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Unlocking Opportunities in Commodities

A Short Guide to using the "Key Tools" that can Unlock Profit Potentials

Unlocking Opportunities in Commodities

Opportunities are always to be found in the commodity markets due to changes in weather, supply imbalances, trade disputes, and other forces. The leverage, reduced risk, and precise accuracy are what can make Commodity Futures and Options such attractive speculative tools.

By utilizing the smaller contracts rather than the standard size, or by using options, your risk is significantly minimized, accuracy is acquired, and leverage is proportionally maintained.

Key Tools

Standard Commodity Futures

BENEFIT: Leverage

Food
$1 move in corn, risk-profit equals $5,000.

Energies
$1 move in crude oil, risk-profit equals $1,000.

Metals
$1 move in gold, risk-profit equals $100.

**ETF's (Exchange Traded Funds) can be used to trade commodities, but they're not designed for leverage or specific time frames.*

Mini Commodity Futures

BENEFITS: Leverage, Reduced Risk, & Accuracy

Food
$1 move in corn, risk-profit equals $1,000. *(1/5 of regular size)*
Let's say a temporary supply disruption develops in corn. In this example, July corn (nearby) may go up faster than Dec. corn (deferred).

** With ETF's, there is no distinction among corn months. Corn is corn.*

Energies
$1 move in crude oil, risk-profit equals $500. *(1/2 of regular size)*

**Mini Nat. Gas is 1/4 of regular size*

When pipeline disruptions occur or oil tankers are at risk because of armed conflict, the nearby oil (lack of supply) may rise faster than the more distant oil.

** Again, the line is blurred with ETF's. Oil is oil.*

Metals

$1 move in gold, risk-profit equals $33. *(1/3 of regular size)*
The price difference between months in metals is a function of storage, interest, and insurance cost.

** Thus, in metals, the major distinction between ETF's and Futures is Leverage.*

Standard Options

BENEFITS: Leverage, Reduced Risk, & Accuracy

When buying an option, as long as you are in the option, the money you paid for it is the total risk.

If you buy a gold option for $500, as long as you are in the option, the total risk is $500. Also, remember, you're buying the option on the standard size unit. So, you receive all of the standard size's leverage in addition to the reduced risk.

Along with the basics, in my opinion, it is important to work with people of experience and with companies of strong net capital when you decide to begin trading.

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-35 years of futures experience
-Writer of numerous trading articles
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