May 2007 Commodity Trader's Almanac pg.7 | www.pitnews.com

PitNews.com Magazine

Futures, Forex, & Stocks

Volume 1 No. 7 May 2007

The May Crop Report & Stocks to Usage
By: Scott Barrie
Pg. 35

Wall Street and the Ivory Tower: Part 6 of 6
By: Dr. Scott Brown, Ph.D
Pg. 15

Life and Methods of W.D. Gann
By: D.K. Burton
Pg. 31

PitNews Exclusive Interview : Paul Brittain & Carley Garner
Pg. 20

In this issue...

On the cover...

Editor's Note

Options. In the trading world, they represent the right to buy or sell something (stocks, commodities, bonds, currencies, etc.) at a given price. While options are a valuable tool, it is important to realize that they are just one of many "options" you have in trading. Figuring out what works for you individually by exploring these options is vital.

Paul Brittain and **Carley Garner** of Alaron Las Vegas specialize in Options trading, but even they like to keep their options open. When asked what his favorite strategies are, Paul Brittain replies "The winning ones, without question." Read more in our PitNews Exclusive Interview.

If you've ever been curious about W.D. Gann, **D.K. Burton** has provided a detailed biography and introduction to the methods of this fabled trader.

Also included in this issue is the sixth and final installment of **Dr. Scott Brown PhD**'s *Wall Street and the Ivory Tower* Series, the *May 2007 Commodity Trader's Almanac*, *Thursday Moves in May: EURUSD*, and *The May Crop Report & Stocks to Usage*.

New to PitNews.com Magazine in May: the eStore ! Check it out to see what options you have in trading software and education.

There are almost as many ways to trade as there are traders. We've presented a few of your options in the May 2007 issue of PitNews.com Magazine.

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.

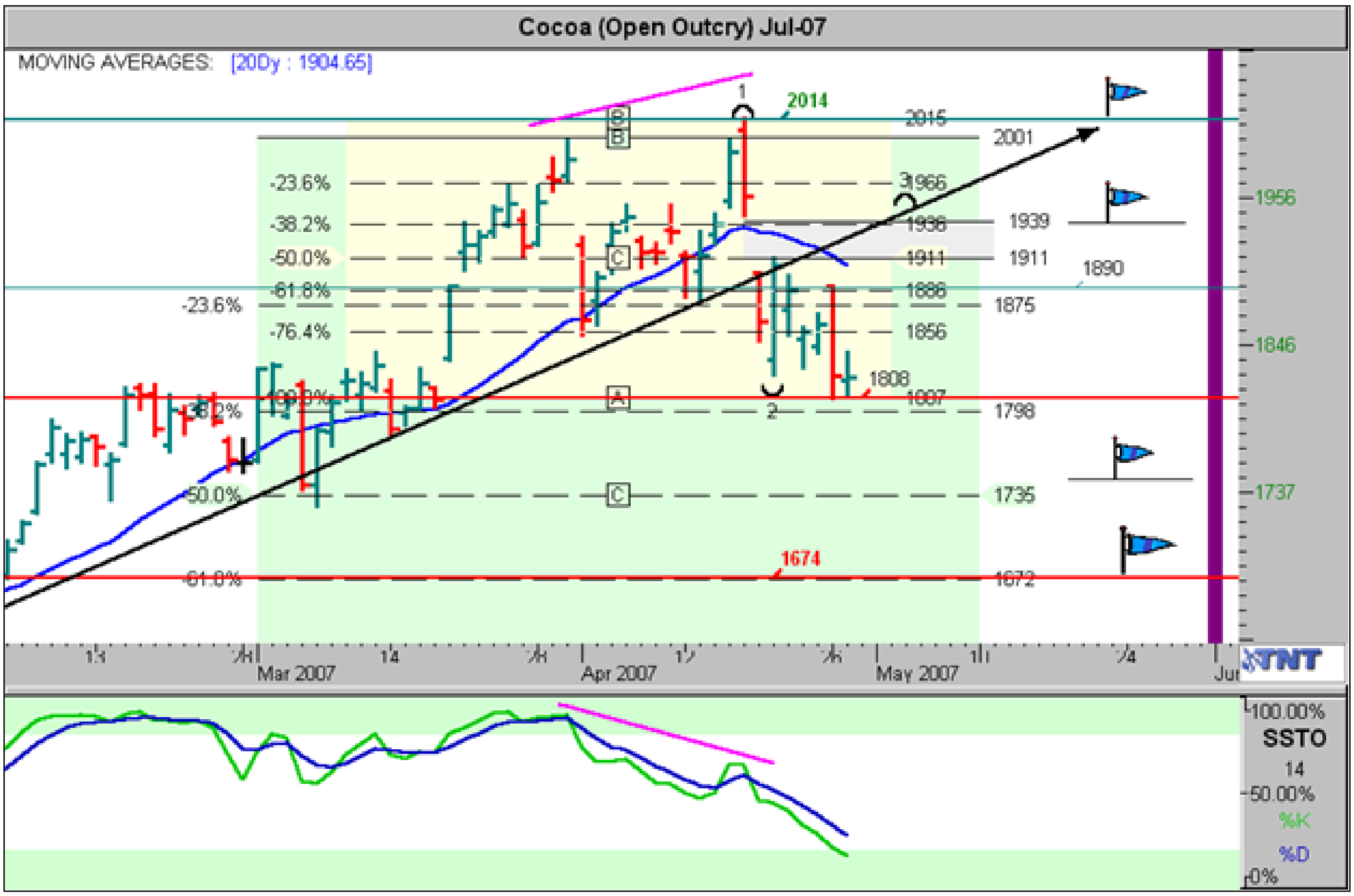
HYPOTHETICAL PERFORMANCE:

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 PRO GRAM 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 PitNews.com *Off The Wall* series brings us a chart and commentary written and posted on our Wall Forum by Trader Gerard. Trader Gerard is an active trader, and participant to The Wall forum. Stop by and see what other interesting charts and commentary trader Gerard has posted on The Wall. Here are some of his comments regarding his July 2007 Cocoa chart.

Friday gave us an Undecided inside Day (DOJI) remaining within near-term congestion. Prices closed below both the 20-DMA and short-term upward trend line. Price movement shows a little near-term bullish power. When this movement has concluded look for the Bears to continue. Price Bias is weakly Bearish; therefore trade as a downtrend. If you are already in this market then tighten your stops...

Option strategies recommended: If you wish to trade conservatively then use either of these two strategies; Purchase a Put or use a Put Back-Spread, recommend using in a contract with usually more than 3 months until expiration. If you wish to trade very conservatively then use the Bear Vertical Spread strategy, recommend using in any contract month that you wish. If you wish to trade very aggressively then use the Put Ratio Spread strategy or Sell Calls, recommend using in a contract with usually less than 2 months until expiration.

May 2007

COMMODITY TRADER'S ALMANAC View And Review

By: Scott Barrie

May is an exciting month for futures traders. In the grain markets, the spring planting effort is in full swing and trade attention begins turning to the weather – usually resulting in increased volatility. Soybean futures tend to reverse their April direction (as they have done in 12 of the last 19 years), hence traders may start preparing for a rally, especially considering the decrease in acreage forecasted. Despite the record acreage predicted to be planted with Corn, production is still questionable as a lot can happen before the crop is harvested. Demand is still strong, and as such, any shortfalls in production could be enough to send Corn futures rallying again. See related article: ***The May Crop Report and Stocks to Usage***, Page 35.

In the metals, May is often a consolidation month. Gold has a mixed record, up 9 and down 10 in the last 19 years. Copper prices usually break, as supplies are already secured ahead of the building season. Regarding Silver, May often sees fleeting rallies – 8 of the last 11 rallies have been reversed in June basis July Silver – so be warned.

May is also a mixed month for Petroleum. The industry is gearing up for the "summer driving season." However, like most major, highly anticipated events, the arrival of the increased consumer demand may be anti-climatic. Just as the "summer driving season" may be anti-climatic for Petroleum, the summer barbeque/cold cut season is typically already priced into the Livestock markets.

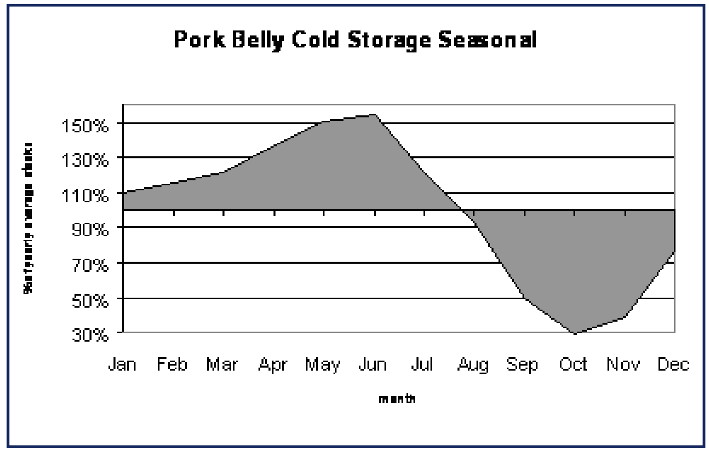
Because most traders will be inundated in the coming weeks with information surrounding the "summer driving season", this month's Commodity Trader's Almanac will highlight the lesser publicized effects on the Livestock markets.

Pork Complex

In the Petroleum industry, the period from Memorial Day to Labor Day is known as the summer driving season. In the Livestock industry, this same period could be known as the "BLT" season, given the strong demand for processed meats during the summer – including bacon. Often Lean Hog and Pork Belly prices rise going into the demand season, and sell-off as the event occurs. This is part of the reason why Hog and Belly futures tend to decline in May.

The Hog industry is usually well prepared for the increased consumption, as high winter slaughter rates provide plenty of supply. Usually by May/June supplies of Pork in cold storage (ham, bellies, etc.) are at the yearly peaks. As such, wholesale end users are not typically panicked about securing supplies, as they have typically already met their immediate needs. As such, prices tend to wane.

In the last 15 years, August Lean Hog futures have fallen 12 times between the 7th trading day of May through to the 3rd to last trading day of May historically (May 9th and May 29th, respectively). On average, August Hog futures have gained +1.92 cents/lb during this period, with an average decline of -2.80 cents/lb and an average increase of +1.55 cents/lb on a settlement basis between the aforementioned dates.



Technically, August Hogs are trending higher as evidenced

HYPOTHETICAL PERFORMANCE RESULTS
August Lean Hog Futures Changes in Cents/Lbs.
Enter Approximately May 9th / Exit Roughly May 29th

Entry Date	Entry Price	Exit Date	Exit Price	Closed P&L (pts)	Closed P&L ($)	High Price	Low Price
5/9/2006	66.40	5/26/2006	64.15	2.25	$900.00	66.90	63.35
5/10/2005	73.95	5/26/2005	69.85	4.10	$1,640.00	75.70	68.35
5/11/2004	74.38	5/26/2004	71.70	2.67	$1,070.00	74.50	70.90
5/9/2003	64.85	5/28/2003	66.53	-1.68	($670.00)	66.80	63.50
5/9/2002	51.77	5/29/2002	45.97	5.80	$2,320.00	53.40	45.40
5/9/2001	61.75	5/29/2001	61.70	0.05	$20.00	62.60	59.27
5/9/2000	69.05	5/26/2000	66.92	2.13	$852.00	69.80	64.95
5/11/1999	59.75	5/26/1999	56.85	2.90	$1,160.00	60.40	55.50
5/11/1998	59.10	5/27/1998	56.23	2.87	$1,148.00	59.20	55.95
5/9/1997	83.55	5/28/1997	77.85	5.70	$2,280.00	84.13	77.85
5/9/1996	55.85	5/29/1996	53.40	2.45	$980.00	57.65	52.67
5/9/1995	42.28	5/26/1995	43.88	-1.60	($640.00)	44.38	41.00
5/10/1994	48.10	5/26/1994	46.10	2.00	$800.00	48.88	45.55
5/11/1993	48.25	5/26/1993	49.60	-1.35	($540.00)	50.60	47.58
5/11/1992	43.98	5/27/1992	43.25	0.73	$292.00	44.35	42.75

			In points	In $'s		In points	In $'s
# Trades	15	**Total P&L**	29.02	$11,612.00	**Max Draw**	-2.35	($940.00)
# Win	12	**Avg. P&L**	1.93	$774.13	**Avg. Draw**	-1.09	($433.98)
# Loss	3	**Avg. Win**	2.80	$ 1,121.83	**Min. Draw on Win**		
% Win	80%	**Avg. Loss**	-1.54	($616.67)		-1.80	($720.00)

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

by a series of higher highs and higher lows. From a historical perspective this is the normal situation for Hogs during this time of the year. However, the trend may be changing, especially if prices break through the last lows made in early April, which would complete a classic trend change by creating a series of lower highs and lows – the infamous 1-2-3 Top pattern.

May is an especially brutal month, with July Belly futures declining 12 of the last 15 years

The weakness in Pork prices is not limited to the Hog market. Pork Bellies also tend to decline. Belly contract specifications also play an important role in this summer decline as well. Contract specifi-

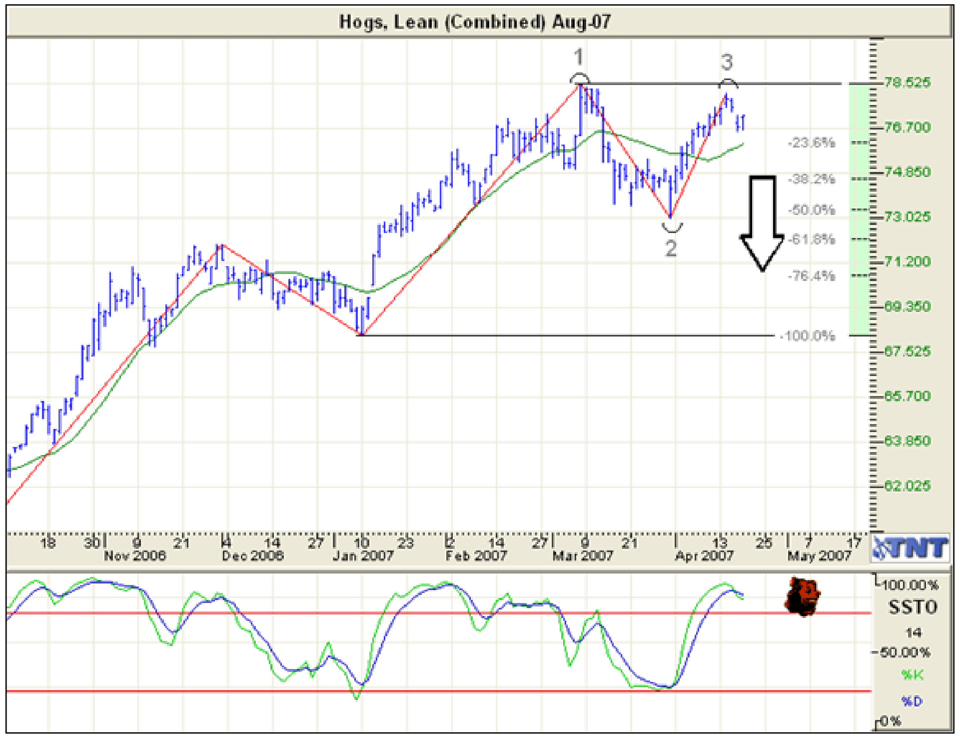


Chart courtesy of Track 'n Trade Pro.
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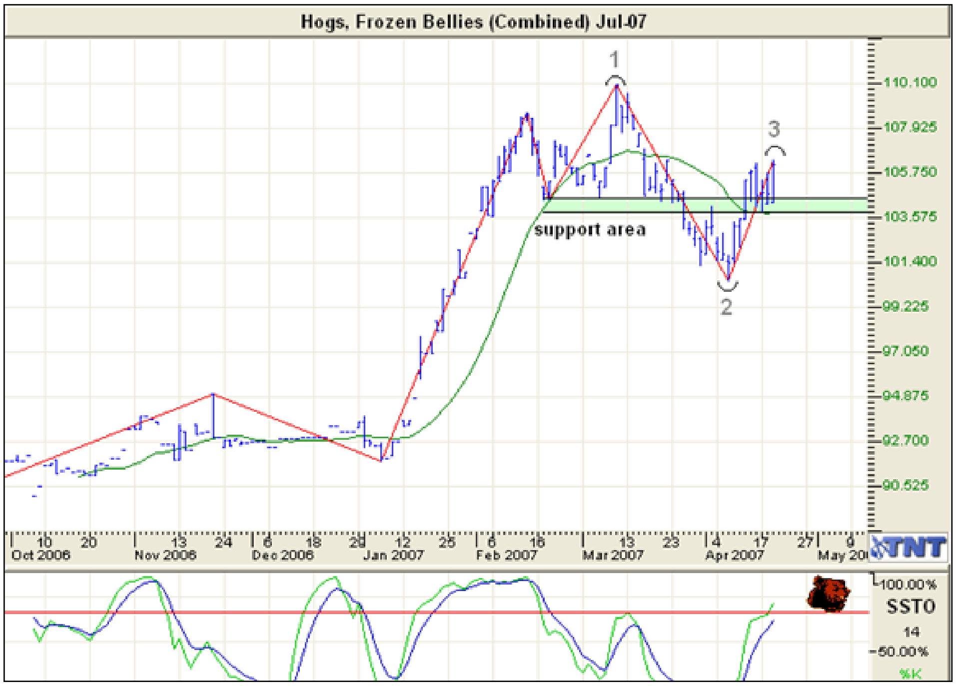

cations basically require all pork bellies registered for delivery to be moved out of storage no later than August deliveries, which often results in a massive sell off in preceding it.

May is an especially brutal month, with July Belly futures declining 12 of the last 15 years by an average of -4.45 cents/lb between the 6th trading and the last trading day of May (05/08 and 05/31, respectively).

Like Hogs, Bellies are forming a toping pattern (1-2-3 Top) with a series of lower lows and highs. Directly below the most current high is a support area – which has been tested as support in February and March and acted as resistance briefly in April. Violation of this support area to the downside – below 103.75 – may be

HYPOTHETICAL PERFORMANCE RESULTS
July Pork Belly Futures Changes in Cents/Lbs
Enter Approximately May 8th / Exit Roughly May 31st

Entry Date	Entry Price	Exit Date	Exit Price	Closed P&L (pts)	Closed P&L ($)	High Price	Low Price
5/8/2006	84.85	5/31/2006	80.60	4.25	$1,700.00	86.70	79.25
5/9/2005	81.65	5/31/2005	70.75	10.90	$4,360.00	85.15	70.12
5/10/2004	116.65	5/28/2004	113.70	2.95	$1,180.00	117.60	110.40
5/8/2003	92.75	5/30/2003	96.25	-3.50	($1,400.00)	97.15	90.00
5/8/2002	62.20	5/31/2002	57.85	4.35	$1,740.00	65.85	55.05
5/8/2001	80.65	5/31/2001	80.85	-0.20	($80.00)	83.60	75.30
5/8/2000	93.57	5/31/2000	87.30	6.27	$2,508.00	95.10	84.90
5/10/1999	61.17	5/28/1999	53.38	7.79	$3,116.00	62.05	51.80
5/8/1998	58.23	5/29/1998	50.53	7.70	$3,080.00	59.20	46.90
5/8/1997	91.57	5/30/1997	86.38	5.19	$2,076.00	94.75	85.35
5/8/1996	89.65	5/31/1996	79.60	10.05	$4,020.00	91.55	78.80
5/8/1995	34.67	5/31/1995	36.88	-2.21	($884.00)	40.28	34.60
5/9/1994	46.10	5/31/1994	41.50	4.60	$1,840.00	47.35	41.00
5/10/1993	42.45	5/28/1993	39.40	3.05	$1,220.00	45.10	39.25
5/8/1992	37.88	5/29/1992	32.28	5.60	$2,240.00	38.25	32.10

			In points	In $'s		In points	In $'s
# Trades	15	Total P&L	66.79	$26,716.00	Max Draw	-5.61	($2,244.00)
# Win	12	Avg. P&L	4.45	$1,781.07	Avg. Draw	-2.38	($950.40)
# Loss	3	Avg. Win	6.06	$2,423.33	Min. Draw on Win		
% Win	80%	Avg. Loss	-1.97	($788.00)		-3.65	($1,460.00)

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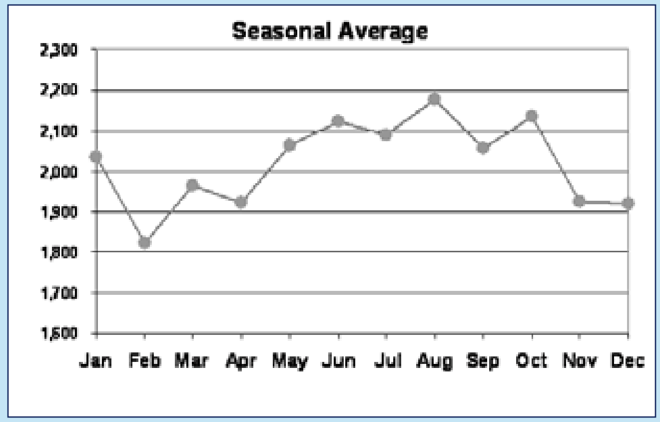
an early warning that prices have topped out and will continue to break, along the lines of the historical tendency.

Like many other markets, the Pork Complex futures often price in increases in consumer demand before the event. This type of behavior is why the old adage "buy the rumor, sell the fact" has served traders so well over the years, because the futures markets price in anticipated events before they happen, often experiencing an opposite effect when the event is played out to fruition.

Feeder Cattle

Unlike the Hog market, which tends to see a lull in slaughter rates during the spring, the Cattle industry tends to see an increase in slaughter rates from spring through summer. After a decrease in slaughters in February, the pace of Cattle slaughter and the supply of beef tend to increase through August in most years. Usually by May, supplies are being built in anticipation of increased summer demand.

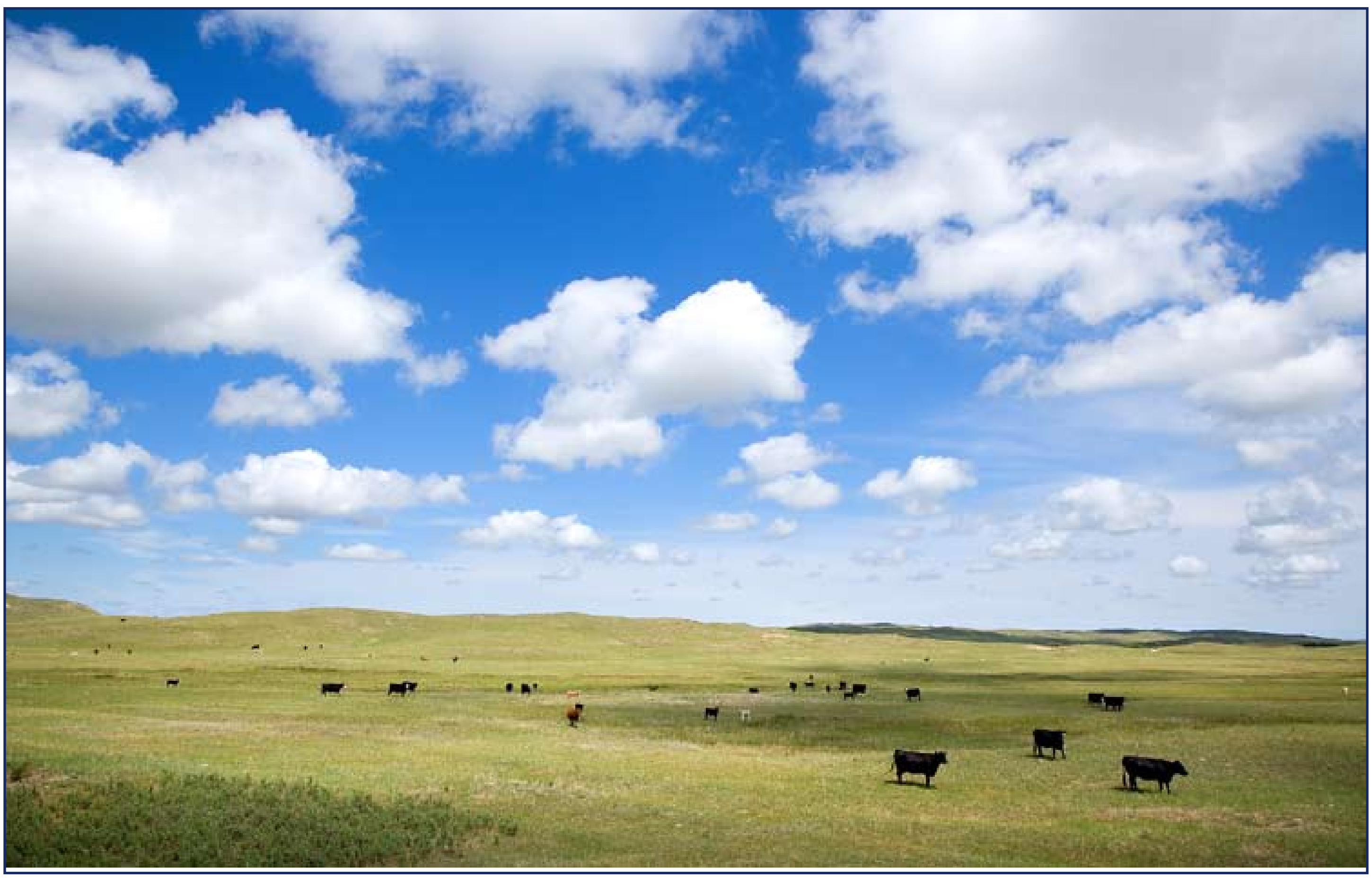
Federally Inspected Cattle Slaughter 1985 - 2006



Source: USDA Monthly Livestock Reports
compiled by www.CommodityAlmanac.com

The increase in demand for Feeders comes at a time of the year when available supply is usually low...

The increase in slaughtering is balanced out by increasing demand on the Live Cattle (or slaughter ready) side of the Cattle industry. However, on the Feeder Cattle side of the industry, increased slaughtering means more space in feedlots which needs to be filled. Because feedlots usually like to operate close to capacity, the demand for Feeder Cattle tends to increase.



The increase in demand for Feeders comes at a time of the year when available supply is usually low, as many cow/calf producers prefer to birth calves in the spring, when weather conditions are mild and pastures are bountiful. Good pasture conditions also give cow/calf (or stocker) operations the option of pasturing feeder weight animals for longer periods of time, which makes them less likely to chase demand. This dynamic can be seen by the fact that August Feeder Cattle futures have risen in 12 of the last 15 years between the 8th to last trading day of May and 7th trading day of July.

On average during the above mentioned time period, August Feeders have increased in value by +3.25 cents/lb. The largest break during this period which occurred in a year which saw a gain (Worst Draw on Win) was -5.47 cents/lb and occurred in 2005. The average break is -1.72 cents/lb, while the average gain during this period on a settlement basis is +4.67 cents/lb.

Technically, August Feeder Cattle futures are in a strong uptrend. In recent sessions, prices have backed off, possibly working off an "overbought" situation. The recent consolidation in prices appears healthy, and there is major support below the

HYPOTHETICAL PERFORMANCE RESULTS
August Feeder Cattle Futures Changes in Cents/Lbs
Enter Approximately May 21st / Exit Roughly July 11th

Entry Date	Entry Price	Exit Date	Exit Price	Closed P&L (pts)	Closed P&L ($)	High Price	Low Price
5/19/2006	106.22	7/12/2006	113.72	7.50	$3,750.00	117.92	79.25
5/19/2005	112.33	7/12/2005	109.65	-2.67	($1,337.50)	113.92	70.12
5/19/2004	102.92	7/12/2004	113.55	10.62	$5,312.50	114.25	110.40
5/20/2003	82.97	7/10/2003	87.33	4.35	$2,175.00	88.30	90.00
5/21/2002	74.17	7/10/2002	76.42	2.25	$1,125.00	78.40	55.05
5/21/2001	90.95	7/11/2001	90.42	-0.53	($265.00)	92.75	75.30
5/19/2000	83.82	7/12/2000	87.77	3.95	$1,975.00	88.35	84.90
5/19/1999	73.92	7/12/1999	77.47	3.55	$1,775.00	78.77	51.80
5/19/1998	76.07	7/10/1998	71.77	-4.30	($2,150.00)	76.75	46.90
5/20/1997	77.30	7/10/1997	81.13	3.83	$1,915.00	81.82	85.35
5/21/1996	55.55	7/10/1996	62.13	6.58	$3,290.00	62.95	78.80
5/19/1995	66.00	7/12/1995	66.52	0.52	$260.00	67.88	34.60
5/19/1994	74.52	7/12/1994	78.65	4.13	$2,065.00	78.65	41.00
5/19/1993	84.82	7/12/1993	87.65	2.83	$1,415.00	88.65	39.25
5/19/1992	75.42	7/10/1992	81.55	6.13	$3,065.00	81.85	32.10

			In points	In $'s		In points	In $'s
# Trades	15	Total P&L	48.74	$24,370.00	Max Draw	-1.72	($862.36)
# Win	12	Avg. P&L	3.25	$1,624.67	Avg. Draw		
# Loss	3	Avg. Win	4.69	$2,343.54	Min. Draw on Win	-3.42	($1,710.00)
% Win	80%	Avg. Loss	-2.50	($1,250.83)		-3.65	($1,460.00)

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

market from 108.50 to 107.25.

Option traders may wish to take advantage of the bullish bias in Feeder Cattle combined with the major support level by establishing an August 108/106 Bull Put Spread. This strategy involves writing one put option, and buying a second lower strike price put option. Bull Put Spreads are established for a credit, in this case 0.75/lb – and are a limited risk/reward strategy. The maximum risk on this strategy – as of 05/19/07 – is 1.25 cents/lb, with a maximum reward of 0.75 cents/lb. With the August futures settling at 111.15, this strategy is a speculation that the August futures will remain above 108 in the coming weeks.

Feeder/Live Cattle Spread

Feeder Cattle futures not only gain on an absolute basis, but also on a relative basis versus Live Cattle, especially from late May through mid June. In each of the last 15 years, August Feeder Cattle futures have gained relative December Live Cattle from roughly May 21st through June 11th.

Because Feeder Cattle futures are traded on a 50,000 lb contract versus Live Cattle futures 40,000 lb contract, the price movement of these different cattle types is not equal and requires traders to look at the spread on an equity basis.

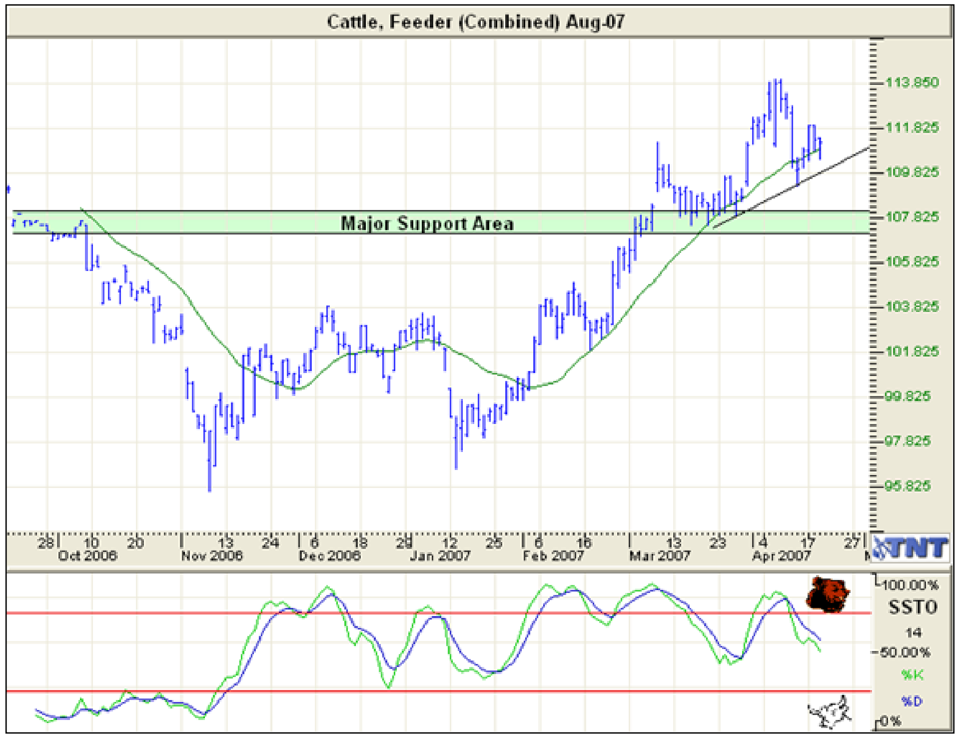


Chart courtesy of Track 'n Trade Pro.
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Charted on a equity basis, this spread looks to be in a strong upward trend. Momentum – as measured by MACD – is trending higher as well. As long as prices stay above the upward sloping trendline initiated from the January 23rd low, traders should consider the trend bullish.

This spread is also at the lower end of its 3 year price range as well, despite the current rally. This should be viewed bullish as well, giving a hint of the possible upside potential of this spread this year.

Some inter-market spreads are based on contracts with two different contract sizes – for example, Live Cattle and Feeder Cattle. Though both are livestock futures, the Live Cattle contract calls for delivery of 40,000 lbs, making a 1.00 cwt move worth $400 per contract. The Feeder Cattle contract is based on 50,000 lbs, making a 1.00 cwt move worth $500 per contract. Thus if one were to simply chart the difference in prices, no assumption could be made as towards profitability of the spread.

In order to adjust the spread to represent profit or losses, the trader must find the total dollar value of each contract and plot the dollar value differential.

Dollar Value of Contract = Contract Size * Price

Now that each contract is presented on a Dollar Value per Contract basis, this differential is plotted, giving the trader an equity chart representing the spread. The Equity Chart allows the trader to visually inspect the spread, and understand whether or not they are making money.

Feeder Cattle futures not only gain on an absolute basis, but also on a relative basis versus Live Cattle, especially from late May through mid June.

Conclusion

Traders should always keep in mind that in the futures market, it is wholesale demand that drives prices much more than retail demand. Wholesalers have to secure supplies ahead of distribution through retail channels. As such, periods

August Feeder Cattle – December Live Cattle on an Equity Basis Long August Feeder Cattle / Short December Live Cattle Enter Approximately May 21st / Exit Roughly July 11th							
Entry Date	Entry Price	Exit Date	Exit Price	Closed P&L (pts)	Closed P&L ($)	High Price	Low Price
5/22/2006	19520	6/12/2006	20313	793	$ 792.50	20560	19473
5/20/2005	20685	6/10/2005	21085	400	$ 400.00	21853	21088
5/21/2004	17935	6/10/2004	18530	595	$ 595.00	19075	17660
5/21/2003	12950	6/11/2003	13037	87	$ 87.00	13395	12845
5/21/2002	10645	6/11/2002	11817	1172	$ 1,172.00	11817	10645
5/21/2001	15335	6/11/2001	15492	157	$ 157.00	15505	15317
5/22/2000	12917	6/9/2000	13735	818	$ 818.00	13965	12917
5/21/1999	10890	6/11/1999	11835	945	$ 945.00	11835	10842
5/21/1998	10487	6/11/1998	10937	450	$ 450.00	11082	10290
5/21/1997	10445	6/11/1997	10715	270	$ 270.00	11010	10115
5/21/1996	2867	6/11/1996	4097	1230	$ 1,230.00	4737	2867
5/22/1995	7492	6/9/1995	7910	418	$ 418.00	7910	7112
5/23/1994	8752	6/10/1994	9162	410	$ 410.00	9202	8737

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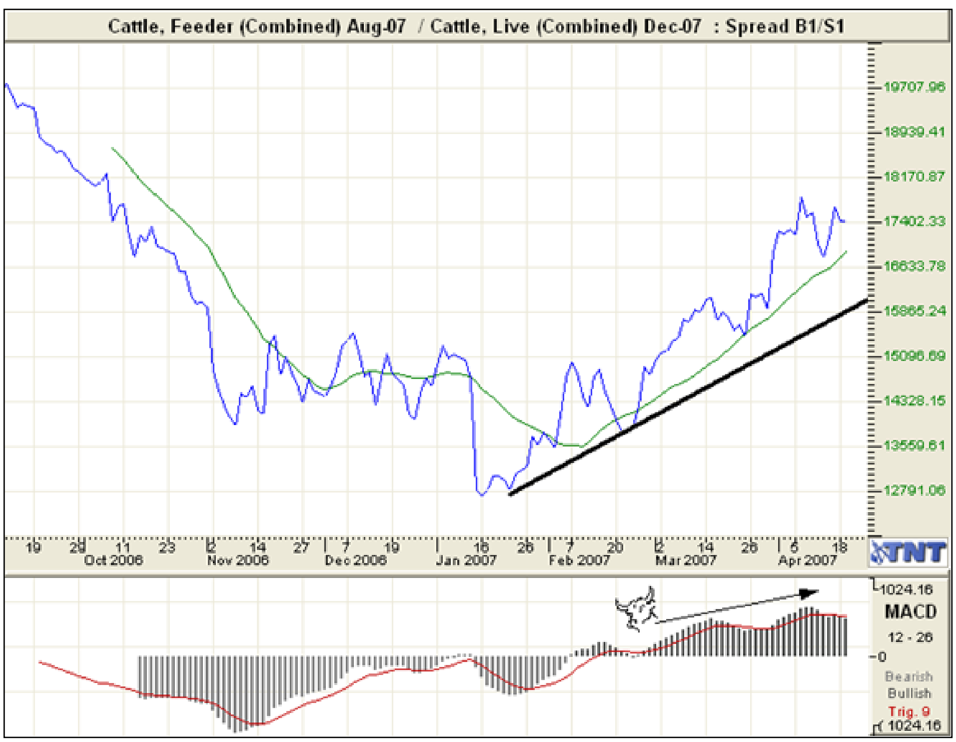

Chart courtesy of Track 'n Trade Pro.
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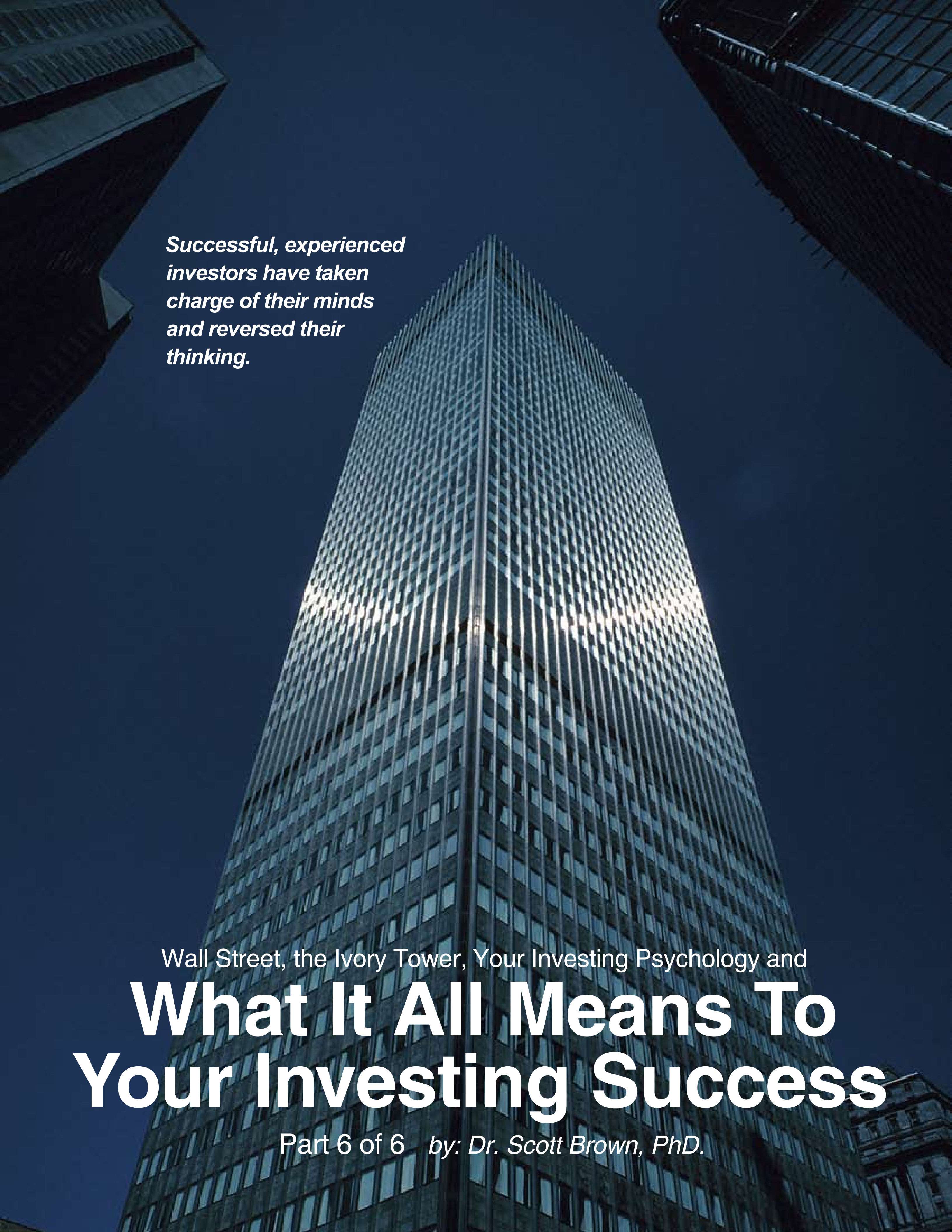
of well-known increases in retail demand – such as the summer driving season as well as the summer barbeque/"BLT" season – are usually priced in before the event. Case in point - as we showed in the Pork Complex futures in most years – Lean Hogs and Pork Belly futures.

Understanding how supply comes about is also useful. By simply understanding that as supply leaves the feedlot, it has to be replaced gives the astute trader a leg up in understanding the tendency for Feeder Cattle to gain around this time of the year – both absolutely as well as relative to Live Cattle.

Armed with these tendencies, traders can incorporate them into analysis and hopefully make more informed decisions about their speculative endeavors.

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



Successful, experienced investors have taken charge of their minds and reversed their thinking.

Wall Street, the Ivory Tower, Your Investing Psychology and

What It All Means To Your Investing Success

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

Not many people can master short term trading because it is not right for their psychology, and you have very real disadvantages off the floor in terms of high transactions costs and informational time lag. Psychologically you have to play a perfect high-attention, low-error rate game in the markets in the short run. Very few people are competent card counters in Black Jack, for instance, for exactly the same reason.

I personally became impatient with the predominance of "get rich quick" stock investment courses that focus on short run stock investing. In response, I developed a common sense, non-mathematical approach to long term stock investing that teaches people how to buy low priced stocks that may rise significantly over a three to ten year period using long term price charts. I really do teach people in my home study course what corporate America and Wall Street don't want them to know about long term stock investing where potentially huge "R multiple" trades are — R multiples are a concept developed by my friend, Van Tharp, Ph.D. I consider this hyper value investing because I buy stocks that are so low priced. Here is the mechanics of how this works:

The Importance of Buying Low and Selling High

First of all I want to assert that the only way you can get rich is to sell a financial asset for less than you bought it — buy low and sell high, or sell high and buy it back low. There is no other way to acquire wealth in the stock market. Investors will be pitched many different strategies, but all wealth-building — as opposed to income-producing — strategies simply amount to acquiring an asset at a much lower price than you sell it.

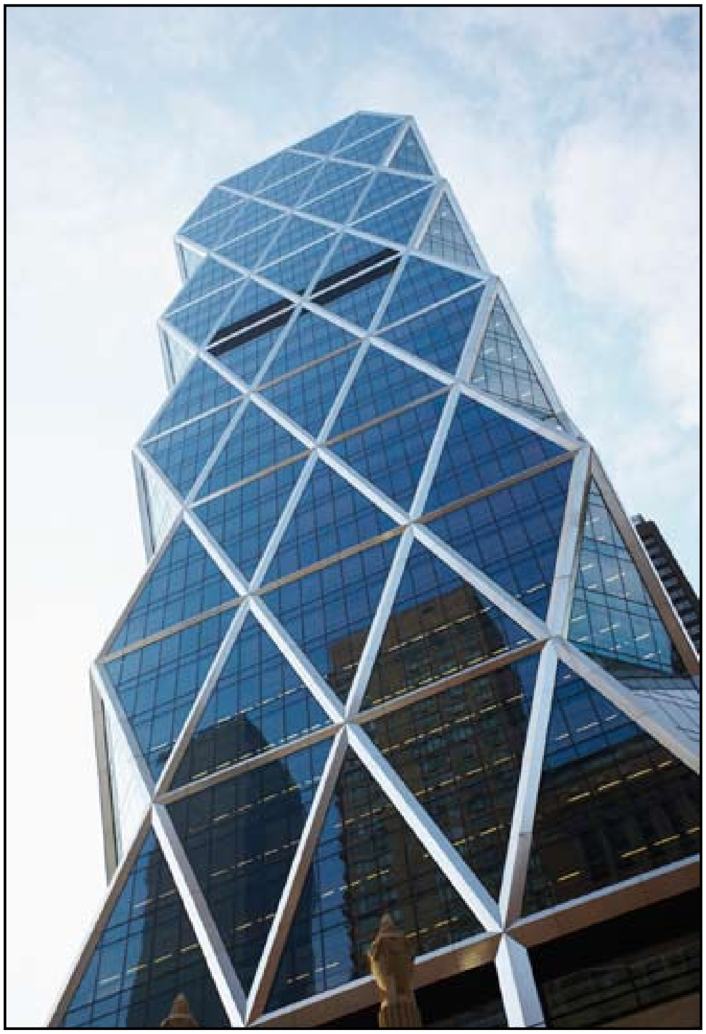
The reason buying low and selling high is so difficult is due to social wiring. We live in a society where we go to specialized retailers for everything we consume. We have learned that when something we buy is a real bargain it is so because of inferior quality — in some way it is defective, or spoiled. This has been programmed by direct experience into our thinking and helps us shop for food, a car, or a home, but hurts us as investors. Alternatively if you noticed something is high priced it is normally of higher quality. Even worse, when prices go up, sometimes they surprise us. Surely you've noticed that when everyday commodities go up in price quickly you never know how high they are going to go — gasoline right now is a case in point.

Financially Harmful Social Wiring

In other words, if you see something cheap in your day-to-day life, it is probably bad and if you see something else going up in price it is probably going to keep going up a lot more. Both of these patterns are hardwired into your thinking and are fatal to your investment life. This way of thinking works well for shoppers but it causes the inexperienced investor to lose lots of

money in the stock market. First, the inexperienced investor is repelled from the stock market by low prices because he thinks, "there must be something wrong with these companies." Second, the inexperienced investor is attracted into the top of a bull market by media hype and any news of windfall profits because he thinks, "if everybody else is making a quick buck so can I." So the stock market goes through its shaky dance as it slowly rises from a prior crash and then abruptly falls to dismal depths from stellar heights. The savings of an inexperienced public are wiped out who simply didn't know enough not to buy high. Successful, experienced investors have taken charge of their minds and reversed their thinking. They buy stocks when they look bad to the public — after they have crashed. In fact, when the stock market really stinks, like it does these days after a severe bear market, successful stock investors go on a buying spree while the rest of the public looks the other way!

So why does the stock market go up and down so much throughout the decades? There are three major forces. The first is the inexperienced public that reacts inappropriately to the market through negative feedback loops that make them pile onto rising markets to later get crushed on the down slide. The second factor are inside corporate executives that force their crony controlled boards to "gift" them employee stock options



for free at very low prices after a market crash. These same managers then dump their options on the public at stellar prices after they hype the price up. The last force that drives the market are pools of investors that buy stock low to corner the float to force up the price and sell high.

Market Force #1: Inexperienced Investors

Why do people who are green to the market mess it up so when it comes to stock investing? They are right in the middle of a price move and dead wrong at the top and bottom where it counts! The answer has to do with why people are susceptible to fraudulent high yield investment scams.

Con artists are everywhere. I am sure that you have seen them come through your circle of friends and acquaintances. You know what I mean. The "friend" with the new multi-level marketing scheme. The relative stranger hard pressed to become your "new" friend. He or she wants a special meeting with you to show you how "their best friend's girlfriend is receiving monster checks every month and has quit her job because of it?" I know you hate to admit it but you have probably been sucked into at least one of these schemes — I have. This happens because you are shown by the promoter of the scheme that all you have to do to get rich is to get in early. The same thing happens in the stock market but on a less personal level. People see the stock market is low but they are afraid because they don't know if it will go lower and don't know a lot about stocks. The market rises and they hear a few stories of people getting rich. It rises even more and they hear more stories. Finally, after stock prices have risen a lot, more and more people buy in because they are afraid they are going to "lose out." Unfortunately most people buy in, at, or near the top of a bull market — or they then hold too long because they do not know how to read the signs of a bull market at its end. This is why people are right about the direction of the stock market in the middle of a major move but wrong at the top and bottom where it really counts.

Market Force #2: The Inside Corporate Executive

Another powerful force in the market today are Employee Stock Options (ESOs). These were designed to help corporations recruit the best talent into their key profit center processes — they were never designed specifically for upper management. What has happened is that inside corporate executives rise to the top more from deft corporate political maneuvers than management skill. They have intentionally rested control of the board of directors from the shareholders who actually own the company and have raided the employee stock option corporate treasure chest. The vast majority of stock options today are controlled by the CEOs of the companies that issue stocks you invest in — ESOs are not equitably distributed throughout U.S. corporations. This is akin to the manager of a McDonalds franchise becoming the boss of the franchise owner. The rigid control many inside corporate executives have over the board of directors — they are often also the president of — allows them to force the company to "gift" them billions of dollars of stock at no cost to the executive. This ultimately costs shareholders and public investors their retirement dollars. Employee stock options give inside corporate executives the ability to make risk-less profits in the stock market — in finance this is called long term equity arbitrage.

Furthermore, at very low stock prices inside corporate executives are able to force the board of directors that they control to gift them even more employee stock options as prices continue to languish. When stock prices are low they are able to get their options gifted at the lowest possible price. The inside corporate executives and manipulators want either bad news or no news floating around the market at this time so that the in-experienced public ignores the stock. Inside corporate America now controls the board of directors of virtually all news media companies in the United States. I strongly suspect that company specific financial news is selectively released by the media under the supervision of colluding inside corporate executives trying to increase the stock price of the companies they manage and hence the payoff on their employee stock options.

Market Force #3: The Invisible Insider

Lastly, there are men who force stock prices to move with sheer buying power. We have journalistic evidence of market manipulation in the 1800s. Men like Cornelius Vanderbilt, Jay Gould, Daniel Drew, and J. P. Morgan were known to secretly buy up stocks low while spreading bad news about the company. Once they owned most of the outstanding shares of the common stock — called the float — they would spin on their heels and spread good news about the company. The small amount of outstanding stock allowed to "float" combined with sudden good news forced the stock price upward and squeezed short sellers into a corner — hence this manipulation is called a "bear corner." The creation of the SEC in the 1930's as well as market reforms and the imposition of reporting requirements of inside corporate executives as well as large shareholders, forced market manipulation underground. Yet even today, the SEC routinely prosecutes manipulators that have cornered shares in the penny stock markets — watch the movie "Boiler Room" starring Ben Afleck. I call this group the 'invisible insiders' because I believe that they still buy today as teams even in larger cap stocks under the radar of the SEC reporting requirements — I point to history as evidence.

The history of publicly recorded market corners indicates that some were very quick — occurring over a few days or a few months. Quick corners attracted undesirable "stags" into the market for a particular stock being cornered in two key ways. First, people noticed that the stock price was rising very rapidly. Second, people noticed that there was a lot of trading volume in the stock from the fast and heavy buying of the manipulators. When manipulators buy up a stock they want to do everything possible to keep it a secret. This means that they don't want any obvious traces that they are doing it. The best way they can accomplish this is to spread their purchases out over the long term when prices are low for a number of years.

Long Term Technical Analysis

You may be thinking, "This is all great Scott, but how can it make me money?" My answer to you is that if you understand these key underlying market forces you can use this knowledge to read long term price charts correctly and invest profitably with the 'smart money'. These three market forces allow you to understand why the stock market and individual stocks go through wide price swings from low to high and back to low again in an endless cycle that will continue as long the stock market exists. Most people are terrified of buying low and selling high but this is exactly how people got rich when they sold at the end of the eighteen year bull market that ended in 2000 — selling the stock they bought dirt cheap in the languishing markets of the eighties.

In a nutshell, I believe that manipulators have been forced to become hidden insiders in the long term over multiple years. They have the staying power of experienced investors who buy low and hold over long periods of time while working together intentionally or unintentionally with inside corporate executives who network with other insider controlled boards. These factors work together to make the stock attractive to inexperienced public investors who are then attracted into the top of the market by all the media hype — hype that is directly or indirectly controlled by inside corporate executives. After WWII corporate America virtually bought up all media sources — all financial news you read or hear is under the direct or indirect control of inside corporate executives.

...all financial news you read or hear is under the direct or indirect control of inside corporate executives.

Once experienced investors, hidden insiders, and inside corporate executives have sold all of their stock holdings to the feverish public, the price drops to record lows and the public begins selling out in discouragement — losing a large part, if not all, of their personal retirement savings. Members of the uninformed public who prudently buy stock at low prices are the experienced investors who have learned over the years the vital need to do so. It is at this point when stock prices are very low compared to the top of the last bull market that corporate attorneys work overtime for the CEO to secure large employee stock option gifts through their crony controlled board thus setting themselves up for the next bullish multi-year price run.

Bonanza Bottoms

The most reliable way to spot a buying opportunity as a technical analyst is to learn to recognize the most powerful reversal pattern known — the 'saucer bottom' or even better yet the very flat saucer bottom that I call a 'bonanza bottom.' The bonanza bottom is a very gradual turn from down to very flat sideways, to up. This technical price pattern can only be seen only on weekly and monthly multi-year charts. These long term trading ranges are where inside corporate executives can exert the greatest power for the gifting of stocks from exasperated firm shareholders who have given up hope. In addition I suspect that experienced buyers gradually buy up the float from the inexperienced public who bought at high prices years before. They continue to sell out of a plummeted stock to smart money as share prices just refuse to go back up. At the bottom of a bear market this creates a constant downward pressure on prices. As manipulators and experienced investors gradually buy these low priced stocks that seem to refuse to increase in price this exerts a constant upward pressure on prices creating the floor on the price channel. Alternatively, as the public sells out this creates downward pressure on the stock price. The net effect of these two forces is to create a narrow trading range between which the stock price oscillates forming a bonanza bottom. I chose this name for this special price formation because a bonanza is an especially rich vein of precious ore or a happening that brings good fortune — an opportunity to make lots of money.

I have found a way to identify when corporate insiders and others that seek to gain controlling interest in specific stocks do so by buying under the radar of the SEC. I teach you how to see where insiders might potentially do this on long term multi-year charts. Insiders spend months or years accumulating a stock issue before they hype it to a public to drive up the price. All you have to do is buy into the long term narrow sideways channel and wait. In the meantime you don't just twiddle you fingers because I teach you a way to make long term income through covered calls as you sit on the position.

Once the stock starts to rise you simply stop selling the covered calls and hang on for the highly profitable ride up! Then you get out when the insiders dump their stock holdings on the public's head — as has been widely documented at the end of the last century. I don't look at the market as a whole I look at accumulating, pumping, and dumping of specific stocks. I don't just talk about the big Wall Street Machine, I teach people how to stalk it!

What is critically important is that I have found a stock investment system that is perfect for my psychology that I am most comfortable with. I don't like to watch the stock market much and with my system I can check my portfolio just once a month if I so desire. I hate being glued to a monitor and for this reason have found that short term trading is not for me. I am so firm on my understanding of this key point that I really don't want everyone in the world as a student of my course. I only want people who are seeking a stock investment strategy that allows them to buy stocks very low, not have to monitor the positions frequently, and then sell their stock holdings at potentially very large R multiples after a number of years. It's what the insiders don't want you to know!

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

Paul Brittain & Carley Garner

Alaron Las Vegas

In this month's PitNews Exclusive Interview, we had the opportunity to speak with the driving forces behind Alaron Las Vegas: Paul Brittain and Carley Garner. This hard-working duo explains what it takes to make it as a futures and options brokerage – from incredibly early mornings, to trading education, to a healthy dose of candor. How do they do it? Read on.

PitNews: What lured you to the commodity markets?

Paul: I grew up in North Western New Jersey, which was, contrary to popular belief, primarily a dairy farming area. I spent my teenage years working on farms where feed corn was the only crop grown. So we were well aware of the prices of milk and corn, it was part of our daily lives as well the driving force behind the local economy. This was during the shake and bake '70s where you had explosions in just about all commodity prices, which culminated in the precious metal run of 1980. So commodity futures were in the headlines going into my adult years. I entered the business in May of 1983 as an option specialist, which at the time was pretty much unheard of, due to the fact that there were really no options trading on the US Exchanges.

Carley Garner - Senior Analyst and Assistant Branch Manager of Alaron Las Vegas, and **Paul Brittain** - Vice President of Alaron and Branch Manager of Alaron Las Vegas

PitNews: Carley, what is it like being in an industry that seems to be dominated by males?

Carley: You are right; there are very few women in the commodity business. In fact, several years ago if you would have visited a futures exchange or a typical brokerage firm, you would have likely mistaken it for a frat house. It makes perfect sense, though. The markets, and specifically trading, is a game of adrenaline and egos. I will leave it at that. However, there have been profound leaps and bounds made in terms of the business embracing women and what they bring to the world of trading.

PitNews: Is it true that most commodity brokers fail?

Carley: Yes. During my time in the business I have seen a lot of brokers come and go…mostly go. There is a gross misconception in the amount of money the average broker makes. Believe it or not, a large number of brokers are making less than they could flipping burgers at McDonalds. Most people don't understand that if they are paying $35 in commission, the broker is only getting $5 - $10. Just as everything else in the world of business, the 80/20 rule applies. 20% of the brokers in this business are making 80% of the money. Don't believe everything that you see; *Trading Places* was a movie, the reality is far different. Don't get me wrong, there is a lot of money to be made, but it isn't the fairytale that the media would like you to believe.

PitNews: What makes a good broker a good broker?

Paul: A good work ethic combined with honesty, integrity and discipline. In my opinion most brokers really miss the fact that their primary job is to provide service through market access as well as unbiased and balanced information to their customers. Too many brokers are "wanna-be" traders who truly believe that they have the unrealistic ability to see the future like no one else can, and so they put all their efforts (if any) in the wrong direction. A broker needs to be, and remain, emotionally unattached to the markets in able to see the writing on the wall. Their unrealistic expectations are usually dashed by the realities of the markets and trading within the first year of their entering into the business. This is why over 90% of new brokers don't last more than 18 months in the business, and that number is being generous in my opinion. A good broker is truly one the rarest of commodities.

A good broker is truly one the rarest of commodities.

PitNews: What makes you different than most of the other brokers in the industry?

Paul: Transparency. I am not afraid to show the world when I am wrong. My team here in Vegas is the only group of brokers that has enough guts to show the world our trades before we do them, and let show the trade from beginning to end as well as the underlying analysis that led us to the trade. We know of nobody else that does that. They are all willing to show trades afterwards, which opens the door to "cherry picking." We stand on our motto that "seeing is believing" and everything else is just smoke and mirrors. With that in mind we started our educational division, Commodity Trading School, back in 2004.

PitNews: What does a typical day of work consist of?

Carley: Being on the West Coast has its advantages and disadvantages. We have to be in the office for the open of the New York commodities, this means 5:00 AM Pacific time, obviously a disadvantage. The advantage is that you can squeeze in a 12-hour work day and still get home in time to see the 6 o'clock news. We make ourselves available to clients from 5:00 AM to 5:00 PM (8:00 to 8:00 for those on the East Coast), during which time we manage to keep ourselves extremely busy. The morning hours are reserved for trading. This involves overseeing our managed accounts, taking incoming orders and questions as well as distributing trading opportunities through publications such as The Optionologist, should one arise. During the afternoons, we are busy with market research, writing newsletters (such as the Dow/Nasdaq Report and The Beast). We also provide web content to various sites and write articles for magazine publication. Throughout this part of the day we also prospect for new clients, and assure that existing clients are getting the attention that they deserve.

PitNews: What is your schedule like?

Paul: Due to the fact Vegas is three hours behind the real world, New York, our day trading starts at 5:00 AM when we open the office. I get out of bed at 3:00 AM in order to "get ready" for the day. From 3:00 to 5:00, I am going through the markets, analyzing the overnight action to see if the potential trading opportunities from the day before are still in line; I also start "shopping for option opportunities". Besides being a broker I also have to wear many other hats. I manage the Alaron Las Vegas branch where I oversee the day-to-day operation of the business of a brokerage firm. I also run a Commodity Trading Advisory (CTA) "The Pirates of Profit", the free educational service Commodity Trading School, as well as provide research and content for many publications, along the newsletters we publish on a daily basis. My work days are usually 14-16 hours long just, and I am usually at it 7 days a week. Like I tell the rookie brokers, this isn't a 9-5 job, it isn't even a job really…it is a life. You need to eat and breathe trading 24/7.

PitNews: You seem to prefer option trading over futures, why is that?

Carley: A futures trade immediately begins to make or lose money once executed. We believe that option trading, specifically option spreads, provide a way to be exposed to the market with a reduced amount of volatility. Not only will you see smaller changes in your account balance as the market fluctuates, but you will also give yourself room to be wrong. For example, depending on the structure of the trade and the fill prices, it is possible to be absolutely wrong in the direction of the market and not lose money. If filled at a credit, you may even walk away a winner despite the fact that your speculation was incorrect. However, trades such as these involve theoretically unlimited risk in the form of a naked short option. So if you are extremely wrong, it may be equivalent to holding a futures contract.

PitNews: Which strategies are you most fond of?

Paul: The winning ones, without question. Unfortunately I have no clue as to which trades they are going to be. I really don't have a favorite strategy; I let the market, and our analysis, dictate the trade as well as the strategy.

PitNews: You take a different approach to option trading than what is commonly seen, what is the reasoning behind the strategy?

Paul: Necessity and common sense, based upon the known odds of trading. Like many of our other Vegas brothers, we like putting the odds in our favor. Options are priced using a method of statistical risk analysis, much along the lines of an insurance model, which pretty much is the reason more options expire worthless than not. However, on the other hand, if it wasn't for the premium required to purchase an at-the-money option, they would be an unbelievably powerful tool. By constructing our option trades so that we are usually short more options than we are long, we tilt the odds of more options expiring worthless than not more in our favor. By adding a long option based upon our analysis into the mix, we actually create a synthetic futures trade with the primary option not being restricted by the usual intrinsic break-even, because we actually didn't pay for the option, the short option collection did. This strategy simulates a futures contract without the day-to-day volatility a futures contract experiences, as well as the suffering from the premium erosion that one would see in a "plain vanilla" long option position. Of course this strategy also emulates a futures contract as far as the overall risk if the market goes against the naked leg, but with a cushion.

Like many of our other Vegas brothers, we like putting the odds in our favor.

PitNews: What types of services do you provide?

Carley: Alaron Las Vegas is a leading source of market research and education, in addition to brokerage services spanning from managed accounts, full service or discount trading. Research and trade recommendations distributed by Alaron Las Vegas have garnered an impressive following. Paul's newsletters include The Optionologist, The Beast, and The Big Mac Daddy. The latter are technical futures trading methods, while the Optionologist consists of discretionary option trading recommendations.

I write commentary-based newsletters, the Dow/Nasdaq

Report and the Bond Report, which include charts and trade recommendations.

As a broker, it is a disheartening feeling to know that the commission earned on the account was minimal and lasted a very short period of time. It seems only natural to want your clients to do well, for psychological reasons as well as financial.

We are devoted to providing our clients, and prospective clients, with free market and trader education. Through a service that we provide through www.CommodityTrading School.com, beginning and experienced traders are welcome to attend online trading seminars, held several times per day. Attending is as simple as clicking on a link, and participants are encouraged to ask questions.

Alaron Las Vegas and CommodityTradingSchool.com have recently added tutoring sessions to the curriculum. This provides the opportunity for one-on-one interaction with an experienced broker at absolutely no cost or obligation. Tutoring sessions are designed to help traders in areas that they feel they need the most attention.

We also understand that many traders don't have the time or patience necessary to trade their personal accounts. Thus, Paul and I offer managed futures trading accounts through our CTA, the Pirates of Profit.

PitNews: Why would you provide free education, when others are charging thousands of dollars?

Carley: As brokers, we get an inside look at a side of the business that most people would rather forget about. Over and over again, we have seen beginning traders hastily open an account and churn themselves until there is nothing left. As a bystander, it isn't fun to watch. As a broker, it is a disheartening feeling to know that the commission earned on the account was minimal and lasted a very short period of time. It seems only natural to want your clients to do well, for psychological reasons as well as financial. Thus, we find that, although time-consuming, offering free trading education is better for everyone in the long run. The more money our clients make, the longer they trade and the more commission they generate. It is a winning proposition for all parties. •

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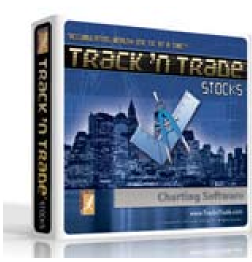

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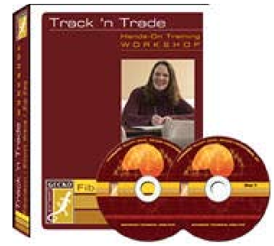

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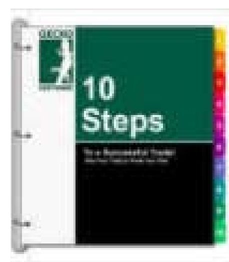

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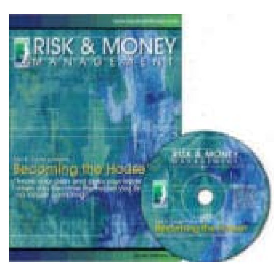

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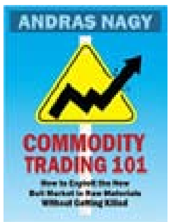

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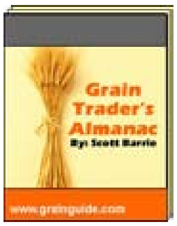

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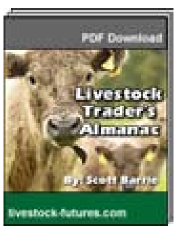

by: Scott Barrie, CFEA
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Thursday Moves in May: EURUSD

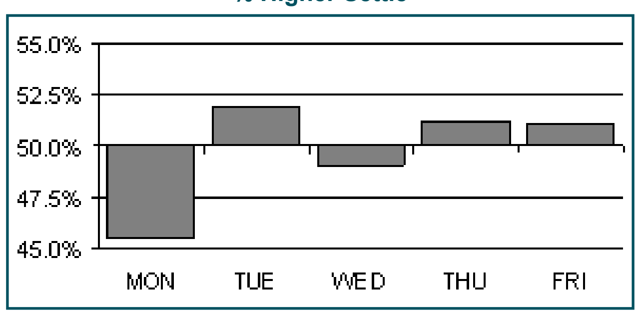
by: Scott Barrie

It may seem strange to some to think that a factor as simple as the day of the week could have an effect on a market as large as the multi-billion dollar Forex market, but it may well. However, traders may want to keep an open mind.

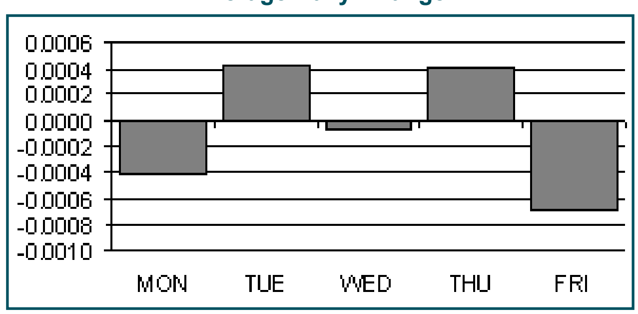
The Forex market, though huge in size, is still made up of people. The day of the week definitely has an effect on the behavior of individuals. Mondays tend to be the day when most get back to work or recover from the weekend. Fridays tend to be day when people are looking forward to the weekend. In the United States, Wednesday is "hump day" or the middle of the week. However, the trend of this innocuous mid-week day tends to be an excellent indicator for the following day, especially in May.

> ***... Wednesday serves as an excellent indicator for Thursday's performance a phenomenon especially prevalent in May.***

% Higher Settle



Average Daily Change



Daily performance is measured using the change from 5:00 pm ET between days. Past performance is not necessarily indicative of future results. Data compliments of Gecko Software, Inc.

Weekday Behavior

Historically, the best day of the week, both on a number up versus down and change basis is Tuesday for the Euro (EURUSD). The worst performing day of the week is Monday on a batting average basis, while Fridays have seen the largest losses.

Wednesdays fall right in the middle, with the 2nd worst batting average, and middle of the group performance on a settlement basis. Despite its lack-luster performance, Wednesday serves as an excellent indicator for Thursday's performance, a phenomenon especially prevalent in May.

Testing Procedures

Analyzing data for the Forex markets is a little different than other markets, such as Futures and Stocks. The Forex market is a 24-hour market, traded all over the world. When trading ceases in the United States – typically at 5:00 PM ET – it begins again in Oceania/Asia. The Asian session leads into European trading, which melds back into the U.S. session.

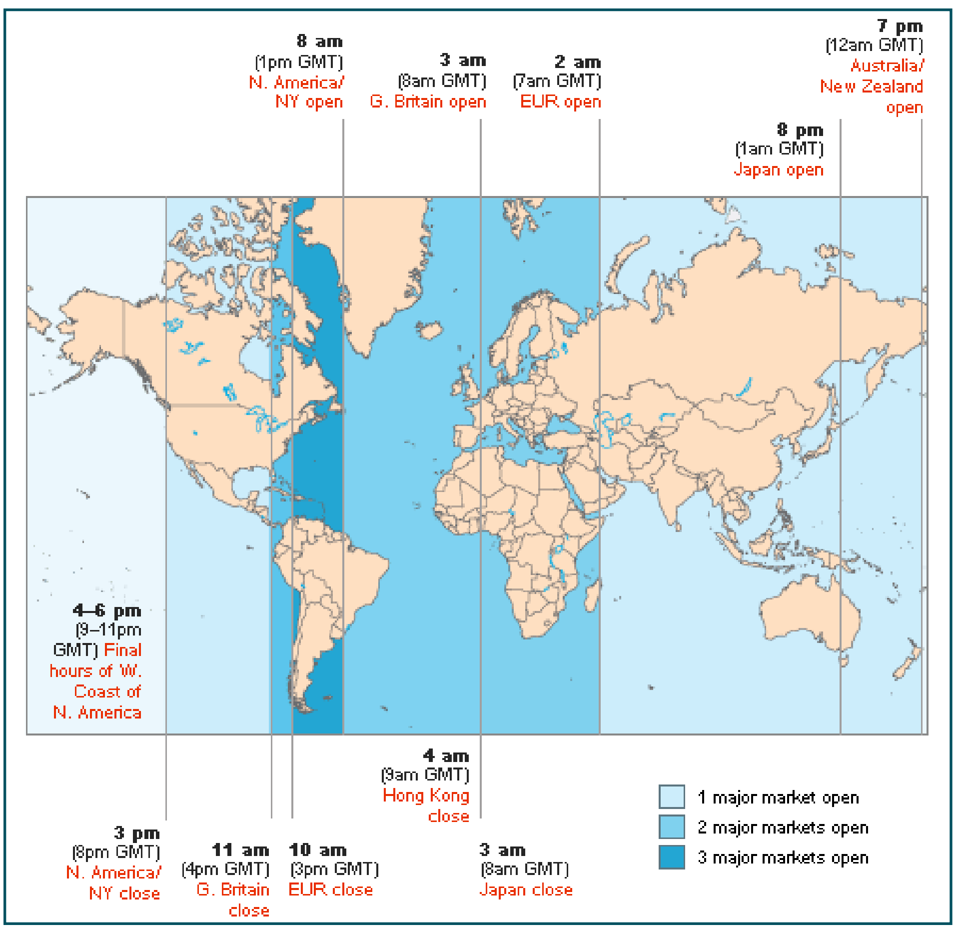
Unlike Stocks and Futures, which have official opening and closing times as they are exchange traded, Forex has no official opening and closing/settlement times. To convert this continuous data, many traders and analysts use 5:00 PM ET as a settlement time and 5:00:01 PM ET as the opening, allowing the construction of standard Open, High, Low, Close charts (OHLC).

Examining Wednesday/ Thursday Trends

The Euro officially came into existence on January 1st, 1999. Between 1999 and 2006, there have been 413 Wednesdays. Of these 413 occurrences, the Euro has posted a gain versus the US Dollar (EURUSD) 201 times and declines 207 times. Following the 201 Wednesday advances in the EURUSD, Thursday has seen EURUSD advance 92 times and decline 106 times, for an average change of +0.0001, or 1 pip. Following the 207 Wednesday declines during the testing period, the EURUSD has advanced 116 times and declined 91 times on Thursdays, posting an average change of +0.0008 or 8 pips. In other words, following a strong Wednesday, the EURUSD tends to under-perform its average Thursday performance of +4 pips, while following weakness on Wednesday the EURUSD has posted an average gain of +8 pips, or twice as large as average. Hence, traders may wish to look for Thursday's session to move in the opposite direction of Wednesday in general. However, this market bias tends to be especially strong during May.

Between 1999 and 2006, there have been 36 Wednesdays during the month of May. On Wednesdays in May, the EURUSD has advanced and declined 18 times each –18 up and 18 down – posting a total loss

FX Trading Times (ET And GMT)



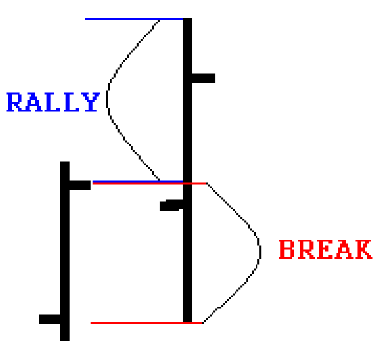
Forex Quoting Conventions

Forex rates are quoted in terms of one currency versus another. For example, the Euro versus the Dollar is typically quoted as 1.3286, meaning it takes 1.3286 US Dollars to purchase 1 Euro. The shorthand for this used by FX traders is usually the symbol EURUSD, as EUR is the symbol for the Euro and USD is the symbol for the US Dollar.

Currency rates are usually quoted out to 4 decimal places (0.0001). The minimum change possible in rate is known as a "pip", which according to one source stands for "Price Inflection Point." Either the decimal representation of changes (such as +0.0005) can be used, or the leading decimals can be dropped and simply the number of "pips" can be counted (such as +5 pips). Both methods of expressing change in price are interchangeable (i.e. +0.0005 = 5 pips).

of -0.0119 (average: -3 pips). Following the 18 Wednesday advances, the EURUSD has declined on Thursday 13 times (72.2%), losing a total of -0.0507 (average: -28 pips). Following the 18 Wednesday advances in the EURUSD, Thursdays have seen 9 advances and 9 declines (50.0%), posting a total change of +0.0388 (average: +22 pips). In total, the EURUSD has moved on Thursdays in May opposite Wednesdays settlement direction 22 of 36 occurrences (61.1%), moving on average +/-25 pips in the opposite direction of Wednesday's trend.

EURUSD Thursday Performance		
	Wednesday Up	Wednesday Down
#OCCURANCES	18	18
#UP	5	9
#DN	13	9
%UP	27.8%	50.0%
%DN	72.2%	50.0%
TOTAL CHANGE	-0.0507	0.0388
AVG CHANGE	-0.0028	0.0022
AVG RALLY	0.0035	0.0065
AVG BREAK	-0.0070	-0.0052
Past performance not necessarily indicative of future results. All results ignore transaction costs. Based on data from Gecko Software, Inc.		



Traders need to be aware of the performance of patterns beyond what is typically measured, or change on a settlement basis. The above table shows three additional measurements which can be useful for traders: Change, Rally, and Break.

Rally is defined as the distance between highest price during the period and the start of the period. In the case of the above table, the Average Rally is the average of change from Wednesday's settlement to Thursday's High. A Break is defined as the distance between the lowest price of the period and the price at the beginning of the period. In our example, the Average Break is the average distance between Thursday's low and Wednesday's settlement.

By measuring both the rally and the break, traders can asses how much positive and negative market movement has usually occurred. This gives the trader ideas of how potential risk is involved as well as profit potential. It is also useful in setting loss and profit objectives surrounding a pattern.

Trading the Wednesday/Thursday Trends

From the above analysis, traders can clearly see that historically Thursdays in May have tended to move in the opposite direction of the preceding Wednesday trend. FX traders can use this position to sell the EURUSD on Wednesday at 5:00:01 ET following a Wednesday rally, and buy the EURUSD at 5:00:01 on Wednesday following a break. Simply holding the position until Thursday (5:00:00 ET) has yielded fairly good results. Between 1999 and 2006, traders would have made 36 trades and profited an average of +0.0025 (25 pips) per trade.

Between 1999 and 2006, traders would have made 36 trades and profited an average of +0.0025 (25 pips) per trade.

In 6 of the last 8 years, this pattern would have shown a profit in total in May (profitable years: 2000, 2001, 2002, 2003, 2004, 2006 / unprofitable years: 1999 and 2005). On average between

Strategy Overview By Year			
Year	#Win	#Loss	Total Change
1999	1	3	-0.0079
2000	2	3	0.0085
2001	4	1	0.0147
2002	4	1	0.0090
2003	3	1	0.0233
2004	4	0	0.0384
2005	2	2	-0.0015
2006	2	3	0.0027

Past performance not necessarily indicative of future results. All results ignore transaction costs. Based on data from Gecko Software, Inc. and CFEA

1999 and 2006, this strategy produced +0.0109 (109 pips) in profits.

Though Thursdays generally tend to reverse Wednesday's direction throughout the year, as this article has shown, the tendency tends to be especially strong in May. Armed with this knowledge, traders may well wish to view Wednesday moves with a great deal of skepticism, looking for reversals as the Thursday trading session begins (5:00:01 ET on Wednesday). Historically, the tendency for Thursday reversals is strong and appears to be a very tradable pattern for traders to watch.

Of course, just because a pattern has worked in the past, it does not necessarily have to continue to work in the future. Market cycles change, as do patterns. However, the basis for all market analysis – technical and fundamental – is that past performance offers a clue towards the future. In the field of speculation, there are no guarantees. The best we can do is to attempt to find various patterns and trade them as long as they continue to work. As such, we must always be on the look out for new patterns, for some of the established patterns will stop working as market biases change over time.

Scott Barrie is a well respected author, derivatives industry consultant, public speaker as well as an active participant in the FX markets. He is currently developing a Forex reference website (www.FXAnnual.com), and will soon be making this available to the public. Scott can be reached at barrie@commodityseasonals.com

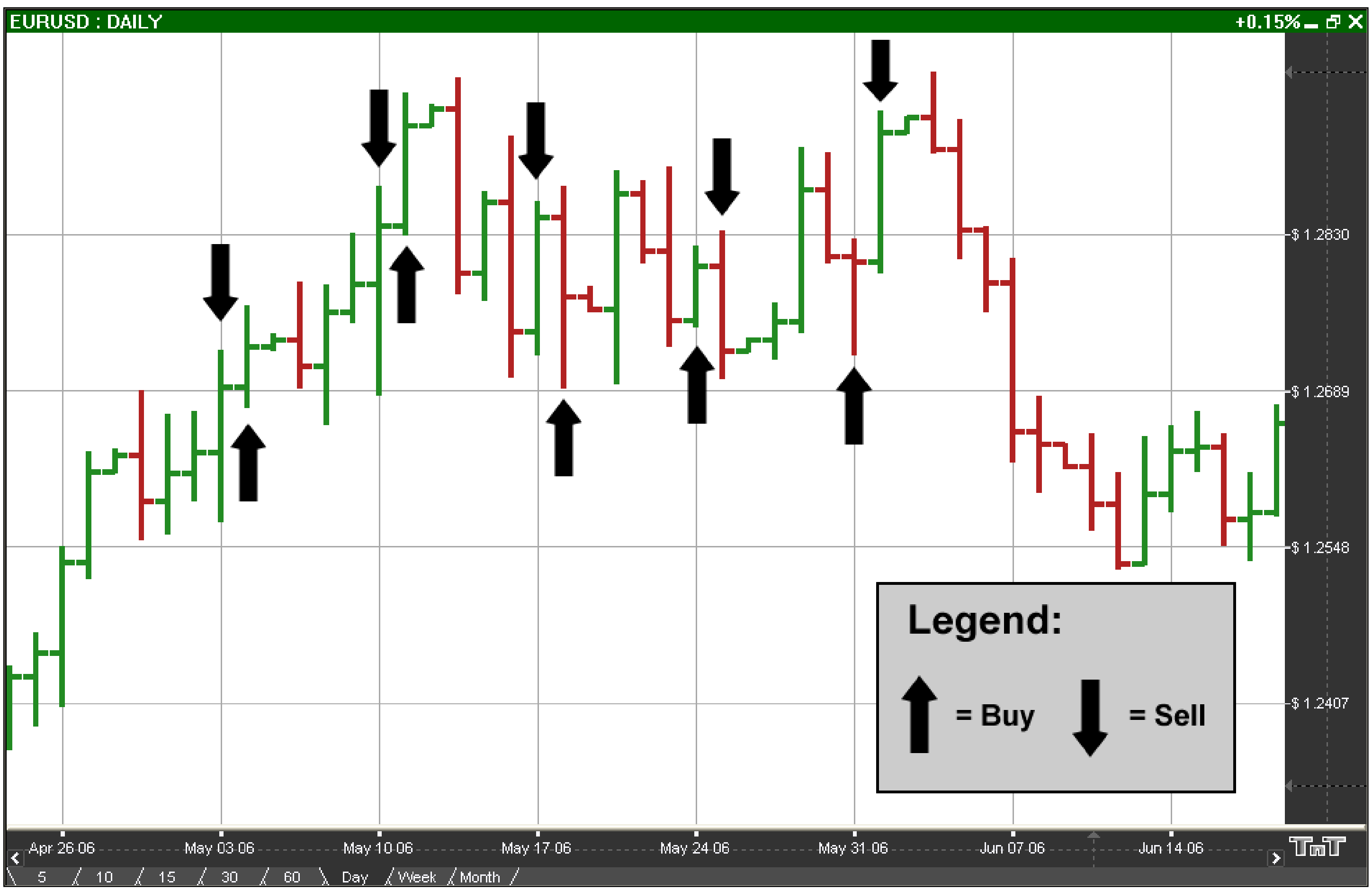


Chart courtesy of Track 'n Trade High Finance. Visit www.TracknTrade.com for a FREE Trial!

Life & Methods of W.D. Gann

By: D.K. Burton

W.D. Gann was born on a farm some 7 miles out of Lufkin, Texas at 10:34 AM on June 6th, 1878. He was first born of 11 children: 2 girls and 8 other boys of Sam H. Gann and Susan R. Gann.

At 13, Gann traveled the trains selling cigars and newspapers. In so doing, he overheard many conversations on investing—he listened.

Gann wondered if it were indeed possible to forsee the future. Many conversations he had overheard seemed to revolve around predicting the prices that their cotton would bring. Was it possible?

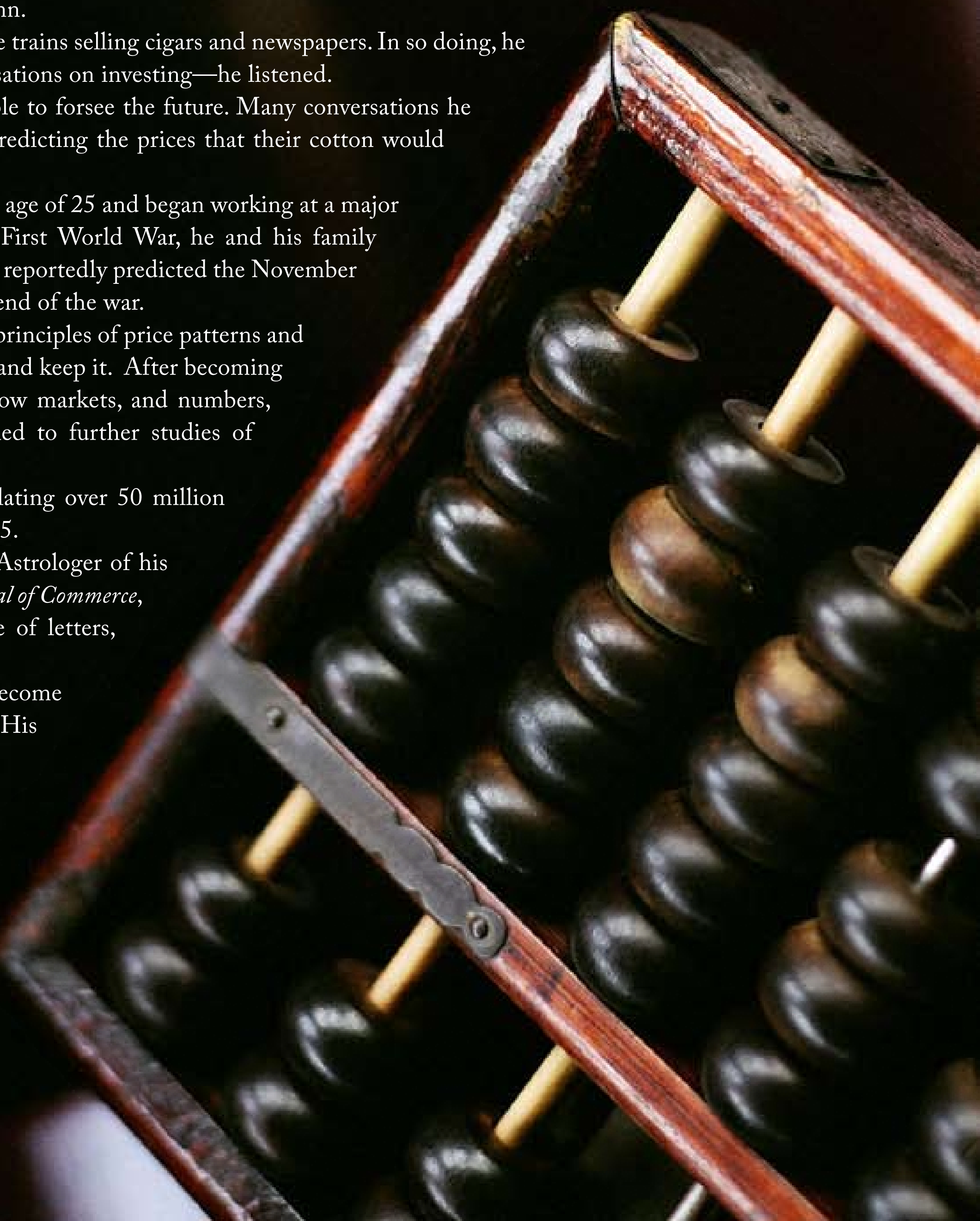
Gann moved to New York in 1903 at the age of 25 and began working at a major Wall Street brokerage house. During the First World War, he and his family moved from Manhattan to Brooklyn. Gann reportedly predicted the November 9th, 1918 abdication of the Kaiser and the end of the war.

W.D. Gann began by studying the basic principles of price patterns and philosophy on how to accumulate wealth – and keep it. After becoming successful, he wanted to know why and how markets, and numbers, repeated under certain time cycles. This led to further studies of ancient geometry and astrology.

This research resulted in Gann accumulating over 50 million dollars up until his death on June 18th, 1955.

W.D. Gann became the only Financial Astrologer of his time. To quote the January 15th, 1921 *Journal of Commerce*, "His calculations are based on the Science of letters, Numbers and Astrology".

Since his death, W.D. Gann has become something of a legend in financial circles. His capacity to make big financial gains – on the market, as well as the Cuban lottery and horse racing – gave him a reputation for uncanny foreknowledge of market trends. The rumor circulates even now that he would enter his numbers at the Cuban lottery on one date, and fly to Cuba on the day of the selection in his private plane to pick up his winnings without waiting for prior notification.



He is said to have predicted World War I in 1914 and the resulting panic in stocks. In March of 1918, he predicted the end of the war and the Kaiser's abdication. He forecasted improvements in business in 1921, and in November 1928 he forecasted the end of the bull market in stocks for September 3, 1929. He was often dead right in the 20's and 30's regarding the price variations in cotton and wheat. In 1935, of 98 trades in cotton, grain and rubber, 83 trades showed a profit. His percentage of profitable trades was often 90% and higher. Stories of this sort have led speculators and traders to ask just how it was that W.D. Gann achieved his stunning successes.

Gann was the author of numerous books on trading, in which he hinted at giving his secret, yet upon close study of his works, the real secret eludes most people. Instead, Gann himself suggests a mystical source for his method. In one of his books, *The Magic Word*, Gann promises "health, happiness and prosperity through the magic word, Jehovah". He treats the reader to a baffling pilgrimage through the most mystical parts of the Bible, often repeating himself and frequently asserting that, in some way (which he never makes explicit), Jehovah, which he calls "The Lost Word," is the key to the good things in life.

Gann traded and studied the market for over fifty years, accumulating over 50 million dollars during this time.

Numerous hints in Gann's writings alert the astute reader to his Masonic membership. The allusion to Jehovah as The Lost Word in the work cited above, for instance, is recognizable to Royal Arch Masons. W.D. Gann was a member of Commonwealth-Stella Lodge No. 409, Free & Accepted Masons, New York City. Yet his Masonic career is not the key to his successes on Wall Street. He was made a Mason on December 15, 1922 and "raised" a Master Mason on March 27, 1923. He "demitted" (dropped) his Masonic affiliation in 1939. Yet Gann himself was reported as saying that his "biggest discovery" was made in New York City in 1908. Whatever his secret, he had it long before his was a Mason.

Gann traded and studied the market for over fifty years, accumulating over 50 million dollars during this time. Gann stated that he would never reveal his secrets, at any price, however he did code a lot of his secrets of success in the books he wrote, titled *Tunnel Thru the Air* and *The Magic Word*.

The only means in which to replicate any of W.D. Gann's methods is to prepare charts by hand. Unfortunately, there are no computer programs in the world that incorporate all of the Gann methods, as computer calendars don't function prior to the 1900s. Data companies provide information going back to the 1960s with some contracts to the 1950s. Therefore, one cannot run larger Gann cycles on charting programs at present –only some short-term studies.

W.D. Gann used geometry, science of letters, numeracy, and cycles to forecast and trade the markets. He never invested in stocks. He did, however, trade stocks as well as commodities, preferring though to trade commodities, as be believed that they were easier to predict than stocks.

The first thing a trader must organize before trading is clean data that dates back at least 30 years. It may be necessary to hand-draw a number of charts. W.D. Gann kept yearly, quarterly, monthly and weekly charts in order to trade long-term positions.

W.D. Gann reportedly had wheat history dating back 1000 years, and cotton history dating back 400 years.

Most people don't understand Gann because they are not looking at the longer-term cycles. They do not realise that cycles less than 30 years can "flip-flop," or reverse.

One of the tools that Gann used is geometric angles. This is a moving average of time and price. The significant difference with these angles is that they are set lines projected into the future, not like other technical tools which lag the market.

Scale

When preparing charts, it is important to use the right scale. For a monthly chart you use a scale of 300, 30, 3, 0.3, 0.03 etc. For a weekly chart you use a scale of 150, 15, 1.5, 0.15, 0.015 etc. For a daily chart you use a scale of 100, 10, 1, 0.10, 0.01 etc. These scales are used ninety-five percent of the time.

Angles

The Geometric angles are as follows: 16 x 1, 8 x 1, 6 x 1, 4 x 1, 3 x 1, 2 x 1, 1 x 1, 1 x 2, 1 x 3, 1 x 4, 1 x 6, 1 x 8, 1 x 16. The 1 x 1 angle, or 45 degree angle, is the most important. The geometric angle 1 x 1 means you move across one box when charting and up one box on your chart paper, then draw the line. The geometric angle 2 x 1 means you move across two boxes and up one box and draw the line on your chart paper.

The angles are run from highs, lows and the zero line. The most important place to run the angles is from the extreme high and the extreme low on the monthly chart. When the angles are broken they will most likely move to the next angle. If the market closes above the angle, then it is more important then when the market just exceeds the angle. The longer the time period since the angle was crossed, the more important the break. If the market goes above the angle to generate a buy signal, then reverses to below the angle, it would generate a sell signal.

When the geometric angles are broken, it is proving that the long term cycles are in either an up trend or a down trend.

Below is an example of the Gann angle on the daily range (small time frame). You can see that Soybeans are in a weak position until they hit the next Gann angle, around $6.50 per/bushel.

Cycles

The long term cycles that W.D Gann used were 90 year, 82 – 84 year, 60 year, 50 year, 40 year, 30 year, 20 year, 15 year, 13 year, 10 year, 9 year, 7 year, 5 year, 3 year and the smallest cycle of 1 year.

The cycles are run from extreme highs and extreme lows and when all the cycles come together, you get the big moves – like the moves that you see happening this year.

Support And Resistance

Everything pertaining to the W.D. Gann method is broken into 1/8ths and 1/3rds. Again, you need to look at the extreme highs and the extreme lows. The highest July beans have reached in the past 30 years is $12.90 per bushel, and the lowest beans have reached is $4.095 per bushel. When you take the range of $8.80 and divide it into 1/8ths and 1/3rds, then add it to the low of $4.09, it gives you all of the major resistance levels on the way back up. You then take the second and third lower highs and add the 1/8ths and 1/3rds of that range to the low to obtain the resistance levels on the way back up. The strongest point of any range is the 50% level. Above the 50% level, you are in a strong market and below the 50% levels indicate that you are in a weak market. These may all just be short-term or long-term, depending when the cycles have bottomed or topped.

The first indication that the market has turned up is when the 25% level has been broken. This is the first strong resistance to indicate a change in trend. Also, it is important to divide the range from the major highs to zero and to mark the 1/8ths and1/3rds on your chart.

Chart courtesy of Track 'n Trade Pro. Visit www.TracknTrade.com for a FREE Trial!

Squaring Highs, Lows And Ranges

Take the extreme high again of $12.90, and when converting that to months we get changes in trend. When we convert the 1290 to months, we add 1290 months to the high date, giving us future dates for a change in trend. The high of July beans was made on June 5th, 1973. Because 1290 months is 39,264 days, you have to divide it into 1/8ths and 1/3rds like all other Gann concepts. So if we divide 39,264 days by 1/8ths and 1/3rds and add this to the 5th June 1973 you get the 12th November 1986 (1/8ths). The market made a major low three months later. The next change was on the 20th April 2000 (1/4). The market made a major top on the 3rd of May 2000. A 1/3rd change is due on the 5th April 2009. These dates may seem a fair distance apart, but you achieve greater changes in trend when you apply the same principle in squaring weeks and days and then adding them to the highs.

You apply the same principle to the lows and ranges dividing them into 1/8ths and 1/3rds. When you get a number of these squared at the same time, the more important the change in trend.

Swing Charts

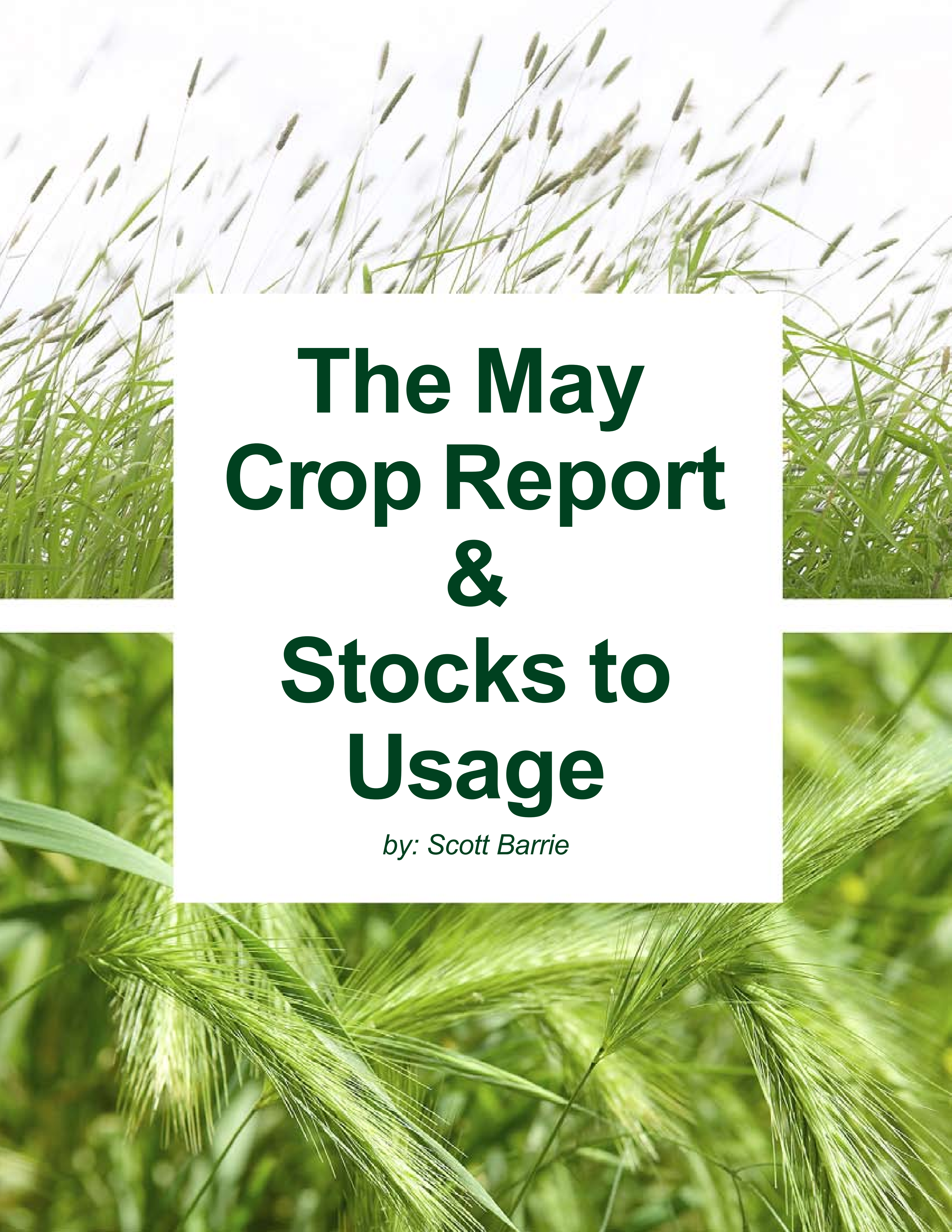
The swing chart course was sold to those people who really didn't understand the maths of the markets. The swing chart is the simplest of all of Gann's methods. Gann basically had two types of swing charts: time swings and point price. The swing chart is the visual to view the overbalancing of time and price. The swing chart is more important than the daily chart because it covers more time; however it is not as important as a weekly chart.

Point Swings

These charts can give the first indication of change in trend. To use 12 cents per swing (I use 12 or multiples of 12 due to the harmonics with 144) means that the market has to swing more than 12 cents in one direction to turn the trend up or down.

Study hard and the methods of Gann will unfold.

David Burton studies and trades the methods of one of the most famous trader of all time, W.D.Gann. To understand the methods of Gann, one must have to have a strong foundation, so David founded The School of Gann *to keep Gann's methods alive – in the hopes that people will study Gann and enjoy the journey and success David has had with Gann. David publicly forecasted in advance the 130 high in cotton in 1995, the 737 high in wheat in 1996, the major low in cotton in 2001, as well as many others which are on his website: www.schoolofgann.com*



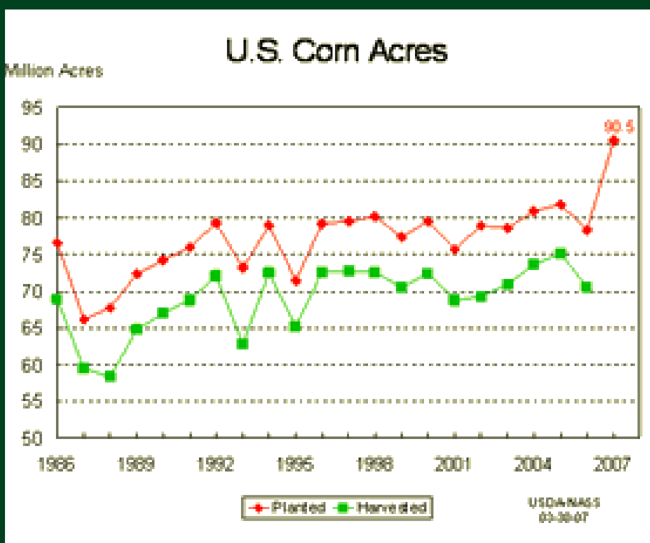
The May Crop Report & Stocks to Usage

by: Scott Barrie

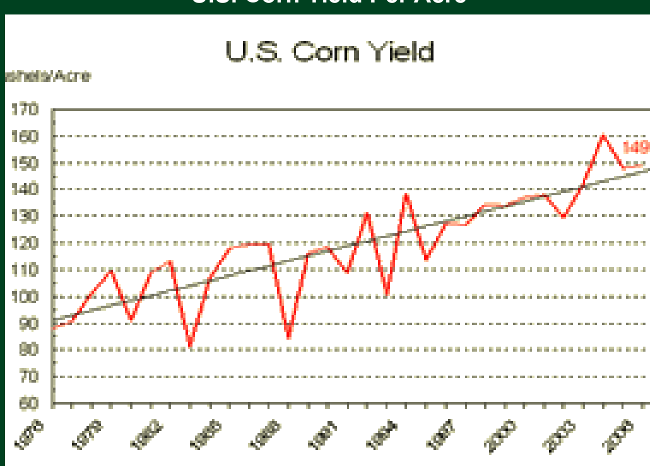
Each month, typically near the end of the second week, the United States Department of Agriculture (USDA) releases a crop report, estimating crop production. The USDA also releases a monthly World Agriculture Supply and Demand Estimate report, known as the “WASDE” report. The WASDE report gives a global view, country by country, of both crop production as well as usage.

In May, the USDA releases the first estimates for the new crop – or the crop being planting currently. Because May is the first month that the new crop is being estimated from both a supply and demand basis, the May Crop Production report tends to be a major market-mover.

U.S. Corn Planted and Harvested Acres



U.S. Corn Yield Per Acre



How the Report is Made

For Corn and Soybeans, May is much too early to accurately estimate how the crops will turn out, as Corn planting is being completed and Soybean planting has just begun in the United States. Because the USDA has not done any field samples to estimate acres planted or production (yield), the USDA typically uses the estimates they gathered through producer surveys and reported in the March Planting Intentions Report (see March 2007 Issue of PitNews.com Magazine for a complete discussion of this report).

Crop Production is a function of acres planted/harvested and the amount of grain produced per acre.

Production = Acres Harvested X Yield/Acre

The USDA makes certain assumptions in the May report. They usually use the “trend line” yield and assume a normal relationship between acres planted and harvested. As such, it is fairly easy to estimate what the USDA will estimate for production. For example, the trend line yield for Corn is 149 bushels per acre and on average 91% of acres planted to Corn in the US are typically harvested. With an estimate of 90.5 billion acres planted to Corn - according to the March Planting Intentions report - one can assume the USDA will estimate production for the 2007/08 Crop Year at approximately 82.4 billion acres.

Estimated Production = Harvested Acres X Yield/Acre

Harvested Acres = 91% X 90.5 billion = 82.4 billion

Yield/Acre = 149 bushels

Production =
82.4 billion X 149 bushels = 12.278

Of course this assumes the USDA will use trend line yields as well as a “normal” relationship between planted and harvested acres. Typically the USDA does, or they make small adjustments to these inputs. As such, this rough estimate is fairly accurate at approximating what the USDA’s estimate will be. The big wild card for the May report is the demand estimates. Of course going forward, the issue becomes production (yield and harvested acres) which is mostly dependent upon the weather, but in the May report demand is key as it serves as the baseline for USDA assumptions.

Supply & Demand Don’t Live in a Vacum

Though the Grain markets tend to move frequently based on changing supply assumptions, demand is a critical factor as well. After all, something only has value if it has demand. Grain demand tends to be more stable than supply, which changes with the weather. In the last 5 years, the demand (or Total Usage) for Corn has grown by 4.5%, thanks in large part to growing industrial and ethanol usage. In fact, in the last 3 years, Ethanol for fuel usage has grown over 60%.

The function of price is to ration supply. When supply is tight and demand is steady, prices will rise, slowing the demand and effectively rationing supply. When supply is plentiful and demand is steady, prices will fall, creating more demand and using up the supply. In other words, when supply grows faster than demand, prices tend to fall, while when demand grows faster than supply prices tend to rise. Price is a function of the relationship between supply and demand and influences both.

An excellent way to measure the relationship between supply and demand is by examining the Ending Stocks to Usage. Ending Stocks – or carryover – is the difference between Total Supply and Total Usage or the amount of grain not used in a crop year.

Ending Stocks = Total Supply – Total Usage

Total Supply = Beginning Stocks + Production

= 877 thousand bushels + 12,278 thousand bushels

= 13,155 thousand bushels

The Ending Stocks to Use Ratio (Ending Stocks/Total Use) is a measure of how much demand is chasing the available supply. Higher ratios reflect an excess of supply relative to demand, while low ratios are indicative of a lack of supply relative to demand. Expressing it as a ratio allows the trader to compare the current situation to past years, as the absolute levels have grown so much in the past several decades.

Using the Stocks to Use Ratio

Traders can use the Stocks to Use Ratio to compare the current year to past situations with similar supply/demand characteristics. The assumption is that if the supply/demand situations are similar, then price behavior should be similar as well.

This method of analysis was popularized by the author/trader W.M. Grandmill. Grandmill theorized that prices should experience similar rallies and breaks based on similar fundamentals. To make the analysis a little more flexible, Grandmill's method may be modified slightly, but his writings served as the inspiration for this analysis.

The first modification was to break the last 19 years of supply/demand into 5 categories: Very Tight, Tight, Normal, Plentiful, and Excessive based on stocks/use ratios. Then rallies and breaks (on a percentage basis) are observed and averaged for each classification

December Corn Modified Grandmill Table
December Corn Changes From May to November Versus Stocks to Use Ratio

	<10%	10-15%	15-20%	20-25%	>25%
	Very Tight	**Tight**	**Normal**	**Plentiful**	**Excessive**
%Rally	21%	18%	10%	3%	1%
%Break	-11%	-11%	-20%	-23%	-2%
%Close	19%	1%	-15%	-20%	6%

during the last 19 years. For example, in Corn the December futures are used from the end of May through the end of November. December Corn futures are used because they are the first post-harvest futures (new crop) and are usually extremely liquid, even in May. Rallies are measured by percentage change to the highest high during the June to November period from the May close. Breaks are measured as the percentage change from the lowest low between June and November from the May settlement.

Hence, after the USDA releases its WASDE report on May 11th, traders can calculate the Stocks to Use Ratio by simply examining the WASDE report, though the above analysis assumes traders wait until the last trading day of May to make the analysis.

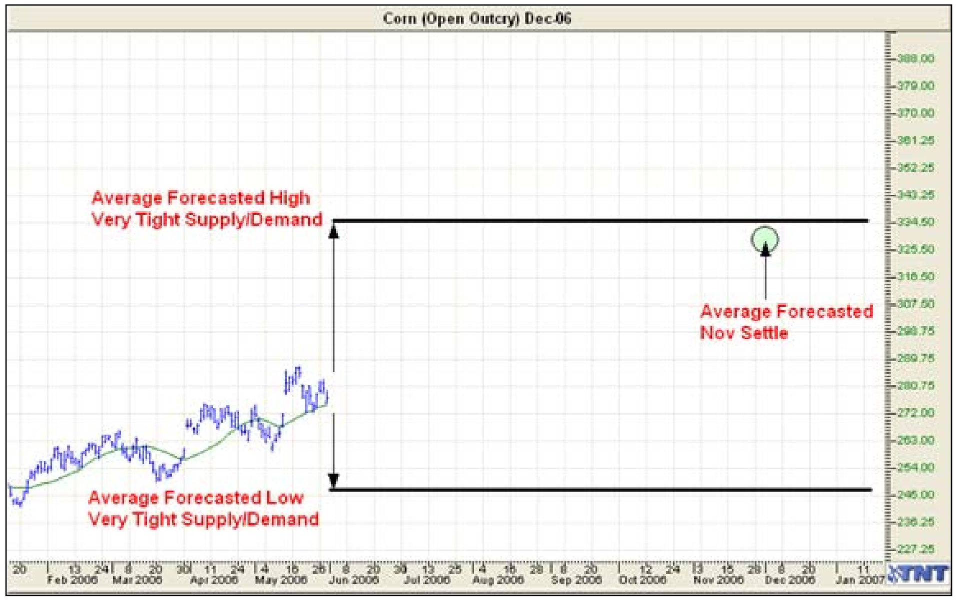
For example, last year traders would have seen Total Supply of 12.786 billion bushels and Ending Stocks of 1.141 billion bushels, yielding a Stocks to Use Ratio of 9.8% (1.141 / 12.786 =9.8%). Using this reading, traders can then judge this number against similar previous years to get an average estimate of how much prices should break and rally in the coming months. For example, looking up 9.8% on the above table (Modified Grandmill Table for December Corn) the classification would be "Very Tight". In Very Tight years, traders can anticipate December Corn futures rallying an average of +21% above their May monthly close, and breaking -11% below between June 1st and November 30th.

As such, a couple of weeks after the May Crop has been released – and the dust has settled – traders can estimate how high and low on average the December Corn futures may go, based on the current supply to demand relationship.

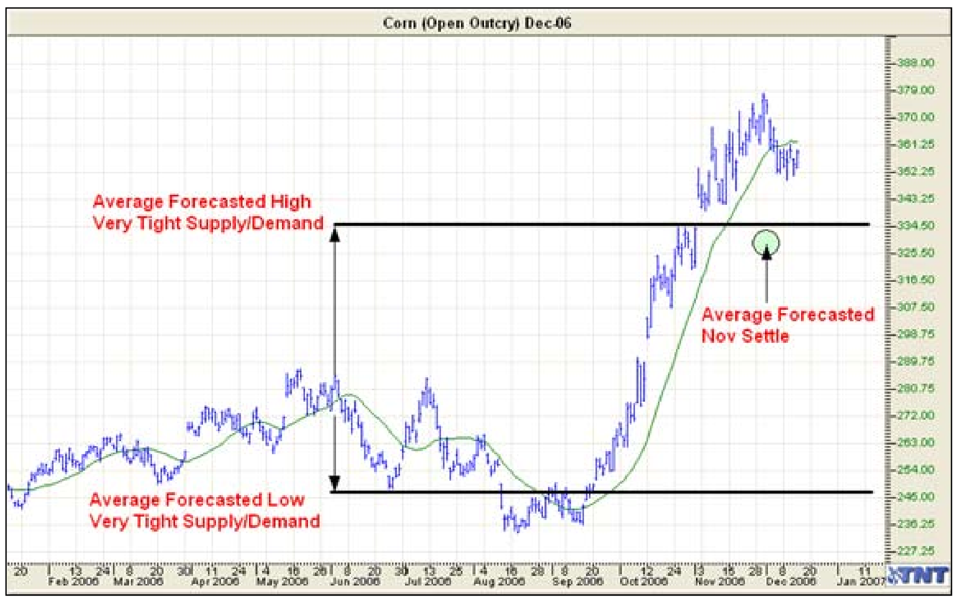
As you can see, this estimate would have correctly anticipated the rally in Corn. However, as this example shows, this estimate is not absolute, as prices went below the average low in August and above the average highs by the end of November. 2006 was anything but an average year, but by understanding that the supply to demand situation was "Very Tight", traders may have had more confidence in buying the summer break in Corn, and may have been able to hold onto these long positions as prices rallied strongly.

By understanding the fundamentals in the market, and putting them into perspective historically, traders can make an educated assessment of current prices as either "cheap" or "dear." Like over-bought/over-sold technical indicators, this fundamental gauge does not guarantee that prices will not exceed the boundaries (cheap prices can go lower, and dear prices can go higher), but it may help identify price extremes or turning points - just like technical indicators are designed to.

May 30th, 2006 Forecast



Actual Performance After Forecast



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Current Situation

The coming WASDE report will most likely hold many surprises and see a good deal of volatility in the grain markets on May 11th. However, traders may be able to get a leg up on the next major trend in prices by understanding the report from a historical perspective by using the Stocks to Use Ratio.

Perspective is going to be especially critical this year! Corn plantings are the largest in history, experiencing the largest shift in acreage in history. However, demand for Corn is also at record levels and may continue to increase. Soybean acreage is expected to be at its lowest levels in decades, as multitudes of farmers are expected to switch from sewing Beans to Corn. As such, the coming months should see very dynamic and volatile grain markets. Keeping ones "wits" about them during these times will be critical for trading success.

With both record supply and demand, any potential crop problems should send prices skyrocketing. In fact, based on current estimates of…

Total Supply of 13,155 thousand bushels (assuming trend line yield of 149 bu/acre, and 82.4 billion acres harvested)

Total Usage of 12,158 thousand bushels (assuming +4.5% growth in demand)

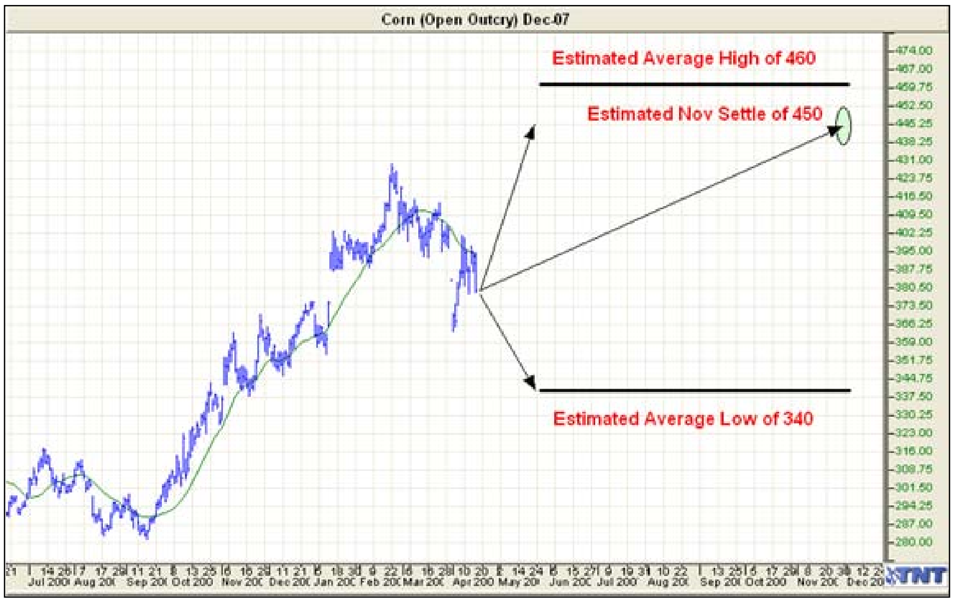
Ending Stocks of 997 thousand bushels (13,155 – 12,158 thousand bushels)

… we can assume another "Very Tight" Supply to Usage situation this year, with a stocks to use ratio of 8.2%, implying a range from 340 to 460 for December 2007 Corn futures (C2007Z) between June 1st and November 30th, 2007 using April 17th close (instead of the end of May close) of 379 ½. Under this scenario, traders should expect prices to break as planting progress continues, but rally going into harvest as end users scramble to secure available supply.

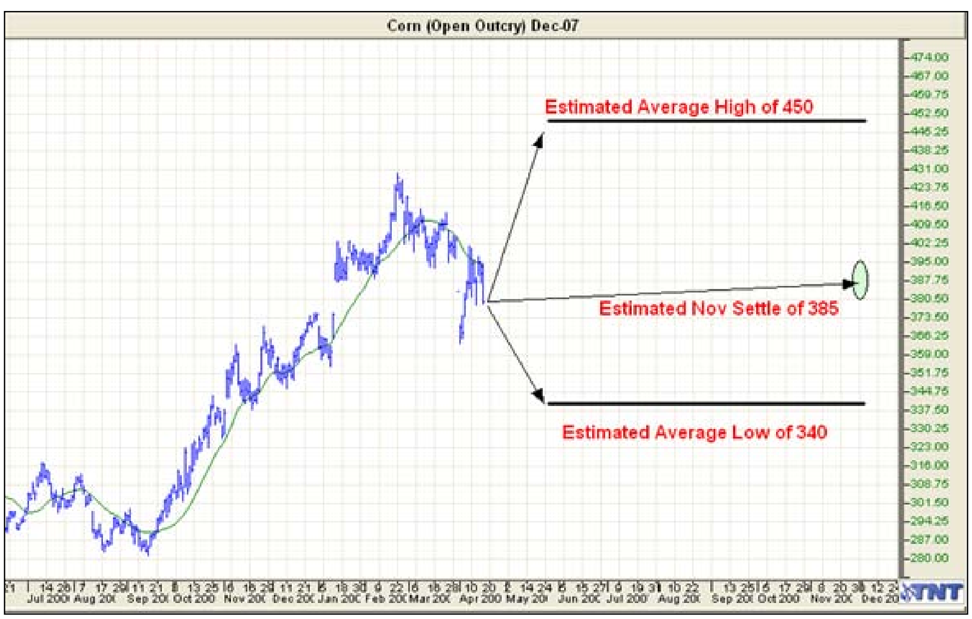
Keeping ones "wits" about them during these times will be critical for trading success.

Of course, the "ethanol story" may not keep demand growing at the rapid pace seen in recent years. Assuming that demand stays static – at the current 11,635 thousand bushels – we would see Ending Stocks grow to 1.520 billion bushels and a tocks to use ratio of 13% for a "Tight" classification. Based on this

High Supply & Demand Estimate Graphically



Static Demand Estimate Graphically



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supply/demand situation, using the April 17th price of 379 ½, December 2007 Corn futures should trade within a range of 340 to 450, most likely seeing 340 as planting progress continues and 450 as the weather market mania hits in June/July, with prices moving back to their current levels by harvest.

Of course any number of scenarios – high yields/high demand, low yields/high demand, high yields/low demand, low yields/low demand – are possible. But, armed with an understanding of the current supply/demand situation, hopefully traders can make more informed decisions when the USDA releases its estimates on May 11th.

Scott Barrie is the author of the Commodity Almanac's Seasonal Strategies Newsletter as well as the 2007 Commodity Trader's Almanac. 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 for several large banks as well a clearing firms. Scott can be contacted by email at barrie@commodityseasonals.com

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