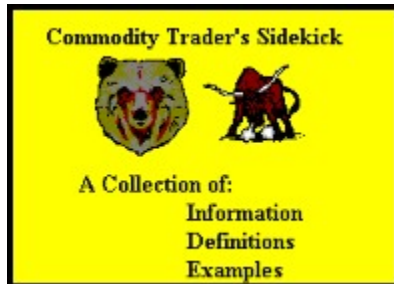
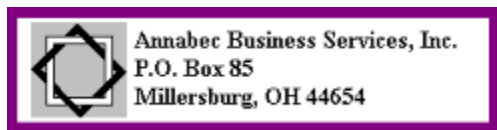


## About the Sidekick



Shareware Version 1.00 for Windows 3.1  
(Distribution File: TDSK3S10.ZIP)

Written and Distributed by:



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## Agencies & Associations



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*The following is a sample of the information listed for each group.*

Commodity Futures Trading Commission (CFTC)

Three Lafayette Center  
1155 21st Street, Northwest  
Washington, DC 20581, USA  
Office of Public Affairs:  
Voice: (202) 418-5080  
Fax: (202) 418-5525  
[cftc@cftc.gov](mailto:cftc@cftc.gov)  
<http://www.cftc.gov/cftc/>

*The following is a listing of groups in this section.*

National Futures Association (NFA)

U.S. Department of Agriculture

U.S. Department of Commerce

# Association of Shareware Professionals



The author is a member of the Association of Shareware Professionals. This organization exists to promote the quality and concept of shareware. This is the registered version of the Commodity Trader's Sidekick. The shareware version is freely available for review to give potential buyers the option to evaluate the material before committing to a purchase.

Definition of Shareware - Shareware distribution gives users a chance to try software before buying it. If you try a Shareware program and continue using it, you are expected to register. Individual programs differ on details -- some request registration while others require it, some specify a maximum trial period. With registration, you get anything from the simple right to continue using the software to an updated program with printed manual.

Copyright laws apply to both Shareware and commercial software, and the copyright holder retains all rights, with a few specific exceptions as stated below. Shareware authors are accomplished programmers, just like commercial authors, and the programs are of comparable quality. (In both cases, there are good programs and bad ones!) The main difference is in the method of distribution. The author specifically grants the right to copy and distribute the software, either to all and sundry or to a specific group. For example, some authors require written permission before a commercial disk vendor may copy their Shareware.

Shareware is a distribution method, not a type of software. You should find software that suits your needs and pocketbook, whether it's commercial or Shareware. The Shareware system makes fitting your needs easier, because you can try before you buy. And because the overhead is low, prices are low also. Shareware has the ultimate money-back guarantee -- if you don't use the product, you don't pay for it.

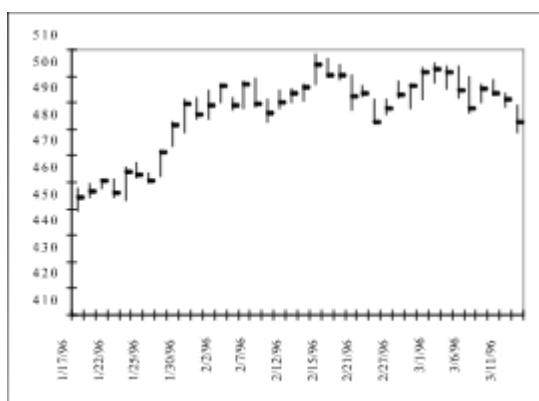
Ombudsman Statement - "This program is produced by a member of the Association of Shareware Professionals (ASP). ASP wants to make sure that the shareware principle works for you. If you are unable to resolve a shareware-related problem with an ASP member by contacting the member directly, ASP may be able to help. The ASP Ombudsman can help you resolve a dispute or problem with an ASP member, but does not provide technical support for members' products. Please write to the ASP Ombudsman at 545 Grover Road, Muskegon, MI 49442-9427 USA, FAX 616-788-2765 or send a CompuServe message via CompuServe Mail to ASP Ombudsman 70007,3536."

## Caveat

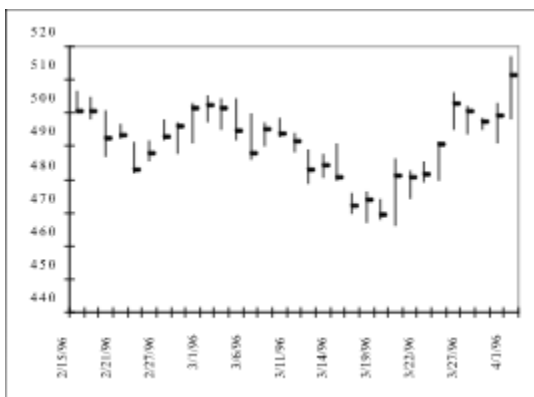


As you are probably already aware, *trading in the commodities futures markets is considered risky*. To say this may seem trite and perhaps unnecessary but is neither, especially for the prospective trader. A person venturing into a new field usually overestimates the advantages and can be unaware of the pitfalls. There is also a tendency to become overly-sold on the impressively-sophisticated trading techniques and their abilities to predict future prices. Keep in mind that there is general agreement that somewhere between 75% and 95% of traders end up losing--that is indeed risky.

Look at an example from the 1996 May Wheat market.



Let's say, that based on your particular trading method, you decided that wheat prices were ready to turn downward and that you acted by selling one contract on March 12 at the closing price of 483. Wheat didn't continue fall but rallied and by April 1 closed at 511.5:



Let's say you became disheartened by the turn of the market against your fortunes and tried to hold on and then finally relented only to liquidate your position on April 1. Assuming that you bought at the closing price, your loss would have been \$1,425 plus commission:

One contract sold @	\$4.83 /bu
One contract liquidated @	\$5.11-½ /bu

This would have been a loss of 28-½ ¢ per bushel on a 5,000 bushel contract, thus, a total loss of \$1,425. At that time, the initial margin requirement was between \$1,000 and \$1,100 making your loss greater than the money you originally invested in the project.

This was only an example to demonstrate one of the many conditions under which you could suffer a loss. Had the example suffered several days of limit moves during which you may not be able to liquidate your position, the losses could have been much greater.

It is important that you understand that losing is a very real possibility and that since the initial margin is much less than the value of the contract (in this case a margin of about \$1,000 controlled a contract worth \$24,150) the magnitude of your actual loss can be devastating.

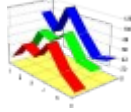


With this in mind, understand that this document is offered only for your information and only sets forth definitions, explanations and data for your use in whatever trading method or scheme you choose to devise or adopt and follow.

The CFTC formalizes this warning with the following statement:

"Hypothetical or simulated performance results have certain limitations. Unlike an actual performance record, simulated results do not represent actual trading. Also, since the trades have not actually been executed, the results may have under- or over-compensated for the impact, if any, of certain market factors, such as lack of liquidity. Simulated trading programs in general are also subject to the fact that they are designed with benefit of hindsight. No representation is being made that any account will or is likely to achieve profits or losses similar to those shown. The risk of loss in futures trading can be substantial. You should carefully consider whether such trading is suitable for you in light of your financial condition. Past results are not indicative of future results. There is a risk of loss in futures trading."

The CFTC requires its members, which I am not, to publish this statement.



## Charting

Charting refers to graphically illustrating commodity prices and how they change. Technical traders use many types of charts:

Bar Charts  
Candlestick Charts  
Point and Figure Charts  
and others.

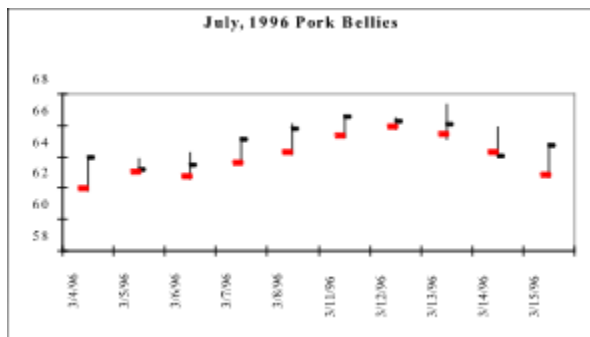
This section will present an overview of each and list some associated definitions.

### BAR CHARTING

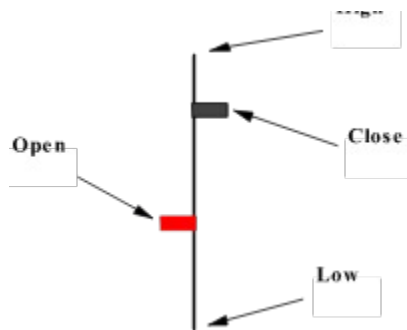
A bar chart is a method which uses a series of vertical marks and horizontal marks to graphically summarize the trading price activity of some commodity over some period of time.

#### An Illustration

A bar chart is a graph of the opening, high, low and closing prices of a commodity futures contract verses time. Many bar charts present just the high, low and close. An illustration follows:



Notice that each bar, at each date, consists of one vertical bar and two horizontal bars. These are interpreted as follows:

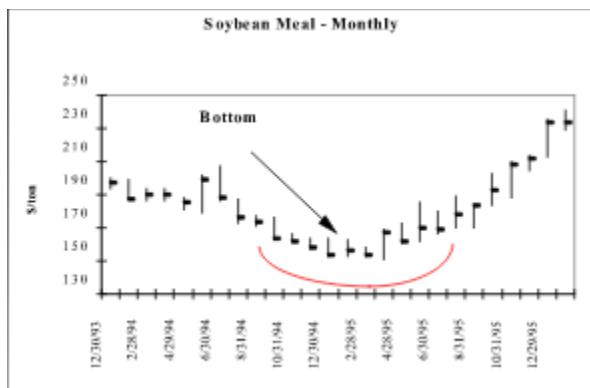


The bars summarize the prices for the creation and liquidation of commodity futures contracts during a particular time period. The time period depends on the time period over which the trader wants to summarize the prices. A day trader or a scalper who is quickly moving into and out of positions may require price summaries over periods of minutes. At another extreme, someone looking back over a particular commodity's trading history might summarize price activity over months or years. The actual period is quite arbitrary and is selected to present the most readable presentation of the data.

Regardless of the time period used--minutes, days, weeks, etc.--one bar summarizes the activity over that period of time.

## Terms

Bottom or Bottom Formation - The situation where prices have decreased to a minimum value followed by a sustained increase. Where a down-trend changes to an up-trend. An example is illustrated by the following monthly chart of soybean meal.



Break -

Breakout -

Congestion, Trading Channel or Sideways Channel -

Down Trend -

Fibonacci Numbers -

Flag Patterns -

Gann -

Gap -

Head and Shoulders -

Moving Average -

Reversal -

Regression Line -

Resistance -

Support -

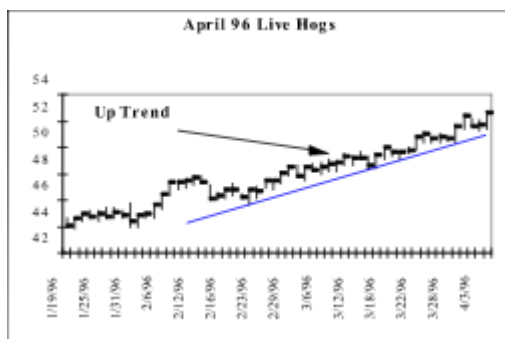
Time Period -

Top -

Trend Line -

Triangles -

Up trend -

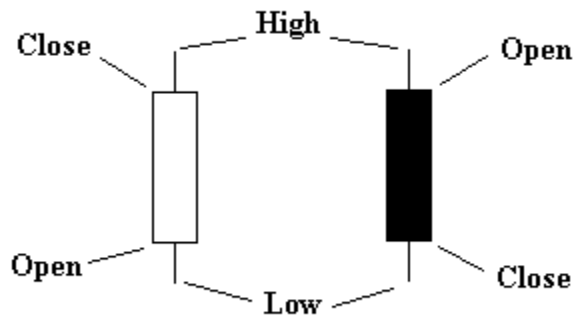


## CANDLESTICK CHARTING

Candlestick charting is similar to bar charting in the sense that it graphically displays the



relationship between the high, low, opening and closing commodity prices as a function of time. A difference is that opening prices are always included in candlestick charts whereas they are optionally included in bar charts. A definitional illustration of the basic candlestick chart component follows:



Notice that like the bar chart, the high and low are depicted by the top and bottom of a vertical line. The open and close are depicted by the top and bottom of a rectangle. Also, if the open is higher than the close, the rectangle is filled otherwise it is drawn as just an outline. The rectangle is known as the body while the line extending above and below can be referred to as the shadow.

Candlestick charting is believed to have originated in Japan. Rice merchants and traders in the 1600's may have used this method to track and analyze the rice market. Steve Nison is considered to have written an important book on Candlestick Charting.

### Basic Candlestick Components

Several of the basic candlestick chart components and patterns are illustrated below. Candlestick technicians look for these components and combinations or patterns of the basic components in an attempt to predict future prices. To see a larger listing of components and patterns along with discussions of their interpretations please see one of the references.

Big Black Candle and Black Body - When the open is higher than the close, the body is filled and is known as a Black Body. Additionally, when the body is drawn long with short shadows, the component is called a Big Black Candle and is considered as bearish:



Big White Candle and White Body -

Doji -

Gravestone Doji -

Hammer and Hanging Man -

Inverted Hammer -

### **Basic Candlestick Combinations**

Bearish Harami - This combination can signal a reversal to a bearish trend when occurring in an up trend:



Bullish Harami -

Dark Cloud Cover -

Evening Doji Star -

Falling Window -

Morning Doji Star -

Piercing Line -

Rising Window -

Three Black Crows -

Three White Soldiers -

### **An Example**

The following example from the February, 1992 Comex Gold contract illustrates a Piercing Line combination signaling a market bottom. This occurred in the period from October through December of 1991.

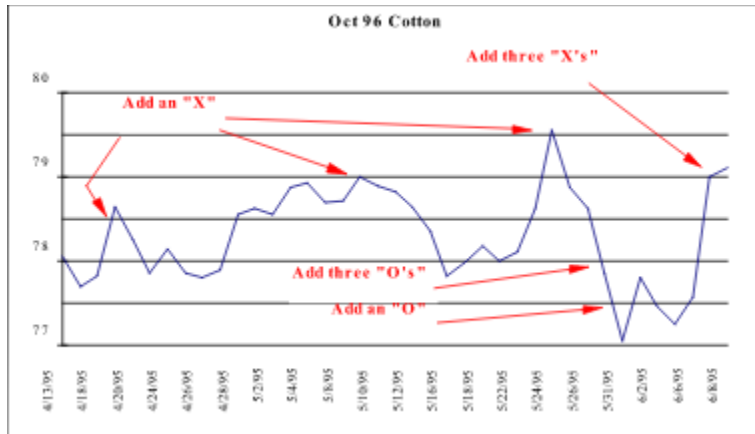


## POINT AND FIGURE CHARTING

Both Bar and Candlestick charts plot commodity prices along the y-axis and time along the x-axis. Point and Figure charting deviates significantly from this pattern by plotting price changes along both axes. The objective of this type of chart is to emphasize how prices are responding to the market pressures of supply and demand and to do this regardless of time. Rather than attempting to list definitions and to describe this charting technique, we will use a specific example for illustration.

A Point and Figure chart is made up of invisible squares called boxes. When prices are rising, an "X" is placed in one of the boxes. An "O" is used when prices are falling. The first step in constructing a Point and Figure chart is to decide upon the size of the "box" and the number of boxes required to trigger a reversal. As an example we will be using the October, 1996 Cotton contract as traded on the New York Cotton Exchange. The Investor's Business Daily quotes this contract in ¢/pound for a 50,000 pound contract. Let us choose  $\frac{1}{2}$ ¢ for the box size and three boxes as a reversal requirement. These determinations are strictly arbitrary and should reflect the amount of price change sensitivity that the chart is intended to portray. Smaller boxes will render the chart more sensitive to price changes.

Below is a line plot of the closing prices for the first three months of the contract:



Note that horizontal grid lines are drawn every  $\frac{1}{2}\text{¢}$ . This reflects our choice of making the point-and-figure box  $\frac{1}{2}\text{¢}$  high. Now, study the price changes as the contract matures and observe the following rules:

1. Starting with the first trading session, move to the right (increasing time) until the price increases or decreases enough to touch or cross a  $\frac{1}{2}\text{¢}$  line (for convenience, we'll use the term "cross" to mean to touch or to cross..
2. If this crossing was an increase, from the first trading session, draw an "X", otherwise draw an "O". *In the case of this contract, we would draw an "X" when the close passed 78.5¢.*
3. When adding a symbol, draw it one  $\frac{1}{2}\text{¢}$  high and centered between two  $\frac{1}{2}\text{¢}$  lines. *We would draw an "X",  $\frac{1}{2}\text{¢}$  high and centered at 78  $\frac{1}{4}\text{¢}$ .*
4. If the first symbol drawn was an "X", continue to stack new "X's", each  $\frac{1}{2}\text{¢}$  high, each time the closing price crosses a line which is higher than the line crossed when adding the last "X". If an "X" is added, the price drops and then recrosses the previous line, **do not** add another "X". Additional symbols indicate that the price has crossed into new-higher ground.

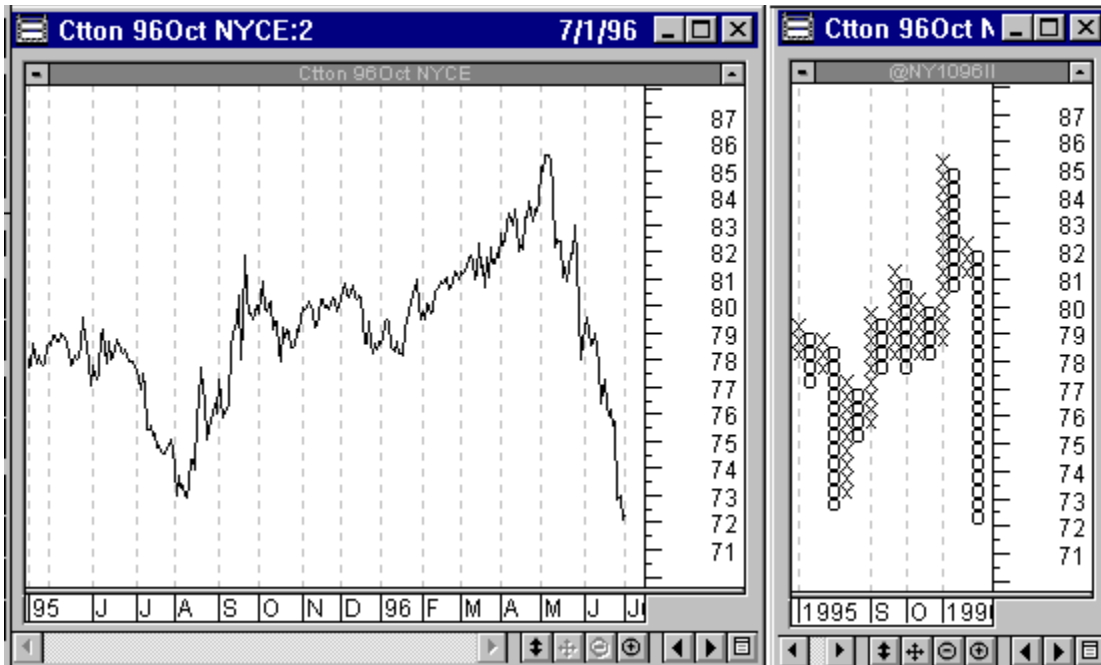
*In our example, we would stack two more "X's" as the price crossed the 79¢ and the 79.5¢ lines.*

5. If the first symbol drawn was an "O", continue to draw new "O's" under the previous "O", each  $\frac{1}{2}\text{¢}$  high, each time the closing price crosses a line which is lower than the line crossed when adding the last "O". If an "O" is added, the price rallies and then recrosses the previous line, **do not** add another "O". Additional symbols indicate that the price has crossed into new-lower levels.

6. This process would be continued until either reaching the end of the contract or a reversal. Recall that we set our reversal level at three boxes, or three of the  $\frac{1}{2}\text{¢}$  lines. This means that a reversal would occur if and only if the price moves, at least, three boxes from the last symbol and in the opposite direction.

In our example this occurs when the price drops through the 79¢, 78.5¢, 78¢ and 77.5¢ levels between the 5/24 and 5/31 trading sessions. Thus, we would add a total of four "O's" just to the right of the stack of three "X's" and at the appropriate price levels.

To complete the illustration, both the Bar and the Point and Figure (using  $\frac{1}{2}\text{¢}$  boxes and a three box reversal) charts are included below. Both charts were produced using MetaStock, Version 5.11.



As a final note, Point and Figure charts can be constructed from any of the price attributes--open, high, low, close or price range.

# Commodities



Commodities are items traded on the world's authorized commodity exchanges. Examples of the items are:

- Grains -- Corn, Wheat ...
- Meats -- Cattle, Hogs ...
- Foods -- Cocoa, Coffee ...
- Metals -- Gold, Silver, Copper ...
- Oils -- Crude Oil, Heating Oil ...
- Woods & Fibers -- Lumber, Cotton ...
- Indexes -- Standard & Poors, NIKKEI ...
- Financial -- Eurodollars, Japanese Yen ...

## Terms

Actuals or Cash Commodity - Refers to the actual commodity designated by the futures contract. The commodity can be physical items such as grains, animals, oils, and so on. In the case of stock items like the Standard & Poors indexes no actual physical commodity is involved.

Remember, in most cases no actual physical commodity is delivered or received because most of the buy-sell contract combinations are liquidated before or during the Last Trading Day.

Afloat -

Carryover or Carryout -

Cash Market or Spot Market -

Cheap -

Commodity Details - The following table lists most of the commodities listed by the Investor's Business Daily. The information was obtained from the Investor's Business Daily and materials supplied by Alaron Trading the Center for Futures Education.

It is vitally important for you to understand that the following information can contain errors and is variable from time-to-time, exchange-to-exchange and broker-to-broker:

1. Contract sizes, minimum fluctuation and daily limits are set by the exchange on which the commodity is traded. The contract size and daily limit are essential elements in determining your potential profits or losses and, as such, must be accurately known before placing your order.
2. Minimums for initial and maintenance margins are set by the exchanges but various brokers frequently increase these requirements among the minimums.

3. The price quotes (e.g. whether in \$/bushel or ¢/bushel) depends upon the source of the quote.
4. The purpose of the point value is to determine the price of a complete contract or to determine profit or loss. Therefore, you must know the contract size and the price quote to accurately the point value in making the desired conversion to dollars.

The data is intended for your informational and planning purposes. Before placing orders, verify each item of information for a particular commodity with your broker.

### Chicago Board of Trade:

Commodity	Contract Size	Price Quote	Point Value	Minimum Fluctuation	Daily Limit	Initial Margin	Maintenance Margin
10 Year T-Notes	\$100,000	% of Par in Points & 32nds	1Pt=\$1,000	\$31.25	\$3,000	\$1,755	\$1,300
5 Year T-Notes							
Corn							
Gold-Kilo							
Municipal Bonds							
Oats							
Rough Rice							
Silver							
Soybean Meal							
Soybean Oil							
Soybeans							
US T-Bonds							
Wheat							

### Chicago Mercantile Exchange:

Commodity	Contract Size	Price Quote	Point Value	Minimum Fluctuation	Daily Limit	Initial Margin	Maintenance Margin
Cattle	40,000 lb	¢/lb	1Pt=\$4	\$10	\$600	\$1,013	\$750
Feeder Cattle							
Hogs Lean							
Lumber							
NASDAQ							
NIKKEI 225 Avg							
Pork Bellies							
Russell 2000							
S&P Comp Index							
S&P MidCap 400							

### Commodity Exchange:

Commodity	Contract Size	Price Quote	Point Value	Minimum Fluctuation	Daily Limit	Initial Margin	Maintenance Margin
Gold	100 troy oz	\$/tr oz	1\$=\$100	\$10	\$7,500	\$1,350	\$1,000
Hi Grade Copper							
Silver							

### Coffee, Sugar & Cocoa Exchange:

Commodity	Contract Size	Price Quote	Point Value	Minimum Fluctuation	Daily Limit	Initial Margin	Maintenance Margin
Cocoa	10 metric ton	\$/ton	1Pt=\$10	\$10	\$880	\$560	\$400
Coffee "C"							
Sugar 14							
Sugar-World 11							

### New York Cotton Exchange:

Commodity	Contract Size	Price Quote	Point Value	Minimum Fluctuation	Daily Limit	Initial Margin	Maintenance Margin
Cotton #2	50,000 lb	¢/lb	1Pt=\$5	\$5	\$1,000	\$1,995	\$399
Orange Juice							
US Dollar Index							

### International Money Market:

Commodity	Contract Size	Price Quote	Point Value	Minimum Fluctuation	Daily Limit	Initial Margin	Maintenance Margin
3 Month T-Bills							
Australian Dollar	100,000 A\$	US\$/A\$	1Pt=\$10	\$10	\$4,000	\$844	\$625
British Pound							
Canadian Dollar							
Eurodollars							
German Mark							
Japanese Yen							
Mexican Peso							
Swiss Franc							

### Kansas City Grain Exchange:

Commodity	Contract Size	Price Quote	Point Value	Minimum Fluctuation	Daily Limit	Initial Margin	Maintenance Margin
Mini Value Line	\$100 x Index	Index	1Pt=\$1	\$5		\$1,400	\$1,000
Value Line							
Wheat							



### Minneapolis Grain Exchange:

Commodity	Contract Size	Price Quote	Point Value	Minimum Fluctuation	Daily Limit	Initial Margin	Maintenance Margin
Wheat	5,000 bu	\$/bu	1¢=\$50	\$12.50	\$1,000	\$600	\$500

### New York Futures Exchange:

Commodity	Contract Size	Price Quote	Point Value	Minimum Fluctuation	Daily Limit	Initial Margin	Maintenance Margin
NYSE Comp Index	\$500 x Index	Index	1Pt=\$5	\$25		\$3,510	\$3,000

### New York Mercantile Exchange:

Commodity	Contract Size	Price Quote	Point Value	Minimum Fluctuation	Daily Limit	Initial Margin	Maintenance Margin
Heating Oil	42,000 gal	¢/gal	1Pt=\$4.20	\$4.20	\$1,680	\$2,025	\$1,500
Light Sweet Crude							
Natural Gas							
Palladium							
Platinum							
Unleaded Gasoline							

### Winnipeg Grain Exchange:

Commodity	Contract Size	Price Quote	Point Value	Minimum Fluctuation	Daily Limit	Initial Margin	Maintenance Margin
Canola	20 metric ton	C\$/ton	1C\$=20C\$	0.1C\$/mTon	10C\$/mTon		
Flaxseed							
Wheat							

Grain -

Index -

Limit -

New Crop, Old Crop -

Symbol or Ticker Symbol-

Some commonly used symbols are listed below:

Commodity	Exchange	Symbol
10 Year T-Notes	CBOT	NO

3 Month T-Bills  
5 Year T-Notes  
Australian Dollar  
British Pound  
Canadian Dollar  
Canola  
Cattle  
Cocoa  
Coffee "C"  
Corn  
Cotton #2  
Eurodollars  
Feeder Cattle  
German Mark  
Gold  
Gold-Kilo  
Heating Oil  
Hi Grade Copper  
Hogs Lean  
Japanese Yen  
Light Sweet Crude  
Lumber  
Mini Value Line  
Municipal Bonds  
Natural Gas  
NIKKEI 225 Avg  
NYSE Comp Index  
Oats  
Orange Juice  
Palladium  
Platinum  
Pork Bellies  
Russell 2000  
S&P Comp Index  
S&P MidCap 400  
Silver  
Silver  
Soybean Meal  
Soybean Oil  
Soybeans  
Sugar 14  
Sugar-World 11  
Swiss Franc  
Unleaded Gasoline  
US Dollar Index  
US T-Bonds

Value Line  
Wheat  
Wheat  
Wheat  
Wheat

Terminal -

Ticker -



## Commodities Exchanges

This information is thought to be correctly compiled from sources presumed to be reliable. There is no expressed or implied warranty as to the accuracy or completeness of the material. Any of the information can change at any time without notice. Annabec Business Services, Inc. or the author assumes no liability for any damages which might occur due to inaccurate or incomplete information contained herein.

*The following is a sample of the information listed for each group.*

Chicago Board of Trade (CBOT) (CBT)

141 West Jackson Blvd.  
Chicago, Illinois 60604  
(312) 435-3500  
(800) THE CBOT  
FAX: (312) 466-4410

*The following is a list of groups in this section.*

Chicago Board Options Exchange (CBOE)

Chicago Mercantile Exchange (CME)

Chicago Rice & Cotton Exchange

Coffee, Sugar and Cocoa Exchange (CSCE)

Deutsche Börsh AG (DTB)

Hong Kong Futures Exchange (HKFE)

International Petroleum Exchange of London Ltd (IPE)

Kansas City Board of Trade (KCBT), (KBOT)

London International Financial Futures Exchange (LIFFE)

London Metal Exchange Ltd (LME)

Marché à Terme International de France (MATIF)

Mid-America Commodity Exchange (MidAm) (MACE)

European Office

Asia-Pacific Office

Minneapolis Grain Exchange (MGE), (MPLS)

Montreal Exchange (ME)

NASDAQ

New York Cotton Exchange (NYCE) (CTN)

New York Futures Exchange (NYFE):

FINEX:

FINEX Europe:

New York Mercantile Exchange (NYMEX), (COMEX), (NYM), (NME)

Houston:

Washington D.C.:

London:

New Zealand Futures and Options Exchange Ltd (NZFOE)

Philadelphia Board of Trade (PBOT)

Singapore International Monetary Exchange (SIMEX)

Sidney Futures Exchange Ltd (SFE)

Tokyo Grain Exchange

Tokyo International Financial Futures Exchange (TIFFE)

Toronto Futures Exchange (TFE)

Winnipeg Commodity Exchange or Winnipeg Grain Exchange (WPG), (WGE)

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## **Commodity Trader's Sidekick for Windows 3.1**

Shareware Version

(Distribution File: TDSK3S10.ZIP)

This version is incomplete and is intended for your evaluation. The entire list of definitional terms has been included and can be seen by scrolling through the index. A sample definition has also been included from each major topic.

Please use the "Order Full Version" jump if you are interested.



## Futures Contracts

Two parties, **buyer** and **seller**, enter into a standardized contract which states the delivery of a specified quantity of a commodity, of well defined quality, at a specific time and location and for a particular price. The buyer is said to have assumed a **long position** and the seller a **short position**. Note that this means that at all times there are as many longs as there are shorts.

The contract is legally binding and comes into existence through auctions conducted in the trading pits of the world's authorized commodity exchanges. The price is set during the auction process.

An example might be a contract of August, 1996 Soybean Meal entered into on April 3, 1996 on the trading floor of the Chicago Board of Trade. ...

### Terms

#### Adjusted Futures Prices -

Arbitrage - When one simultaneously buys in one market and sells in another. This is done to take advantage of the development of price discrepancies.

Ideally and with no imbalances in supply and demand, the price of a futures contract will be higher than the cash price by the amount of carrying or time charges. If the futures price exceeds the cash price plus carrying charges, arbitragers will be inclined to move in and benefit from the situation. Among the ways profit could be realized is sell the futures contract, buy the cash commodity, pay the carrying charges and then finally deliver the commodity. An example follows:

November Wheat Cash Price:	\$4.35/bushel
Carrying Charges:	0.012/bushel/month
February Wheat Future Price:	\$4.43/bushel
Sell a February Contract:	\$22,150 (5,000 bushel contract)
Buy the Wheat:	\$21,750 (5,000 bushels)
Carrying Charges:	\$180 (5,000 bushels for 3 months)
Total Cost:	\$21,930
Profit:	\$220 per 5,000 contract.

This activity serves to limit premium disparities favoring the futures contracts over the cash prices because the futures selling by the arbitragers would put downward pressure on the future price.



Backwardation, Inverted Market or Premium Market -

Bid -

Bid-Offer Spread -

Carrying Charge -

Cash Basis -

Cash or Forward Contract -

Cash Settlement -

Commodities Futures -

Contract Grades -

Contract Size -

Contract Specifications -

Daily Trading Limit (DTL) or Price Limit -

Delivery -

Delivery Day -

Delivery Month -

Delivery Points -

Premium Month -

First Notice Day (FND) -

Full Carrying Charge Market -

Last Trading Day (LTD) or Final Trading Day (FTD) -

Linkage -

Liquidate or Offset -

Mini Contract -

Minimum Price Fluctuation or Tick -

Nearby Month -

Offer or Asked Price -

Point Value -

Reversing Position -

Switching Position -

Trading Months -

### **An Example Contract**

Futures contracts are very specific and are standardized. The following is an example of a cocoa contract published by the Coffee, Sugar & Cocoa Exchange, Inc. (CSC):

\*\*\*\*\*  
**Sample Contract**  
**Please Contact CSC**  
**for**  
**Actual-and-to-Date Contract**  
\*\*\*\*\*

### **Futures Contract on Cocoa**

Calls for delivery of any kind of cocoa bean - "the growth of any country or clime, including new or yet unknown growths" - as long as it meet U.S.D.A. standards for importation.

**Trading Unit:** 10 metric tons (22,046 pounds)

**Trading Hours:** 9:00 AM to 2:00 PM New York Time.

**Price Quotation:** Dollars per metric ton.

**Delivery Months:** March, May, July, September, December

**Ticker Symbol:** CC

**Minimum Fluctuation:** \$1.00/metric ton, equivalent to \$10 per contract and approximately 5/100 cent/lb.

**Daily Price Limits (from previous day's settlement price):** \$\$88/metric ton with variable limits. No price limits on two nearby months.

**Position Limits:** 3,000 contracts net long/short any on month; 6,000 net total; 500 as of first notice day in expiring contract. Combine with published "futures equivalent" ratios of options positions. Exemptions may apply for hedge, straddle and arbitrage position. Contact the Exchange for more information.

**Standards:** Established by Exchange licensed graders in accordance with specified tolerances for defects, bean count, bean size and other standards.

**Deliverable Growths:** The growth of any country or clime, including new or yet unknown growths. Growths are divided into three classifications: Group A, deliverable at a premium of \$160/ton (including the main crops of Ghana, Nigeria, Ivory Coast, among others); Group B, deliverable at a premium of \$80.00/ton (includes Bahia, Arriba, Venezuela, among others); Group C, deliverable at par (includes Sanchez, Haiti, Malaysia and all others).

**Delivery Points:** At licensed warehouses in the Port of New York District, Delaware River Port District, or Port of Hampton Roads.

**Last Trading Day:** One business day prior to last notice day.

**First Notice Day:** Ten business days prior to first business day of delivery month.

**Last Notice Day:** Ten business days prior to last business day of delivery month.



## Hedging

Hedgers are usually commodity producers or consumers who attempt to use the commodity futures markets to reduce the risk of unfavorable changes in the future prices for their supplies or products. To accomplish this, hedgers assume a commodity futures position opposite that of their commodity cash position--if they are long on the cash commodity, they go short in the futures market by a reasonably equal amount and vice versa if they are short the cash commodity.

The other participants in the commodity futures markets are known as speculators. They have no intent of either delivering or accepting delivery of a commodity. The speculators, in effect, assume the risk which the hedgers are attempting to avoid.

## Terms

### Against Actuals or Exchange for Physicals (EFP)

This is a transaction between hedgers where they exchange both their futures and actual commodity positions for one another. This is also known as an Exchange for Physicals (EFP). Under CFTC rules, this is the only type of futures transaction permitted outside an authorized Commodity Futures Exchange trading pit.

Assume that a supplier has committed to a customer for the future delivery of some commodity which is not in inventory and then hedges by purchasing a futures contract. She is then short the commodity and has entered into a long futures position. The supplier has reduced the risk of the price of the commodity increasing before the purchase date. If the price increases, profit enjoyed from the long position will tend to offset the loss due to buying the commodity at a higher price. Thereby, a protective hedge was constructed around the price.

Assume further that a particular manufacturer has the desired commodity in inventory and has hedged by selling a futures contract. He is long the commodity and has assumed a short futures position. The manufacturer has reduced the risk of the price of the commodity falling before the sale date. If the price decreases, profit enjoyed from the short position will tend to offset the loss due to selling the commodity at a lower price. Thereby, a protective hedge was constructed around the price.

As the promised delivery time approaches the supplier and the manufacturer agree to exchange the commodity for a cash payment and to also exchange their futures positions:

Before the Exchange:

Manufacturer:

Long the Commodity  
Short Hedge

Supplier:

Short the commodity to be shipped  
Long Hedge

The manufacturer delivers the commodity to the supplier for a cash payment and the supplier, in turn, then ships the commodity to the customer as previously committed.

They also exchange futures contracts and assume off-setting positions.

Buying or Long or Purchasing Hedge -

Cross Hedge -

Hedge -

Selling or Short Hedge -

# Introduction to the Commodity Trader's Sidekick

**Greetings** - Like many of you, I too am a novice commodities trader. Because of this, I want to warn you right off the bat that *this document is not intended to give you any kind of trading advice*--I am just not qualified to do that. There are many good books and other kinds of references which are written by experienced traders and do a good job of presenting and describing many kinds of trading systems, plans, techniques and strategies.

Rather, the intent here is to provide a collection of definitions, descriptions and useful information in an easy-to-use format. As I started studying trading and traders, I found myself endlessly going through my growing collection of newsletters, brochures, booklets, books and newspapers to find some tidbit of information which I just knew that I had seen somewhere. To help myself out, I started to organize information I considered useful into some kind of easy-to-search compendium. Since I do nearly all of my various jobs at the computer, some kind of on-line help system was the natural choice. So, I built this system and keep it minimized at the bottom of the screen so I can quickly and easily find information.

I hope that you will also find it useful and I wish you **GOOD TRADING**.

**Some Tips on Using the Sidekick** - First notice the menu bar at the top of the screen. It contains the buttons "Contents", "Search", "Back" and "Print":

**Contents:** Click this button to see the material organized in logical groups with titles like "Charting". Each title sub lists a group of topics. To go to the topic, just move the cursor over the topic and click.

**Search:** Here all of the topics are listed in alphabetical order. Either scroll through the list or start typing in a word at the top of the box until the topic you want appears. At that point just double-click the topic or click "Display".

**Back:** Use this button to return to the source of a "Jump" (see below.)

**Print:** Prints the current topic.

Also notice the menu bar above the buttons. You can use the "Help" to learn of all of the functions available. One that you may find particularly useful is the "Keep Help on Top..." found under the "Options" selection. By setting this option, you can keep the Commodity Trader's Sidekick in front of all other windows as an option to keeping it minimized. This is handy if you are using some other application and frequently need to consult the Sidekick.

As you go through the material you will notice various "Hypertext" links for "Jumps" and "Popups". These allow you to see related or expanded information. To use a hypertext link just point to it and click. For example, the following word--Jump--is a hypertext jump to more information. To use it move the cursor over the green-underlined-word "Jump" and click. Likewise, here is an example of a popup.

Finally, you will see some text **colored red** and some **colored blue**. Red text is used to issue warnings at appropriate locations and blue text is used to denote terms which are being defined.

## **Jump**

This is an example of a screen to which you would jump. It would provide some detailed information about the area from which you jumped. When you are finished, just click the "Back" button at the top of the screen to return.



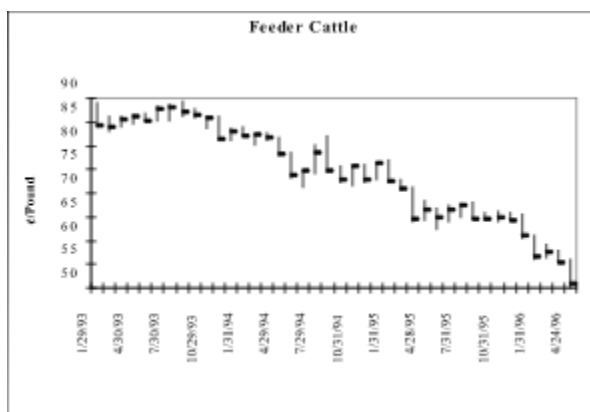
# Market



The term market collectively refers to the official commodity futures exchanges where the world's commodities are traded.

## Terms

Bear Market - A term indicating that prices are declining. Also a trader's frame of mind with which the trader is anticipating decreasing (bearish) prices. Concerning the following monthly bar chart, notice how feeder cattle dropped from about 86¢/pound in September of 1993 to about 53¢/pound in April of 1996. That would have been a contract depreciation of about \$16,500. A definite bear market.



Broker -

Brokerage -

Bull Market -

Clearinghouse -

Clearing Member -

Commission -

Day Trader -

Efficiency -

Fast Market Condition -

Fishing or Gunning for Stops -

Floor Broker -

Floor or Local Traders -

Liquid -

Mark to the Market -

Open Interest -

Open Outcry -

Pit -

Position or Trading Limit -

Position or Short Term Trader -

Public Speculator -

Random Walk -

Resumption -

Runners -

Scalper -

Speculation -

Suspension -

Variation Margin -

Volume -

# Options



An option is a contract between a buyer and seller which guarantees the buyer the right to assume a specific commodity futures position at a set price during a limited time period. The buyer pays a fee to the seller, has no further obligation and enjoys a risk which is limited to the fee. The seller, on the other hand, is obligated, if the buyer so demands, to provide the long or short position specified in the option contract at the specific price--regardless of the current trading price of the contract.

At anytime during the life of the option the buyer has the right to either sell the option or to demand delivery of the futures contract. The buyer can also simply allow the option to expire, in which case, her liability would have been limited to the fee and commission costs.

## Terms

Assign - Assignment is the process of requiring the writer of an option to assume the position necessary to supply a futures contract at the strike price to the buyer who is exercising the option.

When a trader buys an option, another trader has written and sold the option and guaranteed the right of the buyer to exercise the option. If the buyer decides to exercise the option, the seller is assigned the opposite position in the contract.

If a buyer chooses to exercise her call option, she assumes a long futures position of the specified commodity for the specified month and at the strike price. The seller is assigned the opposite, short position of the contract--same commodity, same month and at the strike price.

If a buyer chooses to exercise his put option, he assumes a short futures position of the specified commodity for the specified month and at the strike price. The seller is assigned the opposite, long position of the contract--same commodity, same month and at the strike price.

At-the-Money -

Buyer -

Calls & Puts -

Delta -

Exercise -

Expiration Date -

Gamma -

In-the-Money -

Intrinsic Value -

Out-of-the-Money -

Option Premium -

Seller -

Strike Price -

Time Value or Extrinsic Value -

Underlying Futures Contract - .

Volatility -

### **An Example**

Now let's go through an example which will explore some of the details of determining the premium, the value of the option with respect to the underlying futures contract and taking profits.

#### Basic Information

The option contract is purchased by specifying a commodity, a contract month, a strike price and then by paying a fee which is known as the premium. To illustrate these terms, let's look at the data found in the Investor's Business Daily (IBD) for a May, 1996 Wheat contract:

The trading activity reported for the February 15, 1996 session of the Chicago Board of Trade (CBOT) for May, 1996 Wheat futures was:

Contract Size:	5,000 bushels
Price Units Reported:	\$ per bushel
Open:	\$5.04
High:	\$5.06 ½
Low:	\$5.00
Close:	\$5.00 ½
Open Interest:	19,449

The point value of this contract would be \$50/¢, meaning that one contract would have traded from a low of \$25,000 to a high of \$25,325 during that session.

IBD also reported the following options information for the same trading session:

**CBOT May 1996 Wheat  
Cents per Bushel  
5,000 Bushel Contract**

<u>Strike Price</u>	<u>Calls</u>	<u>Puts</u>
300	no op	no op
310	no op	no op
330	170 1/2	no op
340	no op	no op
350	no tr	no op
360	140 1/2	no tr
370	no op	no op
380	120 1/2	no op
390	no tr	1/8
400	100 1/2	1/4
410	no tr	3/8
420	80 1/2	1/2
430	71 1/4	1 1/2
440	62	2
450	53 1/4	3 1/8
460	45	5 1/4
470	38	8
480	31 1/4	11
490	25 3/4	15 1/4
500	20 1/2	20
510	16 1/2	25 3/4
520	13 1/5	32 1/2
530	10 1/2	39 1/2
540	7 3/4	no tr
550	5 1/2	no op
560	4 1/2	no op
570	no op	no op
580	2	no op
600	no tr	no op
620	no op	no op

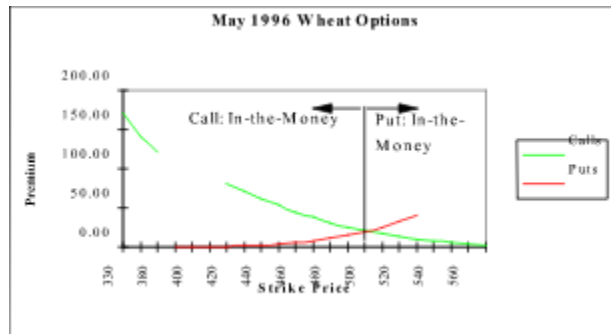
Note that at a strike price of \$5.00/bushel, the premium is around 20¢ for both the call and put options. Since this is in the range of the February 15 trading price, a 500 strike price would be "at-the-money" and, therefore, have no intrinsic or cash value--it would represent the effect of "time value" and "volatility" on the premium.

More about the Premium

Before looking more generally at the premium, let's say that we are bearish and desire to buy a May 1996, 480 Wheat put option. The table lists the premium to be 11¢ per bushel. This

would cost \$550 plus commission for the right to assume a short position on a 5,000 bushel futures contract of May 1996 Wheat. Since this commodity is currently trading for no lower than \$5.00, the strike price would be in the vicinity of 20¢ "out-of-the-money."

Now look at the graph of Premium versus Strike Price:



You can see that both the call and the put premiums become very small as each goes more deeply into the out-of-the-money region. This reflects the decreasing risk, suffered by the option writer, of being assigned a position due to the buyer exercising the option. Just the opposite is true as both the call and the put options move more deeply into-the-money.

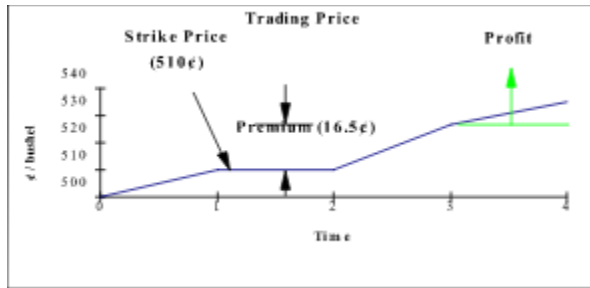
### Taking on a Call

Next, let's look at a complete example. Assume that on February 15, 1996 a trader is bullish on May, 1996 Wheat. She notes that wheat is currently trading at around \$5.00 per bushel and would like to purchase an out-of-the-money call option. The nearest out-of-the-money call option available is for a strike price of \$5.10 per bushel and has a 16½¢ per bushel premium. In terms of limits, \$5.10 would be 40 ticks or one-half of the maximum daily price limit when compared to \$5.00--the current approximate price. At any rate, the option would cost \$825 plus commission:

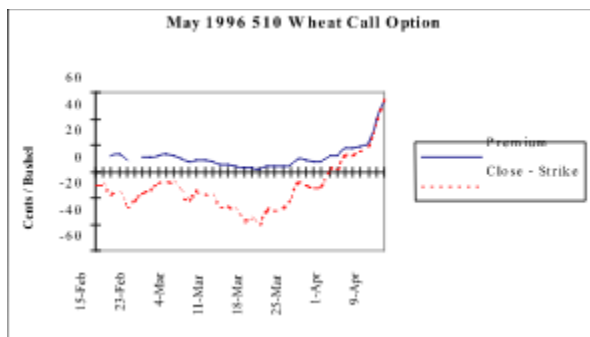
### During the Life of the Option

If prices increase, the first milestone would be \$5.10 which would put the option at-the-money.

A wheat contract appreciates \$50 for each 1¢ increase in the per bushel trading price. So the price would need to increase an additional 16½¢ / bushel, to \$5.26½ / bushel, to offset the cost of the premium. An additional increase would be required to cover the commission for buying the option. So we're looking for wheat prices to increase more than 26½¢ / bushel, above the trading price when the option was purchased, to start making profits:



This contract traded below the \$5.10 strike price until the beginning of April and then rapidly increased. The plot below shows two curves plotted against trading session dates. One curve is the option premium. The other is the difference between the daily closing price and the \$5.10 strike price--this curve would, of course, be negative as long as the closing price is below the strike price and would become positive as the contract moved into-the-money. This difference is the intrinsic value and represents the gross profit (premium and commission costs are not included) realized from the purchase of the \$5.10 futures contract and the subsequent sale at the daily closing price.



Notice that there is no gross profit until we are in-the-money and that as we move more deeply into-the-money, the close-strike difference approaches the premium. In this region, the premium has become almost entirely the intrinsic value.

### Taking Profits

Option profits may be realized either by selling the option or by exercising the option and attempting to profit from the underlying futures contract. Which path to take depends on the trader's judgment and the market activity.

Gross income from the sale of the option would be determined by the market the day of the sale. To determine profit or loss, the originally paid premium and the commission would be subtracted from this amount.

Exercising involves more complexity and risk. First, to exercise would mean to liquidate the options contract and assume a long position in 1996 Wheat at \$5.10. The contract would then be sold to generate income. Since there would be an additional transaction, an additional commission would be required. So the profit or loss would be calculated by subtracting the original premium, the commission related to the option and the commission related to the

exercise and subsequent sale of the futures contract.

A summary of both paths is illustrated in the following table:

<u>Date</u>	<u>Close</u>	<u>Proceeds from Sale of Option</u>	<u>Proceeds from Exercise &amp; Sale of Future</u>
1-Apr	511.5	\$825	\$75
2-Apr	512	\$825	\$100
3-Apr	523	\$900	\$650
4-Apr	522.5	\$900	\$625
8-Apr	525.25	\$925	\$763
9-Apr	529.75	\$1,088	\$988
10-Apr	549.75	\$2,000	\$1,988
11-Apr	563.5	\$2,675	\$2,675





## Placing Your Order

The importance of precise and explicit communications when placing an order with your broker cannot be overemphasized. If you are new to commodities trading, you might consider the following suggestions:

1. Use a full-service broker who is sufficiently willing and patient during your ordering process to review and rephrase your order to until you are sure that your broker understands your instructions as you intend them to be executed.
2. Write your order before calling to place the order and use the resulting manuscript as a checklist while placing and reviewing the order.
3. Make sure that you have included--and request verification--of, at least, the following items:

Is the order long or short, are you buying or selling, are you hoping for increasing or decreasing prices?

State the commodity, month, year, exchange and number of contracts.

How do you wish the order to be executed? Market order or ? State the common name of the order (e.g. "Market Order" and then ask precisely what that name means to verify that it agrees with your intent.)

The stop loss. Is it sensibly placed?

Market exiting instructions. Do you want to exit the trade automatically at some predetermined retracement level?

What is the last trading date?

What is the current range of the cost of a contract?

What are the initial and maintenance margins?

How much will your account change with each point, cent or dollar of change in the quoted price?

What is the current daily price limit?

Make sure you understand whether the order will stand beyond the current day. Must you reorder tomorrow if you want to continue the order? Must you cancel tomorrow if you do not want the order to stand?

Certainly delete any items with which you are completely familiar and add any of which you are unsure. List and study all of these points explicitly and check them off as you talk with your broker and then release the order only after you are sure that you understand what actions the broker will be taking on your behalf and how your account can be affected by adverse market moves in the trading sessions to come.

As a final effort, you might ask the broker if any fallacies are evident?

Some of the more common types of orders are defined below.

### **Terms**

Canceling Order -

Fill or Kill (FOK) -

Limit Order -

Market if Touched (MIT) -

Market Order -

One Cancels the Other (OCO) -

Stop or Stop Loss Order -

Stop Limit Order -



## Prices

Commodity futures prices are determined as traders in the auction pits of the authorized exchanges. Sellers offer contracts at some asking price while potential buyers are offering to buy these contracts at some lower price. Using open-outcry, the traders ask and offer back and forth. When an agreement is reached on price, the contract is made and a buyer is assigned a long position while a seller is assigned a short position. The original difference between the asking price and the offered price is known as the Bid-Offer spread and this, of course, has to go to zero for a contract agreement to be successful.

Basis -

Cash or Spot Price -

Close or Closing Price or Closing Range -

Convergence -

Differential -

Equilibrium Price -

High -

Limit Moves, Limit-Up, Limit-Down -

Low -

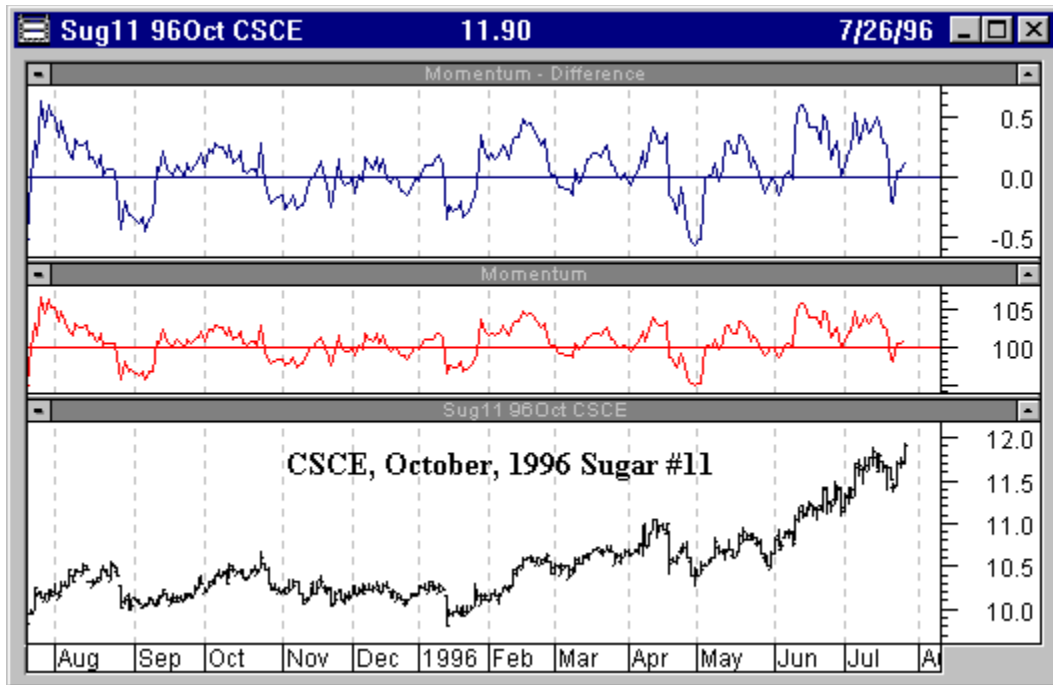
Momentum - Price momentum generally refers to the practice of comparing particular session's closing price with the closing price a predetermined number trading sessions earlier. Some traders use a ratio of the two numbers to express momentum others use the difference between the two numbers.

The following example is for the CSCE October, 1996 Sugar 11 contract. The commodity bar chart is presented at the bottom of the illustration.

The top, blue, graph represents the momentum as determined by calculating the difference between the closing price at each date and the closing price ten trading sessions before that date. Note that whenever the line touches the zero axis, the two closing prices were equal and as the line moves into the positive range, the current price is larger than the closing price ten sessions previous.

The middle, red, graph represents the momentum as calculated by dividing the closing price for a particular date by the closing price ten sessions previous. The ratio is then multiplied by 100 for

convenience. Note that when the graph touches the "100" level the two prices are equal and movements above 100 indicate that current close is larger than the close of ten sessions previous.



Graph Produced by [MetaStock for Windows](#)

Open -

Range -

Slippage -

Variable Limit -

Volatility -

## References



Use one of the following jumps or use [Search to find an item](#): [Books by Title](#) [Books by Author](#) [Book Vendors](#) [Book Publishers](#) [Software by Title](#) [Software by Producer](#) [Courses/Training](#) [Brokers](#) [Charts](#) [Data](#) [Download](#) [Periodicals](#)

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This section lists commodity-related books, periodicals, sources of data and various vendors and publishers. To quickly jump to a particular area, just click one of the buttons shown above.

[The following is a listing of commodity-related books and is listed alphabetically by title:](#)

100 Million Dollars in Profits, Angle, Kelly, 1984  
Windsor, ISBN: 0-930233--38-7

Candlesticks: New Japanese Charting Techniques Revealed, Nison, Steve, 1994  
Wiley, ISBN: 0-471-00720-X  
Commodity Trading Manual, Patrick J. Catania et al, 1993  
Education & Marketing Dept of Chicago Board of Trade, ISBN: 0-917456-04-1

Contrarian Investment Strategy, Dreman, David, 1979  
Random House

How I Made One Million Dollars ...Last Year ...Trading Commodities, Williams, Larry, 1979  
Windsor, ISBN: 0-930233-10-7

The Art of Contrary Thinking, Neill, Humphrey  
Caldwell: Caxton Printers

**More than 190 titles are listed in this section.**

[The following is a list of commodity-related books listed alphabetically by author:](#)

Achelis, Steven, Technical Analysis From A to Z: covers Every Trading Tool From the Absolut Breadth Index to the Zig Zag, 1994  
Probus Publishing, ISBN: 1-55738-816-4

**More than 190 titles are listed in this section.**

[The following is a list of commodity-related book vendors:](#)

Financial Trading, Inc

PO Box 20555  
Columbus Circle  
New York, NY  
Voice: (800) 458-0939  
FAX: (718) 639-8889  
EMail: elder@soho.ios.com  
<http://www.elder.com>

**Eight vendors are listed in this section.**

The following is a list of commodity-related book publishers:

Analysis  
3300 Darby Rd, No. 3325  
Haverford, PA 19041  
(610) 642-2011

**Twenty-Three publishers are listed in this section.**

The following is a list of commodity related software, listed alphabetically by product name:

MetaStock by Equis International  
3950 South 700 East  
Suite 100  
Salt Lake City, UT 84107  
Voice: (800) 882-3040  
FAX: (801) 265-3999

**Thirty-Six software packages are listed in this section.**

The following lists commodity-related software, listed alphabetically by the producer:

AbleSys Corporation, producers of PO Box 133  
Haywood, CA 94543-0133  
Voice: (510) 538-0926  
FAX: (510) 581-8278  
<http://www.ablesys.com>

**Thirty-Six software vendors are listed in this section.**

The following lists commodity related courses and training:

Center for Futures Education, Inc  
401 Erie St  
PO Box 309  
Grove City, PA 16127

Voice: (412) 458-5860  
FAX: (412) 458-5962

**Eight companies are listed in this section.**

The following lists commodity-related brokers:

Alaron Trading  
822 W. Washington St.  
Chicago, IL 60607  
Voice: (800) 700-3897  
FAX: (312) 563-8598

**Twenty-Four brokerage firms are listed in this section.**

The following lists sources for commodity charts:

Commodity Price Charts  
219 Parkade  
Box 6  
Cedar Falls, IA 50613  
Voice: (800) 221-4352

**Three chart vendors are listed in this section.**

The following lists commodity-related, data download vendors:

Commodity Trend Service  
1201 Hwy US1, #350  
N. Palm Beach, FL 33408  
Voice: (800) 331-1069  
<http://CTS.Dearborn.com>

**Seventeen data download vendors are listed in this section.**

The following is a list of commodity-related periodicals:

Investor's Business Daily  
PO Box 66370  
Los Angeles, CA 90066-0370  
Voice: (800) 831-2525

**Thirteen periodicals are listed in this section.**

## Commodity Trader's Sidekick Registration Form

(Please Copy-And-Paste this Form into Your Processor)

**Print and mail the form with check or money order**  
or  
**EMail or FAX the form with VISA or MasterCard order**

Name: \_\_\_\_\_

Address: \_\_\_\_\_

Address: \_\_\_\_\_

City: \_\_\_\_\_

State/Province: \_\_\_\_\_

Postal Code: \_\_\_\_\_ Country: \_\_\_\_\_

Telephone: \_\_\_\_\_ FAX: \_\_\_\_\_

E-Mail: \_\_\_\_\_

Payment Method (Please select one):

Check       Money Order       VISA       MasterCard

If paying by check or Money Order, please mail to (shipment will be made after your check clears your bank)::

Annabec Business Services, Inc.  
P.O. Box 85  
Millersburg, OH 44654

If paying by VISA or MasterCard, please complete the following:

Print your name as it appears on the card: \_\_\_\_\_

Card Number: \_\_\_\_\_ Expiration Date: \_\_\_\_\_

If paying by credit card, please EMail or FAX to the following:

FAX: (330) 674-2747

EMail: 75452.3723@CompuServe.com

Version (Please check one):

Windows 3.1       Windows 95





## Sage Sayings

Many adages and maxims have been forged by the heat of trading. Although simplistic at first glance, they contain all of the rules and guidelines you will ever need to become a successful trader if you can just figure out how to consistently apply them to your trading practices. A few are listed below:

Buy low and sell high.

Sell high and buy low.

Cut losses and let profits run.

Don't over trade.

Don't undercapitalize.

Buy on rumor, sell on news.

When in doubt, stay out.

Buy into weakness, sell into strength.

Bulls make money, bears make money, but hogs get slaughtered.

The trend is your friend.

The way to make a small fortune in commodities is to begin with a large fortune.



# Spreads

A spread is the process of simultaneously assuming two positions in two related markets or commodities, one short and one long. Profits or losses accrue as the prices of the two positions move apart--diverge--or move together--converge. Profits or losses are realized by simultaneously liquidating the two positions.

The trader who puts on a spread position is betting on the price difference between the two positions, not the absolute price of either. Positions can take advantage of either increases or decreases in the difference just as traders can go long or short on individual contracts.

## Example

As an example, let's put on Aug/May, 1995 soybean spread. We'll go long on the August contract and short on the May contract--a bear spread. We will have simultaneously assumed the positions on November 30, 1994 and simultaneously liquidated both on April 11, 1995. To keep the presentations simple, only the closing prices are used. Notice that both contract months have similar shapes--they are indeed related. Note that the prices for the more distant month increase more rapidly than those of the more nearby month....

## Terms

Bear Spread - To put on a bear spread, a trader goes short on the more nearby month and goes long on the more distant month. The example at the beginning of this section is a bear spread--we sold the May, 1995 contract and bought the August, 1995 contract.

A trader putting on a bear spread can profit from price patterns like those illustrated below:



Bull Spread -

Butterfly Spread -

Crush -

Calendar or Horizontal Spread -

Inter Commodity Spread -

Inter Delivery or Intra Market Spread -

Option Spread -

Straddle -

Vertical Spread -

# To Order the Sidekick

## Commodity Trader's Sidekick

### Registration Instructions

There are two methods of receiving your full-featured-registered version of the *Commodity Trader's Sidekick*:

1. It can be downloaded at anytime through *Albert's Ambry Internet Shareware Store*. This is the quickest and least expensive method of receiving your copy. The cost using this method is \$12US.

To use this method, connect to <http://www.Alberts.com> and sign-in as either a New User or as an Existing User, as is appropriate to your case. After you have signed in, search for:

**TRSK3F10.ZIP for the Windows 3.1 version**  
or  
**TRSK9F10.ZIP for the Windows 95 version**

After finding the file, follow the instructions.

2. You can receive it on 3.5" disks through the mail. To do this you may order by EMail, FAX, Mail or by CompuServe's Shareware Registration System. Payment may be made by check, money order, VISA or MasterCard. The cost using this method is \$18US.

Email: Copy the form ([use this jump to get to the form](#)) to your word processor and EMail the completed form along with your VISA or MasterCard information to:  
**75452.3723@CompuServe.com.**

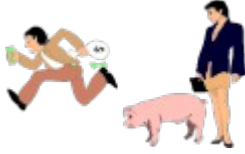
FAX: Copy the form ([use this jump to get to the form](#)) to your word processor and FAX the completed form along with your check or money order to:  
**(330) 674-2747**

SWReg: To register using CompuServe Shareware Registration System, first GO SWREG. Select "Register Software". Select one of the two following registration ID's:

**ID #12480 for file TRSD3F10.ZIP which is the version for Windows 3.1**  
**(Program Title: Commodity Trader's Sidekick)**

or

**ID #12481 for file TRSD9F10.ZIP which is the version for Windows 95**  
**(Program Title: CTS for WIN95)**



# Trading

Below, you will find some of terms associated with trading procedures in the commodities futures markets.

## Terms

Buy/Sell Signals or Indicators - Technical indicators which traders use to suggest times at which contracts might be taken on or liquidated. Several simple examples are illustrated below. **It is important to understand that these examples are not being offered as models which you should consider using but simply as examples of some techniques which various traders use as part of their entire process of making buying and selling decisions.**

1. Trend lines - A possible signal to either liquidate a long position or short a contract is triggered when up trending prices cross and go below an up trend line--example.  
Conversely, a possible signal to either liquidate a short position or assume a long position is triggered when down trending prices cross and go above a downtrend line--example.
2. Moving Average - A possible buy or sell signal is triggered when prices cross a moving average--example
3. Multiple Moving Averages - In this case, two moving averages are used. One with a shorter averaging period than the other. The possible buy and sell signals are triggered when the shorter average crosses the longer--crossing in the upward direction triggers a possible buy while crossing in the downward direction signals a possible sell--example.

..

These are just three examples of what could be hundreds of indicators which traders have developed to aid them in deciding when to enter and exit the market. Traders use these various indicators individually and in combination. They use various indicators and combinations with various commodities and at various times. The practice of using these indicators is widely variable and range from the very simple to the highly complex with some traders using systems which combine many indicators.

Capital -

Clear -

Controlled , Discretionary, or Managed Account -

Discounting -

Discount Rate -

Diversification -

Entering a Position -

Exiting or Liquidating a Position -

Flat -

Initial Margin -

Leverage -

Buy or Long -

Loss -

Maintenance Margin -

Margin -

Margin Call -

Money Management Stop -

Offset -

Oscillators -

Paper Trading -

Position -

Position Day -

Professional Money Management -

Profit -

Pyramid -

Risk -

Risk Management -

Round Turn -

Sell or Short -

Stochastic Oscillator -

Stop Loss -

Trading Account -

Trading Method - .

Trading Plan -

Trailing Stop -



## Trading Philosophies

There seem to be three major and well defined trading philosophies; contrary opinion, fundamental analysis and technical analysis. It further appears that although each commodities author may claim to have strongly adopted one of philosophies that most seem to practice combinations of each.

Contrary Opinion - Contrary opinion was first prominently set forth by Neill Humphrey in The Art of Contrary Thinking. Several other texts are also included in the References section. Very simply put, contrary opinion is practiced at market tops and bottoms. It relies heavily on the belief that most traders will be wrongly investing to continue the current trend immediately before a reversal occurs.

Fundamental - A fundamentalist strongly believes that the perception of supply and demand sets the price and direction of market prices. Consistent with this belief, the fundamentalist researches information on inventories, changes in the nature of the consuming market, factors affecting manufacture and delivery, rumors which might affect what other traders currently believe about the condition of supply and demand and a multitude of other data and factors. Fundamental factors vary with commodities--grains are affected by weather conditions, current and forecasted, and by government reports; currencies are affected by interest rates and where they are trending, and political conditions. You can see that aggressive fundamental trading requires a great deal of study.

Technical - The pure technical trader relies strictly on price information. This trader would strongly believe that all of the fundamental factors are either already integrated into or are being signaled by the current price patterns. Because of this, the major tool of the technical trader is the price chart; the bar, the candlestick and the Point and Figure Charts.



## Your Suggestions

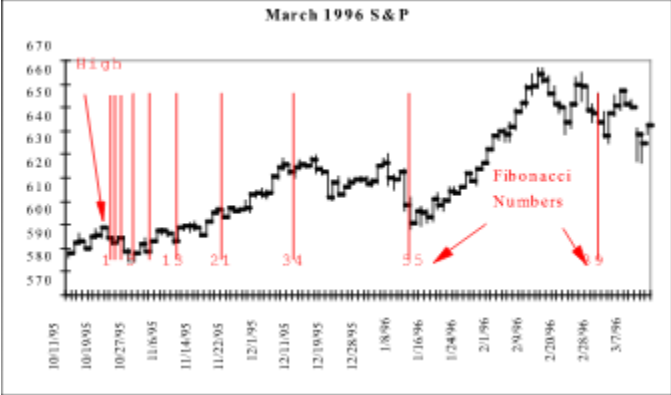


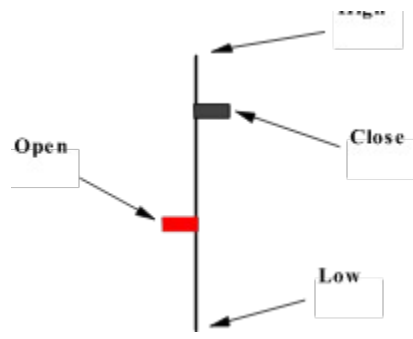
If you have any suggestions, additions or corrections please contact us by any of the following methods:

Annabec Business Services, Inc.  
P.O. Box 85  
Millersburg, OH 44654

Voice: (330) 674-5444  
FAX: (330) 674-2747  
EMail: CompuServe: 75452,3723  
[http://ourworld.compuserve.com/homepages/fred\\_mullen/](http://ourworld.compuserve.com/homepages/fred_mullen/)

- 1 Sugar, in this case is quoted in ¢/pound.
- 2 One contract is made up of 112,000 pound of sugar.
- 3 Each 1¢, then, in the price per pound would manifest as \$1,120 in the price of a contract.
- 4  $10.59\text{¢/pound} - 10.07\text{¢/pound} = 0.52\text{¢/pound}$ .
- 5  $0.52\text{¢/pound} \times \$1,120\$/\text{¢} = \$582.40$  for the entire contract.





Commodity futures traders are assuming contracts to deliver or to accept delivery of a commodity at some future date, they are not dealing in the actual delivery of the commodity. In fact, most traders liquidate their positions before the required delivery time.

Prices are, on the average, declining. New highs and lows are lower than previous highs and lows.

Consider that a gap has occurred during an up-trend--the low was higher than that of the previous session's high. Filling means that the price would reverse direction and come down through the price range of the gap.

On the average, the prices neither trend up nor down. The highest highs over the period of congestion tend to be at about the same levels with the same true of the lowest lows..



A commodity exchange may place restrictions on the maximum upward and downward price movements allowed during a trading session.

The public auction system conducted in the trading pits of the authorized exchanges. Offers to buy and sell futures and options contracts are orally presented and negotiated.

When the price trend changes from one direction to the opposite direction--for example, a price which has been in a down-trend changes to an up-trend.

Tops and bottoms represent price reversals.

An period of increasing prices following a period of decreasing prices.

Prices are, on the average, increasing. New highs and lows are higher than previous highs and lows.

$$\text{\$1,250.00/contract} = \text{\$440/contract} + \text{\$810/contract}$$

$$\$1,315 = \$6,000 - \$4,650 - \$35$$

$$\frac{1}{4}\text{¢} \times 5,000\text{bushels/contract} = \$12.50/\text{contract}$$



Based on a commission of \$35.

\$140 = 4 contracts x \$35/contract

$$\text{\$16,500/contract} = (\text{86¢/pound} - \text{53¢/pound}) \times \text{50,000/contract}$$

$$\$17,150/\text{contract} = (\$343/\text{troy oz}) \times (50 \text{ troy oz}/\text{contract})$$

$$\text{\$17,750/contract} = \text{\$3.55/bushel} \times 5,000 \text{ bushels/contract}$$

$$\text{\$172,800} = 54\text{¢/pound} \times 8\text{contracts} \times 40,000\text{pounds/contract}$$

$$\text{\$178,000} = 89\text{¢/pound} \times 8\text{contracts} \times 25,000\text{pounds/contract}$$

$$\$18,750 = \$8,660 + \$5,745 + \$3,030 + \$1,315$$

$$\text{\$19,350/contract} = (\text{\$387/troy oz}) \times (\text{50 troy oz/contract})$$



$$\text{\$192,000} = 60\text{\textcent/pound} \times 8\text{contracts} \times 40,000\text{pounds/contract}$$

$$\text{\$2,200/contract} = \text{\$19,350/contract} - \text{\$17,150/contract}$$

$$\$2,910 = \$970/\text{contract} \times 3 \text{ contracts}$$

$$\$20,000 = (445 - 405) \times \$500$$

The contract price of the Standard & Poors 500 is computed by multiplying the S&P Index by 500.

$$\$208,000 = \$1.04/\text{pound} \times 8\text{contracts} \times 25,000\text{pounds}/\text{contract}$$

$$\text{\$211,200} = 66\text{¢/pound} \times 8\text{contracts} \times 40,000\text{pounds/contract}$$

$$\$226,000 = \$1.13/\text{pound} \times 8\text{contracts} \times 25,000\text{pounds}/\text{contract}$$

$$\text{\$236,800} = 74\text{\textcent/pound} \times 8\text{contracts} \times 40,000\text{pounds/contract}$$



(100 tons/contract) x (\$243/ton) = \$24,300 for the contract

$$\$25,000/\text{contract} = (\$5/\text{bushel}) \times (5,000 \text{ bushels}/\text{contract})$$

$$\text{\$25,325/contract} = (\text{\$5.06/bushel}) \times (5,000 \text{ bushels/contract})$$

$$\$252,000 = \$1.26/\text{pound} \times 8\text{contracts} \times 25,000\text{pounds}/\text{contract}$$

$$\$340,000 = 68,000 \text{ points} \times \$5/\text{point}$$

$$\text{\$4,650/contract} = \text{\$4.65/bushel} \times 1,000 \text{ bushel/contract}$$

$$\text{\$440.00/contract} = 1.1\text{\textcent/contract} \times \text{\$400/\text{\textcent}}$$

$$\$462.50/\text{contract} = \$975/\text{contract} - \$412.50/\text{contract}$$



$$\$5,015 = \$5,000 + \$50 - \$35$$

\$5,000 is the initial trading account balance.

\$50 represents the current profit of all contracts.

\$35 is the commission per contract.

$$\text{\$50/contract} = (\text{\$4.09/contract} - \text{\$4.08/contract}) \times (5,000 \text{ bushels/contract})$$

$$\text{\$500/contract} = (\text{\$2.22} - 2.17)/\text{million BTU} \times 10,000 \text{ million BTU/contract}$$

$$\text{\$550/option contract} = (11\text{\textcent/bushel}) \times (5,000 \text{ bushels/option contract})$$

$$\text{\$6,000/contract} = \text{\$6/bushel} \times 1,000 \text{ bushels/contract}$$

$$12\text{¢/bushel} \times 5,000\text{bushels} = \$600$$

$$\$650 = 13\text{¢/bushel} * 5,000 \text{ bushels}$$

Initial Price: 60.55¢/pound

Current Price: 58.65¢/pound

Difference: 1.90¢/pound

Increase in the price of the contract:

$$1.90\text{¢/pound} \times 40,000\text{pounds/contract} \times 0.01\$/\text{¢} = \$760/\text{contract}$$



$$\$8,660 = \$8,800 - \$140$$

$$\$8,800 = \$2,200/\text{contract} \times (4 \text{ contracts})$$

$$\text{\$810.00/contract} = 2.025\text{\textcent/contract} \times \text{\$400/\text{\textcent}}$$

$$\text{\$825/option contract} = (16\frac{1}{2}\text{¢/bushel premium}) \times (5,000 \text{ bushels})$$

$$\text{\$970/contract} = (565.1 - 545.7)\text{¢/oz} \times 5,000\text{oz/contract} \times 0.01\text{\$/¢}$$

$$\text{\$975.00/contract} = 19.5\text{\textcent/bushel} \times 5,000\text{bushels/contract}$$

$$(\$412.50)/\text{contract} = 8.25\text{¢}/\text{bushel} \times 5,000\text{bushels}/\text{contract}$$

The December closing prices are subtracted from the August closing prices. The prices of the short contract are subtracted from those of the long contract.



-8.25¢/bushel = 581.25¢/bushel - 589.5¢/bushel  
(Lost on this short position because the contract increased in value.)

$$1.1\text{¢/contract} = 46.5\text{¢/contract} - 45.4\text{¢/contract}$$

18 open contracts = 30 newly purchased contracts - 12 sold back to the market

$$19.5\phi/\text{bushel} = 606.5\phi/\text{bushel} - 587\phi/\text{bushel}$$

(Gained on this long position because the contract increased in value.)

$$2.025\text{¢/contract} = 43.85\text{¢/contract} - 41.825\text{¢/contract}$$

20¢ out-of-the-money = \$5.00 trading price - \$4.80 put option

$$4.563\% = (\$810 / \$17,750) \times 100$$

Difference between the strike price and the trading price =  $\$5.10 - \$5.00 = 10\text{¢}$

Each tick for wheat is  $\frac{1}{4}\text{¢}$

40 ticks =  $(10\text{¢}) / (\frac{1}{4}\text{¢/tick})$



Annabec Business Services, Inc.

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USA

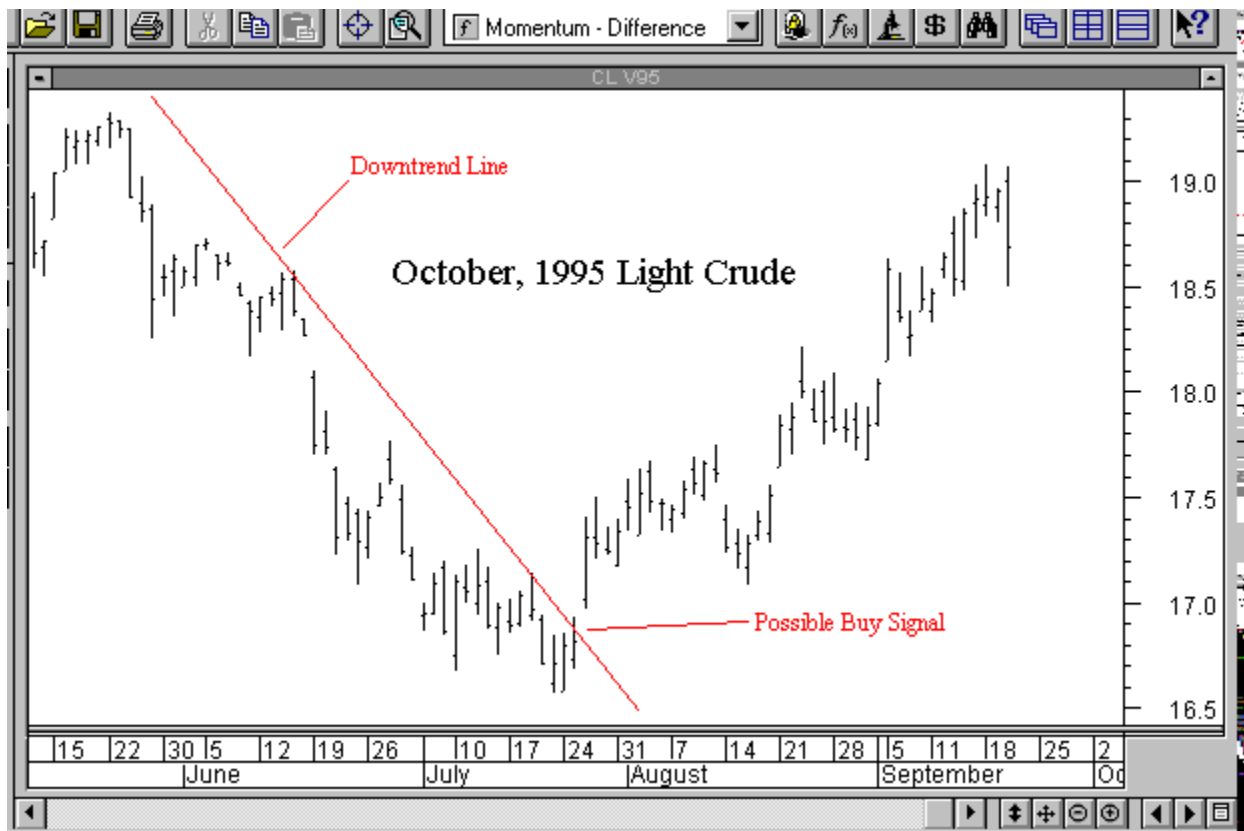
Voice: (330) 674-5444

FAX: (330) 674-2747

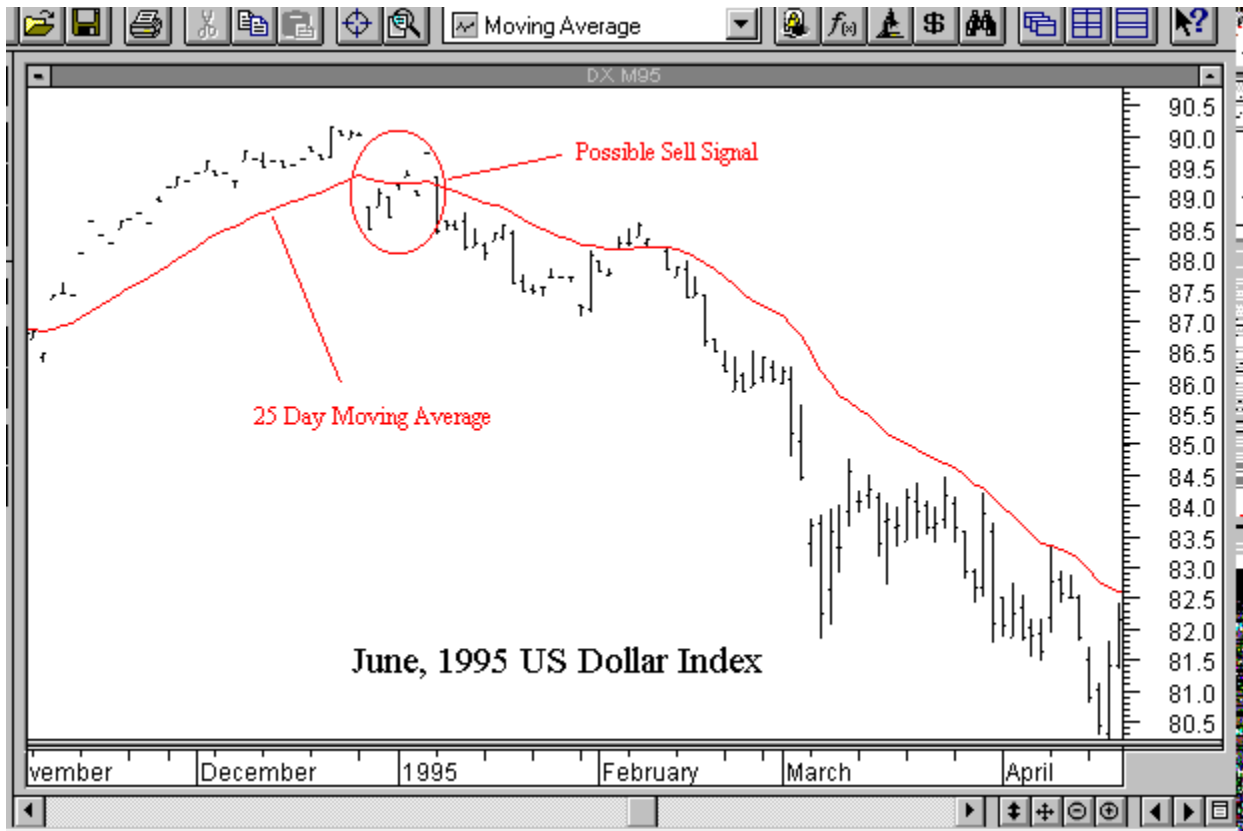
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The amount of a commodity required by a futures contract for delivery.

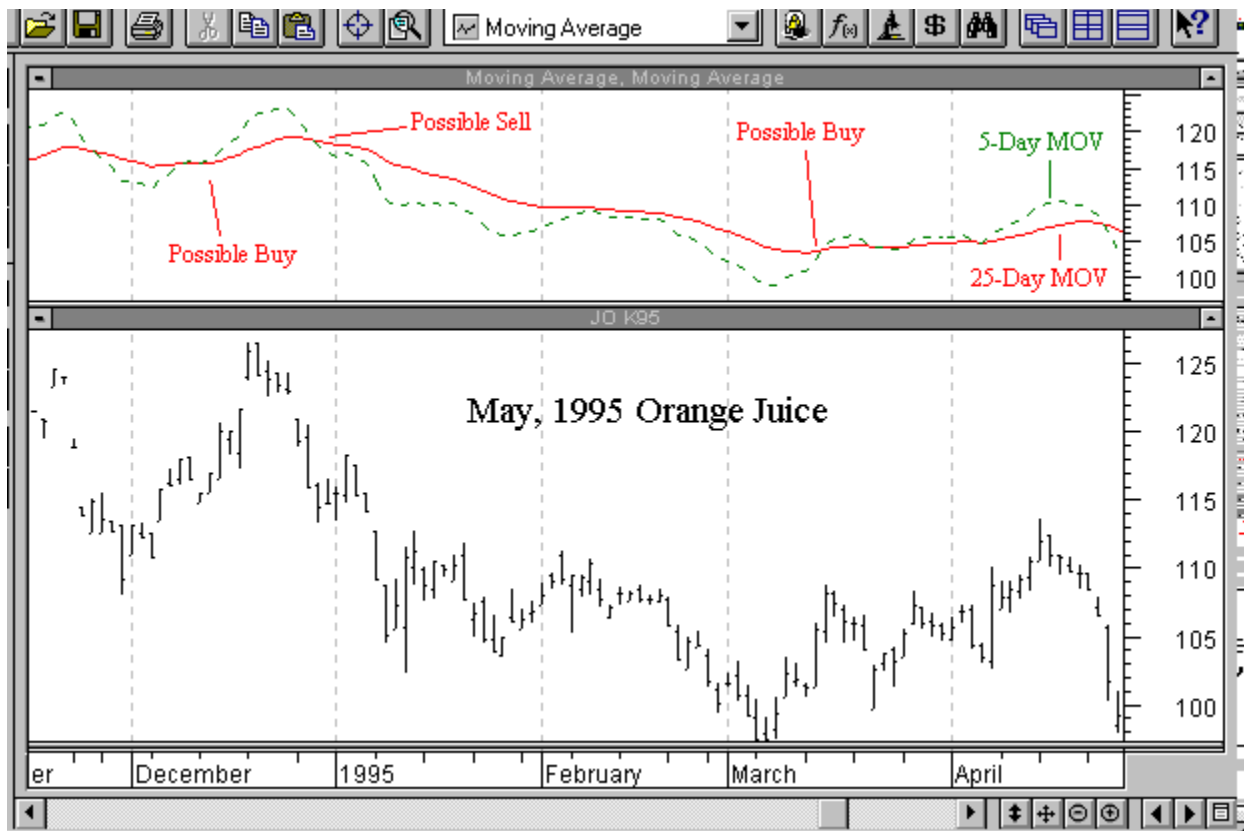
1. Move the cursor to "Edit", found in the menu bar at the very top of the screen and click the left mouse button. A drop-down menu will appear.
2. Move the cursor to "Copy" and press the left mouse button. After doing this, the Registration Form has been copied to the Clipboard.
3. Open your word processor or EMail system and paste the form into the document to be mailed..



Graph produced by MetaStock for Windows.



Graph produced by MetaStock for Windows.



Graph produced by MetaStock for Windows.

The Shareware definitions in this document are reprinted from an article which was prepared by Paul Mayer, author of GRAB Plus.

If a producer owns a cash commodity and intends to sell at some future date then any decreases in price would decrease the value of the inventory.

Similarly, if a consumer does not own but intends to make a future purchase of a cash commodity then price increases would adversely affect the costs of that cash commodity as a raw material for the consumer.



Increase in value.

Basis is the difference between the local cash price for the commodity and the nearby futures price.

A bear spread consists of going long on the more distant month and taking a short position on the more nearby of the two months. This spread profits if the more distant months prices increase more rapidly than those of the more nearby month.

The prices are decreasing, trending downward.

Market prices change from trending downward to trending upward.

Prices are increasing, trending upward.

Carrying or time charges are due to storage, insurance, handling and discount costs. Storage and insurance are examples of charges associated with maintaining an inventory for a commodity contracted for future delivery. Interest is an example of a discount charge associated with the future delivery of a financial instrument.

Being either short (not in inventory, does not own but intend to buy in the future) or long (does own the commodity) on the cash commodity.



Red colored text is attempting to issued some kind of a warning. Please read carefully when it shows up.

Farm machine capable of separating grain from the rest of the plant material. Usually does so with a violent beating or threshing action followed by a sifting procedure.

The maximum price deviation allowed in a contract price during a trading session. This is set by the various exchanges and can be related to the previous session's pricing activity. The exchange can also change or suspend the limit.

Decrease in value.

Momentum = (Current Close) - (Close X Sessions Previous)

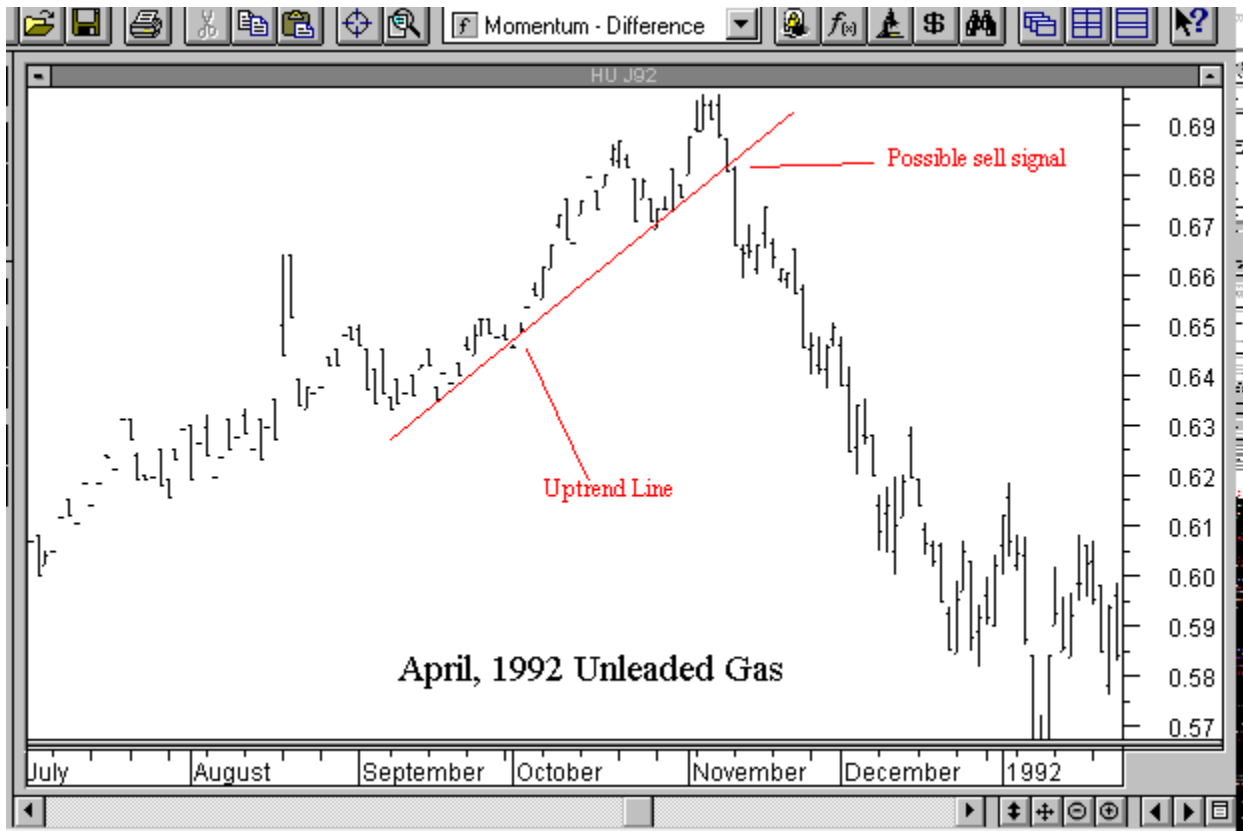
The May closing prices are subtracted from the August closing prices. The prices of the short contract are subtracted from those of the long contract.

To go in different directions, to spread apart.

In the case of a call, the trader will buy, go long on, a contract. In the case of a put, the trader will sell, go short on, a contract.



The facility would possess equipment capable of weighing and otherwise measuring the commodity as well as equipment and instrumentation which could evaluate the quality of the commodity.



Graph produced by MetaStock for Windows.

Selling or purchasing a futures or option contract.

The two sessions referred to here are the sessions at which the contract is bought and the session at which the contract is sold back to the market.

The time for delivery or taking delivery of the commodity is approaching.

Buying or selling a commodity futures contract--taking on a contract which promises to accept or to make delivery of the commodity at some future date.

Being purchased last, they have the least value.

Before commission.



This means they are not related to one another.

Discharges her responsibility to deliver or take delivery of the commodity by offsetting the position with an opposite position. If the trader is long (purchased a contract), then she sells the contract back to the market and is free from further obligation.

The currently own the cash commodity.

To purchase a commodity futures contract. To contract to take delivery of the commodity in the future.

At a market top, prices reverse from trending upward to trending downward.

The minimum increment permitted in the price of a contract.

The contract month which is next to expire.

A trader offsets a long position by selling the contract back to the market or offsets a short position by buying the contract back from the market. In either case, the trader has offset the position and is no longer contractually obligated.



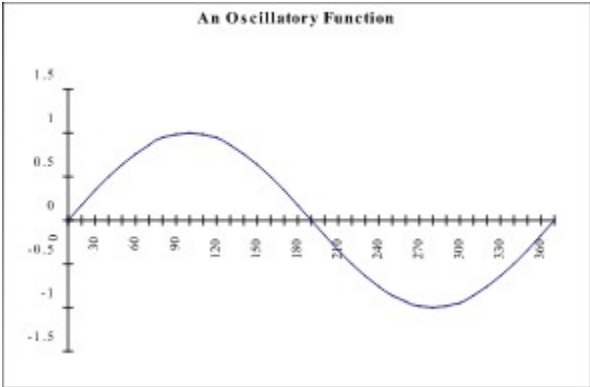
An open position is a contract which is active and currently obligates the buyer and seller to the terms of the contract.

Any contract, long or short, currently in force and not liquidated or offset.

Buying or selling a futures contract.

If you are going long, "at the price or better" would mean "at the price or lower". Going short would mean "at the price or higher."

Oscillatory motion is motion which tends to move back and forth:



A caption like this pops up with some additional information. To close it just click somewhere else on the screen.

Enters into a commodity futures contract to either deliver (short position) or to accept delivery (long position) of a commodity at some future time.

Normally, the prices for a distant month should be approximately equal to the prices in the nearby month plus any carrying charges. A premium is said to exist when the nearby month prices become larger than the distant month minus the carrying charges.



In this example we are using price periods of complete trading sessions. The time period can be minutes, hours, sessions, weeks, etc.

For example, a trader may automatically exit a position after trade produces \$1,000 in profit.

A term referring to executing the spread, that is to simultaneously assume opposite positions in the two contracts.

Momentum = (Current Session Close) / (Close X Sessions Previous)

Refers to the complete process of first taking on a position and then the later liquidation of that position.

They do not currently own the cash commodity but intend to buy it sometime in the future.

To sell a commodity futures contract. To contract to deliver the commodity in the future.

Largely independent because we know there are some relationships. For example, they cannot be completely independent from one another if daily limits apply.



Consider, for example corn. World corn harvest begins in August and peaks in the northern hemisphere fall. This harvest period produces the new crop and therefore new marketing forces. Thus, the marketing cycle for corn is from harvest-to-harvest.

A trader who is not hedging. One who has no intent to accept or make delivery.

A stop loss is used to attempt to minimize losses when the market moves against the trader's position. For example, when going long, a trader might put a stop loss at a price somewhere below the price at which she entered the market. If the market reverses back to that price, the contract would be sold back to the market.

A stop is a price condition which, when met, liquidates the contract.

The test button takes you to another part of the Sidekick. Click the "Back" button at the top of the screen to return.

The trading price range is from the low price to the high price of the session.

The contracts can involve different contract months of the same commodity or can involve different commodities. When different commodities are spread, they should be related in some way so the trader has some chance of successfully predicting the spread in price between the two commodities.

Large swings in the trading price.



