Wiley Trading

A complete guide to TECHNICAL TRADING TACTICS

How to Profit Using Pivot Points, Candlesticks & Other Indicators

JOHN L. PERSON

Contents

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Preface

The purpose of this book is to share some of the tips, techniques, and observations that have worked for me and other highly successful traders. After nearly 23 years as a registered broker in the futures and options field, I have come to know quite a few successful traders and have personally made many successful trades. I have also experienced my share of disasters and have known traders and investors who were doomed for permanent failure. Therefore, I am writing this book to help the new individual investor understand the mechanics of the markets and to serve as a refresher for the seasoned veteran trader.

Most of the trade examples demonstrated in this book were direct trade recommendations from either *The Bottom Line Financial and Futures Weekly Newsletter* or those that appeared in the daily Dow report provided through the Chicago Board of Trade web site and at www.nationalfutures.com. Rather than demonstrating just one methodology of trading tactics using pivot point analysis, I wanted to show through various techniques how you can implement these calculations with other methods and indicators. Much of what I have learned over the course of 23 years in the industry did come from hard work and, I must admit, being around the right people at the right time. I do not want you to abandon your knowledge of traditional technical analysis techniques. I would just like you to be open to integrating the numbers to help you confirm, validate, and identify entry and exit points when trading.

I also want to relay the message that mathematically calculated support and resistance numbers, or pivot points, work on different markets and should be derived from different time frames—not only from a daily basis, but also from a weekly and monthly time frame.

In addition, as most of the readers either know or will find out, trading is also a combination of strong emotional and personal characteristics. Through my experience and observations, I want to share and explain what works and what does not but, more important, to disclose why things go wrong when they do for those who failed. I believe it is important to take an inventory, so to speak, when things go right to capitalize on that experience by examining what you did so the results can be repeated. It is just as important to examine what went wrong so you can learn from the experience. By sharing with you the experiences and techniques that I and other professional traders have learned, the hope is that you will benefit and become a more profitable trader.

I firmly believe that traders from all different levels of experience will benefit from the information contained in this book, whether it is actually gaining a new understanding or a new technique or refreshing, reviewing, or reviving your memory about tactics, strategies, or trading techniques that an advanced trader may have forgotten.

My professional history may explain my qualifications for writing this book. I started in this business as a runner on the floor of the Chicago Mercantile Exchange in 1979. To illustrate a reference point in time, the Dow Jones Industrial Average was near the 900 level. The S&P 500 Index futures contract did not even exist back then. I became a registered commodity broker in 1982 and worked up through the ranks in the industry as I was studying economics at Loyola University. The head of the research department at the firm where I worked was George C. Lane. He, of course, is credited with developing the oscillator system known as stochastics. He was the first boss who tutored me in the art of technical analysis. Little did I know at that time that a true master of technical analysis was going to be responsible for helping to create the intrigue, financial rewards, and passion for the futures industry that I have had throughout all these years.

Granted, there were other individuals who had an influence on my career. Jack F., an old member of the Chicago Board of Trade, helped me understand the importance of moving averages and the aspect of long-term charts. Back in 1985 and 1986 in what I call the great bond market boom, he was instrumental in helping me understand how to ride a strong trending market. In 1986, I captured what I call a winning tidal wave bull market run that remains legendary to this day for those who were on board with me, as well as friends who invested and knew me well.

Another broker at a firm where I worked taught me this strange and unique method of plotting unconventional trend lines to predict price and time coordination. Harry A. was his name and this guy would tell you on a Monday that at 11:40 a.m. Wednesday the high in bonds would be 78$^{12}/_{32}$. Come Wednesday at 11:45 a.m. or so, the high was 78$^{11}/_{32}$, and I would watch the price take a disastrous plummet. His method, as I later found out, was based on Drummond geometry.

I had the privilege to work with a former chairman of the Chicago Board of Trade, Bill Mallers Sr., who was always looking for a new system. His thirst for achievement and passion for the markets amazed me. Another man in the office who worked for Bill Sr. was a fairly quiet, yet confident, guy. He always had a cigar stub in his mouth—never did smoke but just chewed on them. He sat near me and time after time would overhear my recommendations to clients, in particular my points of support and resistance. Almost on a daily basis he had the same target numbers, usually within a point or tick of mine. That is when we discovered we were doing the same thing. The amazing thing was he claimed to be a direct student of Charles Drummond.

I was also fortunate to have been introduced to another fascinating man, Dan Gramza, an instructor for several futures exchanges and firms worldwide. His understanding of the market and the relationship between time, price, and volume is incredible. His teaching also included a wonderful tutoring in candle charting. When I discovered that, he humbly mentioned that he knew Steve Nison and “helped” write some of Steve’s first book. When I got home, I immediately searched for the book in the storage box and, sure enough, there it was in the acknowledgment section on page IV. Not only was Dan mentioned in one of the best books on the basics of candle charting, in my opinion, he helped write chapter 8 in Steve’s book.

My experience has ranged from learning stochastics from the creator of the indicator, moving averages from a famous floor trader and options from my own experience, Drummond geometry from two different fascinating people at two different times in my career, pivot point analysis, and then candle charting techniques from what I would call a master.

In March 2003 I started hosting a radio program titled, *The Personal Investment Hour*. The format was to invite expert traders and analysts to share with listeners who they were and what they do to trade successfully. My guests have included John Murphy, Martin Pring, John Bollinger, Victor Niederhoffer, Gerald Appel, Linda Bradford Raschke, Larry Williams, and a fabulous roll call of other top experts. Most guests were thrilled to come on and share their story and methods. Some of the contents of those interviews are mentioned in this book as well. In fact, the interviews were recorded and archived on my web site, www.nationalfutures.com, where anyone can go to listen to them.

By writing this book, I can share with you how and what I do to produce the analysis that goes out every week in *The Bottom Line Financial and Futures Newsletter*. I believe my experience in the industry and the techniques that I have developed can be instrumental in helping you to become a better trader. I believe that you can successfully learn to better integrate the two elements of market analysis: time and price. The elements that I have focused on from the technical side are:

- Pivot points, a leading price predictor that is based on price points using different time frames.
- Cycle analysis, which deals with predicting market turning points based on time.
- Candle chart patterns, which are based on price relationships between the open, high, low, and close and past chart points such as old highs or lows.
- Fibonacci ratio corrections and extension studies, which are based on past price points.

Other studies such as volume are used to gauge the level of participation and to help uncover the strength or weakness of a market trend.

The last—and maybe the most—important aspect of trading that this book covers is evaluating the psychological makeup of traders and providing exercises that can help those who are having a rough period overcome their problems. Learning who you are and how you react to market conditions is a vital aspect of trading.

I hope that reading this book will help you have a better understanding of what it takes to trade and to broaden your horizons in investing in the futures and options market. More important, I want you to know how to learn to do it on your own. Industry experts agree that about 80 percent of the people who trade lose. With those odds against you, you need all the help you can get! Individual speculators need to know that it is a rewarding adventure as long as they can make it against the markets and their biggest competitor, every other trader. As a zero-sum game, for every loser there is a winner in futures trading. Or another way to think about it, perhaps, is that 20 traders are taking the money of 80 other traders.

If you are going to trade successfully, you need to understand that it requires hard work and, above all, to think of trading as a business. As you read this book, I hope you learn that you do not need to have an IQ of 160 or be a mathematician or possess superhuman skills to be successful. What you do need to have is a fascination for this business, patience, discipline, a trading plan, identification of what type of trader you are, risk capital, and the desire to improve your financial life.

Through the development of technology and the Internet, more information is accessible today for the individual speculator than ever before. I sincerely believe a knowledgeable and educated investor is a better trader.

So if you are trading or are getting ready to trade, try to work at continually learning what is available to you. Cutting-edge technology will continue to offer more powerful and helpful trading tools to individual traders. It is up to you to learn how to use them to your advantage. I hope that you will benefit from the tips and techniques that are mentioned in these pages and certainly hope that you can apply them successfully in your trading.

John L. Person

Palm Beach, Florida

March 2004

Acknowledgments

Writing requires intense devotion and discipline; I now have a new sense of respect for anyone who has ever written any books or published material, especially on the subject of technical analysis. I have many people to thank—those who were indirectly responsible and influential in my education throughout the years and, of course, my family, especially my wife, Mary, who also tolerated my perseverance for finishing this book at the expense of ignoring her and asking too many questions when I had computer problems.

Mom, I know you wanted a lawyer in the family; instead you got a futures trader. My son, John Paul, who decided not to get in the investment business; instead, he followed the entrepreneurial spirit and opened his own chain of cell phone stores. There is still a chance to convert him back to the investment world: He likes my stock picks!

Special thanks to the Friday night “wanders” group, the best support group of friends one could ever have. Those I wish to mention directly: Lan Turner from Gecko Software, Stuart Unger, Barry Isaacson, Cheryl Fitzpatrick, Rory Obractin, and Jonathan W. Dean from FutureSource; Dan Gramza for inviting me to his class and taking my calls; Barbara Schmidt Bailey and Ted Doukas from the Chicago Board of Trade; and James Mooney, president of Infinity Brokerage Services.

The more analysts and authors I met, the more I found how truly fortunate I was in having Pamela van Giessen of John Wiley & Sons as my editorial director. Thank you, Pam! My special thanks go to Darrell Jobman, who was directly responsible for orchestrating and directing me through the whole process of this project and directly responsible for helping to get this material organized and published.

J. L. P.

CHAPTER 1

Introduction to Futures and Options

Understanding the Mechanics

Success is turning knowledge into positive action.

Thinking is easy, acting is difficult, and to put one's thoughts into action is the most difficult thing in the world.

—Johann Wolfgang von Goethe

Goethe could have been referring to paper trading versus the act of actually trading when he wrote the phrase above. Trading is exactly that: putting your thoughts or convictions about a price move into action by entering an order and placing money at risk.

Investing is a totally different ball game. This book is about trading. The purpose of trading is to turn over or buy and sell (sell and buy) to build cash in an account by capitalizing on changes in price. It is not about acquiring and holding assets or property.

Futures trading is becoming more attractive than ever before as investors transfer their knowledge and trading skills from the stock market boom of the late 1990s to more active markets where the idea of creating wealth is still alive. As the equity markets became consumed by the bear market mentality liquidation phase, investors with knowledge of technical analysis and computer skills flocked to open futures accounts to trade e-mini S&P 500 and e-mini Nasdaq 100 index futures.

Stock market firms and brokers have developed futures divisions, and day-trading education experts have crawled out of the woodwork to teach investors the art of day trading those products. Some of the numerous quality instructors come with a very high tuition cost; others are not so expensive.

Most likely, learning about trading at a reasonable price is why you are reading this book. However, reading this book alone will not guarantee that you will succeed in trading. You need to read this book, practice its principles, and continue your trading education, realizing that the biggest obstacle in trading is what is between your left and right ears. I believe the techniques in this book are excellent strategies, and I hope you will apply and benefit from them. Teaching someone to become a successful trader and letting them experience the power of financial rewards is a satisfying and rewarding pursuit.

As investors look for markets beyond stocks or mutual funds in which to put their money, they will find a whole new world out there with different products to trade, among them futures. You may be among those investors who are afraid of and concerned about trading futures because of what you heard about them in the past. There are good reasons for being nervous about treading into any new market. But consider the scandals that have plagued Wall Street in the post-bubble era and may continue for some time. As history shows, there have been countless scandals on Wall Street in the past, and there almost certainly will be more in the future. So-called traditional investing in stocks is not immune to risk and has its own set of problems.

The question is: Will confidence in America's corporate leadership return sooner rather than later? Stock ownership is at the highest level per capita in America's history. More investors and private traders participate in the markets than ever before. In addition to stocks and mutual funds, there are a host of stock-related derivative products—exchange-traded funds such as QQQs, options such as the OEX, and many, many others including a relatively new and spectacular market development called single stock futures. The price direction of equities and all of these derivative instruments boils down to what will happen to the underlying forces of earnings and growth.

Here is a brief story that may shed light on Americans' changing viewpoint about investing. I was giving a seminar on the futures markets to an investment club. One older gentleman said his money was safe in the bank, and he wouldn't give his money to the stock market again.

I asked, "Why do you feel that way?"

He responded, "They are all crooks!"

"Well, if you think like that, why are you at a futures seminar?" I asked.

"I always thought they were risky, but now I want to learn for myself," he replied.

"Futures trading is risky," I agreed, "but what gave you the impression not to open a futures account before?"

"My stock broker told me not to trade commodities, that I would lose my shirt," he said. "So I kept buying the stocks he recommended, and, instead, I lost my shirt with him."

Not a happy story, but the amazing development is that the gentleman is getting back on the horse after falling off, this time getting his own education and finding out for himself whether futures are for him.

This book is designed for people like him and for the more experienced technical trader as well. If you had a similar experience, then keep reading and studying and you will continue to increase your knowledge and competence. With that, you will gain confidence. The more knowledge and information you have about a subject, the better you will become in dealing with it. As we all know, knowledge is power.

Every investor should know that trading is like riding an elevator. You get on if you want to go up and then get out once you are where you want to be. If you want to go up but then realize that you are going down instead, bail out. Get off the elevator and get back on another ride going up. Risk management and turnover are the keys to successful trading.

TRADING MENTALITY

Most new investors are not familiar with trading the short side of the market. I have listened to many novices say that they have a hard time comprehending how to sell something they do not even own. I always tell them that even if they buy a futures contract to go long, they are not going to own anything (except in rare instances where they may take actual delivery of some physical commodities).

All futures traders are doing is speculating on the direction of prices on a given product during a given time period. If they are right, they get rewarded; if they are wrong, of course, they get penalized. Remember the elevator analogy. If a building has 100 floors and you are on the 50th floor, you can play a guessing game to see if the elevator goes up or down and by how many floors. You can take the ride, but you don’t have to own the elevator to do so.

The principle of trading is a very simple concept although we, as humans, tend to make it quite complicated, especially those who have a hard time comprehending selling short. Trading is just a matter of interested parties coming together and speculating whether the price of a specific commodity is going to go up or down. It is that simple.

Let’s say Bill believes the price of commodity XYZ is going up, so he buys. A second trader, Pete, believes the price is going down, so he sells short. One could win, one could lose. Or, believe it or not, both Bill and Pete can be right and make money during the same day with their opposite positions. Similarly, both could also lose within the same trading day doing the exact opposite trade at the same time. It happens all the time. Volatility is the reason. Get to know that term as well as *whipsaw, choppy, erratic market behavior,* and other terms used in connection with volatility.

The market’s behavior reflects the emotional condition of those who are doing the trading. The market is the by-product of those who use it. Sometimes it seems like a jungle. It can be financially rewarding and exciting like discovering a wealth of mineral deposits in a hidden cavern behind thick brush. It can also be like enjoying the beauty and splendor of a sunset off the coast of Florida with the sun’s light descending on the low clouds as palm trees sway in the breeze. But it can also provide some of the scariest and most financially dangerous adventures you will ever experience.

Trading will probably test your emotional strength and psyche. It will be the ultimate financial, emotional, and intellectual challenge you will ever encounter. Fear, doubt, complacency, greed, anxiety, excitement, false pride—all can interfere with rational and intellectual thoughts. It is those feelings that create the jungle, and you may need help to overcome that jungle of emotion. Conquer those feelings and you may find the holy grail of trading: a confident winning attitude.

Reading this book will give you the knowledge necessary to improve your life as a trader. You will be taught to take the emotion out of trading and to develop a method or trading plan. Remember, “Those who fail to plan, plan to fail.” I have devoted a chapter to the mental aspect of trading (Chapter 11) because I believe about 80 percent of successful trading is based on emotional makeup. The way to increase your confidence and competence levels is through knowledge, and that comes from learning solutions to problems and then applying or executing what you learn.

HOLDING PENALTY

As you learn different trading styles, remember this key concept: Futures are a trading vehicle and not—I repeat, not—a buy-and-hold, long-term investment platform. Do not try to dictate or get married to an idea about the direction you think the market should go. This approach can lead to financial donations to other traders' wealth, to an increase in your knowledge about your brokerage firm's money wire transaction process, and, worse yet, to getting wiped out.

You need to work at this business. You need to manage and maintain your positions and monitor price action. Game plans need to be established, and you will need to be flexible and quick to act. Access and communication to stay in touch with the market is important when you are trading.

Futures trading should be used to make money on a price movement. It should not be a personal vendetta, trying to prove that you are right in your opinion of what the market should do. That outlook is why there are all kinds of clichés about taking profits. For instance, "A profit is a profit, no matter how small." That is a great line, but let's define "small profit." Coming to this business to risk thousands of dollars to make a hundred dollars or so isn't the way this trading environment should be used.

Another old saying describes someone who takes small profits and lets big losers ride: "Eating like a bird and crapping like an elephant." That is the essence of a habit you don't want. If this is a syndrome that you fall into, Chapter 11 offers exercises to help you work through it. If you catch yourself getting into that habit, stop trading. Try not to get used to taking small profits constantly and letting losses get large before taking them. You need to develop good discipline and strong emotional traits. Otherwise, fear of losing will hinder your performance.

Think about this: If trading were easy and such a sure thing, why would you have to sign all of those disclaimers about how dangerous it is when you fill out an account application at a brokerage firm?

So far I have mentioned buying, selling, winning, losing, and human emotions, and I have not yet covered a single aspect of technical analysis. This approach to the subject reflects my belief about what I consider the most important aspect of trading: your mental and emotional capacity.

GETTING TECHNICAL

Technical analysis is the study of a market's price data, which is created by the emotions of the participants. Price reflects the current or anticipated value of a market from a supply and demand perspective. Price is the true and absolute reflection of value, as perceived by the various market participants at a particular point in time.

There are a number of different forms of analysis. This book will go into further detail on most aspects of technical analysis, but my focus is on market reversals incorporating pivot point analysis with other methods to nail down time and price predictions.

All traders have access to four common denominators: open, high, low, and closing price. How you analyze, interpret, and act on the information available is what gives you a trading style that differentiates you from other traders. Successful traders interpret correctly and act swiftly. There are five business days in every week and usually four weeks in every month. One day within a month will usually mark a price high, another day will generally mark a low, and the market will close somewhere between those points. Those facts define the monthly range. The successful trader does not consistently make a habit of buying the high of the range or selling the low of the range.

But before jumping ahead of ourselves into subjects covered later in the book, we need to review what the futures markets are all about. Seasoned traders may be able to skip over the next sections, but those new to futures should read them carefully because they contain important concepts and terminology that make futures different from most other markets.

GETTING INTO FUTURES

For futures traders, the choice of products varies from the traditional to the exciting new trading vehicles now available. Everyone can relate to many of these markets that you use every day, from energy products such as crude oil or natural gas to agricultural markets such as meats, grains, and the so-called softs (coffee, sugar, cocoa). Prices are dictated by supply and demand functions that often are affected by weather.

In addition to supply/demand influences, futures markets may provide a safe-haven security function. Precious metals such as gold may start to increase in price as investors on a global scale believe it is necessary to hold on to hard assets instead of paper assets in times of political tension or because they fear potential inflation resulting from the massive liquidity pumped into the global economy from 2001 through 2003. Financial instruments such as Treasury notes and bonds and currencies are also popular trading vehicles.

In short, diversified products in all of these areas are available to futures traders and provide advantages in liquidity and leverage. Many of these markets also offer direct electronic access to traders. As long as there are products subject to supply/demand and price fluctuations that carry an element of risk, there will be a role for futures in the business world.

THE FUTURES INSTRUMENT

Many people, including traders, refer to commodities and futures as one and the same thing. To clarify that point first, the term *commodities* means an actual physical product such as corn, wheat, soybeans, cattle, gold, coffee, crude oil, cotton, and the like. The term *futures* refers to the instrument or the contract that is actually traded on these underlying products. Futures contracts have set standards for quantity, quality, financial requirements, and delivery points, if any (many futures contracts have cash-settlement provisions so there is no delivery).

As the years have passed, futures contracts have been developed for new “commodities” such as foreign currencies and a number of financial instruments including interest rate products such as Treasury bonds and notes, stock indexes such as the S&P 500 index and Dow Jones Industrial Average, and, most recently, an innovative derivative product called single stock futures.

Unlike equities, where stocks are quoted in dollars per share, different commodities have different contract values and different point values. The table of contract specifications for major U.S. futures markets (Table 1.1) lists the symbols and sizes of various futures contracts. For example, the contract size for corn is 5,000 bushels. If the value of one bushel is, say, $2.00, then the overall contract value is $10,000. The full-size S&P 500 index futures contract has a value of $250 times the index. If the index is at, say, 1,000, the value of the contract is $250,000, considerably larger than the value of the corn contract.

TABLE 1.1 Major U.S. Futures Contract Specifications

Symbol[a]	Futures Contract	Contract Size	Contract Months[b]	Exchange[c]
Interest Rates				
ED	Eurodollar, 90-day	$1,000,000	H, M, U, Z	CME
TB	Treasury bills, 90-day	$1,000,000	H, M, U, Z	CME
FF	Fed funds, 30-day	$5,000,000	All months	CBOT
EM	Libor	$3,000,000	All months	CME
TU	Treasury notes, 2-year	$ 200,000	H, M, U, Z	CBOT
FV	Treasury notes, 5-year	$ 100,000	H, M, U, Z	CBOT
TY	Treasury notes, 10-year	$ 100,000	H, M, U, Z	CBOT
US	Treasury bonds, 30-year	$ 100,000	H, M, U, Z	CBOT
MB	Municipal bonds	$ 100,000	H, M, U, Z	CBOT
Indexes				
SP	S&P 500 Stock Index	$250 × index	H, M, U, Z	CME
ES	E-Mini S&P 500 Index	$ 50 × index	H, M, U, Z	CME
DJ	Dow Jones Industrial Avg.	$ 10 × index	H, M, U, Z	CBOT
YJ	Mini-sized Dow	$ 5 × index	H, M, U, Z	CBOT
YX	NYSE Composite Index	$500 × index	H, M, U, Z	NYBOT
MV	Mini-Value Line Index	$100 × index	H, M, U, Z	KCBOT
NK	Nikkei 225 Stock Avg.	$ 5 × average	H, M, U, Z	CME
ER	Euro-top 100 Stock Index	$100 × index	H, M, U, Z	NYMEX
FI	FT-SE 100 Stock Index	$ 50 × index	H, M, U, Z	CME
MD	S&P Mid-Cap 400 Index	$500 × index	H, M, U, Z	CME
CR	CRB Futures Index	$500 × index	F, G, J, M, Q, X	NYBOT
GI	Goldman Sachs Com. Index	$250 × index	All months	CME
Currencies				
AD	Australian dollar	100,000 AD	H, M, U, Z	CME
BP	British pound	62,500 BP	H, M, U, Z	CME
CD	Canadian dollar	100,000 CD	H, M, U, Z	CME
EC	Euro currency	125,000 Euros	H, M, U, Z	CME
FR	French franc	500,000 FF	H, M, U, Z	CME
JY	Japanese yen	12,500,000 JY	H, M, U, Z	CME
MP	Mexican peso	500,000 MP	H, M, U, Z	CME
SF	Swiss franc	125,000 SF	H, M, U, Z	CME
DX	U.S. Dollar Index	$100 × index	H, M, U, Z	NYBOT
Metals				
GC	Gold	100 troy oz.	All months	NYMEX
SI	Silver	5,000 troy oz.	All months	NYMEX
HG	Copper	25,000 lbs.	All months	NYMEX
PL	Platinum	50 troy oz.	All months	NYMEX
PA	Palladium	100 troy oz.	All months	NYMEX
AL	Aluminum	44,000 lb.	All months	NYMEX
YG	Gold	33.2 troy oz.	All months	CBOT
YI	Silver	1,000 troy oz.	All months	CBOT

Symbol[a]	Futures Contract	Contract Size	Contract Months[b]	Exchange[c]
Energy				
CL	Crude oil	1,000 bbl.	All months	NYMEX
HO	Heating oil	42,000 gal.	All months	NYMEX
HU	Unleaded gasoline	42,000 gal.	All months	NYMEX
NG	Natural gas	10,000 MBTU	All months	NYMEX
Grains				
C	Corn	5,000 bu.	H, K, N, U, Z	CBOT
W	Wheat, soft winter	5,000 bu.	H, K, N, U, Z	CBOT
S	Soybeans	5,000 bu.	F, H, K, N, Q, U, X	CBOT
BO	Soybean oil	60,000 lb.	F, H, K, N, Q, U, V, Z	CBOT
SM	Soybean meal	100 tons	F, H, K, N, Q, U, V, Z	CBOT
O	Oats	5,000 bu.	H, K, N, U, Z	CBOT
KW	Wheat, hard red winter	5,000 bu.	H, K, N, U, Z	KCBOT
MW	Wheat, spring	5,000 bu.	H, K, N, U, Z	MGE
Meats				
LC	Live cattle	40,000 lb.	G, J, M, Q, V, Z	CME
FC	Feeder cattle	50,000 lb.	F, H, J, K, Q, U, V, X	CME
LH	Lean hogs	40,000 lb.	G, J, M, N, Q, V, Z	CME
PB	Frozen pork bellies	40,000 lb.	G, H, K, N, Q	CME
Foods, Other				
KC	Coffee "C"	37,500 lb.	H, K, N, U, Z	NYBOT
SB	Sugar #11 (world)	112,000 lb.	F, H, K, N, V	NYBOT
CO	Cocoa	10 metric tons	H, K, N, U, Z	NYBOT
CT	Cotton	50,000 lb.	All months	NYBOT
OJ	Frozen orange juice	15,000 lb.	F, H, K, N, U, X	NYBOT
LB	Lumber, random length	110,000 bd. ft.	F, H, K, N, U, X	CME

[a]Exchange symbols; data vendors may use other symbols.

[b]Contract months:

F = January	N = July
G = February	Q = August
H = March	U = September
J = April	V = October
K = May	X = November
M = June	Z = December

[c]Exchange abbreviations:

CBOT	= Chicago Board of Trade
CME	= Chicago Mercantile Exchange
KCBOT	= Kansas City Board of Trade
MGE	= Minneapolis Grain Exchange
NYBOT	= New York Board of Trade
NYMEX	= New York Mercantile Exchange

Exchanges require a good-faith deposit—usually called *margin,* although it does not have the same meaning as margin in stocks—to play the game. For most futures contracts, you usually need to put up only 3 percent to 10 percent of the total contract value to trade. On the one hand, corn may have an initial margin requirement of $500 to $600—about 5 percent of the contract's value—with a maintenance margin of $300. For that amount of money, you control 5,000 bushels of corn and can go long, speculating that prices will climb in the future, or sell short, speculating that the price will decline. The more volatile S&P contract, on the other hand, has a margin requirement closer to 7 percent or 8 percent or $18,000 to $20,000. The amount of money required to trade a contract may dictate what you trade if you have a small account.

It has been argued that physical commodity products will find a fair value or an absolute value when they reach certain lows based on historical price comparisons and will never go to zero due to laws of supply and demand (Economics 101). Unlike stocks, commodities do not declare bankruptcy or go out of business.

The reason futures will always have some value is because they do not exist solely for traders to bet on price movement. Producers and end users are also major participants in most futures markets as they use futures to reduce risk from adverse changes in price and to discover the current fair value for products they have to buy or sell to stay in business. Traders in this category are referred to as *commercials* or *hedgers*.

You probably are in a second group: the individual speculator trying to capitalize on price swings created by the up and down forces in the marketplace. You may be trading from your home as a business or on the trading floor or trading as a sideline.

A third category of futures traders includes the large speculators or fund managers who pool investors' money together. These are sometimes referred to collectively as the *commodity funds*.

One advantage of futures trading is that the government gives you an idea what each of these groups of traders is doing each week in the Commodity Futures Trading