
Trading Futures
FOR
DUMMIES®

by Joe Duarte, MD



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About the Author

Dr. Joe Duarte is a widely read market analyst, writer, and an active trader. His daily Market IQ column is read by thousands of investors, futures and stock traders, information seekers, intelligence aficionados, and professionals around the world.

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His articles and commentary have appeared on Marketwatch.com. He has been quoted in *Barron's*, *U.S.A. Today*, *Smart Money*, *Medical Economics*, Rigzone.com, and in *Technical Analysis of Stocks and Commodities* magazine.

Dedication

To my mother, whose long fight with cancer is remarkable and a sign of the human spirit's ability to persevere in the toughest of circumstances.

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A book is always more a product of circumstances than of the author's wits and ability to research data and synthesize it. No author can create without the help of others. So here's the list of important people for this one:

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Contents at a Glance

.....

<i>Introduction</i>	1
<i>Part I: Understanding the Financial Markets</i>	7
Chapter 1: The Ins and Outs of Trading Futures	9
Chapter 2: Where Money Comes From	25
Chapter 3: The Futures Markets	39
Chapter 4: Some Basic Concepts About Options on Futures	53
Chapter 5: Trading Futures Through the Side Door	67
<i>Part II: Analyzing the Markets</i>	79
Chapter 6: Understanding the Fundamentals of the Economy	81
Chapter 7: Getting Technical Without Getting Tense	101
Chapter 8: Speculating Strategies That Use Advanced Technical Analysis	125
Chapter 9: Trading with Feeling Now!	143
<i>Part III: Financial Futures</i>	161
Chapter 10: Wagging the Dog: Interest Rate Futures	163
Chapter 11: Rocking and Rolling: Speculating with Currencies	185
Chapter 12: Stocking Up on Indexes	205
<i>Part IV: Commodity Futures</i>	219
Chapter 13: Getting Slick and Slimy: Understanding Energy Futures	221
Chapter 14: Getting Metallic Without Getting Heavy	247
Chapter 15: Getting to the Meat of the Markets: Livestock and More	265
Chapter 16: The Bumpy Truth About Agricultural Markets	279
<i>Part V: The Trading Plan</i>	293
Chapter 17: Trading with a Plan Today So You Can Do It Again Tomorrow	295
Chapter 18: Looking for Balance Between the Sheets	303
Chapter 19: Developing Strategies Now to Avoid Pain Later	313
Chapter 20: Executing Successful Trades	323
<i>Part VI: The Part of Tens</i>	333
Chapter 21: Ten Killer Rules to Keep You Sane and Solvent	335
Chapter 22: More Than Ten Additional Resources	341
<i>Index</i>	347

Table of Contents

.....

***Introduction*..... 1**

About This Book.....	2
Conventions Used in This Book.....	3
What I Assume about You.....	3
How This Book Is Organized.....	4
Part I: Understanding the Financial Markets.....	5
Part II: Analyzing the Markets.....	5
Part III: Financial Futures.....	5
Part IV: Commodity Futures.....	5
Part V: The Trading Plan.....	5
Part VI: The Part of Tens.....	6
Icons Used in This Book.....	6
Where to Go from Here.....	6

***Part 1: Understanding the Financial Markets*..... 7**

Chapter 1: The Ins and Outs of Trading Futures 9

Who Trades Futures?.....	10
What Makes a Futures Trader Successful?.....	11
What You Need in Order to Trade.....	12
Seeing the Two Sides of Trading.....	13
Getting Used to Going Short.....	13
Managing Your Money.....	14
Analyzing the Markets.....	15
Noodling the Global Economy.....	16
The China phenomenon.....	16
Europe: Hitting the skids.....	17
North America: Ignore it at your own risk.....	19
Emerging markets: There's more to keep tabs on than you may expect.....	20
Militant Islam.....	21
Relating Money Flows to the Financial Markets.....	22
Enjoying Your Trading Habit.....	23

Chapter 2: Where Money Comes From 25

Discovering How Money Works: The Fiat System.....	26
Money's money because we say it's money.....	26
Where money comes from.....	27



Introducing Central Banks (Including the Federal Reserve)	28
The central bank of the United States (and the world):	
The Federal Reserve.....	28
How central banks function	30
Understanding Money Supply	31
Equating money supply and inflation	31
Seeing how something from something is something more	33
Getting a handle on money supply from a trader's point of view	34
Putting Fiat to Work for You.....	35
Bonding with the Fed: The Nuts and Bolts of Interest Rates.....	36
Central Banks.....	37
Chapter 3: The Futures Markets39
Taking Big Risks and Guarding Against Them: Two Types of Traders	40
Hedging bets to minimize risk	40
Speculating that there's a profit to be had.....	42
Limiting Risk Exposure: Contract and Trading Rules.....	43
Checking the expiration date	43
Chilling out: Daily price limits	43
Sizing up your account	43
Staying Up to Snuff: Criteria for Futures Contracts	44
Seeing Where the Magic Happens.....	45
Exploring How Trading Actually Takes Place	47
Shifting sands: Twenty-four-hour trading.....	48
Talking the talk	49
Making the Most of Margins	51
Chapter 4: Some Basic Concepts About Options on Futures53
Getting Options on Futures Straight.....	54
SPANning your margin	54
Types of options	55
Types of option traders	56
Breaking down the language barrier.....	56
Grappling with Greek	57
Understanding Volatility: The Las Vega Syndrome.....	61
Some Practical Stuff.....	63
General rules of success.....	64
Useful information sources	66
Chapter 5: Trading Futures Through the Side Door67
Introducing Exchange-Traded Funds.....	68
Stocking Up on Stock Index Future ETFs	70
The S&P 500 (SPX)	70
The Nasdaq 100 Index (NDX).....	71
The Dow Jones Industrial Average.....	71

Comfort via Commodity ETFs	72
Energizing your ETF Trades	72
The golden touch — metal ETFs	74
Getting Current with Currency ETFs	74
Using ETFs in Real Trading	75

***Part II: Analyzing the Markets* 79**

Chapter 6: Understanding the Fundamentals of the Economy 81

Understanding the U.S. Economy: A Balancing Act	83
Getting a General Handle on the Reports	84
Exploring how economic reports are used	85
Gaming the calendar	86
Exploring Specific Economic Reports	86
Working the employment report	87
Probing the Producer Price Index (PPI)	88
Browsing in the Consumer Price Index (CPI)	89
Managing the ISM and purchasing manager's reports	90
Considering consumer confidence	91
Perusing the Beige Book.....	92
Homing in on housing starts.....	94
Staying Awake for the Index of Leading Economic Indicators	95
Grossing out with Gross Domestic Product (GDP)	96
Getting slick with oil supply data.....	96
Enduring sales, income, production, and balance of trade reports.....	98
Trading the Big Reports	98
Keeping It Simple.....	99

Chapter 7: Getting Technical Without Getting Tense 101

Picturing a Thousand Ticks: The Purpose of Technical Analysis.....	102
First Things First: Getting a Good Charting Service	104
Deciding What Types of Charts to Use.....	107
Stacking up bar charts.....	108
Weighing the benefits of candlestick charts	108
Getting the Hang of Basic Charting Patterns	111
Analyzing textbook base patterns.....	111
Using lines of resistance and support to place buy and sell orders	113
Moving your average	114
Breaking out	116
Using trading ranges to establish entry and exit points	117
Seeing gaps and forming triangles	118
Seeing through the Haze: Common Candlestick Patterns	119
Engulfing the trend.....	120
Hammering and hanging for traders, not carpenters	121
Seeing the harami pattern.....	122

Chapter 8: Speculating Strategies That Use Advanced Technical Analysis 125

Using Indicators to Make Good Trading Decisions.....	126
Making good use of moving averages	126
Understanding and using oscillators	128
Seeing how trading bands stretch.....	130
Trading with trend lines	134
Lining Up the Dots: Trading with the Technicals.....	137
Identifying trends	137
Getting to know setups	138
Buying the breakout.....	139
Swinging for dollars	139
Selling and shorting the breakout in a downtrend.....	140
Setting your entry and exit points	142

Chapter 9: Trading with Feeling Now! 143

The Essence of Contrarian Thinking	144
Bull Market Dynamics.....	145
Survey Says: Trust Your Feelings	145
Considering Volume (And How the Market Feels About It).....	148
Out in the Open with Open Interest.....	151
Rising markets	152
Sideways markets	152
Falling markets.....	152
Putting Put/Call Ratios to Good Use.....	153
Total put/call ratio.....	154
Index put/call ratio.....	154
Understanding the Relationship Between Open Interest and Volume	156
Using Soft Sentiment Signs.....	157
Scanning magazine covers and Web site headlines	157
Monitoring congressional investigations and activist protests.....	158
Developing Your Own Sentiment Indicators.....	159

Part III: Financial Futures 161

Chapter 10: Wagging the Dog: Interest Rate Futures 163

Bonding with the Universe.....	164
Looking at the Fed and bond-market roles	164
Hedging in general terms	166
Globalizing the markets.....	168
Yielding to the Curve.....	170

Deciding Your Time Frame.....	171
Shaping the curve.....	172
Checking out the yield curve	173
Getting the Ground Rules of Interest-Rate Trading	173
Playing the Short End of the Curve: Eurodollars & T-Bills	175
Eurodollar basics.....	175
Trading Eurodollars	176
Trading Treasury-bill futures	179
Trading Bonds and Treasury Notes.....	180
What you're getting into	180
What you get if you take delivery.....	181
Chapter 11: Rocking and Rolling: Speculating with Currencies	185
Understanding Foreign Exchange Rates.....	186
Exploring Basic Spot-Market Trading	187
Dabbling in da forex lingo	188
Electronic spot trading	190
The U.S. Dollar Index	197
Trading Foreign Currency	199
Trading the euro against the dollar	199
The UK pound sterling.....	200
The Japanese yen	200
The Swiss franc.....	201
Arbitrage Opportunities and Sanity Requirements	202
Chapter 12: Stocking Up on Indexes	205
Seeing What Stock-Index Futures Have to Offer.....	206
Contracting with the Future: Looking into Fair Value.....	208
Major Stock-Index Futures Contracts	208
The S&P 500 futures (SP).....	209
The NASDAQ-100 Futures Index (ND).....	210
Minimizing your contract	211
Formulating Trading Strategies	212
Using futures rather than stocks.....	212
Protecting your stock portfolio	213
Swinging with the rule	215
Speculating with stock-index futures.....	216
Using Your Head to Be Successful	216
Get real.....	217
Limit your risk	217
Become a contract specialist.....	217
Don't trade when your mind is elsewhere	218
Never be afraid of selling too soon	218
Never let yourself get a margin call	218

Part IV: Commodity Futures219

Chapter 13: Getting Slick and Slimy: Understanding Energy Futures	.221
Some Easy Background Info.....	222
Completing the Circle of Life: Oil and the Bond Market	222
Watching the bond market.....	223
Looking for classic signs as oil prices rise.....	224
Examining the Peak Oil Concept	226
The Post-9/11 Mega Bull Market in Energy	227
Understanding Supply and Demand	229
Playing the Sensible Market.....	230
Handling Seasonal Cycles	232
Preparing for the Weekly Cycle	233
Checking other sources before Wednesday.....	233
How to react to the report	234
Forecasting Oil Prices by Using Oil Stocks	235
Burning the Midnight Oil.....	237
Getting the Lead Out with Gasoline.....	238
Contract specifications.....	239
Trading strategies	239
Keeping the Chill Out with Heating Oil.....	240
Getting Natural with Gas	243
Getting in Tune with Sentiment and the Energy Markets	244
Some Final Thoughts about Oil.....	245
Chapter 14: Getting Metallic Without Getting Heavy	.247
Tuning In to the Economy.....	248
Gold Market Fundamentals.....	249
Lining the Markets with Silver.....	253
Catalyzing Platinum	253
Industrializing Your Metals	254
Getting into Metal Without the Leather: Trading Copper.....	254
Setting up your copper-trading strategy.....	255
Charting the course	256
Organizing the charts	260
Making sure fundamentals are on your side.....	262
Getting a handle on the Fed	263
Pulling it together	264
Chapter 15: Getting to the Meat of the Markets: Livestock and More	.265
Exploring Meat-Market Supply and Demand, Cycles, and Seasonality	266

Understanding Your Steak267
 The breeding process268
 The packing plant268
 The feeder cattle contract.....269
 The CME live cattle contract269
 Understanding Your Pork Chop270
 Living a hog’s life270
 Pork bellies.....271
 Matching Technicals with Fundamentals.....271
 Watching for the Major Meat-Market Reports.....273
 Counting cattle273
 Posting pig-related data.....274
 Other meat-market reports to watch.....274
 Interpreting Key Report Data275
 Outside Influences that Affect Meat Prices276

Chapter 16: The Bumpy Truth About Agricultural Markets279

Staying Out of Trouble Down on the Farm280
 Agriculture 101: Getting a Handle on the Crop Year.....281
 Weathering the highs and lows of weather.....282
 Looking for Goldilocks: The key stages of grain development....283
 Cataloging Grains and Beans284
 The soybean complex.....284
 Getting corny286
 Culling Some Good Fundamental Data286
 Getting a handle on the reports287
 Don’t forget the Deliverable Stocks of Grain report288
 Gauging Spring Crop Risks288
 Agriculture 102: Getting Soft.....290
 Having coffee at the exchange.....290
 Staying sweet with sugar291
 Building a rapport with lumber292

***Part V: The Trading Plan*293**

Chapter 17: Trading with a Plan Today So You Can Do It Again Tomorrow295

Financing Your Habit296
 Deciding Who’s Going to Do the Trading296
 Choosing a CTA298
 Reviewing the CTA’s track record.....298
 Other CTA characteristics to watch for.....299
 Considering a trading manager299
 Choosing a Broker.....300
 Falling in the pit of full service301
 Choosing a futures discount broker302

Chapter 18: Looking for Balance Between the Sheets	303
Exploring What's on Your Mental Balance Sheet	304
Why do you want to trade?	304
Trading as part of an overall strategy	305
Trading for a living	306
The Financial Balance Sheet	306
Organizing your financial data.....	306
Setting realistic goals	308
Calculating Your Net Worth	308
Chapter 19: Developing Strategies Now to Avoid Pain Later	313
Deciding What You'll Trade	313
Adapting to the Markets.....	314
Trading the reversal.....	315
Trading with momentum.....	315
Swing trading	316
Managing Profitable Positions.....	316
Building yourself a pyramid (without being a pharaoh).....	317
Preventing good profits from turning into losses	317
Never adding to losing positions.....	318
Back Testing Your Strategies	318
Setting Your Time Frame for Trading	319
Day trading.....	319
Intermediate-term trading.....	319
Long-term trading.....	320
Setting Price Targets	320
Reviewing Your Results	320
Remember Your Successes and Manage Your Failures	322
Making the Right Adjustments	322
Chapter 20: Executing Successful Trades	323
Setting the Stage	323
Getting the Big Picture	325
Viewing the long-term picture of the market	325
Doing a little technical analysis.....	326
Stalking the Setup.....	326
Checking your account.....	327
Reviewing key characteristics of your contract.....	328
Reviewing your plan of attack	328
Jumping on the Wild Beast: Calling In Your Order.....	329
Riding the Storm.....	330
Knowing If You've Had Enough.....	331
Reviewing Your Trade.....	332
Mastering the Right Lessons	332

<i>Part VI: The Part of Tens</i>	333
Chapter 21: Ten Killer Rules to Keep You Sane and Solvent	335
Trust in Chaos	335
Avoid Undercapitalization	336
Be Patient	336
Trade with the Trend.....	337
Believe in the Charts, Not the Talking Heads	338
Remember, Diversification Is Protection.....	338
Limit Losses	339
Trade Small	339
Have Low Expectations	340
Set Realistic Goals.....	340
Chapter 22: More Than Ten Additional Resources	341
Government Web Sites	341
General Investment Information Web Sites	342
Commodity Exchanges	343
Trading Books.....	344
Newsletter and Magazine Resources	345
<i>Index</i>	347

Introduction



Risk and uncertainty go hand in hand with opportunities to make money. Those who can shake off the chains of preconceived notions and ideology and who discover how to make money as markets rise or fall are more successful than investors who buy and hold.

And that's what this book is about: embracing the inherent volatility of the world and the markets and using it as a wealth-building tool.

Goods, services, and basic materials probably will undergo major price swings, up and down, at one time or another during the next 20 years. The volatility of the markets is only going to increase. And the chances for sustainable trends that last for decades, the way the stock market rallied in the 1980s and 1990s, are less likely than they were a few years ago.

If global warming doesn't get you, then politicians, militants, or dictators are almost certain to try. That's why finding out how to trade futures is important for investors who not only want to diversify their own portfolios but also want to find ways to protect and grow their money when times are hard in traditional investment venues such as the stock market, a point well illustrated by the action in the financial markets in 2007 and early 2008.

The world has changed since the events of September 11, 2001. China, India, Brazil, and other economies are now competing with the United States and Europe. This competition is not likely to ebb or change for several decades, which means that market volatility is not likely to go away any time soon.

Whereas in the past investors could afford the luxury of buying and holding stocks or mutual funds for the long term, the post-September 11, 2001, world calls for a more active and even a speculative investor. The new world calls for a trader. And the futures markets, although high risk, offer some of the best opportunities to make money by trading in volatile times.

So you need to get ready to work as a stock trader, a geopolitical analyst, a money manager, and an expert in the oil and commodity markets. In my line of work, I have to keep up with news about the economy, disruptions in the supply of oil, the weekly trends of oil supply, weather patterns, and the stock market, both in a macro and micro universe. As a futures trader, you have to do the same with your contract of choice, and you have to pay attention to

time factors, especially expiration dates and how much time you have left to decide whether you have to exercise your option.

Remember that successful traders

- ✔ Have a plan, follow it, and adjust it to changing conditions
- ✔ Look at trading as a business
- ✔ Are disciplined in their personal and professional lives
- ✔ Understand the risks and the game they're playing
- ✔ Know and accept that they will make mistakes
- ✔ Never forget their mistakes and benefit from them
- ✔ Never enter into a trade without knowing their exit strategy — how they'll get out of the market
- ✔ Never risk money that they aren't willing to or can't afford to lose
- ✔ Never allow a bad trade to lead to a margin call

Trading futures isn't gambling; it's speculating. It's also about being prepared, gathering information, and making judgment calls about situations that are unfolding, and it's a process of self-protection and an ongoing education.

You may think of yourself as a dummy. But after you read this book, you'll know how trading futures is done and how to stay in the game as long as you want, not necessarily by hitting home runs but rather by showing up to work every day, getting your uniform dirty, and playing good, consistent, fundamental baseball.

About This Book

Futures markets are resurging and are likely to be hot for several decades, given the political landscape. Changing world demographics and the emergence of China and India as economic powers and consumers, coupled with changing politics in the Middle East, are likely to fuel the continued prominence of these markets.

I take you inside these markets and give you tools that you can use for

- ✔ **Analyzing, trading, or just gaining a better understanding of how money works and affects your daily life.**
- ✔ **Starting fresh in your views of how the markets work.** A traditional buy and hold mind-set is a recipe for trouble in futures and options trading, while profit-taking or hedging a position before the weekend is normal operating procedure.

- ✔ **Discovering that time is on your side in the stock and bond markets, but it's your enemy in futures.** You have to be on top of how much time you have left before your trading position expires, becoming worthless, or you have a load of something delivered with a bill for a large sum of money.
- ✔ **Reading a sentence just the way it's written.** No tricks, hidden clues, political agendas, or attempts to make you look foolish. If you don't get it, I didn't do a good job of writing it.
- ✔ **Remembering that measuring the return of your money is more important than measuring the return on your money.**

Conventions Used in This Book

To help you make the best use of this book, I use the following conventions:

- ✔ *Italic* is used for emphasis and to highlight new words or terms.
- ✔ **Boldface text** is used to indicate key words in bulleted lists or the action parts of numbered steps.
- ✔ `Monofont` is used for Web addresses.

What I Assume about You

I had to start somewhere, so I assumed some things that may or may not apply to you. I'm not trying to offend you or to be condescending. So here's what I've assumed about you:

You're not a beginner. In fact, you've got some experience in investing and at least conceptually know that professionals are not the buy and hold investors that Wall Street would like to make the public believe that they are.

- ✔ You're looking for a better way to make money in the markets, but even though you have some experience, don't know enough to trade futures and want to find out how to do it without losing your shirt.
- ✔ Even though you've been a stock trader or investor, you'd like to know more about using charts, indicators, and trading psychology.
- ✔ You want to find out how to decrease the risk within your portfolio.
- ✔ You want to become a more active trader and make money more consistently by letting your profits run and cutting your losses short.
- ✔ You want to know how to make sense of the big picture in the markets and to try your hand at trading currencies, bonds, and commodities.

- ✔ You like the idea of trading on margin, and you're not afraid of leveraging additional money.
- ✔ You aren't afraid of being wrong five or six times in a row when trading, but you're willing to try again until you succeed.
- ✔ You want to investigate more about how politics, wars, weather, and external events can be used as opportunities to trade.
- ✔ And most important, you know that reading an introductory or intermediate work, such as this, is an excellent beginning, but that you'll have to read more, find out more, and make changes to your trading skills as time passes.

If these assumptions describe you, you've picked up the right book. Nevertheless, I also assume that you have some tools and resources at your disposal. Here's what you need to get started in futures trading:

- ✔ **Plenty of money and a cast-iron stomach to boot.** You need to have at least twice the amount that your broker/advisor lists as a minimum for opening an account. And you have to be ready to lose it all, fast, although if you follow the money management rules in this book, that won't necessarily happen.
- ✔ **Your head screwed on straight before you start.** Futures trading is really dangerous and can wither away your trading capital fast.
- ✔ **A quiet place to prepare, set up your trading station, and make sure that you know your market stuff really well.** Exchange hours, what brokers do and don't do, what trading terms like bid and offer mean, and how to read a brokerage statement are only some of what you need to know.
- ✔ **A fast computer with a fast Internet connection.**
- ✔ **Access to good charts.** You can gain access to charts either through the Web or a good trading software program, which gives you the ability to test your strategies before you commit to them.
- ✔ **Subscriptions to newsletters, books, magazines, and software.** Be ready to spend some money for these important information resources. You can also take courses, and you need to get used to paper trading (practicing without money) before jumping into the deep end.

How This Book Is Organized

I've organized *Trading Futures For Dummies* into six parts. Parts I and II introduce you to the futures markets and market analysis — technical and fundamental. Parts III through V take you into the nuts and bolts: the exchanges, the contracts, trading strategies, and indicators. Part VI is the now-famous *For Dummies* Part of Tens, in which you can discover a little about a lot of different futures information.

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