

Incorporating Technical Analysis in the Marketing Plan

Master Marketer Technical Analysis Introduction
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NFA Disclaimers

There is a substantial risk of loss in futures and options trading. Such losses may exceed your initial investment.

Such trading is not appropriate for all individuals.

Past performance is not necessarily an indicator of future results.

This presentation is not to be viewed as an endorsement of futures/options trading vs. other price risk management methods.

More About Alan Brugler



What Selling Tools Do You Use?

BRUGLER'S SELLING TOOLS FORMULA

<i>If Market Situation is:</i>		<i>Selling Tools That Yield Maximum Profit:</i>
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
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

What Do You Need to Know?

If the market could talk, what would you want it to tell you?

What will be the high price? Is that Enough? Or Do you also need to know When?

What about the low price? For buying diesel and feeders and feed?



Fundamental News Blitz – It's Talking!

Avian Influenza

ISIS

China Stock Meltdown

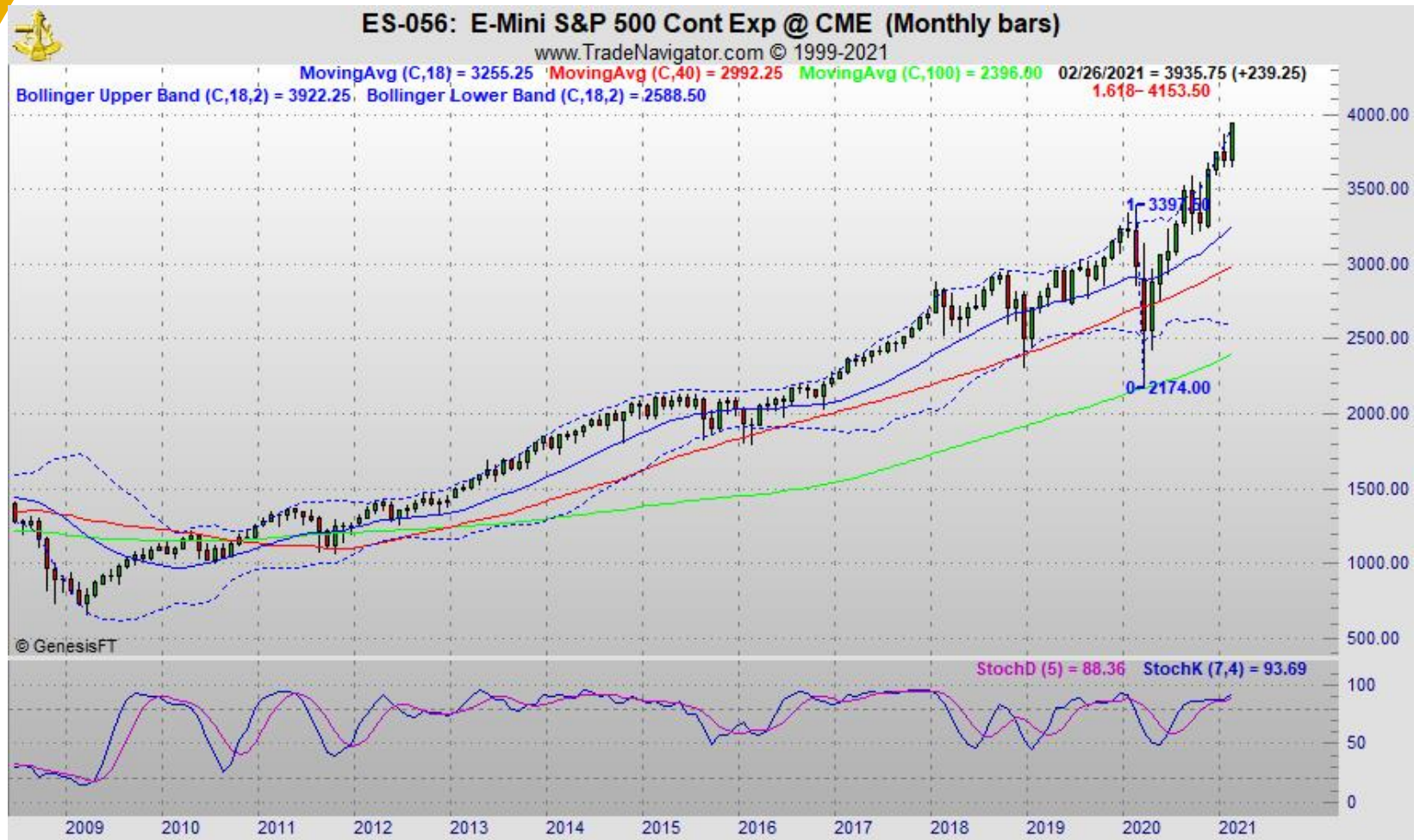
El Niño

Argentina tariff cuts

Oil Crisis

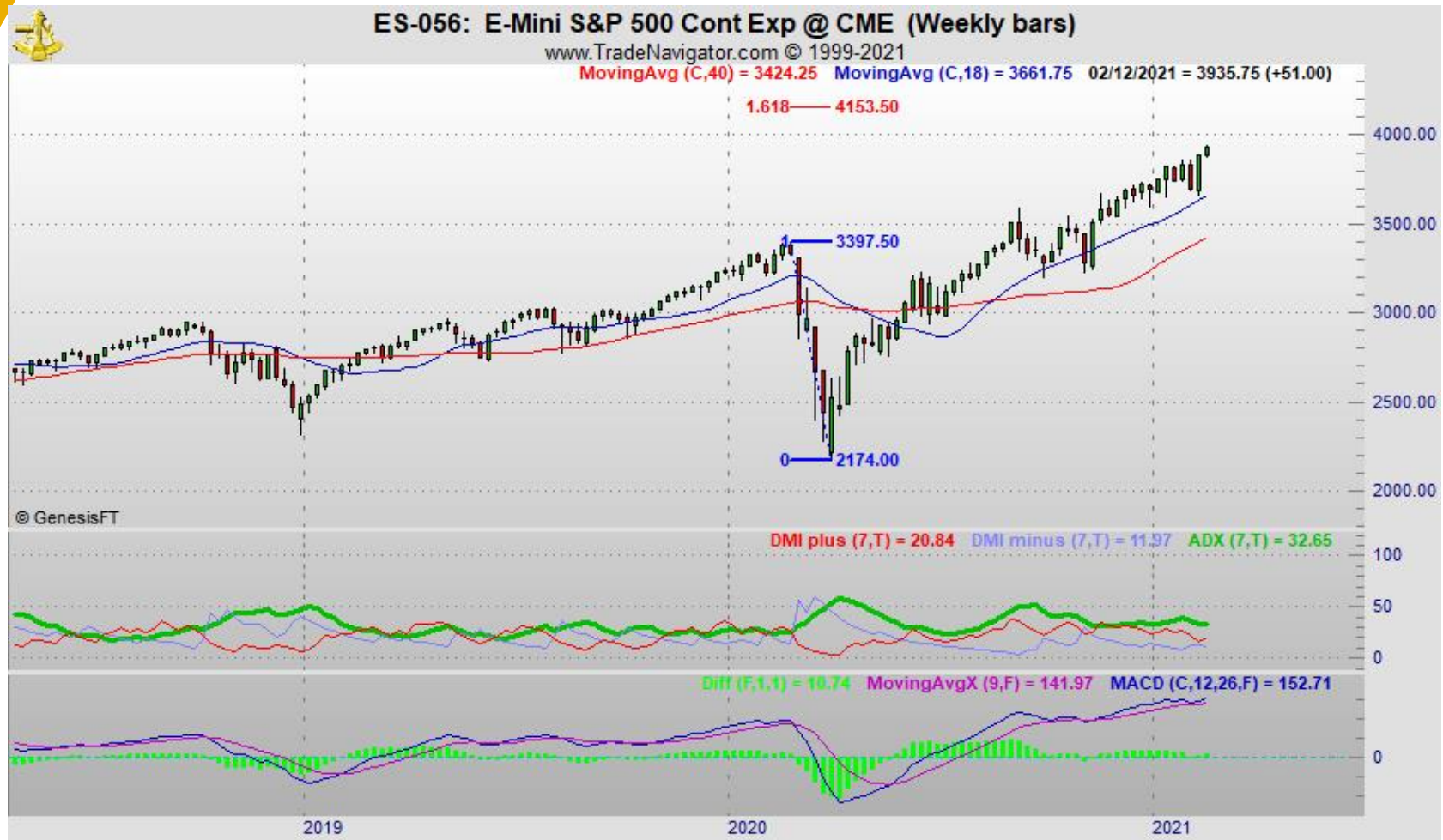
Fed Rate Hikes

What Was This Market Saying in March?



Past Results are not necessarily indicative of Future Results

Is It Saying Something Different Today?



How Much Does Marketing Matter?

Commodity	Avg Annual Price Range
Corn (bu)	\$1.37
Soybeans (bu)	\$2.79
HRW Wheat (bu)	\$1.92
Cattle (\$/cwt)	\$21.33
Cotton (cents/lb)	29.02

Important Concepts

If you trade the news you lose.

Traders open their wallet before they open their mouth.

Markets can remain illogical longer than you can remain solvent.

You only know who's been swimming naked when the tide goes out.

Warren Buffet

Price Action is Like This.....

Not This.....



Past Results are not necessarily indicative of Future Results

Goals for This Technical Analysis Session

We'll focus on the Price (Futures) component.

We'll look at how commodity prices move, why they move, and various methods for anticipating those movements.

This study is necessary before incorporating technical analysis into a marketing plan.

Why Do U.S. Grain Prices Change Frequently?

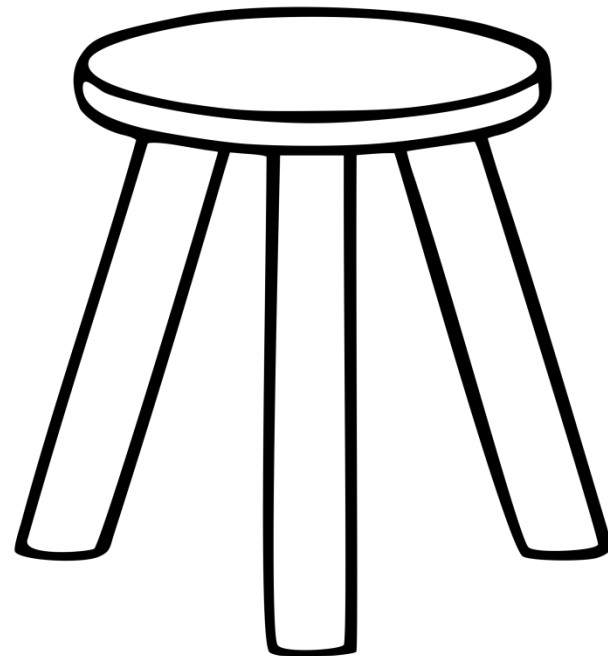
- 1) New information is received that changes the apparent value of the commodity to at least SOME market participants.
- 2) The flow of dollars into or out of the market.
- 3) Both buyer and seller agreeing to a transaction at a different price than the one last reported.

Prices Sit on a 3 Legged Stool

Fundamentals

Technicals

Asset Allocation

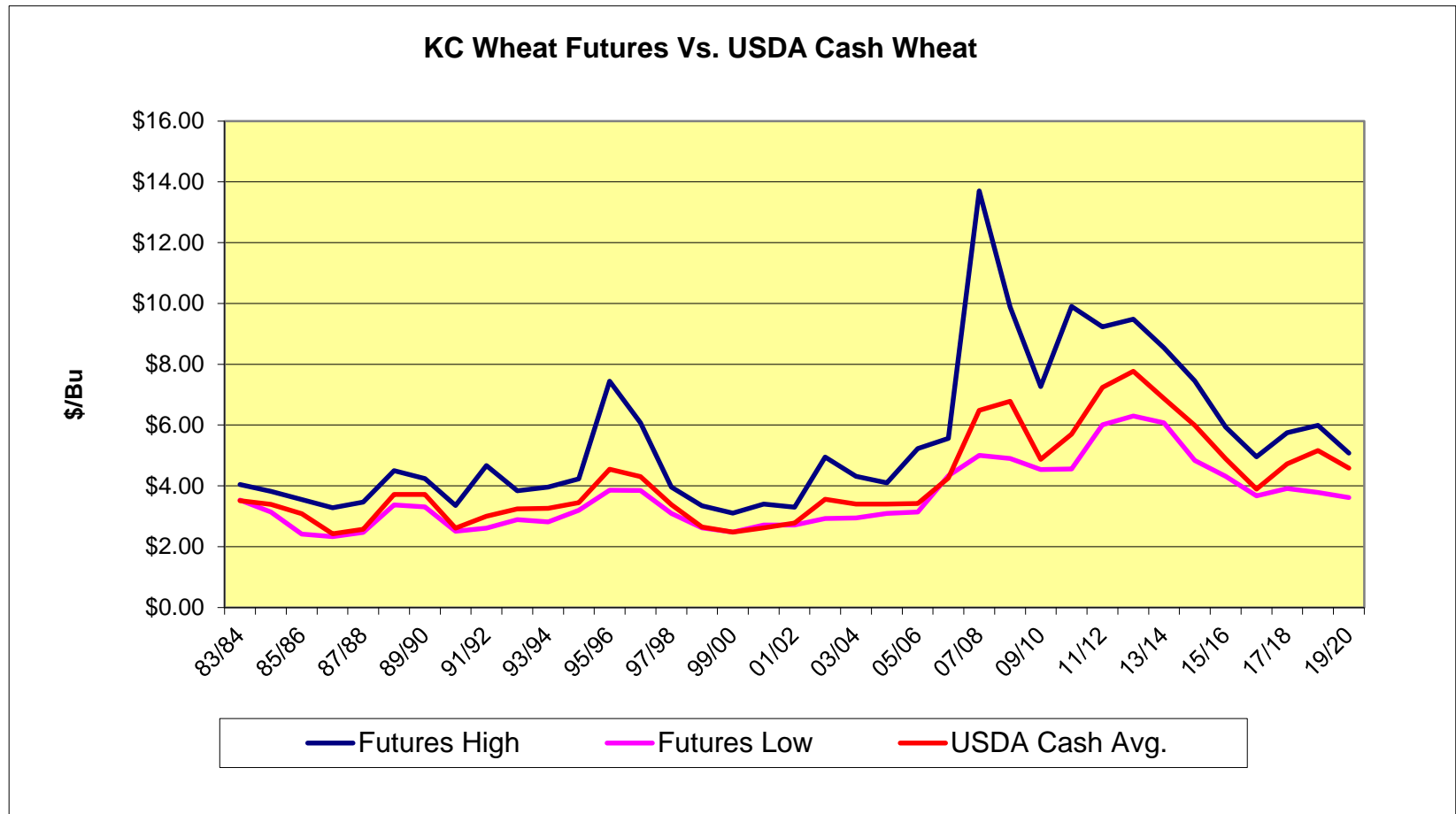


Fundamental Analysis

Classic Supply/Demand

- How much is produced?
- How much is used?
- What is surplus?
- What are the price relationships that correspond to changes in the above?

Futures Prices Vary Around The Cash Price Over the Course of the Year



Fundamental Analysis

- 1) Is necessary for establishing broad expectations of supply/demand dynamics, and thus price ranges.
- 2) Futures and basis will vary around the core expectations fueled by shifting supply/demand info.
- 3) There are significant difficulties with supply/demand analysis when trying to apply it to pricing decisions in a “living” marketing plan.
- 4) These include estimation error, fuzzy numbers, and lagging data (relative to market behavior). What you used to know, just ain’t so!

Illustration of Price Divorce from Fundamental News



Technical Analysis in 2021

Why does it work?

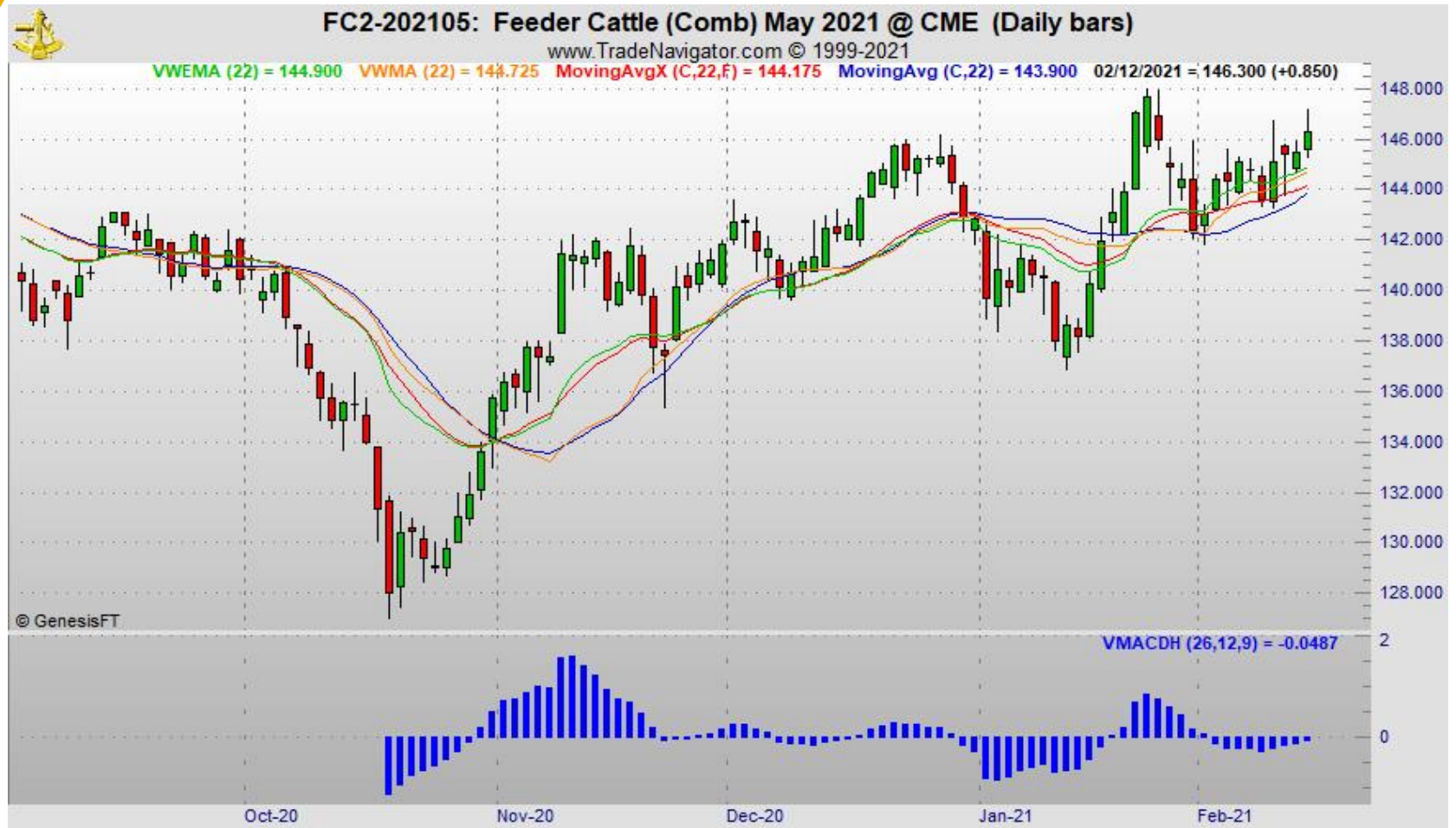
Who uses it?

How does it work?

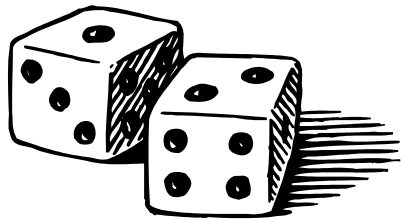
When doesn't it work?

Why bother to learn it?

Technical Analysis Chart Example



Technical Analysis Represents



Technical Analysis

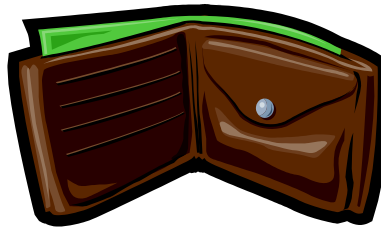
Measures the supply and demand of money in that commodity market, rather than the underlying commodity fundamentals.

Attempts to remove the emotion AND the news lag time seen in fundamental trading.

Price Charts and mathematical formulas are used to identify trends and price objectives.

Technical Analysis

Traders “open their wallet before they open their mouth”.



Corollary: “If you trade the NEWS, you LOSE”

Technical Analysis Characteristics

Opinion - Biggest Weaknesses?

- Backward Looking. Projected future is always based on previous behavior.
- “Past performance is not necessarily indicative of future results”
- Interpretation can be an art.

Opinion - Biggest Strength?

- An objective viewpoint, just numbers
- “There is nothing new under the sun”
- Tells you WHEN to pull the trigger, and gives you confidence to do so.

The Index Fund or Swap Fund View

***Commodities are an asset class

***Commodity prices will go up if the dollar weakens, or if world demand grows faster than supply

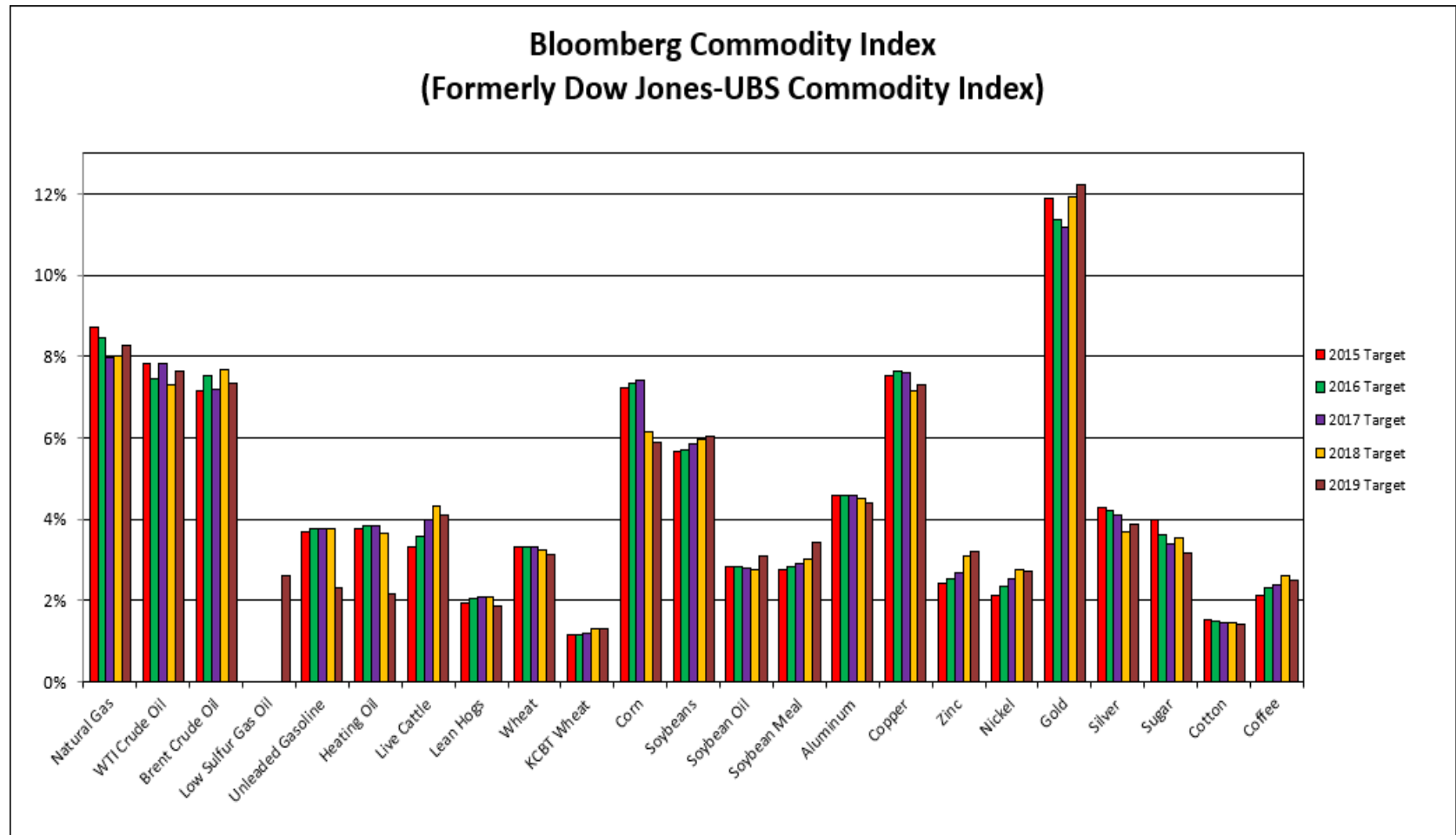
***Commodities are now part of a diversified portfolio, along with stocks, bonds, etc.

***Investors buy a basket or index of commodities in order to spread risk and ease entry and exit.

They may also buy stuff that shouldn't by itself be going up, or sell stuff that shouldn't otherwise be going down

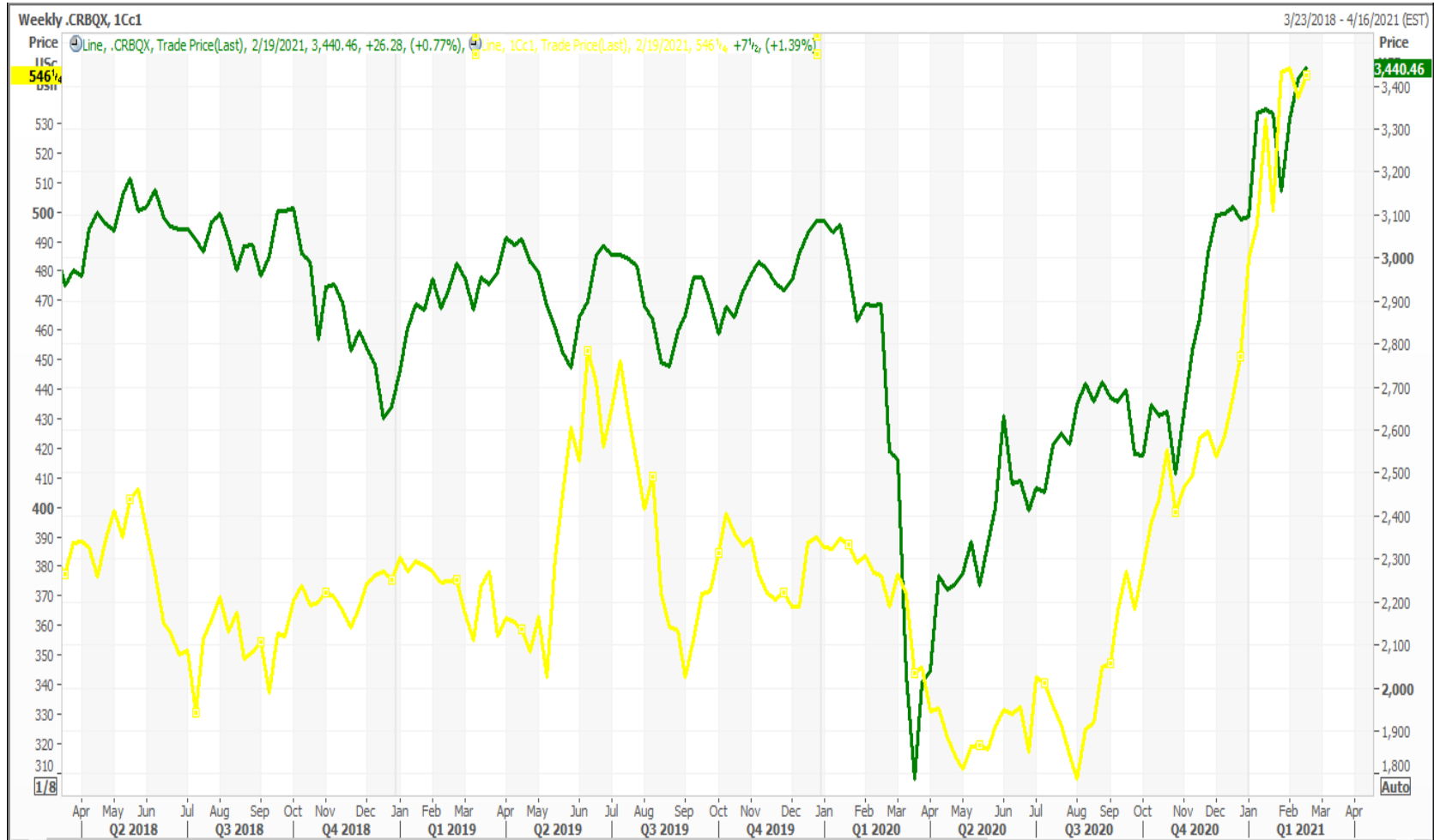
Bloomberg Commodity Index

Allocations by Commodity Shifting



Past Results are not necessarily indicative of Future Results

CRB Cash Index Relationship to Corn



Sum of Three Perspectives = Price

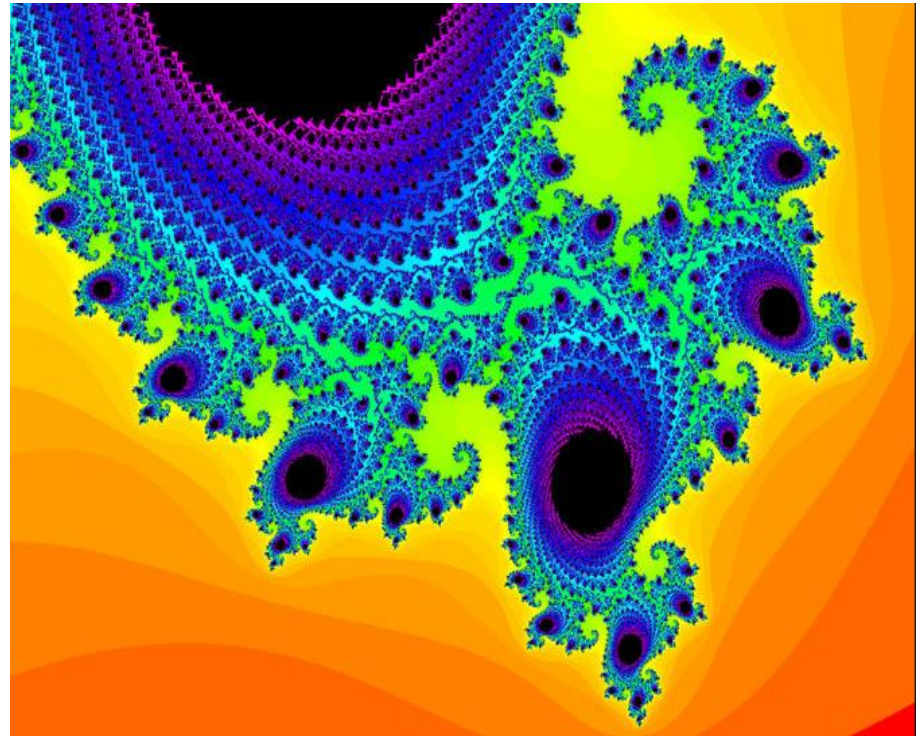
Price Action is the net result of all three viewpoints.

Fundamental

Technical

Index or Macro

Fractal



The Red Pill or the Blue Pill?



Technical Analysis in 2021

“This is your last chance. After this, there is no turning back. You take the blue pill - the story ends, you wake up in your bed and believe whatever you want to believe. You take the red pill - you stay in Wonderland and I show you how deep the rabbit-hole goes. “

Morpheus to Neo, in “The Matrix”

Take the red pill!

Many Flavors of Technical Analysis, Only 1 Objective

Figure out which way prices are going, how far, and when.

Impossible to get all three – Heisenberg uncertainty principle and other laws apply

Multiple Flavors of Technical Analysis

Visual Indicators (aka Chart Patterns) --Bar Charts, Candlestick Charts

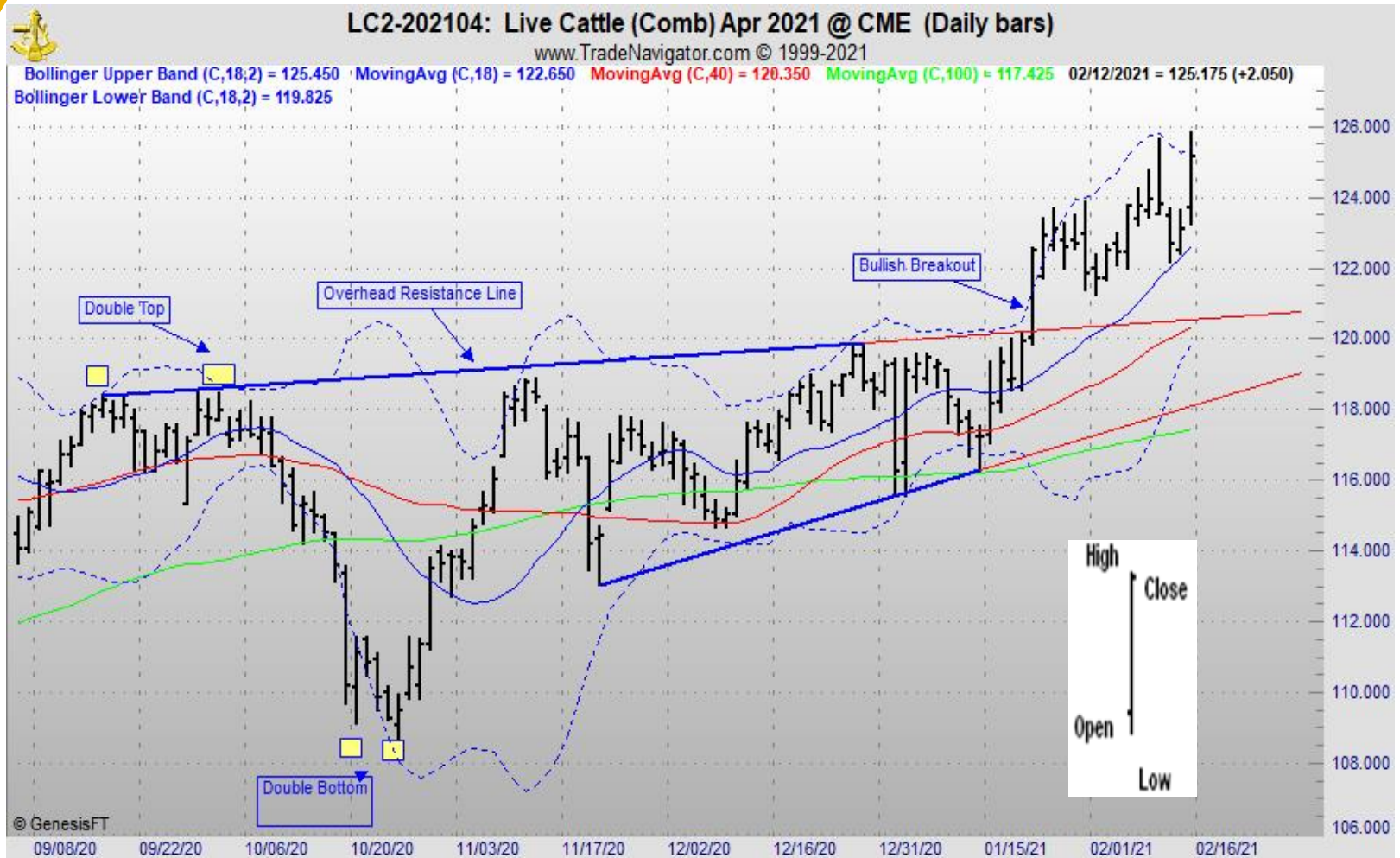
Computed Indicators --Trend Following, Non-Trend

Quantitative Methods – Techno-Fundamental, Regression and Bollinger Channels, Price & Probability Forecasts

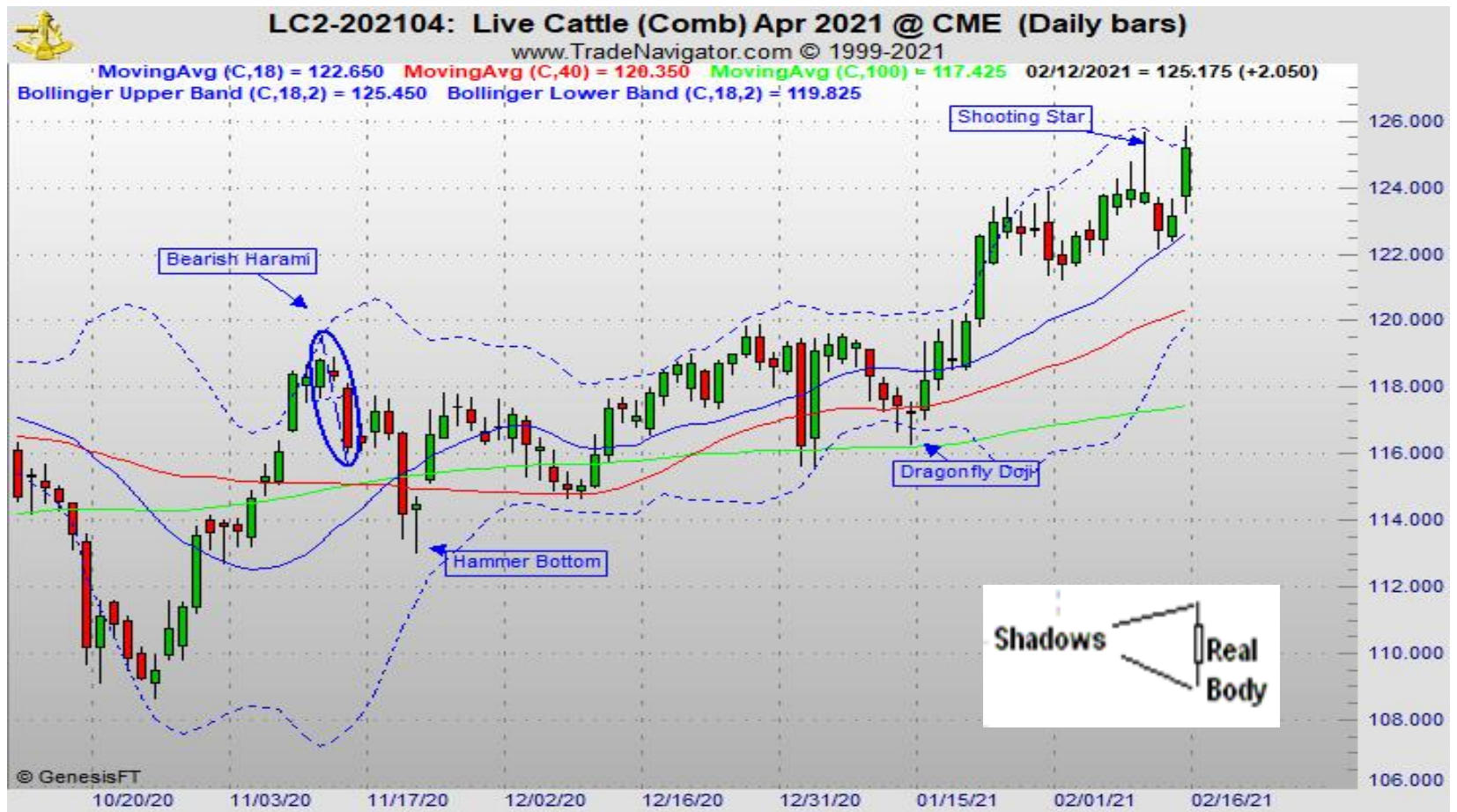
Seasonal Patterns --Do biology or money flow drive predictable patterns?

Commitment of Traders - Who Needs to Move?

Visual Indicators – Bar Charts



Same Chart in Candlesticks



Retracements

Markets are Mean Reverting, Price go to extremes and then back toward average or the central tendency

Retracements:

Fibonacci

Speedline



Retracement Resistance



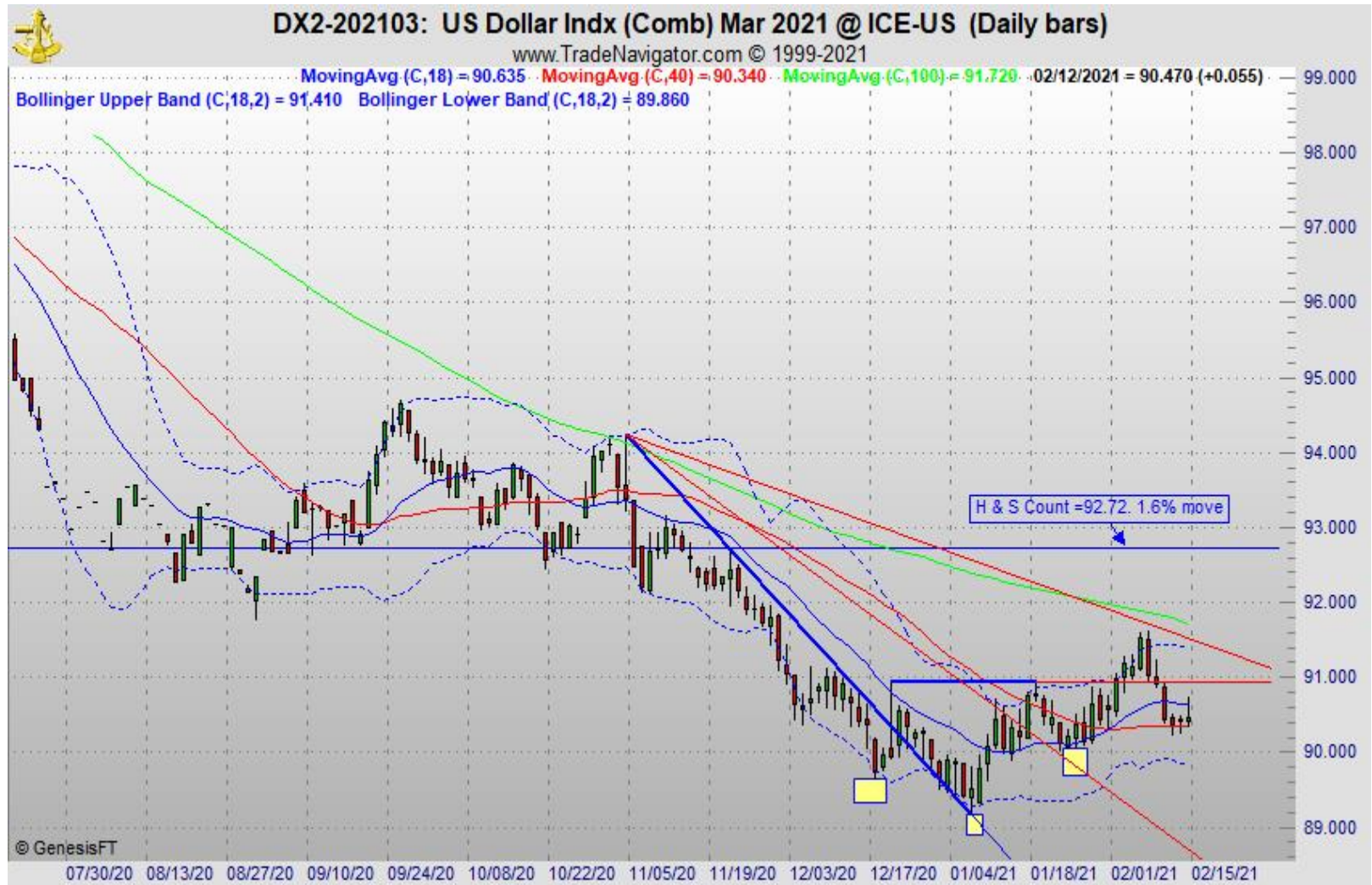
The Retracement Method

Calculate range from high to low (seeking resistance) or low to high (seeking support).

Multiply by the Fibonacci retracement %'s and add them to the latter of the two swing reversal points.

The first resistance or support coming out of the reversal is the 38.2%.

Speedline Resistance for US \$, Head & Shoulders Bottom



Another Speedline to Watch



Technical Indicators

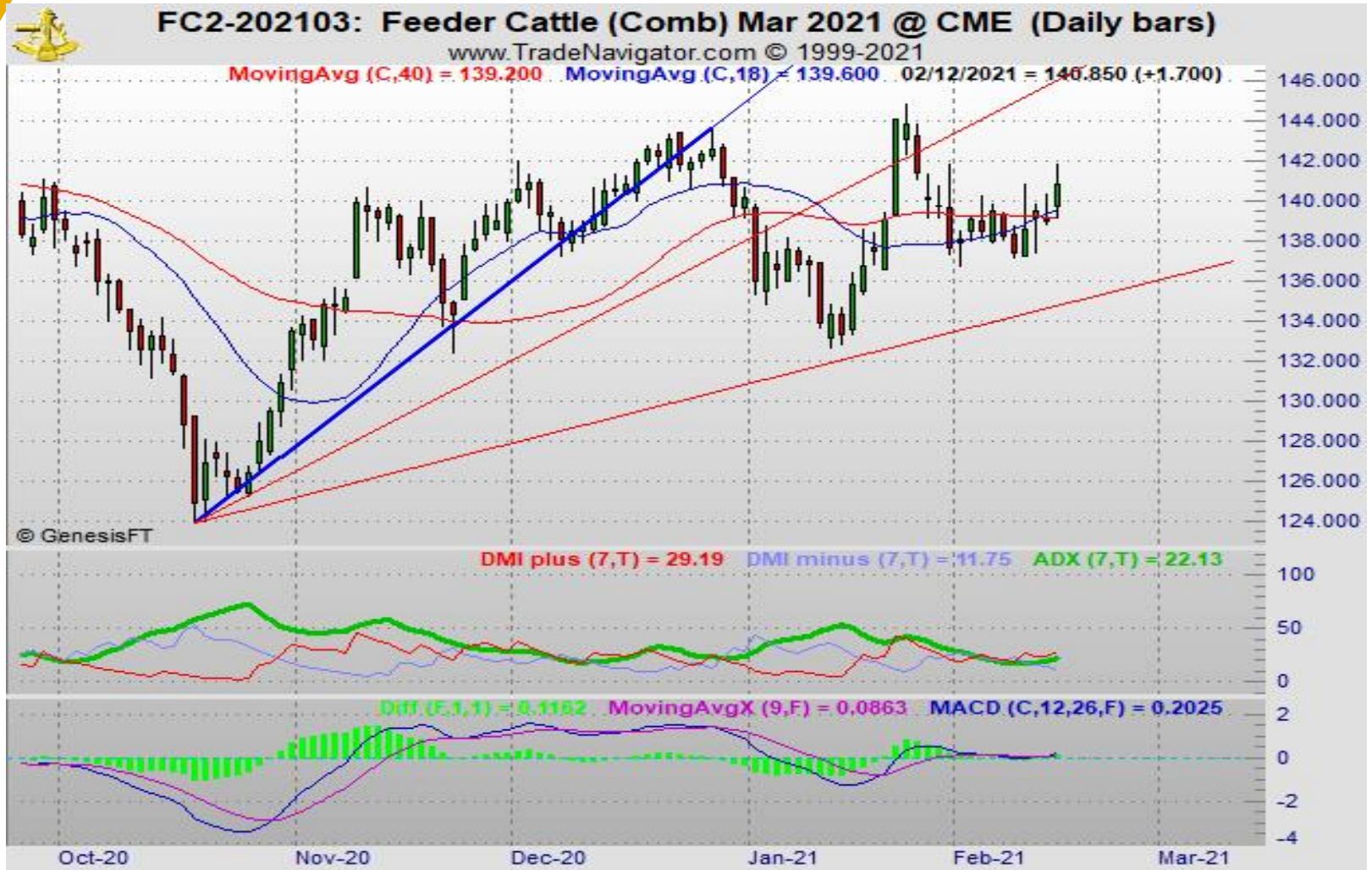
Sometimes there are things going on inside the price data that cannot be seen on the chart.

There are thousands of buy/sell indicators and technical trading systems to try to “see” the turns.

- Oscillators
- Cycle tools
- Momentum
- Entropy
- etc.



A Key Question: Is the Market Trending?- ADX



Indications of a Trend

Rising ADX

Regression channel

Long Term Moving Average

Trendline

Pattern of higher highs AND higher lows

Some Popular Trending Market Tools

MACD (Moving Average Convergence/Divergence)

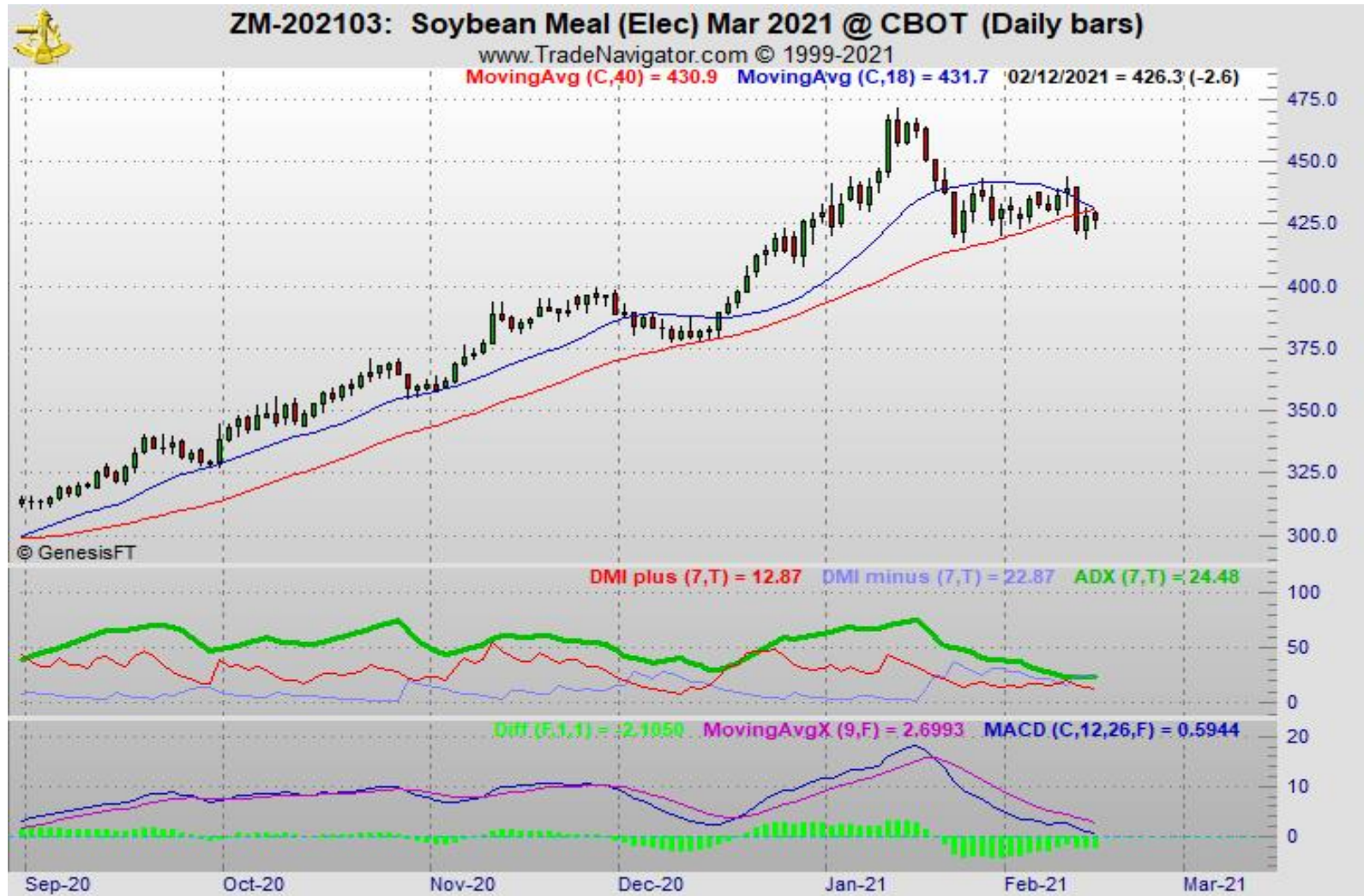
Parabolic

Brugler Cycle Indicator (BCI)

Long term moving averages (40,50 day)

Trendlines

Trending Market Tools - MACD

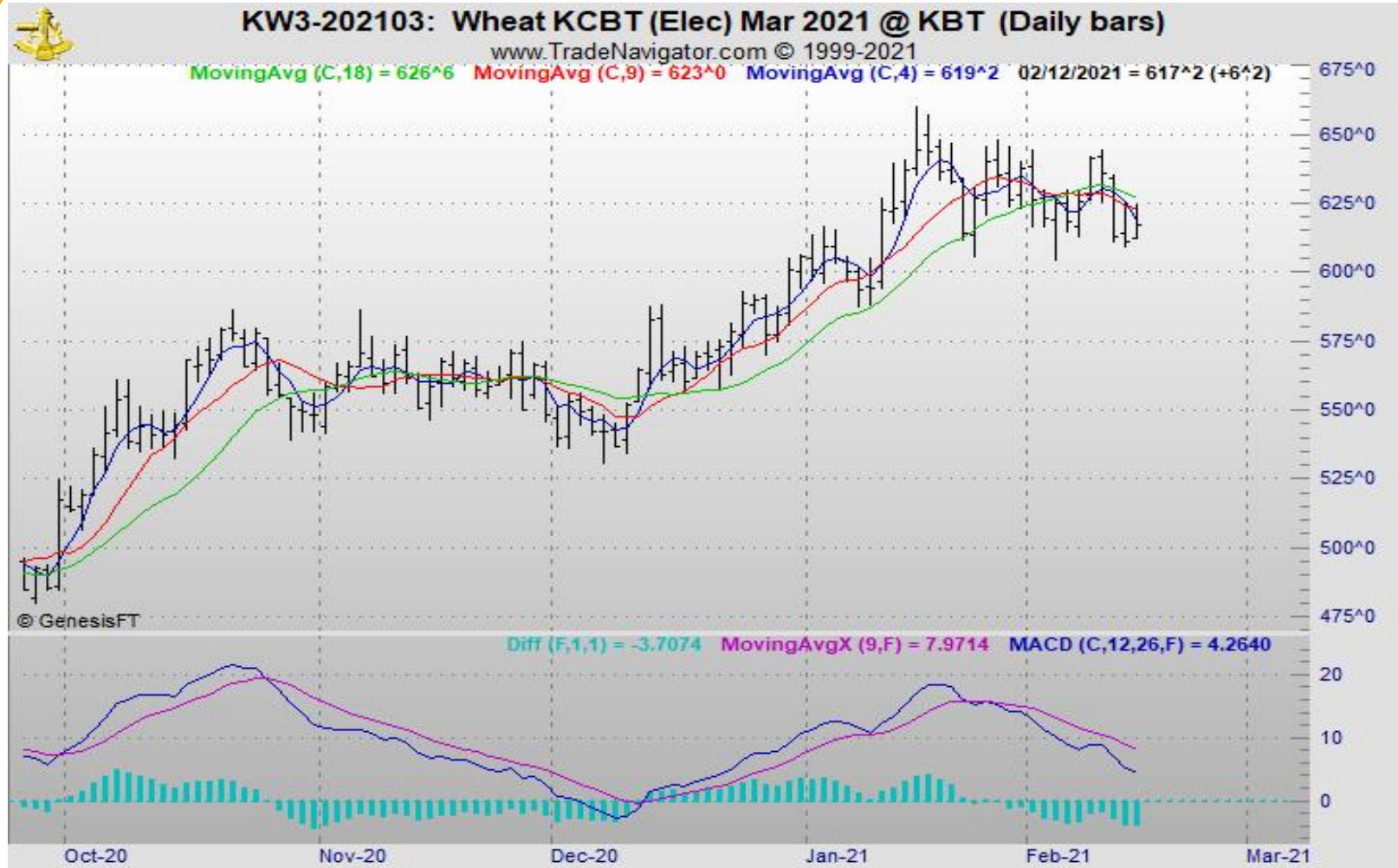


Another MACD Example

ZWH21 - Wheat - Daily Candlestick Chart



3 Line Simple Moving Averages



Some Technical Tools Better Suited to Non-Trending Markets

Stochastics

Wilder's Relative Strength Index (RSI)

Commodity Channel Index (CCI)

Bollinger Bands

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

Overbought

The market is too bullish, being long or on the buy side is a “crowded trade”.

The term “Overbought” is essentially a measure of sentiment, but eventually becomes a measure of liquidity



How many on one side of the boat is TOO many?

Overbought

The market is too bullish, being long or on the buy side is a “crowded trade”.

The term “Overbought” is essentially a measure of sentiment, but eventually becomes a measure of liquidity



How many on one side of the boat is TOO many?

It depends if you are her Dad!

Oversold

The market is too bearish, being short or on the sell side is the popular thing to do

The term “Oversold” is essentially a measure of sentiment, but eventually becomes a measure of liquidity

One very simple measure of an oversold market is one where bad news fails to make the market move lower. We call that “sold out”.

Now define bad news.....

Stochastics - Slow

Stochastics can be raw, fast or slow.

The raw stochastics are very “noisy”, leading to efforts to smooth the data.

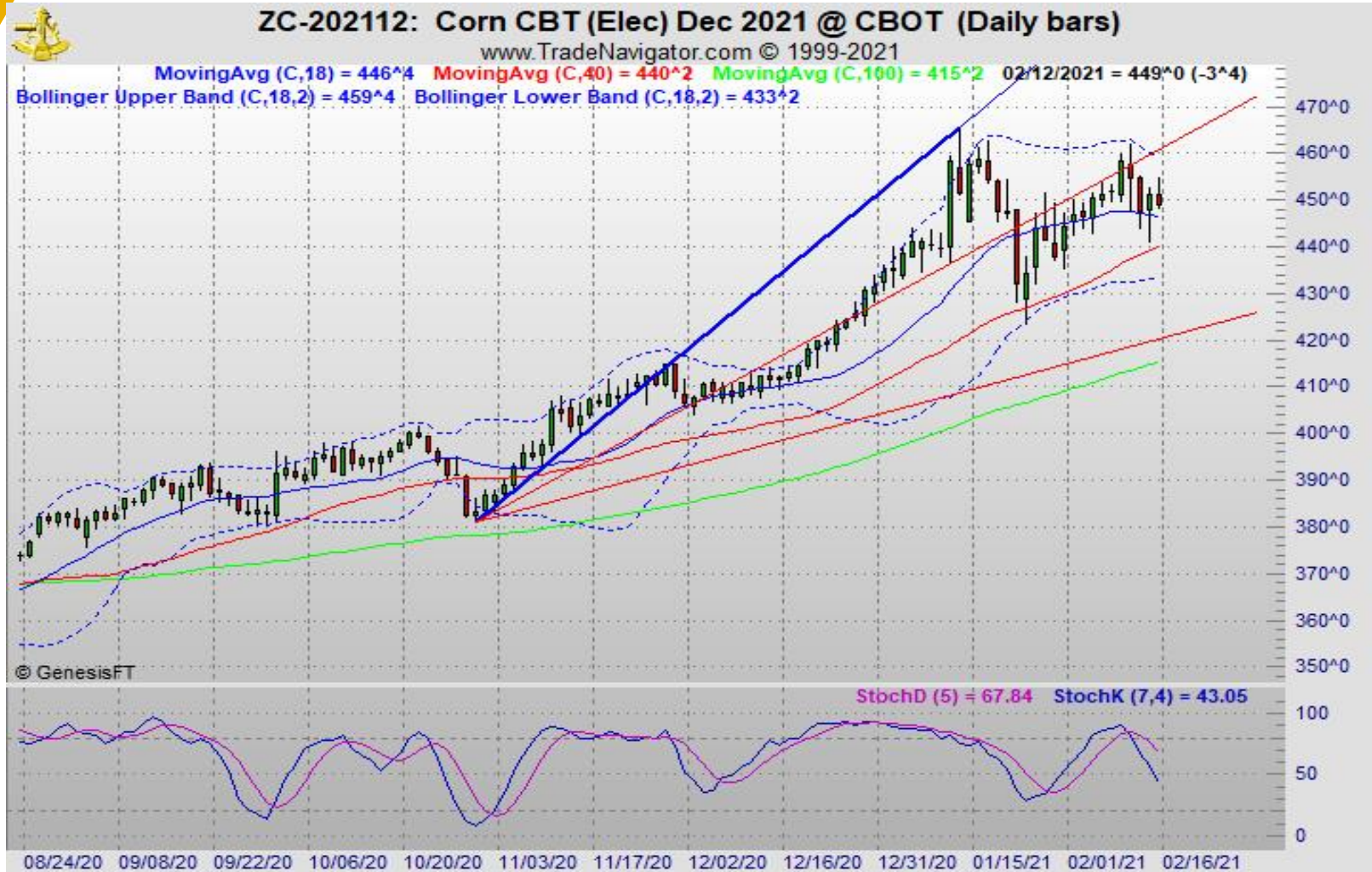
Slow stochastics apply a smoothing factor to fast stochastics, in the interest of a clearer signal.

Slow stochastics consist of %K and %D. The %D is a moving average of %K values.

Stochastics values only range 0 to 100.

Signals occur on crossovers >80 or <20

Stochastics Example –December Corn



Relative Strength Index (RSI)



RSI – Divergence

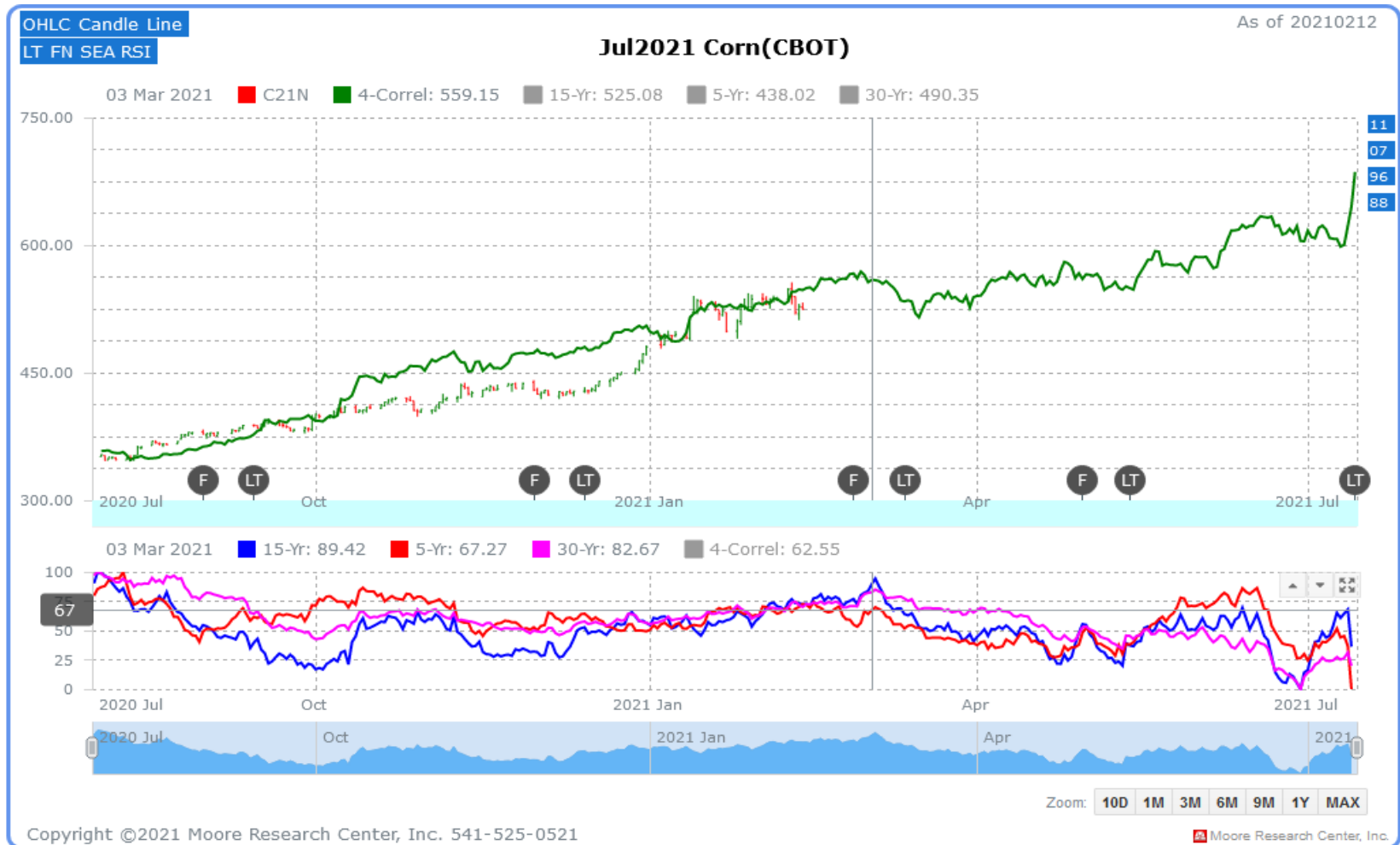


ZSK19 - Soybean - Daily OHLC Chart

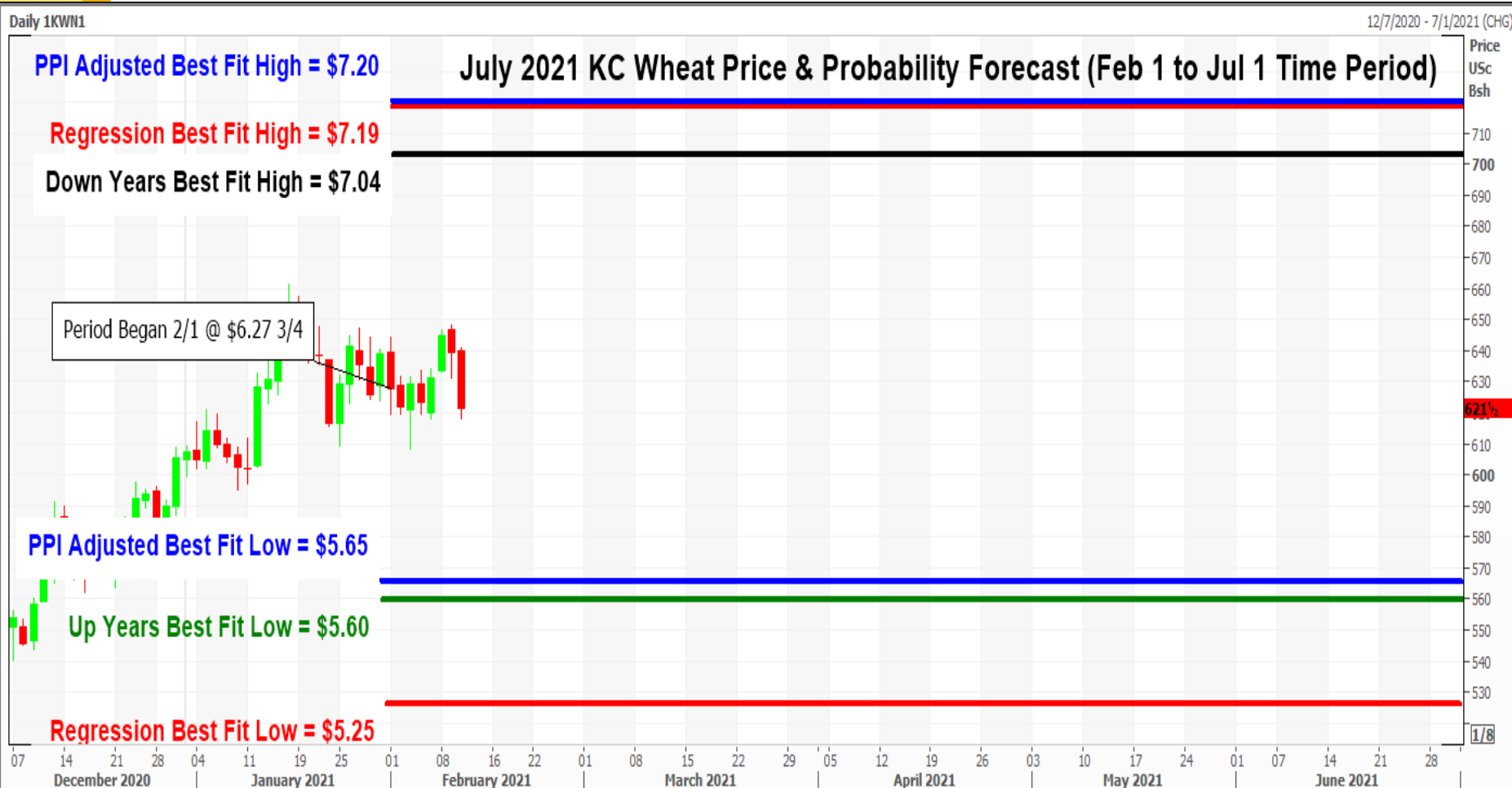


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Seasonals Can Be Informative @ Times



Jul KC Wheat P&P Wall Chart



How Do I Learn More?

- 1) See the Recommended Reading List
- 2) View Brugler Technical Analysis videos on YouTube (notably Stochastics).
- 3) Attend monthly Brugler Ag Marketing Strategy Group Webinars to see how all of the indicators are employed in a Marketing Plan
- 4) Become a Brugler Ag Market Professional or Special Research Reports client and gain access to the online Chart School documents.

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, Ethanol
5. Freelance agricultural writing and research projects

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