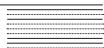


YOUR PROFIT

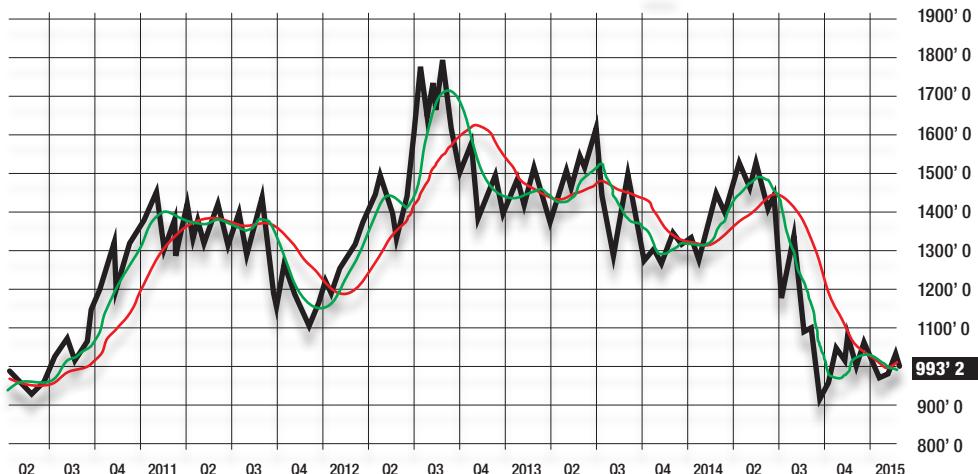
By Al Kluis



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CBOT Soybeans Weekly Continuation — 8-Week Moving Average (green line), 21-Week Moving Average (red line)



This chart shows the high, low, and close each week going back to the second quarter of 2011. It also has the 8- and 21-week moving averages. When the 8-week average (the green line) is above the 21-week average (the red line), you are in a long-term uptrend. The opposite is true when the 8-week average is below the 21-week line. That's when you are in a downtrend. This combination has worked great on the long-term chart.

CREATE RELIABLE CHART SIGNALS FOR SOYBEANS

USE MOVING AVERAGES TO HELP YOU KNOW WHEN TO BUY, SELL, OR HOLD.

Although I've been a grain trader for 40 years, I've only been a professor for four. This winter, I had another great group of students at the Lafayette Trading Academy (a winter school to teach farmers about grain merchandising, options, and charting). I find that I really enjoy teaching charting. The students update their own hand-drawn charts, and we also do some advanced analysis with charting software on their marketing laptops.

In the February 2015 issue of *Successful Farming* magazine (pages 18 and 20), I wrote about charting and showed two examples of reliable chart signals in the corn market. I have never received so many calls and emails about an article. The calls came from:

- Young farmers asking how "this chart stuff works."
- Growers asking whether the same charting concept works for soybeans (yes, it does).
- Producers asking whether the same time periods can be used for soybeans (no, they can't).
- A veteran chartist who initially disagreed with my analysis.
- An eagle-eyed farmer who pointed out that I had labeled the chart wrong (yes, the labels were reversed).

Because these were such good questions that many of you might have as well, I'm using this space to respond to these calls.

HOW CHARTING WORKS

For those of you who are not familiar with charting, you need to understand moving averages. The concept is simple. To find the 8-day moving average, add up the closes for the last 8

days and divide by 8. The next day, add in the current close, knock off the one from 9 days ago, and you have the new 8-day moving average.

When I am working with the weekly soybean continuation chart, I do the same computations using the weekly closes. I also apply the same concept to the soybean monthly continuation chart.

For anyone who uses spreadsheet software like Excel, it is very simple to figure out several different moving averages.

Where it gets complex is figuring out which combination of moving averages to use.

Moving averages are just one of the tools that I watch. I am also a seasonal trader and will again be watching for a possible high and sell signal sometime between May and July.

CHARTING SOYBEANS

Another concept you need to understand is continuation charts. Simply put, it is a chart of the nearby soybean futures market.

I chart the January contract until the day the contract expires (goes off), and then I start to chart the March contract. I chart the March contract until it goes off, and then I chart the May.

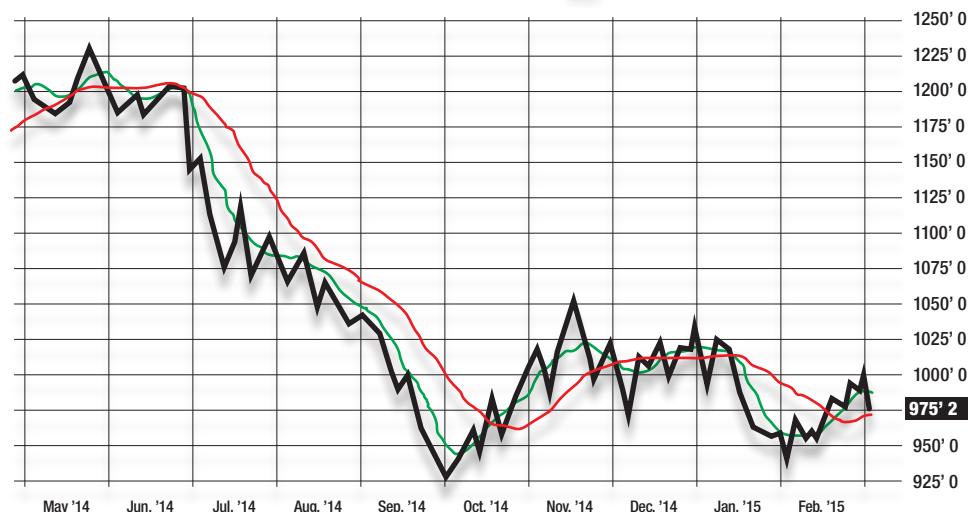
Some people switch contracts on the first delivery day, but I don't switch contracts until expiration day — just as I will keep trading until my expiration day.

A chart like this will keep going as long as soybean futures are traded. These charts are the best indicator of cash soybean prices, and they give much different signals than individual contract month charts.

I keep hand-drawn daily, weekly, and monthly continuation charts for most of the ag commodities, the stock market, and crude oil. I also make daily, weekly, and monthly continuation charts using my preferred charting ▶

November 2015 CBOT Soybeans

— 8-Day Moving Average
— 28-Day Moving Average



This chart shows the high, low, and close each day going back to May 2014. It also has the 8- and 28-day moving averages. When the 8-day average (the green line) is above the 28-day average (the red line), you are in a long-term uptrend. The opposite is true when the 8-day average is below the 28-day line. That's when you are in a downtrend. Following this chart, you would have sold in June 2014 at \$11.86, which turned out to be a great hedge on your 2014 soybean crop.

software, ProphetX. They both provide me with insights. One huge advantage of the ProphetX charts is that I can change studies and create new ones with just a few clicks of my mouse.

OPTIMAL CHART TIME PERIODS FOR SOYBEANS

For the CBOT weekly soybean continuation chart (shown on page 17), I am using the 8- and 21-week moving averages. On this chart, you can see the buy signal in February 2012 at \$12.19 and the sell signal that came in October 2012 at \$15.61. Following are five observations about this chart.

1. This trend analysis system does not allow you to buy the bottom or sell the top.
2. You can get chopped up in a sideways-trending market, like the one that prices were in from November 2012 through July 2013.
3. You can see the sell signal that developed in June 2014 and the buy signal in January 2015.
4. In a choppy market again, I view the soybean market as making a possible long-term M-type of bottom.
5. The key price level that needs to hold is the \$9.04 low from October 2014.

For the November 2015 CBOT soybean chart (shown above), I am using the 8- and 28-day moving averages. You can see the great sell signal at \$11.86 in June 2014. From that signal, you would have stayed short until the cross-over buy signal developed in October 2014 at \$9.66. Again, you did not sell the high or buy the low. However, the short position made right at \$2.20 per bushel. From October 2014 through March 2015, you have had a number of buy and sell signals, as prices have been locked in a \$1.25-per-bushel trading channel.

VETERAN CHARTIST

It is important to note that if you use the new software when creating these chart studies, you will get a different signal, as I explained to the veteran chartist who, at first, disagreed with my analysis.

The old-school way I use to build my daily, weekly, and monthly continuation charts (by charting right up until the last day of trade) will generate different buy and sell signals than the new software that changes the chart to the next contract month on the first day of delivery.

EAGLE-EYED FARMER

In the February article, one eagle-eyed farmer noticed that the labels of the two charts were reversed (the 10-week and 55-week moving averages on the CBOT corn weekly chart, and the 10-day and 40-day moving averages on the December 2015 corn chart).

On that weekly chart, the red line is the 10-week moving average; the blue line is the 55-week moving average.

For the December 2015 corn chart, the red line is the 10-day moving average; the blue line is the 40-day moving average.

Note: The labeling on the two charts in this article has been double-checked and is correct.

FINAL THOUGHTS

The bottom line is to keep learning and experimenting. Remember that you are not just growing crops, you are growing money. Take time each day to study the markets, and you'll more likely have a profitable farm.  

NOTE: Trading of futures and options has substantial financial risk of loss and is not for all investors.

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Al Kluis has been trading grain futures since 1974. Sign up for a free trial to his daily morning email and weekly "Al Kluis Report" by going to alkluis.com.

Join Kluis and his team for his free Second Tuesday webinar on Tuesday, April 14, at 8 p.m. CST. Register at alkluis.com.
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