MARIO ZUCCA

Crude, Silver, Gold, And Platinum

Empowering Traders To Trade Commodities

With more and more products being added to the marketplace, how do you decide what to trade? Here's a look at what you should consider before trading the commodities.

by Gail Mercer

New traders are often overwhelmed at the number of different instruments they could trade. Should they trade stocks, indexes, exchange traded funds (ETFs), spot forex, or currencies? What are the market hours? What are the tick values? What is the slippage for any given instrument? What is a good profit target for the market they choose? What stop should they use? So many questions to ask and so many new things to learn!

Often, instead of researching what's available, novice traders simply choose a market that others may have recommended. With little or no knowledge about how a market moves, the trader is forced to guess what their stops should be, as well as how to take profits.

Getting enough information is the solution for the new trader's dilemma, obviously. Let's shine some light on four commodity markets: crude light, silver, gold, and platinum.

HIGH VOLUME

One of the first things a novice trader should look at when considering a new instrument is *volume*. In order to enter and exit a market, there must be sufficient buyers and sellers. Over the course of the last few years, the commodity markets have undergone a dramatic change in volume. Figure 1 shows that the average yearly volume for crude light, gold, platinum, and silver markets has more than quadrupled, with crude light being the leader, jumping from 50,000 contracts in 2006 to almost 350,000 now.

As Figure 1 demonstrates, there are ample buyers and sellers in the market for crude light and gold. However, the number of buyers and sellers for silver is substantially lower, and those for platinum is lower still. Just by analyzing volume, the new trader can judge whether it is sufficient for trading crude light, gold, and possibly silver. Since platinum has insufficient volume, this is not a market that the trader should consider trading.

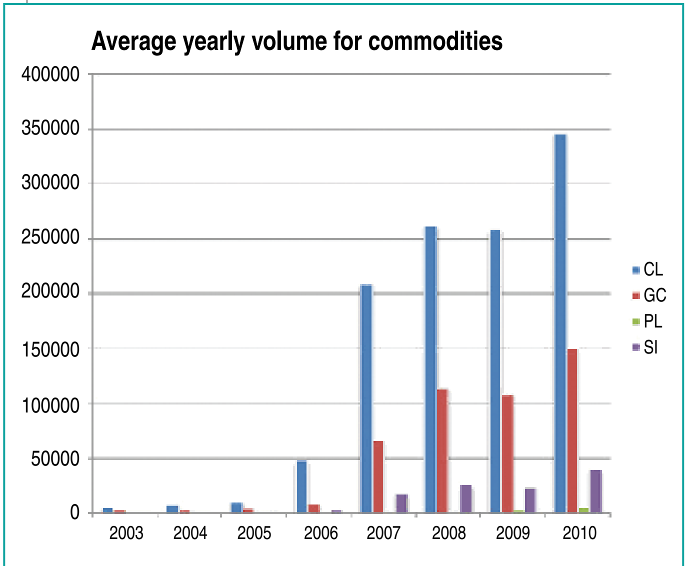

FIGURE 1: AVERAGE YEARLY VOLUME FOR COMMODITIES. The average yearly volume for crude light, gold, platinum, and silver markets has more than quadrupled, with crude light being the leader, jumping from 50,000 contracts to almost 350,000 since 2006.

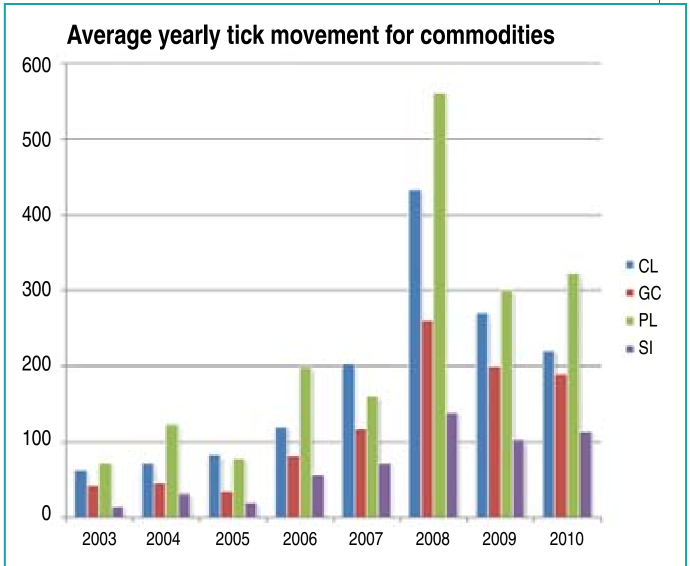

FIGURE 2: AVERAGE YEARLY TICK MOVEMENT FOR COMMODITIES. The commodities moved slightly less than the indexes through 2006. Then, in 2007, commodities gained an advantage over the indexes.

MARKET MOVEMENT

Of course, volume is only a piece of the puzzle. The new trader must also look at *market movement* (ticks) to see if the market moves sufficiently to profit. Figure 2 shows that the commodities moved slightly less than the indexes through 2006. Then, in 2007, commodities gained an advantage over the indexes. In fact, the average annual tick movement for crude light, gold, and platinum has been greater than the average annual tick movement in most of the indexes (Figure 3).

The new trader now has two pieces of information: volume and tick movement. As Figure 2 demonstrates, platinum leads the pack in tick movement, but Figure 1 clearly shows that platinum has insufficient volume. The second-highest market in tick movement is crude light, followed by gold and then silver. Since each tradable has a different tick value, a dollar-for-dollar comparison is needed.

Figure 4 shows that platinum does not lead in dollar amounts. The leader when comparing dollar amounts is crude light, followed by silver, gold, and finally platinum.

Since we know that the commodity markets have increased

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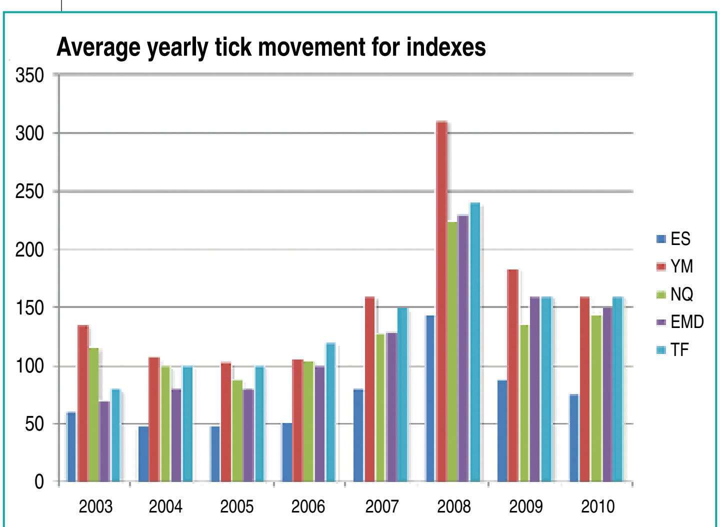

FIGURE 3: AVERAGE YEARLY TICK MOVEMENT FOR INDEXES. The average annual tick movement for crude light, gold, and platinum has been greater than the average annual tick movement in most of the indexes.

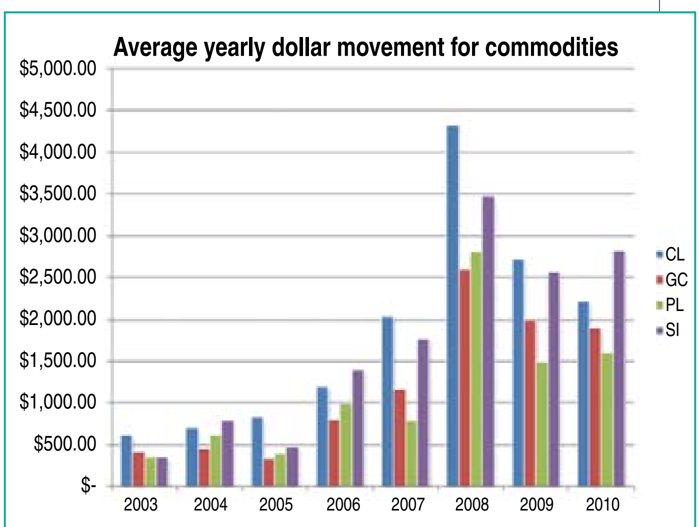

FIGURE 4: AVERAGE YEARLY DOLLAR MOVEMENT FOR COMMODITIES. Platinum does not lead in dollar amounts. The leader when comparing dollar amounts is crude light, followed by silver, gold, and finally platinum.

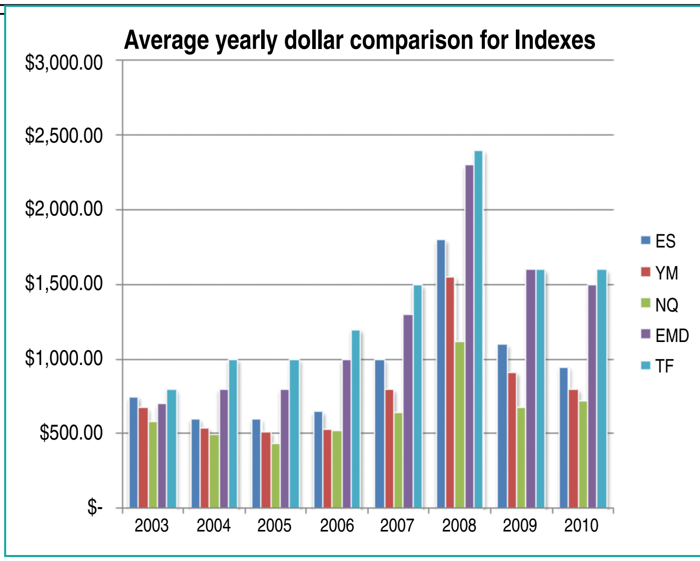

FIGURE 5: AVERAGE YEARLY DOLLAR COMPARISON FOR INDEXES. We see that, dollar for dollar, up until 2006, the indexes moved more. Again, as of 2007, the commodities began moving more, dollar for dollar. And, again, crude light is the leader of the pack.

substantially in both volume and tick movement since 2007, let us compare the commodity dollar movement with that of the indexes. Figure 5 compares the average yearly movement in dollars. Dollar for dollar, up until 2006, the indexes moved more. But as of 2007, the commodities began moving more. Once again, crude light is the leader of the pack.

The different trading sessions

Now that we have identified the tradables with adequate volume and movement on a daily basis, we can look at the volume and tick movement for the different sessions. Figure 6 shows the average volume for each four-hour session: Asia, London, the US morning session, and the US afternoon session. Crude light and gold have adequate volume during each of the sessions. However, the majority of the volume is during the US session and even then, platinum still has a very low volume average. If a new trader planned on trading the Asian or London session, he or she would need to limit the markets to either crude or gold.

What are your potential profits?

Since we have limited the potential markets to crude light, silver, and gold, we can calculate our potential profit targets. The 10% rule is one of the easiest methods with which to do this. Simply calculate the average tick value for the session and then multiply by 10%. Figure 7 indicates the average tick movement per session. Therefore, if you are trading crude light, during the US morning session, the average tick movement would be 217 ticks. Following the 10% rule, the profit target would be 22 ticks. Since we always use a risk–reward ratio of 1:2 (meaning for every dollar of risk we gain two dollars), our stop would be 22 divided by two or 11 ticks.

You are now empowered

The new trader can now begin trading commodities with the following knowledge:

- Commodities have increased in volume since 2007.
- Crude light, gold, and silver have sufficient volume for intraday trading.
- Platinum has insufficient volume for intraday trading.
- Commodities move more than the indexes in tick movement.
- Platinum leads in tick movement.
- Crude light leads in dollar movement, followed by silver and gold.
- Platinum has the least amount in dollar movement.
- The 10% rule works for 1:2 profit targets and stop-losses.

Gail Mercer is a trader, director, and instructor for tradershelpdesk.com, and is known as an "indicator expert." Mercer hosts a free live trading room where she teaches forex and index traders how to approach the markets. She currently trades futures, forex, indexes, and stocks.

Average volume by session time

	Asia	London	US AM	US PM
CL	1414	4744	44660	71680
Si	461	1228	9272	6174
GC	2373	5656	36516	23022
PL	109	178	669	435

FIGURE 6: AVERAGE VOLUME BY SESSION TIME. As you can see, crude light and gold have adequate volume during each of the sessions. However, the majority of the volume is during the US session and even then, platinum still has a very low volume average.

Average tick movement by session time

	Asia	London	US AM	US PM
CL	76	126	217	279
Si	36	49	100	78
GC	71	89	177	137
PL	128	151	278	218

FIGURE 7: AVERAGE TICK MOVEMENT BY SESSION TIME. If you are trading crude light, during the US morning session, the average tick movement is 217 ticks. Following the 10% rule, the profit target would be 22 ticks. Since we always use a risk–reward of 1:2, our stop would be 22 divided by two or 11 ticks.

Suggested reading

Mercer, Gail [2011]. "Empowering Traders With The Russell 2000," *Technical Analysis of* STOCKS & COMMODITIES, Volume 29: March.

_____ [2010]. "Looking At Other Markets," *Technical Analysis of* STOCKS & COMMODITIES, Volume 28: May.

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