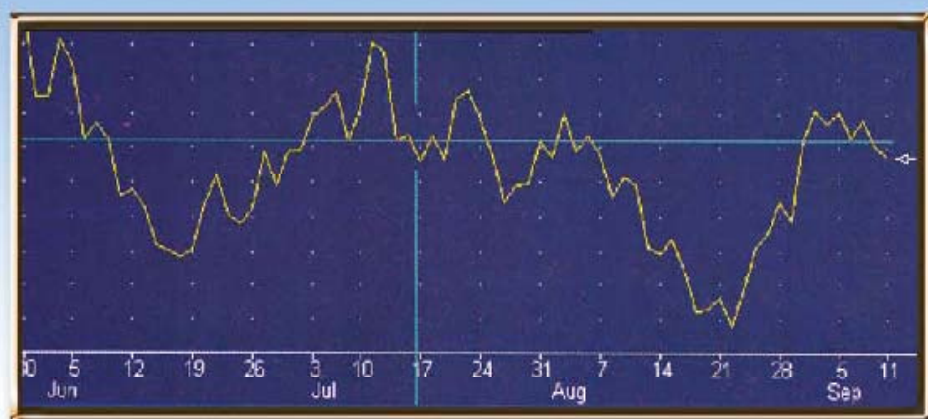


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Your Source For Knowledge

Understanding Spreads



Edward Dobson
Roger Reimer

Understanding Spreads

**Edward Dobson
Roger Reimer**



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Greenville, SC

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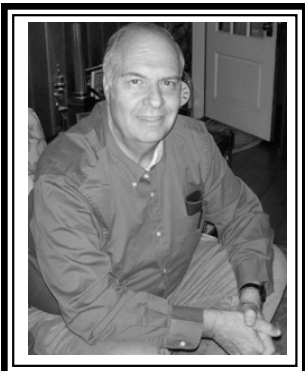
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Publisher's Foreword

Understanding Spreads

Spread trading in futures, while not an esoteric subject, is a subject on which relevant literature is exceptionally sparse. It is our hope that this short booklet will provide a useful introduction to those interested in this topic, and lead them to other worthwhile resources which may prove helpful.

The very beginning of Traders Press in 1975 involved the publication of a book on spread trading, "Commodity Spreads: A Historical Chart Perspective", written and researched by the undersigned, yours truly. This publication proved very popular and sold over 15,000 copies before it went out of print in 1984. At the time, there were few sources of information on spread data and charts. Today, I would refer readers to what I consider the best information and research anywhere in the world, from my old friend Steve Moore. Check out his website at <http://www.mrci.com> and you will find a treasure chest of information on spreads and seasonals.

I am indebted to my friend and colleague Roger Reimer, who did much of the research and writing for this work, and to Shelley Mitchell, who did a wonderful job of editing and assembling the bibliography, which will prove helpful to those interested in learning more about the fascinating topic of spread trading.

Edward Dobson

May the trend be with you!

Edward D. Dobson, President
June 27, 2007
Traders Press, Inc.
Greenville SC
<http://www.traderspress.com>

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1. Introduction

Spread trading fell from favor in the early 1980's when a major revision of the United States tax codes was written that served to remove favorable long-term capital gains tax treatment on certain types of spread trading activity. Other significant developments occurred in the trading arena during this timeframe. These developments included the introduction of many early generation computerized trading systems, the release of personal computers bringing significant number crunching power to the private trader at a reasonable cost, and the growth of public commodity pools and funds. The focus of the trading public was concentrated on these new ideas as they were introduced and spread trading became a neglected way to profit.

Since then, retail traders have long assumed that spread trading is too slow and boring to generate much interest. Because there has been little public interest in spread trading, published material and research addressing the subject has been introduced slowly. The most recent books on the subject of spread trading have been used as primary sources of information in this compilation.

It is worth noting that commercial firms and professional traders have continued to use spread trading as a major part of their trading strategies. With this thought in mind, some hidden value to spread trading must exist and should be explored. It may be that spreading is better for trading longevity and financial health than it appears to be at first glance. Doesn't it make more sense to trade on the same side of the market as the deep pockets with intimate market knowledge rather than hope to catch a move with the small speculators who are notorious for losing money?

There are several generations of traders with little knowledge of and no interest in spreading. New traders are typically more interested in using high-speed computing technology and short-term trading systems that rely strictly on technical concepts. This

Understanding Spreads installment will hopefully bring some knowledge and direction to this long ignored “old” subject with great appeal.

2. What is a Spread?

In its simplest form, a spread is a combination position of one short futures position and a simultaneous long position of another related futures contract. The contracts could be the same commodity, but different month, the same commodity on different exchanges or related products or markets. (We will cover the various relationships in more depth later.) This statement can be turned to say that a spread is the purchase of a futures position with the sale of a related futures position since the industry routinely expresses pricing quoted by the premium or discount of the buy side of the spread.

It is important to note the word “related” in the previous spread descriptions. It is significant that there must be some underlying economic relationship between the market positions for a trade to be considered a spread. This economic relationship necessarily excludes many of the exotic spreads that are advertised by the so-called gurus as spread trades. The reality is that these “spreads” are really demonstrations of computer-generated coincidence.

3. Fundamental Spread Relationships

The markets that are traded in an exchange-recognized spread have a natural price relationship based on economic reality. The burning questions that the spread trader seeks to answer are:

- 1) What is the normal price relationship between the two markets in the spread?
- 2) How can I position myself to profit from the changes in price differential that occur in that relationship?

Analysis of the various relationship combinations between markets is well beyond the scope of this short book. John Murphy has written two outstanding editions regarding the inter-relationships between commodities, stocks, bonds and currencies. However, a short list of the major relationships is given to provide a cursive understanding of the relationships between two markets. Spreads are unique to given market circumstances and cannot be generalized over a product group much less over all markets. The relationships that exist between two markets or various deliveries months and trading vehicles within a market determine the type of trading.

Spread traders consistently follow spread relationships that are:

1. *Substitute relationships*, where a commodity can be used to replace another product in a nearly identical situation. A substitute relationship would be short-term interest rates or replacement products in livestock feeding, such as wheat or corn. Another substitute relationship would be the hog/cattle spread for red meat where price disparity can change consumer demand and the resulting pricing relationship. The relationship between corn, soybeans and cotton is also a substitute relationship because these commodities compete for acreage at planting time.
2. *Product relationships* such as the soybean crush spread and the crude oil crack spread. These spreads are interesting to traders because they emulate the internal workings of major refining industries.
3. *Usage spreads* such as the hog/corn ratio and the cattle feeding spread.
4. *Carrying charge spreads* are watched in markets where carry is important to keep the cost of carry in line.
5. *Price difference spreads* are followed where there is no cost of carry. These markets would be interbank currency markets and interest rate markets of the same maturity and grade.

It is important that potential spread traders understand the basis of the economic relationship of a spread and recognize the conditions where a spread trade could potentially fail. The most important aspect of any spread research is to develop a valid theory as to why a spread relationship exists. Without a valid theory to accompany a spreading idea, a spread trade could become very dangerous. It is OK to test for patterns, then try to develop a theory to explain a trade.

4. Why Trade Spreads?

Spread trading can be one of the safest, most conservative ways to trade the futures markets. Also, spread positions typically require considerably less margin to maintain than outright long or short positions. The spread trader is concerned about the price differential between the long and short elements of the spread and is less concerned about the actual price level of the market or the trendiness of the market. This is unlike outright position trading, where the trader is concerned about the overall direction of the market and entry or exit timing.

Because spread trades are actually considered hedged positions, less volatility is associated with them than outright futures positions. Exchange recognized spreads have much lower margin requirements than outright positions, even though some old crop/new crop spreads do not behave like hedged positions and can be very volatile. Exchanges typically establish margin rates to reflect a market's volatility and risk profile.

5. More Reasons to Trade Spreads

- Spreads generally trend more often than outright futures and will occasionally trend strongly when outright futures markets are flat. Because of their trending characteristic, many different filters can

be used to analyze spreading opportunities. The list of analysis techniques includes seasonality and carrying charge studies, plus many of the most popular technical indicators and chart patterns.

- Spreading allows a trader to assume less risk in the market than an outright position, often with the same profit potential.
- Spread order entry allows a trader to “leg” in to or out of positions. This provides flexibility in risk.
- Real-time data is not needed for spread trading, which saves money in exchange fees.
- “Stop running” by local traders is virtually non-existent in spread trading. This helps the trader to avoid the market noise of intra-day trading.
- Spread trading is confidential. When in a spread, a trader is long and short at the same time and the exit order is at a differential number rather than an actual price. As a result, the local traders who may be hunting for stop orders have no idea of the position or the trader’s intent.

6. Important Things to Remember About Spreads

Industry practice lists the long contract in the spread first when quoting the price differential.

Remember that the ultimate goal of spread trading is not to make money on absolute price changes, like outright position trading. The objective of spreading is to profit on the change in price

differential between the two elements or *legs* of the position.

When spreading, it is not necessary to worry about the actual or overall price direction or where the optimal entry/exit point is located. Precise timing of the entry and/or exit is not as critical as trading directional moves in outright positions. This is one of the major advantages of spread trading.

Other advantages of spread trading are limited risk, lower margin requirements and more favorable risk/reward ratios. However, there is no guarantee that less risk is being assumed when trading a spread position. It is possible that both legs of the spread can become losers, which will magnify the risk associated with the position.

7. Disadvantages to Trading Spreads

As previously mentioned, both legs of a spread trade could lose, but this is balanced by the fact that both sides could also be profitable. In theory, limiting risk also limits profit potential. This must be weighed against the advantages that have been listed that accrue to spreading.

Another problem is that there is a limited amount of written information and research about spreading, especially when compared to most other trading subjects. A trader must take the initiative and find the information that he needs to complete his trading and analysis methodology.

Although minor, one last disadvantage is the problems encountered when placing orders. Greater effort is required to place a spread order than an outright position order and care must be taken in order to prevent errors.

8. Uses of Spreads

- Spreads are often used to reduce the risk of holding a position overnight or to lower risk at any time.
- Spreads are used to take advantage of historical seasonal tendencies.
- Spreads are used to convert an outright futures position to a combination futures position, where the trader feels it is better to carry the offsetting positions available by spreading.
- Spreads are used as outright inter-market and intra-market speculations. Spreads are used to remove the effects of futures directionality or trendiness from a trade.
- Spreads can be used to lower margin requirements.
- Spreads can be used to reduce the effects of volatility and uncertainty of a trade. The potential exists that both sides of a spread position can be profitable, but they can also both lose money, which serves to increase risk.

9. Types of Spread Trades

If you determine that spreading may be for you, there are several types of spread positions to consider. Seasonal spread tendencies in the agricultural markets do not change much when analyzed over a long time-period, because the tendency is tied to the production/consumption cycle of the physical. As I have mentioned before, it is important to recognize the market relationships and understand

why a spread may or may not work in a given year.

Spreading opportunities are more easily recognized by traders today because increases in computing power and database availability has provided the ability to perform more brute force iteration in locating seasonal spreading opportunities. However, the seasonal spreads tend to be shorter and are much less obvious on the charts when performing analog comparisons.

Intra-Market Spreads:

Same commodity – same exchange – different delivery months

For agricultural crop contracts, there are two additional distinctions:

Intra-seasonal: two contracts that trade within the same crop year.

- Carrying charges are important in this type of spread trade.
- *Contango* is the term used when the alignment of carrying charges is normal.
- *Backwardation* is the term used to describe a reversed or abnormal carrying charge relationship.

Inter-seasonal: two contracts that are in two different crop years. Although the contracts are on the same exchange in the same commodity, the price dynamics between the contracts are very different, due to potential differences in crop size and industry demand between the different crop years.

The crop year of a commodity is defined as the year based on the period from one harvest to the next harvest. Because of differences in growing seasons in various areas where a commodity is produced, the harvest may overlap several months within the crop year. An example would be the wheat market

where harvest begins in south Texas in mid-May and moves north to finish in southern Canada in late August.

Inter-Market Spreads:

Same commodity – same delivery month – different exchange

An example would be the different wheat markets traded at the Chicago Board of Trade, Kansas City Board of Trade and the Minneapolis Grain Exchange. Wheat is the commodity at all of the exchanges, but the type of wheat, its use and its delivery points are different at each exchange. This difference in underlying market structure will cause each market to have different fundamentals.

There are other examples of inter-market spreads in the Energy complex, Bonds, Currencies, Financial markets and Stock Indices.

Inter-Commodity Spreads

Same delivery month – different but related commodities – may or may not be traded on the same exchange

Examples would be silver/gold, corn/wheat, live cattle/lean hogs

Many different inter-commodity spread relationships can be traded. This type of spread also covers currency cross-rates and arbitrage techniques.

In interest rates, spreads of different bond maturities have little to do with the overall direction of interest rates, but each relationship presents a unique view of the yield curve.

Other inter-commodity spreads work for logical seasonal or economic reasons. Corn and soybeans maintain a spread relationship because of competition for planting acreage. Because

of yield differences, the price of soybeans is typically 2 ½ to 3 times the price of corn. This keeps the return per acre about the same. If the price of one or the other gets too far out of line, farmers will shift acreage to the other grain serving to bring prices back into line.

The cattle/hog spread is an economic spread where the relationship is directly influenced by shopper demand for red meat.

The corn/wheat spread works because different crop year cycles creates a combination of seasonal and spread harvest and planting pressure.

Source–Product Spreads:

Source–Product spreads exist between a raw commodity and one or more of its products.

Examples of Source – Product Spreads:

- Soybean crush – soybeans/oil and meal
- Crack spread – crude oil/unleaded gasoline,
heating oil
- Cattle crush or feedlot spread – feeder cattle and
corn/live cattle

The Soybean Crush Spread

The soybean crush is a futures transaction that emulates the process of producing soybean oil (BO) and soybean meal (SM) from the raw material soybeans (S). The spread gets its unusual name from the fact that soybeans are “crushed” in a process to yield soybean oil and soybean meal. One bushel of soybeans produces one unit of bean oil and one unit of soymeal.

The soybean by itself actually has little value. It is in the products after the soybean is crushed that there is great value. Soybean meal is used in animal feed because of its high protein content. Soybean oil is used as an ingredient in a wide variety of industries and products. It is primarily used as an edible oil but it can also

be used in a mixture to create an alternative energy source to compete with crude oil. The many uses of the soy products give value to soybeans.

When a 60 pound bushel of soybeans is crushed, the conventional yield is 11 pounds of bean oil, 44 pounds of 48% protein soymeal and 5 pounds of waste. If the hulls are left in, the resulting yield is 44% protein soymeal with no waste, which allows the use of a 1:1:1 ratio in the calculation. However, in October 1992, the Chicago Board of Trade changed the soymeal futures contract specifications from 44% to 48%. The more precise ratio of the spread involves 10 soybean contracts spread against 11 soymeal contracts and 9 bean oil contracts.

The basic calculation is simple. However, it is made more complicated when the quantities dictated for delivery in futures contracts are given in different units of mass, volume and price. Soybean contracts are quoted in cents per bushel on five-thousand bushel, bean oil contracts are quoted in cents per pound on sixty-thousand pounds and soymeal contracts are quoted in dollars per short ton on one hundred ton. Since soybeans are the underlying market, the least common denominator in this calculation is to convert to cents per bushel.

Since processing yields 11 pounds of bean oil per bushel of soybeans, this is easily converted to cent per bushel by multiplying the bean oil cents per pound to cents per bushel by multiplying by 11.

Soymeal is quoted in dollars per short ton. A price conversion must be made from dollars to cents and a mass conversion must be made from short tons to pounds, followed by a conversion from mass to volume. By using a multiplier of 0.022, the soymeal price quoted in dollars per short can be converted to cents per bushel.

The Gross Processing Margin or “crush” is equal to the price

of 48% protein soymeal in dollars per ton multiplied by 0.022, plus the price of soybean oil multiplied by 11, minus the price of soybeans in dollars per bushel. It is this calculation that determines the profit or lack of profitability that a processor can expect. From this, a processor can expand or reduce his crushing operation for a given year.

Here is how the crush formula works: If July soybean meal, soybean oil and soybean futures were trading at \$190.50 per ton, \$.2275 per pound and \$6.2500 per bushel respectively, the crush spread on the Chicago Board would calculate as:

$$\begin{aligned} & ((190.50 \times 0.022) + (.2275 \times 11)) - 6.25 \\ & (4.191 + 2.5025) - 6.25 \\ & 6.6935 - 6.25 \\ & .4435 \end{aligned}$$

This result means that the price relationship of the three markets yields a crush of \$.4435 per bushel on the day of the calculation. Like all commodity and spread charts, the spread moves daily and traders are looking for overvalued and undervalued market conditions. The analysis of the crush spread chart is similar to any other spread or outright chart. It is important to remember that processors try to maintain margins in the crush despite market conditions and trends. Seasonality can also play an important role in the direction and behavior of the crush chart.

If the spread between soybeans and its products is narrow, the profit potential is in the bean oil and soymeal because the cost of processing is too high to generate profits. If the spread is wide, the processors will push to sell soymeal and oil to reap the profits almost guaranteeing that the spread between soybeans and its products will narrow.

This type of spreading actually emulates the “real business” of producing or processing within a commodity group. Many

traders think it is important to understand the soybean crush when trading the soy complex. It is their belief that the relationship of the crush provides trading insight into what ultimately drives the price direction of the entire complex.

The Crude Oil Crack Spread

A petroleum refiner is similar to any other manufacturer. He is caught between two markets. He must purchase raw material in the form of crude oil and sell finished products in the form of heating oil, unleaded gasoline and other finished products. The prices of both sides of the refiner's equation are subject to independent variables of supply and demand. These changes in price can put the refiner at risk when crude oil prices rise and the price for products decrease or remain static.

The crack spread is a futures transaction that parallels the process of refining crude oil (CL) into unleaded gasoline (HU) and heating oil (HO). The spread's unusual name is derived from the process of "cracking" crude oil into its major components.

Because the quantities of the futures contracts are quoted in different units, the calculation of the spread is somewhat complex. Crude oil is quoted in dollars per barrel while the heating oil and unleaded gasoline contracts are quoted in dollars per gallon. Heating oil and unleaded gasoline must be converted to barrels, which is done by multiplying their prices by 42 (one barrel equals 42 gallons).

To calculate the crack spread, the price of each leg of the spread in dollars per barrel is multiplied by the number of contracts involved in that leg of the spread. The typical ratio for the crack spread is a 1:2:3 ratio with three contracts of crude oil yielding two contracts of unleaded gasoline and one contract of heating oil. To complete the calculation of the spread, the cost of the crude oil is subtracted from the cost of the products with the result divided by the number of contracts of crude oil.

Here is an example of the calculation. The price of crude oil, unleaded gasoline and heating oil is \$51.00 per barrel, \$1.4760 per gallon and \$1.4310 per gallon, respectively.

$$\begin{aligned} & (((1.4310 * 42) + ((1.4760 * 42) * 2))) - (51.00 * 3) / 3 \\ & ((60.102 + (61.992 * 2) - 153.00) / 3 \\ & ((60.102 + 123.984) - 153.00) / 3 \\ & (184.086 - 153.00) / 3 \\ & 31.086 / 3 \\ & \$10.362 \text{ per barrel} \end{aligned}$$

In this case, the value of the crack was \$10.362 per barrel. The value of heating oil and unleaded gasoline exceeded the cost of crude oil by that amount. It is a question for the refiner whether or not his refining costs are covered by the difference.

The combined value of heating oil and unleaded gasoline must exceed the value of the crude oil by more than the costs involved in refining. If the crack spread is too narrow to produce a refining profit, product prices will have to rise in order to reach crude oil prices. In this instance, prices would tend to favor the products.

If the value of the spread is large between the products and crude oil, refiners would increase refining and push the sale of unleaded gasoline and heating oil in order to benefit from the wider spread. This would tend to push crude prices higher and product prices lower. As with other spreads, the crack spread is sensitive to seasonal fluctuations, based on weather and fuel usage differences.

10. Seasonal Tendencies

Anyone associated with agriculture knows that prices move up and down with some degree of regularity. This movement happens

for sound economic reasons, such as increased supply at harvest, accompanied by farmer selling. Another instance would be the subsequent dwindling supplies as the end of the year for the old crop draws near and a new harvest approaches. These price moves are seasonal in nature and add validity to the statement: “The cure for low prices is low prices and the cure for high prices is high prices.”

Based upon knowledge of the fundamentals, you could conclude that wheat should be worth more in March than in July, when the new crop becomes available. The spread situation needs to be analyzed with its seasonal tendencies *and* the overall technical and fundamental picture before concluding that a spread trade should be entered.

The relationship between different contract months varies with the market. Here is a short summary of some of the relationships:

- Livestock markets are notable because they provide products that cannot be stored and redelivered. The prices for a contract month are based on anticipated supply and demand at the time of delivery.
- Agricultural grain products have a well-defined carrying charge relationship within a crop year. Expected differences in supply and demand create different delivery month patterns. Prices rarely achieve full carry, largely because of heavy commercial participation.
- Industrial metals show normal carrying charges under most circumstances, but are affected by demand. The carrying charges in these markets have been known to invert and remain that way for extended periods.

- Foreign exchange rates are dependent on the economic outlook for the country and its balance of trade. Exchange rates are quoted relative to other currencies, so everything is viewed in relation to another economy.
- Financial markets that are nearest to delivery react more dramatically to changing news, interest rates, economic information and supply and demand. The lasting effect on deferred contracts is not known immediately, so they tend to react more slowly to breaking information.

Seasonal analysis works like other analytical methods. The operating theory is as follows: By working with seasonal data, past price behavior can be studied in the framework of the seasonal tendencies. By identifying historical patterns, a trader can assume that future price action will be similar to past price movement. The expectation that prices will repeat previous behavior is just as sound as making a similar trading assumption based upon supply and demand analysis or even a technical indicator.

The most common use of spread trading is taking advantage of seasonal tendencies that occur in many futures markets. Spread trading is a method used to isolate and enter trades that have a high probability of success. In the case of many seasonal spreads, demonstrated previous success probabilities in the 80th and 90th percentile exist. Trades that have shown these types of results are quite common among seasonal trades.

11. What Makes Seasonals Work?

For most farm commodities, the annual harvest falls within a well-defined few weeks or months, depending upon the hemisphere and latitude. Producers sell a substantial part of their crop at harvest

time to meet production obligations, costs of new machinery, cost of land preparation for a new crop, fertilizer costs and other related production expenses. A portion of the crop may be held in on-farm storage or local elevator storage, waiting for potentially higher market prices in the months ahead.

In any case, the concentrated selling during harvest pressures cash prices at the harvest time of year. If the crop is large enough to satisfy normal requirements, buyers are not eager to accumulate supplies. The net result is usually a seasonal price decline that tends to coincide closely with the harvest season.

As cash prices weaken, they pressure the near-month futures prices. Farmers and dealers who expect to sell the physical commodity within a few weeks tend to hedge in the nearby delivery months. If prices of the nearby futures months do not decline to near the level of the cash markets, owners of inventory will deliver against their short futures positions, as profits will be greater by doing this than by selling their cash commodity through the usual commercial channels. Normally, the process of selling the near futures months continues until its price has declined to a level equivalent to the price prevailing in the cash market.

This activity tends to depress the price of the nearby futures contracts relative to the prices of the more distant delivery months. This can be expected to continue as long as nearby cash market supplies of the commodity are ample and plenty of storage space is available.

These seasonal price tendencies are more consistent for some markets than for others. The timing of seasonal highs and lows may be distorted by a number of different things. Extended adverse harvesting weather may result in a later-than-usual seasonal low price, or a sufficiently drawn-out harvest period may diminish the impact of the harvest on prices. Conversely, an unusually early harvest can cause earlier-than-expected harvest movement and historically premature hedge selling in futures.

Even if harvesting occurs on schedule, a determined move by producers to hold production off the market in the expectation of higher prices later can prevent seasonal downward pressure on prices. Under such circumstances, the seasonal low price may be higher than expected and seasonal gains from this level may be limited.

Seasonal spread trades are not exclusive to consumable commodity futures. They occur in currencies and financial markets as well. The research providing proof of the existence of seasonal tendencies is extensive. Many traders have used seasonal tendencies as the foundation for consistency to their trading approach. They regard knowing when a market is following its normal seasonal behavior and taking advantage of it to be one of the safest ways to trade the futures markets.

The idea of trading seasonal spreads has been overlooked by traders who look for quick profits in the daily noise of the markets. Fund traders who manage large pools of money in commodity funds, hedge funds and pension funds have also ignored seasonal spread trading as a viable alternative to profit. It might be interesting to note that with the exception of commercial interests, the trading public has largely ignored the concept of seasonal spread trading.

In the interest of profitable trading, it might be a good idea to take another look at seasonal spreading. You can bet the last dollar in your trading account that commercial interests are well connected to market spreads, even with access to the most current market conditions and technology. The market activities of the commercials are dictated by the seasonal shifts in market supply and demand. These changes must be anticipated by the trading firms if they are to remain in business. Traders who are aware of the seasonal trading patterns of a market may find themselves able to trade *with* the commercial firms that are known to be the

most knowledgeable and well-funded market participants rather than *against* them.

Once we have developed our theory, we need to decide the best way to test it. For example, should we use calendar date, trading days or another method to define our location in the seasonal pattern? If we look at weather related seasonal patterns in the grains or heating oil, then the calendar day of year or the trading day of year method makes sense. Another reason for using calendar date is when the seasonal is based on the effect of Tax Day on April 15th. If we think that a seasonal pattern exists because of the release of a report, then we need to look at our data so that year after year we can identify the same period in the data. Looking at the bond market for example, reports and auctions occur at the same time relative to the occurrence of a given day of the week in a month.

Once we have developed a theory, we can test different time intervals based on that theory and develop reliable seasonal patterns. Let's look at this process using some classic seasonal patterns based on sound theory.

12. Developing a Seasonal Approach

Cycles and seasons play a big role in each of our lives. The term "season" brings to mind many images. In each case, the image is one that occurs on a routine basis such as baseball season, football season, planting season or the Christmas season. For commodities like grains that are planted and harvested, the connection between weather and price levels is obvious. This relationship has been recorded for a long time but for other markets, such as the financial markets, weather has no impact. However, there are important historical patterns in these markets as well.

It is impossible to discuss the basis of the economic relationships

of spreads without also discussing seasonality. Seasonality can be broadly defined as a cycle that occurs yearly or with regularity. In an agricultural context, seasonality is associated with the planting, harvesting or feeding of grain. Weather is also a contributing factor to the seasonal picture, but many factors combine to determine seasonality. As tradable markets have developed, other seasonal factors have come into play.

Long-term seasonal patterns that last a month or two are usually more reliable and easier to explain than shorter seasonal patterns,

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Dobson, Edward. Commodity Spreads: A Historical Chart Perspective.

Traders Press, Inc: Greenville, SC, 1974.

- Appropriately named, this 70-page collection of charts may seem dated, but they provide a timeless perspective of useful data. Also includes a short overview and glossary of terms.

Moore, Steve, Jerry Toepke, and Nick Colley. The Encyclopedia of Commodity and Financial Spreads. John Wiley & Sons, Inc: New

Jersey, 2006.

- The authors are sure to clarify their intentions with the use of the word “encyclopedia” in the title of this spreads reference. They hope the readers will rely on this book as more of a “snapshot” or “cross-section” of case scenarios to guide their own spreads trading, be it commodity or financial. Chapters 3-8 provide valuable information solely on commodity spreading, and would be the most relevant to refer to on the broad subject. They include easy-to-read charts with succinct reference points, organized into *inter-market* spreads and *intra-market* spreads.

Ross, Joe. Trading Spreads and Seasonals. Ross Trading, Inc: Cedar Park, TX, 1997.

- The first half of this book addresses commodity spreads. Ross includes an interesting chapter entitled “Trading Spreads Using Technical Indicators,” albeit slightly misleading. He details the use of Bollinger Bands with spreads and briefly mentions the advantage of combining that with RSI, but doesn’t touch upon any other possibilities.

Schap, Keith. The Complete Guide to Spread Trading. McGraw-Hill: New York, 2005.

- This book is a mixture of all aspects of spread trading, but provides an ample amount of information on commodity spreading. The introduction in the first chapter is particularly helpful to beginners, as it argues the validity of long-term spread trading over “spectacular” gains that “outright futures can, occasionally, make.” Schap’s theory is to “give up a little, get a lot more.”

Smith, Courtney. Futures Spread Trading: The Complete Guide. Traders Press, Inc: Greenville, SC, 2000.

- Smith presents an excellent source for commodity spread trading. After an insightful overview, answering nearly every question the reader may have on the subject, he provides a chapter entitled “The Trading Plan.” Here he provides a detailed plan with sample weekly sheets to organize the traders intentions.

Current Publications of Traders Press

12 Habitudes of Highly Successful Traders.....	Roosevelt
A Comparison of 12 Technical Trading Systems	Brorsen & Lukac
A Complete Guide to Trading Profits.....	Paris
A Professional Look at S & P Day Trading.....	Trivette
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Astro-Cycles: The Trader's Viewpoint.....	Pesavento
Channels and Cycles: A Tribute to J.M. Hurst...	Millard
Chart Reading for Professional Traders.....	Jenkins
Cyclic Analysis: A Dynamic Approach to T.A.....	Hurst
Dynamic Trading.....	Miner
Essentials of Trading.....	Joufflas & Pesavento
Exceptional Trading: The Mind Game.....	Roosevelt
Fibonacci Ratios with Pattern Recognition.....	Pesavento
Futures Spread Trading: The Complete Guide...	Smith
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Geometry of Stock Market Profits.....	Jenkins
Harmonic Vibrations.....	Pesavento
How to Trade in Stocks.....	Livermore & Smitten
Investing by the Stars.....	Weingarten
Investor Skills Training.....	Ronin
It's Your Option.....	Zelkin
Keeping a Cool Head in a Hot Market.....	Roosevelt
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P & F Charting: The Complete Guide.....	Aby
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Private Thoughts from a Trader's Diary.....	MacKay & Pesavento
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RSI: The Complete Guide.....	Hayden
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Understanding E-Minis.....	Williams
Understanding Fibonacci Numbers.....	Dobson
Understanding MACD.....	Appel & Dobson
Understanding RSI.....	Dobson & Reimer
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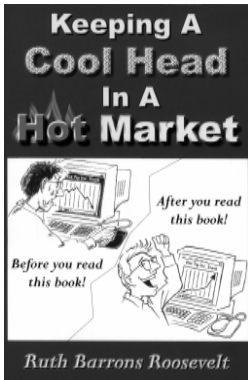
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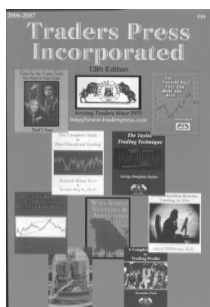
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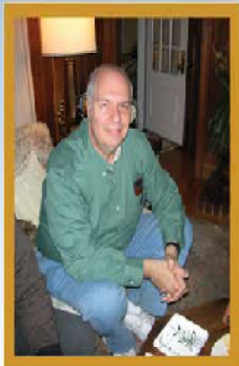
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Roger Reimer was raised on a wheat and cattle operation in the Texas Panhandle. His early experiences on the family farm instilled in him a life-long interest in the markets and how they work. He has worked with the markets for his entire adult life and is an active trader and market researcher. He is especially interested in systematic and technical trading methodologies with specific interest in seasonal tendencies and agricultural spreads.



Edward Dobson was born in California and raised in South Carolina. At age 12, his father instilled in him an interest for investing in stocks. This became a life long passion, which came to encompass trading in securities, options, and futures. After college and military duty, he was a broker with Smith Barney and Paine Webber for 23 years, specializing in options and futures. In 1992, he left the brokerage business to devote full time to his publishing business, Traders Press (founded in 1975), and to trading. He is currently an active trader and still active in his business.



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