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5 hot picks for the week of 3/3/08-3/7/08

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- 1.) I believe the saying goes “the trend is your friend.” Overnight July Soy meal hit a new contract high, advancing approximately \$50 off the lows back in late January which represents a 16% move in just over 30 days. We are recommending scaling into longs anticipating that this run higher still has legs. Use a stop below 370 and look for 400 to be penetrated in the not too distant future.
- 2.) Although this contradicts “playing the trend” sometimes it pays to be a contrarian. This is essentially a \$300 lottery ticket that will most likely expire worthless, but feel it’s worth the risk. Look to buy the 150 March Euro put that expires this Friday, one day after the ECB meeting. We are under the impression that the latest appreciation in the Euro and the rout in the dollar is a bit over extended. Look to pay approximately 25 points in premium (\$300) for an option that has a 20% delta. Once filled, place an order to liquidate at 72 points (\$900), which would be a 3:1 return on your money before commissions and fees. You would need to see a volatile move to about 149 to get filled on the profit objective.
- 3.) We are trying to catch a falling knife in April Lean hogs and may be a bit early but getting long with a call option seems worthy of a trade. Both RSI and stochastics show an oversold market and when it turns we feel it will move higher like a sling shot. We expect the gap formed from last Monday’s open to be filled on a move higher in coming days to weeks. Additionally all of the fund money that is finding its way into commodities has yet to move into livestock and when it does you better be long or you will be wrong. Buy the 61 calls; Friday’s settlement was 155 points (\$620) plus commissions and fees. Look for this to go intrinsic when the gap is filled and be trading roughly at 300 points (\$1200).
- 4.) We want to be long cotton as we see this as one of the best trades in commodities currently. The problem is buying right now is tough as prices have advanced 12 cents in the last 2 weeks. A 12 cent move represents \$6,000 per contract so this is significant. As opposed to just closing your eyes and buying we would recommend getting long December 08 while simultaneously selling May 08. The current spread is about 5 ½ cents to the December and we could easily see this get to an 8-10 cent premium. Charting the spread you are very close to getting buy signals from stochastics and MACD. Why we like this is, if prices were to move lower in the short term one could lift the May short book a profit and hold onto the December contract once they felt the pullback had run its course. We ultimately feel that with the lack of acreage and potential drought conditions to come December cotton could trade above \$1.00.
- 5.) By no means are we bearish gold but we are anticipating a healthy correction. Not only is gold overbought, the media is touting how great gold is which generally helps markets find a temporary top. Furthermore if selling in the stock market persists, investors may need to sell their gold to cover margins in equities; which has been a common theme in recent stock market sell-offs. The ensuing correction should not be viewed as the top in gold but it would only encourage us to get long looking for much higher prices as we feel inflation is going to become a more serious threat in coming months. Buy the April 950 put; Friday’s settlement was \$1610 you should be able to get it done for \$1350/1450 assuming the market is not too crazy. To make it less expensive but also compounding the risk you could sell an April 1050 call for roughly \$800 which would mean the trade would cost roughly \$700 and you would have 23 days to see gold pullback. We are looking for a violent move of \$50, some odd dollars when in fact it happens. The question is, will we see \$1000 before this correction occurs?

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