

2014
Q1
STRATEGIES

SEASONAL SECTOR TRADES

JEFFREY A. HIRSCH
& JOHN L. PERSON

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1 INTRODUCTION

It is impossible to predict the future. That is why we rely on seasonal and historical analysis to help understand, or better yet, to remind us what price trends have occurred in the past and how often these trends perform. These patterns typically occur as a direct result of perennial supply and demand changes year after year. Every year has differences, from changes in monetary and fiscal policies to global macroeconomic situations to presidential-election-year cycles to extreme weather and other exogenous events.

After seven lucky years of developing and delivering the annual *Commodity Trader's Almanac* we transformed our annual opus into a new, digital-only quarterly report to provide more timely actionable trading analysis to traders and investors in stocks & bonds, energy, metals, grains, softs, meats, and currencies.

John has created a brand-new proprietary tool for the new publication: *price projections based on seasonal expectations and recent trading activity*. The proprietary algorithm delineates the price projections for each trade presented at the time of this writing through Q1 2014. Three different scenarios are displayed so that you can better gauge the quality of each seasonality's trade setup and decide if and how to execute with respect to technical, fundamental, and market sentiment readings at the time.

Our Q1 Outlook is followed by our full-year Seasonal Trading Strategy Calendar and 2014 Q1 Top Seasonal Sector Trades. Each of the three months of Q1 2014 begins with a concise description of the trading patterns of the

seven major complexes: stocks & bonds, energy, metals, grains, softs, meats, and currencies. The complete history and considerations of each top trade are then detailed, including a spreadsheet of the trade, price projection chart, correlated ETF or stock idea and chart, and the seasonal trend.

To give you a window into How We Trade, we have included several real-world examples of how we incorporate seasonal trade setups with technical and fundamental analysis.

Use this report as a reference guide and to compare current events against history. We have included the data, which allows the reader to distinguish which years had predominantly bigger price moves to compare where current prices and trends are against past historic data.

There are a great many tables and charts presented in this report, all including important data. For an up-close view of them, go to www.wiley.com/go/seasonalsectortrades (password "season123"). There you can also sign up to get notices about the next issue.

May all your trade executions be profitable!

Jeffrey A. Hirsch and John L. Person

PRICE PROJECTIONS WITHIN SEASONAL EXPECTATIONS*

The purpose of *Seasonal Sector Trades* is to enhance and improve upon the work and analysis provided in the *Commodity Traders Almanac*. Many years ago when we first began that publication, trading in commodities was becoming a more mainstream investment product. However, as *exchange-traded funds* (ETFs) took shape, traders and investors began to lose focus on the seasonal

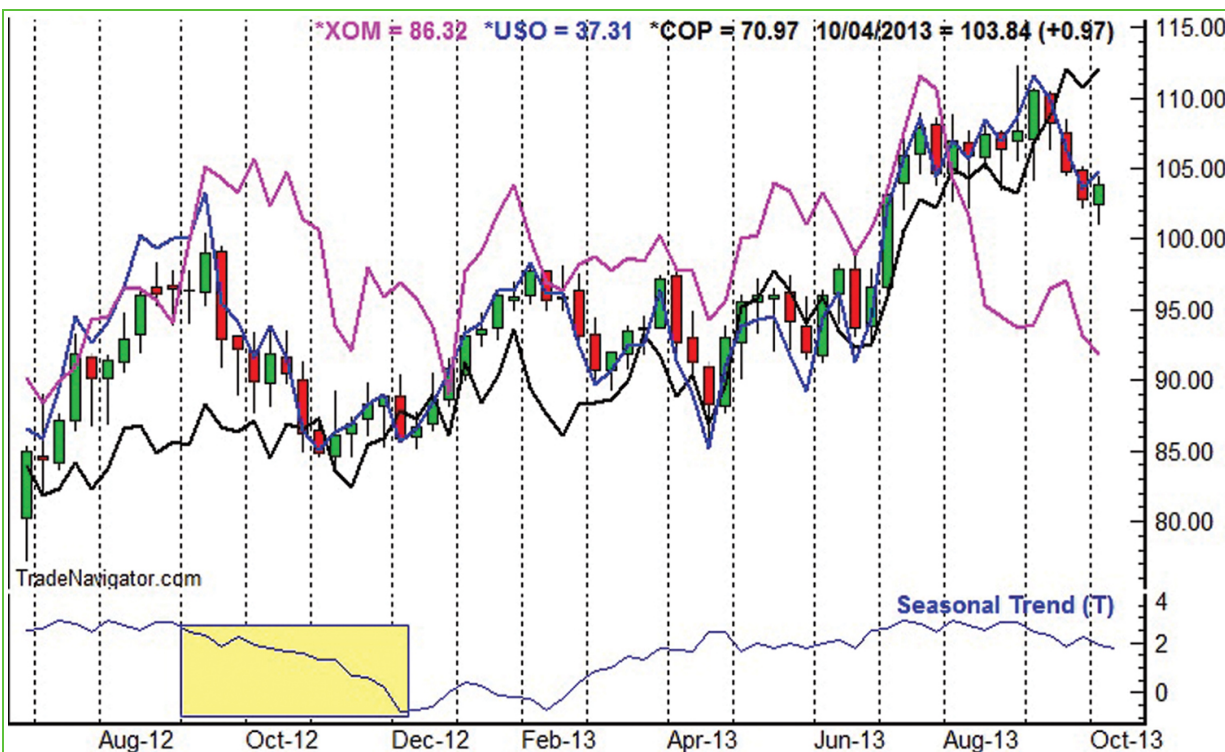
supply-and-demand changes that many commodity markets demonstrated throughout the year. In addition, what we brought to the table and introduced investors to for the very first time in a publication was the various ETFs and stocks that held a tight correlation to the seasonal price swings of an underlying commodity product.

For example, there is the typical seasonal decline that occurs in early fall with Crude Oil prices and the relationship with (USO) the oil ETF or the refiners like Exxon Mobil (XOM) or Conoco Phillips (COP) ([see the accompanying chart](#)). Many of our readers were impressed by the correlations in the Agricultural markets such as the grain complex and the moves associated with stocks in that group like Monsanto (MON), John Deere (DE), and fertilizer names like Potash (POT) ([see the following chart](#)). Individual retail speculators along with institutional traders found the research and analysis in the foreign markets extremely helpful, especially in light of the fact that many were unaware of the influences that create the seasonal factors on the various foreign currencies.

As with any form of market analysis, the key issue to remember is there is no one single Holy Grail method. What we try to do is to improve our probabilities of success and to get an edge over the competition. Seasonal analysis does just that: It alerts us in advance of what the market might do based on past trends that a specific market has demonstrated. But present market conditions may have a magnified, muted, or negative impact on the seasonal influence of a product or market segment price move in the future. It is this reasoning that led John to develop his new proprietary analysis tool: Price Projections Within Seasonal Expectations.

This brand-new tool is being introduced here to readers in our inaugural issue of *Seasonal Sector Trades*. Throughout

this publication we provide to the reader three targeted price trends based on seasonal patterns and recent trading conditions at the time of publication: Bullish, Neutral, and Bearish.



Crude Oil NY (Comb) CONT LIQ @ NYMEX (WEEKLY BARS)

Chart courtesy of www.tradenavigator.com ©1999-2013.



Soybeans CBT (Comb) CONT LIQ @ CBOT (WEEKLY BARS)

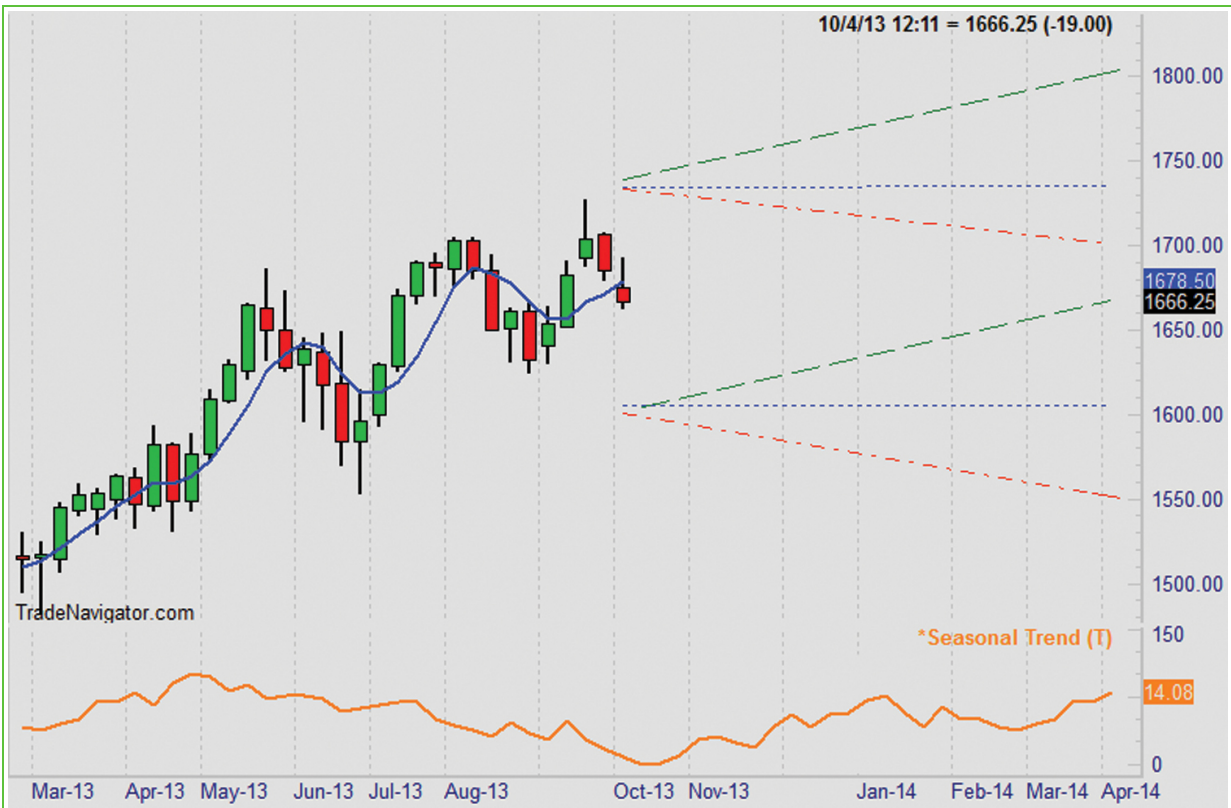
Chart courtesy of www.tradenavigator.com ©1999-2013.

Seasonal Sector Trades will provide on a quarterly basis the expected price targets based on a proprietary algorithm within those market condition assumptions. If the seasonal trend for a specific market is up, then the assumption is we should be in a bullish trend and the price support and resistance projections are highlighted on the chart in green. If the market is in a seasonally strong period, but due to market conditions the price move is muted, we give a neutral price target or lower price support and resistance targets in blue. Lastly, if bearish market conditions have a negative impact on a market, we give an estimated price target for a down-trending price environment in red. See the example for the S&P 500 in [the accompanying chart](#).

Considering the complexities of a global economy, especially with many foreign central banks intervening with

loose monetary policies by means of *quantitative easing*, predicting or anticipating a market's moves or price trends has become even more difficult. That is why this new *Seasonal Sector Trades* publication is in demand. It alerts traders and investors to what the expected trend of the market could be based on past price action and historical seasonal patterns. Projected price targets will help readers to develop an institutional-type investment and trading plan based on the projected price targets and seasonal trends. Armed with this information you will now be able anticipate the duration of a seasonal trend for a given quarter as well as the price assumptions under specific market conditions. Options traders can now look at the selected expiration dates and strike prices that meet these price outlooks.

This latest innovation in market research, using price projections within seasonal expectations, should enable you to set more manageable risk parameters as well as profit objectives in a timely manner in order to decide what type of trade or trading strategy to implement, whether using ETFs, futures, stocks, or complex options strategies.



E-Mini S&P 500 CONT LIQ @ CME (WEEKLY BARS).

Chart courtesy of www.tradenavigator.com ©1999-2013.

NOTES

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2 OVERVIEW OF THE QUARTER*

For most of us it may be difficult to plan or think about what may happen 30 days in advance, let alone an entire quarter. As for the markets, our goal in *Seasonal Sector Trades* is to help individual traders and investors alleviate that stress, and perhaps give valuable insights into potential trend changes for the various markets.

With that stated, we see the first quarter of 2014 as a challenge for the U.S. Federal Reserve to wean itself off of its quantitative-easing bond-buying program. We are also not convinced that we will have a major improvement in the unemployment numbers or a more unified government that is able to set a balanced budget, lower spending, and improve fiscal policies. This would make a less restricted and cumbersome business environment that could allow major corporations and small businesses to expand their workforce.

Under this scenario we expect the increase in equity markets to continue into Q1, but to begin to wane toward the end of the quarter. Bonds may maintain their prices as the yield in 30-year Treasury bonds could remain in a range between 3.50% and 4.25%. The U.S. dollar in this period may also continue to be under pressure, which, all things being equal, creates a floor of support for dollar-denominated commodities like Gold and Crude Oil. That's not to say we won't see the typical volatility, but rather the markets maintaining their seasonal trends in the first quarter.

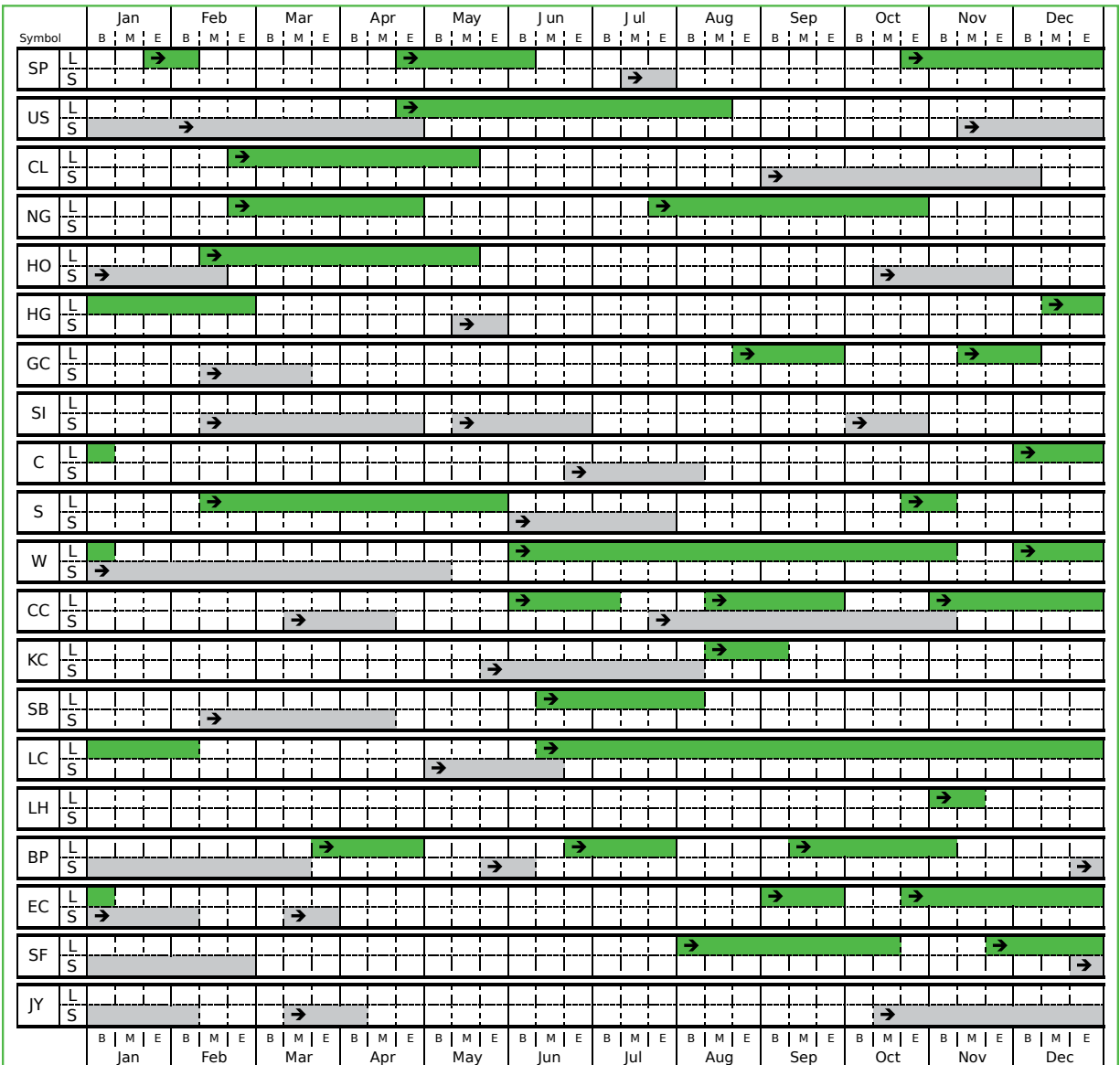
Normally we have the traditional early January selloff in equities, with continued pressure to improve the Jobs market; the Fed's mandate to keep interest rates low may give an added boost to the Consumer Discretionary sector and specifically to Home Builders. Under this assumption, commodities such as Copper, which tends to bottom in mid-to-late December, may provide not only a good investment opportunity, but also confirmation of a boost in Consumer Discretionary and Home Builders sectors. Stock traders will want to watch for these two issues, Freeport McMoran Copper & Gold (FCX) and BHP Billiton (BHP), to stabilize.

It will be prudent to focus on the typical upswing in crude oil prices in the middle of the first quarter. Not only is there a demand for heating oil, but refiners are under pressure for delivering gasoline, diesel, and jet fuels as transportation demands increase for the winter break vacation season. In addition, don't forget the fact that Valentine's Day creates a big demand for gold jewelry, flowers, restaurant reservations, and chocolates. So look to the January stock market selloff for trade opportunities in Hershey Foods (HSY) and restaurant plays like Darden (DRI) and The Cheesecake Factory (CAKE). What's one of the more popular meals served at a restaurant? Perhaps a nice steak, which can also lead to the increase in demand for beef. As we show in these pages, Live Cattle prices tend to trend higher into February and March though our seasonal best trade from June ends in early February.

On the other end of the extreme, as people start planning ahead for that winter break and feel like they need to shed pounds gained over the holidays, diet-food companies also tend to see seasonal strength in the first quarter; watch names like Weight Watchers International (WTW).

As you can see, we have several seasonal trade situations that develop due to changes in weather conditions, or

based on holiday events such as Valentine's Day, which is popular around the globe and is not an age-dependent event. All kinds of people, from kindergarten to over 90 years of age, either give or receive at least a Valentine's Day card or chocolates. At the very least, the first quarter of 2014 should present some interesting trading opportunities. Armed with the new price projections in our featured markets, combined with correlated ETFs and equities, we look forward to a new year of trading together with you!



**Graphic representation of the Top Seasonal Sector Trades. L = Long Trade, S = Short Trade, → = Start of Trade.*

To access an online version of this table, please visit www.wiley.com/go/seasonalsectortrades.

Seasonal Trading Strategy Calendar*

Commodity	Contract Month	Years	Trading Day	Hold Days	Success Rate	# Gains	# Losses	Total Gain	Best Gain	Worst Loss
January										
Heating Oil Peaks (Short)	J	1980-2013	2	30	67.6%	23	11	\$25,591	\$17,686	\$11,155
Euro Peaks (Short)	H	1999-2013	3	24	73.3	11	4	24,313	8,413	7,150
Wheat Peaks (Short)	N	1970-2013	3	85	70.5	31	13	29,632	5,775	5,775
S&P 500 Bottoms (Long)	H	1983-2013	15	7	74.2	23	8	69,488	13,900	6,125
February										
30Year Bond Peaks (Short)	M	1978-2013	3	44	63.9	23	13	16,281	10,125	18,375
Heating Oil Bottoms (Long)	N	1980-2013	8	62	76.5	26	8	108,440	44,339	13,566
Soybeans Bottom (Long)	N	1969-2013	9	73	55.6	25	20	76,269	24,638	5,563
Crude Oil Bottoms (Long)	N	1984-2013	10	60	80.0	24	6	88,790	29,210	7,110
Gold Peaks (Short)	J	1975-2013	13	17	61.5	24	15	44,020	14,300	6,170
Silver Peaks (Short)	K	1973-2013	13	45	75.6	31	10	90,920	103,500	77,840
Sugar Peaks (Short)	N	1973-2013	14	39	58.5	24	17	35,997	8,669	2,083
Natural Gas Bottoms (Long)	N	1991-2013	16	41	73.9	17	6	51,950	17,310	8,380
March										
Cocoa Peaks (Short)	N	1973-2013	10	23	75.6	31	10	14,900	4,060	4,940
Yen Peaks (Short)	M	1977-2013	10	14	73.0	27	10	19,125	4,963	7,713
Euro Peaks (Short)	M	1999-2013	11	9	60.0	9	6	8,450	4,938	4,013
British Pound Bottoms (Long)	M	1976-2013	15	22	73.7	28	10	23,613	5,063	5,219

To access an online version of this table, please visit www.wiley.com/go/seasonalsectortrades.

2014 Q1 Top Seasonal Sector Trades

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3 JANUARY FORECAST*

◆ STOCKS & BONDS

S&P 500 has shown a tendency to see mild declines after the New Year, as investors sell positions to defer capital gain taxes on profits, but the overall strength from October can last into April. Traders can look to take advantage of the January break. This trade has a reliable trend registering a 74.2% success rate. 30-year Treasury bond prices have a tendency to continue their decline as investors are reallocating money into stocks.

◆ ENERGY

January tends to see continued weakness in Crude Oil and in Natural Gas before the typical bottom is posted in February. Traders should prepare for the strongest buy month for Oil and Natural Gas. Heating Oil tends to decline in January into early February 67.6% of the time since 1980, though exogenous factors drove Heating Oil up the past three years during this timeframe.

◆ METALS

Gold has a strong history of making a seasonal peak from mid-to-late January into early February. Shorting Gold during this time period has resulted in a cumulative profit of \$44,020 over the past 39 years. Silver also has a tendency to peak in late February and follows Gold price weakness into March. Copper tends to respect its seasonal December bottom to show mild strength in January.

◆ GRAINS

Soybeans tend to post a low in late January or early February. Wheat prices tend to see seasonal weakness in January as well. In fact, this trade boasts a 70.5% success rate, with 31 years up and 13 down. Corn prices tend to buck that trend as we enter into the new marketing year.

◆ SOFTS

Cocoa shows signs of strength in January and continues higher until March. Coffee tends to show a mixed performance in the month of January, giving back some of December's gains. Sugar tends to show a mixed performance in January, as the beet and continued sugar cane harvest in the southeastern United States and India puts pressure on prices.

◆ MEATS

Live cattle prices tend to follow December's strength and hog prices tend to remain under pressure from making any significant moves up until March.

◆ CURRENCIES

The euro has had a short lifespan, beginning in 1999. However, since inception, it has a stellar trade by going short on the third trading day and holding for 24 days. It has been up 11 and registered four losses. The Swiss franc and the British pound both show a strong seasonal tendency to continue lower from late December. The yen also demonstrates weakness from December into February.

		Ja n		
Symbol		B	M	E
SP	L S			→
US	L S			
CL	L S			
NG	L S			
HO	L S	→		
HG	L S			
GC	L S			
SI	L S			
C	L S			
S	L S			
W	L S	→		
CC	L S			
KC	L S			
SB	L S			
LC	L S			
LH	L S			
BP	L S			
EC	L S	→		
SF	L S			
JY	L S			
		B	M	E
		Ja n		

**Graphic representation of the Top Seasonal Sector Trades. L = Long Trade, S = Short Trade, → = Start of Trade.*

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January Top Seasonal Sector Trades

SHORT HEATING OIL IN EARLY JANUARY

Heating Oil prices typically track closely with Crude Oil prices. After the summer driving season is over, refiners focus more on building up inventory levels of heating oil. This drives both Heating Oil and Crude Oil to a seasonal peak in September followed by a low in December. After a brief relief at yearend both oils exhibit weakness in January and February. This can create a high-probability trade setup. Selling short April Heating Oil on the second trading day of January and holding for 30 days boasts a 67.6% accuracy rate and cumulative gains of \$25,591, dating back to 1980.

However, there are times when the byproduct's pricing decouples from Crude Oil price trends, when inventories for Crude Oil are inverted to the demand for the products. This occurs at certain times of the year, typically in peak

heating season, which is defined by the EIA (U.S. Energy Information Administration) as October through March.

In fact, this trade did not work in the last three years. During both January 2011 and 2012, prices of Crude Oil declined due to a build in inventories, and China's economy was suspected of contracting, giving the perception of a decline in demand. At the same time snowstorms and frigid temperatures moved into the North East section of the United States, causing a spike in demand for heating oil. On January 23, 2013, Europe announced bans of Iranian oil imports effective July 1 in conjunction with an end-of-January cold snap in the United States that helped spur rallies in all energies, especially Heating Oil, up about 9% from mid-January to early February.

These last three losses in a row is an anomaly, as our research shows. The lower quadrant of [the following chart](#) shows the seasonal trend of Heating Oil, which shows the typical trend is to decline from January into mid-February as highlighted. The point here is to remember that all years are not created equal and one still needs to use confirming indicators and risk management when using seasonal analysis.

Using John's proprietary algorithm, [the accompanying chart](#) delineates the price projections for Heating Oil at the time of this writing through Q1 2014 based upon recent trading activity and historical seasonal expectations. Three different scenarios are displayed so that you can better gauge the quality of this seasonality's trade setup and decide if and how to execute with respect to technical, fundamental, and market sentiment readings at the time.

Bullish: Resistance = 3.57 | Support = 2.92

Neutral: Resistance = 3.27 | Support = 2.70

Bearish: Resistance = 3.15 | Support = 2.40