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Magazine

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Lan Turner's Hierarchy of Trades: Part 3 of 6

By: Lan H. Turner

After having been directly involved in the financial world for over fifteen years as a market software developer and trading trainer, I've compiled what I believe to be equivalent to Maslow's Hierarchy of Needs for the "would-be-trader."



Commodity Trader's Journaling

By: Bobby Firestone

2008 is coming up fast. A new year represents a fresh start and clean slate for traders. A new year is an opportunity to build on the successes and not repeat the same mistakes of the past. Today we have a few recommendations on how to make 2008 your best trading year ever. On January first, millions of people...



The Best Six Months in the Stock Market

By: Kimberly Lyon

Typically, as January draws to close, stock prices tend to consolidate coming into February. Often, any strong and sharp January movements are also corrected in February. March is generally a decent month. It tends to start off strong, with enthusiasm toward earnings and the prospects of a "new and better" year. However, by...



The Gambler's Fallacy

By: Scott Barrie

Futures trading lore states that 80% of all traders lose money, while 20% make money. The basic principle of this bit of folk lore – to which I cannot find a definitive source to site, yet many brokers, traders, and analysts will vehemently agree with it – is that most traders, especially those of the retail variety, will bet too much on...

JUST RELEASED...

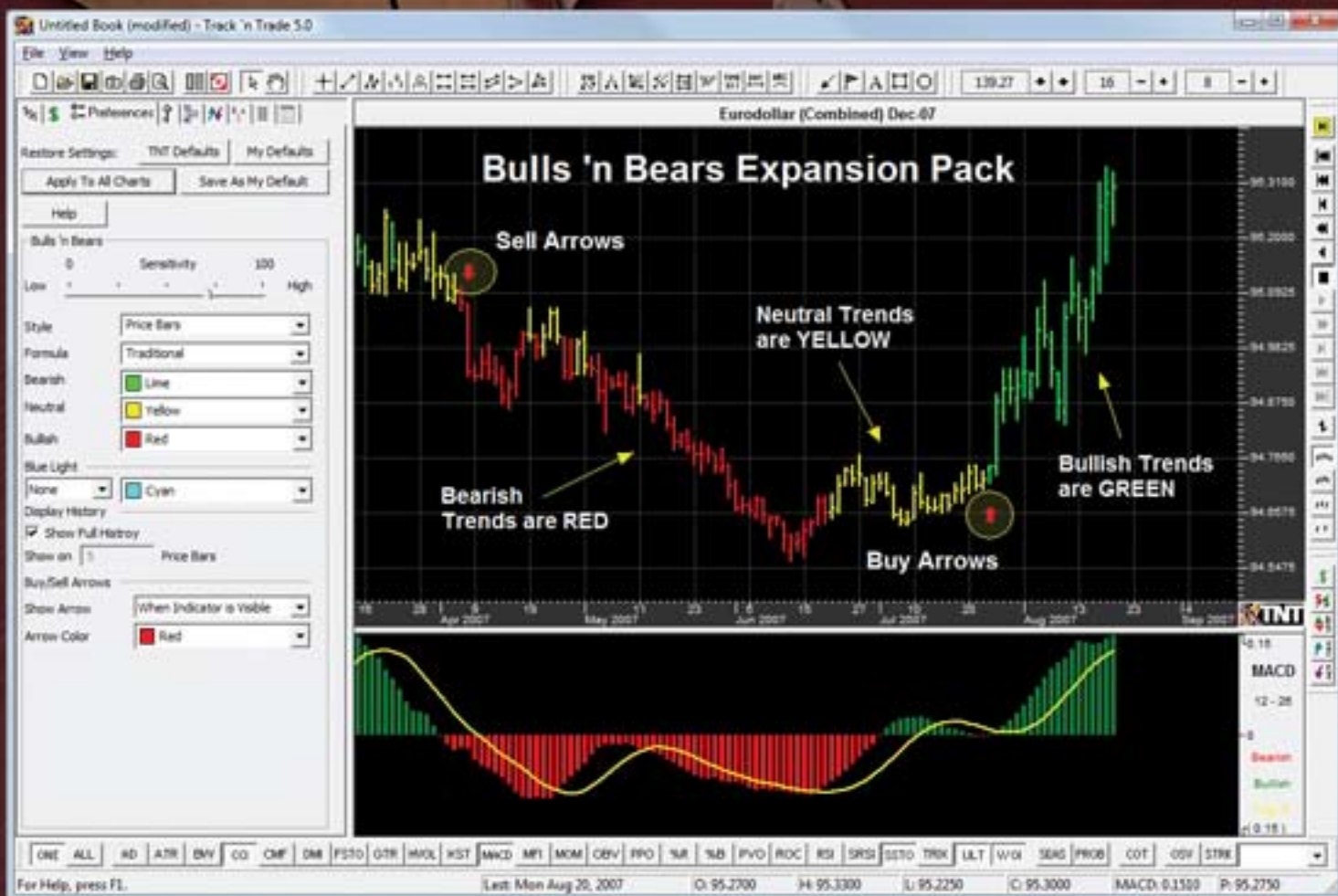
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Editor's Note

Welcome to the Anniversary issue of PitNews.com Magazine! That's right; we've been at it for a whole year now. And appropriately enough, most of the articles this month have to do with the concept of the "year."

Scott Barrie always has the time of the year in mind. This month, our resident Seasonals expert takes a look at the Metals in the *November 2007 Commodity Trader's Almanac*. Barrie also looks at Craps, Odds, Consecutive Days and *The Gambler's Fallacy*.

Lan Turner's Hierarchy of Trades series continues this month with the third installment. Mr. Turner discusses market cycles and the importance of counting in his "Count, Measure, Setup, Trigger & Follow Through" trading philosophy, which is vital no matter what time of the year it is.

Commodity Trader's Journaling by Bobby Firestone offers some tips for how to kick off 2008 right – by setting goals and tracking your progress.

The Best Six Months in the Stock Market, using statistics from PitNews.com's StockAnnual, explains how using the old adage "sell in May and go away" could very well benefit your stock portfolio this year.

Thanks for reading, and thanks for a great year – with many more to come!

Kimberly
Kimberly Lyon
Managing Editor
PitNews.com Magazine

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SEASONAL TENDENCIES ARE A COMPOSITE OF SOME OF THE MOST CONSISTENT COMMODITY FUTURES SEASONALS THAT HAVE OCCURRED IN THE PAST 15 YEARS. THERE ARE USUALLY UNDERLYING, FUNDAMENTAL CIRCUMSTANCES THAT OCCUR ANNUALLY THAT TEND TO CAUSE THE FUTURES MARKETS TO REACT IN SIMILAR DIRECTIONAL MANNER DURING A CERTAIN CALENDAR YEAR. EVEN IF A SEASONAL TENDENCY OCCURS IN THE FUTURE, IT MAY NOT RESULT IN A PROFITABLE TRANSACTION AS FEES AND THE TIMING OF THE ENTRY AND LIQUIDATION MAY IMPACT ON THE RESULTS. NO REPRESENTATION IS BEING MADE THAT ANY ACCOUNT HAS IN THE PAST, OR WILL IN THE FUTURE, ACHIEVE PROFITS USING THESE RECOMMENDATIONS. NO REPRESENTATION IS BEING MADE THAT PRICE PATTERNS WILL RECUR IN THE FUTURE.

HYPOTHETICAL PERFORMANCE:

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 H. 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 comes from Stewart, a frequent contributor to The Wall and an Andrews Pitchfork aficionado:

All this forking around is getting interesting I have to say, but which way?

Seasonal cyclical is soon pointing down, yet there is a small amount of buying in the COT.

The red and green forks oppose each other here, so only 1 can win. Which will it be and how should you know? I don't, but you could look to go long (if you're brave) above the red fork, in which case the Bearish reverse divergence needs to be broken upside or sell below the

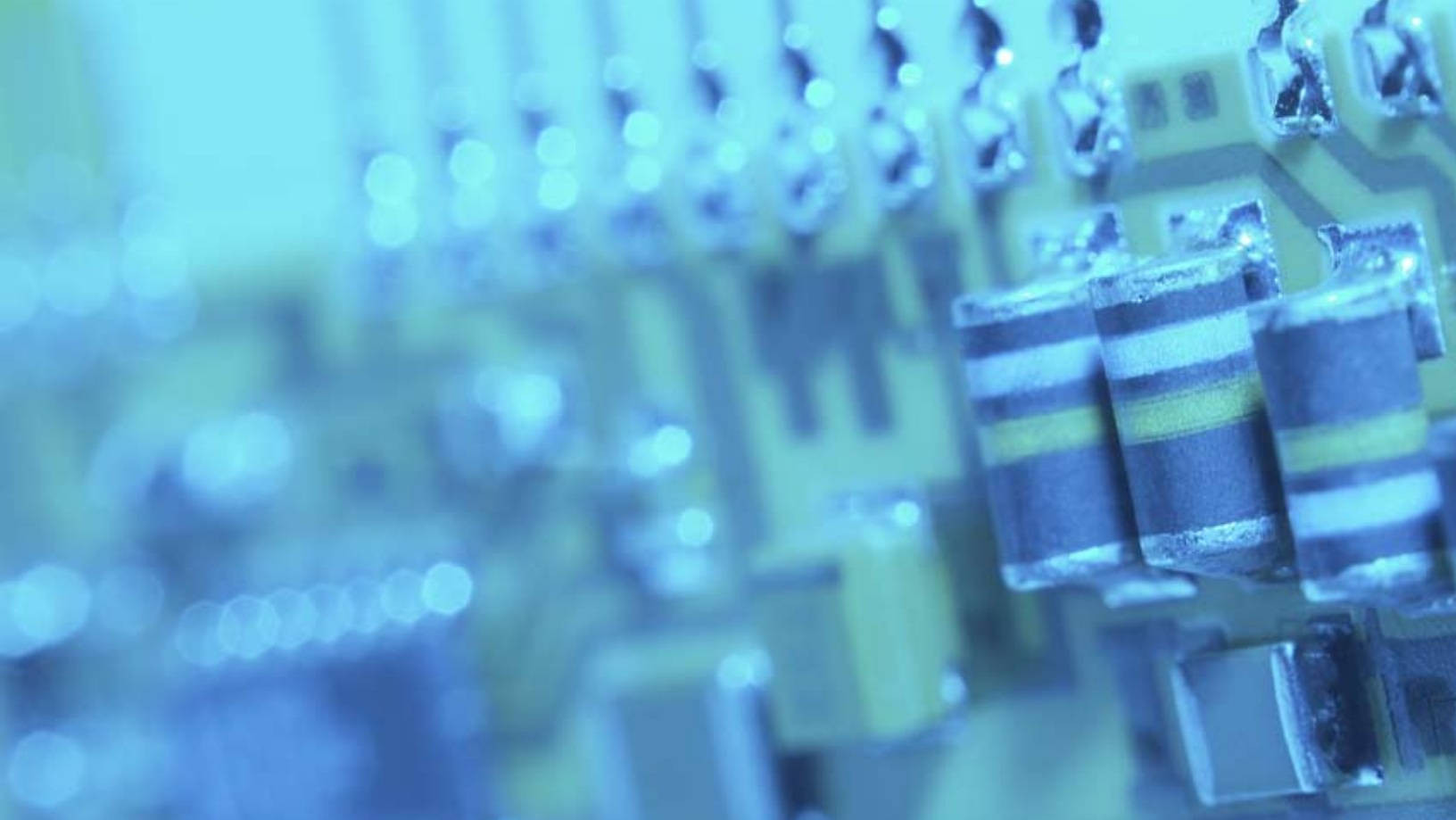
green fork, which would be cyclically favourable, but what about the buying in the COT? well don't ask me? I'm only the little guy!

I'm only looking at the March for more seasonal impact!

Be smart, be good, be successful - all of you!

Stewart

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.



November 2007

COMMODITY TRADER'S ALMANAC View And Review

By: *Scott Barrie*

Last month in this article we highlighted the Petroleum markets – noting how this market segment is in a long-term uptrend, but historically tends to break in the later half of October. The upward momentum in energy prices tended to outweigh the usual build in stocks, sending Crude Oil prices above \$90.00 a barrel, as demand trends from developing countries overwhelmed the usual supply increase seen this time of the year. The trend of demand lead markets pushing commodity prices higher is a theme that will likely be affecting the futures trade for months or even years to come, especially in the next several weeks in the industrial metals, like Platinum and Copper.

The Platinum market tends towards strength at the end of year through the 1st quarter. The combination of industrial demand as well a push from the jewelry segment, has historically pushed Platinum prices higher this time of the year.

Copper tends to gain towards the end of the year for somewhat similar reasons. Industrial demand tends to push prices higher, as the electronics industry rebuilds stocks, and copper also tends to get a small boost from jewelry demand as well, as even this lowly metal is considered semi-precious.

White Gold Overview

Platinum is the rarest of all the precious metals. Often referred to as “white gold,” Platinum is 16 times more rare than Gold and 100 times more rare than Silver. The annual supply of Platinum is 118 tons, which is equivalent to only 6% (by weight) of the western world’s annual Gold production and less than 1% (by weight) of the world’s annual Silver production. To put the supply of Platinum in perspective, more than twice as much steel is poured each day in the United States, than Platinum is produced in the world each year!

Platinum mining is a long and involved process. Roughly 10 tons of ore must be extracted at depths often more than a mile deep with temperatures in excess of 120 degrees Fahrenheit just to produce one pure troy ounce of Platinum. Because of the depths and harsh conditions at which Platinum is found, mining takes approximately six to nine months from extraction through to processing.

The world's supply of Platinum is highly concentrated. Platinum occurs as a native alloy in placer deposits or, more commonly, in lode deposits associated with nickel and copper. Nearly all of the world's supplies of Platinum are extracted from four countries: the Republic of South Africa (79%), Russia (12%), United States (1.6%), and Canada (5.6%).

A small percentage of the floating supply of Platinum is made available through recycling and reclamation. This trend is increasing after years of stagnation, as price increases have made these processes more profitable.

Platinum Usage

On a relative mined basis, Platinum has many more industrial

uses than either Gold or Silver. Platinum plays a crucial role in the modern technological society. It is estimated that 20% of all the goods manufactured today either contain Platinum or are produced using Platinum containing equipment. The major industrial users of Platinum are the automotive, electronic, chemical, jewelry, dental and glass industries.

It is estimated that 20% of all the goods manufactured today either contain Platinum or are produced using Platinum containing equipment.

Because of Platinum's catalytic qualities, it is used in catalytic converters by the automotive industry. Catalytic converters are used to take toxic gasses produced using unleaded gasoline and turn them into carbon dioxide and water.

Demand for Platinum from the automotive industry

HYPOTHETICAL PERFORMANCE RESULTS December Crude Oil Futures Dollars/Barrel Changes Enter Approximately November 1st / Exit Roughly December 7th

Entry Date	Entry Price	Exit Date	Exit Price	Closed P&L (pts)	Closed P&L (\$)	High Price	High Date	Low Price	Low Date
11/1/2006	1100.70	12/7/2006	1124.90	24.20	\$1,210.00	1285.00	11/21/2006	1093.00	11/9/2006
11/1/2005	928.40	12/7/2005	998.30	69.90	\$3,495.00	1015.00	12/6/2005	916.00	11/9/2005
11/1/2004	832.40	12/7/2004	871.00	38.60	\$1,930.00	887.00	12/2/2004	821.20	11/2/2004
11/3/2003	740.40	12/5/2003	790.70	50.30	\$2,515.00	794.00	12/4/2003	736.20	11/4/2003
11/1/2002	577.60	12/6/2002	597.80	20.20	\$1,010.00	602.50	11/18/2002	565.00	11/12/2002
11/1/2001	421.60	12/7/2001	470.00	48.40	\$2,420.00	472.00	12/7/2001	410.00	11/12/2001
11/1/2000	578.40	12/7/2000	612.60	34.20	\$1,710.00	630.50	12/4/2000	574.00	11/10/2000
11/1/1999	400.30	12/7/1999	417.90	17.60	\$880.00	434.00	11/17/1999	395.50	11/2/1999
11/2/1998	338.30	12/7/1998	348.00	9.70	\$485.00	363.50	11/20/1998	336.70	11/3/1998
11/3/1997	406.50	12/5/1997	381.00	-25.50	(\$1,275.00)	407.70	11/20/1997	378.00	11/26/1997
11/1/1996	384.70	12/6/1996	372.80	-11.90	(\$595.00)	393.80	11/12/1996	372.70	12/6/1996
11/1/1995	408.50	12/7/1995	414.10	5.60	\$280.00	425.00	11/10/1995	404.00	11/6/1995
11/1/1994	420.50	12/7/1994	403.50	-17.00	(\$850.00)	422.90	11/2/1994	399.00	12/1/1994
11/1/1993	367.80	12/7/1993	378.40	10.60	\$530.00	384.90	11/5/1993	365.00	11/30/1993
11/2/1992	355.50	12/7/1992	371.10	15.60	\$780.00	371.80	12/7/1992	345.00	11/10/1992

			In points	In \$'s		In points	In \$'s
# Trades	15	Total P&L	290.50	\$ 14,525.00	Max Draw	-28.50	(\$1,425.00)
# Win	12	Avg. P&L	19.37	\$ 968.33	Avg. Draw	-10.02	(\$501.00)
# Loss	3	Avg. Win	28.74	\$ 1,437.08	Min. Draw on Win		
% Win	80%	Avg. Loss	-18.13	\$ (906.67)		-12.60	(\$630.00)

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

accounts for roughly 80% of the use of Platinum each year. The automotive industry is the fastest growing user of Platinum. This trend is expected to increase as Platinum is an integral part of the emissions system of an automobile and stricter pollution controls are being put on auto manufacturers every year. With the trend in the automotive industry towards smaller, more fuel efficient vehicles – meaning more vehicles produced at a smaller mark-up – Platinum should still benefit, as Catalytic Converters are required on all vehicles which run off of Unleaded Gasoline (RBOB), either fully or partially – in the case of “Hybrid” vehicles.

The second largest consumer of Platinum is the chemical industry. Platinum is used in the manufacturing of paints, acids, fertilizers as well as explosives. Platinum is also used in the oil refining processing since it is able to reduce levels of aromatics and sulfur in heavy oil products like diesel and Heating Oil.

The electronics industry is an increasingly important player in the Platinum market. Probably the fastest growing consumer of Platinum recently, this segment uses Platinum in everything from electrical components to computer chips and semi-conductors.

Platinum is also used by the dental industry in the construction for fillings and the like.

Given its versatility, Platinum enjoys an increase in demand from the jewelry industry like gold, but also enjoys a prolonged increase in demand from the automotive industry as well, as replacement parts are made for previous years' vehicles and production is being planned on the next year's lines.

Platinum is the ideal setting for diamonds because the rich white color of Platinum tends to increase the sparkle and the

HYPOTHETICAL PERFORMANCE RESULTS
Long 2 April Platinum: Short 1 April Gold
Enter Approximately November 6th / Exit Roughly February 16th

Entry Date	Entry Price	Exit Date	Exit Price	Closed P&L (pts)	Closed P&L (\$)	High Price	High Date	Low Price	Low Date
11/5/2005	466.7	2/16/2007	537.6	70.9	\$ 7,090.00	596.8	11/21/2006	476.7	11/9/2006
11/8/2004	409.2	2/16/2005	429.1	19.9	\$ 1,990.00	456.0	12/6/2005	375.5	11/9/2005
11/6/2003	364.1	2/13/2004	434.8	70.7	\$ 7,070.00	451.0	12/2/2004	353.3	11/2/2004
11/6/2002	253.7	2/14/2003	322.8	69.1	\$ 6,910.00	322.8	12/4/2003	230.5	11/4/2003
11/6/2001	130.9	2/15/2002	176.1	45.2	\$ 4,520.00	205.4	11/18/2002	126.8	11/12/2002
11/6/2000	300.5	2/16/2001	340.3	39.8	\$ 3,980.00	369.2	12/7/2001	295.6	11/12/2001
11/8/1999	103.1	2/16/2000	237.4	134.3	\$ 13,430.00	237.4	12/4/2000	85.4	11/10/2000
11/6/1998	44.9	2/16/1999	79.8	34.9	\$ 3,490.00	79.8	11/17/1999	40.5	11/2/1999
11/6/1997	73.5	2/13/1998	86.3	12.8	\$ 1,280.00	104.3	11/20/1998	53.1	11/3/1998
11/6/1996	2.5	2/14/1997	25.3	22.8	\$ 2,280.00	26.6	11/20/1997	-0.1	11/26/1997
11/6/1995	17.8	2/16/1996	19.8	2.0	\$ 200.00	28.1	11/12/1996	11.8	12/6/1996
11/7/1994	26.6	2/16/1995	37.7	11.1	\$ 1,110.00	39.3	11/10/1995	19.5	11/6/1995
11/8/1993	0.3	2/16/1994	20.0	19.7	\$ 1,970.00	20.0	11/2/1994	-5.5	12/1/1994
11/6/1992	24.8	2/16/1993	37.6	12.8	\$ 1,280.00	38.7	11/5/1993	12.9	11/30/1993
11/6/1991	7.2	2/14/1992	8.4	1.2	\$ 120.00	11.6	12/7/1992	-23.6	11/10/1992

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# Loss	3	Avg. Win	28.74	\$ 1,437.08	Min. Draw on Win		
% Win	80.0%	Avg. Loss	-18.13	\$ (906.67)		-12.60	(\$630.00)

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appeal of precious stones. Because Platinum is stronger than Silver, Platinum settings can be smaller and thinner allowing more light to refract off of the stone. Platinum's use in jewelry is extremely volatile – based on consumer trends, it is still more popular in Japan than Gold.

Platinum, more than Gold and Silver combined, is especially vulnerable to interruptions in supply, as the supply/demand relationship is extremely tight.

Because of Platinum's many industrial uses and its relative scarcity, Platinum's supply/demand balance is very fragile. Platinum, more than Gold and Silver combined, is especially vulnerable to interruptions in supply, as the supply/demand

relationship is extremely tight. Given this, any interruptions in supply can result in major price increases. This can be seen by the fact that Platinum tends towards strength from November through the first quarter as the combination of jewelry, industrial, and automotive demand all come together to pull prices higher.

The demand pull on Platinum prices can be seen by the historical behavior of January Platinum futures in the last decade and a half. Since 1992, January Platinum futures have gained an average of \$28.74 per ounce between the 1st trading day of November and the 5th trading day of December.

Platinum's outright gains are impressive, but its relative gain versus Gold has historically been even more reliable and profitable – on a margined basis. Given its versatility, Platinum enjoys an increase in demand from the jewelry industry like gold, but also enjoys a prolonged increase in demand from the automotive industry as well, as replacement parts are made for previous years' vehicles and production is being planned on the next year's lines. As such, going into winter in the Northern Hemisphere, many consumers like to build stocks (supplies) as major producers in Russia/Asia can not always deliver supplies

HYPOTHETICAL PERFORMANCE RESULTS
Long 2 April Platinum: Short 1 April Gold
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11/6/1997	73.5	2/13/1998	86.3	12.8	\$ 1,280.00	104.3	11/20/1998	53.1	11/3/1998
11/6/1996	2.5	2/14/1997	25.3	22.8	\$ 2,280.00	26.6	11/20/1997	-0.1	11/26/1997
11/6/1995	17.8	2/16/1996	19.8	2.0	\$ 200.00	28.1	11/12/1996	11.8	12/6/1996
11/7/1994	26.6	2/16/1995	37.7	11.1	\$ 1,110.00	39.3	11/10/1995	19.5	11/6/1995
11/8/1993	0.3	2/16/1994	20.0	19.7	\$ 1,970.00	20.0	11/2/1994	-5.5	12/1/1994
11/6/1992	24.8	2/16/1993	37.6	12.8	\$ 1,280.00	38.7	11/5/1993	12.9	11/30/1993
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during the winter months as ports freeze over.

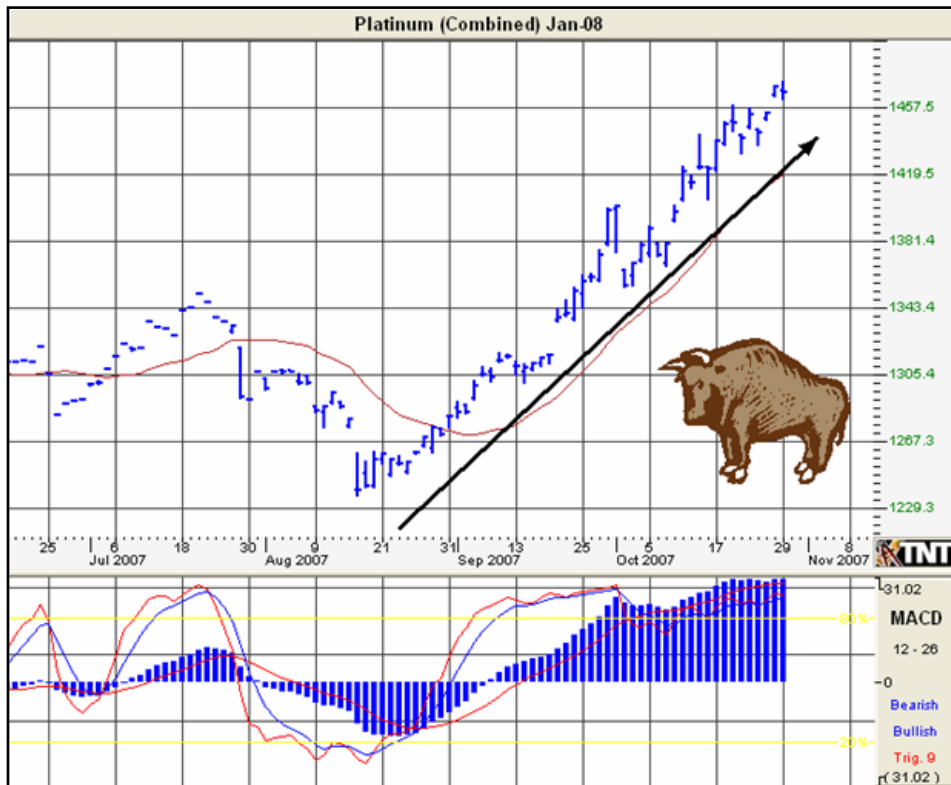
Futures Traders can take advantage of increasing demand and potential supply problems using an exchange recognized spread trade involving buying 2 April Platinum Futures and simultaneously shorting 1 April Gold contract (=2+PL2008J:1+GC2008J). This position is executed 2 Platinum to 1 Gold because Platinum futures call for 50 ounces on delivery and Gold futures require 100 ounces, making it necessary to do 2 Platinum futures per Gold future to keep the pricing of the metals futures equal, and take advantage of the relative price gains of Platinum relative to Gold.

Copper Market

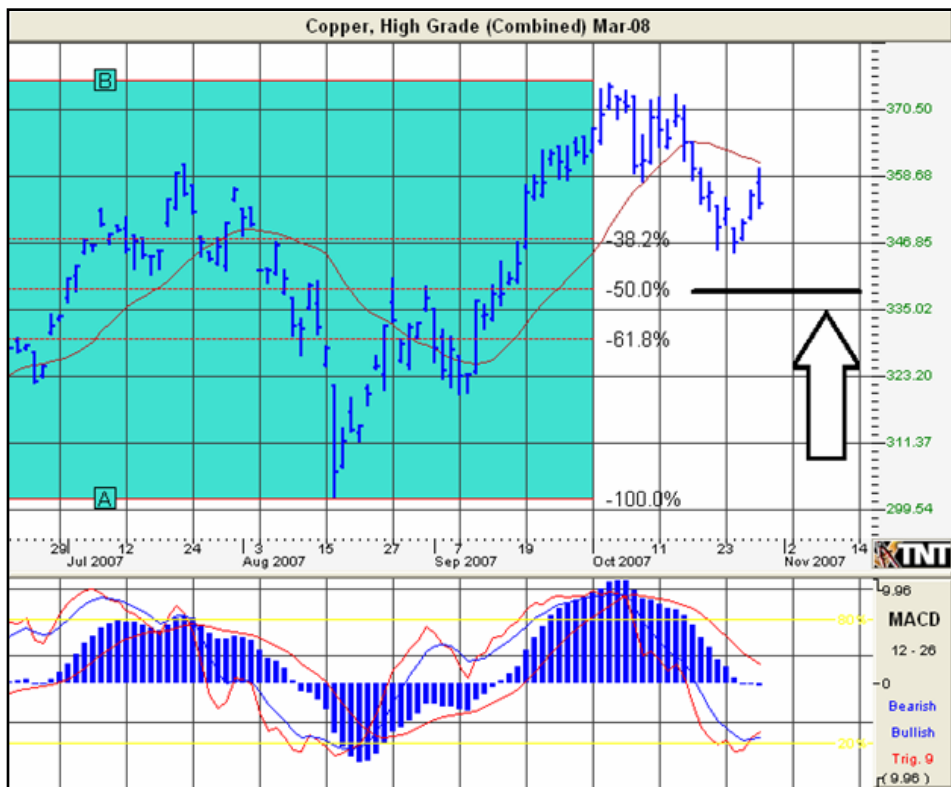
Copper is the world's third most widely used metal, after iron and aluminum, and is primarily used in highly cyclical industries such as construction and industrial machinery manufacturing. Profitable extraction of the metal depends on cost-efficient high-volume mining techniques, and supply is sensitive to the political situation particularly in those countries where copper mining is a government-controlled enterprise.

Copper is the world's third most widely used metal, after iron and aluminum, and is primarily used in highly cyclical industries such as construction and industrial machinery manufacturing.

Copper is the standard benchmark for electrical conductivity. It conducts electrical current better than any other metal except silver. Copper is routinely refined to 99.98% purity (even more



Charts courtesy of Track 'n Trade 5.0 Futures.
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Charts courtesy of Track 'n Trade 5.0 Futures.
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pure than Ivory Soap) before it is acceptable for many electrical applications. Building construction accounts for more than 40% of all copper use. Residential construction is about two-thirds of the building construction market.

Building construction continued to be the largest end-use market for copper products, accounting for more than two-fifths - 45.3% - of total U.S. consumption. Other end-use markets are as follows:

- Electrical and electronic products - 25.8%
- Transportation equipment - 9.1%
- Consumer and general products - 10.2%
- Industrial machinery and equipment - 9.6%

Despite the slowdown in the U.S. Housing market, Copper prices have held steady. However, with over 1,000,000 (1 million) people displaced by the Southern California fires, traders may wish to look even more closely at this metal. In recent months/years, Copper demand has enjoyed a strong construction demand - note how many projects have been finished, requiring copper - as well as generally strong demand from the electronics industry, a major consumer of copper wire, despite the weakness in housing. Given the sudden increase in demand for Copper, as Southern California damage will not run into the same problems that the Southern Hurricanes ran into via the insurance industry, perhaps the construction demand for

Copper may pick up as well.

This sudden burst in demand comes at a time when prices usually rise as well. In 80% of the last 15 years, March High Grade Copper futures have rallied from the later half of November through early December.

Conclusion

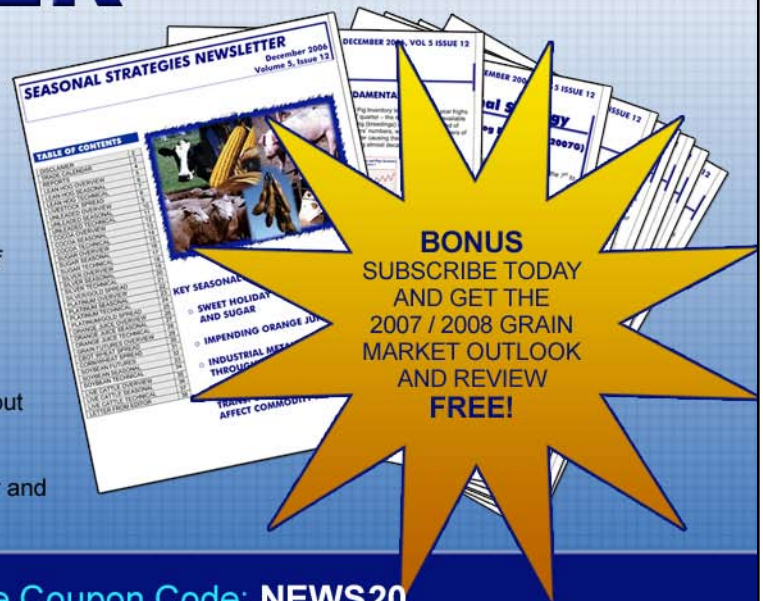
Given the heating up of inflation, coupled with increasing demand on a per unit basis for Platinum, coupled with increasing demand from Southern California for building materials as this section of the country is set ablaze, traders should be taking a strong look at the upside potential for the Industrial Metals. Not only are the trends in these markets up, but the demand trends also tend to support higher prices.

Scott Barrie is a well respected speaker, author, and editor of PitNews Magazine. His firm, Commodity Futures and Equity Analytics, offers newsletters and consulting services for Individuals, Funds, and Brokerages involved in both Speculation and Hedging. For current research and products available from Scott Barrie and CFEA visit www.CommodityAlmanac.com

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Lan Turner's Hierarchy of Trades

Part 3 of 6 "Count, Measure, Setup, Trigger, and Follow Through"

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

This is the third part of a six part series on Lan Turner's Hierarchy of Trades. If you missed the first two sections, go back to the previous versions of the PitNews.com Magazine to get caught up on our discussion.

After having been directly involved in the financial world for over fifteen years as a market software developer and trading trainer, I've compiled what I believe to be equivalent to Maslow's Hierarchy of Needs for the "would-be-trader."

Lan Turner's Hierarchy of Trades:

- **Fundamentals**—such as the seasonal nature of a commodity
- **Cycles**—such as the psychological buying and selling habits of traders
- **Technical Analysis**—such as Fibonacci, Gann, and recurring price patterns
- **Oscillating Indicators**—such as MACD, Stochastics, and CCI
- **Entry & Exit**—such as proper follow through, the skill of entering and exiting the trade

I've encapsulated this hierarchy of needs in a simple, easy mnemonic to help us remember to stay on the right path:

"Count, Measure, Setup, Trigger & Follow Through."

If we remember to follow these five simple steps, it will help us stay on the straight and narrow path to financial success.

During the previous two sections, we established the foundation for my Hierarchy of Trades and discussed the Fundamental nature of markets. In this month's discussion we're going to focus on market cycles.

Cycles

It's been mathematically proven through the test of time that every market runs through a series of cycles. Of course, we're all familiar with the continual boom and bust cycle of the real estate market, which seems to loom over anyone who might own a home. Just like the real estate market, the stock market, the

commodities market and foreign exchange markets are highly susceptible to this same type of ebb and flow of ever changing market conditions.

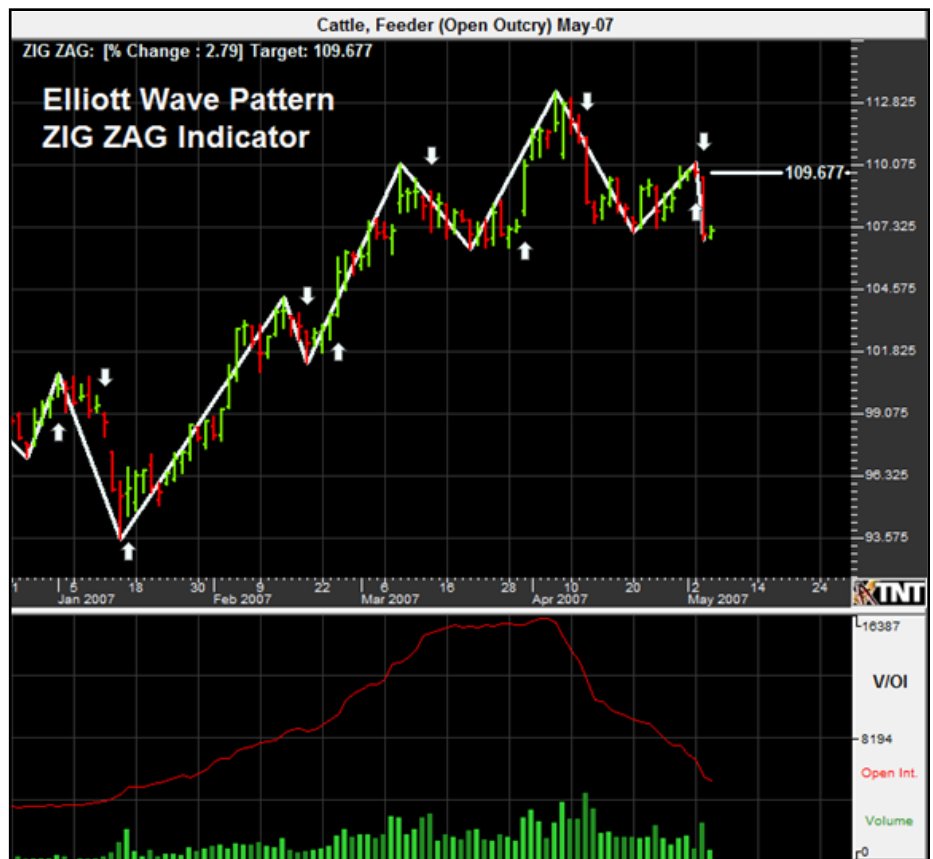
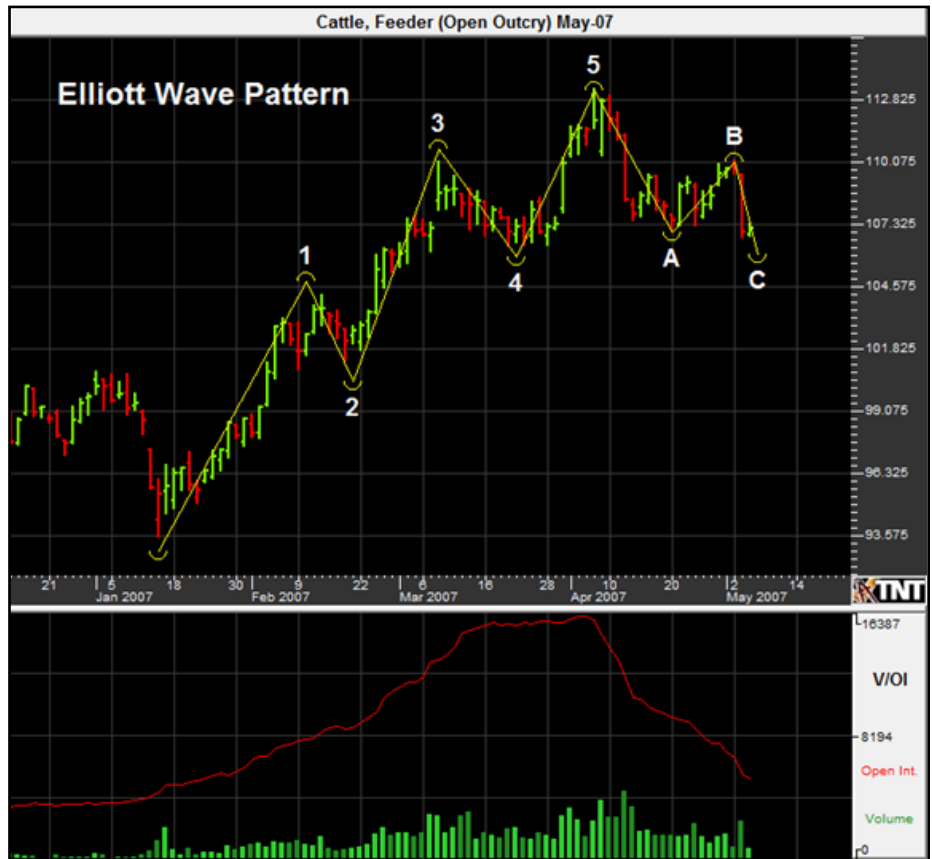
Fear and greed drive this phenomenon as traders, investors, and speculators shift and move their money in and out of different assets as they struggle to fight the ever lasting feelings of fear and greed—not only the fear of loss, but the fear of not taking advantage of or profiting from a potential opportunity... greed.

Just because more often than not the market advances to the fifth wave before retracing, does not mean it can't go to six, seven, eight or even higher. . .

A well known technical analyst named Ralph Nelson Elliott theorized, and is credited with having discovered, that markets move in a series of waves: five advancing waves, and three corrective or retracing waves. Ralph theorized that these wave patterns, or cycles, are present in every aspect of any given market and on any timeframe. In hindsight, Ralph's waves can easily be identified on a one minute, ten minute, hourly, daily, weekly, or monthly time frame.

Although “The Elliott Wave Theory,” as it's become known, suggests no absolute length of time for each individual cycle to be completed, Elliott did create a number of “rules” required by each recurring wave pattern to adhere to before it could be considered a “tradable” cycle or range.

Now, just because more often than not the market advances to the fifth wave before retracing, does not mean it can't go to six, seven, eight or even higher; it certainly can and sometimes does. It also does not mean it can't stop at wave two, three, or four



Charts courtesy of Track 'n Trade 5.0 Futures.
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before making a retracement, this too can and does happen. But overall, the probabilities tell us that more often than any other number, the market moves through Elliott's five and three wave pattern.

As this relates to our trading hierarchy, it is key to always remember to "count" the waves of any given market that you might be considering making a trade. Which cycle or wave is the market currently in? Is it trading near the top of the fifth wave of our Elliott Wave pattern? Is it trading near the bottom?

It is key to always remember to "count" the waves of any given market that you might be considering making a trade.

Identifying these wave patterns is easy for the trained eye, but for someone who is just beginning to explore this idea for the first time, identifying the different wave patterns can be more of a challenge.

Now this article is not meant to be a full scale description of how to identify, calculate, and trade Elliott Wave patterns, but to encourage further education into this phenomenon.

Gecko Software's Track 'n Trade software application, which has been designed specifically for helping traders identify this type of recurring price pattern, has several tools available to assist the "would-be Elliott Wave technician."

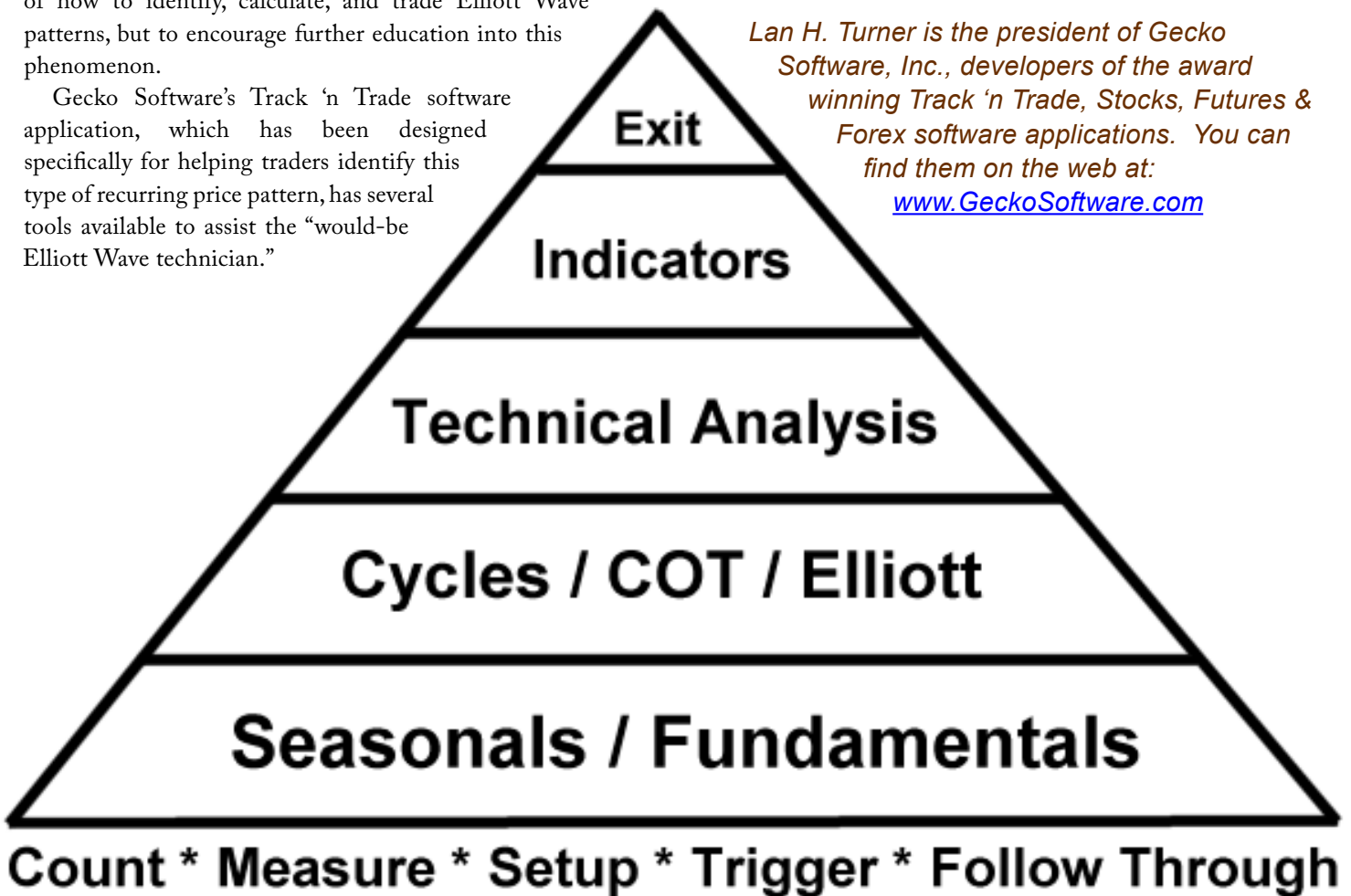
One such tool is simply the drawing, or identification, tool used by those individuals who like to use mark-up tools to draw on their charts. Used primarily by the "trained eye" trader, this tool is used to outline and count the different wave patterns and to forward anticipate their completion points.

For those individuals who might like a little further assistance with the identification of Ralph's Elliott wave points, we offer the Zig Zag indicator. Specifically modified by the Gecko Software engineers to accommodate the needs of our users in identifying the Elliott Wave patterns, this indicator has been modified to provide buy/sell signals from such patterns, and has also been given the capabilities of mathematically calculating forward looking turning points from within the markets.

As a trader, our goal is to always put the odds in our favor, "become the house" as it were. Las Vegas casinos don't win every hand of poker, but the odds are in their favor. It's often said, Vegas was not build on the backs of winners.

As it is with trading, the only way to truly be successful is to "become the house," put the odds in your favor, and if the odds are that a market generally moves in five advancing waves followed by three retracing waves, then by all means, never buy at the top of an Elliott five wave pattern, and never short the market at the bottom of one either.

Lan H. Turner is the president of Gecko Software, Inc., developers of the award winning Track 'n Trade, Stocks, Futures & Forex software applications. You can find them on the web at: www.GeckoSoftware.com



Commodity Trader's JOURNALING

By: Bobby Firestone

2008 is coming up fast. A new year represents a fresh start and clean slate for traders. A new year is an opportunity to build on the successes and not repeat the same mistakes of the past. Today we have a few recommendations on how to make 2008 your best trading year ever.

On January first, millions of people will make resolutions to change, whether it is losing weight, start exercising, stop smoking, start a home business, and the list goes on and on and on. By the end of January, most of these resolutions will be long forgotten.

A new year's resolution is simply a goal you want to achieve. Successful people are experts at setting and achieving goals. Here are 6 goal achieving secrets:

1) Aim High. Don't go after what you know you can do. Make yourself stretch beyond your preconceived limitations. Don't allow what you have done in the past to limit your future potential.

2) Be specific. A goal of being profitable just won't cut it. The more details included in your goal the more likely your goal will be met.

3) Be consistent with who you are. People usually don't do what they value most first and then find themselves stressed and out of alignment. Create a list of what you value the most, and then create your goals around them. This will fuel your a sense of being on purpose.

Aside from setting goals, information is key to success. I am not talking about figuring out a faster way to accumulate fundamentals or the latest and greatest of trading charting program. I am talking about accumulating information about you.

4) Every goal needs a detailed action plan and the correct mindset. Without these two items, your goal is going to walk out the door without you. What do you have to believe and what can you start to do immediately to move you towards your goals and dreams?

5) Review your goals each and every day. An important part of achieving success is making it become routine. Review your list of goals every morning when you wake up. Visualize your completed goals and how your life looks and feels as a result. Each night before you go to bed, repeat the process. Train your brain to expect your goals to become reality.

6) Don't get discouraged. You will achieve your goal or learn what is preventing you from achieving it. Gaining this knowledge is not a setback; rather, it is part of your forward progress, or you can think of it as a minor retracement before the major bull market of your life. Stay focused on what you want to achieve and you will find ways to solve difficulties or break through barriers.

The Keys to the Castle

Aside from setting goals, information is key to success. I am not talking about figuring out a faster way to accumulate fundamentals or the latest and greatest of trading charting program. I am talking about accumulating information about you. The best way to take on this daunting task is by keeping a trading journal.

There are definitely pieces of information you must keep in your journal:

- Trades - the what, when, and why you placed the trade
- Stop orders - what price and why the location
- Any trades you didn't take
- What markets you are actively tracking (currently trading or not) and your interpretations
- Any idea you have about potential trades

Then there is information that I recommend you keep as well:

- What time did you start trading
- What time did you stop trading
- Your environment

- Where are you trading from
- Is it hot or cold
- What is the weather outside
- What are you eating or drinking: If you are drinking a pot of coffee while trading but normally drink a cup or two a day the added caffeine will affect your results.
- Any sensations you feel when you are trading: a pain in the neck, a leg cramp, upset stomach. Listening to your body can often give you clues into what you are doing wrong.

Don't limit what you keep in your journal to what I have listed here, anything that strikes you should be written in your journal.

It is not uncommon for traders to religiously maintain their journal at the beginning BUT when the first hot streak comes along the journal is forgotten until the trader turns cold again. When he comes back to look in his journal there is nothing there. Maintaining the journal during good times and bad is necessary to have the proper information to analyze and move forward with. Keeping records from hot streaks to emulate and look at to remind yourself of what you are capable of is critical to long term success.

Review, Review, Review. Every week, month, quarter, and year review what you have written. Trends will appear. Do you trade well after taking a day off, or are you taking questionable trades for the sake of being in the market. This is your opportunity to hold your self accountable for your trading results and enable your success.

Setting goals, having a way to track progress and hold your self accountable for your success can make 2008 your best trading year ever.

Robert "Bobby" Firestone is a broker at the Las Vegas branch of Alaron Trading and is a frequent presenter at www.CommodityTradingSchool.com. He is also the owner and operator of Managed Systems International LLC, a Commodity Trading Advisor specializing in managed day trading of futures contracts. For more information visit: www.msiinvest.com



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THE BEST SIX MONTHS IN THE STOCK MARKET

by: Kimberly Lyon
Managing Editor
PitNews.com Magazine

Typically, as January draws to close, stock prices tend to consolidate coming into February. Often, any strong and sharp January movements are also corrected in February.

March is generally a decent month. It tends to start off strong, with enthusiasm toward earnings and the prospects of a “new and better” year. However, by the end of the month, prices tend to decline with the beginning of earnings season and tax time.

April showers may bring May flowers in your garden, but May is thought of as a treacherous month in the Stock market. It is the fourth worst month on record when measured by the S&P 500 and the second worst month for the Dow Jones Industrial Average.

Prices then tend to consolidate once again in June. Though market lore is full of optimism for a summer rally, investors are often disappointed by its performance. Market volume tends

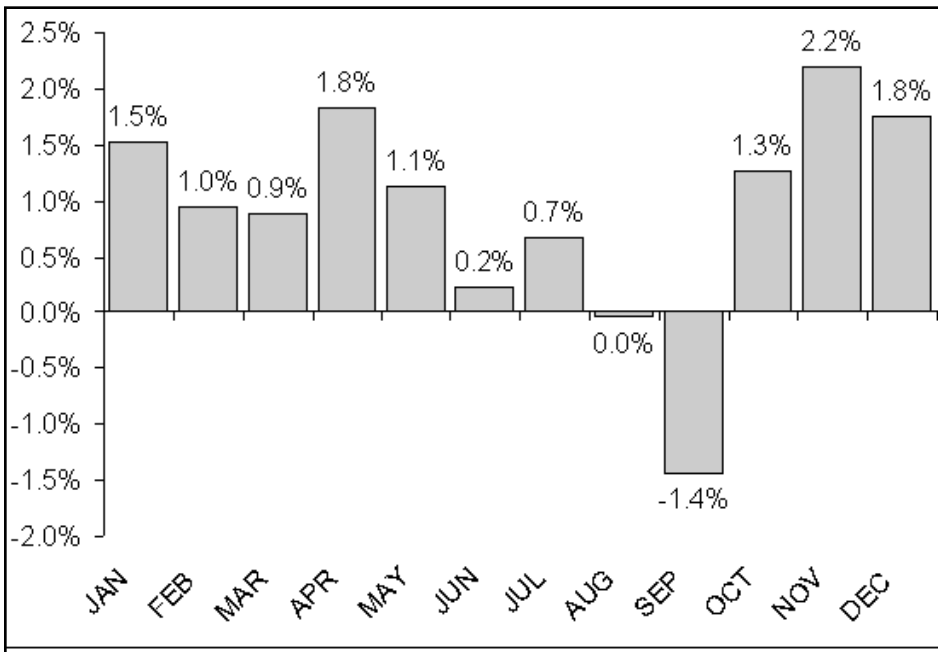
to decrease during the summer months, when vacations and outdoor activities take precedence over trading.

May and June are often referred to as a “disaster area” for the market. In fact, 15 of the 20 years between 1964 and 1984 saw market declines during this 2-month period. Even in the rosy market following the 1982 bottom in prices, May and June saw poor performance.

July has historically been one of the better summer months for the stock market. August used to be a great month in the stock market when America was more inclined towards agriculture, because money flowed from the freshly harvested fields directly onto Wall Street. However, now that only 2% of the population is farm-based, August has actually transformed into one of the worst months on record.

Summer draws to a close. Vacations end, kids go back to school, and the worst month for the market begins. September has seen the weakest performance of any month (as discussed in

Average Monthly Performance: 1980 - 2006



last month's issue of PitNews.com Magazine), despite the fact that it has not born witness to any major crashes, as the month of October has.

Though October has seen its share of fireworks to the downside, historically it has performed reasonably. Of course there are the legendary crashes of 1929 and 1987 and the mini-crash of 1989. 1978 and 1979 saw severe market breaks in October as well, which were dubbed the "back-to-back market massacres" at the time. History shows, however, that October is actually just a mediocre month for stocks.

...November is statistically the best month for the Dow on average since 1980.

November usually kicks off the year-end surge of the equity markets. Retail sales pick up for the approaching holiday season, and institutional ownership of stocks begins to increase as well. This is evident by the fact that November is statistically the best month for the Dow on average since 1980.

"Investment Time" and "Real Time"

As explained above, the stock market does seem to follow a seasonal pattern, per se. Part, if not all, of this pattern is determined by the behavior of large institutions.

Institutions tend to think in terms of quarters. Earnings are reported to Wall Street quarterly, and many investment managers base their decisions on the same time frame. This

correlation is illustrated by the fact that the best performing month of the first three quarters is the first month of each quarter – that is, January, April, and July.

The fourth quarter is unique and does not follow this pattern. This is understandable, considering the flow of money into the markets. It is logical that stock prices are strongest in the final quarter because investment and spending are high. Within this context, it is also not surprising that November is the strongest month of the year. December is somewhat abbreviated by the holiday season, and this makes November the last full investment month.

Nonetheless, one time period tends to stand out above all rest – November through April!

The Best Six Months

The best six months of the year tend to occur between November and April. Whether or not this bias is due to institutional control of the market or not, it is definitely worth noting.

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Investing in the best six months of the year, and avoiding the market in the other six, has been a very successful strategy since 1950. This notion has often been stated thusly: “sell in May and go away.” Market lore and catchy phrases aside, this adage has been quite successful in recent history.

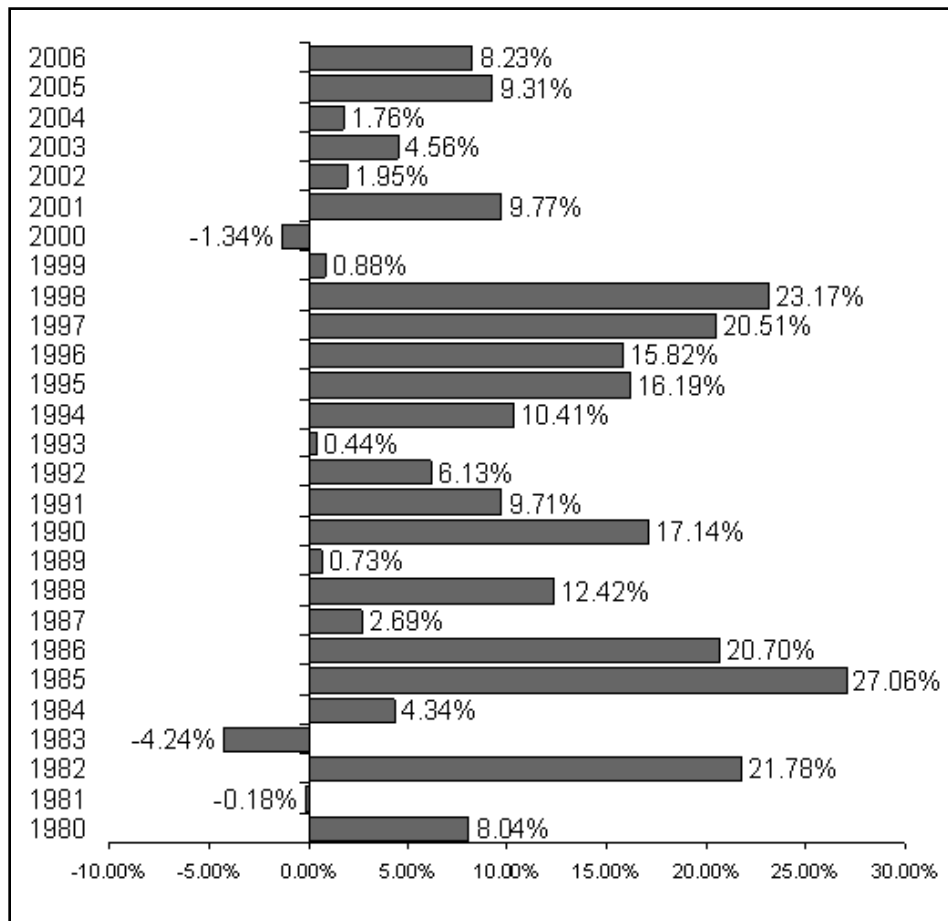
Put in perspective, investing only half the time – from November through April – has returned over three-quarters of the amount of the “buy and hold” method, but with substantially less volatility.

Since October 1980, this strategy has returned an average of 9.18% (excluding dividends), while the total return of holding an investment throughout the entire year has an average return of 11.4%. Put in perspective, investing only half the time – from November through April – has returned over three-quarters of the amount of the “buy and hold” method, but with substantially less volatility.

From 1999 to 2006, the stock market has been very mixed, with 4 years of gains ('99, '03, '04, and '06) and 4 years of losses ('00, '01, '02 and '05). The average return of being fully invested during this time is 4.9% excluding dividends, based on the Dow Jones Industrial Average. However, if one had used the “Best Six Months” strategy of buying at the end of October and selling at the end of April, a trader would have had an average return of 6.3%, out-performing buy and hold strategy and showing gains in all years with the exception of November 2000 to April 2001.

Based on these recent results, traders may wish to take a solid look at the stock market in the coming months. The historical performance of the November through April period, combined with Federal Reserve interest rate cuts and the fact that 2008 is an election year – both of which tend to contribute to a stronger market – may make it worth looking beyond the gloom and doom of sub-prime woes and the current housing market situation.

**Yearly Performance of “Best Six Months” Strategy
(Buy End of October / Sell End of April)**



All charts and statistics are taken from PitNews.com’s StockAnnual Reports.

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The Gambler's Fallacy

By: Scott Barrie

Futures trading lore states that 80% of all traders lose money, while 20% make money. The basic principle of this bit of folk lore – to which I cannot find a definitive source to site, yet many brokers, traders, and analysts will vehemently agree with it – is that most traders, especially those of the retail variety, will bet too much on any single outcome, and when they fail on one or two trades in a row, they have either gone broke or don't have enough capital left to trade effectively – essentially leaving the market with a loss and essentially considered a loser. The reason

for this foolhardy behavior in many cases is not understanding "odds" or the basic statistics of the marketplace.

Often when we look at trading patterns, the "odds" are mistaken as well, for we are not sure if one day's trading really does affect the next day.

Runs, Streaks, Trends and the Gambler's Fallacy

Picture for a minute that you are at a craps table in Las Vegas; the lucky bastard wearing the expensive suit with two beauties hanging off his arms interfering with his dice rolling and throwing back expensive tequilas (Petroni) has just rolled three sevens in a row and is being surly and pretty darn obnoxious. You really want to see him lose, and lose big – which is not that far off from what most of us feel when we see a big move in the markets and we are not on board, or worse yet we are on the opposite side.

It is time to place your chips, and it is time for him to place his chips. Deep down after a run – or dare we say “trend” – we want to believe that the dice are “DUE” for a turn. The odds of rolling 7 “sevens” (or 7 natural wins) in a row are astronomical – about 1 in 30,000. With the odds of 8 “sevens” in a row being roughly 1 in 166,000

The “Gambler’s Fallacy” is that since the odds of rolling 7 1 in 30,000 roughly and in a row are 166,000, then we to 1 chance that the guy will not roll a 7 or 11 on his next roll. However, the dice have no “memory,” as one roll may not affect the next one.

The odds of rolling a 7 on the craps table are 6 of 36, or in other words there are 6 combinations of the dice that will result in a 7 and 30 that won’t. Since, rolling a 7 or 11 on the initial throw of the dice will result in a win, the roller has a 8 of 36 chance of winning on the “come out roll” - 6 of 36 chance of rolling a 7, and a 2 of 36 chance of rolling an 11, giving a 22.3% percent chance of a “natural” winner and a 77.7% of losing. These are always the odds, because the dice have no memory, meaning that one roll of the dice does not affect the next roll. The gambler who believed he had an edge of 159,000 to 1 chance of winning was mistaken.

Often when we look at trading patterns, the “odds” are mistaken as well, for we are not sure if one day’s trading really does affect the next day.



wins in a row are the odds of 8 wins would have a 159,000

Looking at a Market

An example of one day’s trading related to the next can be seen in the consecutive number of days a market moves. For example, between 2000 and 2006, we have seen 1756 trading days, of which 901 were up (increases) and 855 were down (decreases) – or 51.3% up and 48.7% down. This gives a bias to this market of 2.6% to the upside on any given day towards the upside between 2000 and 2006. However, in the marketplace, one day’s trade may be related to another’s – as the market, unlike dice, does upon occasion have a “memory.” One session’s performance may have an influence on the next session’s performance, unlike dice in Las Vegas which are cast to “NASA” precisions to make sure that they are evenly balanced and do not show a bias.

Another major difference between playing Craps and the markets is the payouts. In Las Vegas, the amount won versus lost on any bet is fixed, but in the markets the size of wins and losses in the market are not. The magnitude of gains and losses may be more important than the general direction.

Examining Consecutive Days

The following statistics can be computed for the performance of consecutive days in the Euro Currency between 2000 and 2006.

Euro Currency Continuous Contract Data 2000 to 2006							
Days	#Occ	% Up 1 Day Later	Avg Change	% Up 2 Days Later	Avg Change	% Up 3 Days Later	Avg Change
-7	2	100.0%	0.43	100.0%	0.59	100.0%	1.42
-6	9	66.7%	-0.04	55.6%	0.06	55.6%	0.29
-5	19	52.6%	0.07	47.4%	0.12	42.1%	0.14
-4	41	53.7%	0.01	53.7%	-0.03	51.2%	-0.09
-3	99	57.6%	0.07	56.6%	0.06	49.5%	-0.01
-2	202	50.0%	-0.01	53.0%	0.01	51.5%	-0.02
-1	483	53.8%	0.06	52.2%	0.06	52.8%	0.09
1	458	49.3%	-0.01	46.1%	-0.01	52.0%	0.01
2	226	45.1%	-0.05	55.3%	0.03	55.8%	0.07
3	102	53.9%	0.01	52.9%	0.08	53.9%	0.17
4	55	52.7%	0.11	52.7%	0.18	45.5%	0.04
5	29	55.2%	0.17	48.3%	0.01	51.7%	0.16
6	16	37.5%	-0.18	62.5%	0.01	56.3%	0.18
7	6	66.7%	0.12	50.0%	0.25	50.0%	0.19
8	4	50.0%	0.29	50.0%	0.29	50.0%	0.26
9	2	0.0%	-0.43	0.0%	-0.86	0.0%	-0.85

For example, between 2000 and 2006, the Euro declined 4 days in a row on 41 occasions. Following these 41 occasions, the Euro was higher the following day 53.7% of the time, gaining an average of +0.01 \$ per Euro.

However, the question that a trader needs to ask is what are the odds of a break for 4 days in a row? Is it 19 of 41, based on the 41 examples we have seen between 2000 and 2006, or is it 901 out of 1756, as 901 of the 1756 days examined showed a gain? The question that the trader must ask is not necessarily how many days have gone in a row in a given direction, but possibly how far the market has gone. Traders need to frame questions for analysis based on what is the driving force of the market.

Is the driving force consecutive days, as does 4 days in a particular direction have more influence on the following day than the odds of a reversal?



Is the driving force consecutive days, as does 4 days in a particular direction have more influence on the following day than the odds of a reversal? After all, isn't a 4 day consecutive decline also a 3 day consecutive decline, as well as 2 day decline and a 1 day decline?

Perhaps, such analysis leads straight back to the gambler's fallacy, as it appears when simply looking at direction, one day does not necessarily influence the next. Just because the dice have rolled 7 sevens in a row, it does not necessarily change the likelihood of the next roll, just like 6 small gains in a row may not necessarily influence the next trading session as much as a large gain or two in a row.

Examining Consecutive Day Magnitudes

In the December Issue of PitNews Magazine, we will examine how the Euro market is influenced more by the size of consecutive swings – or the magnitude of the gain without a break, or a loss without a rally – instead of the amount of time.

With the differing payouts and performance associated with different patterns in the marketplace, traders need to look

not only at the accuracy of a trading system, but also how the performance has acted. By looking at magnitude of moves as opposed to the just the actual moves themselves, traders may gain a greater understanding of the markets and be better equipped to avoid the Gambler's Falacy.

Scott Barrie is the author of the Commodity Almanac's Seasonal Strategies Newsletter as well as the 2007 Commodity Trader's Almanac. He is also the Editor of Pitnews Magazine.

Scott's background is diverse within the industry, having not only traded/worked on the floors of the major Chicago Futures/Options Exchanges but also having managed a private fund as well as done risk management and compliance for several large banks, brokerages and clearing firms.

Currently, Scott is working on a new Forex website and Annual Service, providing traders a statistical view of the FOREX Market – both spot and futures based. Readers can preview this service at www.FXAnnual.com.

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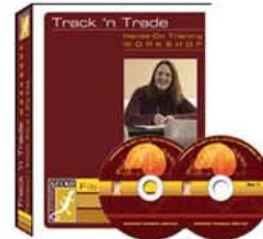
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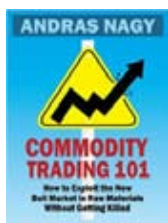
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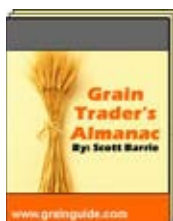


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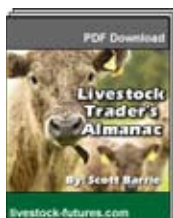


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