3 trades in 3 Sectors: Energies, Softs, and Metals

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By: Matthew Bradbard

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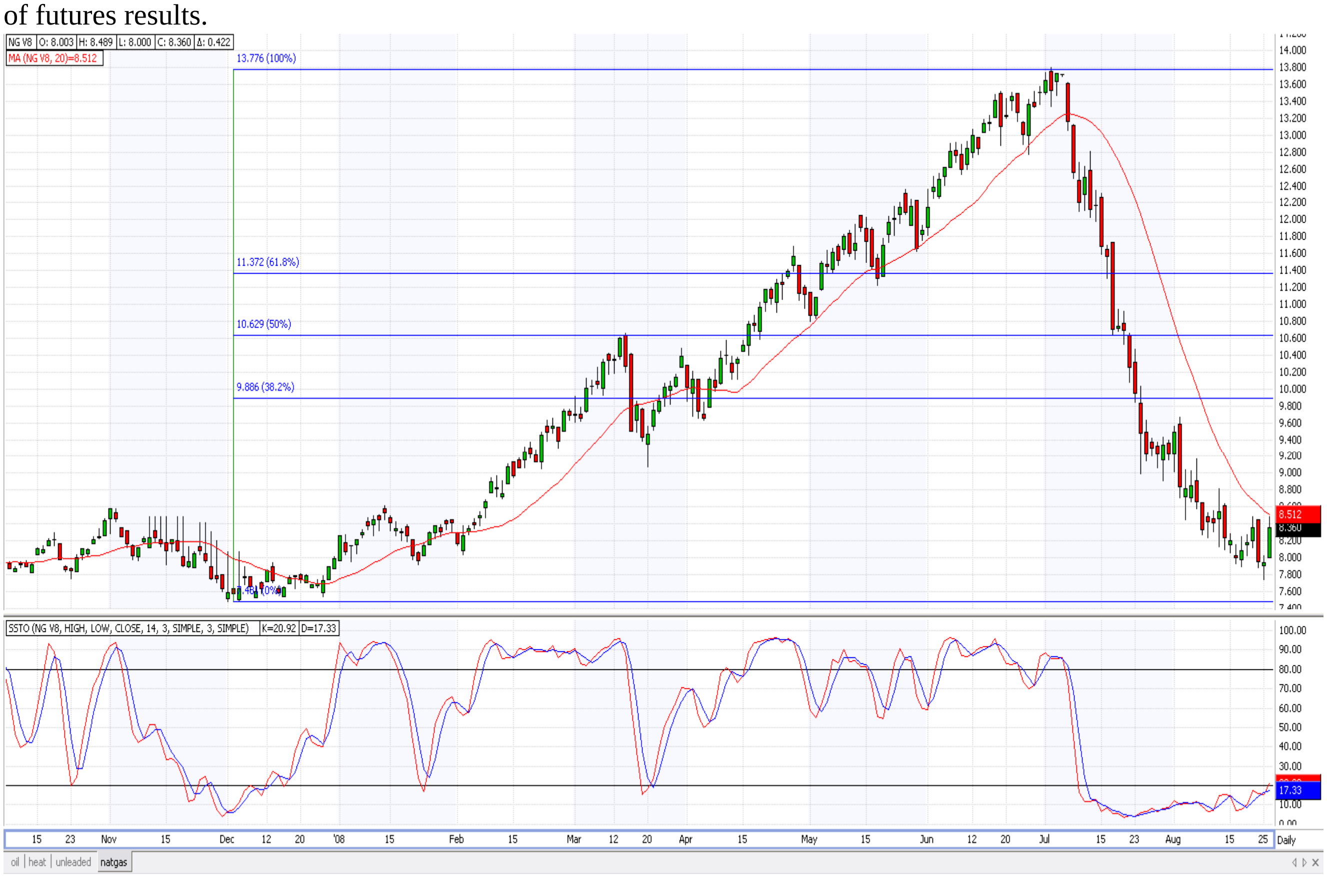
All good things must come to an end and as opposed to saying the bull market is drawing to a conclusion, we feel the correction is close to over. We are advising clients to take advantage of the recent correction and buy commodities that could potentially appreciate considerably over the weeks to months ahead. Find attached some trading ideas that we feel merit your attention.

Natural gas:

Being that we are in the heart of hurricane season, we don't know if *Gustavo* alone will be the catalyst, but with increasing activity in the coming weeks hurricanes should support. On top of potential hurricanes, we could see a short squeeze as many traders are most likely short after seeing a 40% correction. Furthermore, prices could be viewed at a value zone at $8.00. More reasons include, with increased cooling demand on a hot spell we could experience a surprise draw in the weekly AGA report or end users may buy ahead of the heating season. In other words there are a number of variables that we feel could impact prices.

For the last 16 years in September we have been higher 12 years and lower 4 for an average move of 11.9%, which from current levels would be a move of roughly $1.00. Past performance is not indicative of futures results.



Trade ideas:

1.) Sell the October $8.50 call and collect the premium (As of 8/26 approx. $6,000) and simultaneously go long the futures in October (10,000 MM btu. contract). Look to offset both legs on higher pricing gaining on the futures and losing on the option.
2.) Go long the mini-futures in October (2,500 MM btu. contract). Look for the recent low to hold and to add to the position on signs of strength, *i.e* close above moving averages.
3.) Buy the $8.25/8.75 or $8.50/9.00 bull call spreads for $2000 and $1500 respectively. You have 30 days and you could hold till expiration or trade out within the next 7-10 days looking for a 50-75%.

<u>Cotton:</u>

The triple bottom on December cotton that was formed within the last 2 weeks should serve as sold support. We briefly traded below that level last week, perhaps trying to runs stops before decent volume emerged. As you can see below the line in the sand on the front month continuation chart is 65 cents; buying at those levels and holding has worked in the past, whether that will hold true currently only time will tell. Past performance is not indicative of futures results. It was reported just weeks ago by the USDA that we will most likely have the smallest crop in 20 years. Did you take Economics 101?

Trade ideas:

1.) Sell the October 65 cent puts collect the premium, sell the December 80 calls collect the premium and buy the December 70 calls looking to pay under $200 for all 3 legs (As of 8/26). Look to offset all 3 legs on higher pricing. This is a fairly aggressive strategy because selling options bears unlimited risk. If cotton was to move lower you would lose on 2 of the 3 legs.
2.) Go long the futures in December with current pricing just below 70 cents. Look for the recent triple bottom at 67 cents to support with stop losses just below.
3.) Buy the 80 cent December call for approximately $700. Currently this option is 10 cents out of the money and has a 23% delta. You have 73 days and you could hold till expiration or trade out within the next 30-45 days looking for a double in premium ($1400).

Silver:

After a violent 35% correction in the last month we are advising clients to re-establish longs in December silver. On the weekly charts we got within spitting distance of the 200 day moving average which has not happened since silver was trading at $8/ounce in the summer of 06'. Coincidence or not, last year silver put in a low on August 16th around the same level we saw a capitulation low this year on August 15th. Following that low into the end of the year prices advanced from the $12 level to $16 and eventually $21.50 by March. Past performance is not indicative of futures results. We expect to see prices fight their way back to $17 between now and December.

Trade ideas:

1.) Buy the $13.50/15.00 bull call spreads for $2500 or the $14.00/16.00 for $2700 (As of 8/26). You have a delta in the first spread of 20% and 23% on the second spread with just under 3 months time.

2.) Sell the December $14.00 call and collect the premium (As of 8/26 approx. $4,650) and simultaneously go long the futures in December (5,000 ounce contract). Look to offset both legs on higher pricing gaining on the futures and losing on the option. If you chose to hold for an extended period be careful with the overlap with option expiration on 11/20 and FND on 11/28 on the futures.

3.) Go long the mini-futures in December (1,000 ounce contract). Look for the recent low to hold and to add to the position on sign of strength, *i.e* strength in outside markets or weakness in the dollar.

Everyone has discounted commodities and written them off, but we still managed to find opportunities like these. To get more specific trading strategies on natural gas, silver or cotton or any other commodities you wish to play contact us at http://www.mbwealth.com/contact.html or (888)-920-9997. www.mbwealth.com