

Larry Williams' Commodity Timing

A SURE SIGN YOU ARE ABOUT TO MISS A WINNING TRADE

What you are about to read is a true story, one that's happened so many times to me I'd like to write about it so it does not happen to you...

While most people spent their July 4th 2005 at the beach or barbecue I "slaved" over my computer to get ready to trade the day after the holiday as I suspected it would be a strong up day. I did a lot of research, you will read about it in a few pages, but ultimately relied on a pattern I teach at the Million Dollar Challenge (MDC) seminars. The order for Tuesday, July 5 read;

IF Next Bar Open < 1200 And Next Bar Open >= 1195.5
To Enter Long: BUY 1 Contract at MARKET

What could be simpler? The pattern had appeared 85 times in the history of the S&P since 1982 and all had made money. I'd gotten myself pretty lathered up about the trade not only due to the MDC pattern but the Holiday influence. Based on that I decided it was a 10 lot trade.

The evening prior to the opening I typed up my emails for my broker and was ready to sit back and see what would unfold.

Little did I know divine interruption was about to take place in my life.

First of all before we were going to the office there was one of those little "honey-dos" to get done, pull something down from a closet. In the process of doing that I climbed up on a chair to get up high enough. The chair broke...I manage to get a cut and little blood begins to run from my leg.

That's when I should have known, when I should have been alerted to the Gods toying with me.

It was patch of the leg and drive to our office to get ready for the trading day. Of course by then we were running behind time ...I began downloading data to see what the e-mini electronic session was doing as there were only a few minutes left to the opening now.

That's when I should have known again...I could not download data.

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Commodity Timing
PMB 420, 125 Old Grove Rd., Ste 9
Oceanside, Ca. 92057
Ph: (760) 967-7851 or (760) 967-6089
1-800-800-8333 Fax: (760) 967-3944
www.commoditytiming.com
email: commoditytiming@sbcglobal.net

I had still not put it together...I was ready for the opening. Or was I? As it turned out while I was furiously trying to get the opening price I got an email from my broker asking if I had any orders for the day. Of course I had orders...I had sent them to him!

Well, I thought I had sent them but he said not...I called to see what the heck was going on only to hear he had no orders.... "OK", I said, "Where are we trading"? He told me at the same price as the opening which was 1196.50 where I should be long from. "Buy at 96.50 or better" I instructed and hung up the phone to see if I could not get the blasted data on the net.

You can probably finish this drama for me...I was unable to get data...so called him and was told I was also unable on the buy and by then prices were screaming and never looked back, other than to see my order sitting there and give me a big horse laugh!

Exiting on that close, my plan, would have netted me a tad over \$30,000. Instead all I got out of it was this story...and some rules to pass on;

1. WHEN EVERYTHING POSSIBLE SEEMS TO INTERRUPT YOU AND THE TRADE YOU WANT TO PUT ON...IT WILL BE A GOOD TRADE.

2. THE MORE FRUSTRATING THE GODS AND GODDESSES MAKE IT THE MORE YOU MUST WORK TO OVERCOME THEM

3. WHEN YOU WANT TO BE LONG/SHORT AND YOUR ENTRY HAS BEEN REACHED BUT YOU ARE NOT FILLED, AS LONG AS PRICE HAS NOT MOVED WAY AWAY FROM YOUR ENTRY...GO AT THE MARKET.

Signs of Divine interruption must be an alert to us to stand tall and to overcome the situation. This is not the first time this has happened to me. Always before I just kind of gave in and passed on the trade. That seems to be what they want...to distract you...and we have to rev up our own energies to overcome all the intervention.

That little pattern has now popped up 86 times...I can hardly wait for the next time and by golly, neither wild horse nor the devil will stop me.

**MOVE OVER S&P 500
THERE'S A NEW KID ON THE BLOCK....**

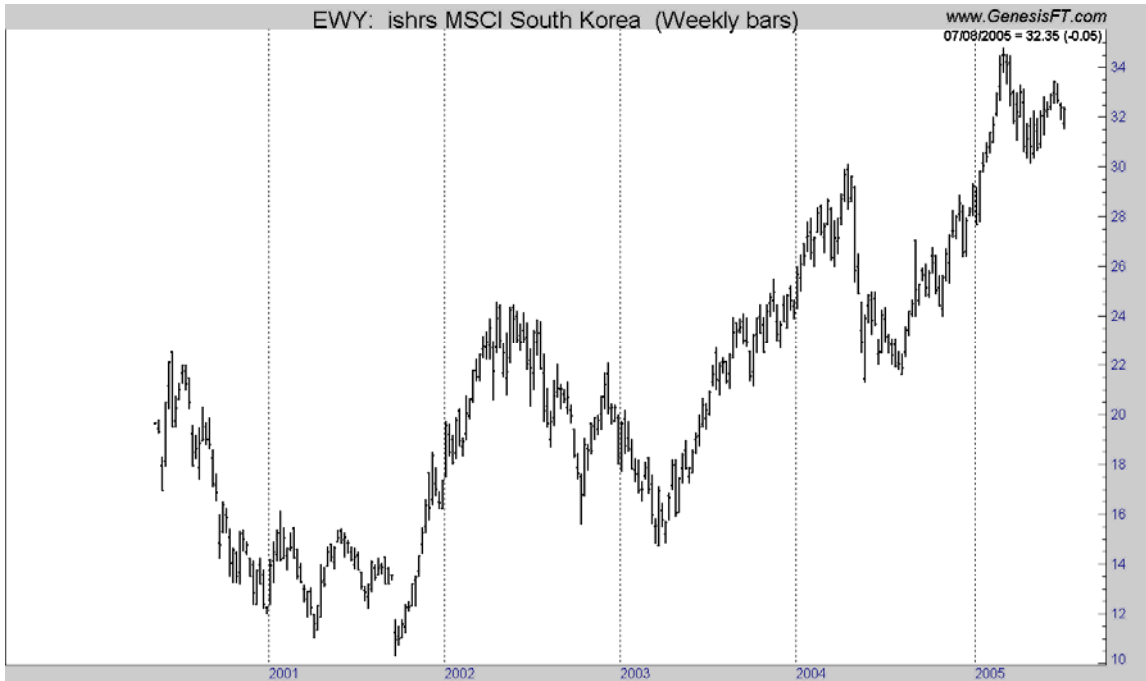
INTRODUCING---THE KOSPI

I first heard about the KOSPI from my publisher in Japan who had done very well trading this index with my Oops! signal. Since then every trip the Asia has been sprinkled with comments about the Korean Composite Stock Price Index, Kospi, for short.

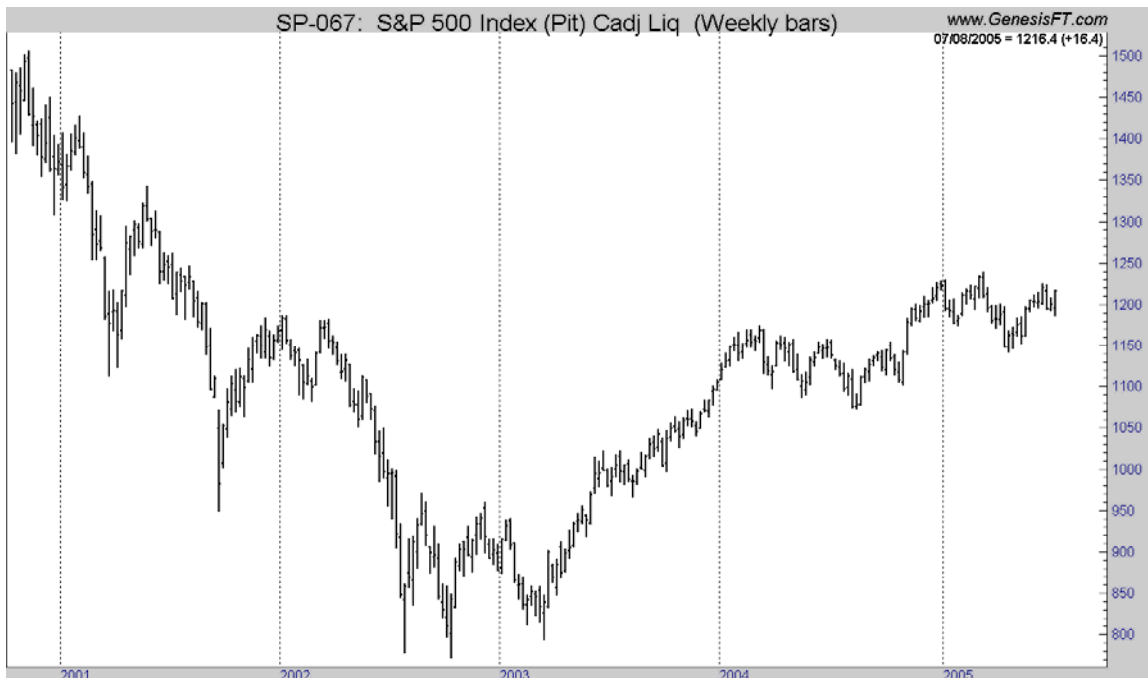
The best way to trade the Kospi is the actual index but there is an ETF trading here in the states. E.T.F.'s are like traditional index mutual funds but offer the added feature of pricing throughout the day; by contrast, mutual funds are priced just once a day, at the close of the market. Adding to the allure of E.T.F.'s are annual operating fees that are typically lower than those of mutual funds, as well as greater tax efficiency.

At the end of May, E.T.F. assets totaled \$238.2 billion, almost three times the \$83 billion at the end of 2001. And there were 163 of these funds in May, up from 102 in 2001. While the current assets would not be much more than a rounding error for the \$8 trillion mutual fund industry, exchange-traded funds are creating a buzz as their base expands beyond institutional clients. It looks like ETF's are here to stay.

Here's a chart of the Americanized, ETF, version of the index.



Now here's a chart of our S&P 500 to ponder over which of these two markets has been doing the best.



It's not even a close contest...the Kospi has consistently made new high while the S&P have advance at the pace of a speeding cement truck.

And it's no wonder; the Kospi represent the 10th largest economy in the world, South Korea, and as an index represents 1,563 companies. There have been two driving factors to this market; Pension funds and Wives. In a stroke of brilliance the S. Korean Government has moved up a program to make certain Pension funds an invest in this market, thus substantially expanding the liquidity...it appears they will allow up to 40% of retirement pension fund to be invested in this market.

Then there's the wives...one of my well placed sources tells me most every housewife in Korea has always squirreled away money to punt a little in the lottery, hoping to make a big killing for the family. Not any more...now they are placing their bets and some are not small, on the Kospi!

In the first half of 2004 the Kospi traded 216,289 shares on average per day. Contrast that with the Nikkei which traded 50,756, the FTSE at 81,525 or the S&P 500 that saw an average daily volume of 65,794 about 1/3 of what was traded in Korea! That's a staggering difference.

There are many reasons, obviously a robust economy, one based on modern technology where Unions have not killed the golden goose...but also a p/e ratio, recently, of about 10 as opposed to 18 in Hong Kong and Taiwan, 39 in Japan and over 20 in the USA has made this an undervalued play as well.

While I'm not yet able to show you a chart of the actual Kospi, (Genesis Data has it on their top priority list) what you see here is an Exchange Traded Fund that closely mimics the real deal. Currently this contract has been trading about a quarter of a million shares a day.

I look forward to trading this market.

INSIDE DAYS, HOLIDAYS AND HAPPY DAYS

There were several things that clued me into what should have been a great trade...

Holiday action as always intrigued chart guys like us. Art Merrill wrote about them in 1962 and there's also mention of using them to key off in works by Taylor and Granville. They are not without problems, so I fired up my computer to see what we could learn.

Here's an interesting little study in the SP 500; most everyone is looking at holiday influences but the sample size is small for each holiday. What to do? Well, let's look at basic price patterns of around all holidays to see if there is a glimmer of hope to better understand how to trade at this time period. We can start by just asking what happens if the day after the holiday opens up or down; is that any clue to how markets then perform. Here are the answers;

1. If the open the day after the holiday opens > prior close

trades	\$+/-
107	33,610

2. Next lets look at when the open day after the holiday is < prior close

trades	\$+/-
76	14,493

There is a marked difference here as the average profit for > opens is \$314 against \$190 for < opens,

ANOTHER LOOK is what if we focus on just the close of the day prior to the holiday

1. If that close is a + close

trades	\$+/-
102	60,335

2. If that close is a - close

trades	\$+/-
87	-17,015

Here we have a large difference, up closes prior to a holiday are just down right bullish

Let's add one step and look at the both the close of the day prior to the holiday and the opening direction after the holiday

+ close prior to holiday and

-open on day after holiday

trades	\$+/-
40	27,425

+ Close prior to holiday and

+ open on day after holiday

trades	\$+/-
57	+35,210

Looks like there is a slight bias to an up opening after an up close prior to the holiday but the < opens also performed well.

And now what happens after a down close prior to the holiday?

- close prior to holiday and

- open on day after holiday

trades	\$+/-
37	- 12,565

- close prior to holiday and

+ open on day after holiday

trades	\$+/-
50	- 1,600

Looks to me like a down close and opening lower the day after the holiday may set up some sells.

THE PATTERN FOR THE JULY 4TH 2005 HOLIDAY

We had an up close so... an up open the following day would be bullish, more so than a down opening, but the set up of + close has a bullish bias.

The day prior to the holiday...Friday was an inside day...there have been 21 of these days with an up-close with 81% winners and \$12,993 profits.

Inside days with down closes, prior to a holiday, are not as good; there have been 15 with a loss of \$4,568

THE MORNING AFTER HOLIDAY EFFECT

When the day after the holiday is an up close I found 87 occurrences; buying on the opening and exiting on the close results in 50% winners and 50% losers with a loss of -\$5,028.

The only month where up closes, following a holiday, were really profitable was December.

AND NOW TO LABOR DAY....

The first Monday of every September is a closed trading session for the Labor Day Holiday. I've tested a lot of ways to look for a trade around this time period and can only find two worth the labor.

The first is to sell, the day after the holiday, at the low of the day prior to the holiday. Here are the results;

Overall			
Total Net Profit:	\$5,910	Profit Factor (\$Wins/ \$Losses):	999.00
Total Trades:	12	Winning Percentage:	100.0%
Average Trade:	\$493	Payout Ratio (Avg Win/Loss):	492.50
Avg # of Bars in Trade:	1.42	Z-Score (W/L Predictability):	0.0
Avg # of Trades per Year:	0.6	Percent in the Market:	0.3%
Max Closed-out Draw-down:	\$0	Max Intraday Drawdown:	-\$2,670
Account Size Required:	\$19,988	Return Pct:	29.6%
Open Equity:	\$0	Kelly Ratio:	1.0000
Current Streak:	12 Wins	Optimal f:	0.00
Winning Trades		Losing Trades	
Total Winners:	12	Total Losers:	0
Gross Profit:	\$5,910	Gross Loss:	\$0
Average Win:	\$493	Average Loss:	\$0
Largest Win:	\$1,205	Largest Loss:	\$0
Largest Drawdown in Win:	-	Largest Peak in Loss:	\$0
Avg Drawdown in Win:	-\$550	Avg Peak in Loss:	\$0
Avg Run Up in Win:	\$813	Avg Run Up in Loss:	\$0
Avg Run Down in Win:	-\$550	Avg Run Down in Loss:	\$0
Most Consec Wins:	12	Most Consec Losses:	0
Avg # of Consec Wins:	12.00	Avg # of Consec Losses:	0
Avg # of Bars in Wins:	1.42	Avg # of Bars in Losses:	.00

The Genesis code for these results is pretty simple;

IF September And WeekOfMonth = 1 And Next Bar Day Is ("tuesday") sell at low stop.

While the trade does not pop up every year, it is an alert that weakness following the holiday, spills over to more weakness, at least on a short term basis. The exit was a \$ stop or first profitable opening.

THE OTHER TRADE IS A STRANGE ONE

HARVESTING A GOOD TRADE---First I'll show the results of this trade, one that takes place in August in the S&P 500. The results look good...but wait until you see the rule. 'Nuff said, here are the results;

Overall			
Total Net Profit:	\$11,580	Profit Factor (\$Wins/\$Losses):	4.09
Total Trades:	21	Winning Percentage:	95.2%
Average Trade:	\$551	Payout Ratio (Avg Win/Loss):	0.20
Avg # of Bars in Trade:	1.19	Z-Score (W/L Predictability):	2.0
Avg # of Trades per Year:	1.0	Percent in the Market:	0.4%
Max Closed-out Drawdown:	-\$3,745	Max Intraday Drawdown:	-\$7,295
Account Size Required:	\$24,613	Return Pct:	47.0%
Open Equity:	\$0	Kelly Ratio:	0.7196
Current Streak:	3 Wins	Optimal f:	0.67
Winning Trades		Losing Trades	
Total Winners:	20	Total Losers:	1
Gross Profit:	\$15,325	Gross Loss:	-\$3,745
Average Win:	\$766	Average Loss:	-\$3,745
Largest Win:	\$4,080	Largest Loss:	-\$3,745
Largest Drawdown in Win:	-\$7,295	Largest Peak in Loss:	\$1,905
Avg Drawdown in Win:	-\$849	Avg Peak in Loss:	\$1,905
Avg Run Up in Win:	\$1,131	Avg Run Up in Loss:	\$1,905
Avg Run Down in Win:	-\$849	Avg Run Down in Loss:	-\$4,920
Most Consec Wins:	17	Most Consec Losses:	1
Avg # of Consec Wins:	10.00	Avg # of Consec Losses:	1.00
Avg # of Bars in Wins:	1.20	Avg # of Bars in Losses:	1.00

The 95% winners since 1982, a win every year with a loss in only 2001, is tempting so I guess I better show you the code. Ready? Here it is;

IF New Moon (11).21 And August

What this means is we should be looking for a buy about 2 days after a new moon in August... between there and three days later seems to be the sweet spot for going long this time of the month. I would not trade just due to this factor, but it is a strong and compelling one to key off of as S&P traders look for a signal this time of the year.

Well, that's it gang....be back at you in a month...good luck and good trading.

Larry