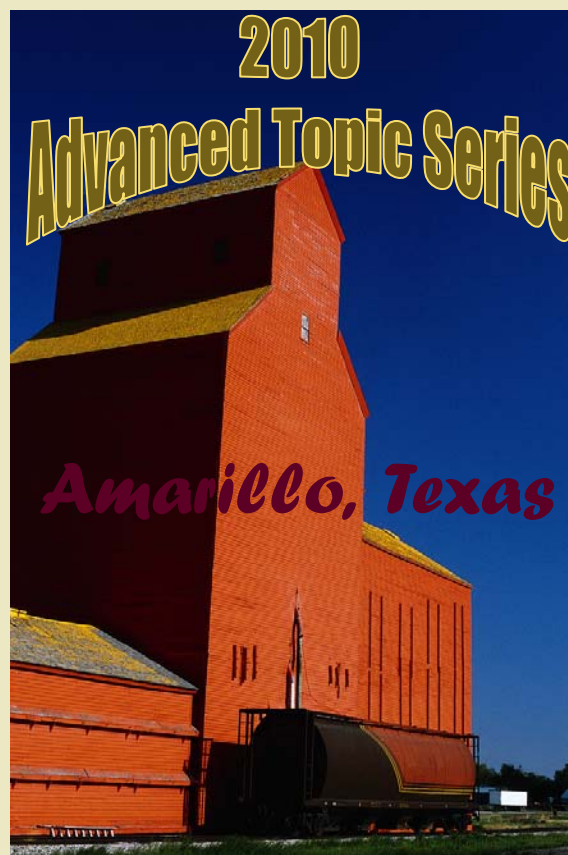




Selecting, Developing & Working A Technically Based Marketing Plan



***Presented by:
Alan Brugler
President of
Brugler Marketing & Management, LLC***

AgriLIFE EXTENSION

Texas A&M System

Improving Lives. Improving Texas.

2010

Advanced Topic Series

***Selecting,
Developing
& Working
A Technically
Based
Marketing
Plan***



CONTENTS

NO. 1

Selecting, Developing &
Working a Technically Based
Marketing Plan

NO. 2

CFTC Disaggregated Report-
Tracking Players Who could
Affect Your Price

NO. 3

Seasonals & Probability

NO. 4

Time To Change Your Plan

NO. 5

Trader Psychology & Impacts
On Your Marketing Plan

NO. 6

Systemic Risk

NO. 7

Corn Technical/Fundamental
Analysis

NO. 8

Other

Selecting, Developing and Working a Technically Based Marketing Plan

February 8-9, 2010
Amarillo, TX

BRUGLER 
Marketing & Management, LLC

Brugler Marketing & Management LLC.
15711 Howard Street | Omaha, NE 68118 | Phone & Fax: 402-697-3623 | www.buglermktg.com

NFA Disclaimer

There is a substantial risk of loss in futures and options trading.

Such trading may not be appropriate for all individuals or entities.

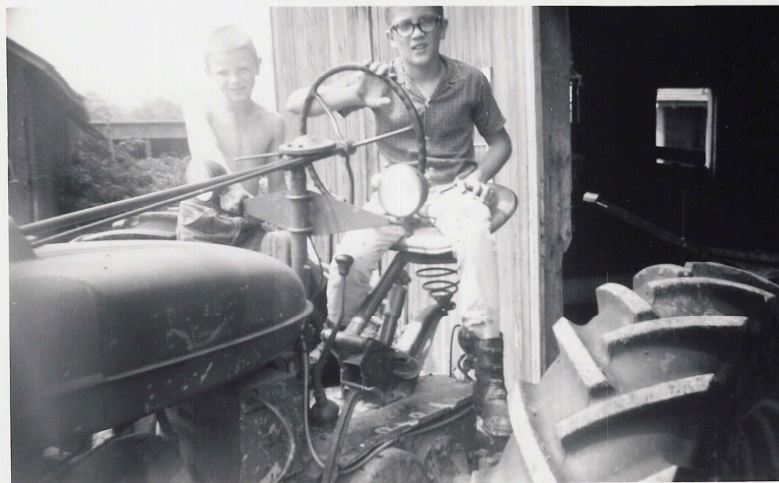
Past performance is not necessarily indicative of future results.

This presentation is not to be seen as an endorsement of futures/options trading vs. other hedging & marketing techniques.

Brugler Marketing & Management LLC.
15711 Howard Street | Omaha, NE 68118 | Phone & Fax: 402-697-3623 | www.bruglermktg.com

2

My Qualifications!



Brugler Marketing & Management LLC.
15711 Howard Street | Omaha, NE 68118 | Phone & Fax: 402-697-3623 | www.bruglermktg.com

3

The Revenue Workshop – Building A Marketing Plan



Brugler Marketing & Management LLC.
15711 Howard Street | Omaha, NE 68118 | Phone & Fax: 402-697-3623 | www.buglermktg.com

4

The Toolbox



Brugler Marketing & Management LLC.
15711 Howard Street | Omaha, NE 68118 | Phone & Fax: 402-697-3623 | www.buglermktg.com

5

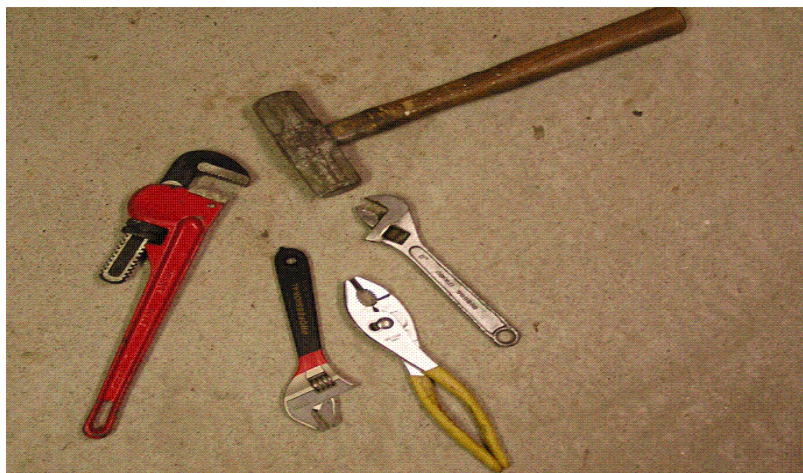
What Size is the Problem?



Brugler Marketing & Management LLC.
15711 Howard Street | Omaha, NE 68118 | Phone & Fax: 402-697-3623 | www.bruglermktg.com

6

Which Tool Will Work Best?



Brugler Marketing & Management LLC.
15711 Howard Street | Omaha, NE 68118 | Phone & Fax: 402-697-3623 | www.bruglermktg.com

7

Use All Of Your Selling Tools

BRUGLER'S SELLING TOOLS FORMULA

If Market Situation is:		Selling Tools That Yield Maximum Profit:
Good Price	Good Basis	Sell cash, Forward Contract ***
Good Price	Bad Basis	Futures Hedge, Buy Put Option or Put Spread, Hedge to Arrive ***
Bad Price	Good Basis	Basis Contract, Sell cash and Buy Call Option or Call Spread
Bad Price	Bad Basis	Feed it, DP, Do Nothing, Put under Loan, Take LDP

A Good Price is defined as:

- 1) Likely to Get Worse
- 2) Above Your Cost of Production **or**
- 3) Meeting a Timing Requirement in your Selling Plan

A Good Basis is defined as:

- 1) Better than last year, or the historical average for the time period **or**
- 2) Likely to get worse

*** Crop Revenue Insurance if During Sign Up Period

Brugler Marketing & Management LLC.
15711 Howard Street | Omaha, NE 68118 | Phone & Fax: 402-697-3623 | www.bruglermktg.com

8

Failing to Plan is Planning to Fail

Successful Marketing is simple --Buy low and sell high.

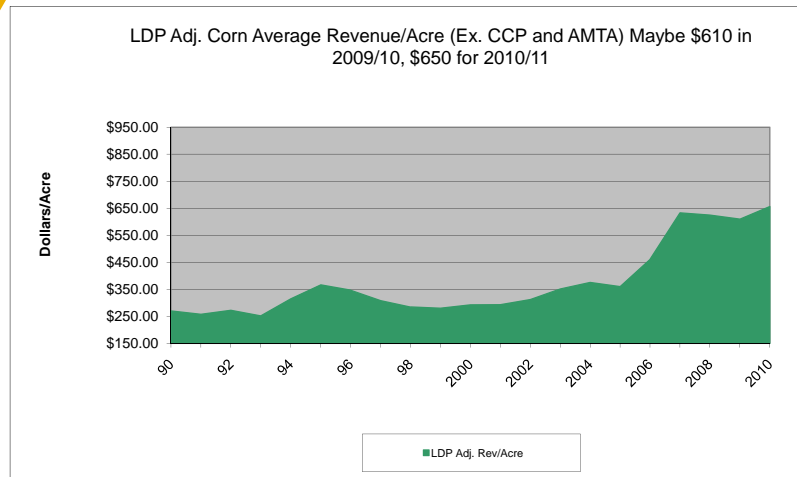
A more aggressive approach -

"Charge what the market will bear, as long as you cover your costs first"

Brugler Marketing & Management LLC.
15711 Howard Street | Omaha, NE 68118 | Phone & Fax: 402-697-3623 | www.bruglermktg.com

9

Nice Numbers If Your Costs Are Set!



Brugler Marketing & Management LLC.
15711 Howard Street | Omaha, NE 68118 | Phone & Fax: 402-697-3623 | www.bruglermktg.com

10

Battle Is Always Revenues vs. Costs

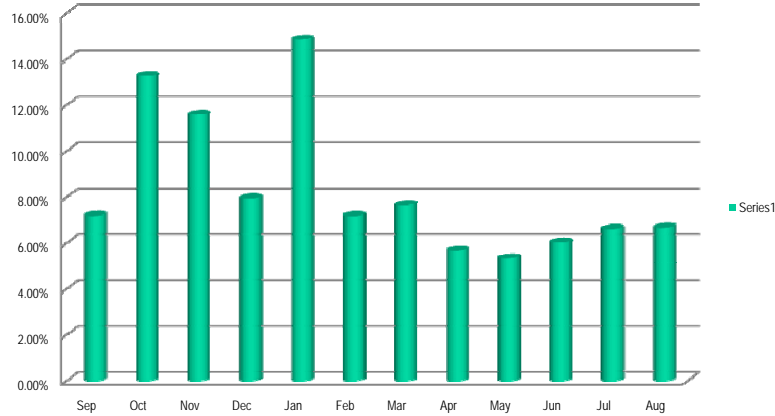


Brugler Marketing & Management LLC.
15711 Howard Street | Omaha, NE 68118 | Phone & Fax: 402-697-3623 | www.bruglermktg.com

11

How US Producers Market Corn

15 Year Average - US Corn Marketings By Month

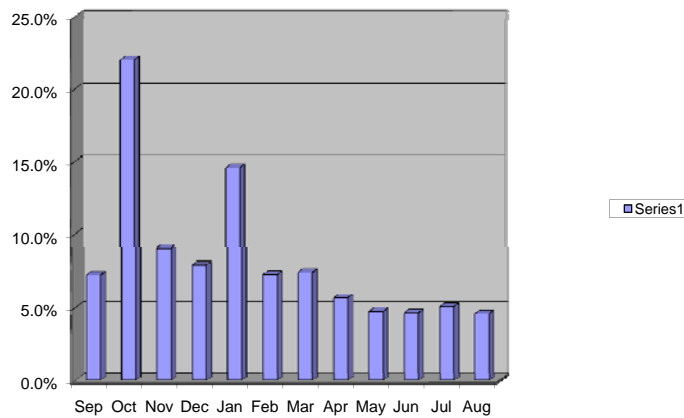


Brugler Marketing & Management LLC.
15711 Howard Street | Omaha, NE 68118 | Phone & Fax: 402-697-3623 | www.bruglermktg.com

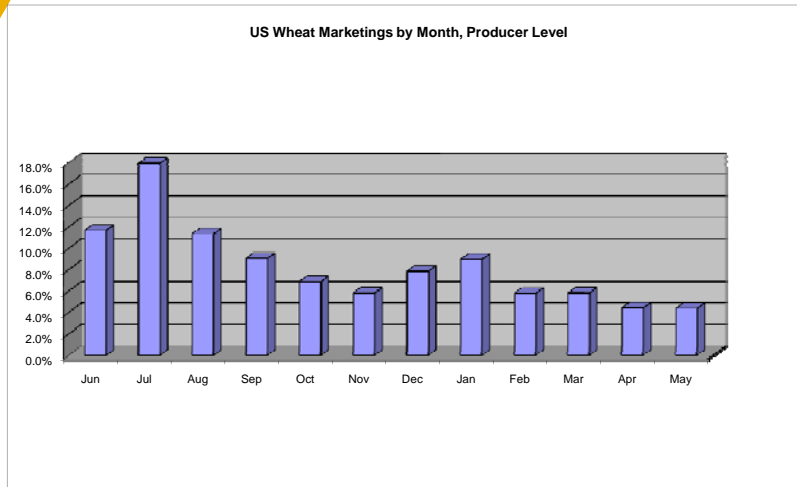
12

Cash Marketing Pattern for Soybeans

US Producer Soybean Marketings by Month -15 Year Average



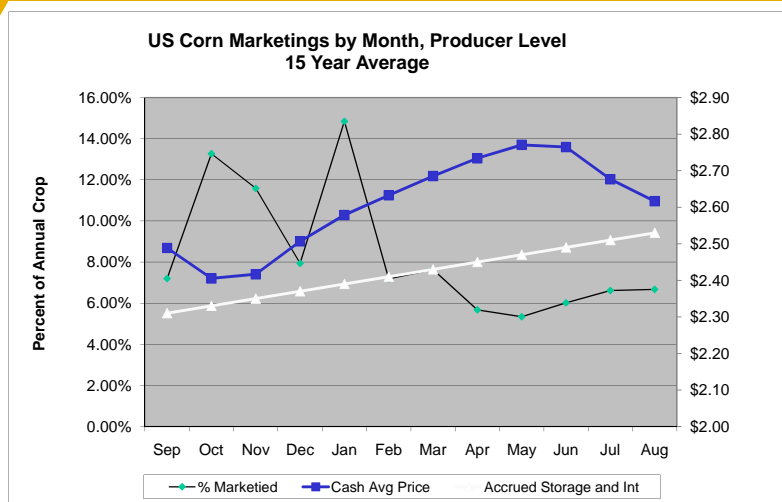
Cash Wheat Marketings By Month, Percent of Annual Sales



Brugler Marketing & Management LLC.
15711 Howard Street | Omaha, NE 68118 | Phone & Fax: 402-697-3623 | www.buglermktg.com

14

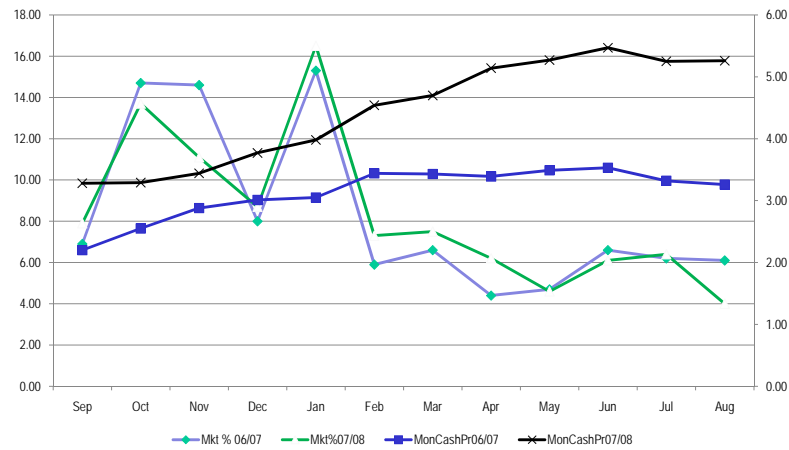
Price Received Vs. Cost of Storage



Brugler Marketing & Management LLC.
15711 Howard Street | Omaha, NE 68118 | Phone & Fax: 402-697-3623 | www.buglermktg.com

15

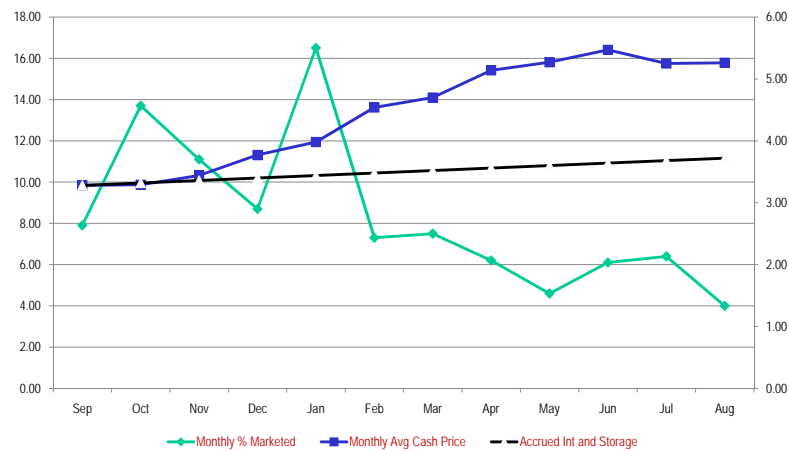
Corn Marketings vs. Price Received



Brugler Marketing & Management LLC.
15711 Howard Street | Omaha, NE 68118 | Phone & Fax: 402-697-3623 | www.bruglermktg.com

16

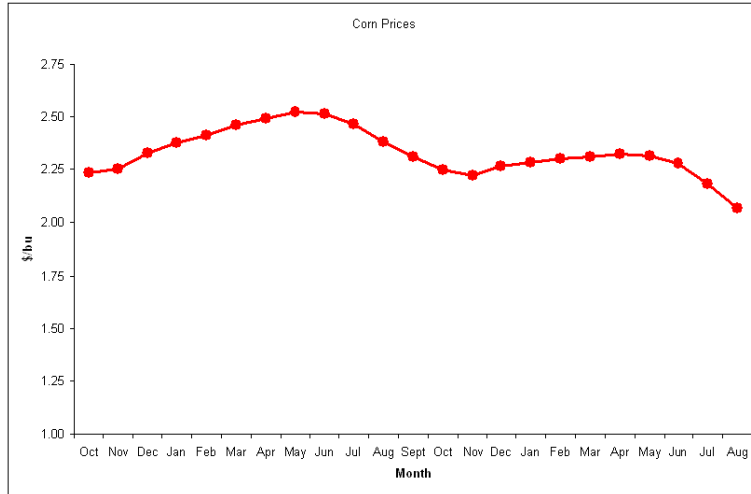
Corn Storage Paid Off in 2007/08, But Few Collected



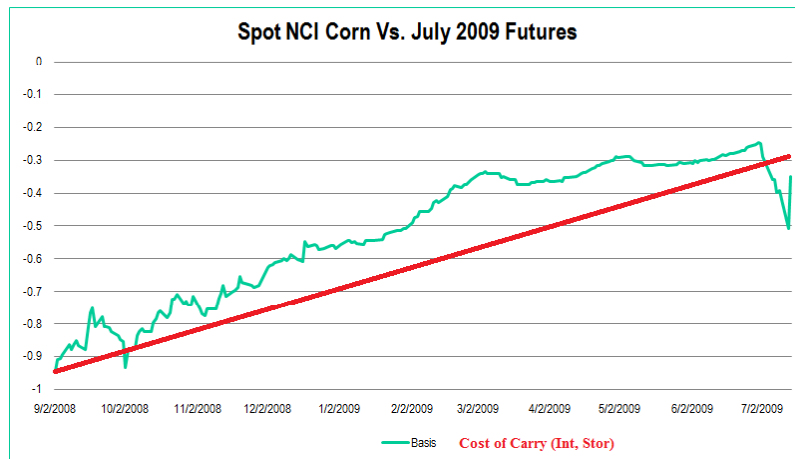
Brugler Marketing & Management LLC.
15711 Howard Street | Omaha, NE 68118 | Phone & Fax: 402-697-3623 | www.bruglermktg.com

17

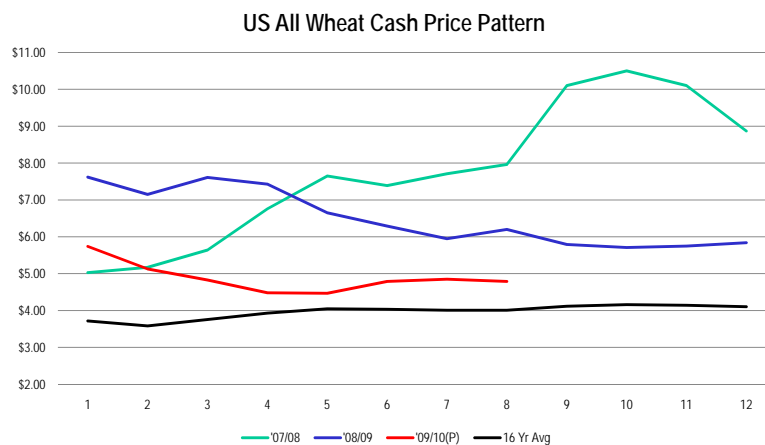
Corn Price Opportunities : 28-Year Average w/Drag (Interest & Storage For Grain Sold After Harvest)



Post Harvest Storage Equation



US Cash Wheat Price Pattern



Brugler Marketing & Management LLC.
15711 Howard Street | Omaha, NE 68118 | Phone & Fax: 402-697-3623 | www.bruglermktg.com

20

For An Ag Producer

- Your price risk is substantial
 - Easily \$250/ac for corn, \$150 for beans
- Your price risk is one directional
 - If you have inventory and it goes down
 - If you need inventory and it goes up
- Your risk is multi-dimensional
 - Futures, basis, LDP, production
- Your price risk is controllable, but not preventable
 - More than 30 tools available

Brugler Marketing & Management LLC.
15711 Howard Street | Omaha, NE 68118 | Phone & Fax: 402-697-3623 | www.bruglermktg.com

21

Marketing Is A 3 Dimensional Game

Playing with Price, Basis and Time

Time = money via foregone interest, storage costs

On Farm storage costs include shrinkage from dryness, mold, handling damage, handling loss, bin rental, etc.

Commercial storage costs are mostly depreciation, labor and time value of money

Best Marketing Plan Identifies

- A. What Do You Need to Stay In Business?
- B. What Can You Get?
- C. When Can You Get It?
- D. What Do You Do If you Don't Get it?
- E. How Do You Know When Your Assumptions about A, B, and C are Wrong?
- F. What Do You Do Then?

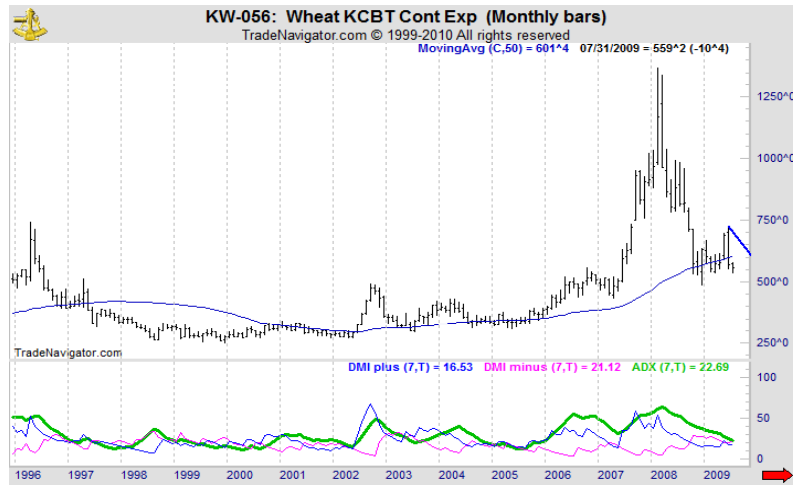
Core Principles For A Marketing Plan

- 1) Cover Your Costs
- 2) Identify Cash Flow Timing Needs
- 3) Spread Sales, Respect the Black Swan

Beware The Black Swan!



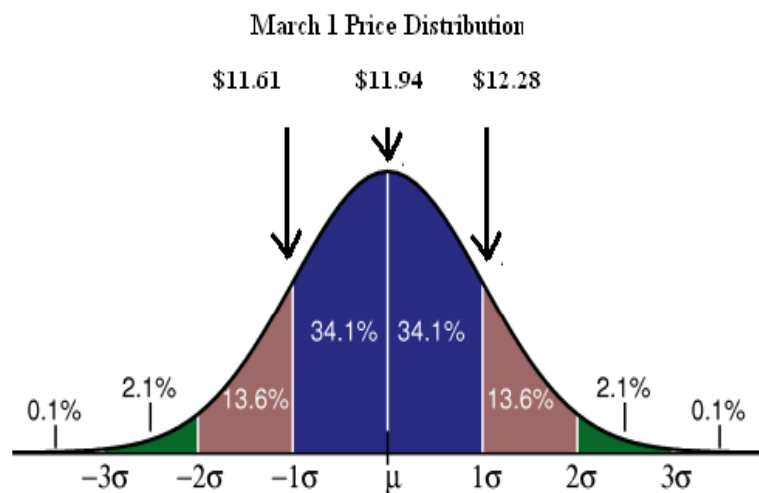
A Real Life Black Swan



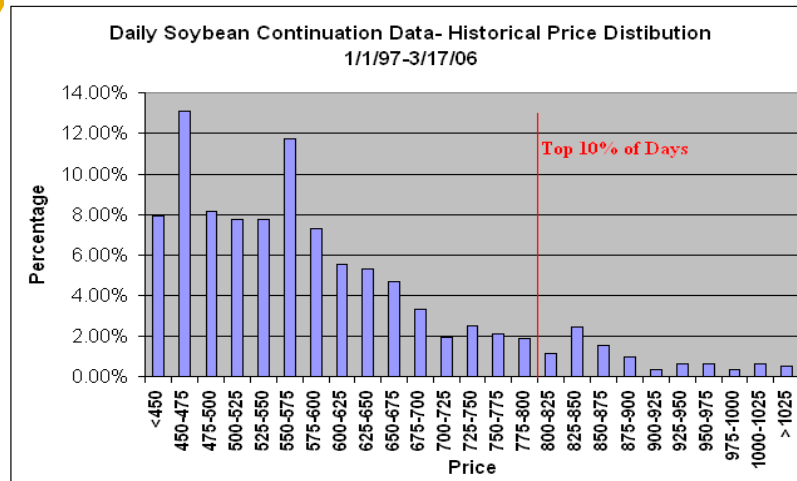
Brugler Marketing & Management LLC.
 15711 Howard Street | Omaha, NE 68118 | Phone & Fax: 402-697-3623 | www.bruglermktg.com

26

“Normal” Probability Curve



Beware of the “Fat” Tail



Brugler Marketing & Management LLC.
15711 Howard Street | Omaha, NE 68118 | Phone & Fax: 402-697-3623 | www.bruglermktg.com

28

Core Principles For A Marketing Plan

- 1) Cover Your Costs
- 2) Identify Cash Flow Timing Needs
- 3) Spread Sales, Respect the Black Swan
- 4) Avoid catastrophic failure – Murphy's Law

Brugler Marketing & Management LLC.
15711 Howard Street | Omaha, NE 68118 | Phone & Fax: 402-697-3623 | www.bruglermktg.com

29

Murphy's Law & Corollaries

If anything can go wrong, it will.

If there is a possibility of several things going wrong, the one that will cause the most damage will be the one to go wrong.

Murphy's Law and other reasons why things go wrong

---Arthur Bloch

Murphy's Law & Corollaries

If anything can go wrong, it will.

If there is a possibility of several things going wrong, the one that will cause the most damage will be the one to go wrong.

If you perceive four possible ways a plan can go wrong, then a fifth way will promptly develop.

Every solution breeds new problems

Murphy's Law and other reasons why things go wrong

---Arthur Bloch

How Correct Are You Going to Be?



Brugler Marketing & Management LLC.

15711 Howard Street | Omaha, NE 68118 | Phone & Fax: 402-697-3623 | www.bruglermktg.com

Past Performance is not necessarily indicative of future results

32

Core Principles For A Marketing Plan

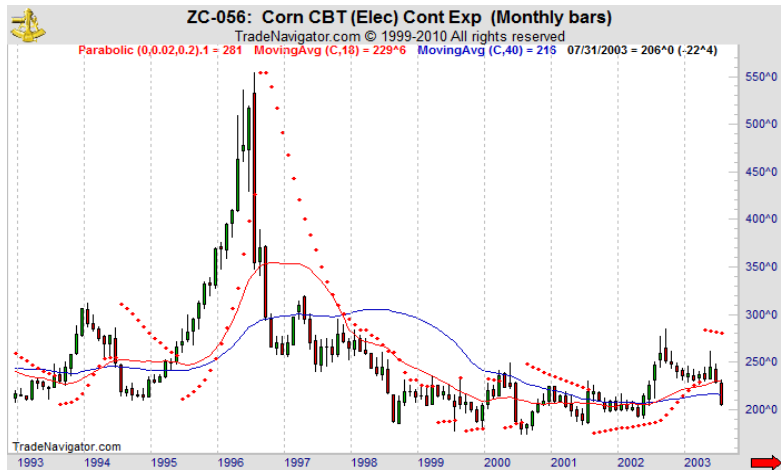
- 1) Cover Your Costs
- 2) Identify Cash Flow Timing Needs
- 3) Spread Sales, Respect the Black Swan
- 4) Avoid catastrophic failure – Murphy's Law
 - 1) Crop insurance, Options, etc.
- 5) See the Big Picture –Slow Sales or Fast Sales Year?

Brugler Marketing & Management LLC.

15711 Howard Street | Omaha, NE 68118 | Phone & Fax: 402-697-3623 | www.bruglermktg.com

33

The Short Crop, Long Tail Pattern



Brugler Marketing & Management LLC.
15711 Howard Street | Omaha, NE 68118 | Phone & Fax: 402-697-3623 | www.buglermktg.com

34

Core Principles For A Marketing Plan

- 1) Cover Your Costs
- 2) Identify Cash Flow Timing Needs
- 3) Spread Sales, Respect the Black Swan
- 4) Avoid catastrophic failure – Murphy's Law
 - 1) Crop insurance, Options, etc.
- 5) See the Big Picture –Slow Sales or Fast Sales Year?
- 6) Set Preliminary Price Range & Strategy
- 7) Set Modification Rules

Brugler Marketing & Management LLC.
15711 Howard Street | Omaha, NE 68118 | Phone & Fax: 402-697-3623 | www.buglermktg.com

35

Try to Avoid Crisis Management

Rudin's Law, "In crises that force people to choose among alternative courses of action, most people will choose the worst one possible."

Some Historical Marketing Plan Strategies

Breakeven Plus & Crop Revenue Insurance
Steady Seller –Equal Increment Each Month
Scale Up
Inverted Pyramid
Floors/No Ceilings
Price & Probability Forecasts Targets
Three Buckets (over two years)
Combined Price, Time, Percentage

Crop Revenue Insurance is Effectively a Put Option Against APH or County Avg. Yield

The strike price is the guarantee
 The put premium is the per acre cost/yield
 Expiration is at harvest

Allows you to be more aggressive on cash forward pricing
 by ensuring the bushels or the money will be there.

The Farm Income Safety Net

Scope of Risk Protection	Farm Level	Area Level	National Level
Price		<div>Hedging</div> <div>ML/LDP</div>	<div>PCCP</div>
Revenue	<div>RA/IP</div> <div>AGR</div> <div>DP</div>	<div>GRIP</div> <div>ACRE</div> <div>SURE</div>	
Production	<div>RA-HPO/CRC</div> <div>CAT</div> <div>APH</div>	<div>GRP</div> <div>PRF</div>	

Actual US Cash Average Corn Prices

Corn for Grain Month	2007/08		2008/09	
	MKT %	MAP (\$)	MKT %	MAP (\$)
Sep	7.90	3.28	4.50	5.01
Oct	13.70	3.29	9.40	4.37
Nov	11.10	3.44	11.90	4.26
Dec	8.70	3.77	8.90	4.11
Jan	16.50	3.98	12.80	4.36
Feb	7.30	4.54	6.40	3.87
Mar	7.50	4.70	9.60	3.85
Apr	6.20	5.14	6.70	3.85
May	4.60	5.27	9.10	3.96
Jun	6.10	5.47	7.40	4.01
Jul	6.40	5.25	6.90	3.60
Aug	4.00	5.26	6.40	3.33

Steady Seller - Corn

For 2006/07, received \$3.13

For 2007/08, received \$4.45

For 2008/09, received \$4.05

Scale Up Selling

Highest Price It Could Possibly Go

20%
20%
20%
20%
20%

Production Cost & Ret. to Mgmt

Scale Up 2007/08 Optimal =\$4.75 Avg

Highest Price It Could Possibly Go

20%	\$5.47
20%	\$5.05
20%	\$4.73
20%	\$4.41
20%	\$4.09

\$3.77

Production Cost & Ret. to Mgmt

Scale Up 2007/08 – Out Too Soon =\$4.07 Average

Highest Price It Could Possibly Go

20%	\$4.47
20%	\$4.27
20%	\$4.07
20%	\$3.87
20%	\$3.67

\$3.47

Production Cost & Ret. to Mgmt

Brugler Marketing & Management LLC.
15711 Howard Street | Omaha, NE 68118 | Phone & Fax: 402-697-3623 | www.bruglermktg.com

44

2008/09

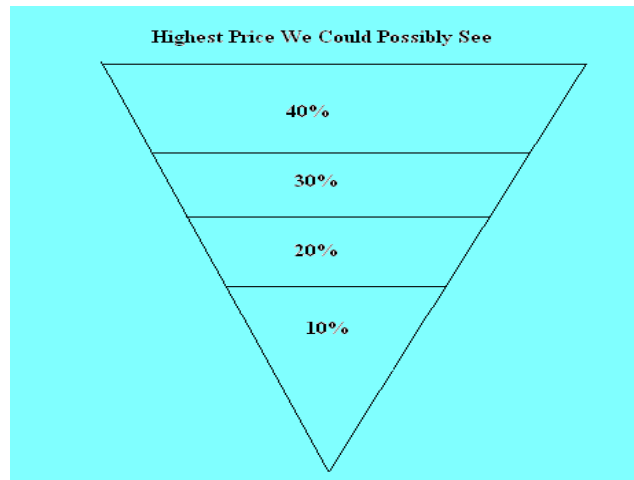
You Never Sold Any Thing!

Most accumulator contracts act like a scale up, but have a knockout to prevent the total meltdown.

Brugler Marketing & Management LLC.
15711 Howard Street | Omaha, NE 68118 | Phone & Fax: 402-697-3623 | www.bruglermktg.com

45

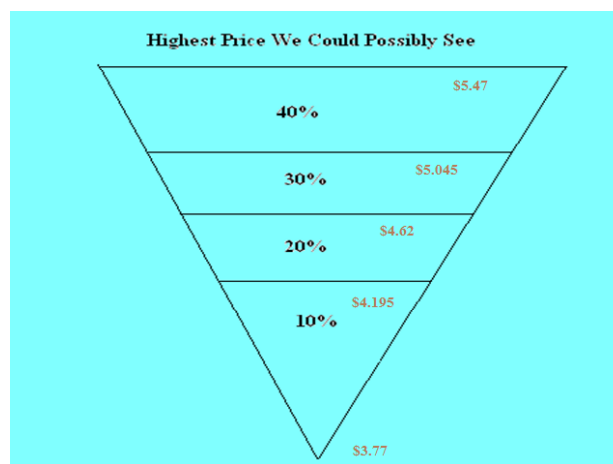
Inverted Pyramid



Brugler Marketing & Management LLC.
15711 Howard Street | Omaha, NE 68118 | Phone & Fax: 402-697-3623 | www.bruglermktg.com

46

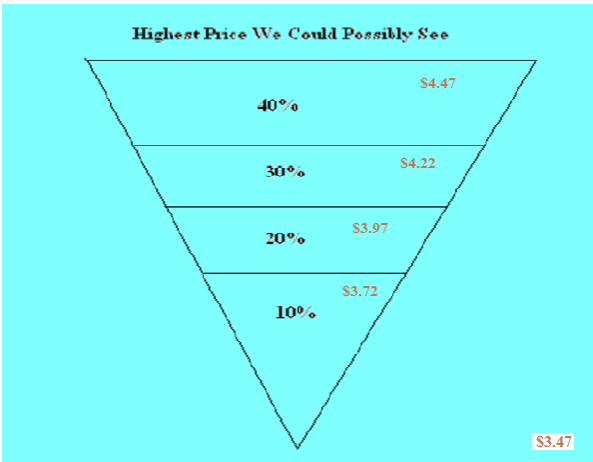
2007/08 Optimal Inverted = \$5.045



Brugler Marketing & Management LLC.
15711 Howard Street | Omaha, NE 68118 | Phone & Fax: 402-697-3623 | www.bruglermktg.com

47

Target Too Low, Got \$4.22 Anyway



2008/09

You Never Sold Any Thing!

Quotable:

"It's impossible to make anything foolproof, because fools are so ingenious."

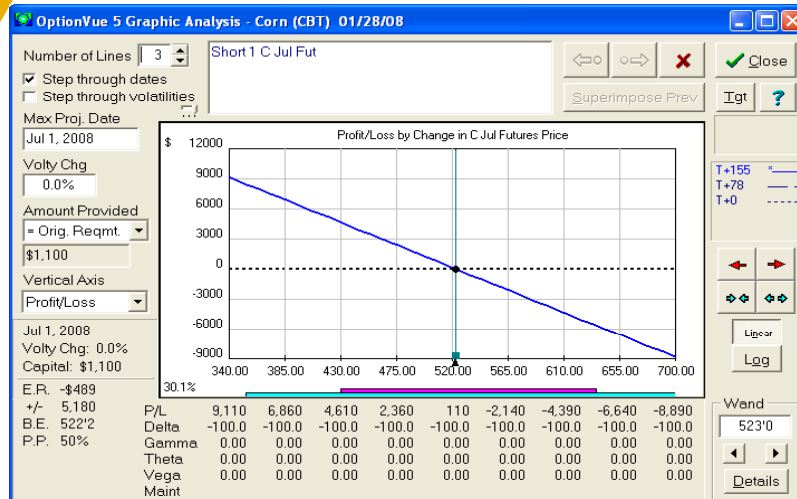


Floors but No Ceilings

Buying bear put spreads and holding cash grain either naked or with basis locked.

Usually used when price chart action is compelling, but the ultimate price level is unclear (no obvious chart resistance).

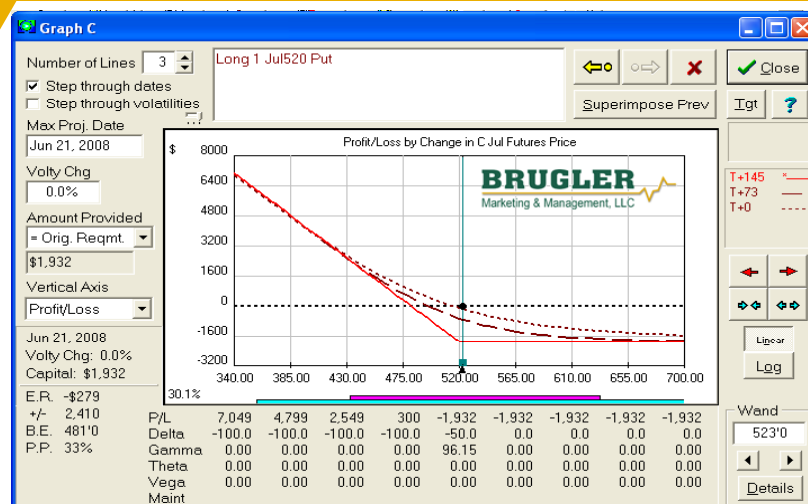
Simple Hedge Example



Brugler Marketing & Management LLC.
15711 Howard Street | Omaha, NE 68118 | Phone & Fax: 402-697-3623 | www.bruglermktg.com

52

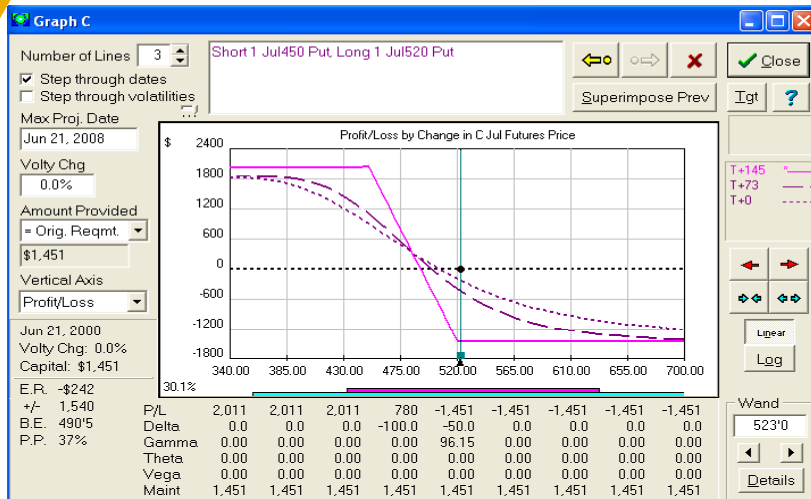
Classic Put Floor



Brugler Marketing & Management LLC.
15711 Howard Street | Omaha, NE 68118 | Phone & Fax: 402-697-3623 | www.bruglermktg.com

53

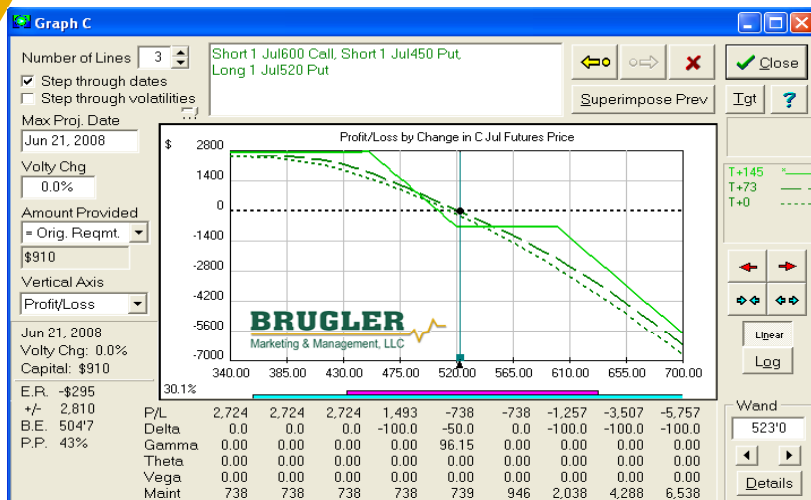
A Cheaper Variant W/ Some Risk



Brugler Marketing & Management LLC.
 15711 Howard Street | Omaha, NE 68118 | Phone & Fax: 402-697-3623 | www.buglermktg.com

54

A Hedge With 3-way Options Spread



Brugler Marketing & Management LLC.
 15711 Howard Street | Omaha, NE 68118 | Phone & Fax: 402-697-3623 | www.buglermktg.com

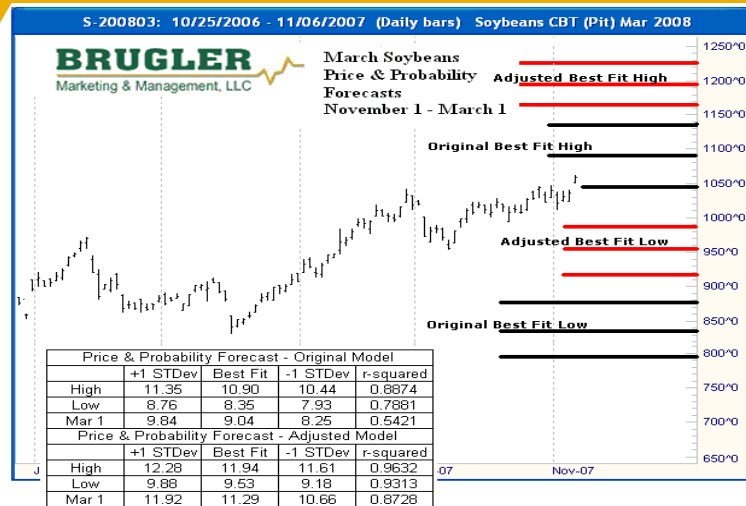
55

Price & Probability© Target System

How far do prices usually go in either direction during my pricing window?

How far do they go in a really good (or really bad) year?

March Soybean Price & Probability



Three Buckets Strategy



The First Sales Bucket



Make Me Do It!

These are the first sales make for the crop year, or marketing period in livestock.

They are the “safest” bushels in terms of production risk and often protected by crop insurance.

These early sales, up to 24 months ahead of harvest, are being done because the price is extremely profitable and there is some risk of it going down.

If basis is attractive they will be forward contract sales. If FC is not available, they will be futures hedges or hedge-to-arrive (HTA) agreements

This bucket is typically 20-40% of total estimated production, skewed in % by long term price trends.

The Second Sales Bucket



Comfort Sales

The second bucket of sales is done closer to completion of production.

It is typically after a crop is growing and doing well, but prior to harvest because the objective is to have a more attractive basis than at harvest.

Comfort sales can extend total pre-harvest commitments to 60-80% of total estimated production, again in the context of the multi-year price pattern.

In most cases these sales are also covered by revenue insurance “puts” or at least by yield insurance.

The Third Sales Bucket



Merchandising

The third bucket is for grain that will be stored on farm at harvest.

This can be for various non-price reasons including transportation logistics, drying, and the ability to blend qualities.

The use of this bucket also recognizes that price trends can carry over from year to year, and that cash sales are essentially one and done.

The objective for grain in this bucket is to capture price gains that are in excess of carrying costs for interest, depreciation and shrink, while also realizing the logistics contribution.

These sales are typically in Nov-Apr or May-Aug.

Pre-Harvest Corn Sample Plan



Grain Marketing
Center for Farm Financial Management
University of Minnesota
www.cffm.umn.edu/publications/grain.aspx

Corn: 2009 Pre-Harvest Marketing Plan by Ed Usset

Expected 2009 production: 90,000 bushels (600 acres @ 150 bushels per)

Objective: Buy crop insurance to protect my production risk, and have 75% of my anticipated corn crop (based on APH) priced by early June.

- Price 10,000 bushels at **\$3.85** cash price (**\$4.25** Dec. futures) using forward contract/futures hedge/futures fixed contract.
 - Price 10,000 bushels at \$4.10c/\$4.50f, or by March 11, pricing tool to be determined ("tbd").
 - Price 10,000 bushels at \$4.35c/\$4.75f, or by April 9, pricing tool tbd.
 - Price 5,000 bushels at \$4.60c/\$5.00f, or by April 23, pricing tool tbd.
 - Price 10,000 bushels at \$4.85c/\$5.25f, or by May 9, pricing tool tbd.
 - Price 10,000 bushels at \$5.10c/\$5.50f, or by May 23, pricing tool tbd.
 - Price the last 10,000 bushels at \$5.35c/\$5.75f, or by June 7, pricing tool tbd.
- Plan starts on January 1, 2009. Earlier sales will be made at a 30 cent premium to price targets noted above and will be limited to 35,000 bushels.
Ignore decision dates and make no sale if prices are lower than **\$3.85** local cash price/**\$4.25** December futures.
Exit all options positions by mid-September, 2009.

Copyright © 2008 Center for Farm Financial Management, University of Minnesota. All rights reserved.

Page 1

PreHarvest Sample Plan - Soybeans



Grain Marketing
Center for Farm Financial Management
University of Minnesota
www.cffm.umn.edu/publications/grain.aspx

Soybeans: 2009 Pre-Harvest Marketing Plan by Ed Usset

Expected 2009 production: 24,000 bushels (530 acres @ 45 bushels per)

Objective: Buy crop insurance to protect my production risk, and have 75% of my anticipated soybean crop priced by early June.

- Price 2,500 bushels at **\$8.00** cash price (**\$8.75** Nov futures) using some form of fixed-price contract: forward contract, HTA, sell futures.
- Price 2,500 bushels at \$8.50c/\$9.25f, or by March 11, pricing tool to be determined ("tbd").
- Price 2,500 bushels at \$9.00c/\$9.75f, or by April 9, pricing tool tbd.
- Price 2,500 bushels at \$9.50c/\$10.25f, or by April 23, pricing tool tbd.
- Price 2,500 bushels at \$10.00c/\$10.75f, or by May 9, pricing tool tbd.
- Price 2,500 bushels at \$10.50c/\$11.25f, or by May 23, pricing tool tbd.
- Price my last 2,500 bushels at \$11.00c/\$11.75f, or by June 7, pricing tool tbd.

Plan starts on January 1, 2009. Earlier sales will be made at a 50 cent premium to price targets noted above and will be limited to 10,000 bushels.
Ignore decision dates and make no sale if prices are lower than **\$8.00** local cash price/**\$8.75** November futures.
Exit all options positions by mid-September, 2009.

Copyright © 2008 Center for Farm Financial Management, University of Minnesota. All rights reserved.

Page 1

Sample Stored Commodity Plan

Post Harvest Marketing Plan

Objective: Seek strategies that balance risk and reward in the current market environment. Hold no unpriced grain beyond July 1.

Sell _____ bushels at harvest (not enough storage)

Sell _____ more bushels at harvest

Hold _____ bushels of unpriced grain in storage for later sale

Exit plan:

Sell _____ bushels when the cash price reaches \$ _____ or by _____ (date)

Sell _____ bushels when the cash price reaches \$ _____ or by _____

Sell _____ bushels when the cash price reaches \$ _____ or by _____

Sell _____ bushels when the cash price reaches \$ _____ or by _____

Bushels not priced by _____ will be sold by _____

Sell if the price falls below \$ _____

Sell the carry on _____ bushels with a _____
(forward contract / HTA / sell futures)

Exit plan:

Lock the basis on _____ bushels _____ cents under the _____ contract

... or by _____ at the current basis

Copyright © 2006 Center for Farm Financial Management, University of Minnesota. All rights reserved.

Sample Pre-Harvest Template

Pre-Harvest Marketing Plan

Objective: Buy crop insurance to protect my production risk, and have _____% of my anticipated crop (based on APH yield) priced by _____.

Price _____ bushels at \$ _____ cash price (\$ _____ futures) using _____
(name your pricing tool of choice, i.e. forward contract, put option, etc.)

Price _____ bus. at \$ _____ c/ _____ f, or by _____, using _____

Price _____ bus. at \$ _____ c/ _____ f, or by _____, using _____

Price _____ bus. at \$ _____ c/ _____ f, or by _____, using _____

Price _____ bus. at \$ _____ c/ _____ f, or by _____, using _____

Price _____ bus. at \$ _____ c/ _____ f, or by _____, using _____

Price _____ bus. at \$ _____ c/ _____ f, or by _____, using _____

Price _____ bus. at \$ _____ c/ _____ f, or by _____, using _____

Plan starts on _____. Earlier sales will be made at a _____ cent premium to price targets noted above. I will not price more than _____% of my crop more than 1 year prior to harvest.

Ignore decision dates and make no sale if prices are lower than \$ _____ local cash price/\$ _____ futures.

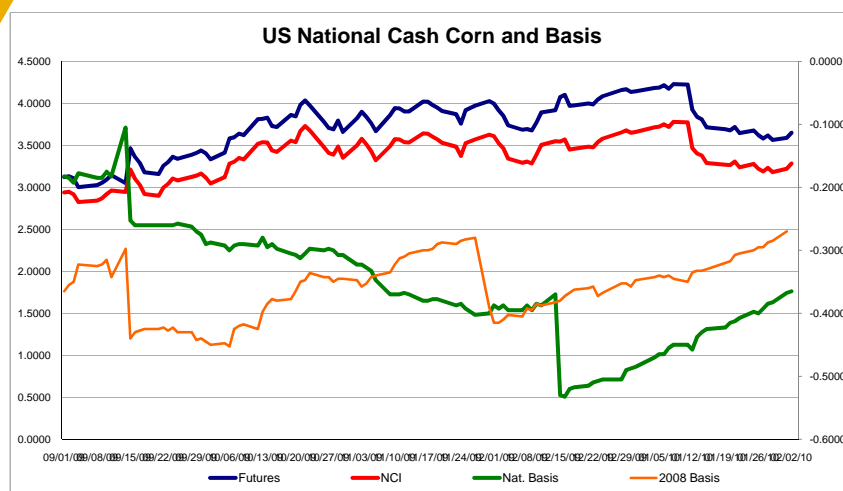
Copyright © 2006 Center for Farm Financial Management, University of Minnesota. All rights reserved.

Don't Forget Basis Risk

Brugler Marketing & Management LLC.
15711 Howard Street | Omaha, NE 68118 | Phone & Fax: 402-697-3623 | www.bruglermktg.com

66

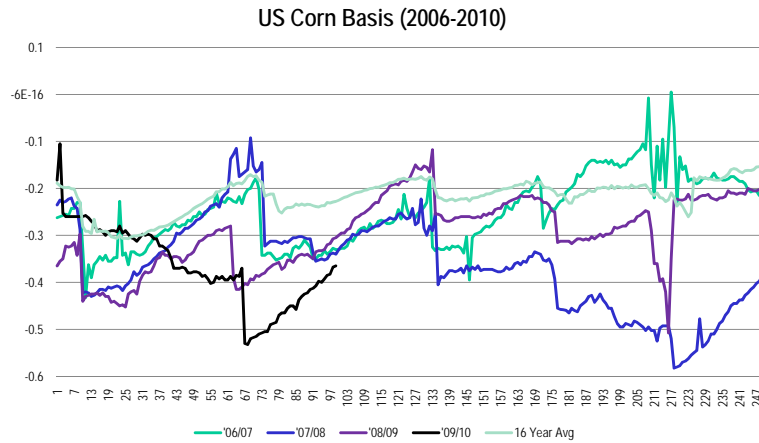
Corn Basis



Brugler Marketing & Management LLC.
15711 Howard Street | Omaha, NE 68118 | Phone & Fax: 402-697-3623 | www.bruglermktg.com

67

US National Corn Basis



Brugler Marketing & Management LLC.
15711 Howard Street | Omaha, NE 68118 | Phone & Fax: 402-697-3623 | www.bruglermktg.com

68

Repeating Elements of Your Plan

- Cost of Production
- Returns to Capital and Management, ROI
- Price Expectations
- Primary Methodology
- Rules implicit to that methodology
- Rules for Adjusting Expectations
 - Boost Rule
 - Trap Rule

Brugler Marketing & Management LLC.
15711 Howard Street | Omaha, NE 68118 | Phone & Fax: 402-697-3623 | www.bruglermktg.com

69

Fagin's Rule

Hindsight is an exact science

Be Aware of Your Psychology

Panic
Fear
Greed

The Last Law, The Meta Law

If several things that could have gone wrong with your plan have not gone wrong, it would have been ultimately beneficial for them to have gone wrong!

BRUGLER

Marketing & Management, LLC

Services Available:

1. *Ag Market Professional* –daily analysis and advice on futures, options, basis, CCP, LDP's and risk management strategy for ag commodities
2. *Special Research Reports* –5-6 studies per week analyzing potential price ranges, unique market situations, technical trends and fair value for commodities via Alan Brugler's time tested & proprietary methods.
3. Marketing Training –Advanced Technical Analysis, Advanced Options Use
4. Speaker Resource on Agricultural Outlook, Technical Analysis, Advanced Options
5. Freelance agricultural writing and research projects

Phone: 402-697-3623

Fax: 402-697-3623

Cell: 402-415-3871

E-mail: alanb@bruglermktg.com or agmktpro@aol.com

Web Site: www.buglermktg.com

Brugler Marketing & Management LLC.
15711 Howard Street | Omaha, NE 68118 | Phone & Fax: 402-697-3623 | www.buglermktg.com

2

Technical Tools

■ Oscillators and Indicators



"If it's gonna go up, buy it. If it ain't,
don't!"

Will Rogers

NFA Disclaimers

- *There is a substantial risk of loss in futures and options trading. Such losses may exceed your initial investment.*
- *Past performance is not necessarily an indicator of future results.*
- This is particularly relevant as we talk about tools. Successful tools quit working sometimes because the victims quit trading!

Technical Indicators

- There are thousands of buy/sell indicators and technical trading systems
 - Oscillators
 - Cycle tools
 - Momentum, Entropy, Volumetrics, etc.
 - Advanced GET, ASCTrend, etc.

Technical Indicators

- There are thousands of buy/sell indicators and technical trading systems
 - Oscillators
 - Cycle tools
 - Momentum, Entropy, Volumetrics, etc.
 - Advanced GET, ASCTrend, etc.
- Why do you care?

Indicators vs. Charts

- Sometimes things are changing mathematically within the market, and these changes are not yet visible on the price chart. Momentum and extremes in sentiment are particularly hard to see.
- Indicators create a visual representation of those changes and give you buy and sell signals.

Technical Indicators

- There are thousands of buy/sell indicators and technical trading systems
 - Oscillators
 - Cycle tools
 - Momentum, Entropy, Volumetrics, etc.
 - Advanced GET, ASCTrend, etc.
- How Do You Decide Which to Use? Or whether they even work?

Performance Testing

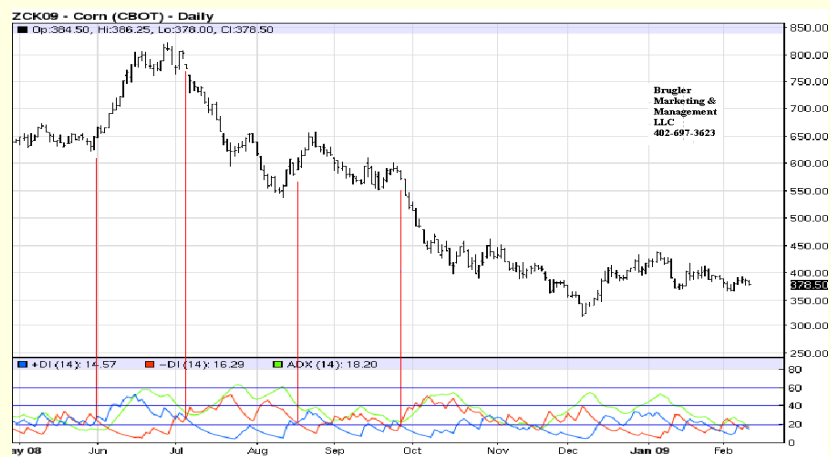
- The correct answer to “Do they work?” is rigorous back testing on randomly selected data sets. Some charting software packages such as Tradestation or Trade Navigator Platinum are set up to do these tests.
- The indicators we will look at have all been proven to work for somebody!
- Jim Paul – Many tools will work for entry. Discipline on the exits is the key to long term profitability.

Past Performance is not necessarily indicative of future results

Tool Selection and Filtering

- Within these tools, how do you decide which to pay attention to?
- Brugler's Selection Rule:
 - "Use Trend Following Systems in Trending Markets and Oscillators in non-trending markets."

A Key Question: Is the Market Trending?



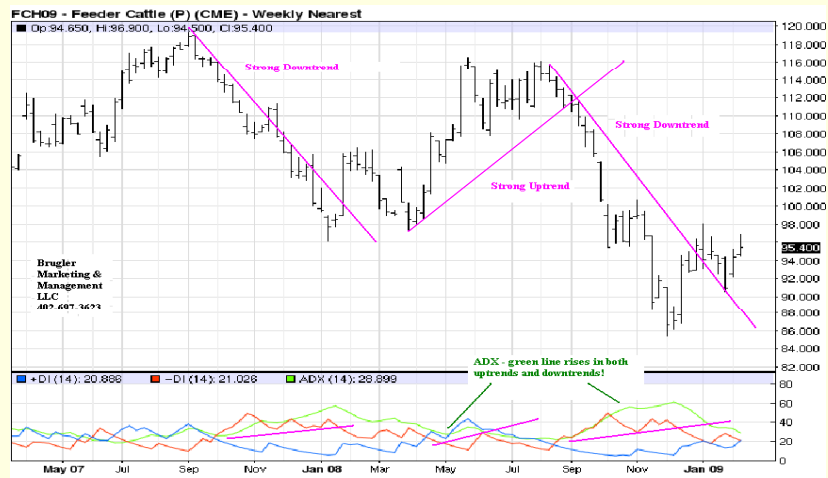
Trend Identification

- What are some indications that the market is trending?
- A)
- B)
- C)
- D)

ADX Identifies Trends in the Data

- ADX Stands for Average Directional Index.
- It was invented by Welles Wilder.
- DMI+ and DMI- are sub-components for computing the ADX
- DMI+ represents positive or upward momentum, while DMI- represents negative or downward momentum
- ADX measures the trend component in the data
- ADX helps filter out statistical noise which looks like a significant price change but isn't

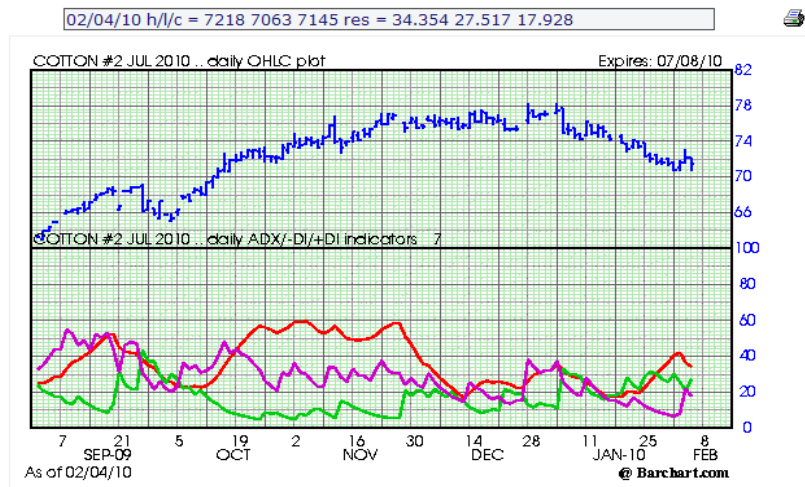
DMI/ADX Gives Hints of Direction



ADX Hints/Alan's Rules

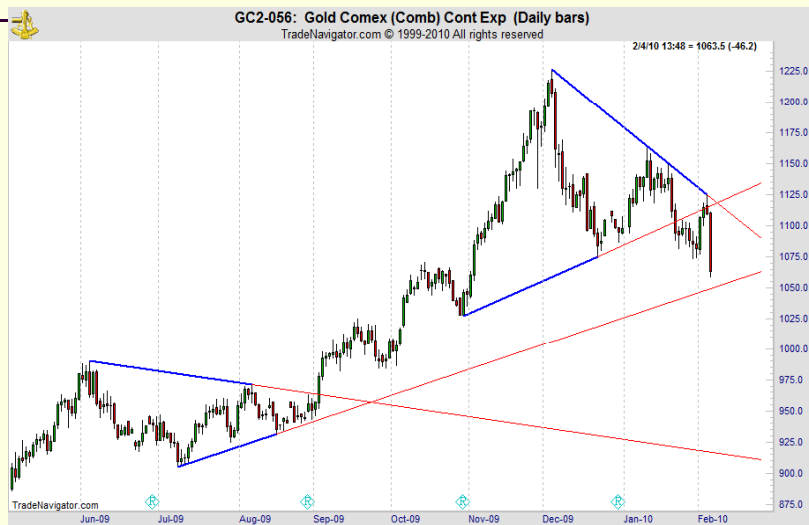
- ADX should be above 20, or rising, to signal a trending move.
- Crossovers with DMI+ or DMI- are SOMETIMES significant
- We emphasize taking cyclical indicator signals on high ADX, particularly above 40.
- Use Oscillators or Intraday signals on ADX below 20.
- Some systems require a change in ADX length for optimum performance. A bar length of 14 is common, up to 20 can work.
- Some shorten it to 7 or 8 bars. That yields a more responsive indicator, but one less indicative of long term trends.

ADX and DMI

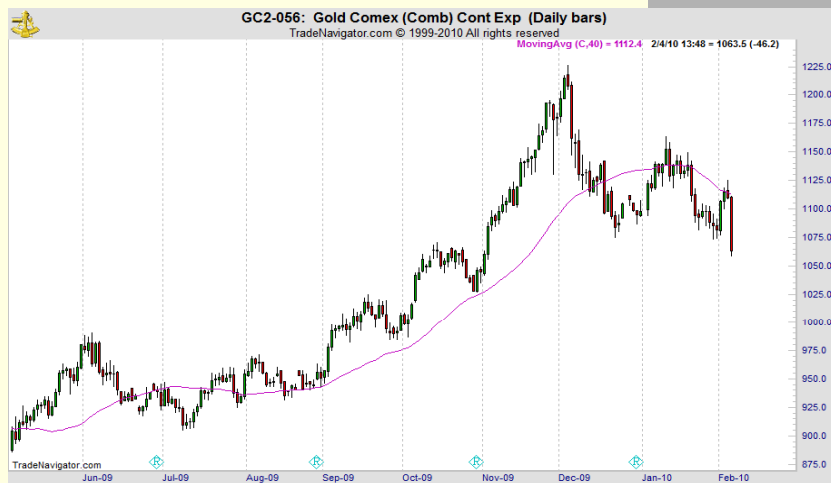


Past Performance is not necessarily indicative of future results

Trendlines Define Trends, Too!



Moving Averages Also Define Trends



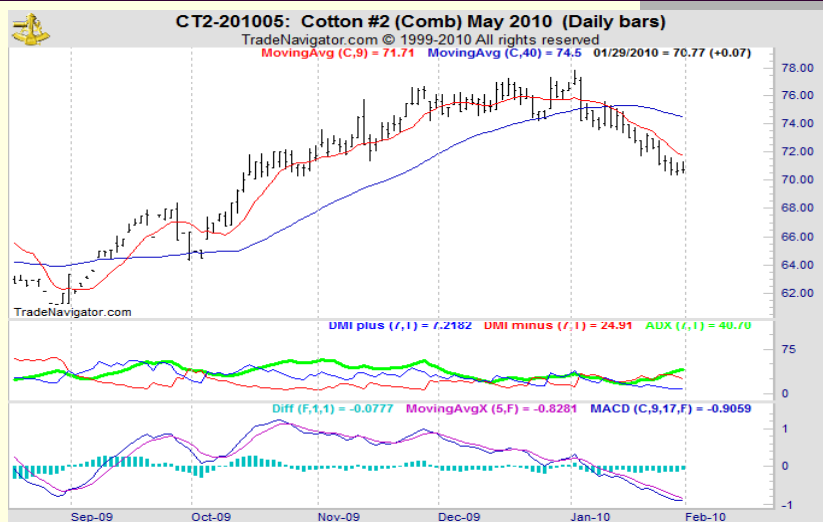
Use The Correct Tools

- Trend following tools in trending markets
- Oscillators and short term tools in sideways or consolidating markets

Some Popular Trending Market Tools

- MACD (Moving Average Convergence/Divergence)
- Parabolic
- Brugler Cycle Indicator (BCI)
- Long term moving averages (40,50 day)
- Trendlines

Trending Market Tools - MACD



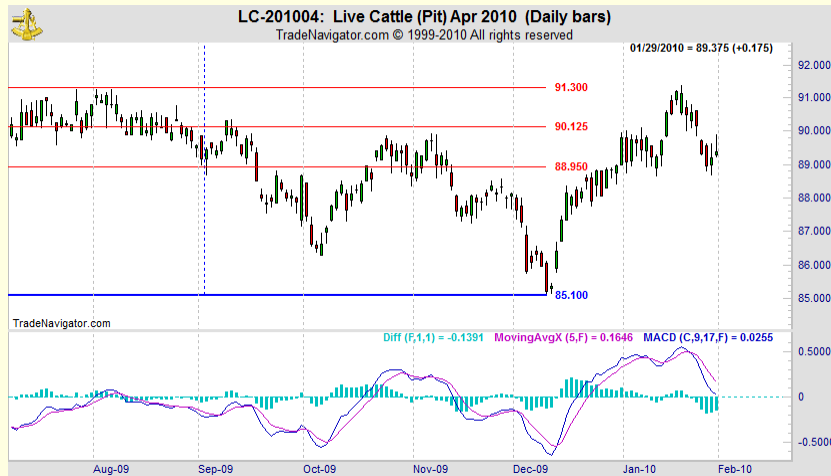
MACD

- The MACD line consists of two sub-component moving averages, aka the short average and the long average.
- The Signal Line is a moving average of the MACD line.
- If we say we are using a 5-9-17 MACD, that means a 5 bar moving average of an MACD line that uses 9 and 17 day averages in its calculations.

Alan's MACD Rules

- Trend changes occur when the MACD line crosses the signal line.
- The best quality signals tend to occur well away from the center "zero" line.
- Conservative traders wait for the crossovers, aggressive traders flip as soon as momentum slows (shorter bars on the histogram).
- Common settings are 9-12-26 and 5-9-17
 - Our tests show 5-9-17 works better for corn.
 - Momentum works better on weekly wheat charts.
- *Past performance is not necessarily an indicator of future results!*

Another MACD Example



Corn MACD Example

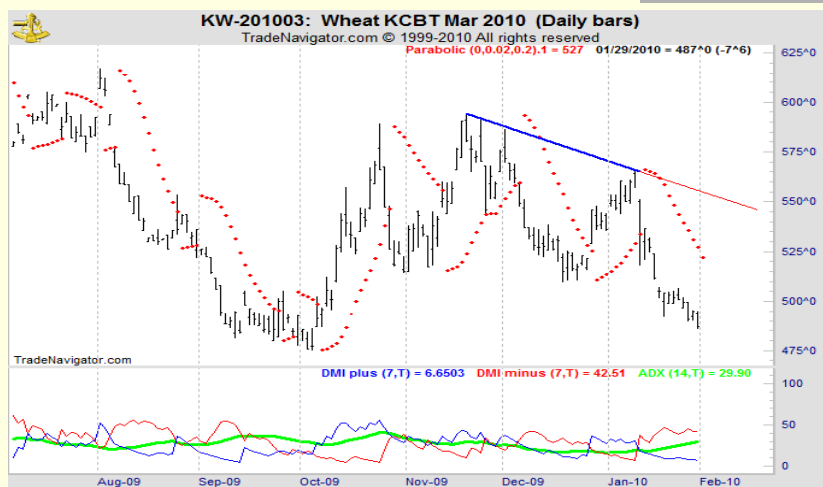


December Corn 2010

Wilder's Parabolic

- The Parabolic is a stop and reverse system.
- It is always in the market, either long or short.
- The SAR point (usually shown as a dot) is the price at which you are to close short positions and go long, or vice versa.

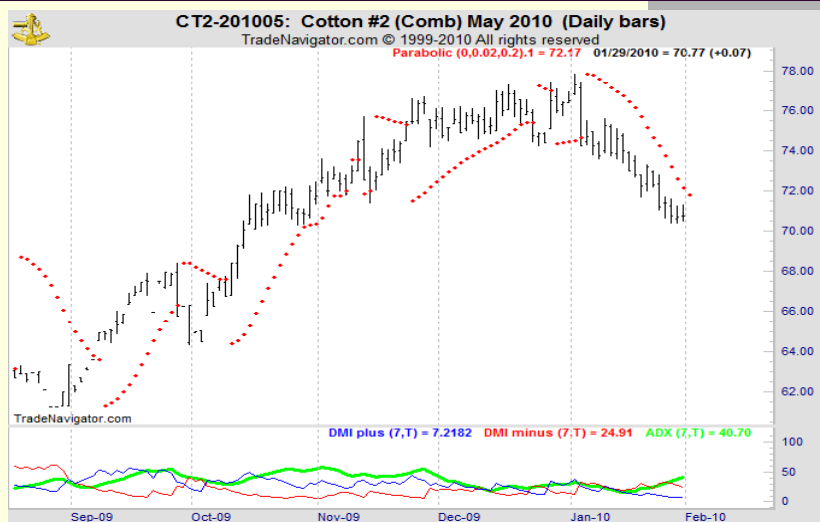
Parabolic Example—Feeder Cattle



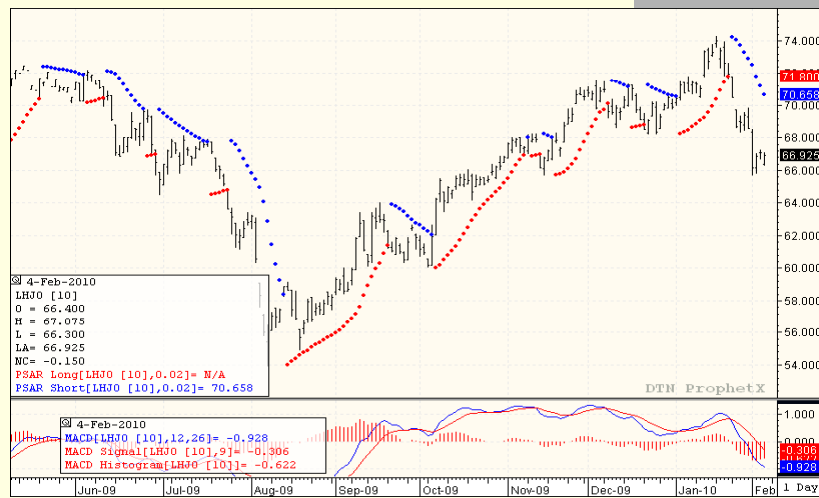
Parabolic Rules

- Stops are automatically placed at the last extreme high or low.
- The default acceleration factor is .02.
- The indicator is based on the principle that the longer you are in a move, the more likely that it is over.
- Very easy to get chopped up in a sideways market. Ignore it if no solid trend.
- Can be excellent on some weekly charts.

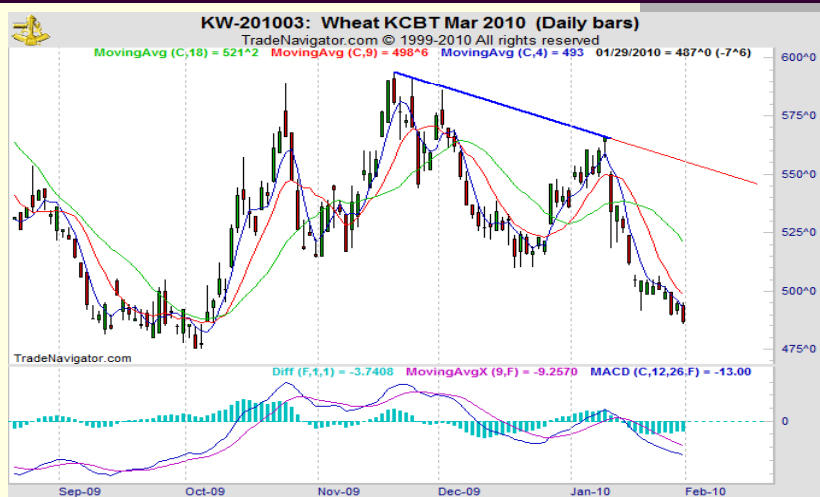
Second Parabolic Example



Parabolic Buy and Sell Signals



Moving Averages



Single Moving Average Example



Don't Forget to Act!

- "Even if you're on the right track, you'll get run over if you just sit there!"
 - Will Rogers (1879-1935)



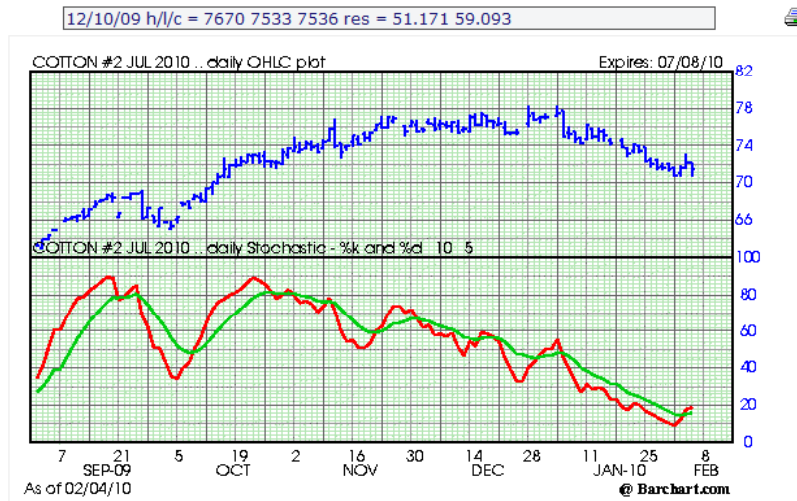
Tools For Non-Trending Markets

- Commodity markets actually spend only about 20% of their time in trending moves. The rest of the trading activity is in a non-trending or trading range environment.
- Trend following tools CAN be used in non-trending markets, and oscillators CAN be used in trending markets. However, performance will not be optimal.

Some Technical Tools Better Suited to Non-Trending Markets

- Stochastics
- Wilder's Relative Strength Index (RSI)
- Commodity Channel Index (CCI)
- Intraday methods
- Oscillators attempt to measure imbalance in the market, conditions also known as "overbought" and "oversold".
- Oscillators tend to become "pegged" in trending markets, have to use them differently

Stochastics



Alan's Cycle Optimization Method

- To make effective use of oscillators like RSI and Stochastic, you must adjust their lengths to the underlying trading cycles.
- You want them to reach extreme readings at market turns.
- Don't over optimize to get the result you want!

Alan's Cycle Optimization Method

- Cycle counts are low to low.
- Check at least 3 complete swings, then average the number of bars from low to low.
- Set the RSI or Stochastic length to that average, and then see if it turns at the right places.
- George Lane says "Stochastics are not predictive. If it signals before the turn, you don't have it set up right".

More Stochastics Hints

- For a faster acting indicator in a market with very long cycle length, set the bar length to an even fraction of the cycle length.
- That means 2 15's or 3 10's in a 30 bar cycle, or 3 15's in a 45, etc.
- Watch for divergences
- Watch for right knee and left knee crosses
- Values in neutral mean NOTHING

13 Day Slow Stochastics on KC July 2010 Wheat



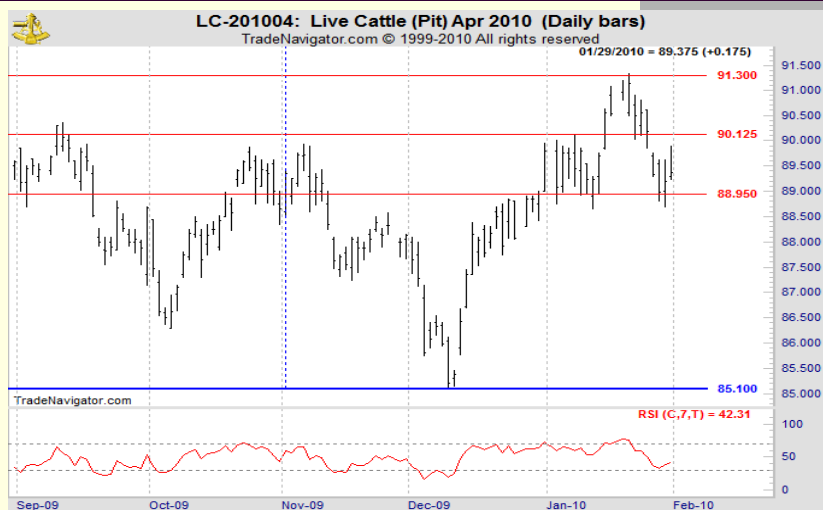
Stochastics -Divergence



Relative Strength Index (RSI)

- Another Welles Wilder indicator in use since 1977.
- Range of 0-100.
- Simple Formula
- $RSI = 100 - \frac{100}{1 + (\text{up average} / \text{down average})}$

Relative Strength Index (RSI)



Relative Strength Index (RSI)



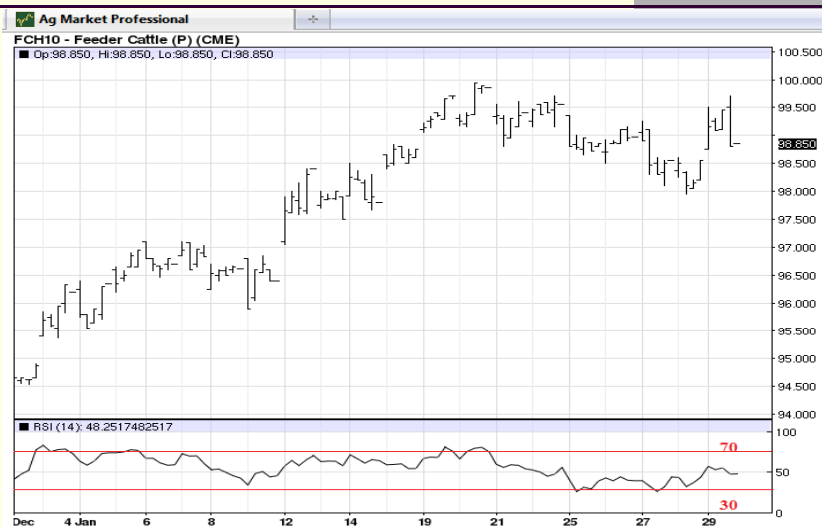
RSI Rules

- Use cycle optimization to set the proper length.
- Defaults are 9 and 14 bar.
- The defaults work fairly well on weekly and monthly charts.
- RSI becomes pegged in trending markets.
- Watch for divergence.
- Watch for the “double hump”

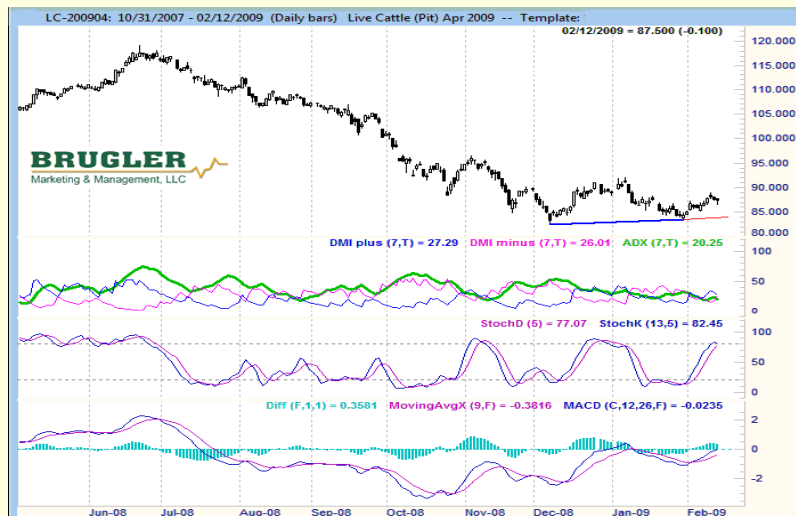
RSI Divergence Example



60 Minute Chart with RSI



Trending vs. Non-Trending



Software Used in Examples

- *Software from the following sources was used for examples in this module:*
- Genesis Trade Navigator Gold
- DTN ProphetX
- BarCharts.Com
- Prophet.net
- Futuresource.com
- Agmarketpro.com