

DIARY
of a
PROFESSIONAL
COMMODITY
TRADER



*Lessons from 21 Weeks
of Real Trading*

PETER L. BRANDT

Table of Contents

[Cover](#)

[Part I: Foundations of Successful Trading](#)

[Introduction](#)

[The Invention of a Commodity Trader](#)

[Why I Wrote This Book](#)

[This Book's Audience](#)

[The Book's Road Map](#)

[Chapter 1: The History and Theory of Classical Charting Principles](#)

[My Perspective of the Principles](#)

[Three Limitations of the Principles](#)

[Summary](#)

[Part II: Characteristics of a Successful Trading Plan](#)

[Chapter 2: Building a Trading Plan](#)

[Trader Personality and Temperament](#)

[Adequate Capitalization](#)

[Overall Risk Management](#)

[Points to Remember](#)

[Chapter 3: Identifying the Trades and the Trading Vocabulary](#)

[Trade Identification](#)

[Vocabulary of the Factor Trading Plan](#)

[Points to Remember](#)

[Chapter 4: Ideal Chart Patterns](#)

[Reversal H&S Pattern in Copper](#)

[Reversal Rising Wedge in AUD/USD](#)

[Continuation Wedge and Reversal Failure Top in Soybean Oil](#)

[Reversal Triangle Bottom in Sugar](#)

[Continuation and Pyramid Patterns in USD/CAD](#)

[Reversal Top in Silver](#)

[Continuation H&S Pattern in the Russell 1000 Index](#)

[Continuation Rectangle in Kansas City Wheat](#)

[Continuation Rectangle and Pyramid Triangle in Crude Oil](#)

[Continuation H&S Top in the Dow Utilities](#)

[Continuation Triangle, Reversal M Top, and Flag in the EUR/USD](#)

[H&S Reversal Top and Three Continuation Patterns in the GBP/JPY](#)

[A Reversal Symmetrical Triangle in the AUD/JPY](#)

[Two Continuation Patterns in GBP/CHF](#)

[A Triangle and Running Wedge in Sugar](#)

[An H&S Bottom in Apple Computer](#)

[A Major Continuation H&S and Symmetrical Triangle in Gold](#)

[A Series of Bullish Patterns in Copper](#)

[A Failed Ascending Triangle in the USD/CAD Crossrate](#)

[A 12-Week Rectangle in the Dow Jones Transport Index](#)

[A Rare Horn in Brent Sea Oil](#)

[An H&S Bottom Launches the 2009 Bull Market in the S&Ps](#)

[Summary](#)

Points to Remember

Chapter 5: How the Factor Trading Plan Works

Trade Identification

Trade Entry

Trade Risk Management

Trade Order Management

Points to Remember

Chapter 6: Three Case Studies Using the Factor Trading Plan

A Remarkable Technical Event in the Dow Jones

A Year Trading Gold

A Year Trading Sugar

Points to Remember

Chapter 7: Characteristics of a Successful Trader

Intimate Knowledge of Trading Signals

Discipline and Patience

Analysis of Self and of the Trading Plan

It Takes a Leap of Faith

Points to Remember

Part III: A Five-month Trading Diary: Let the Journey Begin

Chapter 8: Month One

Trading Record

Summary

Chapter 9: Month Two

Identifying Trading Opportunities

Amending the Plan

Trading Record

Summary

Chapter 10: Month Three

Sticking to the Plan in Choppy Markets

Trading Record

Summary

Chapter 11: Month Four

Trading Record

Summary

Chapter 12: Month Five

Relying on Classical Charting Principles

Trading Record

Outlook for the Future

Summary

Part IV: The Wrap-Up

Chapter 13: Analysis of Trading Performance

How the Trading Plan Performed

How the Plan (and the Trader) Evolved

Summary: Best Practices Going Forward

Chapter 14: The Best Dressed List

A Seven-Month Double Bottom in AUD/USD

A 14-Month Coil and Nine-Month Descending Triangle in EUR/CHF

A Six-Month Wedge in EUR/USD

A 16-Week Horn in GBP/USD

A Four-Month H&S in Bottom NZD/USD

A Six-Month Ascending Triangle Failure in USD/CAD

An Eight-Month H&S Bottom in the S&Ps

A 14-Month Symmetrical Triangle in Sugar

A Seven-Month Triangle in Gold

[A Series of Continuation Patterns in Copper](#)
[An H&S Bottom in Crude Oil](#)
[Summary](#)

[Postscript](#)

[Final Performance](#)

[Performance Compared to Other Benchmarks](#)

[Putting it in Perspective](#)

[Appendix A: Factor Trading Plan Signals](#)

[Appendix B: Quick Reference to Charts](#)

[Appendix C: Recommended Resources](#)

[Author's Note](#)

[Index](#)

[End User License Agreement](#)

List of Tables

Introduction

[TABLE I.1 Performance of the Top 20
Commodity/Forex Trading Operations from 2005
through 2009](#)

Chapter 5: How the Factor Trading Plan Works

[TABLE 5.1 Trading Events by Category and Type of
Trading Signal](#)

Chapter 6: Three Case Studies Using the Factor Trading Plan

[TABLE 6.1 Record of Gold Trading Signals in 2009](#)

[TABLE 6.2 Sugar Signals and Trades in 2009](#)

Chapter 8: Month One

[Table 8.1 Dealer Spot vs. IMM Futures](#)

[TABLE 8.2 December 2009 Trading Signals by Category.](#)

Chapter 9: Month Two

[TABLE 9.1 Factor LLC's Worst Drawdowns](#)

[TABLE 9.2 Amended Factor Trading Plan](#)

[TABLE 9.3 January Trading Signals by Category.](#)

Chapter 10: Month Three

[TABLE 10.1 February Trading Signals by Category.](#)

Chapter 11: Month Four

[TABLE 11.1 March Entry Signals by Category.](#)

Chapter 12: Month Five

[TABLE 12.1 April Entry Signals by Category.](#)

Chapter 13: Analysis of Trading Performance

[TABLE 13.1 December 2009–April 2010 Trading Signals by Category.](#)

[TABLE 13.2 Factor Signals—Performance Data \(December 2009–April 2010\).](#)

[TABLE 13.3 Factor Trading Plan Performance by Signal Category \(December 2009–April 2010\).](#)

[TABLE 13.4 Factor Trading Plan Performance by Duration of Patterns \(December 2009–April 2010\).](#)

[TABLE 13.5 Factor Trading Plan—Performance by Exit Strategy \(December 2009–April 2010\).](#)

Chapter 14: The Best Dressed List

[TABLE 14.1 Best Dressed List, January 2009–April 2010](#)

Postscript

[TABLE PS.1 Factor Trading Plan \(Actual\) versus Industry Benchmark Comparisons, December 2009–May 2010](#)

Appendix A: Factor Trading Plan Signals

[TABLE A.1](#)

Appendix B: Quick Reference to Charts

[TABLE B.1 Charts by Pattern](#)

[TABLE B.2 Charts by Signal Category and Trade Management Technique](#)

List of Illustrations

Introduction

[FIGURE I.1 Spot Gold Prices, 1830–2009.](#)

[FIGURE I.2 Soft Wheat Prices, 1860–2009.](#)

[FIGURE I.3 Factor LLC Proprietary Trading Record.](#)

[FIGURE I.4 The Barclay CTA Index versus S&P 500 Index, 1980–2010.](#)

Part II: Characteristics of a Successful Trading Plan

[FIGURE PII.1 Pillars and Components of the Factor Trading Plan.](#)

Chapter 2: Building a Trading Plan

[FIGURE 2.1 The Preliminary Components of a Trading Plan.](#)

[FIGURE 2.2 Long Swiss Franc: The Factor's First Big Trade.](#)

Chapter 3: Identifying the Trades and the Trading Vocabulary

[FIGURE 3.1 The Trade Identification Pillar.](#)

[FIGURE 3.2 Pattern Breakout in the British Pound.](#)

[FIGURE 3.3 Ice Line in the British Pound.](#)

[FIGURE 3.4 Ice Line in Platinum.](#)

[FIGURE 3.5 Out-of-Line Movement in London Sugar.](#)

[FIGURE 3.6 Out-of-Line Movement in March Sugar.](#)

[FIGURE 3.7 Premature Breakout in Cocoa.](#)

[FIGURE 3.8 False Breakout and End-Around in the DAX.](#)

[FIGURE 3.9 A False Breakout and Subsequent Buy Signal in the S&Ps.](#)

[FIGURE 3.10 Gold Displays a Horizontal Chart Pattern.](#)

[FIGURE 3.11 Problematic Diagonal Chart Pattern in the Euro/U.S. Dollar Crossrate.](#)

[FIGURE 3.12 Diagonal Pattern in Gold.](#)

[FIGURE 3.13 Last Day Rule in Crude Oil.](#)

[FIGURE 3.14 Two Last Day Rules in Silver—One Failed and One Worked.](#)

[FIGURE 3.15 Last Hour Rule in March S&Ps.](#)

[FIGURE 3.16 Retest of H&S Top in Rough Rice.](#)

[FIGURE 3.17 Hard Retest in USD/CAD.](#)

[FIGURE 3.18 Retest Failure Rule on the Weekly Soybean Chart.](#)

[FIGURE 3.19 Price Target from Triangle in Sugar.](#)

[FIGURE 3.20 Price Target from Ascending Triangle in GBP/USD.](#)

[FIGURE 3.21 Continuation Patterns on the Weekly AUD/USD Graph.](#)

[FIGURE 3.22 Continuation Patterns on the Daily AUD/USD Graph.](#)

[FIGURE 3.23 Trailing Stop Rule in DJIA.](#)

[FIGURE 3.24 Trailing Stop Rule in GBP/USD.](#)

[FIGURE 3.25 Weekend Rule Breakout in Sugar, May 2009.](#)

[FIGURE 3.26 Weekend Rule Breakout in Sugar, December 2009.](#)

[FIGURE 3.27 A Sustained Market Run in Soybean Oil.](#)

[FIGURE 3.28 A Market Run in Gold.](#)

[FIGURE 3.29 Pattern Recompletion in USD/JPY.](#)

Chapter 4: Ideal Chart Patterns

[FIGURE 4.1 H&S Top Ends a Five-Year Bull Market in Copper.](#)

[FIGURE 4.2 One-Year Rising Wedge in the Aussie Dollar Leads to a Waterfall Decline.](#)

[FIGURE 4.3 Eight-Week Triangle Caps Off a 15-Week Rising Wedge in Soybean Oil.](#)

[FIGURE 4.4 Seven-Month Failure Top Leads to Historic Drop in Soybean Oil Prices.](#)

[FIGURE 4.5 Classic Six-Month Symmetrical Triangle in Sugar.](#)

[FIGURE 4.6 Major Advance in USD/CAD Began with a Seven-Month Ascending Triangle.](#)

[FIGURE 4.7 Six-Month Failure Top in Silver.](#)

[FIGURE 4.8 Continuation H&S Pattern Leads to Stock Market Collapse of Late 2008.](#)

[FIGURE 4.9 Weekly Chart Displays a Continuation Rectangle in Kansas City Wheat.](#)

[FIGURE 4.10 Daily Chart Counterpart of the Rectangle In Kansas City Wheat.](#)

[FIGURE 4.11 A Four-Month Rectangle and Three-Week Pennant in Crude Oil.](#)

[FIGURE 4.12 A Three-Month H&S Top in the Dow Utilities Leads to the 2008 Meltdown.](#)

[FIGURE 4.13 Weekly Chart in the EUR/USD Crossrate Displays a Continuation Triangle and a Double \(or "M"\) Top.](#)

[FIGURE 4.14 Daily Chart Shows the Three-Month Triangle in Early 2008 in the EUR/USD Crossrate.](#)

[FIGURE 4.15 A Five-Month Double Top and Two-Week Flag in the EUR/USD.](#)

[FIGURE 4.16 Textbook Bear Market on the GBP/JPY Weekly Chart.](#)

[FIGURE 4.17 Daily Chart of GBP/JPY Shows a Series of Bear Market Patterns.](#)

[FIGURE 4.18 A 14-Month Symmetrical Triangle on the AUD/JPY Weekly Chart.](#)

[FIGURE 4.19 Daily Chart of the AUD/JPY Displays the Retest.](#)

[FIGURE 4.20 A Seven-Month Rounding Top Followed by an Eight-Week Descending Triangle in the GBP/CHF.](#)

[FIGURE 4.21 Weekly Chart Symmetrical Triangle in Sugar.](#)

[FIGURE 4.22 A Six-Month Running Wedge in October Sugar.](#)

[FIGURE 4.23 A Perfect H&S Bottom in Apple Computer.](#)

[FIGURE 4.24 Weekly H&S Bottom in Gold.](#)

[FIGURE 4.25 A Large Symmetrical Triangle and Small H&S Failure on the Daily Gold Graph.](#)

[FIGURE 4.26 A Bull Market in Copper Loaded with Continuation Patterns.](#)

[FIGURE 4.27 Weekly Chart Ascending Triangle in USD/CAD.](#)

[FIGURE 4.28 A Tricky Breakout on the Daily USD/CAD Chart.](#)

[FIGURE 4.29 Continuation Rectangle in the Dow Transports.](#)

[FIGURE 4.30 Sloping Bottom in Brent Sea Crude Oil.](#)

[FIGURE 4.31 H&S Bottom in S&Ps.](#)

Chapter 5: How the Factor Trading Plan Works

[FIGURE 5.1 The Necessary Elements of a Trading Plan.](#)

[FIGURE 5.2 Double Top on the Weekly Chart of GBP/USD, June 2009-March 2010.](#)

[FIGURE 5.3 Double Top on the Daily Chart of GBP/USD, June 2009-March 2010.](#)

[FIGURE 5.4 Daily Chart of GBP/USD, October 2009-March 2010.](#)

[FIGURE 5.5 Daily Chart of GBP/USD, January 2010-March 2010.](#)

Chapter 6: Three Case Studies Using the Factor Trading Plan

[FIGURE 6.1 An H&S Top in the Dow Jones Industrial Average.](#)

[FIGURE 6.2 Textbook H&S Failure on the September DJIA Chart.](#)

[FIGURE 6.3 Gold 2009 Trades.](#)

[FIGURE 6.4 Gold Trade #1—H&S Completed in January.](#)

[FIGURE 6.5 Gold Trade #1—Trailing Stop Rule in Gold.](#)

[FIGURE 6.6 Gold Trade #1—Trailing Stop Rule Demonstrated.](#)

[FIGURE 6.7 Trade #2—An Out-of-Line Movement in Gold.](#)

[FIGURE 6.8 Trade #3—A Small H&S Pattern in Gold.](#)

[FIGURE 6.9 Trade #4—Another Failed H&S in Gold.](#)

[FIGURE 6.10 Trades #5 and #6—H&S Pattern on Weekly Gold Chart.](#)

[FIGURE 6.11 Trades #5 and #6—A Massive Symmetrical Triangle Serving as the Right Shoulder on the Gold Chart.](#)

[FIGURE 6.12 Trade #6—A Small H&S Failure in Gold.](#)

[FIGURE 6.13 Trade #7—Fake-Out in Gold.](#)

[FIGURE 6.14 A Swing Target in Gold.](#)

[FIGURE 6.15 Sugar Weekly Chart in Early 2009.](#)

[FIGURE 6.16 Trading Sugar 2009: 11 Trades.](#)

[FIGURE 6.17 Trades #1-3—Early Frustration in Sugar Trading.](#)

[FIGURE 6.18 Trade #4—A Rectangle in July Sugar.](#)

[FIGURE 6.19 Trade #4—A Running Wedge in October Sugar.](#)

[FIGURE 6.20 Symmetrical Triangle Launches Bull Move in Sugar.](#)

[FIGURE 6.21 Trades #5 and #6—Two Continuation Patterns during the Bull Run.](#)

[FIGURE 6.22 Trades #7 and #8—The Sugar Market Begins a Large Consolidation.](#)

[FIGURE 6.23 Trades #9 and #10—Sugar Trades without Clear Patterns.](#)

[FIGURE 6.24 Trade #11—A Significant Buy Signal in Sugar.](#)

Chapter 7: Characteristics of a Successful Trader

[FIGURE 7.1 Characteristics of a Successful Trader.](#)

Chapter 8: Month One

[FIGURE 8.1 A Major Trend Line with False Breakouts in EUR/USD.](#)

[FIGURE 8.2 A Bear Market Begins in EUR/USD.](#)

[FIGURE 8.3 A Potential Double Top in GBP/USD.](#)

[FIGURE 8.4 A Bear Hikkake Pattern.](#)

[FIGURE 8.5 A Bull Hikkake Pattern.](#)

[FIGURE 8.6 A Bear Hikkake in GBP/USD Confirms the H&S Top.](#)

[FIGURE 8.7 Taking a Small Profit in the GBP/USD.](#)

[FIGURE 8.8 Sugar Breaks Out of a Four-Month Channel and One-Month H&S Bottom.](#)

[FIGURE 8.9 An Emotional Trade in Cotton.](#)

[FIGURE 8.10 A Breakout of a Symmetrical Triangle in Soybean Oil Lacks Follow-Through.](#)

[FIGURE 8.11 A Small H&S Top Reverses the Bottom in Soybean Oil.](#)

[FIGURE 8.12 A Failed H&S Top in AUD/USD.](#)

[FIGURE 8.13 An Ascending Triangle in DAX with an End-Around Move.](#)

[FIGURE 8.14 A Small H&S Top in Soybeans Turns into a Larger H&S Formation.](#)

[FIGURE 8.15 An Ascending Triangle in the Mini Nasdaq.](#)

[FIGURE 8.16 A Descending Triangle in USD/CAD Initially Stutters, Then Fails.](#)

[FIGURE 8.17 Lyxor Short-Term CTA Index.](#)

Chapter 9: Month Two

[FIGURE 9.1 Possible Eight-Month Double Top in GBP/USD.](#)

[FIGURE 9.2 Six-Month Channel and Three-Month Wedge in S&Ps.](#)

[FIGURE 9.3 Multidecade Channel in T-Bonds.](#)

[FIGURE 9.4 Two-Year H&S Top on the Weekly T-Bond Chart.](#)

[FIGURE 9.5 Possible Six-Month H&S Top on the Daily T-Bond Chart.](#)

[FIGURE 9.6 Inverted Continuation H&S Bottom Pattern in Gold.](#)

[FIGURE 9.7 28-Year Base on the Monthly Sugar Chart.](#)

[FIGURE 9.8 A Possible 12-Year Top in the DJIA.](#)

[FIGURE 9.7 Running Wedge Confirms a Rectangle in Sugar.](#)

[FIGURE 9.10 One-Day Fake-Out in Corn.](#)

[FIGURE 9.11 A Slightly Different Look at the Same Corn Chart.](#)

[FIGURE 9.12 12-Year Descending Triangle in USD/JPY.](#)

[FIGURE 9.13 Five-Week Rising Wedge in USD/JPY.](#)

[FIGURE 9.14 Small Two-Week Broadening Pattern in Nasdaq.](#)

[FIGURE 9.15 T-Bonds Unsuccessfully Retest a Four-Month Double Top.](#)

[FIGURE 9.16 A Breakaway Gap Completes a Top in Corn.](#)

[FIGURE 9.17 A Classic H&S Top Pattern in Chicago Wheat.](#)

[FIGURE 9.18 Rounding Top on the Weekly EUR/JPY Chart.](#)

[FIGURE 9.19 The Late Stages of the Rounding Top in EUR/JPY.](#)

[FIGURE 9.20 Three-Month Rising Wedge in S&Ps Produces Sell Signals.](#)

[FIGURE 9.21 An Eight-Day Pennant in Sugar.](#)

[FIGURE 9.22 A Three-Week H&S Top in Gold.](#)

[FIGURE 9.23 A Nine-Week Descending Triangle in Gold Fails.](#)

[FIGURE 9.24 An 11-Week Falling Wedge on the Daily Gold Chart.](#)

[FIGURE 9.25 An H&S Bottom Pattern in Gold.](#)

[FIGURE 9.26 The Gold Chart Is Set Up for a Buy or a Sell.](#)

[FIGURE 9.27 An H&S Bottom in Gold Resolves Previous Uncertainty.](#)

[FIGURE 9.28 A Possible Descending Triangle Forms in GBP/JPY.](#)

[FIGURE 9.29 Three-Month Horn in Copper.](#)

[FIGURE 9.30 Another Hikkake Pattern in GBP/USD.](#)

Chapter 10: Month Three

[FIGURE 10.1 Factor Trading Plan Proprietary performance: Bell Curve of Monthly Results.](#)

[FIGURE 10.2 The Double Top in GBP/USD Picks Up Steam.](#)

[FIGURE 10.3 A Series of Hikkake Patterns in GBP/USD.](#)

[FIGURE 10.4 Completed Double Top and Three-Week Flag in GBP/USD.](#)

[FIGURE 10.5 Fan Principle on the Weekly Crude Oil Chart.](#)

[FIGURE 10.6 A Possible Double Top in Crude Oil.](#)

[FIGURE 10.7 False Breakout of a Fan Line in Crude Oil.](#)

[FIGURE 10.8 Attempting to Catch the Right Shoulder Top with Two Small Bear Patterns in T-Bonds.](#)

[FIGURE 10.9 A Small H&S Top in T-Notes.](#)

[FIGURE 10.10 Five-Month Descending Triangle in GBP/JPY.](#)

[FIGURE 10.11 Rectangular Top in October Sugar.](#)

[FIGURE 10.12 Sugar Prices Collapse.](#)

[FIGURE 10.13 Weekly Soybean Oil Chart Displays Massive Triangle.](#)

[FIGURE 10.14 "V" Bottom in March Soybean Oil.](#)

[FIGURE 10.15 Pennant in May Soybean Oil: First Breakout Fails.](#)

[FIGURE 10.16 Pennant in May Soybean Oil: Second Attempt Works.](#)

[FIGURE 10.17 Small H&S Top in S&Ps Retests Larger Potential Top.](#)

[FIGURE 10.18 Dow Jones Tests Mid-January Breakdown.](#)

[FIGURE 10.19 Possible 13-Month H&S Bottom Pattern in EUR/GBP.](#)

[FIGURE 10.20 Four-Month Channel in EUR/GBP.](#)

Chapter 11: Month Four

[FIGURE 11.1 Five-Month Descending Triangle on the Weekly USD/CAD Graph.](#)

[FIGURE 11.2 Descending Triangle on the Daily USD/CAD Chart.](#)

[FIGURE 11.3 Three-Week H&S top in May Soybeans Quickly Fails.](#)

[FIGURE 11.4 Six-Week Rising Wedge on Crude Oil Chart.](#)

[FIGURE 11.5 Sloppy Breakouts Occur with Three-Month Triangle in AUD/CAD.](#)

[FIGURE 11.6 Daily Chart of AUD/CAD Displays Treacherous Trading Conditions.](#)

[FIGURE 11.7 A Small H&S Bottom Failure Is Triggered in EUR/USD.](#)

[FIGURE 11.8 Bull Trap Precedes H&S Failure in EUR/USD.](#)

[FIGURE 11.9 T-Bonds Turn Down at the Neckline.](#)

[FIGURE 11.10 New Lows in Wheat.](#)

[FIGURE 11.11 Corn Fails to Follow Through After New Lows.](#)

[FIGURE 11.12 Symmetrical Triangle in November Soybeans.](#)

[FIGURE 11.13 Triangle Propels Copper Prices Higher.](#)

[FIGURE 11.14 A Classic End-Around in Orange Juice.](#)

Chapter 12: Month Five

[FIGURE 12.1 Another Look at the Inverted H&S on the Weekly Gold Graph.](#)

[FIGURE 12.2 Four-Month H&S Bottom on the Daily Gold Chart.](#)

[FIGURE 12.3 Alternating Support and Resistance Line in EUR/GBP.](#)

[FIGURE 12.4 Retest of Rounding Top on the Weekly EUR/JPY Chart.](#)

[FIGURE 12.5 Retest of Top on the Daily EUR/JPY Graph.](#)

[FIGURE 12.6 Symmetrical Triangle Completed in November Soybeans.](#)

[FIGURE 12.7 Massive Symmetrical Triangle Base Shown on the Weekly November Soybean Chart.](#)

[FIGURE 12.8 100-Year Dow Chart Shows Potential Top of Historic Magnitude.](#)

[FIGURE 12.9 14-Year Dow Monthly Graph Confirms Possible H&S Top.](#)

[FIGURE 12.10 29-Year Channel on the Quarterly T-Bond Graph.](#)

[FIGURE 12.11 Weekly T-Bond Chart Displays Possible H&S Top.](#)

[FIGURE 12.12 H&S Failure on the Weekly T-Bond Chart.](#)

[FIGURE 12.13 30-Year Base on the Quarterly Sugar Graph.](#)

Chapter 13: Analysis of Trading Performance

[FIGURE 13.1 Gold Chart, December 2009–April 2010.](#)

[FIGURE 13.2 Nasdaq Chart, December 2009–April 2010.](#)

[FIGURE 13.3 Sugar Chart, December 2009–April 2010.](#)

[FIGURE 13.4 CRB Index, December 2009–April 2010.](#)

[FIGURE 13.5 GBP/USD Chart, December 2009–April 2010.](#)

[FIGURE 13.6 S&Ps from March 2009 to April 2010.](#)

[FIGURE 13.7 Month-by-Month Breakdown of Trades.](#)

Chapter 14: The Best Dressed List

[FIGURE 14.1 Double Bottom on the Weekly AUD/USD Graph.](#)

[FIGURE 14.2 Double Bottom on the Daily AUD/USD Graph.](#)

[FIGURE 14.3 Descending Triangle and Symmetrical Triangle on the Weekly EUR/CHF Chart.](#)

[FIGURE 14.4 The Breakout and Run to the Target on the Daily EUR/CHF Chart.](#)

[FIGURE 14.5 Weekly EUR/USD Graph Displays Major Trend Line and Rising Wedge.](#)

[FIGURE 14.6 The Breakout and Run to the Initial Target on the Daily EUR/USD Graph.](#)

[FIGURE 14.7 A 16-Week Horn on the Weekly GBP/USD Graph.](#)

[FIGURE 14.8 The Breakout and Run to the Target on the Daily GBP/USD Graph.](#)

[FIGURE 14.9 H&S Bottom and Continuation Triangle on the Weekly Chart of NZD/USD.](#)

[FIGURE 14.10 Daily Chart of the H&S Bottom in NZD/USD Displays a Stutter at the Breakout.](#)

[FIGURE 14.11 Downside Breakout of Ascending Triangle on the Weekly USD/CAD Chart.](#)

[FIGURE 14.12 Daily USD/CAD Graph Shows Initial Breakout Failure Followed by Pattern Recompletion.](#)

[FIGURE 14.13 H&S Bottom on the Weekly Graph Reverses the 2008 Meltdown in the S&Ps.](#)

[FIGURE 14.14 Daily S&P Chart Shows Clean Breakout of H&S Bottom.](#)

[FIGURE 14.15 2007-2009 Bull Market on the Weekly Sugar Chart: A Study in Classical Chart Patterns.](#)

[FIGURE 14.16 Running Wedge and Symmetrical Triangle Propel 2009 Bull Run in May Sugar.](#)

[FIGURE 14.17 Seven-Month Symmetrical Triangle on the Weekly Gold Chart.](#)

[FIGURE 14.18 Symmetrical Triangle Breakout on the Daily Gold Chart.](#)

[FIGURE 14.19 Multiple Continuation Patterns on the Daily Copper Graph.](#)

[FIGURE 14.20 H&S Bottom on the Weekly Chart of October 2009 Crude Oil.](#)

[FIGURE 14.21 Daily Close-Only Chart Defines H&S Bottom in October 2009 Crude Oil.](#)

Postscript

[FIGURE PS.1 A Small H&S Pattern Created a Top in DJIA.](#)

[FIGURE PS.2 Major Sell Signal in AUD/CAD.](#)

[FIGURE PS.3 Factor Trading LLC Performance, 1981 through April 2010.](#)

Author's Note

[FIGURE AN.1 Factor LLC Performance, October 1981-September 2008.](#)

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Trading***

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This book is dedicated to my wife, Mona, and my children, who for more than 30 years have tolerated the ups and downs of the life of a commodity trader.

Also to some very dear folks I refer to as the Factor family, about two dozen fellow commodity traders who, since 1980, have served as a sounding board as I developed my trading plan and honed my craft.

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Part I

Foundations of Successful Trading

Is trading an art, or is it a science? Or is it some combination of the two? I am not sure of the answers to these questions. I am not sure it is necessary to know the answers. I view trading as a craft. A successful trader is a craftsman, applying his or her skills in the same way as a baseball pitcher who has perfected throwing a knuckleball, or a welder specializing in joining together exotic metals, or a software engineer who overcomes complex problems to design new chip technology.

All craftsmen undergo apprenticeships. An apprenticeship is not some specified period of time in a specified classroom or training grounds. Rather, an apprenticeship is a composition of personal, professional, and proprietary experiences that lead to the knowledge and skills to perform a craft.

Part I of this book relates my apprenticeship as a trader and provides context and background to all that follows in the book. Part I contains two sections:

- 1.** An Introduction to my background and history as a trader, the reasons I decided to write this book, a road map to the book, and what I hope this book accomplishes
- 2.** A brief overview of classical chart principles, the foundation of my trading approach

Part I lays the foundation for the architectural design of my trading plan, which is detailed in Part II.

Introduction

One of the first things I check out in a new book is the number of pages prior to Chapter —long book introductions put me to sleep. I will assume that most of you are like me—you want to cut to the chase. The last thing I wanted to do was write a book with a lengthy introduction, but my opinion has changed now that I'm on the author's side of the equation. It turns out introductions can be useful in providing necessary context and perspective for a book. And so, please forgive me for committing the sin I have always disliked—I think it will be worth it.

This is a book about me as a trader of commodity and forex markets and how I use price charts in my craft. I think of it as a mosaic: eventually the parts of this book will tie together in the same way that a good mosaic becomes visible only in its entirety. Piece by piece or section by section, a mosaic makes no sense. Only at a distance and in its fullness does a mosaic gain clarity and perspective. The concept of a mosaic describes how this book will unfold. First, a bit about how I got started in the business.

The Invention of a Commodity Trader

In 1972, shortly after graduating from the University of Minnesota with a degree in advertising, I moved to Chicago to work for one of the nation's largest ad agencies. A neighbor was a trader at the Chicago Board of Trade (CBOT). Through our conversations and my visits to see him on the trading floor, I became captivated by the futures markets. In commodity trading I saw the opportunity to earn a good living, work for myself, and be challenged in a very exciting field. In short, I became hooked.

Everybody started in the commodity field at the bottom. Being hired at a sizable salary was not a reality of the business. I needed a plan B if I were to quit advertising and enter the commodity field. So, I asked the president of the advertising agency if he would hire me back at a 30 percent increase in salary if I quit, tried the commodity business for a year unsuccessfully, and reapplied for my old job. He agreed to the deal.

I entered the commodity business in 1976 when I was in my 20s with the singular goal of trading my own personal account. But I needed to learn the ropes first.

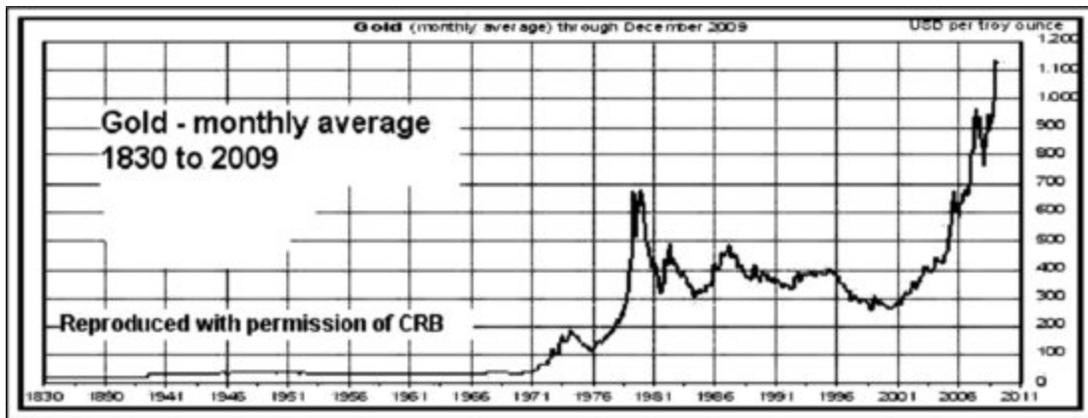
When I entered the business, most traders at the CBOT (as well as the Chicago Mercantile and the New York commodity exchanges) started at or near the bottom of the pecking order. The same thing exists to this day. An “MBA fast track” has never really existed in the trading pits. The learning curve is steep—the washout rate is high.

I learned the business by working for Continental Grain Company and Conti, its futures market brokerage operation. At the time Continental Grain was the second largest grain exporter in the world next to Cargill. Continental sold its grain merchandising business to Cargill in 1999.

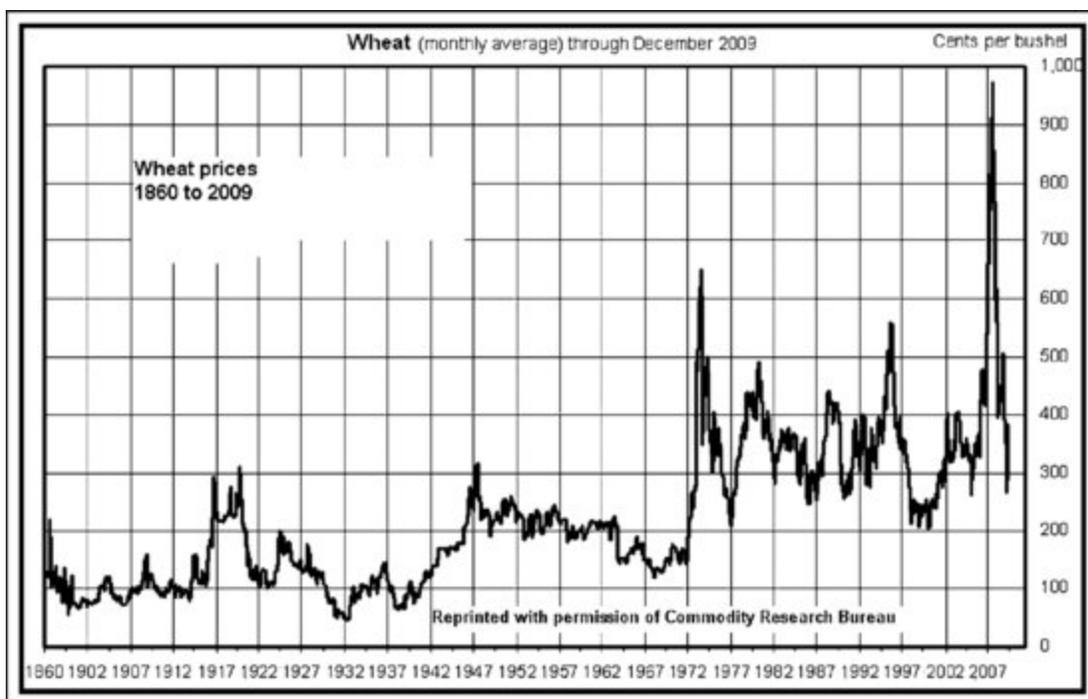
During my time in the advertising field I had been working on the accounts of McDonald’s and Campbell’s Soup Company. It became a very fortunate coincidence that both companies were huge users of agricultural products.

Processors of agricultural commodities, such as Campbell’s Soup, had become accustomed to decades of oversupply conditions and stable commodity prices. But a number of events in the early 1970s, including global crop failures, led to massive bull markets in the price of agricultural products and nearly every raw material. In a matter of

months the price of some commodity goods doubled. [Figures I.1](#) and [I.2](#) show gold and wheat prices as proxies for raw material prices.



[FIGURE I.1](#) Spot Gold Prices, 1830-2009.



[FIGURE I.2](#) Soft Wheat Prices, 1860-2009.

Food companies were not prepared for the price explosions taking place. Top management and purchasing executives of these companies were desperate for solutions. Few food