

TABLE OF CONTENTS

Praise for Higher Probability Commodity Trading by Carley Garner:.....	3
Also by Carley Garner:.....	4
Risk Disclosure	5
<i>Section 1: Introduction to Commodity Analysis and Speculation</i>	14
Introduction: Leverage Separates Commodity Traders from Speculators	14
Commodities vs. stocks/bonds.....	15
Trading vs. investing.....	17
Are commodities a trade, or an investment?	18
Most people lose trading commodities, so it makes sense to go against the grain.....	19
With unlimited money, it would be hard to lose trading commodities	19
There is no black and white, only plenty of gray.....	21
Chapter 1: Commodity Market Refresher	23
What is the cash market?.....	23
What is a futures contract?	23
Pit vs. electronic trading.....	24
What is the bid/ask spread?.....	25
What is an option?	26
Intrinsic value.....	27
Extrinsic value	28
Calculating the breakeven point of an option	29
What is margin?	29
Day trading margin	31
Option margin (SPAN)	31
Order types	32
Market order.....	32
Stop order	33
Limit order	33
Market if touched (MIT).....	34
Stop/limit order	34
Futures and options exchanges.....	34
CME Group.....	35
Intercontinental Exchange (ICE).....	35

Chapter 2: Technical Analysis in Commodities	36
What is technical analysis?.....	36
Methods of technical analysis.....	37
Technical oscillators and indicators	42
Relative strength index (RSI).....	43
Slow stochastics	44
Moving average convergence divergence (MACD).....	46
Williams %R (WPR).....	47
Bollinger bands	48
Charting tools	50
Trendlines, trading channels, and wedges.....	51
Fibonacci theory.....	52
Elliott wave theory.....	54
Gann fan.....	55
Chapter 3: Fundamental Analysis of the Commodity Markets.....	57
What is fundamental analysis?	57
Energy market fundamentals.....	58
Supply and demand data	59
Grain market fundamentals	64
Supply and demand data	64
US dollar.....	67
Soft commodities fundamental analysis	67
International Coffee Organization	68
Brazil's CONAB	68
USDA	69
Additional risk disclosure for softs traders	69
Precious metals market fundamentals	70
Currency market fundamentals	70
Interest rates.....	71
Inflation/monetary policy	71
Trade balance.....	71
Government intervention	72
GDP (Gross Domestic Product)	74
Interest rate market fundamentals.....	74

Non-farm payroll report	74
Fed funds futures	75
Save yourself some time and a headache.....	76
The Hightower Report	76
The GRI Report (Helms)	77
Moore Research Incorporated (MRCI).....	77
Chapter 4: Seasonal Tendencies of Commodity and Financial Futures.....	79
Seasonal analysis of the commodity markets	79
Common seasonal patterns in agricultural commodities	80
Gold seasonality	85
Energy market seasonal patterns.....	87
Currency seasonality	90
The meats' seasonal patterns	93
Limitations of seasonal trading	95
Seasonal chart versions	95
Time frames matter	96
Seasonal timing isn't absolute	96
Seasonal tendencies are historical.....	97
Where to find seasonal analysis.....	97
Chapter 5: The "Others"; Reading the <i>COT Report</i> and Intermarket Correlations	98
Be aware of market sentiment and herd mentality.....	98
Consult forums and social media for overwhelming trends or sentiments.....	99
Barron's and AAII investor sentiment readings	99
Put/call ratio	100
The talking heads	101
How to react to an overcrowded trade	101
Analyzing the <i>Commitments of Traders Report</i>	102
What is the COT report?	103
How to read the COT Report	104
The <i>Commitments of Traders Report</i> doesn't tell the whole story.....	109
Where to find the <i>COT Report</i>	110
Intermarket relationships.....	112
To understand market correlations, you must understand pairs	113
The greenback and commodity pricing.....	113

<i>Section 2: Commodity Trading Strategy Development</i>	115
Chapter 6: Position Trading in Futures	115
Swing trading.....	116
Advantages of swing trading.....	117
Disadvantages of swing trading	118
Swing trading instruments.....	118
Scale trading.....	119
Advantages of scale trading.....	119
Disadvantages of scale trading	120
Instruments for scale trading.....	120
Trend trading.....	121
Advantages of trend trading	122
Disadvantages of trend trading.....	122
Instruments used	126
Fundamental trading.....	127
Advantages to fundamental trading	128
Disadvantages to fundamental trading.....	128
Instruments used	128
Chapter 7: Day Trading and Algorithmic Trading in Futures	129
Day trading in futures.....	129
Common mistakes made by day traders	130
Day trading time frames	135
Stop-loss orders or weekly options?.....	137
Scalping futures contracts.....	138
Algorithmic trading systems.....	140
What is an automated trading system?.....	141
Why use an automated trading system?	141
Drawbacks of using automated trading.....	142
Do automatic futures trading systems work?.....	143
High-frequency trading	144
Chapter 8: Futures Spread Trading.....	146
Intracommodity spreads	146
Bull vs. bear intracommodity spreads	147
Widening vs. narrowing intracommodity spreads.....	148

Intercommodity spreads	149
Quoting, charting, and trading futures spreads	149
Advantages of futures spread trading	151
Disadvantages of futures spread trading	151
Seasonal spreads	152
Chapter 9: Options Trading Strategies.....	154
Long option strategies.....	154
Advantages of option buying	155
Disadvantages of option buying.....	155
When option buying is most appropriate.....	157
Using long options for portfolio, or commodity trade insurance	157
Short option strategies.....	158
Advantages of option selling.....	158
Disadvantages of option selling	160
When option selling is most appropriate.....	161
Being aware of implied volatility and timing	161
Quality vs. quantity	162
Not all brokers allow clients to sell options	164
Here are a few ways to increase the odds of avoiding the big loss	166
The bottom line on option selling.....	171
Appropriate markets for option selling.....	171
Option spread strategies	174
Covered calls and synthetic trading strategies	174
Chapter 10: Managed Futures and Constructing a Commodity Portfolio	176
Managed futures	176
Why managed futures?.....	176
Types of managed futures programs	177
Management and incentive fees for CTAs and CPOs.....	180
Constructing a commodity portfolio	181
Allocate between managers	181
Allocate between time frames.....	182
Don't chase performance	182
Chapter 11: Hedging Portfolio and Business Operations Risk with Futures and Options	183
What is a hedge?.....	183

Insurance is expensive	183
There is no such thing as the perfect hedge	185
A better way to hedge?	186
Stray from conventional practices	186
Timing is everything: hedges only work if you lock in the proceeds	187
<i>Section 3: Thinking Outside of the Box for Product Selection, Strategy Development, and Risk Management</i>	189
Chapter 12: The Hidden Gems of the Commodity Markets	189
E-micro gold	189
E-micro currencies.....	190
Mini grains.....	191
Use small contract size to your advantage: dollar cost average	191
Smaller futures contracts to win the mental game.....	192
E-micros and minis “buy” you time.....	193
E-micro futures open the door to opportunity to all traders.....	193
Chapter 13: Speculating in VIX Futures Isn’t for Everybody	194
The VIX is not an investment vehicle, it is a trading vehicle	194
The VIX trades inversely to the S&P	195
The VIX, and more so VIX futures, erode with time.....	195
The VIX isn’t a commodity, but it has a “contango”	196
The VIX goes up quickly and down slowly.....	197
Before trading the VIX, you must know what you are getting into!	198
VIX futures contract specifications	198
The Bottom Line on the VIX	199
<i>Section 4: Implementing What You’ve Learned</i>	200
Chapter 14: Tips and Tricks to Live or Die By.....	200
Never chase markets	200
If seeking a trend reversal, give it a chance	202
Don’t look a gift horse in the mouth.....	202
Sell options against winning positions	203
The sidelines is a position	205
If you can’t take the heat, get out of the kitchen	205
There is no beating around the bush: markets are mean.....	206
Don’t cheat, do your homework!	206
Take steps to keep your feet on the ground, and your head out of the clouds	207

Play the odds, but understand the reality	208
Prolonged paper trading is counterproductive.....	209
Don't be afraid to add to a losing position!	209
The bottom line.....	210
Chapter 15: Understanding Implications of Trading Cost Decisions.....	211
Types of commodity brokerage firms	211
Futures commission merchant (FCM).....	212
Introducing broker (IB).....	213
Broker-dealer	214
Choosing a brokerage service level.....	215
Full service (broker assisted).....	215
Self-directed online.....	216
Discount online	217
Hybrid (broker assisted/self directed)	217
Brokerage decisions should be based on your support needs, not commission	217
The truth about commission, and its impact on trading results.....	219
Is it possible for transaction costs to be too low?	220
Where are discount brokers cutting corners?	221
Conclusion: Sometimes cheap is actually expensive	224
What you must know about futures and options data fees	224
CME data fees	225
ICE price data fees.....	227
Chapter 16: Risk Management: Understand, Properly Utilize, and Hedge Commodity Market Leverage.....	229
Understand the magnitude of futures market leverage	229
Take control of your own leverage and destiny.....	231
Don't underestimate leverage	232
Using stop-loss orders for risk management	233
Advantages of stop-loss orders.....	233
Disadvantages of stop-loss orders	234
Stop-loss order placement.....	235
Should traders use stops at all?	236
Use long and short options to manage risk.....	236
Synthetic strategies.....	237
Using standard portfolio analysis of risk margin (SPAN) to your advantage.....	242

Controlling futures margin with net delta	243
Using delta to adjust option margin.....	247
Margin-to-equity ratio	249
Chapter 17: Use Commodity Market Volatility to Your Advantage — Mean Reversion and Delta Neutral Trading.	250
Mean reversion trading.....	251
Charting and trading mean reversion	252
Countertrend option selling	253
Ratio option spreads	256
Covered calls and covered puts in search of mean reversion.....	257
Delta neutral trading in high volatility	260
Ratio covered calls and puts	261
Short option strangles.....	262
Chapter 18: In Conclusion, Commodity Trading Is Mental; Don't Be	264
Make sure your strategy fits your personality	264
Patience goes farther than strategy.....	265
The only thing we know for sure is that we don't know	265