Appunti su Larry Williams

Who are the Commercials?

The Commercials are the large position traders who are using the markets to hedge. I refer to them as the "Smart Money", as they are the professional traders who have a real use for the commodities they trade and hedge. I analyze the accumulation or distribution of this group's market positions to predict which markets are setting up for a major move. The net position of the Commercials is reported every Friday by the CFTC and can be found at their web site www.cftc.gov.

The Net Traders Position shows a change in the attitude and positioning of the Commercials. If the number is becoming more positive, then the Commercials are buying or covering short positions. Conversely, if the number is becoming more negative, they are selling or covering long positions.

This group, because they are hedgers, tend to enter the market early, so this indicator should be used in conjunction with others to find a suitable entry point. Below are some things to keep in mind when analyzing the Commercials:

1. I use the Commercials as a "set up" mechanism. They are not a "timing" mechanism.

2. They are usually early in a move because they are accumulating or distributing their positions.

3. Analyze how the Commercials typically behave in a given market. Do they typically get heavily long or short? Do they frequently go to extremes with their positions?

4. The Commercials are typically trend "enders".

What does Market Sentiment (Public) indicate?

Market (Public) Sentiment is a sampling of the opinions of the leading market advisors and futures newsletter writers. This information can be obtained from Market Vane Corp. (www.marketvane.net) and graphed with Genesis software. Public Sentiment is a very useful short-term indicator used to determine the public's position. It is also very useful to determine if a market is "overbought" or "oversold". I have found that the Public provides an early warning of trend changes, since they generally enter the market at the end of a move and they are (unfortunately for them) usually incorrect in their market opinion.

Below are some things to keep in mind when analyzing the Public:

1. When the Public is over 75% bullish, the market is usually overbought and should move lower.

2. When the Public is over 25% bearish, the market is usually oversold and should move higher.

What is significant about the relationship between the Commercials & the Public?

When the Commercials and Public have opposing positions, the market "set up" is stronger. If both are graphed, and the Commercials are extremely bullish (above 75-80), while the Public is extremely bearish (below 25-20), this is bullish and the market should move higher. Conversely, if the Commercials are extremely bearish (below 25-20) and the Public is extremely bullish (above 75-80), this is interpreted as a market that is set up to move lower. Below are some things to keep in mind when evaluating the positioning of the Commercials and the Public:

1. It is critical to look for juxtaposition between the two group's positions. It is very desirable for both to be at opposing extremes in their positions.

2. The positioning of the Commercials and Public is bolstered if they are at 12 month extremes in their positions. It is desirable to see the Commercials the most bullish they have been in 12 or more months, while at the same time the Public is the most bearish they have been in 12 or more months. This is an ideal Commercial/Public "set up" for a bullish move in the market.

What is Open Interest?

Open interest is a fundamental indicator that I use in conjunction with my other "Big Guns". **Open interest is usually a reflection of Commercial activity** (as they represent 80% of the volume in the markets) and is usually an indication of Commercial short selling as they hedge their positions. When using Open Interest as an indicator, it is very important that a market be in a trading range. Below are some things to keep in mind about Open Interest:

1. If open interest decreases, it is representative of less commercial activity and that they are decreasing their short positions.

2. If open interest increases, it is representative of more commercial activity and that they are increasing their short positions.

3. Based on the information above, a 30% decrease in open interest can be a bullish indication and a 30% increase in open interest can be a bearish indication.

4. Once again, it is imperative that a market be in a trading range in order to Use Open Interest as a "Big Gun" indicator.

What do I need to know about Spreads?

A spread refers to the price difference between a nearby (spot) contract month vs. the next closest (or more distant delivery months) in the same commodity. The nearby month of a contract is usually cheaper than the distant month (this is due to the "Cost of Carry" - insurance, storage and interest for distant months and is known as a "discounted" market).

Occasionally a market may "invert" and the nearby month will sell for more money than the distant months. This is known as a "premium" market. Commercial buying causes this phenomenon because of an urgent need for the commodity. The "cross" from a normal or "discounted" market (for the nearby or spot month) to an inverted or "premium" market is bullish. Below are some things to keep in mind when evaluating spreads:

1. It is bullish when a premium occurs, but it is very important to look at the relationship of the premium to the market itself. In other words, how is the spread performing with respect to price? You can time your entry into the market by looking for divergence between the spread and market price.

2. A declining market may also have an increasing premium in the spread, which can indicate that a bullish condition may be developing, even though price is declining.

3. If spread premium falters while a market rallies, it can be an indication that the market is nearing a top and is bearish.

What is comparative strength?

Comparative strength evaluates the strength or weakness of different markets by comparing overall price movements to new highs or lows. If three contracts are moving in the same direction, but two have not reached a new high and the third has, then the third month would comparatively be the strongest. It is possible for a market to be "comparatively" weaker or stronger than other markets, even though it's overall price movement is smaller in magnitude when compared to other markets.

What Cycles do you follow?

I am more interested in magnitude (price) scale, rather than time (duration) scale.

There are two markets "cycles" I follow:

1) Trading ranges cycle from small range days to large range days. The best time to trade is following a series of small range days, because a large range day should be developing. Large range days contain the biggest moves in the magnitude (price) scale.

2) Closing price vs. daily ranges: Market highs are usually indicated by a market closing at or near the high of the day. Market lows are usually indicated by a market closing at or near the low of the day. The closing price vs. daily range relationship is interesting to study, because it generally "feels" very bullish when a market closes on its highs and it "feels" very bearish when a market closes in its lows. When in reality, this is usually an indication that the market is poised to change direction.

What is the significance of seasonal tendencies?

Season Tendencies can be a valid indicator, but they are not reliable enough to trade on their own. In fact, I prefer to call them Seasonal "Influences" and I always couple them with other indicators to determine if a market is "set up". Seasonals approximate the time of year markets may reach highs or lows. Some examples of Seasonals from the Money Tree course are:

Wheat - bottoms in August
Soybeans - drop in July
Silver - tops in January
Corn - down until December
Gentlemen - don't trade oats
Copper - rallies in July
Heating Oil - declines in October
Cotton - rallies in late November
Sugar - rallies from October to late November
British Pound - rallies from October to December
Canadian Dollar - drops from September to November

Remember these are tendencies and not constants. Never use this tool alone to trade futures.

What is Accumulation/ Distribution?

A/D measures market pressures and specifically looks for market divergence. It also serves to measure market strength and sentiment. Look for situations where there is a considerable divergence between A/D and the price of the commodity as an indication to future price direction. For example when price and A/D both move into new highs it is a good sign the trend will continue. However, when price makes a new high and A/D levels off it should be construed as a warning that the tend will soon change. This also true when price is making new lows and A/D does not.

How can I calculate Accumulation/ Distribution?

+ or - Net Change / Day Range = + or -

This formula has an exception for gaps. The exception is: If yesterdays close is < today's low then yesterdays close is the true low, in the day range.

Example: Price A/D

5000 5000

-300 / 600 = -50 4700 4950

+200 / 400 = +50 4900 5000

-400 / 1200 = -30 4500 4970

Price made a new low, Accumulation / Distribution did not, look for this market to turn bullish.

How do I use the "Mock Turtle" to enter a market?

Buy at the highest high of the last 48 days.
Sell at the lowest low of the last 48 days.

Place a protective sell stop at the high from the last 24 days.
Place a protective buy stop at the low from the last 24 days.

This has been used by itself as a trading system. The draw back is that you must be in a basket of markets. Thirty-five percent of the trades are winners.

If the Commercials and Public are set up use a 12 day time frame for entry and a 24 day time frame when placing a stop. Continue to tighten your stop as the trade matures using a smaller time frame's highs or lows.

What is the Fake Out (Key Reversal) entry technique?

If yesterday closed lower than the previous day, buy at yesterday's high. If yesterday closed higher than the previous day, sell at yesterday's low.

How do you arrive at and use %R?

Percent R is the relationship of today's close to the closes from the past 10 days. Formula:

10 day high - today's close = V1
10 day high - 10 day low = V2

V1 / V2 = %R

If the market is trading in an up trend and the index is low (below 20), that is a buying point.

If the market is trading in a down trend and the index is high (above 80), that is a selling point.

How should I use Volatility Break Out when trading?

Expansion of volatility is very bullish. Large range days usually change the trend. On the day after a break out you can buy above the market using 100%, 90%, 110% of yesterdays range.

How do I arrive at Zero Balance and what does it tell me?

Label each of the last eight highs and lows eight to one starting with eight being the most recent. Add the value of point six and five and subtract point eight (6 + 5 - 8 = Zero Balance). This should be where the market is going next. If price doesn't follow the Zero Balance line down, that is a bullish indication. If price doesn't follow the Zero Balance up, that is a bearish indication. If the market makes three consecutive up/down moves without the market following, we should have a big move in the opposite direction

How can I predict a False Break Out?

If the day prior to a break out day has an up close, it is probably a false break out. If the previous day has a down close and then breaks out, it will probably go higher.

Where should I place protective stops?

There are a few ways to place protective stops.

1. Monetary Stop Loss. Let your broker know you want to risk "$X" on any particular trade.

2. Trailing Stop. As the market makes new lows/highs use those prices as your stop. Early in the trade, use highs/lows from the last twelve days and narrow the number of days as the trade progresses, never getting tighter than three days.

What are the three specific trading patterns you taught in your Money Tree Course ?

1. Option Expiration

Buy the close on the Friday prior to option expiration. Exit first profitable close.

2. End of Month Bond Trade

Buy on the third to last trading day of the month. Sell the close on the third day of the new month.

3. Oops Trade

If the market opens below the previous day's close, buy at yesterday's low. If the market opens above yesterday's high, sell at yesterday's high.   Larry Williams