TRENDS IN FUTURES

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HOW TO TRADE 'BREAKING NEWS'

These are tension-filled times resulting in volatile markets.

From The Wall Street Journal March 10: "U.S. stocks fell sharply on Monday based on war uncertainty and investor nervousness regarding the ultimate cost of a possible war. The Dow Jones Industrial Average was down 171 points. The dollar hit its lowest level in four years."

From The Wall Street Journal March 17: "U.S. stocks surged Monday on signs the U.S. will go to war with Iraq, a move some say will remove a level of uncertainty in the market. The Dow Jones Industrial Average was up about 239 points, the dollar rallied, while bonds and oil prices sank."

From the Associated Press March 18: "BAGHDAD — Iraq's leadership on Tuesday rejected the U.S. ultimatum that Saddam Hussein and his sons leave Iraq or face war and the United Nations pulled its weapons inspection staff out of the country as battle appeared inevitable."

MSNBC March 18: "World oil prices collapsed by up to 10% as the United States and Iraq made final preparations for war, easing uncertainty over the conflict that had driven up prices."

So, why does the same news affect the same markets in opposite ways on different days? Why don't markets react to the news as expected? Why are the "experts" wrong so often? Recall, we were told by the "experts" that there was a $7 to $8 war premium built into the price of crude. As this is written, crude oil has now traded more than $10 down from the Feb. 27 high, and back then war wasn't even certain. This is the first time in history a so-called war premium evaporated before the war even started.

What about the stock market? Is it anticipating an easy win and how can it be sure? Well, I pity the poor slob who's trying to trade off the AP wire, Reuters, CNN or The Wall Street Journal or by blindly listening to the "experts." I certainly understand why some trade off the astrological charts, and when it comes to trading, the National Enquirer is likely as good a news source as CNN.

At *TIF* we know there are no experts other than the market itself, the one entity to listen to. Common wisdom is not wisdom that will enrich you. Frankly, I stopped trading off of the news long ago (the reason why our stops on our profitable long crude position got us out about $7 ago). Rather than trade off the news, we recommend reacting to the reaction to it. Based on e-mails received over the past few weeks — many new subscribers seem incredulous as to why the markets have not acted "correctly" — this is the time to revisit our six rules for how to trade news. As you review these six, consider how the energies, bonds, currencies and stocks have reacted recently in relation to the news:

1) The market's reaction to the news is crucial (our most important rule). It's not the news, but how the market reacts to the news that's important. While the news will mold the public perception, you must be alert for divergences between the news and market action. It all has to do with expectation vs. reality. Look for the divergence between what's happening and what people think is supposed to happen. When the big turn comes, the general public will always be looking the wrong way. There are certain ways to analyze reactions to news (or even a lack of news).

2) If bearish news is announced, and the market starts to sell off in large volume, it's a good bet the market's going lower.

3) If the market doesn't react much to bullish news, it's probably been discounted.

4) Moves of importance invariably tend to begin before there is any news to justify the initial price move. Once the move is underway, the emerging fundamentals will slowly come to light. A big rally (decline) on no news is almost always very bullish (bearish).

5) It is generally not good practice to buy after a lot of very bullish news, or sell after an extremely bearish report. Both good and bad news is many times already discounted in price. A well-established trend will generally continue regardless of the news.

6) When unexpected news occurs (news that the market has not had time to prepare for) and the market opens in a wide range or gaps lower or higher, sell out your longs, or cover your shorts and wait. Watch the market for 30 minutes to an hour. If the market opened sharply lower with heavy selling and was not able to trade much lower than that, it's into support and can be bought at the market with a tight risk point. Watch the market closely at this point. Note the tone of the rally. If it is small and the market is able to again fall under the levels made when the bad news came out (or above the good) it is safe to assume the market is going lower (higher). (This is from W.D. Gann.)

KEY MARKETS FOCUS:

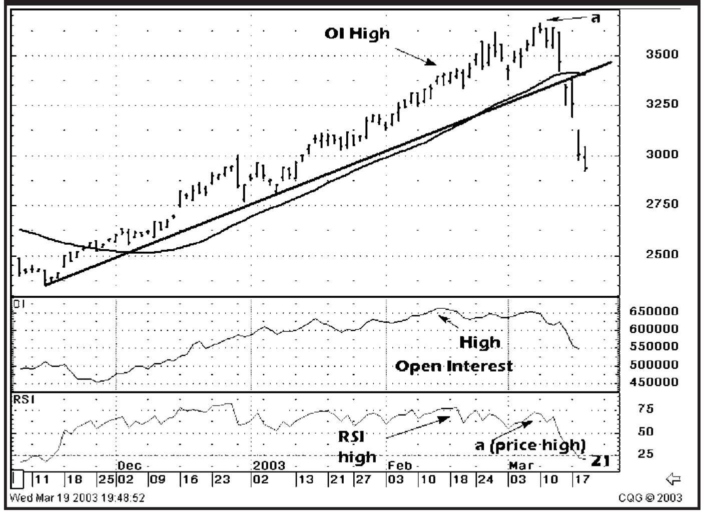
I'm writing this issue just as President Bush's deadline to war has passed. Although war appears just hours away, many of the markets we trade already have done what we would have expected them to do after the war was completed successfully. Let's hope the markets are right. (They usually are.) The crude oil is well off its highs. The dollar, bonds, gold and stocks are all off lows. The question arises, Is a successful outcome already discounted in price or will these new trends continue? Again, the market will provide the true answer.

I've personally traded only lightly in the past few weeks waiting for some of this uncertainty to end. If I had just looked at the market and ignored the news, I would have been short crude oil and short bonds and therefore profited on these trends. It's hard to ignore the news (which is why I resurrected our rules above, because the most profitable trades are hardest to do). The uncertainty should hopefully end shortly, so let's look at some of the major markets we trade from a purely technical perspective.

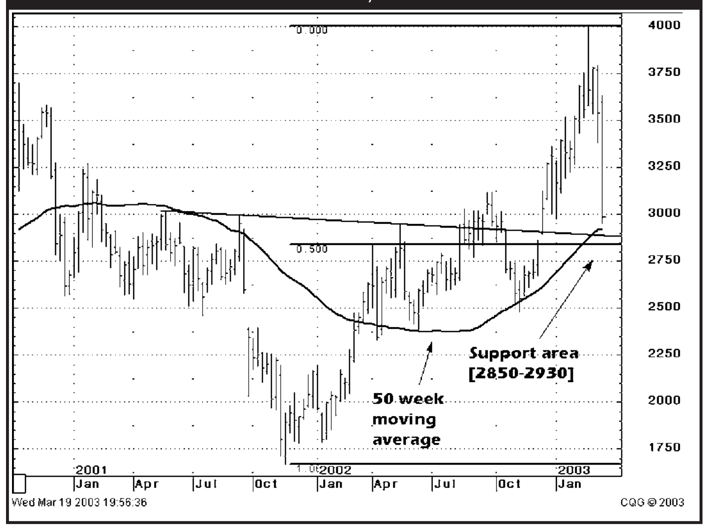
CRUDE

The market has topped and did this pre-war. We rode the trend up and were stopped out, not at the top but still at decent profits. Note how open interest (OI) was declining from mid-February to present, a sign the "smart money" was liquidating on the final price rise. Note how the relative strength index (RSI) registered lower highs from overbought levels over 75 while the market made higher highs, also a sign of a top. I would caution getting too bearish right now, even if the war is quick and successful. The nine-day RSI is currently at 20, oversold territory. The weekly RSI is approaching major support, and the 50-week moving average is at 29.25 while the major 50% Fibonacci retracement level is at 28.50 (basis the spot Nymex contract). Look for the first test of these levels to hold.

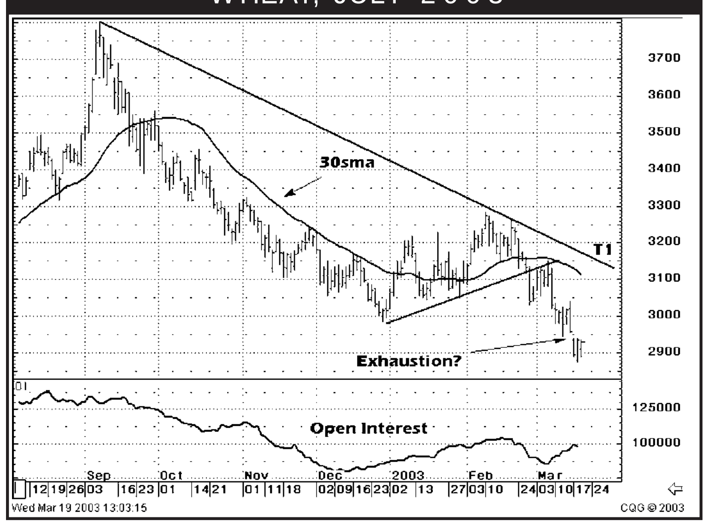
CRUDE OIL, MAY 2003



CRUDE OIL, WEEKLY



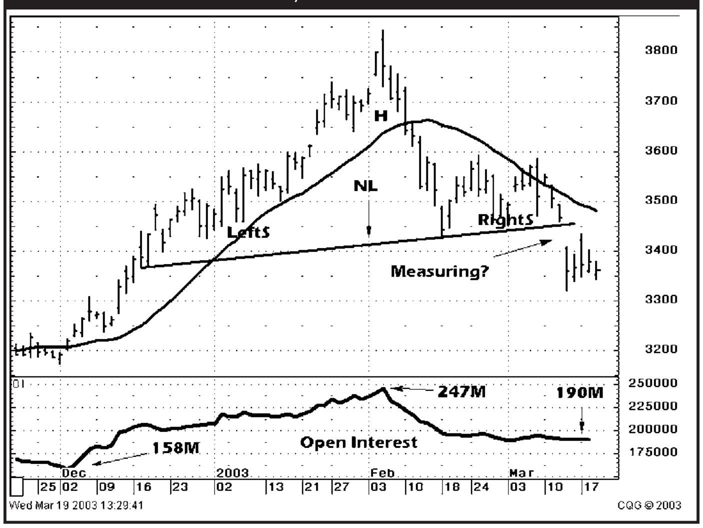
WHEAT, JULY 2003



WHEAT

The common wisdom is that when the war ends, wheat prices will surge — there will be 20 million Iraqis to feed — however, the major trend (see trendline "T1") remains down at this time. OI has been rising, which is bearish, while the market continues to trend lower. The market is trading well under its intermediate-term 30-day moving average. However, the market gapped lower this week, and this gap (from 294 to 295-1/2) looks significant, either an exhaustion, which would mark a major bottom, or a measuring, indicating the market will move much lower. How will we know? If the gap is filled quickly, within the next week, this is an exhaustion, the first sign of a major bottom (and especially if OI begins to fall again). If the gap remains open into next week, and OI continues to rise, this market is likely moving lower.

GOLD, APRIL 2003



GOLD

As much as I like gold, it looks bearish. A complex head-and-shoulders (H&S) pattern has now been completed (labeled) and I identify the gap down from 346 to be of the measuring kind. A measuring gap suggests the move is only half over and projects a downside target of $305, which coincides with the minimum H&S projection. This is a liquidating market. OI, while down to 190,000, is still about 30,000 contracts above where it was when the move started. Bottom line: This chart is bearish. Our projection is $305 or lower, and the pattern would only be negated on a move back over $359.

NATURAL GAS

Thus far, we've been unable to implement our suggested strategies to go short the natural gas market (March 6 *TIF*). We were looking for a test of the blow-off high to enter bear positions. While this could still happen, the lower this market goes, the less likely we'll be able to implement our strategies. While this particular market may never test the old highs or make a new higher high, there's an old rule that says "never sell the first break." The reason this is valid is because it happens a lot. There always have been, and will continue to be, new opportunities that follow this premise (so consider the March 6 issue a keeper).

EPILOGUE

If you missed Andy Rooney's excellent 60 Minutes piece a few weeks ago, read on. I was surprised CBS allowed him to broadcast this:

> *"You can't beat the French when it comes to food, fashion, wine or perfume, but they lost their license to have an opinion on world affairs years ago. They may even be selling stuff to Iraq and don't want to hurt business. The French are simply not reliable partners in a world where the good people in it ought to be working together. Americans may come off as international jerks sometimes, but we're usually trying to do the right thing.*
>
> *"The French lost WW II to the Germans in about 20 minutes. Along with the British, we got into the war and had about 150,000 guys killed getting their country back for them. We fought all across France, and the Germans finally surrendered in a French schoolhouse. You'd think that school building in Reims would be a great tourist attraction but it isn't. The French seem embarrassed by it. They don't want to call attention to the fact that we freed them from German occupation. I heard Steven Spielberg say the French wouldn't even let him film the D-Day scenes in 'Saving Private Ryan' on the Normandy beaches. They want people to forget the price we paid getting their country back for them.*
>
> *"Americans have a right to protest going to war with Iraq. The French do not. They owe us the independence they flaunt in our face at the U.N. I went into Paris with American troops the day we liberated it, Aug. 25, 1944. It was one of the great days in the history of the world. French women showered American soldiers with kisses, at the very least.*
>
> *"The next day, the pompous Charles de Gaulle marched down the mile long Champs Elysee to the Place de la Concorde as if he had liberated France himself. I was there, squeezed in among a hundred tanks we'd given the Free French Army that we brought in with us. Suddenly there were sniper shots from the top of a building. Thousands of Frenchmen who had come to see de Gaulle scrambled to get under something. I got under an Army truck myself. The tank gunners opened fire on the building where the shots had come from, firing mindlessly at nothing. It was a wild scene that lasted, maybe, 10 minutes.*
>
> *"When we go to Paris every couple of years now, I rent a car. I drive around the Place de la Concorde and when some French driver blows his horn for me to get out of his way, I just smile and say to myself, 'Go ahead, Pierre. Be my guest. I know something about this very place you'll never know.' The French have not earned their right to have an opinion about President Bush's plans to attack Iraq. On the other hand, I have."*

TECHNICAL REVIEW WITH ZONE INDICATORS

MARKET	CONT.	MAJ-TR	TC	POSITION	ENTERED	STOP	COMMENTS
CURRENCIES							
EURO	JUN	-1		NONE			Top appears in place; looking for lower-risk area (on rally) to enter shorts.
BRITISH POUND	JUN	-2		NONE			Broke support; looking to short on corrective rally ~ 15750 post-war uncertainty.
JAPANESE YEN	JUN	0		NONE			83 is major weekly support; stand aside for now.
CANADIAN $	JUN	2		NONE			Stopped out for no loss; sidelines until post-war uncertainty.
FINANCIALS							
EURODOLLAR	DEC	-1		SHORT	19-Mar	9879	Top feels in; we anticipate this to be a longer term trade looking for < 97.
T-BONDS	JUN	-1		NONE			Top also likely in, but sidelines until post-war uncertainty; stay tuned.
NASDAQ	JUN	1		NONE			Just missed our buy entry point; stand aside until post-war uncertainty.
S&P	JUN	1		NONE			Breakaway signals bottom; missed our buy point, on sidelines for now.
DOW	JUN	1		NONE			Looking to buy correction post-war; sidelines.
METALS							
COPPER	MAY	0		NONE			Erratic action keeps us on sidelines.
GOLD	APR	-2		NONE			Looking to short post-war if can't show any sign of strength; targeting 300.
SILVER	MAY	-2		NONE			Now targeting October lows.
GRAINS / OILSEEDS							
CORN	JUL	0		NONE			No high-potential trades evident at this time.
WHEAT	JUL	0		NONE			Either exhaustion gap will mark bottom if filled quickly, or going lower. Sidelines.
SOYBEANS	MAY	0		NONE			Bullish despite big Brazil crop but seasonally better to wait a few weeks for longs.
FOODS / FIBER							
COCOA	MAY	-2		NONE			Short weakness (only) using 1994 sell stop; risk to 2053 for profit obj.: < 1900.
COFFEE	MAY	-2		NONE			No high potential trades evident.
SUGAR	JUL	-1		SHORT	13-Mar	775	Technically toppy; objective on shorts: 665.
COTTON	MAY	2		LONG	26-Feb	5710	Profit objective on longs in mid-60s; note new higher stop.
LIVESTOCK							
CATTLE	JUN	-2		NONE			In bear spread, long October/short April; risk to -640 for -360 profit objective.
HOGS	JUL	0		NONE			No follow through to limit-down move; mixed signals. Stand aside.
ENERGY							
CRUDE OIL	MAY	-1		NONE			Out of longs from much higher levels; feels like top in, but too risky to short.
HEATING OIL	MAY	-1		NONE			Same as crude.
GASOLINE	MAY	-1		NONE			Top in but could test. Sidelines
NATURAL GAS	MAY	0		NONE			Major top formation but too risky to short at current levels; stand aside.

TECHNICAL REVIEW with ZONE INDICATORS

MAJOR TREND (MAJ TR)

Our analysis of the dominant trend. It is our opinion that it is easier to trade with the trend than against it; however the Zone a market is in (+3 to –3) will dictate how to play a particular trade.

- +3 Mature UPtrend
- +2 Established UPtrend
- +1 Young UPtrend
- 0 A sideways, trendless or consolidating market.
- -1 Young DOWNtrend
- -2 Established DOWNtrend
- -3 Mature DOWNtrend

For a detailed explanation of each zone request the Key to Zone Interpretation. It's free. E-mail: geo@commodity.com or call (800) 655-4755.

KEY TO COMMONLY USED ABBREVIATIONS

BE	Break-even	MOO	Market on Open
COT	CFTC Commitments of Traders Report	SCO	Stop on Close Only
DT	Downtrend	RES	Resistance level (overhead)
H&S	Head & Shoulders (reversal chart pattern)	SUP	Support (below)
MOC	Market on Close	OI	Open Interest
		UT	Uptrend

TREND CHANGE (TC)

A "TC" is a "Trend Change Watch Alert." Our analysis indicates a trend change is potentially imminent. It is recommended stops be tightened; be ready to turn paper profits into cash.

POSITION/DATE ENTERED/STOP/COMMENTS

Based on technical and fundamental analysis these are positions recommended in TIF and/or in the Technical Review. The first date of each recommendation is noted. Watch for updated stops. Watch for suggested profit recommendations in the Comments section.

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