

# INTRODUCTION TO TECHNICAL ANALYSIS OF FUTURES CHARTS

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All aspects of any trade recommendations contained in this report are subject to modification at any time. ANY STATEMENT OF FACTS HEREIN CONTAINED ARE DERIVED FROM SOURCES BELIEVED TO BE RELIABLE, BUT ARE NOT GUARANTEED AS TO ACCURACY, NOR DO THEY PURPORT TO BE COMPLETE. FUTURES TRADING DOES INVOLVE FINANCIAL RISK AND SHOULD BE CONSIDERED CAREFULLY BEFORE MAKING ANY TRADES. PAST PERFORMANCE IS NO INDICATION OF FUTURE RESULTS.

## REGULATORY DISCLOSURES REGARDING HYPOTHETICAL RESULTS

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. PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS. THE RISK OF LOSS EXISTS IN FUTURES TRADING.

NF 9-21-2001

# I. ASSUMPTIONS OF TECHNICAL ANALYSIS

The features of most computer programs that chart commodity price movement are generally the TOOLS of technical analysis. "Technical analysis" is simply studying the price movement of a commodity with the goal of forming an opinion of where the price will be sometime in the future. If the conclusion of the study is the opinion that the price may be higher or lower at some point in the future, such opinion can be the basis of a trade.

The price of a commodity is based on ***the balance of a wide range of "fundamental" factors of SUPPLY and DEMAND*** for a commodity as currently perceived and as perceived in the future.

**A commodity trader that uses the TOOLS of technical analysis believes the following:**

1. By studying price movement, the trader can decide if the trend of the fundamentals, and therefore the trend of price, is continuing, pausing, or reversing.

As a trader, the individual is not in a position to timely identify changes in the balance between the fundamental factors of supply and demand. The trader believes that the market is efficient, and therefore, changes in such balance will be reflected in changes in the movement of price. By studying price movement, the trader can decide if the trend of the fundamentals are continuing, pausing, or reversing. The technical trader acknowledges that he has no idea what factors may be changing, but based on price movements he can conclude that some factors may in fact be changing. The technical trader accepts that it may be weeks or months, if ever, before he (or she) has an understanding of exactly what did change. (The Wall Street Journal is an excellent source for finding a logical story of why something happened over, say, the past three months. Such an explanation generally has NOTHING to do with what might happen tomorrow or at some point in the future.)

2. Price movements are expected to be similar to the way price reacted to such changes in the balance of SUPPLY and DEMAND in the past

The technical trader believes that the process of a change in the trend of the fundamentals affecting price repeats in a manner similar to past changes in such fundamentals. So the price movements that occur

during such changes in the fundamentals are presumed to be similar to previous price movements that occurred during previous instances of changes in similar fundamentals. The technical trader believes that as the market CYCLES, or repeats, through periods of increased or decreased factors of SUPPLY AND DEMAND, and that the price movements will in some ways be similar to the way price reacted to such changes in the past.

3. The technical trader assumes he can find safety against the unknown changing factors of supply and demand through a rigorous system of money management and trading discipline.

The technical trader admits he does not know the circumstances that may be changing, and whether or not some new circumstance will suddenly become dominant. Accordingly, the technical trader assumes he can find safety against those unknowns in a rigorous system of money management and trading discipline. Money management is generally the budgeting of only a portion of risk capital (trading account) to an individual trade. (Don't bet the farm on the first trade.) And, trading discipline generally refers to following a studied strategy, having stop loss points, and a profit objectives. (However, see the CFTC risk disclosure statement.)

## **II. BASIC CONCEPTS OF FUNDAMENTAL ANALYSIS:**

**Price movements of a commodity are generally the result of a change in the balance between the factors of supply and demand.**

Price movement of **the futures price** of a commodity are the result of our changing **expectations** of what the balance between supply and demand will be at some time in the future.

The factors of supply and demand are generally referred to as the "fundamental factors affecting price movement." Fundamental analysis of a commodity is an attempt to identify and forecast all factors that effect supply and demand, both currently and in the future.

**The following is a brief discussion of some of the fundamental factors that result in price movements:**

### **SUPPLY AND DEMAND**

The factors that create the price movements of a commodity are the result of a changing *perception* of the factors affecting the balance of SUPPLY and DEMAND (at the current moment as well as at some delivery point in the future).

For example, during the planting season for the grains there are uncertainties about the ACREAGE planted and the eventual YIELD per acre of the crop. Price movements reflect the expected addition to the inventory of the grain held in storage and the eventual CARRYOVER of the previous crop inventory into the new crop harvest. The balance of the SUPPLY of grain available in relation to the DEMAND, or the expected usage, of the grains while it is drawn from inventory determines the current price.

Price movement is the composite expectation of the participants in the market of the balance of the supply and demand. As price rises higher it is expected that DEMAND would generally reduce through the search for more efficient alternatives. The expected weight per bushel of corn added to a feeder cattle (or hog etc) is balanced with the alternative of the expected weight per bushel of wheat (or oats etc) fed to a feeder cattle in relation to the price per bushel of corn vs the

price per bushel of wheat in relation to the expected price per pound of the feeder.

Further, the expected supply and demand of the feeder, when the feeder is ready for market, is part of the decision that results in price movement of grain. The supply of the feeder can be affected by many variables such as severity of winter (winter kill), a hot summer (reduced piglet litter size), status of the economy (less barbecues during recession), exports, imports, etc.

**Thus price movement is the DISCOVERY of the balance of all the changing factors of supply and demand. TECHNICAL ANALYSIS of price movement is simply the attempt to identify ways to follow the trend of the price movement under the assumption that other market participants will enter the market by buying or selling to continue or change the trend based on their expectation of the eventual balance of supply and demand.**

## PRICE IN THE FUTURE

In addition to the basic balance of supply and demand, a commodity future has the additional factors of price at some point in the future for delivery at a specific place. Thus the price of grain for delivery six months from now will reflect additional factors such as interest rate costs (opportunity cost) inventory charges (storage costs) and delivery costs (transportation.)

## OLD CROP NEW CROP

While generally a future price should be in direct proportion to the cost of carrying inventory in relation to current (spot) price, an additional factor to consider is the current scarcity or surplus of current inventory in relation to the inventory after a specific event, such as harvest. Thus, normally soybeans for delivery in July should be higher than soybeans for delivery in May because of the carrying costs. However the soybeans for delivery in November could be at a lower price than May because of the expected new crop supply to be available as the result of the harvest.

Efficient market price discovery reflects all relevant factors.

## INTEREST RATES

Interest rate expectations can be a significant variable in futures pricing expectations as it relates to the cost of carrying inventory for possible future delivery. The most direct way to illustrate this is to look at interest rate futures such as the US Treasury Bond future.

Where there is a normal YIELD CURVE (short term interest rates lower than long term interest rates) you would expect that a Bond Future for delivery at a point in time later than an earlier future would trade at a price LESS than a contract for earlier delivery. This is because an efficient market would borrow money at current rates to buy a long term bond with a higher rate for delivery in the future. Thus the cost of carry is less than the income earned on the Bond while awaiting delivery.

There are periods of time where there is an INVERTED YIELD CURVE (short term rates higher than long term rates.) Then there would be a position cost of holding Bonds in inventory for future delivery and thus the later future price should be higher than the earlier future price.

With the physical commodities, such as Gold, there is no income credit to the holder of inventory for future delivery. Thus the relationship of the futures for delivery in the future should be in series of each month for future delivery being higher than the earlier month to provide the incremental cost of carry to the arbitrage seller.

## ARBITRAGE

The efficiency of the futures market is to a great extent attributable to the willingness of dealers in the underlying commodities to "arb" price inefficiencies. Let's say you are a grain elevator near a large feeder operation. The feeder business makes regular purchases of corn from you, and so you regularly make purchases from other elevators to provide a supply for your account. You maintain an inventory of grain.

The Chicago Board of Trade grain contract is currently based on "delivery" at any of three locations, Chicago, Toledo, and St. Louis. (Note that delivery points, as of March 1998, are currently under review by the Exchange and the CFTC.) Let's say you know that you can ship grain to St. Louis for a shipping and insurance cost of say 10 cents per bushel. If the Corn future for delivery in 30 days is trading at \$3.05 per bushel, and you can buy corn delivered to you today for \$2.80, you might sell a corn future at \$3.05, buy the corn at \$2.80, and pay the 10 cents delivery to St. Louis to lock in a profit of 15 cents. This type of activity is generally referred to as ARBITRAGE of differences in prices between the "cash market" and the futures market.

The ability of businesses and individuals to "arb" the futures markets helps to keep the markets efficient.

Arbitrage activity is generally an attempt to "lock in" a profit at a minimum level of risk. There is risk in "Arb". Consider if the example above occurred the day before the storms in 1993 that flooded the

Mississippi. If the dealer was suddenly unable to make delivery to the St. Louis elevator because the Mississippi was closed to commercial traffic, then he would have to go into the futures market to buy back the future at the then market price!

## CONCLUSION

I have presented this brief discussion of some of the factors that are considered to be the "fundamentals" behind price movement to try to show that unless you are an actual "commercial dealer" in the underlying commodity, it would be very hard for you to maintain an understanding of the current fundamentals of a given commodity. Further, even the dealers make mistakes in their forecasts of what will happen tomorrow or six months from now.

**TECHNICAL ANALYSIS ASSUMES THAT ANY PRICE AT ANY MOMENT REFLECTS THE MARKET'S PERCEPTION OF ALL RELEVANT MARKET FACTORS and the "technician" studies the price movements to participate in the trend of the changing perception of all of the variables that affect price.**

### III. BASIC TERMS OF TECHNICAL ANALYSIS:

**TECHNICAL ANALYSIS** of the price movement of a commodity deals primarily with attempting to identify the general TREND of the price direction and the possible eventual change of direction of such trend.

**TECHNICAL INDICATORS** are generally based on traditional statistical methods for evaluating a data set. Graphing the indicators along with a graph of price movement (a chart) can provide insight into possible future price movement.

**CHART PATTERNS** are a recurring sequence of price movements that have occurred in the past, with an expectation (a probability) that the price movement after the pattern may be similar to past price movements after the pattern.

**SUPPORT AND RESISTANCE:** Prices fall down to SUPPORT levels, and prices rise to RESISTANCE. This simply means prices fall until they achieve a level where they are more attractive than the price of other alternatives. Prices rise until they are less attractive than other alternatives.

Support and resistance can be identified by studying the price history to identify price levels where trend movements held in the past. The breaking of previous levels of support or resistance suggests that circumstances have changed since the previous testing of the price level and new trends may be in effect.

Technical support or resistance may be a calculated price level; such as a moving average that previously held as a low before continuing a price movement trend.

**TRADING SIGNAL:** If you have a trend following *strategy*, a rising market pull back to the 40 day moving average could *signal* a resumption of the uptrend. If the price history shows this to have happened many times before, then you might assume it could happen again. Trading at support or resistance should include a plan for the possible failure of the level to hold as in the past by placing stop loss at point of failure to hold support. Establish the stop several ticks beyond the average penetration of the moving average identified by studying recent chart history.

**TRENDLINES: "THE TREND IS YOUR FRIEND."** Technical traders attempt to identify and participate in price trends. An "uptrend" is simply a price pattern of price movements with higher lows and higher highs. Drawing a simple rising straight line **connecting lows** can help identify an up trend. Drawing a simple declining straight line **connecting highs** can help identify a down trend.

TRADING SIGNAL: There are occasions where several different commodities are in similar general trends. When one or more begin to break their major trendlines, your *strategy* may be to begin to anticipate that the rest of the group may also break their trendlines. Entering trades through stop loss orders in the area of the breakdown of trend could be considered.

**IN UPTRENDS, THE UP ANGLE TRENDLINE IS DRAWN CONNECTING PRICE "LOWS".**


**IN DOWNTRENDS, THE DOWN ANGLE TRENDLINE IS DRAWN CONNECTING PRICE "HIGHS".**

**Price movements in a trend are NOT simply all in one direction. The following are the general terms often used to identify the price movements:**


## IV. BASIC CONCEPTS IN CHART READING

### UPDAY -DOWNDAY

In this discussion, I am generally referring to price charts consisting of daily price bars. Similar terminology can be applied to intraday charts consisting of say five minute bars, as well as weekly charts and monthly charts. Simply substitute the word "bar" for "day". Also, the chart indication of opening prices and closing prices, as well as the net change for the day, is not considered at this time.


A diagram showing two vertical bars. The second bar is taller than the first, indicating an upday. A pink oval highlights the second bar.

< An upday is a bar with a higher low and a higher high than the previous bar.

A diagram showing two vertical bars. The second bar is shorter than the first, indicating a downday. A pink oval highlights the second bar.


< A downday is a bar with a lower high and a lower low than the previous bar.

### INSIDE DAY -OUTSIDE DAY

A diagram showing two vertical bars. The second bar is completely contained within the range of the first bar, indicating an inside day. A pink oval highlights the second bar.

An inside day is a bar with a higher low and a lower high than the previous bar.

Outside days can be considered very important days when they occur at the end of a swing. A "key reversal" day is an outside day where, say in a down swing, the market trades to a new low then trades higher than the previous day, and closes higher on the day.

A diagram showing two vertical bars. The second bar extends both higher and lower than the first bar, indicating an outside day. A pink oval highlights the second bar.

An outside day is a bar with a lower low and a higher high than the previous bar.

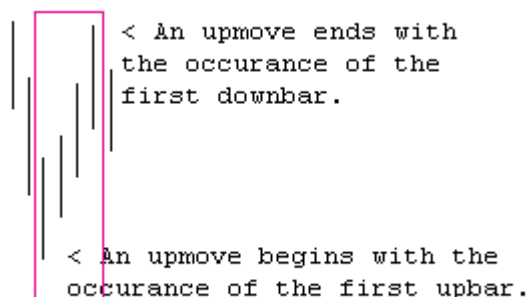
Inside days generally show a lack of trading direction, the market is waiting for some type of event and has not made a decision as to which way to go.

Some traders consider inside days to be as important as outside days. If the market trades above the range of the inside day, they trade the long side with stops below the low of the inside day. If the market trades below the low of the inside day, they trade the short side with stops above the high of the inside day.

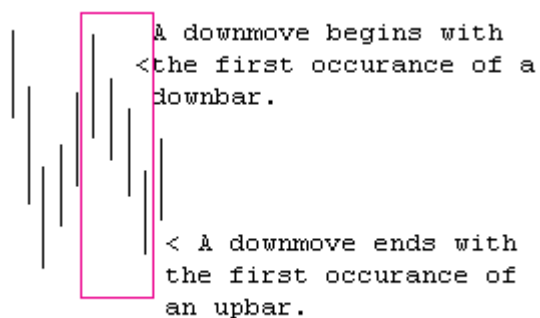
Additionally, there can be bars that have an EQUAL low and a higher high (equal/ high day), equal high and a lower low (equal/low day), and EQUAL inside days.

## UPMOVE -DOWNMOVE

An upmove is a series of "up" bars. A downmove is a series of "dn" bars. An upmove begins at the low of a previous downmove, and ends with the occurrence of "dn" bar. A downmove begins at the high of the previous upmove, and ends with the occurrence of the first "up" bar. An upmove can consist of many bars, or as few as a single bar.



## Downmove:



## UPLEG -DOWNLEG (AKA UPSWING - DOWNSWING)

An upleg is made up of upmoves and downmoves where there is a series of upmoves with higher highs and downmoves with higher lows. A downleg is made up of downmoves and upmoves where there is a series of downmoves with lower lows and upmoves with lower highs.



An upleg occurs when there is a series of  
 < upmove, downmove,  
 upmove.

An upleg has been established by the current upmove achieving a higher high than the previous upmove AND where the preceding downmove ended with a low point higher than the previous low point.



< The upleg CONTINUES after a downmove with a low that is higher than the low of the previous downmove, and an upmove to a high that is higher than the previous upmove high.

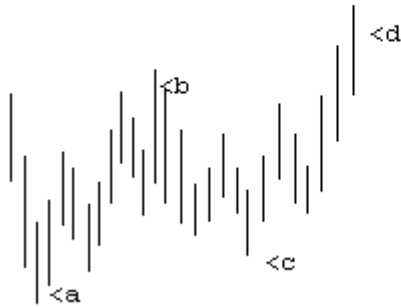
The upleg CONTINUES after a downmove with a low that is higher than the previous downmove low, followed by an upmove with a high that is higher than the previous upmove high (a).

UPTREND -DOWNTREND (using uplegs/downlegs to identify trend)

A trend includes price movements that are made up of a series of uplegs and downlegs.

An uptrend is a series of uplegs with higher highs and downlegs with higher lows.

A downtrend is a series of downlegs and uplegs with lower lows and lower highs.



Upleg (a,b) was established by an upmove, downmove (higher low), upmove (higher high), and continued with a downmove (higher low), upmove (single day to higher high).

Downleg (b,c) was established by a downmove upmove downmove. Upleg (c,d) was established by an upmove downmove upmove.

UPTREND (a,d) was established when upleg (c,d) got higher than point (b).

INSIDE DAYS, INSIDE MOVES, AND INSIDE LEGS are difficult to categorize within a move. I basically look through previous bars until I find a bar that when compared to the current bar will identify it as up or down.

OUTSIDE DAYS, OUTSIDE MOVES, AND OUTSIDE LEGS are very important indicators of trend strength (or reversal of trend). Their highs and lows can count as end points of moves or legs.

There are occasions where outside days can confuse your attempt to establish move or leg decisions. The past chart tendencies of outside days, moves, etc for each particular commodity should be studied to establish rules on their handling. (I generally resolve move categorizing issues by applying rules similar to those discussed above for inside days.)

EQUAL DAYS, EQUAL MOVES, EQUAL LEGS can also create confusion in categorizing where we are in the above structure. Their highs or lows can count as end points of moves or legs. But generally I also consider them as invisible. Move issues created can be also be resolved by looking through previous bars to come up with a categorization (same as inside day rules.)

#### WHERE TO PLACE YOUR STOP:

Previous upmove highs or downmove lows are my primary focus when considering where to place STOP LOSS orders. When such a stop loss location is thought to be too expensive, consider that the trade might not be appropriate and that the trade can be

DISQUALIFIED BECAUSE OF THE REASONABLE STOP LOSS POINT.

STOP LOSS POINTS SHOULD BE SET BASED ON CHART POINTS -NOT YOUR ACCOUNT BALANCE.

When a stop is too expensive -consider "mini" contracts at the Mid America Commodity Exchange, or use options, or don't do the trade. Arbitrarily picking a dollar amount, say \$300, as your stop with no consideration of the chart significance of the point is simply wasting money.

## TRADING STRATEGIES:

### Trading Breakouts

Consider entering a trade when an upleg (initial upleg buy signal) has been established. Place a STOP loss order under the low of the newly established upleg. If there is a subsequent downmove with a higher low and then an upmove that goes higher than the previous upmove (upleg continuation signal) move your STOP to just under the previous downmove. (In more volatile commodities, under the second previous downmove. Review previous history to make the decision.)



Pyramiding positions can be entered on successive upleg continuation signals, trailing the total position stop under the low of the previous downmove (or second previous downmove).

A similar strategy can be followed using uptrend signals instead of upleg signals.

### Trading "Failed" Breakouts

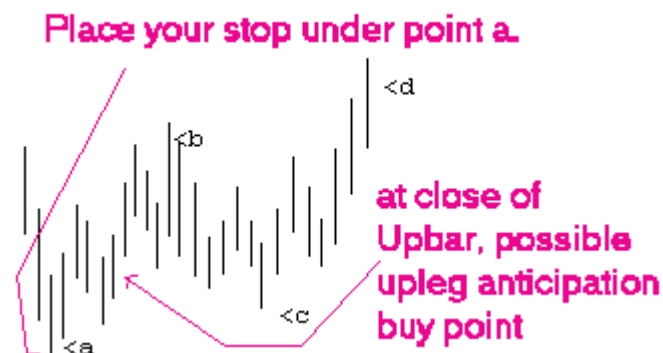
The above paragraph discusses trading on BREAKOUT BUY SIGNALS and BREAKOUT SELL SIGNALS. An additional trading rule to consider is A BUY SIGNAL THAT FAILS IS A SELL SIGNAL and A SELL SIGNAL THAT FAILS IS A BUY SIGNAL! Often, this type of signal is VERY powerful and can produce quick profits.

According to some studies, BREAKOUT FAILURE trades have the highest probability of success if the trade is closed within three trading bars. However, many major market tops are breakout failures. Traders need to understand there are many "signals" along the way, but only one will signal the actual top or bottom.

A common chart pattern easily recognized is a "Head and Shoulders." The "Head" of the pattern is a breakout failure!

### Trading "Anticipated" Breakouts

If we have an opinion about a given commodity regarding the trend or possible trend reversal, we can enter a trade by "anticipating" a trading breakout. Let's say we are "looking" for a buy signal and the market has put in it's first upmove been going in a downmove, and just puts in an upbar. If we believe this market is going to go into a strong uptrend we can anticipate the "upleg" buy signal on the close of the first upbar following the upmove/downmove pattern. We could be wrong, and the market could fall to new lows, or even do another downmove upmove sequence without taking out the first upmove high. But the benefit of "anticipating" the upleg signal is that we may be able to place a "cheaper stop". A "cheaper stop" means since we are closer to the low under which we are going to place our stop, we have an incentive to try to anticipate the breakout.



Upleg "anticipation" trades can be filtered many ways. IE requiring a close higher than the previous close, or, requiring a close higher than the open, etc.

### CONCLUSION

In my more than twenty years of trading, the above described method of "reading" a chart is the MOST IMPORTANT TRADING STRATEGY I have ever learned. I have studied and tested many trading strategies and techniques, and while they have been helpful, I always consider the above in my trading (especially for choosing the placement of stops.) For example, if you have selected some type of moving average crossing for a trading signal, consider delaying the trade entry until the next upleg continuation signal. Or, delay a trade entry

after an initial upleg buy signal until the moving average crossing that you consider significant occurs.

WEEKLY BARS VS DAILY BARS - In commodities showing strong trending characteristics, weekly bars can provide valuable information. There are times where the price tick that would establish an upleg designation on a daily bar pattern would also establish an upleg on a weekly bar designation. These situations can suggest a powerful trading opportunity.

Weekly highs or lows should be considered when placing STOP LOSS orders.

The above discussion on "chart reading" is only considering the daily range from high to low.

Additional price information available is the open and close, and their relationship to each other and the high and low of the day. Further, daily volume and open interest can also be charted.

Each time we add more variables to consider, we then need to establish guidelines for making decisions about the additional information. I recommend the reader consider looking only at the daily range until the concepts of move, leg (swing), trend, can be clearly applied each time the reader looks at a chart. This seems to me to be a basic building block that needs to be first mastered, then go on to additional methods.

For myself, when I add the additional information of the open and close to the daily bar, I'm immediately pushed into the concepts of Japanese Candlesticks. I pay minor attention to the "traditional" Japanese Candlestick pattern interpretations. I look more at the "bodies" of the candles and attempt to apply the upmove/downmove concepts above to the "bodies" to resolve some of the unclear situations that can result from inside/equal/outside trading bars. I recommend that the reader consider the subject of candlesticks for further study.

## V. TRADING STRATEGIES, TACTICS, AND SIGNALS

There seems to be no limit to the number of possible strategies, tactics, and signals in trading commodities. My advice is to trade with the most popular strategies, anticipate the crowd to participate in the initial surge when a large number of market participants see the same thing. But rather than become a believer that everyone can be right, but be one of the first to get out.

Many traders seem to jump in or out based on a passing wind. I believe it is important to have a structure to your trading.

### DISCIPLINE AND MONEY MANAGEMENT

At the very highest level of your trading plan you should have trading discipline and money management. **Discipline** deals with following a trading strategy, with stops and profit objectives. The critical focus of trading discipline is to make these decisions *before* you enter trade, and then *actually* follow your plan. **For a further discussion of some of the issues of "trading discipline" see the write-up titled "Psychology of Trading" on the menu page.**

**Money management** deals with rationing, or allocating, your trading capital. Try not to risk more than 10% of trading capital per trade, and no more than 30% of trading capital at risk at any one time (ie being in different commodities at the same time).

### TRADING STRATEGIES

As I said above, there are as many trading strategies as there are traders. What is important is that you understand what your overall strategies. Have a plan for offense - when to enter a trade, and a plan of defense - when and why you exit a trade. Following is a partial listing of different trading strategies:

- Trend following
- Range trading
- Studying Commercial positions
- Seasonal trades
- Market cycles
- Elliot wave
- Lunar cycles
- Neutral spreading
- Hedging
- Arbitrage
- Short term swing trading
- Day trading

## Scalping

### TRADING TACTICS

In light of your strategy, there are a variety of tactics you can follow:

- Long or short positions in futures
- Cash market trades
- Option purchases
- Option sales
- Covered writes
- Calendar Spreads
- Old crop/new crop spreads
- Intermarket spreads
- Option spreads

### TRADING SIGNALS

The timing of your trade entry under your strategy can be based on signals from the hundreds of technical indicators that are available. The following list is some of the more commonly used indicators:

- Moving average crossing
- Bollinger Band compressions
- Stochastics
- Relative Strength
- Breakouts
- Breakout failures
- Directional market index crossing
- Trading at support or resistance
- Japanese candlesticks
- Fibonacci calculations of support or resistance
- Gann trends or levels of support or resistance
- Outside days
- Inside days
- Trend lines
- Patterns
- Cycle days
- Time breakouts (ie 20 day high)

**IMPORTANT OBSERVATION** > After more than 20 years of trading, I have observed that markets are continually **giving buy signals and sell signals**. The signals that win tend to be in the direction of the general trend.

If buy signals are giving profits and sell signals are failing, you can probably conclude that the market is in an uptrend. If both buy and sell

signals are working, then the market is in a trading range. If sell signals are working, and the buy signals fail, then you can probably conclude that the market is in a downtrend.

Even the strength of the trend can be judged by how quickly the contra trend signal fails.

## **SYSTEM TRADERS**

System trading is a special subset of the topic of trading signals.

System traders "backtest" a given technical indicator to identify a probability of trade success (% winners), quantify drawdown (expecting of number and cost of losing trades), and expected profit over given periods of time. A system trader then executes trades **on every signal** with the expectation that over time, the winners and losers will conform to the probability model results.

Very few traders are able to trade indicators as a "system". The practical problem of executing every trade under the model often results in missing one or two signals, which turn out to be the big winners that made the system profitable when it was backtested.

## **CONCLUSION**

I hope the above is helpful to the new trader, or the soon to be trader.

You can see that from the fundamentals to the technicals there is a lot of information to be considered. Plan to read a lot of books on trading continually during your trading career. Also look for new ideas, or twists on old ideas, and filter them into your trading.

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Good luck and good trading,

*George Slezak*