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Larry Live
Market Insight

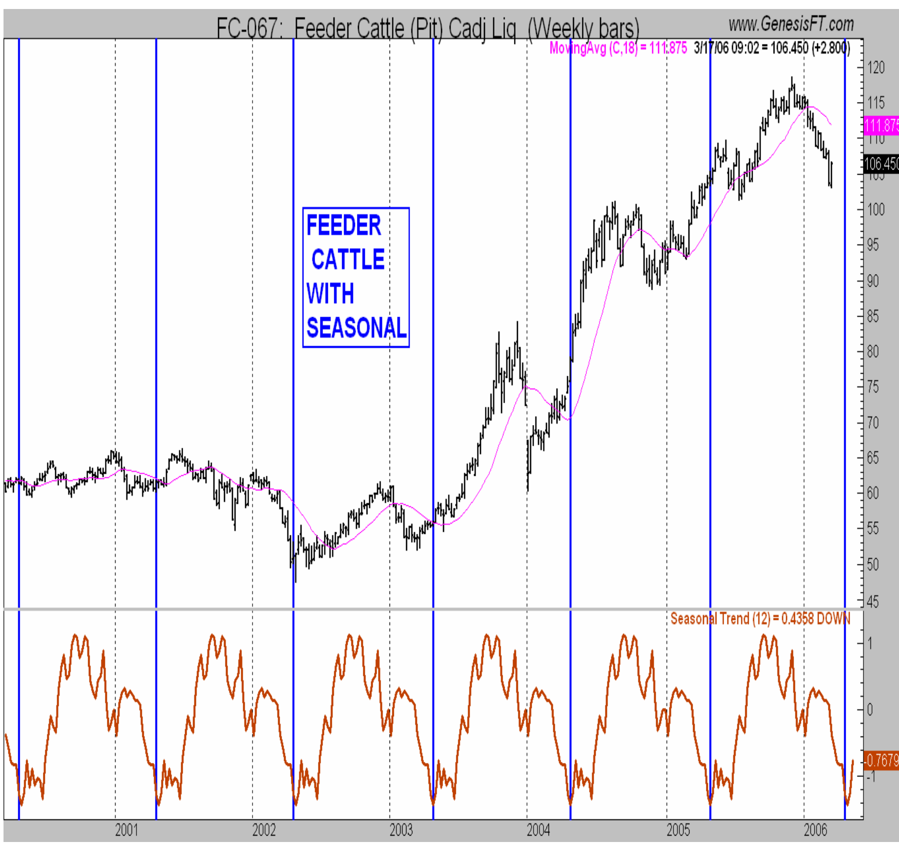
WILLIAMS%R

A PERFECT SETUP TRADE?

Feeder cattle have two powerful cycles we need to pay attention to this month---and this year---as there is a distinct possibility for the start of a major rally

FIRST, LET'S TAKE A LOOK AT THE SEASONAL PATTERN

As the following charts from Genesis Data shows, there has been a strong tendency for Feeders to start rallies during the April and June time frames. Here…take a look at the last six years;



Inside this

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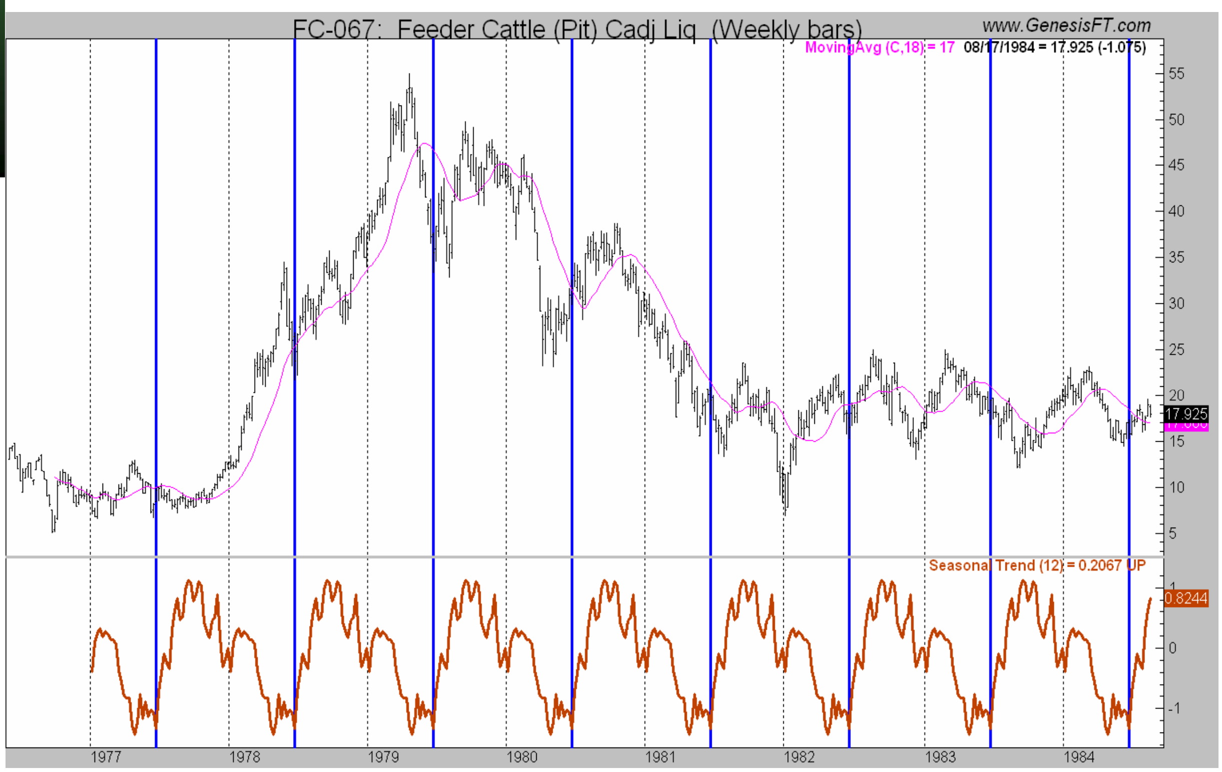
I have marked off the April seasonal low on this chart to call your attention to this time period. While some years like 2001, 2002, and 2003 have been right on the money, 2004 and 2005 Feeders left the pens before they were supposed to. That's typical as we know seasonals are only a general predictor of future price action.

Let's step back in time and see how reliable this pattern has been, and let's start to develop a feel for it as there is a real "kicker" this year for the pattern.

FEEDER CATTLE 1977-1998

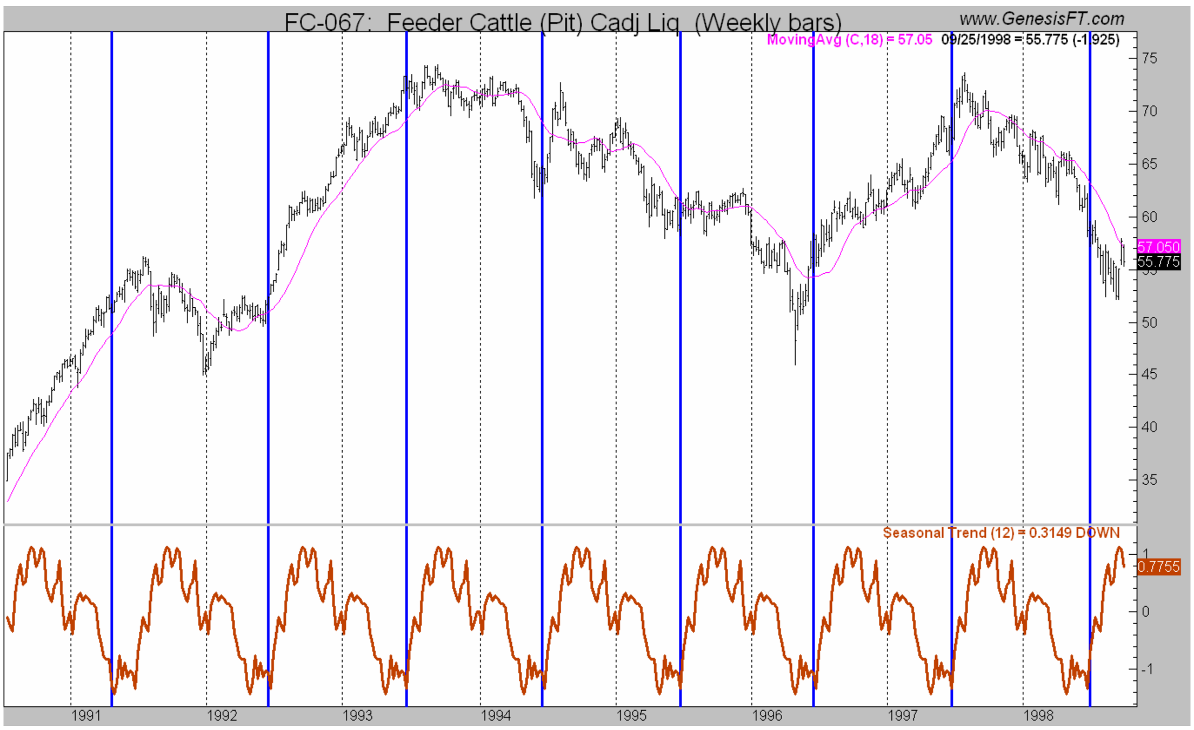
Our second chart goes back to 1976 and again I've marked off the seasonal low point and while it is not perfect one cannot help but draw the conclusion that Feeder Cattle usually rally around this time.



The large early-in-the-year declines of 1978 and 1979 were routed by the seasonal rally pattern. The 1980, 1982 and 1984 rallies came right on schedule while rallies in the other years came through at this general time. There is a little "double bottom" pattern in the seasonal, sometimes it's April some times June…this maybe a data issue as my editor and proof reader tells me in the Genesis FC-57 contract there is only one low…in April.

The next 8 years saw some excellent rallies develop at this time…the only exception was 1985 when price just tumbled…not even the seasonal pattern could halt the decline. Several "Bingo's" were scored in 1984, 1986, 1987, and 1988 (a direct hit), as well as great rallies in 1990 and 1991.

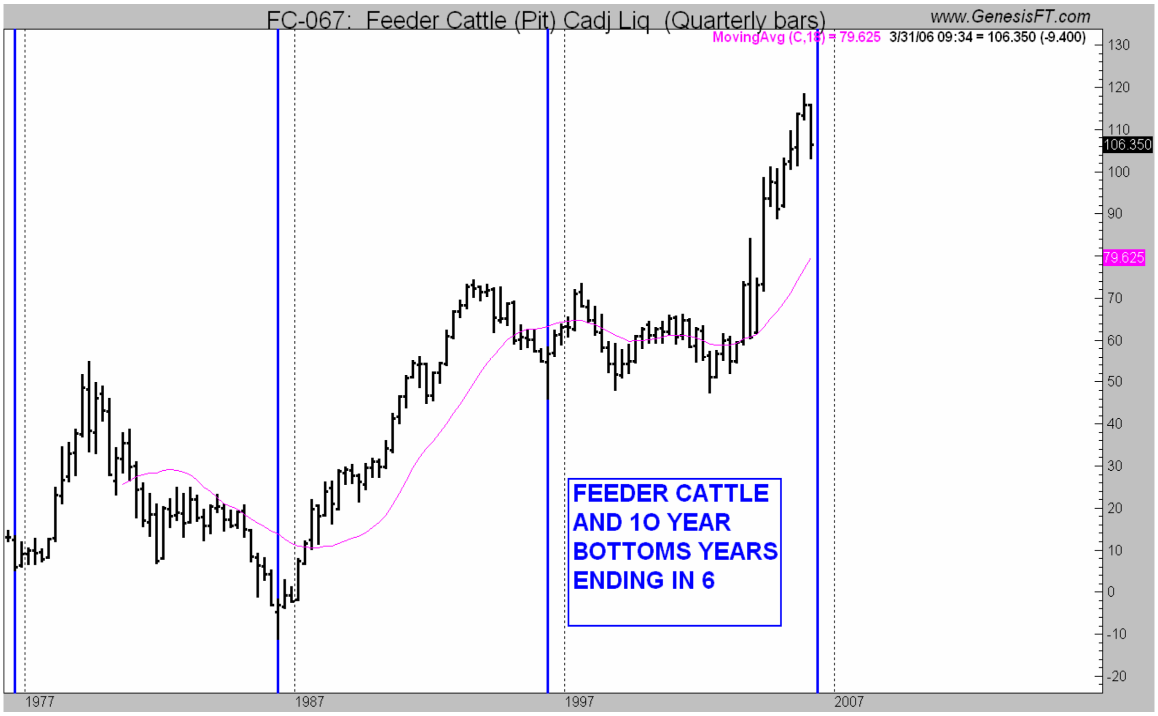
Traders alert for this pattern would have done well on the long side in every instance but one.



The last clip, shown above, again shows the power of the pattern; in this 8 year stretch only one year did not do what it was supposed to, 1998. Take a gander at 1992, 1994 and 1996...real bull's eyes for traders to shoot down some profits.

Hopefully by now I have made my point; April has set up some wonderful buy points in the market.

NOW HERE COMES THE KICKER…



YEARS ENDING IN 6 HAVE BEEN LONG TERM LOWS FOR FEEDERS

There is not much more I can add to this...1976, 1986 and 1996 were all great places to buy Feeders. Oh, by the way, this is the APRIL Commodity Timing letter for 2006.

Like I said…there's not much else I can say!

It's time gang to look to get aboard this market…I will attempt to do this on the hotline but suggest you also develop your strategy for the trade. Options? I don't have a problem with that…far out calls are pretty cheap.

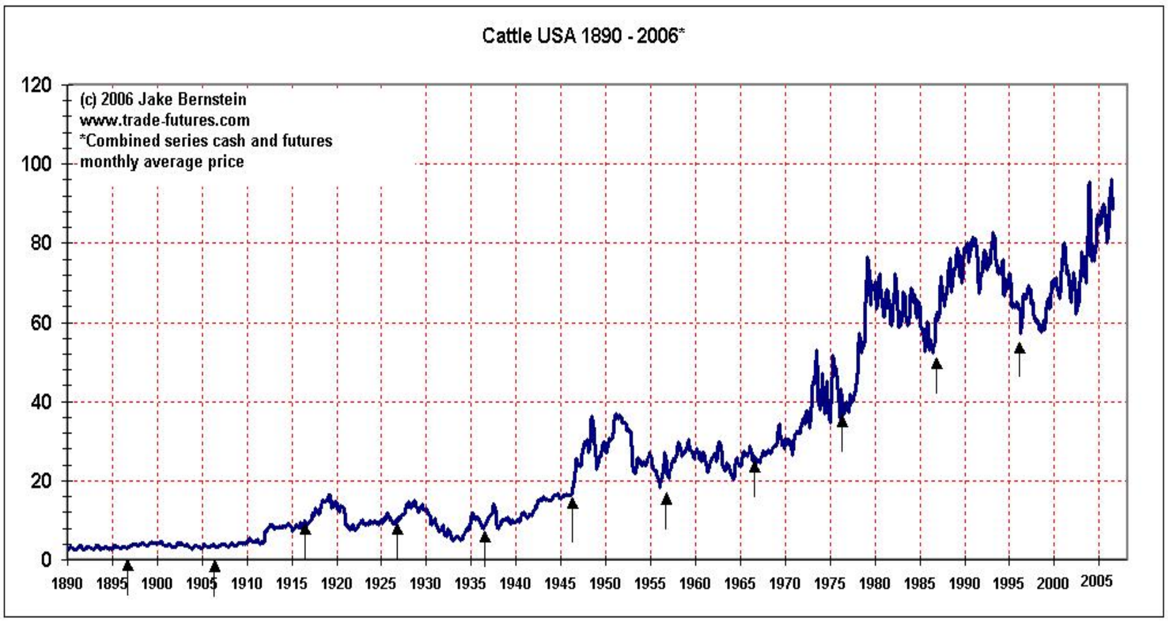
And if that kicker was not enough here comes one from my long term friend Jake Bernstein…a chart of Cattle prices going back to 1890. Jake was kind enough to put in arrows indicating the 6 years for the last 116 years of price action. Jake pointed out

"Typically cattle prices increase an average of 100% from the mid decade cycle low to the next high. The mid decade cycle low that's due now in cattle is the highest low we have ever seen at the mid decade low. If we get the 100% average move then cattle will go to 160 over the next few years".

To see more of his work go his website trade-futures.com

Of course the NFA and CFTC will tell you that all such factors are known, thus they will not have an impact on the future.

To which I can only ask, “Had you ever heard of this before?” and we will let the future answer the question.



TRADE REVIEW

We can learn a great deal about our trading tools and personalities by looking at our past trades. This month I’d like to recap a trade that should have been much better for us than it turned out to be. Hopefully, in the harsh light of looking back we can both pick up some pointers here.

The trade was to be Long in Soy Bean Oil. Everything was set up for the trade and it was the strongest of the Bean complex when we went long on 2/28;

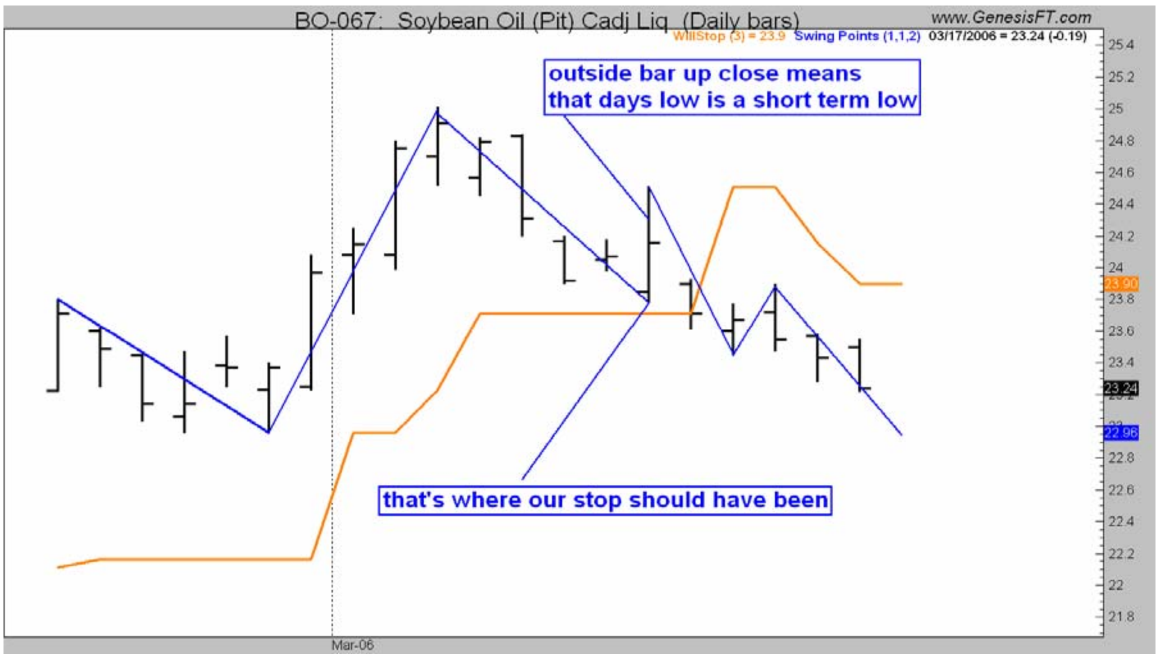
As the above chart shows we had a decent entry, with a target way up at 26.88 so there were many good reasons for the trade including the seasonal pattern. The trade was entered with a trend like break, a nice entry technique that has lots of value. We were met with immediate success as prices rallied for 4 straight days…I thought we might make the target….boy, was I wrong.

Well, the set up was correct, the entry was very good…what went wrong was the exit so in the next chart let's look at what we did and what we should have done;

Exits are as important if not more so than entries. Once in a trade that breaks to the upside I like to then use the 3 bar trailing stop (if you don't know what this is do not ask me…it's been written up in several of my books and all my seminars). As you can see here I should have gotten us out a day earlier than we did. So why didn't I?

Only one reason; the same reason we all have…hope springs eternal… so we fudge on the rules a little, move things around, things like our stops.

There was even a better place to get out that I missed as well… to see it I've blown the chart up quite a bit;



The outside bar (a day that makes a higher high and lower low than the prior day) on March 10th was the clue to a better exit. By putting in the outside bar with an up close we know the low of that day is short term low and our stop should have been there.

It's so hard to see these twists and turns when your money or ego is on the line…but they are what we have to look for. As is we made a little money…but we should have made more. A lesson learned for all, I hope.