

Trading Around the World

How to Take Advantage of Volatility in the Gold Market



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How to Take Advantage of Volatility in the Gold Market

John Carter & Hubert Senters
TradeTheMarkets.com

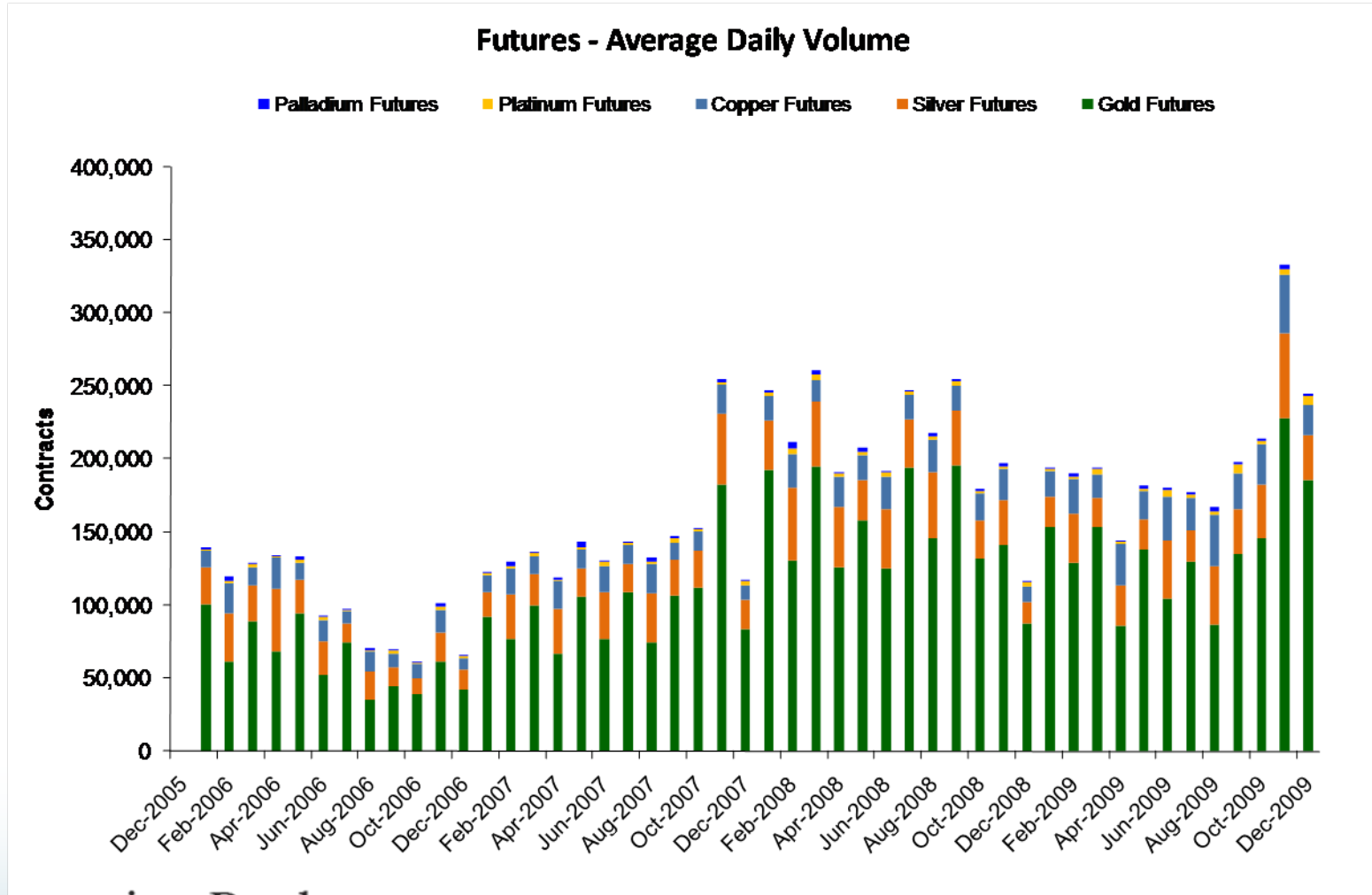
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Why Futures vs. ETFs, Stocks?

- Near-24 hour markets; no gap risk
- Fast & accurate pricing mechanism based purely on market supply & demand
- Exchange role as centralized counterparty removes counterparty risk
- Regulated marketplace
- Futures margin system ensures customer protection, provides leverage and accommodate a greater range of trading strategies at a lower cost
- Rising volumes & liquidity in benchmark products reflects global acceptance

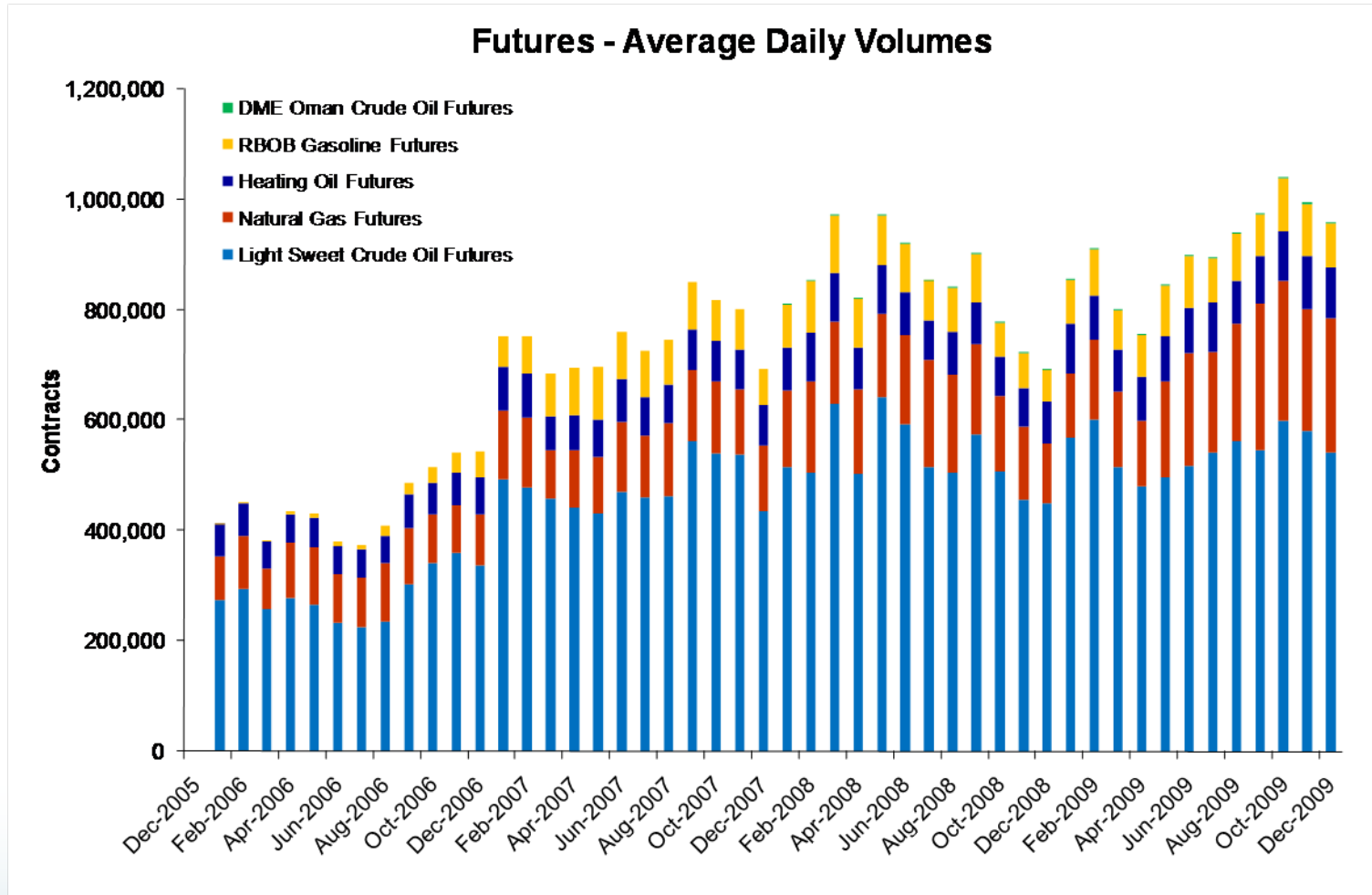
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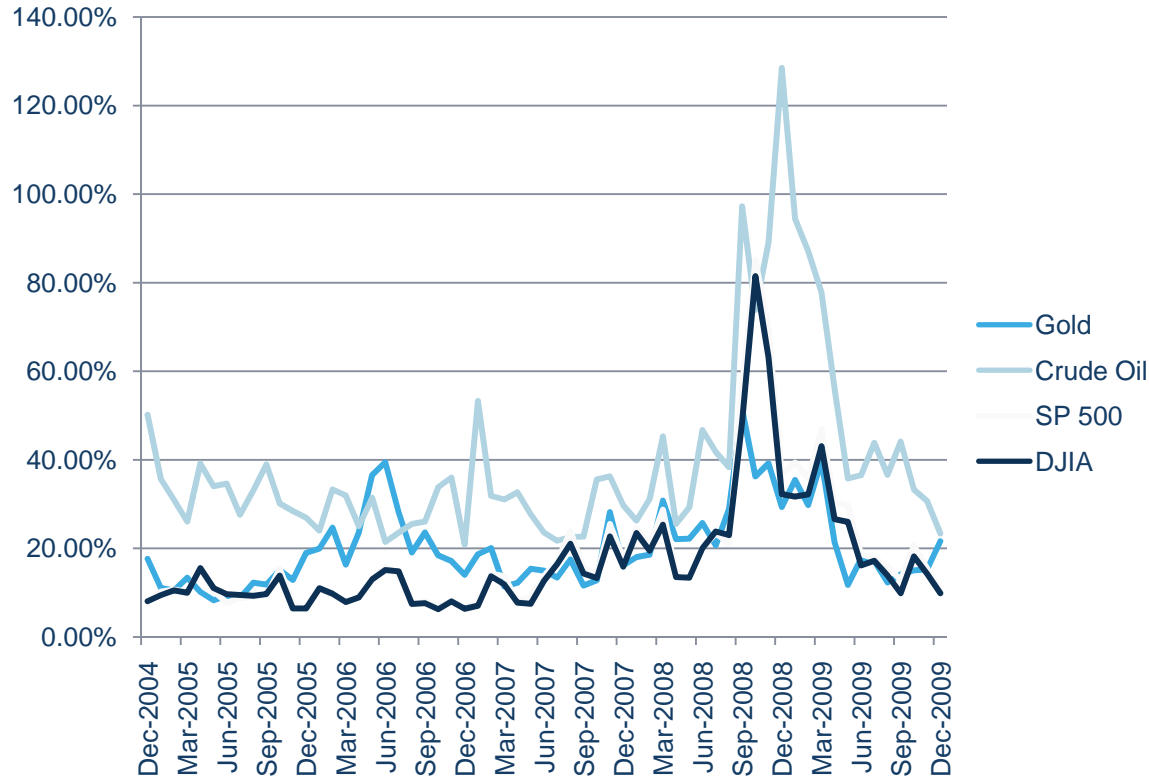


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Why Trade Metals: A Trader's Perspective

- Trading Background
- Why consider trading metals?
- Volatility is king
- Fundamental perspectives
- How do I trade metals?
- www.cmegroup.com & contract specs
- Volatility plays – technical setups, entry & exit strategies
- Attitude of a trader

My Background

- My first trade was in high school, call options on INTC
- Full Time Trader Since 1996
- Started financial market research firm, www.tradethemarkets.com in 1999
- CTA and Principle in Razor Trading, a private money management firm
- Started off as stocks and options trader, now trade mostly futures
- McGraw Hill published Mastering the Trade in 2006
- Consider myself a “Gold Bug”

Why Trade Metals: A Trader's Perspective

- Volatility travels from market to market.
- If you are only trading stocks or stock indexes there will be periods of time where the markets are very quiet and it will be hard to make a living.
- Follow the volatility.

Why Consider Metals?



Why Trade Metals: A Fundamental Perspective

- No other market in the world has the universal appeal of the gold market. For centuries, gold has been coveted for its unique blend of rarity, beauty, and near indestructibility. Nations have embraced gold as a store of wealth and a medium of international exchange, and individuals have sought to possess gold as insurance against the daily fluctuations of paper money—which is a very practical consideration in today's money printing environment.

Why Trade Metals?

- Gold is also a vital industrial metal, as it is an excellent conductor of electricity, is extremely resistant to corrosion, and is one of the most chemically stable of the elements, making it critically important in electronics and other high-tech applications. That's all well and good, right? But as a trader, all I really care about is if the market in question provides good trading opportunities. Over the last several years Gold has become a great market to trade with plenty of volatility and trending price action.

Great, How Do I Trade It?

- The key to trading futures is to understand the basic rules that govern each futures contract.
- This is very simple to do from a trading perspective.
- You just need to know:
 - The current contract to trade (front month)
 - Margin required to trade it (downpayment to control it)
 - P&L Swings

Gold Contract Specs

- For gold, there are contracts for every month (for hedging purposes) but the only contract a trader should be interested in is the HIGH VOLUME contract. This is also known as the “front month.”
- There is an easy way to figure this out on the www.cmegroup.com/metals website which I’ll show you in the next slide.
- But if you are ever in doubt, just ask your broker, “What’s the front month?”

www.cmegroup.com website has a lot of resources on trading futures

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- PL - Platinum
- PA - Palladium
- QS - Asian Gold
- QR - Asian Platinum
- QT - Asian Palladium

Base

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- UX - Uranium
- QC - E-mini Copper

Ferrous

- HR - HRC Steel

Option products available.

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Volume and Prices across all the gold contracts. February is the obvious “front month”

Gold Futures

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Month	Charts	Last	Change	Prior Settle	Open	High	Low	Volume
Jan 2010 OPT	✓ V	1130.0	-12.6	1142.6	1132.8	1133.4	1127.2	50
Feb 2010 OPT	✓ V	1130.7	-12.3	1143.0	1142.0	1146.0	1126.5	139,637
Mar 2010 OPT	✓ V	1131.4	-12.3	1143.7	1140.1	1141.3	1127.8	310
Apr 2010 OPT	✓ V	1132.4	-11.9	1144.3	1143.6	1147.0	1127.7	20,252
Jun 2010 OPT	✓ V	1133.7	-11.6	1145.3	1145.7	1147.2	1129.3	7,171
Aug 2010 OPT	✓ V	1134.9	-11.3	1146.2	1146.3	1149.0	1132.6	1,590
Oct 2010 OPT	✓ V	1135.5	-11.6	1147.1	1134.4	1135.5	1134.4	197
Dec 2010 OPT	✓ V	1136.7	-11.8	1148.5	1148.5	1149.4	1133.1	1,650
Feb 2011 OPT	✓ V	1136.0	-14.5	1150.5	1137.1	1137.3	1135.7	182

Volume and Prices across all the silver contracts.

March is the obvious “front month”

Trade Date: 1/15/2010

Quotes | Time & Sales | Volume | Settlements

Globex Futures | Open Outcry Futures

Market Data is delayed at least 10 minutes

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Month	Charts	Last	Change	Prior Settle	Open	High	Low	Volume	Hi / Lo Limit	Updated
Jan 2010 OPT	✓ V	18.390	-0.253	18.643	18.395	18.395	18.390	53	No Limit	3:48:53 PM CST 1/15/2010
Feb 2010 OPT	✓ V	18.445 a	-0.200	18.645	18.650	18.650	18.400	63	No Limit	3:48:53 PM CST 1/15/2010
Mar 2010 OPT	✓ V	18.410	-0.245	18.655	18.680	18.690	18.400	22,152	No Limit	3:48:53 PM CST 1/15/2010
Apr 2010 OPT	✓ V	-	-	-	-	-	-	0	-	-
May 2010 OPT	✓ V	18.450 a	-0.228	18.678	18.600	18.620	18.425	1,184	No Limit	3:48:53 PM CST 1/15/2010
Jul 2010 OPT	✓ V	18.500	-0.199	18.699	18.600	18.620	18.465	413	No Limit	3:48:53 PM CST 1/15/2010
Sep 2010 OPT	✓ V	18.495	-0.223	18.718	18.615	18.645	18.495	276	No Limit	3:48:53 PM CST 1/15/2010
Dec 2010 OPT	✓ V	18.530	-0.218	18.748	18.650	18.660	18.510	61	No Limit	3:48:53 PM CST 1/15/2010
Jan 2011 OPT	✓ V	-	-	18.758	-	-	-	0	No Limit	3:48:53 PM CST 1/15/2010

Here are the letter codes you'll need for the various months.

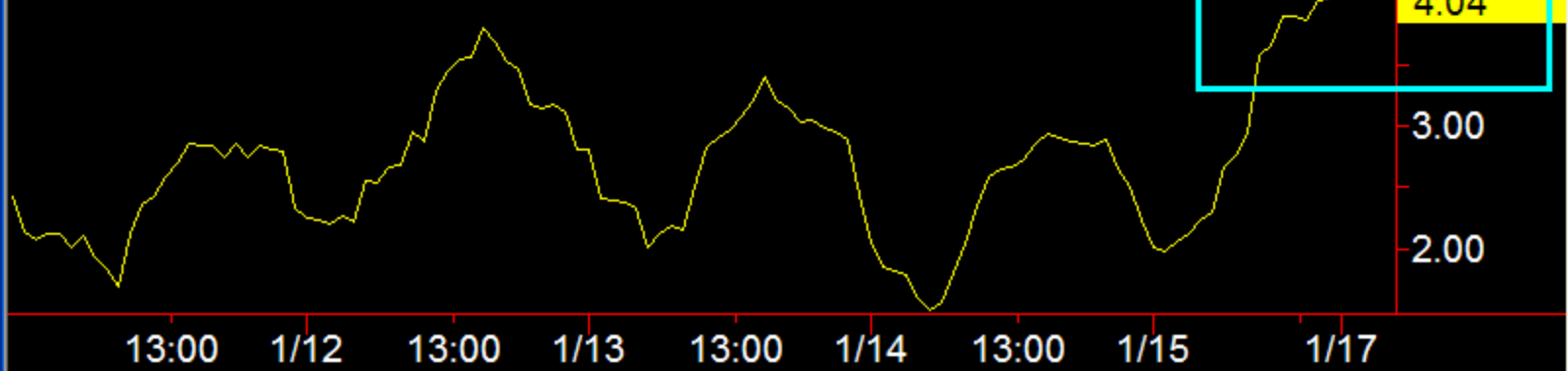
Month	Letter Code
January	F
February	G
March	H
April	J
May	K
June	M
July	N
August	Q
September	U
October	V
November	X
December	Z

ESH10 - 60 min CME L=1132.00 -0.25 -0.02% B=1131.75 A=1132.50 O=0.1...



**ATR is about 4 points,
or \$200 per contract**

Average True Range (14,14) 4.04

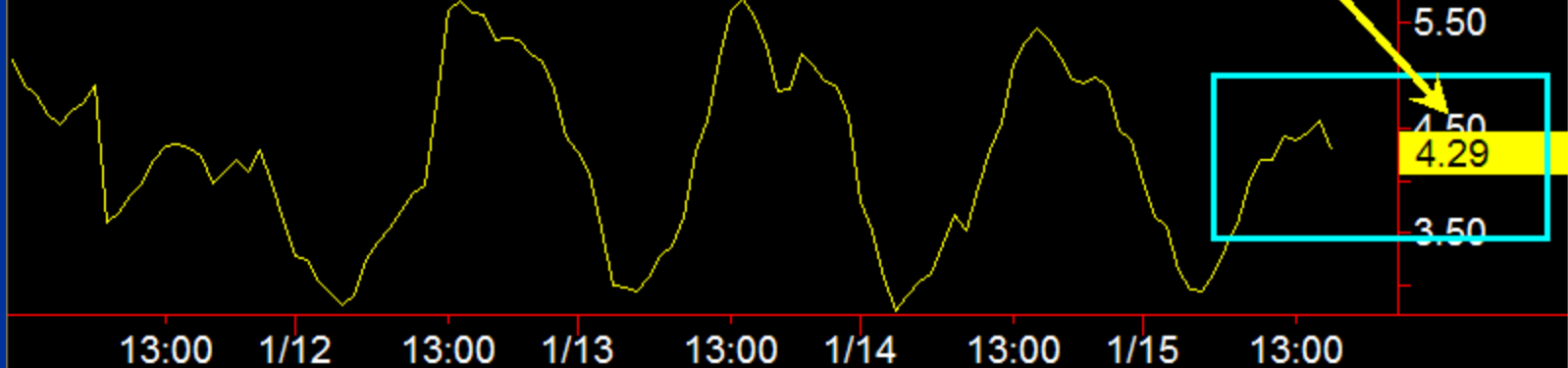


GCG10 - 60 min COMEX L=1130.70 0.20 0.02% B=1129.30 A=1132.90 O= ...

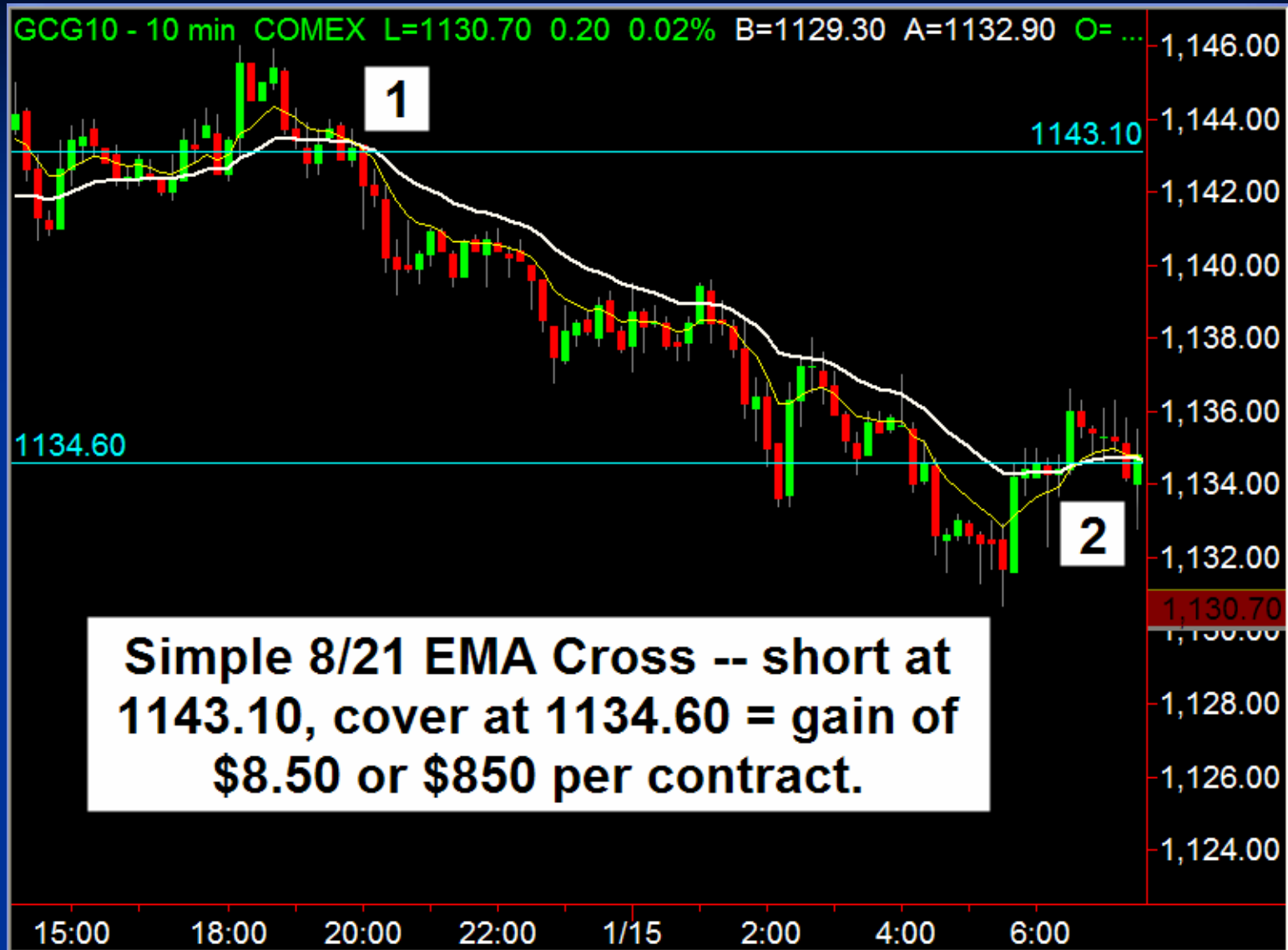


ATR on 60 min gold is also about 4 points -- but this is \$400 per contract, twice as much as the ES

Average True Range (14,14) 4.29



Full Sized Electronic Gold Futures



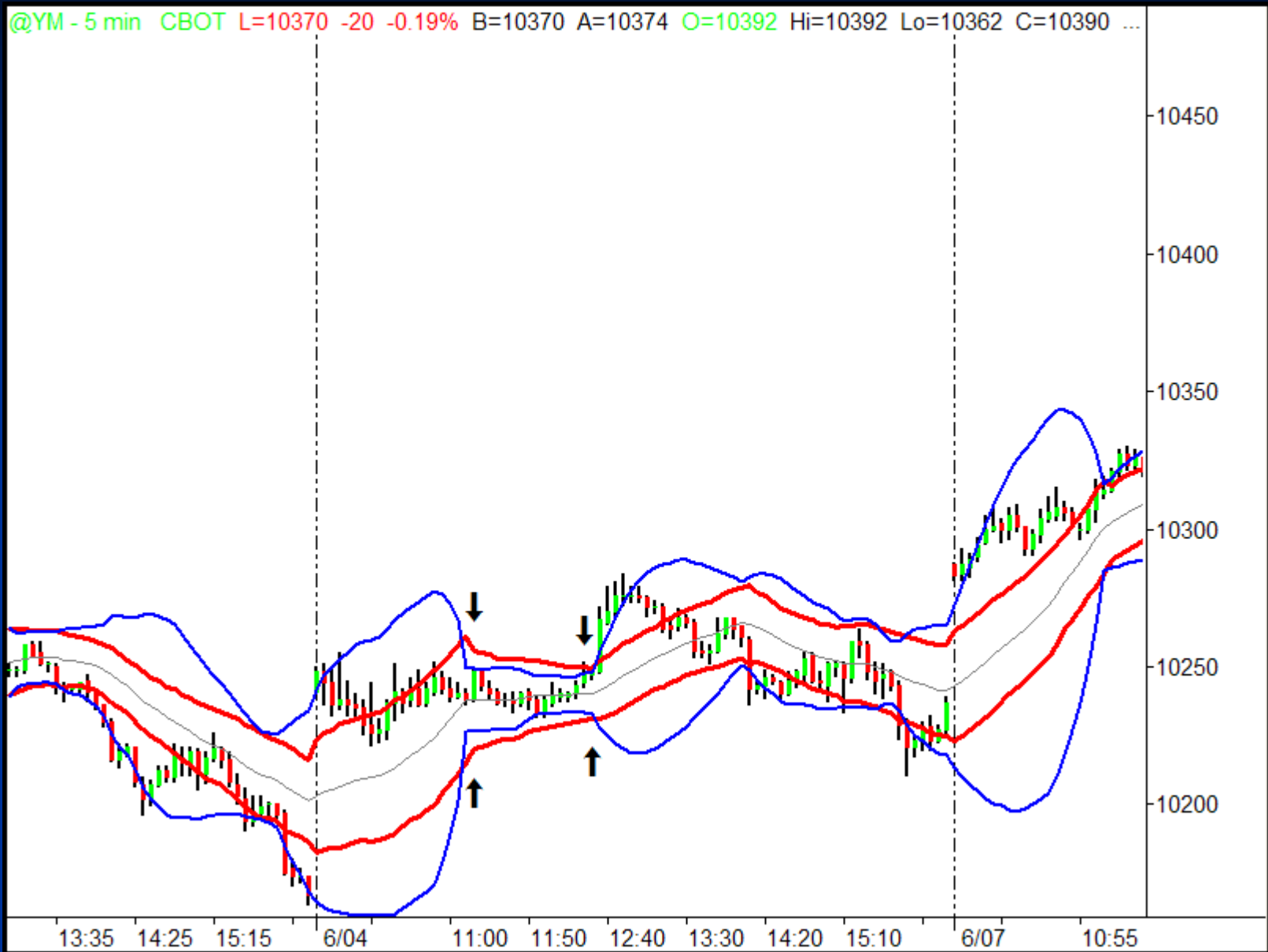
As you can see in the chart above, a \$1.00 per ounce move in full sized gold results in a \$100.00 per point per contract move.

Volatility Plays

Gold & Silver

- Squeeze Plays are ways to measure the strength and direction of the next market move.
- Markets spend the day contracting and expanding in terms of volatility.
- The “Squeeze” lets you know when the contraction is ending, when the expansion is about to begin, and in general which direction that expansion will take place.
- When I get a Squeeze Play, I will generally stay in the play until the Squeeze is over – meaning I will ignore the pivots for exit levels until the squeeze **STARTS TO RUN OUT OF GAS.**

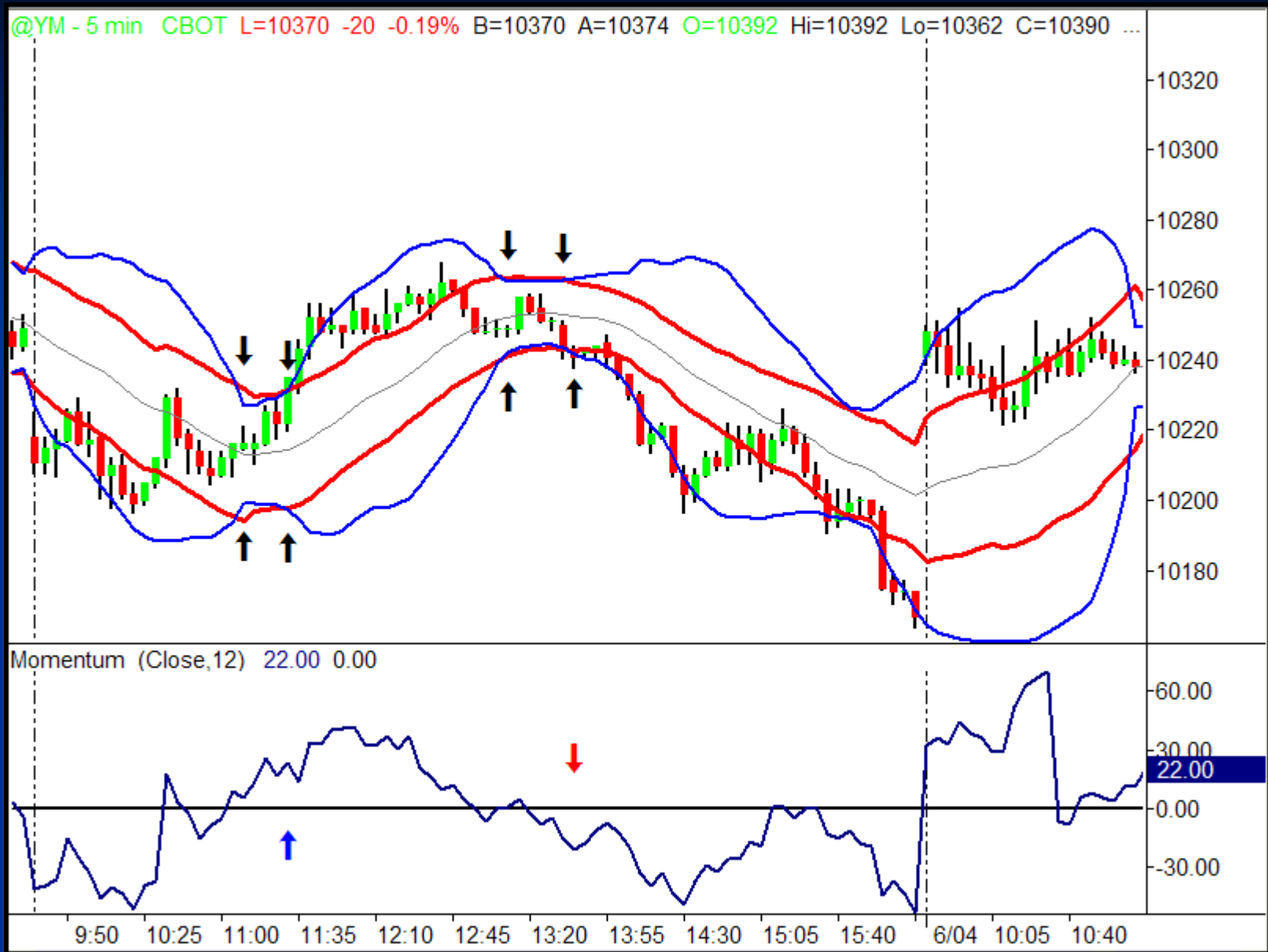
- The Squeeze is a measurement of the relationship between the Bollinger Bands and the Keltner Channels with their standard settings.
- It looks for the times when the Bollinger Bands trade in between the Keltner Channels.
- They work on all time frames. I like the Five Minute for day trading, and the 60 minute and Daily for Swing Trading.
- Weekly signals are also useful for position trading.
- The idea is to find markets that are just about to come out of a low volatility cycle and head into a high volatility cycle.



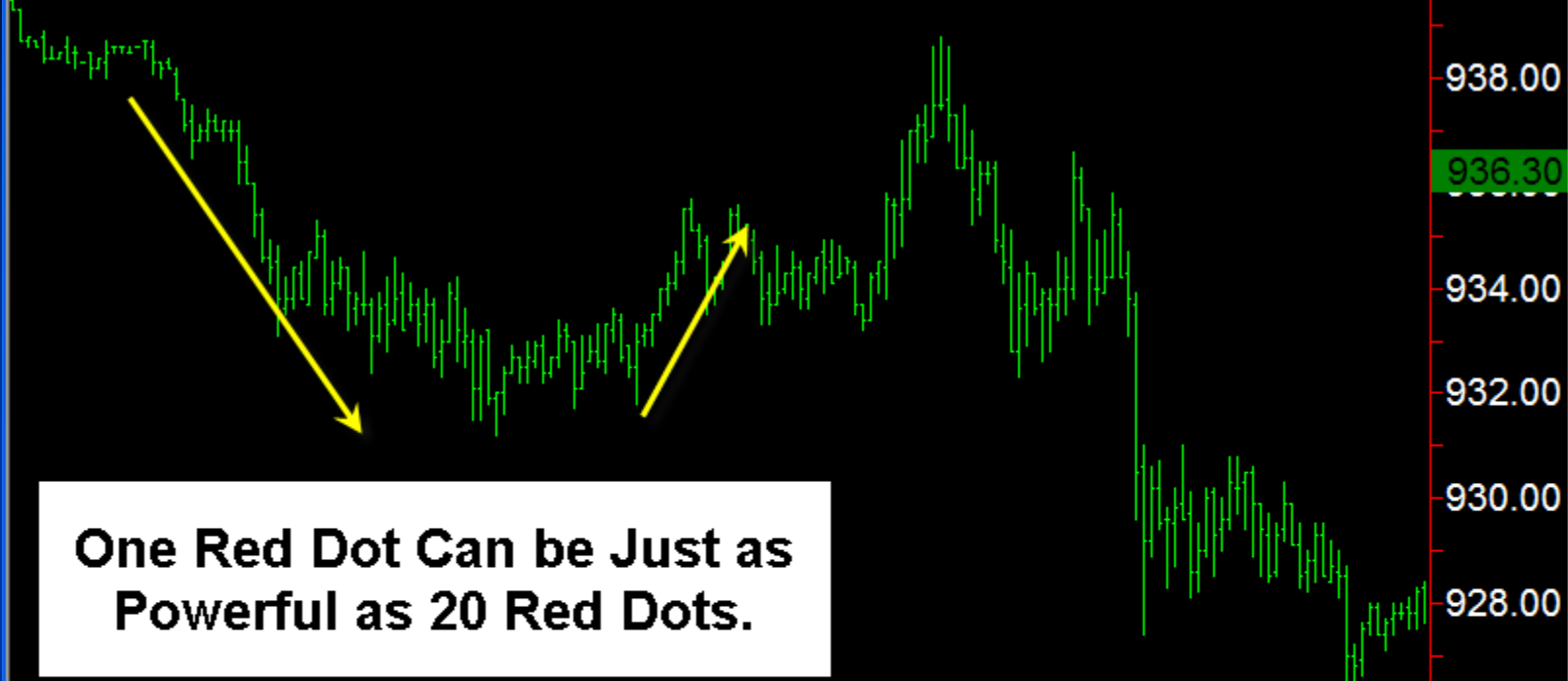
Blue lines = Bollinger Bands, Red lines = Keltner Channels. These filter what trades we take.

Squeeze Setup

- When the Bollinger Bands (BB) go inside the red Keltner Channels (KC) the squeeze is on because it is a signal of lower volatility.
- When the BBs come back out of the KCs, it is a signal that volatility is increasing and its time to place a trade.
- But which way to go? Long or short?

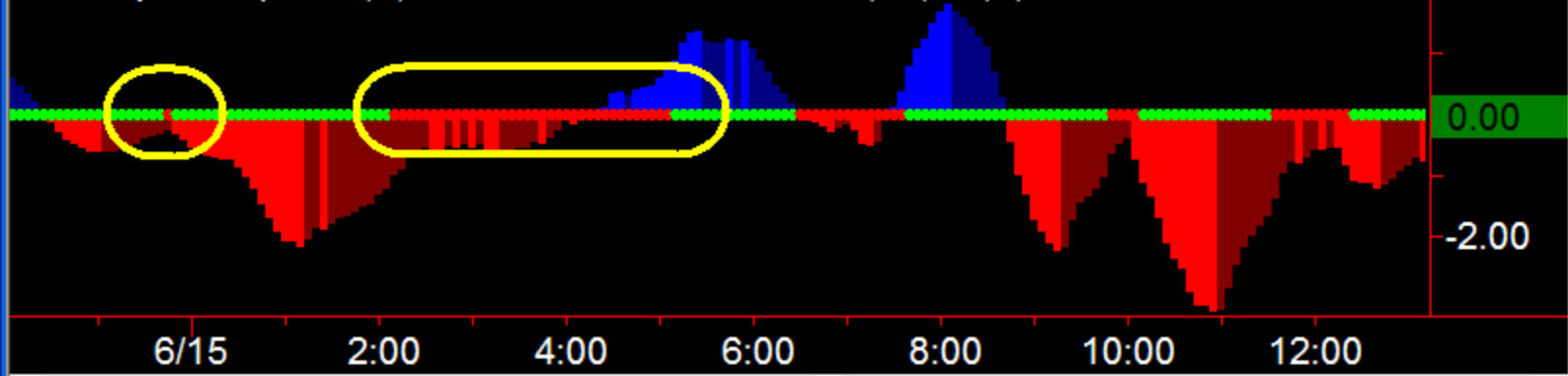


@GC.C - 5 min COMEX L=936.30 4.10 0.44% B=936.30 A=936.40 O=935.40 ...



One Red Dot Can be Just as Powerful as 20 Red Dots.

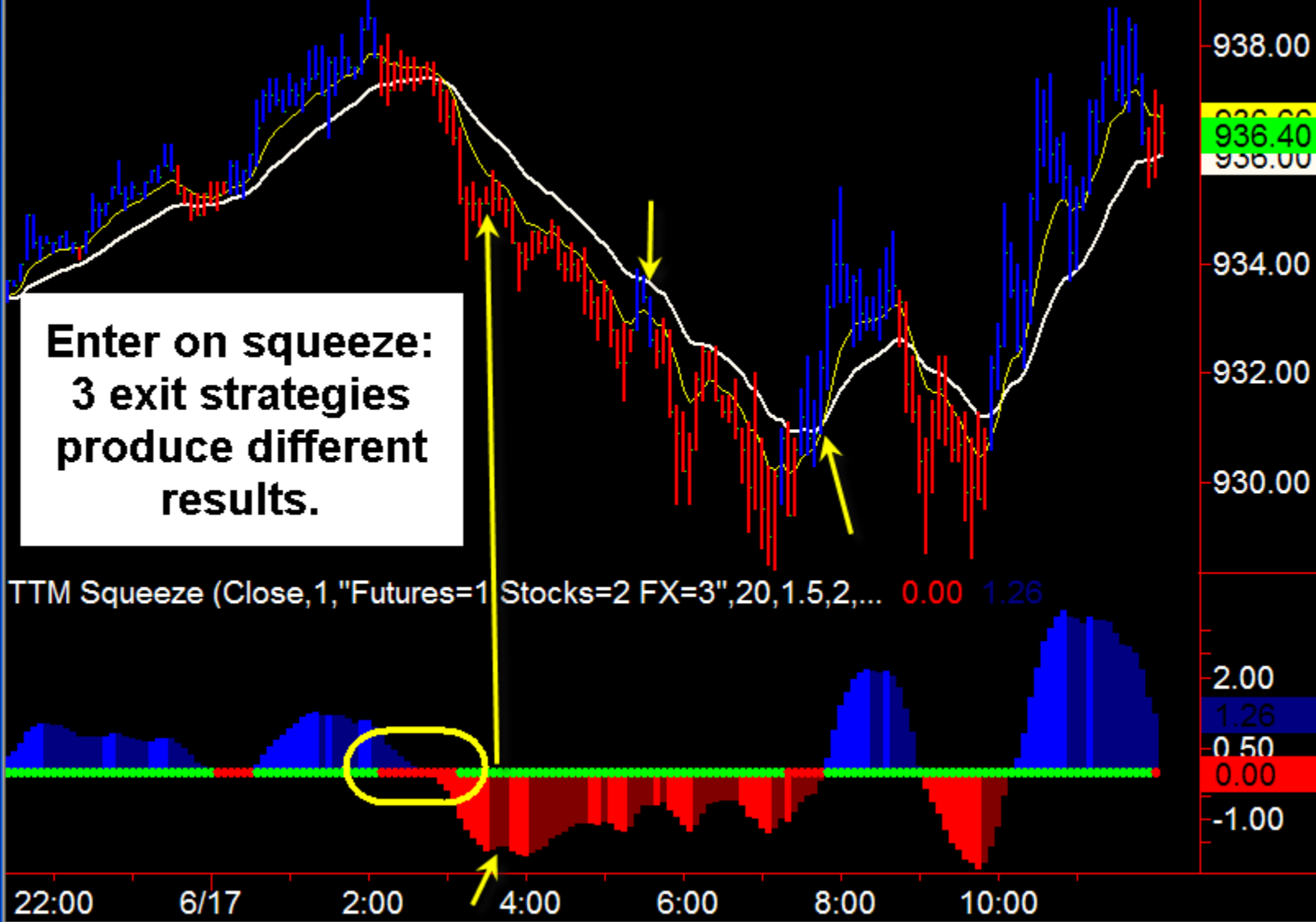
TTM Squeeze (Close,1,"Futures=1 Stocks=2 FX=3",20,1.5,2,... 0.00 2.18



Squeeze Exit Strategies

1. **Loss of Momentum:** 2 darker colored bars on the squeeze histogram. PROS: This is typically the fastest exit signal. CONS: Can sometimes leave money on the table as market continues to run.
2. **OR: TTM Trend Change:** Bars are blue, then you get 2 red bars in a row, etc. Good “middle of the road” exit signal.
3. **OR: 8/21 EMA Cross.** PROS: Keeps you in a trade the longest of the three so you can maximize a trend. CON: This is the slowest exit signal so you can end up giving back gains.

@GC.C - 5 min COMEX L=936.40 4.20 0.45% B=936.30 A=936.40 O=935.40 ...



Best Exit Strategy is a Mix

1. Loss of Momentum: Close out 1/3
2. TTM Trend Change: Close out 1/3
3. 8/21 EMA Cross Over: Close out 1/3
4. STOP: After first 1/3 off, move stop to your entry point and then leave it alone.
5. Why? Trailing stops often get hit BEFORE the trend has run its course.
6. On a nice trend, these exit strategies will get you out of the trade BEFORE your stop is hit.

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Backup Laptop with fully charged battery and regular phone line

Attitude of a Trader

- Right attitude will make or break a trader
- Biggest obstacles are **Greed** and **Euphoria**
- Greed Kills: \$10,000 account, \$500 a day
- When you then go for \$750 or \$1000, greed takes over and mistakes kick in: overtrading, not sticking to parameters, yelling at screen.
- All you can eat buffet: no reason to overload your plate on 1 trip; you can keep going back

Attitude of a Trader (cont)

- Euphoria is worse than Greed
- Things are going great – so double up, bet it all!
- This is like tripling up on your position at the Black Jack tables here at Mandalay Bay.
- It might work a couple of times, but it only has to “not work” once for you to lose all of your stake.
- Develop a plan of consistency and stick to it.

Use limit orders!
Limit orders = planned out trades
Market orders = impulse trades



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John F. Carter 01/15/2010

Ah options expiration is upon us. Is it possible that after the employment numbers AND options expiration that the

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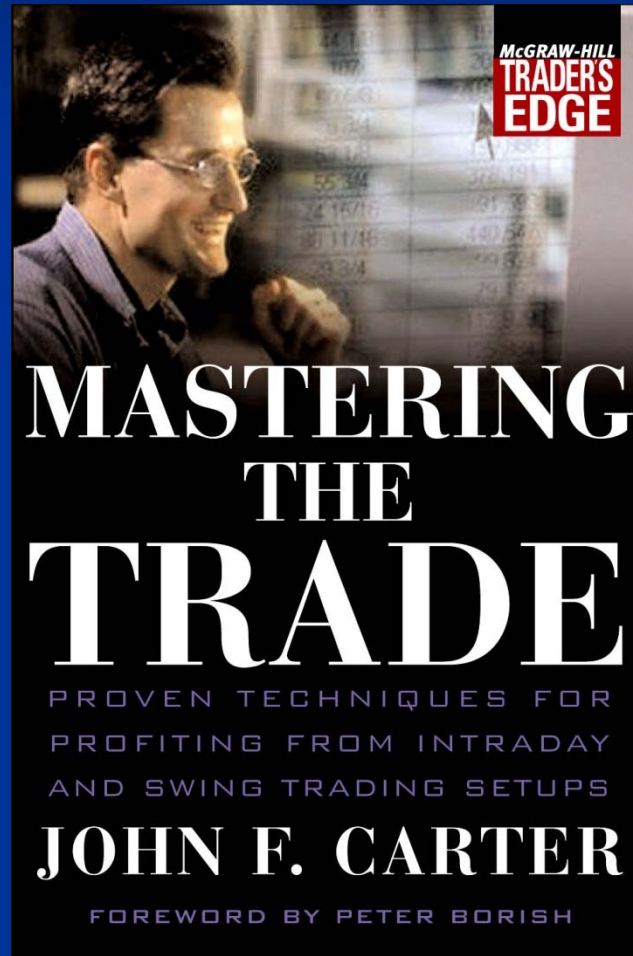
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Question & Answer

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