator analogy, but focusing on the real world of spreads, let's look at the four possible outcomes.

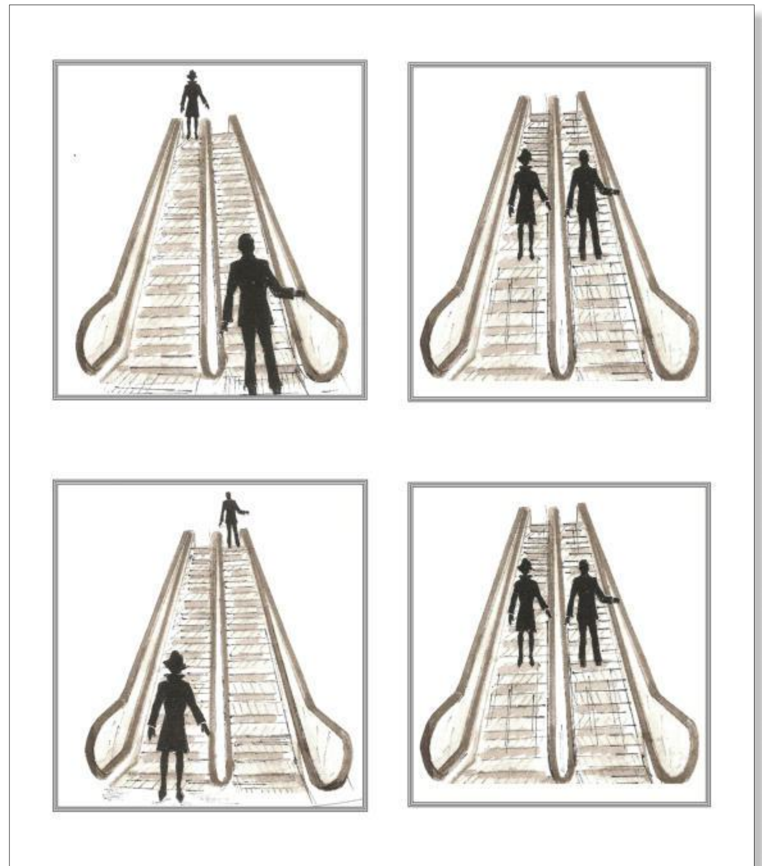
• The price (value) of the Long Leg goes up and the price (value) of the Short Leg goes down. The trader makes money on both legs.

• The price of the Long Leg goes up 5% and the price of the Short Leg goes up by 2%. The trader makes 5% on the Long Leg, loses 2% on the Short Leg. The net result is a 3% profit.

• The price of the Long Leg goes down 2% and the price of the Short Leg goes down 5%. The trader loses 2% on the Long Leg and makes 5% on the Short Leg. The net result is a 3% profit.

• The price of the Long Leg goes down and the price of the Short leg goes up. The trader loses money on both legs.

For this introductory article we are going to focus on Stock Index futures contracts. Spreads in Stock Index futures can be traded based on anticipated shifts in



strength or weakness in the stock market; as measured by different stock indices, the same index over a specific time period or even between the stock markets of different nations. So let's walk-though a particular type of spread trade known as an Inter-Commodity Spread.

Note: The following scenario is completely fictitious and is presented solely to help the reader understand Inter-Commodity Spreads.

The S&P 500 stock index is comprised of 500 large-capitalization stocks. The NASDAQ-100 stock index is comprised of 100 stocks with a higher concentration of technology companies. Both indices tend to rise and fall together (when viewed over a period of months) but not necessarily at the same rate of rise and fall. Let's assume that a trader has forecasted Obama's victory in November will be negative for the stock market, with a downward bias for the larger companies represented within the S&P 500 Index. This means after Obama's re-election, stocks generally fall, the S&P 500 will fall at a faster rate of decline than the NASDAQ-100 will. The same trader also feels that if Romney would have won, it would have been very positive for the stock market

and that certain tax breaks under a Romney administration would have favored smaller, high-tech oriented firms....leading to a major climb in the NASADQ index. Now under this analysis, the trader is not forecasting a bull or bear stock market. The trader is making a forecast that regardless of who won the election, the relationship between the two indices will grow wider apart. The trader initiates the following two positions inn his (or her) futures trading account:

1. Buys (establishes a long position) 1 contract of the March 2013 NASDAQ-100 stock index futures contract.

2. Sells short (establishes a short position) 1 contract of the March 2013 S&P 500 stock index futures contract.

The trader is hoping to be proven correct in his analysis about the change in relationship between the two stock indices. The trader has no opinion, nor is he concerned with who will win the election nor whether 2013 will see a bull or bear stock market. Therefore the trader will make money if either of the following scenarios actually occur in 2013:

• The stock market falls but the S&P Index falls faster and further than the decline of the NASDAQ-100 Index. The trader looks to make more money by being short the S&P 500, than he loses by being long the NASDAQ.

• The stock market rallies, but the NASDAQ rises faster and further than the rally in the S&P. The trader looks to make more money by being long the NASDAQ than he loses by being short the S&P 500.

So Why Traders Spread?

There are four generalized reasons why traders place a spread trade instead of an "absolute directional" trade.

1. All futures trades must be margined but the margin requirements for placing and holding a spread position are lower than for placing an holding an outright long or short position. Therefore a spread requires less capital to place the position.

2. Greater staying power: While markets often go or down for weeks at a time before showing signs of reversal, disparities in price relationships take longer to develop.

3. All too often in today's markets we see extreme price movements up and then next day down. These can often force under-capitalized traders to flee positions prematurely. Since related markets (such as the S&P 500 and NASDAQ-100 stock indices) tend to move in the same direction on a short-term basis, spread preview to Spread Book by Lan turner and Neal Weintraub for publication in 2013 traders are usually (but not always) immune from the dollar value change of having an outright long or short position.

4. There is a perception, especially among traders who follow fundamental analysis, that spreads (that is, price relationships) are easier to forecast.

Conclusion

Traders must recognize that spread trading is not necessarily less risky than out-right position trading. Since changes in pricing disparities tend to move slower than extreme price movements up or down, spread traders need a great deal of patience. Spreaders must avoid the temptation to measure the profit on the winning leg of the spread against the loss on the losing leg of the spread and close out (liquidate the losing leg position) . This is the cardinal sin of spread trading - closing out just one leg of the spread (in traders parlance, this is known as lifting a leg). If you enter a trade as a spread, always liquidate the entire position as a spread.

TRADING FUTURES IS SPECULATIVE IN NATURE AND INVOLVES SUBSTANTIAL RISK OF LOSS.

OFF THE WALL

Pulled off the wall From:

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The Wall is PitNews.com's trading forum, found on the web at http://thewall.pitnews.com or from the tab link on the front page of PitNews.com. Each month, we highlight a chart submitted by one of our users.

This Month's Off the Wall Chart comes from Wyatt:

A spread that starts in Dec. to Spring is Platinum over Gold. For this reason it's time to place this on out watch list.

Please note I've tweaked my fib ruler tool to fit my bias. This can be dangerous and would warn anyone doing this, be flexible, OK

In this example the pivot points aren't typical. and may be worthless. BUT if we move down to the circle and turn this may be a great setup.

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

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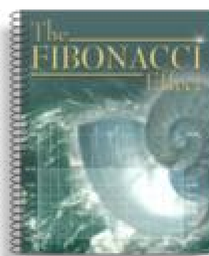
Trading Education

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



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