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Futures, Forex, & Stocks

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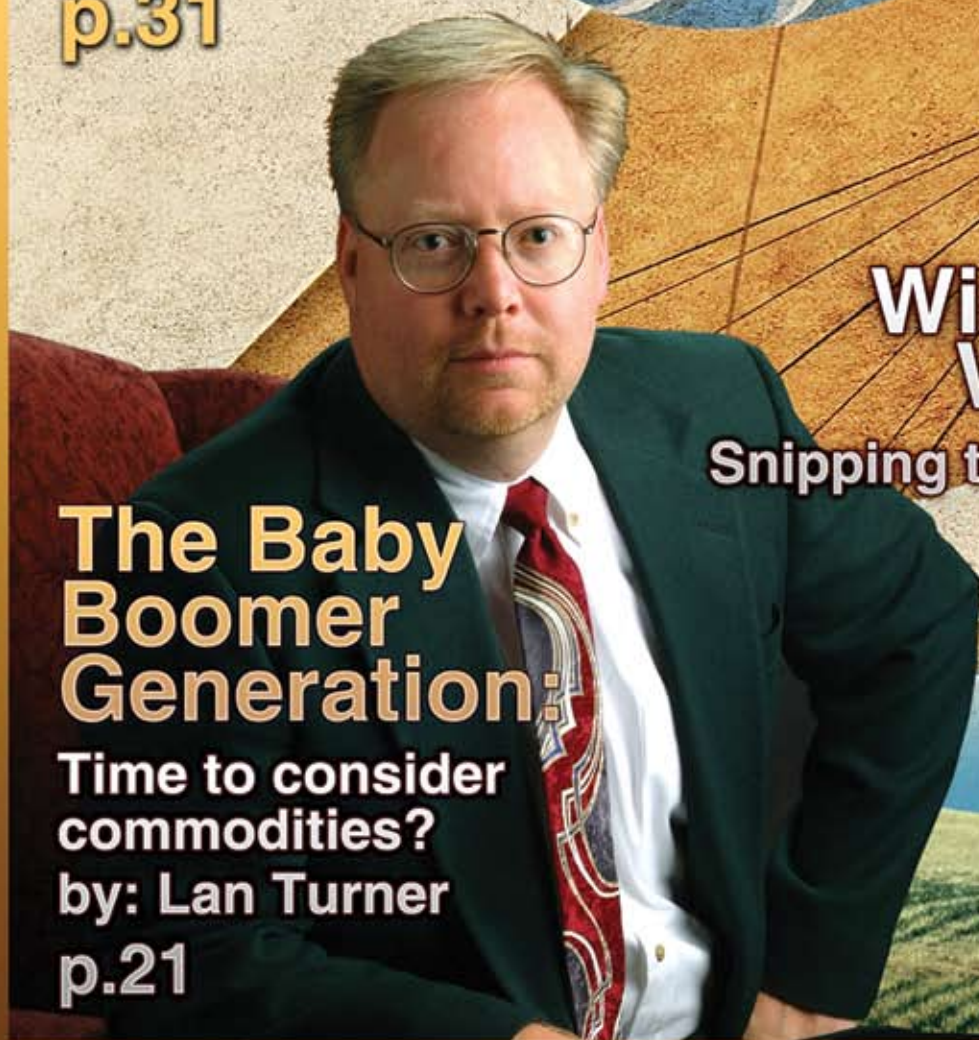
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What's the dilemma? Are you looking at retirement, but you don't have enough money to do so? It's finally that time; America has turned the corner. The all time

largest group of Americans ever born is beginning to retire:

"The Baby Boomer Generation," whose members include everyone who was born between 1946 and 1964.

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Editor's Note

February is merely as long as is needed to pass the time until March.

- Dr. J. R. Stockton

Time is a funny thing. Some people try to save it, others are simply waiting for it to pass. Timing is everything in the markets, and often only time will tell if we're right or wrong. And time also heals all wounds, including those inflicted in the form of losses. There never seems to be enough time in the day...

I could spend hours reflecting on the many adages involving time that have been coined over the years, but why? What really matters is what you do with it. And in case you haven't already guessed, "time" is the theme for this month's issue.

Lan Turner examines the "ticking-clock" dilemma of the *Baby Boomer Generation* in our featured article. If you haven't already, maybe now *is* the time to consider commodities.

According to Scott Barrie, the time of year can give you clues as to market behavior. Take a moment to check his facts by reading *The February 2007 Commodity Trader's Almanac* and "*Snipping*" the *February Break*.

In *Secrets of the Floor Trader's Pivot Points* and *The MA of FX*, Jim Harrison and Valeria Bednarik present some tools that may save you time – and money – in the future.

Dr. Scott Brown, PhD. presents another installment of his *Wall Street and the Ivory Tower* series, and Barrett Fisk delves into the "virtual trading pit" while *Watching TV*. Often it's only a matter of time before the facts comes to light. Will these gentlemen's theories prove to be correct?

We had a great time creating the February issue of PitNews.com Magazine. We hope you enjoy your time reading it!

Kimberly

Kimberly Lyon

Managing Editor
PitNews.com Magazine

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RESULTS HAVE MANY INHERENT LIMITATIONS, SOME OF WHICH ARE DESCRIBED BELOW. NO REPRESENTATION IS BEING MADE THAT ANY ACCOUNT WILL, OR IS LIKELY TO, ACHIEVE PROFITS OR LOSSES SIMILAR TO THOSE SHOWN. IN FACT, THERE ARE FREQUENTLY SHARP DIFFERENCES BETWEEN HYPOTHETICAL PERFORMANCE RESULTS AND THE ACTUAL RESULTS SUBSEQUENTLY ACHIEVED BY ANY PARTICULAR TRADING PROGRAM. ONE OF THE LIMITATIONS OF HYPOTHETICAL PERFORMANCE RESULTS IS THAT THEY ARE GENERALLY PREPARED WITH THE BENEFIT OF HINDSIGHT. IN ADDITION, HYPOTHETICAL TRADING DOES NOT INVOLVE FINANCIAL RISK, AND NO HYPOTHETICAL TRADING RECORD CAN COMPLETELY ACCOUNT FOR THE IMPACT OF FINANCIAL RISK IN ACTUAL TRADING. FOR EXAMPLE, THE ABILITY TO WITHSTAND LOSSES OR TO ADHERE TO A PARTICULAR TRADING PROGRAM, IN SPITE OF TRADING LOSSES, ARE MATERIAL POINTS WHICH CAN ALSO ADVERSELY AFFECT ACTUAL TRADING RESULTS. THERE ARE NUMEROUS OTHER FACTORS RELATED TO THE MARKETS, IN GENERAL, OR TO THE IMPLEMENTATION OF ANY SPECIFIC TRADING PROGRAM WHICH CANNOT BE FULLY ACCOUNTED FOR IN THE PREPARATION OF HYPOTHETICAL PERFORMANCE RESULTS AND ALL OF WHICH CAN ADVERSELY AFFECT ACTUAL TRADING RESULTS.

OFF THE WALL

By: Lan Turner
 Editor in Chief
 PitNews.com Magazine

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 was submitted by Trader Gerard. After looking at some of the fundamental information and how it related to the technical aspects of trading, Trader Gerard made these observations:

“Wheat prices remain in near-term congestion with Wednesday's price movement, however the short-term up trend line was broken with the close being below the trend line. Price movement confirms that a powerful sell signal is in place and that the market remains Bearish longer term. Price Bias is strongly bearish, but Stochastic is bullish, therefore this indicator is suggesting prices may move sideways to higher near-term.”

Trader Gerard believes this would be a good move given his particular style of trading and given strategy:

“Enter short from (463-2/4 area). Enter long on a break of support (560-0/4 area), if prices close above 20-DMA (477.50).”

Trader Gerard also believes an options alternative might be a good move. Here's what he is considering for his own portfolio:

“Options; purchase puts. Sell calls. If you already have a put then look to complete a free trade by selling a put for the same premium paid.”

Get into the action! Start posting charts on The Wall, and maybe you'll see your chart highlighted here in our next PitNews.com Magazine issue.



February 2007

COMMODITY TRADER'S ALMANAC *View And Review*

By: Scott Barrie & Lan H. Turner

Last month we discussed the fabled “February Break,” showing how it has moved primarily to January and these basic reasons: Tax abatement, transportation, and land/lease payments being due. Just as the February Break has shifted earlier, so to has the tendency in the grain markets to begin building premiums into prices to account for the risk of planting and crop development. The futures markets are extremely efficient, and in their efficiency, they are anticipating known risks – such as winter transportation as well as potential planting problems – earlier, as speculators take positions based on known events in anticipation of such events. Hence the old market adage “buy the rumor, sell the fact.”

The Winter Break and Spring Grain Rally

For much of the grain complex, winter is a time of minimal production and risk. Corn – the most widely produced grain – is generally between plantings. In the Northern Hemisphere, the United States and China account for over 60% of world production (267.6 and 143.0 million metric tons respectively). As such, during the winter, the market is focused on usage. With little risk to future supply, prices tend to decline in most years during the winter as supply is consumed. However, during the spring, supplies in storage tend to be smaller and the risks associated with planting and crop development are great. As such, future supply is uncertain and prices tend to rally.

A similar dynamic occurs in the Soybean market – another grain planted in the spring. Though roughly half of the world's soybean supply is grown south of the equator (mainly in Brazil and Argentina), southern hemisphere production is not ready for harvest when the northern hemisphere crop is planted in the spring. Therefore, supplies in storage (stocks) tend to be tight,

and the market builds a risk premium into prices to not only encourage future production, but also to encourage storage. As such, Soybean futures, like Corn and to a lesser extent Wheat, tend to rally during the spring.

...supplies in storage tend to be smaller and the risks associated with planting and crop development are great. As such, future supply is uncertain and prices tend to rally.

On average over the last 19 years, July Corn futures have posted a rally of +51 ¾ cents/bushel from their winter lows (November through February) to their spring highs (March

Grain Market Winter Lows to Spring Highs 1988 to 2006									
	July Corn			July Soybeans			July CBOT Wheat		
Year	Nov–Feb Low	Mar–Jun High	Change	Nov–Feb Low	Mar–Jun High	Change	Nov–Feb Low	Mar–Jun High	Change
2006	217 1/4	251 1/4	34	565	620	55	351	433	82
2005	237 1/2	342	104 1/2	700	1064	364	347	430 1/2	83 1/2
2004	234 1/4	259	24 3/4	536	658	122	298 1/2	345 3/4	47 1/4
2003	212	230	18	425	543	118	278 1/2	308	29 1/2
2002	223 1/2	233 3/4	10 1/4	450 1/4	488	37 3/4	279 1/4	299 1/2	20 1/4
2001	209	258 1/4	49 1/4	465	582 1/2	117 1/2	256 3/4	286	29 1/4
2000	215 1/2	240 1/4	24 3/4	465 1/2	515	49 1/2	257 1/2	307	49 1/2
1999	267 1/4	289	21 3/4	656 1/2	684	27 1/2	334	359	25
1998	259	320 3/4	61 3/4	668	902	234	328	459	131
1997	325	518 1/2	193 1/2	686 1/2	847	160 1/2	405 1/2	636	230 1/2
1996	232 1/2	285	52 1/2	559 1/4	618 1/2	59 1/4	330	452	122
1995	270 1/2	297 3/4	27 1/4	638	732 1/2	94 1/2	310	345	35
1994	225	239 1/2	14 1/2	562	654 1/2	92 1/2	311 1/2	320 3/4	9 1/4
1993	257	285	28	563	637	74	315	395	80
1992	241 1/2	268 1/2	27	576	623 1/2	47 1/2	262	305	43
1991	243	298	55	578	671 1/2	93 1/2	342	355 1/2	13 1/2
1990	270	288 1/2	18 1/2	740	804 1/2	64 1/2	372	422	50
1989	189	354 1/2	165 1/2	540	1099 1/2	559 1/2	279	405	126
1988	154	202 3/4	48 3/4	477	604	127	239	316 1/2	77 1/2
Average Spring Rally	5-Year: 38 1/4 19-Year: 51 1/2			5-Year: 139 1/4 19-Year: 131 1/2			5-Year: 52 1/2 19-Year: 67 1/2		

Past performance is not necessarily indicative of future results – see disclaimer. Data compliments of the 2007 Grain Trader's Guide

through June). July Soybeans have posted an average Spring Rally +131 ½ cents since 1988 – with an even greater average rally in the last 5 years – showing that the grain futures clearly do tend to build a risk premium into prices as planting and/or the critical developmental stages of production occur.

July Soybean Meal futures have had an average Spring Rally of +\$43.70/ton, while July Soybean Oil futures have rallied an average of +4.50 cents/lb. In general, the products – which are the result of soybean processing and, as such, are more sensitive

to demand – tend to perform better than Soybeans in the next several months.

Early Soybean Spring Rally Plays

Soy products tend to be the strongest performing Grains during February, especially Soybean Oil. May Soybean Oil futures have rallied in 12 of the last 15 years (80.0%), gaining an average of +0.96 cents/lb from the 5th trading day of February through to the 7th trading day of March (02/07/07 to 03/09/07,

HYPOTHETICAL PERFORMANCE RESULTS May Soybean Oil Futures Changes in Cents/Pound Enter Approximately February 7th / Exit Roughly March 9th

Entry Date	Entry Price	Exit Date	Exit Price	Closed P&L (pts)	Closed P&L (\$)	High Price	Low Price
2/7/2006	22.73	3/9/2006	24.07	1.34	\$804.00	25.01	22.15
2/7/2005	19.24	3/9/2005	23.64	4.40	\$2,640.00	23.86	19.18
2/6/2004	30.59	3/9/2004	33.65	3.06	\$1,836.00	35.05	30.50
2/7/2003	20.36	3/11/2003	20.84	0.48	\$288.00	21.10	19.86
2/7/2002	15.58	3/11/2002	16.46	0.88	\$528.00	16.59	15.37
2/7/2001	15.18	3/9/2001	16.32	1.14	\$684.00	16.75	14.72
2/7/2000	16.28	3/9/2000	16.23	-0.05	(\$30.00)	16.70	15.60
2/5/1999	21.81	3/9/1999	18.81	-3.00	(\$1,800.00)	22.00	17.36
2/6/1998	26.48	3/10/1998	27.06	0.58	\$348.00	27.70	26.25
2/7/1997	24.30	3/11/1997	26.17	1.87	\$1,122.00	26.55	24.00
2/7/1996	24.49	3/11/1996	24.00	-0.49	(\$294.00)	25.13	23.50
2/7/1995	25.87	3/9/1995	27.47	1.60	\$960.00	27.87	25.71
2/7/1994	28.03	3/9/1994	28.37	0.34	\$204.00	29.18	27.76
2/5/1993	20.62	3/9/1993	21.16	0.54	\$324.00	21.81	20.55
2/7/1992	19.24	3/10/1992	20.94	1.70	\$1,020.00	21.20	19.01

			In points	In \$'s		In points	In \$'s
# Trades	15	Total P&L	14.39	\$ 8,634.00	Max Draw	-4.45	(\$2,670.00)
# Win	12	Avg. P&L	0.96	\$ 575.60	Avg. Draw	-0.62	(\$371.20)
# Loss	3	Avg. Win	1.49	\$ 896.50	Min. Draw on Win		
% Win	80%	Avg. Loss	-1.18	\$ (708.00)		-0.58	(\$348.00)

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HYPOTHETICAL PERFORMANCE RESULTS
May Soybean Meal Futures Changes in Cents/Pound
Enter Approximately February 26th / Exit Roughly April 18th

Entry	Entry	Exit	Exit	Closed	Closed	High	Low
Date	Price	Date	Price	P&L (pts)	P&L (\$)	Price	Price
2/24/2006	177.30	4/18/2006	177.70	0.40	\$40.00	181.00	168.10
2/24/2005	171.80	4/19/2005	194.90	23.10	\$2,310.00	205.00	170.90
2/25/2004	280.60	4/20/2004	297.30	16.70	\$1,670.00	342.00	274.00
2/26/2003	179.70	4/17/2003	190.10	10.40	\$1,040.00	190.20	168.30
2/26/2002	149.30	4/18/2002	161.60	12.30	\$1,230.00	164.30	148.00
2/26/2001	155.60	4/18/2001	154.60	-1.00	(\$100.00)	159.90	146.50
2/25/2000	163.90	4/17/2000	167.80	3.90	\$390.00	175.50	161.00
2/24/1999	123.30	4/20/1999	134.30	11.00	\$1,100.00	139.50	122.90
2/25/1998	177.60	4/20/1998	159.60	-18.00	(\$1,800.00)	183.50	156.00
2/26/1997	251.40	4/18/1997	275.80	24.40	\$2,440.00	296.70	249.80
2/27/1996	237.00	4/18/1996	255.90	18.90	\$1,890.00	256.50	223.20
2/24/1995	158.70	4/18/1995	165.30	6.60	\$660.00	172.80	155.30
2/24/1994	196.00	4/18/1994	187.80	-8.20	(\$820.00)	199.30	184.70
2/24/1993	178.80	4/20/1993	184.90	6.10	\$610.00	188.70	177.00
2/26/1992	175.80	4/20/1992	176.70	0.90	\$90.00	182.40	172.20

			In points	In \$'s		In points	In \$'s
# Trades	15	Total P&L	107.50	\$ 10,750.00	Max Draw	-21.60	(\$2,160.00)
# Win	12	Avg. P&L	7.17	\$ 716.67	Avg. Draw	-6.59	(\$659.33)
# Loss	3	Avg. Win	11.23	\$ 1,122.50	Min. Draw on Win		
% Win	80%	Avg. Loss	-9.07	\$ (906.67)		-13.80	(\$1,380.00)

Past performance is not necessarily indicative of future results – see disclaimer. Data compliments of Gecko Software, Inc.

respectively).

Though Soybean Oil tends to lead the complex higher, traders may wish to also consider Soybean Meal, which has gained in value 80.0% of the time in the last 15 years since 1992 between the 3rd to last trading day of February and the 9th to last trading day of April (February 26th and April 18th, respectively).

With wild weather and some political unrest in South America, future Soybean production – and, by implication, the products as well – does not look certain.

Soybean Meal may be setting the stage for the Soybean Complex futures. Soybean Meal futures have broken out of a large basing pattern and look poised to rally. On the release of a bullish annual



Crop Production report on January 12th, Soybean Meal futures gapped up and broke out of a large sideways channel pattern. Though the Soybean market is at record production, consumption/usage is also growing at a fast clip. With wild weather and some political unrest in South America, future Soybean production – and, by implication, the products as well – does not look certain. Generally uncertainty regarding future supply tends to be supportive of prices.

Soybean futures have also tended to rally this time of the year – usually starting in the first week in March, hence we will not highlight their strength anymore than has already been done.

Technical Analysis: Soybean Meal

One of the largest arguments I've heard for the huge run-up in corn recently, is completely blown away by the huge run up in Soybean Meal. Unless of course they plan on turning Soybean Meal into a gasoline replacement too, something I have not heard.

This market, just like its cousin corn, hit a 1-2-3 bottom formation, and then shot to the moon. This market has exhibited a number of pull backs and small retracements that we didn't see so much in corn, but nonetheless, cousins seem to travel together. Where corn goes, the beans generally follow. It's also fun to watch. Sometimes you'll catch one or the other markets breaking out first, giving a heads up signal that the other will be sure to follow.

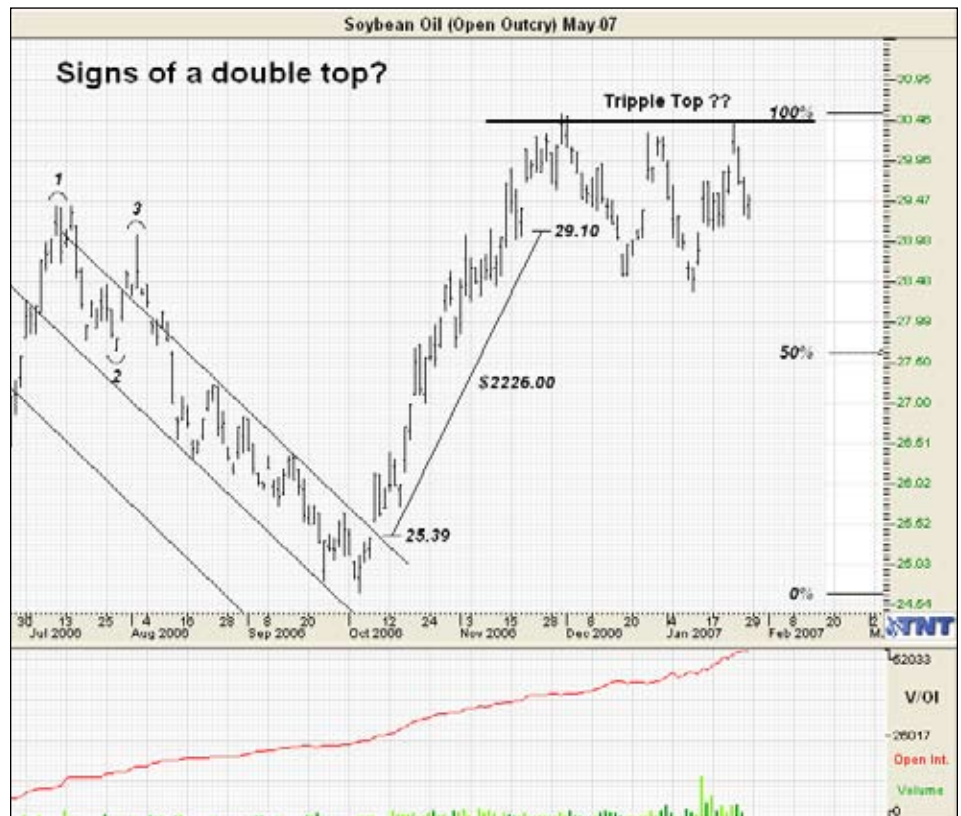
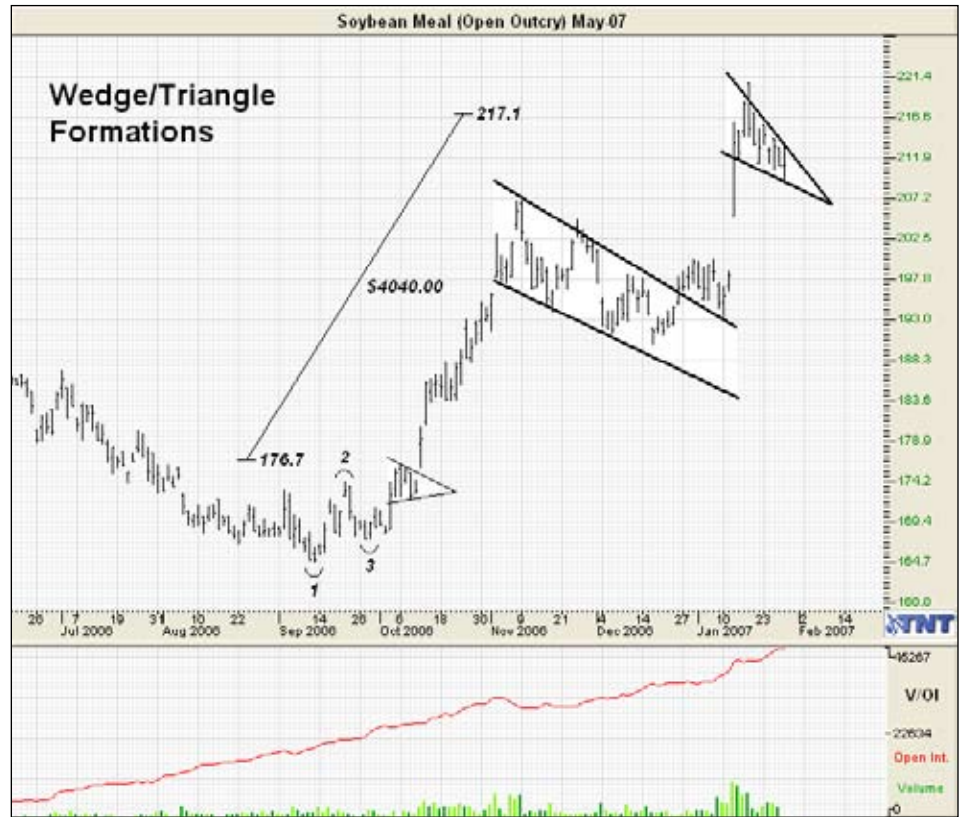
Technical Analysis: Soybean Oil

Soybean Oil may be the one cousin in this whole mess that may be giving us a clue as to the near future of what we can expect in the grains. With this triple top formation, we may finally be able to stop and count our chickens; this market may be topping out. Generally speaking, once a market tries to break through a price level three

Soybean Oil may be the one cousin in this whole mess that may be giving us a clue as to the near future of what we can expect in the grains.

times, and is unsuccessful, it generally has no where else to go but, in this case, down.

Technically speaking, if we were to watch this market for a full 50% retracement of the last major move, we would be seeing prices rebound back to about the 27.55 range.



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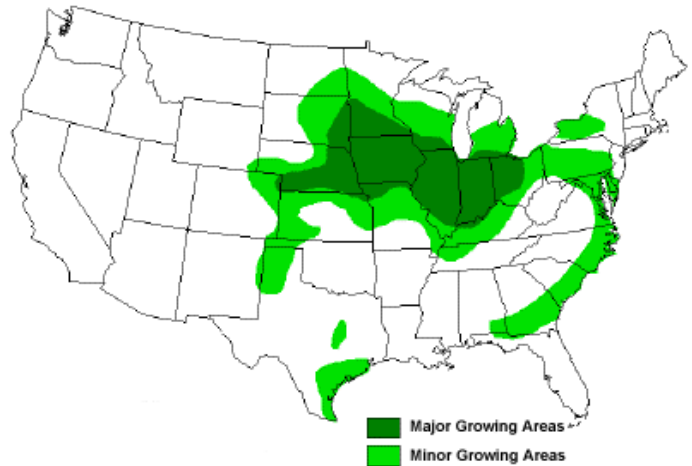
Spring Corn Strength

Corn is generally planted from late March through May in the United States. However, decisions regarding acreage allocated to Corn – as opposed to competing crops like Soybeans, spring Wheat, Oats, etc. – are usually made in March. As such, Corn prices tend to increase in most years during the later part of

...decisions regarding acreage allocated to Corn – as opposed to competing crops like Soybeans, spring Wheat, Oats, etc. – are usually made in March.

February through early March as the marketplace begins to factor in production problems in an attempt to “buy acreage.”

This tendency can be seen by the fact that May Corn futures have increased in 13 of the last 15 years (87.5%) from the 3rd to last trading day of February through to the 9th trading day of March (02/26 to 03/13, respectively).



HYPOTHETICAL PERFORMANCE RESULTS May Corn Futures Changes in Cents/Bushel Enter Approximately February 26th / Exit Roughly March 13th

Entry Date	Entry Price	Exit Date	Exit Price	Closed P&L (pts)	Closed P&L (\$)	High Price	Low Price
2/24/2006	238 3/4	3/13/2006	228 3/4	-10	(\$500.00)	240	227 2/4
2/24/2005	213 2/4	3/11/2005	224 3/4	11 1/4	\$562.50	225	211 3/4
2/25/2004	298 2/4	3/11/2004	299	2/4	\$25.00	306 1/4	291
2/26/2003	233 3/4	3/13/2003	235 2/4	1 3/4	\$87.50	241 1/4	231 1/4
2/26/2002	205 2/4	3/13/2002	207 1/4	1 3/4	\$87.50	212 1/4	205 1/4
2/26/2001	217	3/13/2001	220 2/4	3 2/4	\$175.00	225 3/4	216 3/4
2/25/2000	221 2/4	3/13/2000	230 3/4	9 1/4	\$462.50	231 3/4	220
2/24/1999	213 2/4	3/11/1999	224 2/4	11	\$550.00	225 2/4	210
2/25/1998	272 2/4	3/12/1998	281 3/4	9 1/4	\$462.50	282 2/4	270
2/26/1997	292	3/13/1997	298 1/4	6 1/4	\$312.50	313	291 1/4
2/27/1996	387	3/13/1996	389 1/4	2 1/4	\$112.50	391	377 2/4
2/24/1995	241 3/4	3/13/1995	247 2/4	5 3/4	\$287.50	247 3/4	240 1/4
2/24/1994	293 1/4	3/11/1994	282	-11 1/4	(\$562.50)	297	280 1/4
2/24/1993	219 3/4	3/11/1993	221	1 1/4	\$62.50	223	218 1/4
2/26/1992	268	3/12/1992	273 3/4	5 3/4	\$287.50	279 3/4	267

			In points	In \$'s		In points	In \$'s
# Trades	15	Total P&L	48 1/4	\$2,412.50	Max Draw	-4	(\$194.17)
# Win	13	Avg. P&L	3 1/4	\$160.83	Avg. Draw	-9 2/4	(\$475.00)
# Loss	2	Avg. Win	5 1/4	\$267.31	Min. Draw on Win		
% Win	87%	Avg. Loss	-10 3/4	\$(531.25)		-0.58	(\$348.00)

Past performance is not necessarily indicative of future results – see disclaimer. Data compliments of Gecko Software, Inc.

Technical Analysis: Corn

This year's Corn market has been on fire. Many say it's because of the lack of corn in this year's crop, some say it's because the weather turned and didn't allow the farmers to harvest as they wanted, and some say it's because of the advent of using corn for ethanol fuel. These are just some of the fundamental reasons why corn took off like a rocket back in mid-September, but whatever your fundamental belief might be for the reason why corn spiked, the only thing that we as traders care about is that it made a run, and that we were able to at some point or another take advantage of this move and put some extra cash in our pockets.

Technically speaking, this is a really simple trade to take a look at in hindsight. A simple 1-2-3 bottom formation, followed

by a break above the number two point, and away she goes. We don't get an exit signal for almost three months. I've drawn three parallel lines indicating the strong uptrend, and the ensuing areas of support and resistance. If this market continues in the

This year's Corn market has been on fire.

existing short term trend, I'm anticipating this market breaking down and touching the lower trend line. I wouldn't, couldn't be bearish on this market – every time I've thought we were topping out for one reason or another, it breaks new highs.



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Corn Versus Wheat, Seasonal Spread Strength

Chicago Board of Trade Wheat (CBOT Wheat, symbol W) is a winter Wheat, meaning it is planted in the Fall/Winter and harvested in the summer. As such, CBOT Wheat has already crossed its first major milestone of production – planting. 2007 plantings are expected to be 44.1 million acres, an increase from last year. Given that the Wheat crop has already passed the greatest milestone of production, while the Corn crop has not, it should not be surprising that Corn futures tend to gain relative to Wheat futures this time of the year.

Since 1992, May Corn futures have gained relative to May CBOT Wheat futures in 13 of the last 15 years (87%) – though traders should take note that Wheat has gained in both of the last two years – from February 4th through February 27th.

Currently, from both a technical and fundamental perspective this spread looks strong. Wheat plantings are expected to increase in 2007. With a larger crop already sewn in winter Wheat, any problems in Corn should cause Corn prices to gain

relative to Wheat. The only large worry is the fact that Corn is already expensive relative to Wheat, at its highest relative price in 5 years.

Wheat plantings are expected to increase in 2007. With a larger crop already sewn in winter Wheat, any problems in Corn should cause Corn prices to gain relative to Wheat.

However, given Corn's new role as an energy commodity – ethanol – coupled with different planting dynamics, perhaps traders should look at Corn relative to Wheat in the coming weeks.

HYPOTHETICAL PERFORMANCE RESULTS May Corn/May CBOT Wheat Futures Changes in Cents/Bushel Enter Approximately February 4th / Exit Roughly February 27th

Entry Date	Entry Price	Exit Date	Exit Price	Closed P&L (pts)	Closed P&L (\$)	High Price	Low Price
2/3/2006	-132 3/4	2/27/2006	-146 3/4	-14	\$ (700.00)	-128 3/4	-147
2/4/2005	-93 2/4	2/27/2005	-122 2/4	-29	\$ (1,450.00)	-93 2/4	-122 2/4
2/4/2004	-107 1/4	2/27/2004	-87 3/4	19 2/4	\$ 975.00	-85 3/4	-107 1/4
2/4/2003	-80 2/4	2/27/2003	-77 3/4	2 3/4	\$ 137.50	-77 3/4	-95 2/4
2/4/2002	-73 1/4	2/27/2002	-72 2/4	3/4	\$ 37.50	-70	-76
2/5/2001	-61	2/27/2001	-50 3/4	10 1/4	\$ 512.50	-50 3/4	-61
2/4/2000	-40 3/4	2/25/2000	-37 3/4	3	\$ 150.00	-37 3/4	-51 3/4
2/4/1999	-55 2/4	2/26/1999	-38 1/4	17 1/4	\$ 862.50	-37 1/4	-56
2/4/1998	-71	2/27/1998	-68	3	\$ 150.00	-55 2/4	-71
2/4/1997	-80 2/4	2/27/1997	-79	1 2/4	\$ 75.00	-72 2/4	-87 1/4
2/5/1996	-123 2/4	2/27/1996	-106	17 2/4	\$ 875.00	-104 2/4	-129 2/4
2/6/1995	-118	2/27/1995	-110 3/4	7 1/4	\$ 362.50	-110 3/4	-124 3/4
2/4/1994	-62 1/4	2/25/1994	-57 3/4	4 2/4	\$ 225.00	-56 3/4	-62 3/4
2/4/1993	-120 1/4	2/26/1993	-114	6 1/4	\$ 312.50	-114	-123 3/4
2/4/1992	-157 1/4	2/27/1992	-137 1/4	20	\$ 1,000.00	-134 2/4	-170 2/4

			In points	In \$'s		In points	In \$'s
# Trades	15	Total P&L	70.50	\$ 3,525.00	Max Draw	-29.00	\$ (1,450.00)
# Win	13	Avg. P&L	4.70	\$ 235.00	Avg. Draw	-7.27	\$ (363.33)
# Loss	2	Avg. Win	8.73	\$ 436.54	Min. Draw on Win		
% Win	87%	Avg. Loss	-21.50	\$ (1,075.00)		-15.00	\$ (750.00)

Past performance is not necessarily indicative of future results – see disclaimer. Data compliments of Gecko Software, Inc.

Conclusion

Spring is a time of great uncertainty in the grain markets. Futures traders should always look at uncertainty on the supply side of the equation as bullish. Markets are based on risk and reward, and the greater the risk, the greater the reward.

Like building a house, the making of a crop involves laying a foundation. For farmers, the foundation is planting. Problems during planting are hard to overcome, just like problems with the foundation tend to make a building unstable.

Futures traders should always look at uncertainty on the supply side of the equation as bullish. Markets are based on risk and reward, and the greater the risk, the greater the reward.

During the foundation of 2007/08 crop, traders should realize that, coming into the year, the supply/demand situation is tight in both Corn and Wheat, and generally unchanged in the Soy

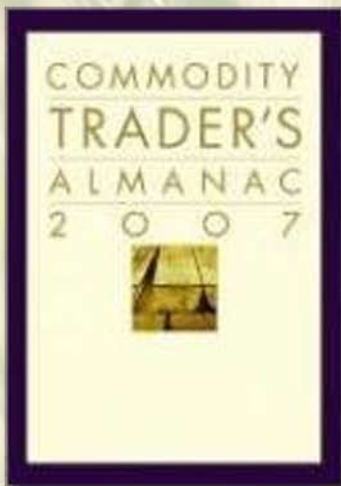
Complex markets. As such, the importance of the coming planting effort is magnified, because we do not have a bumper crop to rely upon, nor do we have a large of supply in storage. As such, the marketplace should react to weather and potential crop problems with great volatility, both when things go favorably as well as adversely for future production.

Scott Barrie is the author of the 2007 Commodity Trader's Almanac. His background includes being a floor trader, a consultant with a major risk management firm, running a small private hedge fund, as well as an analyst for a regional futures and options brokerage firm. For more information, visit www.CommoditySeasonals.com

Lan H. Turner is the president and CEO of Gecko Software, creator of Track 'n Trade Pro, and Editor in Chief of PitNews.com Magazine. Plus, he's an author, trainer, public speaker, columnist, and publisher of numerous educational videos, books and multimedia CDs that teach traders how to successfully navigate the financial markets. Visit www.TracknTrade.com to learn more!

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*“Diversification is an excuse for
NOT thinking!” — Warren Buffet*

Wall Street, the Ivory Tower, Your Investing Psychology and

What It All Means To Your Investing Success

Part 3 of 6 *by: Dr. Scott Brown, PhD.*

When this theory is generalized to include many assets, the properties of diversification and the Capital Market Line that most investors are fuzzily familiar with unfolds. Diversification basically says that if you buy a whole bunch of different stocks you can reduce the volatility of returns on your portfolio and achieve a desirable average return. For this reason you may also hear it called Mean/Variance Portfolio Theory.

The Capital Market Line

If investors all have homogenous [the same] beliefs, then they all have the same efficient linear set of mean/variance portfolios called the Capital Market Line (CML). The CML is basically a linear relationship, showing that if everyone agrees that treasury bills, for instance, are less risky than stocks and stocks are less risky than futures contracts, then the t-bills should have the lowest returns and futures contracts should have the highest returns.

There are serious problems with blindly learning this. The worst problem is that my finance students are all taught [until they get to me] that if the investors wants more return, he or she should take on more risk. What idiocy to think that if you want a high return you should engage in high risk!

What investors really should do is find situations other people aren't paying attention to. Top investors do just the opposite from what mainstream academics teach; they spend all of their time looking for LOW risk, HIGH yield opportunities. If they find no such opportunities in a given time period, then they simply refuse to trade. What a contrast this is compared to the mentality of mutual fund managers, who have been shown to be ineffectual when their performance is compared to the market averages.

Alternatively, grounding the asset allocation problem in utility theory puts economists into the "herd behavior" of blindly using it and thinking of nothing else to explain investor behavior. Academics in finance, for this reason, have been very slow to recognize the shortcomings of utility theory and even slower to seriously consider alternative theories.

Game Theory

The current alternative is either game theory [watch the movie "A Beautiful Mind" to find out what this theory is based on] from economics or prospect theory from psychology. Game theory is mathematically too complex and awkward to realistically employ in financial modeling and empirical research, and prospect theory, which is offered up by experimental psychology, was empirically supported by just plain bad science, which is explained below.

Even worse, look at what happens to their money when people put it into the hand of finance "professionals" to manage it for them — they lose!

C(R)APM

CAPM is an extension of MPT (Modern Portfolio Theory). The Capital Asset Pricing Model (CAPM) was developed by one of Markowitz's students, William Sharpe. It provides a method of dealing with the risk of being in the market, systematic risk or "beta", which cannot be diversified away. Sharpe showed under unrealistic assumptions that a portfolio's expected return hinged solely on its beta — its price relationship to the overall market. CAPM measures the portfolio risk and return an investor can expect and provides a framework for constructing portfolios with an optimal reward and risk relationship.

They promote excessive diversification and portfolio rebalancing for this reason: they collude with Congress through the 401(k) to pump as much of the public's retirement dollars into

Wall Street works hard to make public investors believe that they are too stupid to manage their own money. A person who thinks for themselves and knows what is right for them is a danger to Wall Street!

the hands of mutual fund managers, who are explicitly or implicitly in collusion with managing insiders in corporate America. Specifically, Wall Street works hard to make public investors believe that they are too stupid to manage their own money. A person who thinks for themselves and knows what is right for them is a danger to Wall Street!

I guess Markowitz and Sharpe would call Warren Buffet a statistical abnormality. Warren Buffet said, "many in Wall Street - a community in which quality control is not prized - will sell investors anything they will buy."

Markowitz' work was extended using the concept of market equilibrium in order to determine the market price for risk and the appropriate measure of risk for a single asset. The capital asset pricing model was one economic model used to solve this problem and is normally associated with Bill Sharpe [1963, 1964] who won the Nobel Prize in economics for his work on the matter. To give you an idea of how much importance economic academics place on these seminal theories, take note that in 1990 Harry Markowitz, Merton Miller, and Bill Sharpe shared the first Nobel Prize in economics given to researchers in finance. Markowitz was awarded the prize for portfolio theory, Miller for the theory of corporate finance, and Sharpe for CAPM. What few people know is that the CAPM solution was really developed almost simultaneously by Treynor [1961], Mossin [1966], Lintner [1965, 1969], and Black [1972]. A second important equilibrium-pricing model, called the arbi-

trage-pricing model (APT), was developed by Ross [1976] that is much more general and testable than CAPM. CAPM is really a special case of APT.

If you told an investor in the 1920s or 1930s that managing an investment pool (mutual fund) today is considered a respectable job, they would just shake their heads in disbelief and surprise.

CAPM says that investors can diversify away all risk, except the way an asset's price moves with relationship to the market as a whole. The CAPM model calls this "systematic risk." Alternatively, the type of risk that is independent of the market as a whole is labeled "unsystematic risk." The model uses a regression coefficient called "beta" to measure the systematic risk that the model claims is the only variable important to the investor. This theory really excited Wall Street because it gave the big machine a simple way to justify the existence of mutual funds in the 1960s and 1970s.

Before the stock market crash in 1929 that marked the beginning of the great depression, mutual funds were called "investment pools." Investment pools are historically notorious as elaborate schemes to con the public out of money.

The pool managers would steal money out of the pool. Oftentimes the pool would make a lot of money over time and people would get attracted by the consistent returns. Once there was enough money in the pool, the manager would empty the account and run off with the money. A lot of the pools were associated with 'bucket shops' that were like illegal off-track horse betting where no money is actually placed on the race. In the same fashion, no shares were bought or sold in bucket shops, which essentially allowed people to place bets on stock price movements. It was even easier for the manager of an investment pool to steal money by trading public funds through a bucket shop because these dingy halls were not monitored by the stock exchanges.

If you told an investor in the 1920s or 1930s that managing an investment pool (mutual fund) today is considered a respectable job, they would just shake their heads in disbelief and surprise.

MPT and CAPM gave Wall Street a convenient way, endorsed by the ivory tower of finance and economics, to say, "Hey Mr. Public Q investor just give us your money and your worries are gone!" Arthur Levitt grew infuriated as the head of the SEC when he caught congressmen on the payroll of influential inside executives and large fund managers. Levitt's book, *Take on the Street* is a must-read that details the corrupt ties between fund



managers, financial journalists, stock analysts, inside corporate executives, and federal law makers.

What the Wall Street sales machine tries to do all the time is simply invent products to sell to the public, saying that, "if you buy this, then your worries are gone!" Wall Street secretly develops schemes to nickel and dime the average Joe to death with bogus commissions and hidden fees.

They also make a market for corporate inside managers to dump overpriced shares (acquired for free) in the form of options gifted by the board of directors that they control. Until asymmetrical information abuses were uncovered after 2000, corporate insiders could give information to big firms in Wall Street that they didn't share with the public legally.

Sarbanes-Oxley and GAAP

Sarbanes-Oxley is a ruse by Congress to make the little guy think that their interests are protected by big brother. There is nobody looking out for the small investor in Washington, and there probably never will be. Anyone in the public that thinks that the markets are efficient is a patsy waiting to lose their money in the modern day version of "The Sting" called Wall Street. Most people just have no awareness of the severe abuses committed by corporate insiders and mutual fund managers every day in the stock market.

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GAAP is only a set of standards. There is plenty of room within GAAP for unscrupulous accountants and financial executives to distort figures. So, even when a company uses GAAP, our students still need to scrutinize its financial statements. I am considered radical by some people because I tell people to ignore financial statements since they are so easy to distort. The buzzword today is "Sarbanes-Oxley" but I can guarantee you that, not only have inside executives found ways around this that we don't yet know about, but Congress really doesn't care if the public gets ripped off...it is all a smoke screen.

People are simply not aware that there is NO public interest group in Washington to protect the interests of individual public investors, but there is a public interest group that hawkeyes every bill to protect the interests of corporate inside managers, who are supposed to be protecting the interests of shareholders. In my opinion, either people ignore financial theories that fail to offer meaningful insights into the markets and learn to look at the markets the way the insiders do, or they are nothing but Wall Street roadkill waiting to happen. The 401(k), for instance, was a brilliant ruse that allowed corporate insiders to strip Americans of their pension benefits and inject all of the public's retirement money into the hands of mutual fund managers, none of whom can outperform the general market averages in the long haul when you account for commissions, hidden fees and taxes.

Market Psychology

You will hear and read that the market is driven by fear and greed. This is NOT true – the market is driven by fear and hope. Hope pulls people in, and then fear screws them up once they are in the market.

There is so much misinformation about market psychology. Here is what we really know. The most applicable psychological theory to the markets is "Psychological Feedback Theory", where investors gradually pile on to rising markets. They slowly buy into markets coming up off of a major extended period of depressed prices and then pile back off when prices crash after long extended bull markets. Psychological theories such as feedback loops, for example, which are based on academic psychological studies of herd behavior, do a pretty good job of explaining extreme price movements in the financial markets.

The noted social psychologist Solomon Asch performed an experiment in 1952 that he and many others interpreted as showing the immense power of social pressure on individual judgment. He basically showed that people had a very hard time dissenting from group consensus. Asch explained his results were due to social pressure. Ironically, this was reported in the same year of 1952, when Markowitz was linking financial economics to utility theory!

Three years later, psychologists Morton Duetsch and Harold Gerard reported a variant of Asch's experiment. They concluded that the clearly wrong answers to questions given by subjects in the experiment [where people caved in to social pressure] oc-

“Concentrate your energies, your thoughts and your capital.... The wise man puts all his eggs in one basket and watches the basket.”
— Andrew Carnegie



curred because people simply thought that all the other people in the group could not be wrong.

Another famous psychologist, Stanley Milgram, was able to show that people would administer electric shocks to another person sitting close by, who was, unbeknownst to the subject, a colleague. All of these results have been widely interpreted as showing the enormous power of authority over the human mind by academic psychologists and leading-edge contemporary economists looking for alternatives to utility or prospect theory in explaining investment behavior, and hence asset price changes.

The Asch and Millgram studies show that people are ready to believe the majority view, or to believe authorities even when such views plainly contradict mater-of-fact judgment. This behavior is in fact largely rational and intelligent, because most people have had many prior experiences of making errors when they contradict the judgments of a larger group or of an authority figure, and they have learned from these experiences.

Independent Thinking — Your Goldmine Within!


This makes sense when you think about what happens to those of us who disagree with the teacher, even in kindergarten. Even infantile dissenters are usually punished for their tangential analysis by the teacher, and potentially ostracized by their classmates instead of being received with open non-judgmental con-

sideration of their views. Given the kind of decisions observed by these prominent psychologists in researching herd behavior, it is not surprising that many people are accepting of the perceived authority of others on such matters as stock market valuation. The securities industry works in collusion with corporate inside executives in using this fact to their advantage, and influencing the thinking and behavior of individual public investors.

This is why I so strongly teach that traders and investors must take full responsibility for their investment decisions. This is also why I emphasize that finding what is right for them individual is so vitally important, or they will be led into the Wall Street slaughter house.

Continued Next Month...

Dr. Scott Brown, a.k.a. “The Wallet Doctor” holds a Ph.D. in finance from the University of South Carolina and is part of the finance faculty at the University of Puerto Rico School of Business. Dr. Brown also has extensive experience as an investor in futures, options, real estate, and stocks. He has enjoyed his greatest success as a stock investor and deeply understands the intricate workings of the equity markets. You can get more information about his course at: <http://www.bonanzabase.com>



If you are a baby boomer, your clock is ticking, and you're looking for profits that you can take home right now.

THE BABY BOOMER GENERATION:

Maybe now is the time to consider commodities.

What's the dilemma? Are you looking at retirement, but you don't have enough money to do so? It's finally that time; America has turned the corner. The all time largest group of Americans ever born is beginning to retire: "The Baby Boomer Generation," whose members include everyone who was born between 1946 and 1964.

Did you know that a recent New York University study found that more than half of all households closing in on retirement won't be able to string together enough money—through pension checks, 401(k)s, other savings and Social Security—to cover even 75 percent of what they're making now. This is a huge problem for retiring Americans, and for the future of our country.

If you are a "Boomer" who has now found yourself in this daunting situation, it may simply be too late to begin a long term portfolio investment strategy that only includes such things as

By: Lan Turner
President & CEO
Gecko Software, Inc.

mutual funds, a money market fund, or bank CD. These are investments that we refer to as "low and slow yielding

returns." Such investments are great when you have time on your side; these are considered conservative investments which can generally perform well given enough "time."

The problem we see with our now retiring Baby Boomer Generation is that they are lacking that one key component—time, and now they need a new solution, something that does not require a long "time" for maturity. If you are a baby boomer, your clock is ticking, and you're looking for profits that you can take home right now. This, of course, requires a more aggressive investment vehicle. If you are one of the millions now stuck in this situation, you don't have many choices left; you might want

to look more towards “aggressive growth” investment vehicles, which of course include leveraged accounts.

Unlike mutual funds or bank CDs, leveraged accounts come with added risk, but where there is little risk, there is also

If you are a “Boomer” who has now found yourself in this daunting situation, it may simply be too late to begin a long term portfolio investment strategy that only includes such things as mutual funds, a money market fund, or bank CD.

little reward. One such method of leverage can be found in the commodity or futures markets. Such instruments are used to trade common everyday items such as Orange Juice, Coffee, Unleaded Gasoline, Natural Gas and other such “commodities.” In the “futures” market, we can even trade such things as the DOW Index, or the S&P 500 index. You can trade these indices through the futures market just like you would trade companies such as IBM or Microsoft over at the stock exchange. Commodities, just like stocks, are traded on exchanges, but with a greater degree of leverage, which reduces the amount of time one must wait for assets to compound.

Take a look at the following two charts. At first glance, they look somewhat similar, but after taking a closer look, we realize that these are actually two very different markets, yet they are almost exactly the same. What’s going on here? Is this a trick? Not exactly, but there are some very tricky moves being played out here.



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Let's take an insider's look.

Let's first take a close look at and analyze chart number one in a little more detail. This chart is what's known as the "Q's." As a savvy stock market guru, the symbol you would use to "look-up" this market would be QQQQ. You hear the financial television talking heads throw around this market symbol almost every day. It's as common in their language as is baseball, hotdogs and apple pie to the average guy.

What are the Q's? Well, the Q's are nothing more than a way of trading the NASDAQ-100 Index. Oh great, that helps, what's the NASDAQ-100 Index? The NASDAQ-100 Index is simply a collection of stocks all gathered up, then added together into one chart, very similar to a mutual fund, or in this case, a stock fund; simply put, it's a composite price of a bunch of stocks. (In

stock trader lingo, it's known as an ETF, or "Exchange Traded Fund").

Take a close look at this chart, you'll notice that you trade this market just like you would any other individual stock. Look at the most recent move which started at 36.54, when we received a buy signal from our Stochastics indicator, and it ended at 39.92, when we received the sell signal from the same Indicator. The profit from this move was \$2,620.00 and the initial investment required to obtain that size of a financial reward was \$28,281.00, or 774 shares of the Q's; a sizable chunk of change wouldn't you say? But your ROI, or "return on investment" was almost 10%, not too shabby.

Okay, that was boring; now are you ready for some excitement? Take a look at the next chart....



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The Futures Advantage

What's wrong with this picture? This is exactly the same chart right? Wrong! This is the NASDAQ-100 Mini contract traded on the Chicago Mercantile Exchange in Chicago. (That first chart, the Q's, is traded on the New York Stock Exchange.)

Take a very close look at this chart; the exact same move in the Q's started when our Stochastics indicator gave us a buy signal at 1493.0, and it ended when the same indicator gave us a sell signal at 1624.0. The amount of profit on that trade was exactly the same as our example above with the Q's, but take a look at that initial investment amount! Only \$3,750.00! What's that you say? An initial investment of only \$3,750.00 on the futures market, profits the exact same amount as a \$28,281.00 investment on the stock market? That's an almost 70% ROI! (How long did that take? 15 days).

Okay, let's look at it from another point of view, let's compare apples to apples. Turn the page...

An initial investment of only \$3,750.00 on the futures market, profits the exact same amount as a \$28,281.00 investment on the stock market? That's an almost 70% ROI!



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Now what would happen if we invested the exact same amount of money in the futures market as we did in the Q's (stock market)? Let's say we invested \$28,281.00, or purchased seven futures mini contracts; our profit on the move in this example would be \$18,340.00. That's correct, \$18,340.00 compared to \$2,620.00 in the stock market; same market, same investment, two extremely different outcomes; yes, that was still the same 15 day trade, but it reaped almost seven times the ROI.

- Alright, alright, there's got to be a downside to all this right? It can't be that simple, there's got to be a catch.

- What's the catch? You're right, there is a catch to trading futures, and if you can learn to deal with this one difference, then the profit potential, as exemplified above, can be significantly

higher than you might find when trading the same exact market from the stock market side.

- Here it is: When trading commodity futures, you can lose more than your initial investment. That's the catch, you can lose more than your initial investment—where in the stock market you generally can't.

Here's an example: Let's say you invested your \$5,000.00, and you were wrong, and the market turned against you. In the stock market, or the Q's in this example, the maximum amount of money you could lose would be your initial investment of \$5,000.00. Once the market moved against you that much, you would be done, you would be out, you would have lost your total investment and too bad for you. Well, in the futures market, you



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are accountable for ALL your losses, not just your initial investment. So, if you invest the same \$5,000.00 and the market turns against you and you let your losses accumulate, and accumulate, and accumulate, all the way up to \$10,000.00, before exiting, you lose all \$10,000.00 not just your initial \$5,000.00 investment.

- Hey, want to know a secret? How would you like me to tell you how to keep from losing more than your initial investment? Here it is, here's the big secret! "Don't go on vacation while trading the commodities market!" That old technique of "Buy & Hold" is for the other guy. Watch your trade and when the market starts to move against you, GET OUT!

- Learn to use stop-loss orders and risk & money management techniques and strategies. (Frankly these should be strategies you should be using while trading the Stock Market as well. Just because you can't lose more than your initial investment in the stock market, doesn't mean you should trade it with any less care or concern.) Don't know what those strategies are, or how to implement them? Then it's time you begin your educational trek!

- Okay, that's it, that's the downside to trading futures. Compare that to the profit potential side and you decide. Weigh the risks vs. the rewards, and you make the decision. Trading commodities is not for everyone. Consider your financial situation, and consider the alternatives— it may be right for you.

My recommendation is that you take the time, and put forth the effort to learn to trade Futures. They trade just like stocks, but on steroids.

Resources for getting started

The right tool for the job is an important consideration, and there is never a better way to learn how to do something than practice, practice, practice. Track 'n Trade Pro is a charting and trade simulation software application, designed to take you from zero to one hundred as quickly as possible; use this tool to simulate trading the commodities market. Once you learn the techniques used by professional traders, you too can begin "Accumulating Wealth, One Tic at a Time."® Track 'n Trade is the software I used in the above examples, and it was specifically designed to help you learn the strategies of getting started trading futures. You can find Track 'n Trade Pro on the web at: www.TracknTrade.com

Track 'n Trade is the award-winning software used by Commodity Trading School, a free educational website dedicated to helping you get started trading the futures market. You can find Commodity Trading School on the web at: www.CommodityTradingSchool.com.



My recommendation is that you take the time, and put forth the effort to learn to trade Futures. They trade just like stocks, but on steroids.

Lan Turner is the president of Gecko Software, Inc. – creators of Track 'n Trade Pro and Track 'n Trade High Finance, which are two software applications dedicated to helping people not only trade the financial markets, but learn the techniques necessary to profit from them.

Mr. Turner is also the Editor in Chief of PitNews Magazine, owner of Chartbook.com and StockAnnual.com, plus he's an author, trainer, public speaker, columnist, and publisher of numerous educational videos, books and multimedia CD-ROM's that teach traders how to navigate the financial markets.

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Secrets of the Floor Trader's Pivot Points: **THE SELF-FULFILLING PROPHECY?**

by: Jim Harrison

Contrary to popular belief, most consistent traders do not spend their days attempting to predict price action by “picking tops” or “picking bottoms”. They spend their days executing a well-drafted, simple to follow trading plan.

You see, it is in the nuance of price behavior where the market's true intent can be recognized. The first step in understanding that behavior lies in creating a structure with which to analyze the day's activity.

Let's explore the fabled Floor Trader's Pivot Points. First, we define support and resistance as those price zones where the forces of supply and demand are most likely to meet. It is at these key junctures where bulls (representing demand) and the bears (representing supply) are most likely to do battle, with the victor determining the market's next directional move. Notice, we DO NOT define support or resistance as an area where price WILL change direction.

Floor Trader's Pivot Points are defined as a form of “Static Support and Resistance”.

That means that they are not dynamic like a moving average which is more responsive to the tick by tick action, and therefore are “fixed” or “static” throughout the trading session. They have a gravitational pull, and they work because the large majority of participants believe they work, and therefore a self-fulfilling prophecy exists.

Floor traders and other professionals, who do the actual buying and selling of futures contracts in the trading pits of the exchanges, generally employ very similar

“True Trading Mastery derives from understanding the relatively small role technical analytical factors play in the overall trading process and the inestimably important role that correct market attitudes and beliefs exert in facilitating a consistently profitable result.” - Bob Koppel

systems for valuing the price of such contracts in the absence of significant outside influences.

These systems employ a method of calculating relative value based on the price activity of the prior day. A price equilibrium point is determined, as well as support and resistance levels, in relation to that equilibrium point. This method is called the "Floor Trader Pivot System".

Pivot System price levels act as potential support and resistance zones throughout the day. They serve as focal points for floor professionals as they adjust their bids and offers, especially when trading activity is slow. The use of these values, along with tape reading skills and candlestick pattern recognition can help in determining appropriate areas for trade entry, stop placement,

and exits.

The principle reference level under this system is the Daily Pivot, or the Pivot Point (DPP). Generally, as we enter each trading day, we regard this level as our balance point between bullish and bearish forces. A demonstration of significant price activity above the Daily Pivot is considered to have bullish implications, while significant activity below this level is bearish. Although actual trading activity is initiated by a variety of other market indications, we look at price behavior relative to the Daily Pivot level as an aid in determining the market's general directional bias. (See Figure 1)

The day's trading activity can generally be thought of as revolving around and gravitating towards the Daily Pivot level.



Figure 1: Daily & Intraday Pivot System Support and Resistance Levels

As price moves away from this zone and approaches either the first level of resistance (R1) or the first level of support (S1), market behavior becomes increasingly critical. Any rejection of these newly attained levels increases the likelihood of a return to the DP. On the other hand, a breach of either of these levels is regarded as market acceptance and a perceived change in the valuation of the instrument being traded.

Additionally, should the market extend its move even further from the Daily Pivot, penetration through each successive level of support or resistance is generally regarded as having drawn in a greater degree of participation from off-floor interests. An increase in off-floor interests represents a greater likelihood that longer-term positions are being established, resulting in greater potential for the market to trend even further. Each consecutively greater level of Pivot System support or resistance breached is generally regarded as having stirred the interest of successively longer-term participants.

Once the market has made a convincing break of a particular support or resistance level, that level is considered to have reversed its support/resistance role, and, subsequently, becomes a test point for further market activity. For example, if the first level of support (S1) is penetrated to the downside, any return to that level is considered a test of that level's integrity. The rejection of any price advance back towards the level of S1 is considered to be a successful test of that breach, and adds to that level's credibility as a renewed valuation point. Furthermore, any additional move away from that level has the potential to force the market through the next level of support or resistance, drawing players of even a longer timeframe into the market, and so on, continually expanding the market's range of activity.

The longer timeframe traders will "wake up" or become active as we expand price to and/or beyond the inner levels of the Pivot System. As price breaks through the levels of R2 or S2 they will most likely resolve the price action in one of two ways. First, we will see an acceptance of the new-found value, resulting in what we refer to as "trend days," where price seems to move only in one direction with force. Alternatively, if the new-found value is not generally accepted by the longer timeframe traders, price will attempt to find its way back to the Daily Pivot Point.

The traditional formulas for calculating Floor Trader Pivot System Support and Resistance Levels are as follows:

Pivot (P) = (H + L + C)/3
 Resistance level 1 (R1) = (2*P) - L
 Support level 1 (S1) = (2*P) - H
 Resistance level 2 (R2) = (P - S1) + R1
 Support level 2 (S2) = P - (R1 - S1)
 Resistance Level 3 (R3) = (P - S1) + R2
 Support Level 3 (S3) = P - (R2 - S1)

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Figure 2: Weekly Pivot System Support and Resistance Levels

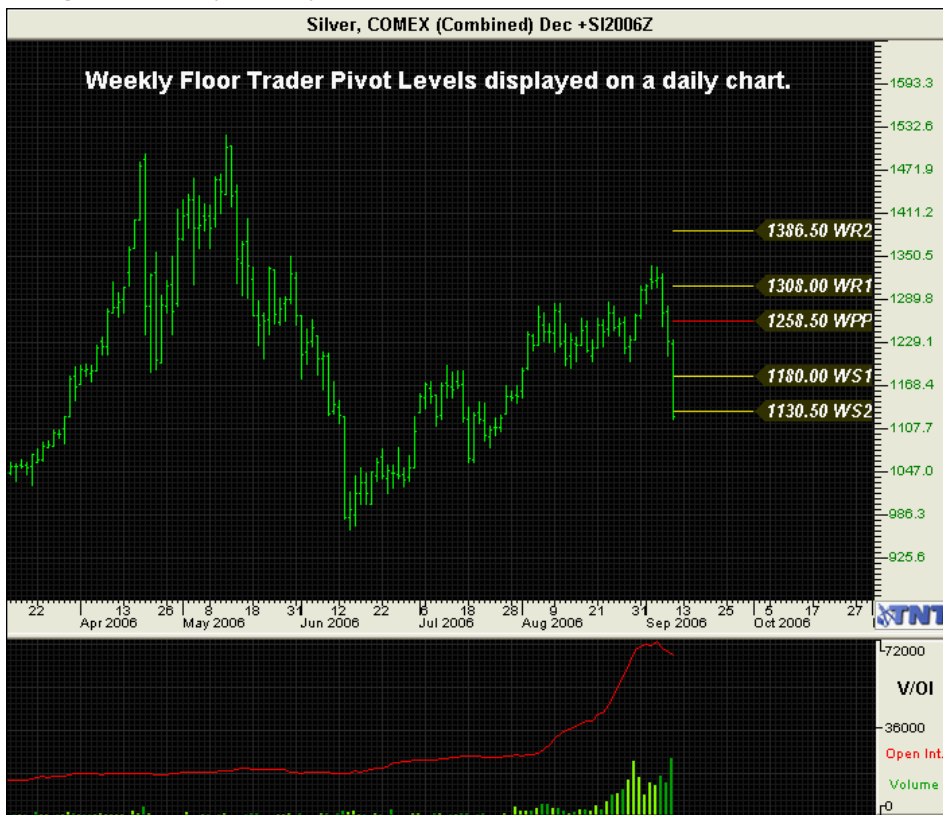


Figure 3: Monthly Pivot System Support and Resistance Levels



Charts courtesy of Track 'n Trade Pro. [CLICK HERE](#) for a FREE Trial!

This formula generally uses what we refer to as 24-hour data, including a high and/or a low that may have occurred outside regular trading hours. Alternatively, one could use just the high, low and close price information from the regular trading hours to calculate the Pivot Point. Certain traders also have modified the formula in a number of different ways to including opening “gaps” and or mid-day recalculations in price.

Pivot levels of support and resistance can also be applied to the weekly and monthly time frames. (See Figures 2 and 3)

Areas in which multiple levels exist in proximity can be considered to have a greater likelihood of providing stronger support or resistance. The same process can be applied to the monthly timeframe to add even more potential for confluence.

The “context” in which they occur often determines their significance.

An important point to remember about these Floor Trader’s Pivot Points is that they act as potential support and resistance zones throughout the trading day. The “context” in which they occur often determines their significance. Your use of tape reading skills combined with an ability to properly interpret candlestick formations can lead to a very simple, yet powerful trading set up and play a critical role in the appropriate use of Floor Trader’s Pivot Points as a profit tool.

Jim Harrison is the founder of eMini-Master.com. An active trader since 1996, M. J. Harrison, III & Associates, LLC (“MJH3”) is a registered Commodities Trading Advisor (CTA) with the National Futures Association. As principal and President of MJH3, Jim brings intensity and passion for the markets to all his endeavors.

As many of you have read before, Forex is the most amazing and popular electronic financial market: it moves 1.5 trillion dollars a day – what NY Stock market moves in a year. It is a 24 hours a day, 7 days a week market, with high volatility and liquidity, and with a added advantage: leverage. In this market you can choose to go bull or bear with no cost: no extra premiums to pay, no additional options. Seems pretty convenient, right?

Well, let me tell you the disadvantages before I continue: high volatility, liquidity, leverage. Yes, just the same: *Advantages are disadvantages, too.* All these things can play against you as well as for you, with an extra element as well: brokers. Nearly all retail traders must use a broker, who will be the counterparty in

all transactions, as there is no way to deal directly in the inter-bank market. And, as brokers are market makers, they can widen the spread, or even refuse to trade during particular moments or conditions.

A non-written rule says that only 10% of Forex traders are successful, versus the 90% that blow accounts.

So, why are we here? What makes Forex so attractive, so popular? What is the *difference*? A non-written rule says that

The MIA of FX

A simple approach to Forex signals for intraday traders by: Valeria Bednarik



only 10% of Forex traders are successful, versus the 90% that blow accounts.

I remember when I completed my technical course, my Master told me: now you're ready, you have all the tools you need, the tools most traders don't have: you have technical knowledge, psychological training, and effective money management rules you can apply. It took me nearly a year to understand his words,

...most traders spend their time looking for "The System," the unique, perfect one (and, of course, one developed by someone else) instead of even trying to study two or three simple indicators.

but there is the difference. Believe it or not, the "90% losers" trade without using technical analysis, without a working plan, without anything except the ambition to become rich in the short term. Most Forex traders trade by impulse, following a hunch more than a trend – using guts instead of indicators or oscillators.

Over the years I've been trading, I have also discovered another difference: most traders spend their time looking for "The System," the unique, perfect one (and, of course, one developed by someone else) instead of even trying to study two or three simple indicators. Of course, as soon as a system gives a bad entry, they discard it, and jump into another. And there goes their money.

One last word before diving into technicals: remember, there is another important difference with other financial markets: time. For Forex traders, short term refers from minutes or to a

few hours. Traders can work and profit with 4-hour, 1-hour or even 30-minute charts.

A simple and effective way to start with technical Forex trading is to use *Moving Averages*. As you may know, a Moving Average is a trend direction indicator that calculates a simple arithmetic average of prices for a specified period. There are different types of Moving Averages: we will use SMA for Simple Moving Averages and EMA for Exponential Moving Averages. There are others kinds of MA, (Smoothed, Linear, Weighted, etc.) but we will limit this short study to the first two, as they are the most widely used.

The **SMA** calculates the average of the price by adding the prices of the specified period together, and then divides it by the number of the prices.

$$\text{SMA} = \text{Sum of "x" periods} / X$$

Where x represents a certain number, which could be almost anything from 2 to 500 depending of how much historical information your charts include. In addition, many charts allow you to select a specific set of prices to apply the calculation: Open, close, high, low, median or typical price.

The **EMA** smoothes the MA by adding the current closing price, the previous value and giving the most recent prices more weighted value. This type of MA reacts faster to recent price changes than SMA.

Different Ways to Trade with MA

There are many different methods and settings of Moving Averages a trader can use, but let's see two basic methods, with some of the common settings, useful for intraday trading. Remember that MA works better in a trending market, and they are not as reliable in sideways ones.

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WARNING: Trading foreign exchange on margin carries a high level of risk and may not be suitable for all investors. The possibility exists that you could sustain a loss of some or all of your deposited funds, and therefore you should not speculate with capital that you cannot afford to lose. You should be aware of all the risks associated with foreign exchange trading and seek advice from an independent advisor if you have any doubts.

A basic trading system is to use a *Moving Average Breakout*. In this method, you have to draw a MA in any selected chart. Let's see an example in a 1 hour chart of EUR/USD (see *Figure 1*). I used a SMA of 20 periods (blue). When the price crosses the Moving Average down-up and there's a new candle opening above the Moving Average indicator, we buy. When the price crosses the Moving Average up-down and there's a new candle opening below the Moving Average indicator, we sell. Your exit signal will be the price crossing the MA in the opposite direction.

But this is not as simple as it seems, and not reliable as we need: a Moving Average Breakout must be combined with an indicator to act as filter; something that reinforces the signal, and increases the probabilities of a good trade. The best choices in this case are Momentum or the Stochastic Oscillator. Either of these arithmetical oscillators will act as a confirmation of the trade.

Another, and of course better, way to trade MA is to use *Moving Averages Crosses*. With this system, you can work with at least two MA, although some traders prefer using three. The first one will be set with a small period (Fast Moving Average), the second one will be set with an intermediate number of periods, and the third with the largest number of them (Slow Moving Average). Let's see an example using SMA of 4, 9 and 18 periods in a 1 hour USD/JPY chart (see *Figure 2*).

The sky blue line is a 4 periods MA, the medium blue represents 9 periods, and the dark blue one is for 18 periods. When 4 MA crosses 9 MA, and then both of them cross 18 MA, you have a good trigger. The 4 periods line crossing the 9 periods line is the first advice you have; this signal gets its confirmation when both 4 and 9 cross 18. Your exit will take place when the slow MA turns back, crossing 9 in the opposite direction.

This is a quite reliable and simple system when a market moves in a trend. Also, there are many combinations that can be used with MA or EMA. For example, a



Figure 1



Figure 2

Charts courtesy of Track 'n Trade High Finance.
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good combination with EMA is 5, 13 and 34. And as in the first case, this system would become even better when combined with any oscillator to act as filter.

Anyway, the question here is not only the MA or EMA system selected. This will depend also on the timeframe you choose to work with. A signal in a 30-minute chart will not be as strong as one in a 4-hour chart. Also, the "life" of a trade will depend on two main factors. First, the continuity of the signal: as long as the conditions that gave the market entry signal remain the same, the trade is valid; as soon as any of these conditions is lost, you are advised to close your trade. Second, we consider the fact that any signal is valid for the next four candles. So, if you are trading using a 30-minute chart, your signal will be valid for the next two hours. After that time, we consider the trade should be completed; if not, then again, you must close your position as soon as any condition even starts to turn.

***Sure, you will lose sometimes.
But as long as you trade using the
right tools, loses are just another step
of the way.***

Because one of the main characteristics of the Forex market is volatility, traders are often forced to use a tool that many dislike, but one that is exceptionally useful: the stop loss order. It is understandably hard to assume a loss. What I don't understand is why many people risk all their capital in a single trade, when Forex gives lots of opportunities each day. Sure, you will lose sometimes. But as long as you trade using the right tools, loses are just another step of the way.

Understanding the delicate balance of risk management is the secret of success in here. Get rid of your pride, find a simple system you like, and follow these rules; you will probably close more profitable trades than you can imagine.

Valeria Bednarik has been an active Forex trader for the last 3 years, specializing in the International Foreign Exchange Market.

She also graduated in the Universidad Catolica del Salvador, in Argentina, as a Public Accountant, specializing in financials and cost management. She actually manages an important clients portfolio for IFX Markets, Boston and is an active trader's trainer at Trader College LLC, specializing in technical analysis for the English speaking community.



Winter Wheat Weakness...

“SNIPPING” THE FEBRUARY BREAK

by: Scott Barrie

The book “Bacon and Beans from a Gold Pan” is a wonderful story about a depression era couple who flee the Southern California cities for the northern California gold fields above Sacramento. “Bacon and Beans” despite being a love story, is a great lesson for traders in how to prosper in the marketplace.

The heroes of “Bacon and Beans” made their living during the depression – not a grand living, but they turned a profit nonetheless, which is more than most people, a lesson which is extremely applicable to the futures markets – by panning and small-scale mining for gold. They had no claims on the land they were working, and at any point in time they could be run off by the authorities. Yet, with simple tenacity and ingenuity, our heroes – the Coffey’s – managed to survive and prosper, while most people suffered. As such, the lessons from their adventures are extremely applicable to futures traders, as most futures traders lose money.

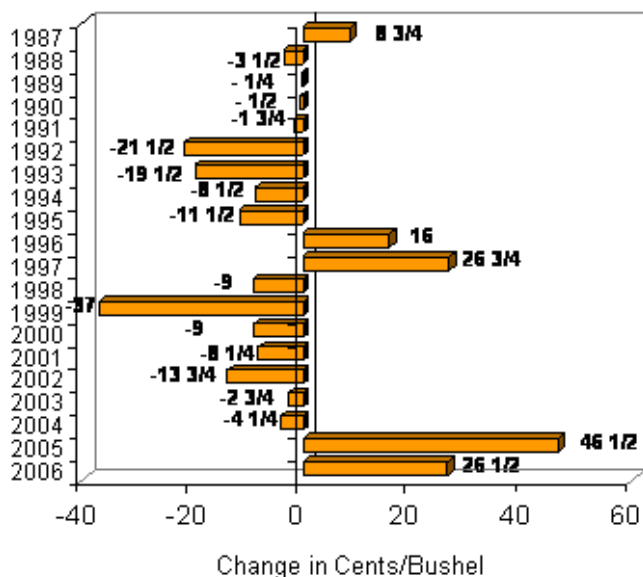
The secret to Jesse Coffey's survival and prosperity during the depression was in his ability to understand that their environment is extremely competitive as well as already well-known – much like today's futures markets. Gold was discovered in California in 1848, and shortly afterwards a wave of prospectors – known as “49'ers” – came and pulled much of the metal from the ground. Corporate and professional interests followed, as well as immigrant laborers (mainly Chinese) until the all the “easy” gold had been pulled from the rivers and ground in obvious spots. Luckily, Jesse realized that to make a living “snipping” gold – like trading for a living – involves moving off the beaten path, searching for gold where others had not.

Most speculators trade strictly futures, buying or selling contracts based upon their personal directional bias. Straight directional trading makes up the bulk of most futures trading. The commodity funds, who control billions in assets, tend to play in this arena, as well as most of us small speculators. However, the small speculator can be far better off learning to think outside the arena of the majority, pursuing profits off the beaten path – just like our heroes. Intelligent traders need to discover trading opportunities off the beaten path, for all the gold on the beaten path has either been found already, or is surrounded by rattlesnakes.

Trading off the Beaten Path

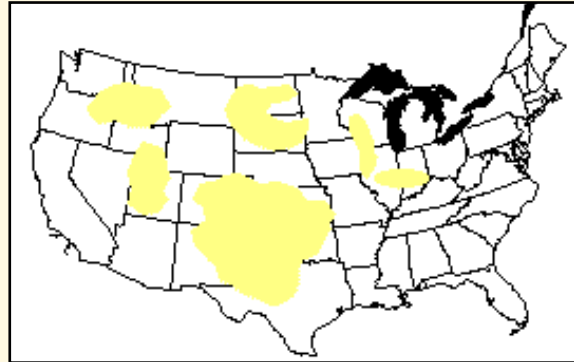
Since most futures traders look at absolute price changes, we will go one step further and look at relative price changes – or spreads. During February, Wheat prices generally tend to break – May CBOT Wheat prices have declined in 15 of the last 19 years.

**February Monthly Changes
May CBOT Wheat Futures 1986 to 2006**

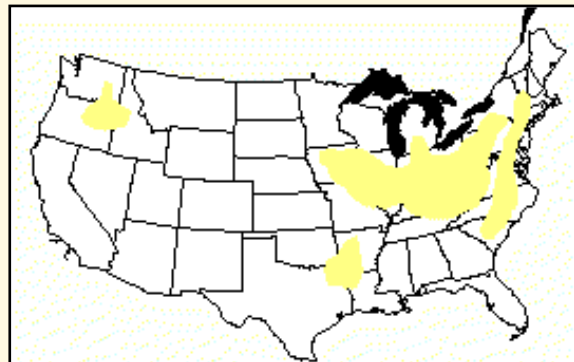


TYPES OF WHEAT

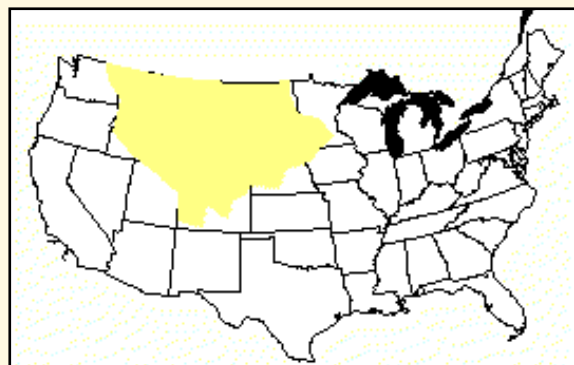
Hard Red Winter (Kansas City) The most prevalent class of Wheat grown in the United States is Hard Red Winter or Kansas City Board of Trade Wheat (symbol KW). The primary use of Hard Red Winter Wheat Flour is for bread making.



Soft Red Winter (Chicago) Soft Red Winter Wheat futures (symbol W), the most actively traded Wheat futures contract, are traded on the Chicago Board of Trade (CBOT). The flour from Soft Red Winter Wheat is used to make cakes, cookies, snack foods, crackers and pastries.



Hard Red Spring (Minneapolis) Minneapolis Board of Trade Wheat (symbol MW) is hard red spring wheat. This high grade Wheat is suitable for milling and used primarily in breads.

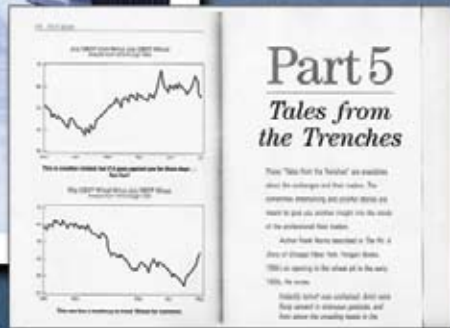




FREE SPREADS BOOK!

Trading Winter Spreads

By: Neal Weintraub
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The futures markets provide a variety of trading opportunities. In addition to profiting from rising prices by purchasing futures options or from falling prices by selling futures contracts, there is an opportunity to profit from the relationship between different contracts – or SPREAD. A spread refers to the simultaneous purchase and sales of two or more different futures contracts.

There are three basic types of spreads:

Intra-Market (Inter-Delivery) Spread

The simultaneous purchase of one delivery month and the sale of another delivery month of the same commodity on the same exchange. An example would be buying July CBOT Wheat and selling March CBOT Wheat.

Inter-Market (Inter-Exchange) Spread

The simultaneous purchase of a given commodity and delivery month on one exchange and the sale of the same commodity and delivery month on a different exchange. An example would be buying March CBOT Wheat and selling March KCBT Wheat.

Inter-Commodity (Inter-Market) Spread

The simultaneous purchase of one commodity and delivery month and the sale of another different but related commodity with the same (or similar) delivery month. Examples include buying May Corn and selling May CBOT Wheat, or buying April Platinum and selling April Gold.

Though CBOT Wheat futures have declined consistently during February, the average change has been rather small, -1 ¼ cents before commissions and fees. As such, roughly half of the average profit would be absorbed by trading costs (commissions, fees, and slippage). Traders should also note that in the last 2 years, CBOT Wheat futures have rallied in February – posting a +26 ½ cent/bushel gain in 2006 and a +46 ½ cent/bushel gain in 2005 – indicating that the fabled “February Break” may be shifting. The easy profits from simply selling Wheat in February have already been made, just like big nuggets of gold had long disappeared by the time the Coffeys ventured into the gold fields in the 1930’s.

Just as gold still lies hidden beneath the earth, profits can still be found in the futures market if the trader goes off the beaten path. One such place to look, where many others haven’t, is the spread relationships between differ-

May KCBT and CBOT Wheat Historical Prices

Year	May KCBT			May CBOT			KCBT - CBOT		
	Jan	Apr	change	Jan	Apr	change	Jan	Apr	change
2006	401	429 3/4	28 3/4	354 1/2	346 1/4	-8 1/4	46 1/2	83 1/2	37
2005	317	341	24	298 3/4	318	19 1/4	18 1/4	23	4 3/4
2004	395 1/2	394	-1 1/2	395	381 1/2	-13 1/2	1/2	12 1/2	12
2003	340 1/2	321 1/2	-19	313	279 1/2	-33 1/2	27 1/2	42	14 1/2
2002	291 1/2	274	-17 1/2	289 3/4	261 3/4	-28	1 3/4	12 1/4	10 1/2
2001	328 3/4	331	2 1/4	285	272 3/4	-12 1/4	43 3/4	58 1/4	14 1/2
2000	294	271	-23	268	242 1/4	-25 3/4	26	28 3/4	2 3/4
1999	318	278	-40	285 1/2	259	-26 1/2	32 1/2	19	-13 1/2
1998	357 1/2	315 1/2	-42	347 1/4	289 3/4	-57 1/2	10 1/4	25 3/4	15 1/2
1997	366 1/2	457	90 1/2	348 1/2	423	74 1/2	18	34	16
1996	491	672	181	485 1/2	641 1/2	156	5 1/2	30 1/2	25
1995	360	356 1/4	-3 3/4	358 3/4	350 1/2	-8 1/4	1 1/4	5 3/4	4 1/2
1994	350	346 1/2	-3 1/2	353 3/4	326 1/2	-27 1/4	-3 3/4	20	23 3/4
1993	339 1/4	323	-16 1/4	352 3/4	348	-4 3/4	-13 1/2	-25	-11 1/2
1992	420 3/4	358	-62 3/4	421 1/2	372 1/4	-49 1/4	-3/4	-14 1/4	-13 1/2
1991	273	282 1/4	9 1/4	271 1/4	272 3/4	1 1/2	1 3/4	9 1/2	7 3/4
1990	369 1/2	374 1/4	4 3/4	362 3/4	374 1/4	11 1/2	6 3/4	0	-6 3/4
1989	429	428 3/4	-1/4	435	417 1/2	-17 1/2	-6	11 1/4	17 1/4
1988	312 3/4	305 1/4	-7 1/2	327	304 1/2	-22 1/2	-14 1/4	3/4	15

Past performance is not necessarily indicative of future results – see disclaimer. Data compliments of Gecko Software, Inc.

ent futures contracts. A “spread” is the difference between two different commodities – for example, May Kansas City Board of Trade Wheat (symbol KW) versus May Chicago Board of Trade Wheat (symbol W). A spread trade involves buying one contract and simultaneously selling another, like long KCBT Wheat and short CBOT Wheat.

Just as gold still lies hidden beneath the earth, profits can still be found in the futures market if the trader goes off the beaten path.

Since 1988, May KCBT Wheat has gained in value relative to May CBOT Wheat in 15 of the last 19 years during February and March. On average, May KCBT Wheat has gained +9 ¼ cents relative to May CBOT Wheat.

Unlike a straight short CBOT Wheat strategy, the KCBT/CBOT Wheat spread has also gained in each of the last 6 years,

and 9 in of the last 10 years, showing that the tendency may still be strong.

Just as Jesse Coffey managed to avoid the strife of the depression and to prosper, traders can as well by following his example. Search for the marketplace’s gold off the beaten path. Today’s futures markets are extremely competitive. Information is processed quickly and priced into the market. As such, traders can not rely upon what is well known and obvious. Instead of relying upon market lore, traders need to learn to perfect their own skills and discover for themselves what works. In searching, traders may be much better off looking off the beaten path, at the recesses and crevices where the big players don’t bother.

Scott Barrie is the author of the 2007 Commodity Trader’s Almanac. His background includes being a floor trader, a consultant with a major risk management firm, running a small private hedge fund, as well as an analyst for a regional futures and options brokerage firm. For more information, visit www.CommoditySeasonals.com



WATCHING TV

CNBC as a virtual trading pit...

by: Barrett Fisk

***“Money is flowing into technology.
The tech sector is expecting better earnings.”***

So said CNBC’s Bob Pisani in his report from the NYSE trading floor on January 10, 2007.

The problem was that anybody tracking the spreads could see that the trading bias had actually shifted to tech back on December 28, 2006—making CNBC only about two weeks late with their “scoop.”

To the savvy observer, this could only mean that we should expect the tech rotation to soon be complete. And, in fact, it was finished that day, following the session’s huge 15% wash-out in the spread.

Bob Pisani’s CNBC report marked the END, rather than the beginning, of the rotation into technology stocks. Commencing on January 10, the day of his report, and continuing as of this writing (January 19), the tech leg of equity spreads has eroded every single session. That’s seven consecutive sessions of tech weakness, rather than strength.

What are we to learn from this? Two lessons, really.

Lesson One is that reporters are not traders. They have no stake in what they say; their only stake is in how they say it. They are reporters for a reason, and that reason is usually cosmetic.

Any real trading information we might hope to learn from anchors and reporters must be perversely gleaned. In other words, we’re probably better off assuming they are always wrong ... particularly when they go off-script and ad-lib a market opinion.

...we’re probably better off assuming they are always wrong... particularly when they go off-script and ad-lib a market opinion.

The best continuing example of this is Mark Haines on CNBC’s “Opening Bell.” How many times have you seen him glance up at his monitor and then blurt something like, “The market internals



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look really strong today; the up volume is dwarfing the down volume..." only to have his comment mark the precise moment the market turns and begins to fall apart?

So, lesson one in watching financial TV is that the reporters truly don't know what they're talking about. In fact, they *so* don't know what they're talking about that as often as not you're better off doing the opposite. Beware the ad-libs of Mark.

Lesson Two is no less perverse and probably even a little bit more insidious than lesson one: The CNBC guests often intentionally mislead us.

Think of it this way. Imagine you're a pro football coach and you're getting your team ready for the play-offs. A good example this year would be the Chicago Bears. They qualified for the play-offs weeks in advance. Their last four games were essentially meaningless—meaningless in the standings, that is. But far from meaningless in terms of what they wanted to show their potential play-off opponents.

The last few weeks of the season for the Bears were all about misdirection...fakes, reverses, new personnel packages (even giving the back-up quarterback a few snaps)...stuff that they had absolutely not done during the must-win, pressure-packed mid-season portion of their schedule.

With a few notable exceptions, probably the only endeavor more competitive than pro sports is professional investing.

Let's say you're now no longer Chicago Bears' coach Lovie Smith, but a Smith-Barney broker—and you're long several hundred million in tech stocks. You've been paring your position down for a couple of weeks, but you just got word from your trading desk that they want you out of everything by the close. What do you do?

... as you sit in front of your computer screen, with CNBC piped in through your office TV, you are participating in the closest thing to a virtual trading community that modern technology can muster.

Well, you might send your clerk out to find Bob Pisani. If the story gets out that institutions are buying tech, you just might be able to unload your whole position into a rally. Every tic better you get for your inventory works to put you fractionally ahead of the index. And your bonus is entirely based on your ability to beat the index.

Disclaimer: Please do not take from this article that I believe Smith-Barney intentionally misleads the investing public. I used their name strictly for alliterative purposes. Nor do I mean to imply a relationship between Bob Pisani and Smith-Barney, or any other brokerage firm.

Before you dismiss this as too cynical, consider that as you sit in front of your computer screen, with CNBC piped in through your office TV, you are participating in the closest thing to a virtual trading community that modern technology can muster.

Every trader on every trading floor across the country is watching with you. The people who it matters to know this, and use it to their advantage. You should, too.

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