ALL YOU NEED TO KNOW ABOUT THE COT REPORT

WHAT THE COT REPORTS TELL YOU

The report is issued on Thursday evenings by the Commodity Futures Trading Commission. What it does is break down the amount of buying and selling done by three groups: Commercials, Large Traders, and Small Traders. In other words, you really can find out each week exactly what the big guys have been doing in the marketplace but it's not quite that easy. Let me explain why.

The largest powers in the marketplace are the Commercials. These are the large users and producers of the commodity. They do not use the commodity markets to speculate or directly make money in the markets. They are producers and users of the commodity, so they sell forward or hedge their production/demand. They use the markets for selling and delivery, not speculating.

The Large Traders are the second most dominant figure in the report. These are not quite what you think. They're not just large traders like me. They are nowadays, for the most part, commodity funds that are trying to speculate directly in the market.

Finally, there are the small traders, probably people like you; people who are trading in smaller amounts; the average trader. Interestingly enough, sometimes their record is very good in specific markets, but, usually they are wrong.

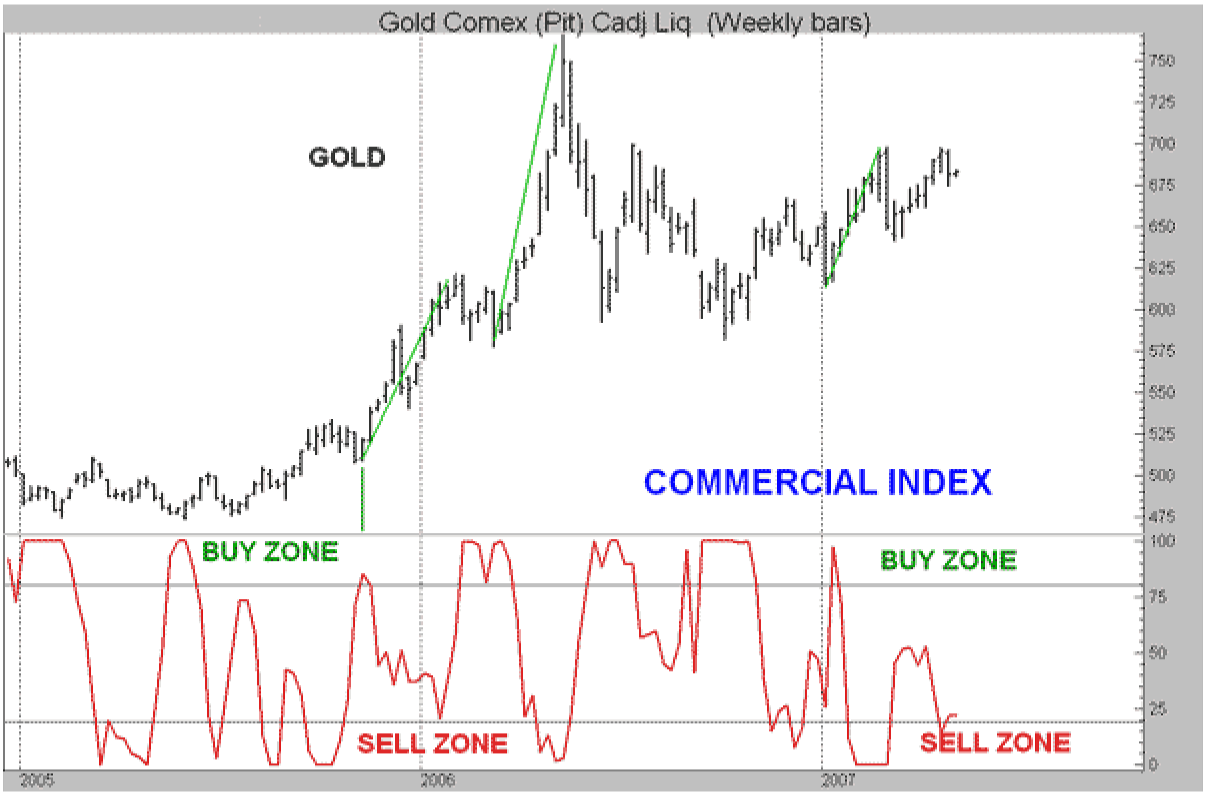
HOW TO USE THIS INFORMATION

Despite what you may have read from other traders (people who only looked at it for a few years), it is not a black-and-white situation. Just because the Commercials, the largest players in the marketplace, have been buyers does not mean a market will rally. How can that be true?

Let’s say you are a Commercial in Sugar. You need sugar to make candy. If the price of Sugar goes down; you will buy Sugar. In fact the more it declines, the more sugar you will buy in the futures markets now, for delivery later on when you will be making candy.

Your main concern is how much the sugar in your candy costs. As a Commercial you don’t care much about what price will do… no… you care about buying so you can take delivery and whip of a bunch of Taffy to sell for a profit.

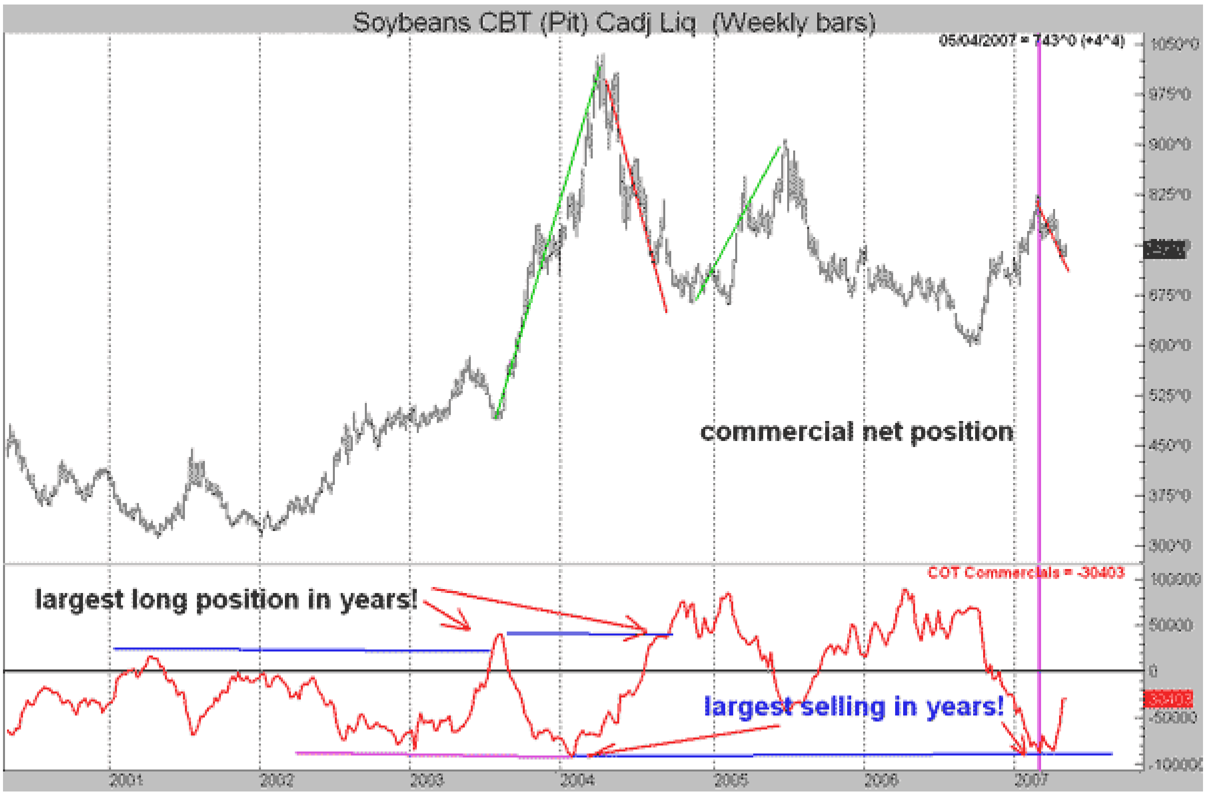
WHAT TO LOOK FOR



Using the COT index is not about chart reading or any of the mystical stuff called technical analysis. It's plain and simple, as you can see in the above chart of Gold --- when the red line is high and above 80% --- the Commercials have been doing a relatively large amount of buying, and prices usually rally. By the same token, when the line is low --- below 20% --- they have been doing a relatively large amount of selling and prices usually decline. Look at the $ potential in those moves! Of course not all indicators will make money and there is always risk; you can lose as much or more than you can make on a trade. Is this the type of indicator you are looking for to help your trading and investment decisions?

Let me show you another way of using it

In this next chart we're looking at the Commercials Net Position in Soybeans. Please look at the black horizontal line in the Commercial panel (red line indicator). When the red line is above the black it means the Commercials have been doing a relative large amount of buying. This is where it gets tricky and were I suspect I can help you the most. It isn't just a question of the Commercials being long or short, *but how massively long or short* they are. Notice the buy point in 2003 was evidenced by one of the largest Commercials long positions in years… and a rally that might have produced over $26,000 profit on a $1,500 investment! Look at how high their Net Position was at the start of 2005… and again how this forecast a move of over $11,500 per contract, which had a $1,500 margin requirement.



Also note that when the Commercials Net Position was low, with the largest selling positions in years, as it was at the first of 2004, it warned of the ensuing bear market with a profit potential of over $17,000 per contract. Again, there is always risk; these are examples not actual trades and re-read the disclaimer on the bottom of this and all pages on our website. Shortly after the start of 2007 the Commercials Index made a multi year low, and Beans plummeted.