

# · TITAN FUTURES ·

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## **THE ADVANTAGES OF COMMODITY SPREADS**

### **Trade on Fundamentals Only:**

Holding both long and short positions of a commodity (different contract months) at the same time enables you to be relatively immune to “technical” price changes. When sudden volatility hits the market, spread prices will often stay the same while individual “longs” or “shorts” can be buffeted by rapid market movements.

### **Seasonality:**

Spreads are best known for their seasonal characteristics. Harvest pressures can result in the tendency for some contract months to rise or fall faster than other months often resulting in spread trading opportunities.

### **High Profitability:**

Because the margins on spreads are frequently lower than those of outright positions, the profits on spreads as a percentage of margins are much higher than the profits on outright positions. It is not surprising that more active traders are turning to spreads as an alternative to trading other markets.

**HYPOTHETICAL EXAMPLE ONLY** (based on a past seasonal spread strategy)

**Buy December 2007 COTTON / Sell July 2007 COTTON**

Open Spread: 15 March 2007    Close Spread: 1 April 2007

Since 1992 the winning trades on this strategy have been 13 times out of 15 (86% PROFITABLE).

**Per Spread in US Dollars:**

Max Loss: \$767    Max Profit: \$3745    Average Profit: \$807    Margin: \$420 (approx.)

**An average profit of \$807 on a spread margin of \$420 = 192% PROFIT.**

**Dec/Jul Cotton:** Possible textile mill consumption increases. When planting begins in March, new product demand will probably turn its attention to new-crops at the expense of the old-crops which can often happen all the way into May and further out to the July delivery date.

Please call 1800 228 600 if you require further information on the cotton spread example.

You can trade spreads on Soybeans, Wheat, Live Cattle, Cotton, Heating Oil, Orange Juice, Cocoa, Coffee, Pork Bellies, Lean Hogs and many more commodity markets.

NOTE: The above hypothetical recommendation is for example purposes only and should not be considered advice.

If you are ready to start trading futures, please call us on free call 1800 228 600 for our new client account opening forms.

## **Titan Futures**

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