Since 1972

Vol 2008 Issue 42

I ADVISED YOU THAT THE COMMODITY AND STOCK MARKETS WERE LIKELY VERY CLOSE TO THE START OF HUGE RECOVERY RALLIES THAT COULD EVENTUALLY BECOME INTERMEDIATE OR LONG TERM INVESTMENTS

My Intermediate and Long Term Investing Webinar on Saturday 18 October was attended by serious traders from all over the world. At that Webinar I picked the EXACT DAY that the huge recovery rally started! Now you can hear every word and see every slide I showed and every method I taught. Order the 5 hour Media File and learn my best methods!

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Jake Bernstein's

Weekly Commodity Trading Letter

A Comprehensive Guide to Trends, Timing, Cycles and Seasonals in Futures

For the Week Beginning 3 November 2008

What they Say about Monkeys

Hopefully, what I am about to write won't offend anyone. If it does then I apologize in advance. I am now at the age (over 60) and time in my life that brings with it the privilege of brutal honesty as well as the attitude that if anyone doesn't like what I say they can certainly disagree with me or go elsewhere. I do not intend what I just said to be either disrespectful or flippant. Some subjects are sensitive – they often question the very essence or purpose of life or, as in this case, the substance of our goal as traders. So please consider this topic to be serious in spite of its tragic humor.

The Sad State of the Average Trader

A few years ago a friend and I were discussing the sad state of the trader. More specifically, we were talking about the fact that in spite of all the magnificent advances in trading software, low commissions, computer hardware and electronic order execution, the average trader was still a net loser in the markets. As an individual who had never traded she wondered why the lot of the average trader had not improved substantially given all the advances of the last decade. In fact she felt that most traders should be making money rather than losing money. She asked me to draw on my many years of experience in order to give her a cogent answer to this apparent anomaly.

It didn't take much time or thought to give her an answer. I pointed out that most traders lose money for reasons not directly related to their trading system or method but rather to a lack of discipline, emotional responses to market behavior, lack of organization, informational overload and lack of confidence. I also added that although I (and many other market analysts and educators) had been "preaching" the importance of discipline for many years, the vast majority of traders either had no interest in learning discipline or they simply did not believe that it was important. I remarked that it was utterly amazing to me that traders did not want to fix the weakest link in the chain.

The Unexpected Reaction

My friend briefly pondered the response I had given her. She remarked that she was not at all surprised by the fact that many traders had little or no interest in improving their discipline in spite of the fact that they knew in their heart of hearts that this was their real problem. Then she said: "Do you want to know why traders aren't interested in fixing problems with their self confidence and self discipline"?
I took the bait: "Yes, please tell me why"
She replied: "You know what they say about monkeys, don't you"?
"No, please do tell me" I answered
"It's really very simple, no monkey likes to look at his own butt" she said with a big smile.
She was absolutely right. The simple fact of the matter is that facing up to our own limitations as traders or in our personal lives is the most difficult thing to do. Have you ever looked at a monkey butt? It's not the prettiest thing in the world. In fact it's downright hard to look at. And so it is with traders as well. They are loath to look at their problems. They are loath to look at the stuff that has been limiting their profits even though they know that they could be doing better.
(Continued on page 7).

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COWS (Corn, Oats, Wheat and Soybeans)

The grain and soybean complex markets fell sharply from recent tops. I warned you that the record-breaking rallies would end and that the bubble would burst. It did. The declines came and they are still with us but we are in the ideal time frame for seasonal lows in the soybean complex and corn. As of the end of last week there are some initial lows and some buy signals. I believe that the grain and soybean markets have the potential to snap back quickly to long term and or intermediate term resistance levels. I hasten to add, however, trading these markets is not a "cake walk". Even the most seasoned and experienced traders are having difficulty and therein rests my very conservative approach to recommendations. See charts below.

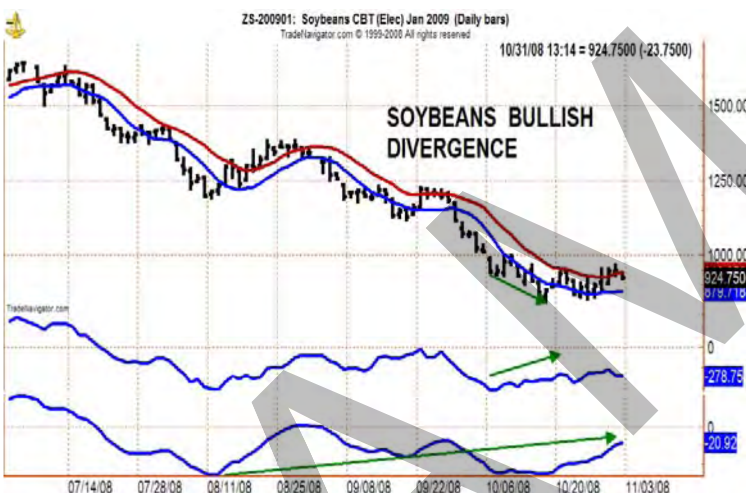
Soybean Complex: All soybean complex indicators turned bearish well ahead of the current steep declines. I advised you of the bearish trends and potentially large corrections before they started. The corrections have come and some short-term buy triggers have developed. The seasonals were ideally BEARISH until late October which meant that we were getting close to lows. Support levels have been tested. The momentum charts below show my evaluation of current signals. Soybeans have given a high-risk trigger to go long. I emphasize the "high risk" aspect of my last statement. ALL MARKETS grain and soy complex markets are high risk!

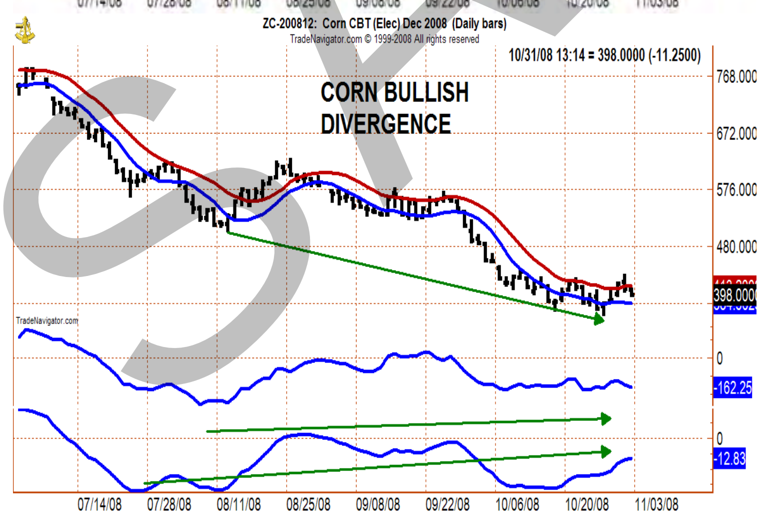
Corn: Prior to the current declines I pointed out that my COT analysis had turned bearish. Seasonal lows are now due. There is bullish momentum divergence. The hotline will give you specific short-term recommendation to buy at or near weekly support. I believe that corn prices now have the potential to make a very large recovery, perhaps as high as intermediate term resistance areas. The hotline WILL recommend longs on the next buy signals. There are no buy signals as yet on my work. See below for short-term charts.

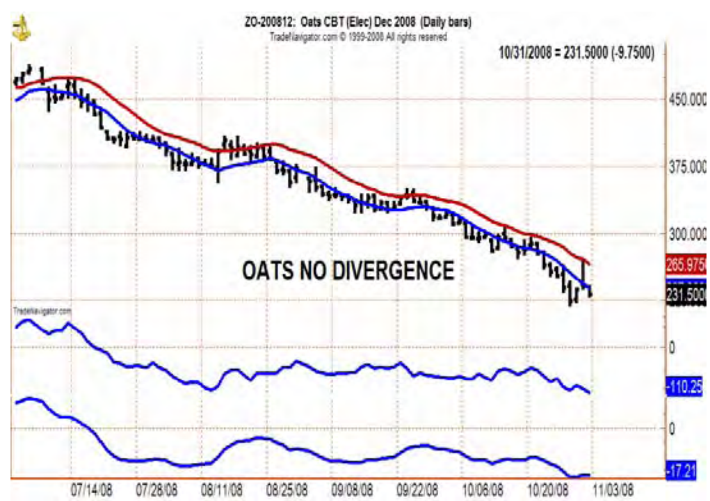
Wheat: I advised you "the short term trend may bottom within days, while weekly trend remains bearish". We saw signs of that bullish life last week in the form of a huge recovery. There are short-term buy signals. I add that, as in all the grain and soy complex markets, the swings will continue to be large and wild. A small stop loss in such an environment will only work against you.

Oats: The market remains short term bearish. The intermediate-term uptrend remains bullish. The decline has taken prices down to important support. There are no long-term sell signals on my indicators. There are no short-term buy signals.

IMPORTANT REMINDER: ALL RECOMMENDATONS GIVEN VIA THE HOTLINE WILL REQUIRE LARGE STOP LOSSES DUE TO ONGOING MARKET VOLATILITY. THERE HAS NEVER BEEN A TIME AS VOLATILE AS THIS – YOU WILL LOSE MONEY IF YOU USE SMALL STOPS. IF YOU CAN'T AFFORD THE POTENTIAL RISK THEN DON'T TRADE! THE HOTLINE WILL RESUME WITH RECOMMENDATIONS AS SOON AS VOLATILITY RETURNS TO A MORE REASONABLE LEVEL. PRESERVE CAPITAL!



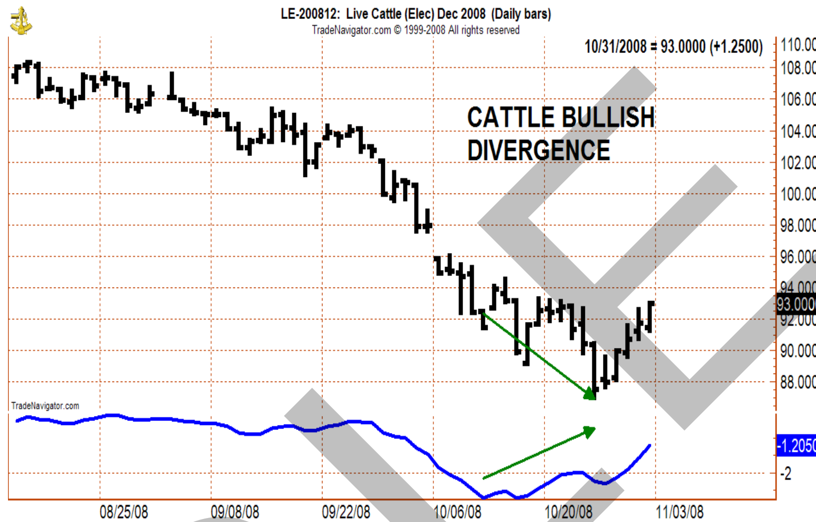




Meats

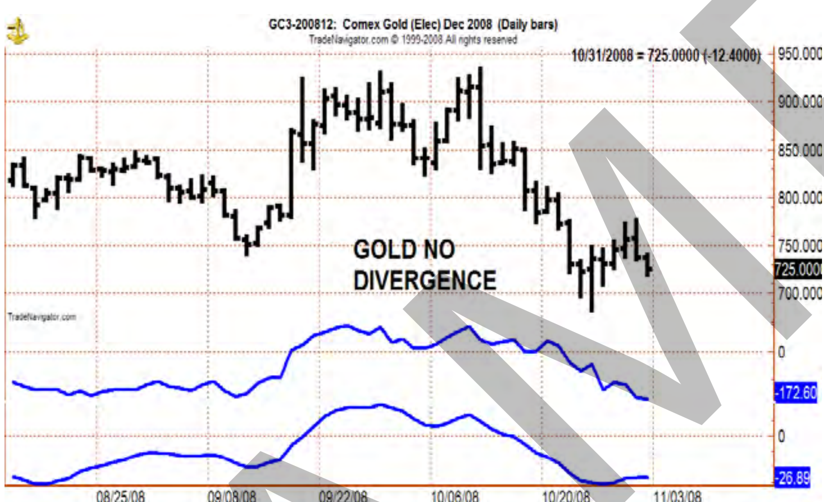
Cattle and Hogs: WAIT FOR BUY TRIGGERS! My analysis of the **COT Commercials positions in both markets continues to project a LONG TERM bull move in both of the meats.** I believe that the recent decline in hogs constitutes a good test of my bullish expectations. The end of the month marks the start of a higher probability seasonal long trade in lean hogs. As we go to press hog prices continue to decline but cattle have formed a short term low. On a spread basis we believe that hogs are undervalued relative to cattle.

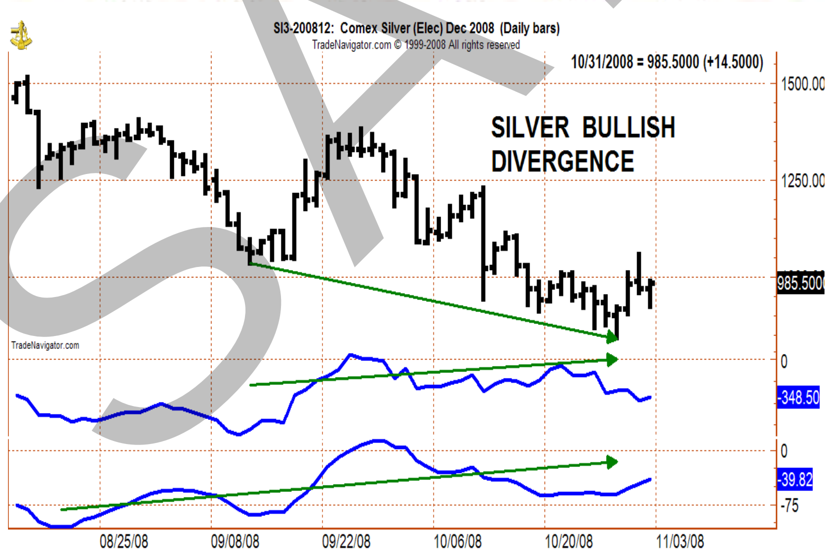
We are, however, close to a short term buy signal and, as note above, a seasonal rally that may eventually develop into a bigger move which is consistent with my longer term expectations. The next few weeks should be bullish for hog prices if the seasonals are on course.



Metals

Copper: There are no long-term sell signals as of this writing. Thin volume and erratic price moves make this a difficult market to trade. Therefore, I will not be giving specific hotline recommendations due to intraday volatility and risk. The trend remains bearish. Seasonal lows are ideally due in December.





Gold and Silver: I advised you to "Consider gold shares as well such as HMY. Gold seasonals made their move and you should have gotten out of longs. Short-term trends in both gold and silver exploded to the upside but the ideal seasonal tendency was clearly lower and prices then fell sharply.

The panic selling in stocks worldwide combined with the anticipated financial crises should have taken gold and even silver to new all time highs. But because they DID NOT DO SO, I warned you that this was clearly bearish for the precious metals. The markets sold off sharply and, in fact dropped to long-term support levels. The inability of gold and/or silver to hold gains in spite of bearish trends in economic data is a negative. Silver shows bullish divergence but gold does not. See charts at left.

As long as seasonals still point to lower prices I will remain bearish. Silver is also not behaving well despite the negative economic background. The odds are that long-term support will hold BUT there are no buy triggers as yet in either market.

Platinum/Palladium: My long-term forecasts for platinum and palladium have been bullish and I am still long term bullish in spite of the recent corrections down which were clearly discussed in this newsletter well in advance.

The dramatic corrective declines were long overdue and are, in my view, a positive development in the long-term picture. Platinum has not participated meaningfully in the precious metals rally and has reacted to major long-term support levels that are critically important holding levels. Given the low price levels I recommend looking for short term buys signals which have not, as of this time developed.

Currencies

Aussie $: I advised you well ahead of the fact that a MAJOR decline was coming. The decline has been nothing short of amazing and it has left the bull's heads spinning! The market has literally crashed against the US dollar. The last short term bear market rally did not change my expectations. It is not unreasonable to expect a short term low **but there are no buy triggers as of this writing. A brief seasonal rally developed as expected but the major trend remains bearish.**

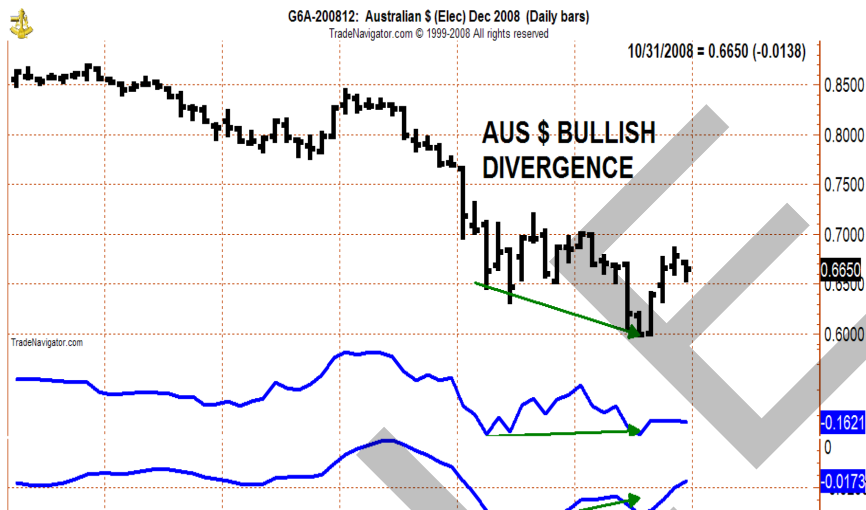
Eurocurrency/Swiss Franc: There were persistent and significant warnings (and persistent ones at that) on my work of a major low in the US dollar vs. the Swiss and the Euro. I warned you about them repeatedly and without equivocating. The forecast was correct. My cyclical patterns suggested that long tops were developing and this is still the case. There is no change in my long-term bearish expectation. The dollar has surged as expected. **I remain bullish on the dollar, however, a short-term top in the dollar was expected and it has developed**.

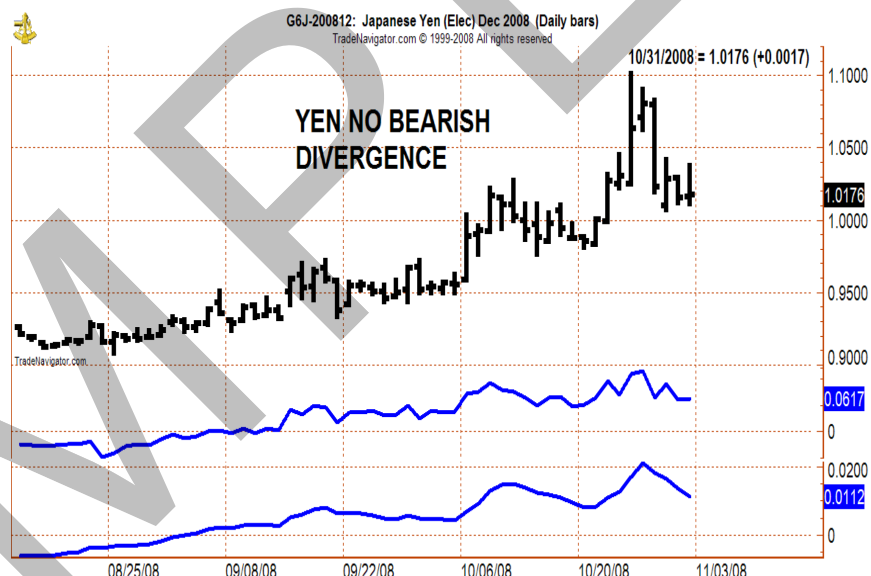
Japanese Yen: I have been bullish for many months and I REMAIN BULLISH. The long-term bull market continues as predicted. The Yen has exploded against many currencies as predicted. Buy on declines to weekly support. I will likely give you a buy recommendation via the hotline as soon as there is another buy trigger. I have been and I remain bullish on Yen vs. US Dollar. The market has confirmed my forecasts dramatically.

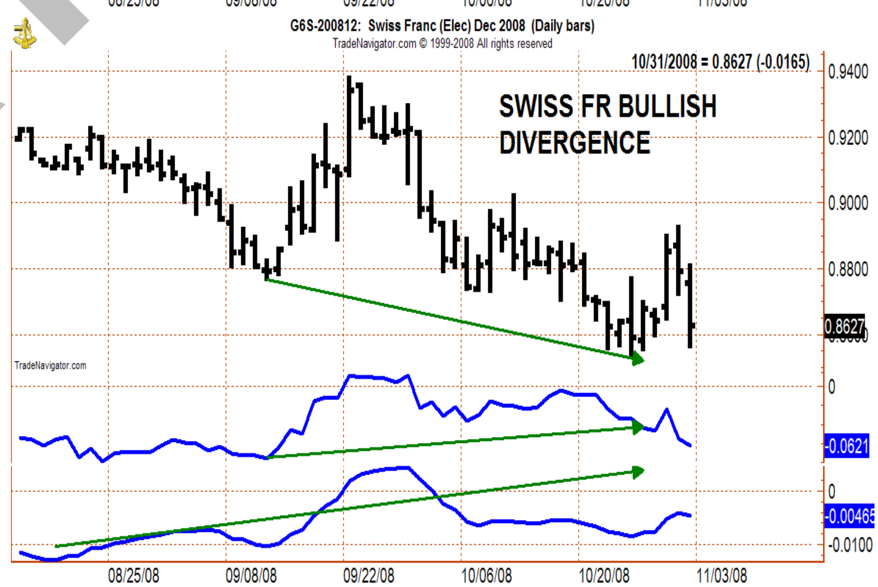
US Dollar: **The dollar gave me clear technical evidence that was expected to mark the beginning of the end to this bear market**. **A short-term top is being made but there are no clear cut sell triggers as of this writing.** The secular (i.e. long term) bear market as well as the persistent and extreme level of bearish sentiment gave me strong technical and behavioral reasons to persist in my bullish (and contrarian) point of view. The dollar is now at long-term resistance which is why there has been some hesitation.

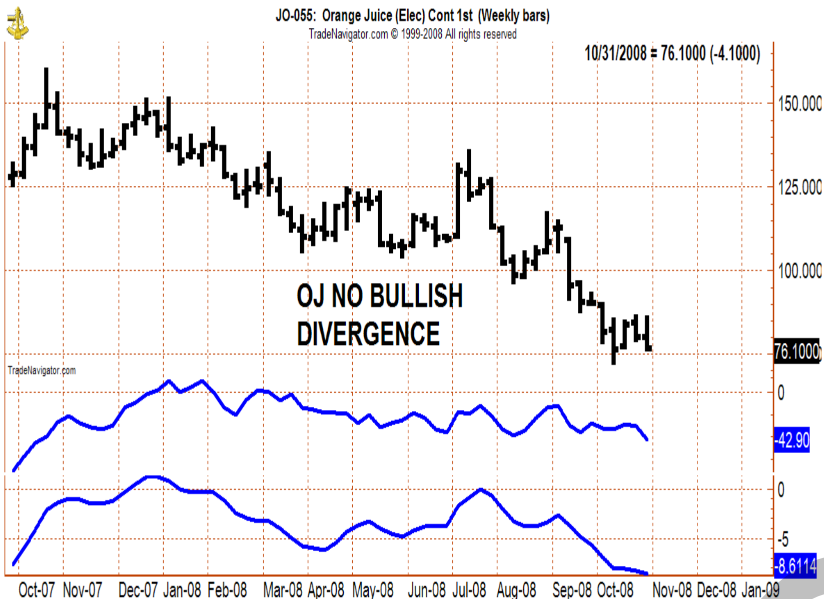
Canadian$: I have good technical and cyclical reasons to conclude that an important top has been made in the Canadian dollar vs. the US dollar. Divergence gave clear warnings of a top or, at the minimum, a considerable downside correction. The trend remains bearish.

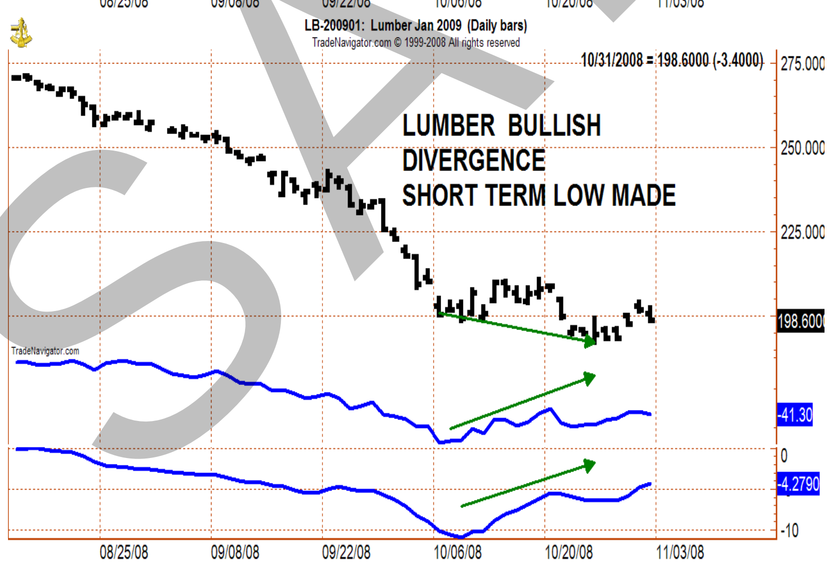
BrPound: The market has likely made an approximate 8.1-year cycle top as predicted. I am still bearish consistent with the long-term cycle projection. The market validated by bearish stance but the bear market is not over yet in spite of the fact that a short-term rally developed. The market is likely to establish a short term low but this low should only be a small recovery in the longer term bear market that could bottom as early as the end of 2008 or as late as mid 2009.











Tropicals

Orange Juice:. There are NO buy triggers as of this writing. Prices continued to fall sharply in sympathy with ongoing and persistent declines in many other markets. I continue to wait for buy triggers that could come at any time. My cyclical work suggests that lows are well overdue. The severe decline in stocks has brought OJ levels down to bargain basement levels and we can now begin to look for divergence buy triggers. WAIT FOR TRIGGERS!

Sugar: My analysis of the long-term sugar data suggested that the major cycle, which has averaged approximately 7 years, low to low turned bullish. Short term buy signals developed and the price surge has been excellent. I recommended waiting to buy on a decline to short term (daily) support. The market is likely to bottom near or at long-term support in sympathy with the overall crash in commodities. A short-term buy signal has been triggered.

Coffee: My long-term cycles continue to tell me that coffee prices are overdue for a major rally that could take prices much higher over the next few months. Coffee is in a major bull market still in its early stages and it has recently tested short-term support. **Coffee is a very volatile market that requires considerable risk.** Large stops that must be used or you will be stopped out quickly and often. A short-term seasonal bull trend is likely to begin very soon.

Cocoa: My forecast has been bullish and it remains so. My forecast has been correct. The major bull market that I predicted many months ago remains intact. Prices surged sharply higher as predicted many weeks ago, however, a test of support is now developing, ALSO AS EXPECTED. The long-term trend remains bullish but the short term and seasonal trends are bearish (see chart at left).

Fibers

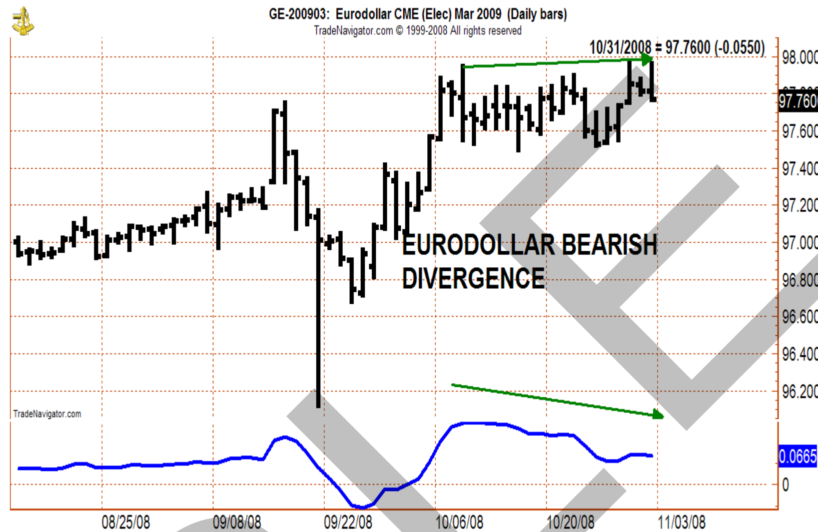
Cotton: My previous comments were as follows "In spite of the recent strength in sympathy with the grain and soybean complex the technical picture is still NOT convincingly positive. I remain neutral to short term bearish. A short term low is developing but there are no buy triggers as yet.

Lumber: Based on my analysis of the cycles, trend, timing and COT data, I advised you that lumber is positioned what could very well be the first stages of a record-breaking price rally.

I believe that a long-term bull market is imminent. No matter what I say it is utterly imperative to WAIT FOR A TRIGGER! That trigger may have been made on a daily basis. See chart at left. The market has made new lows for the move but the cycles and my COT studies continue to give advance indications of a major low in the offing. There are indications that a short term low is developing. Prices have made new lows and small trader sentiment remains chronically low.

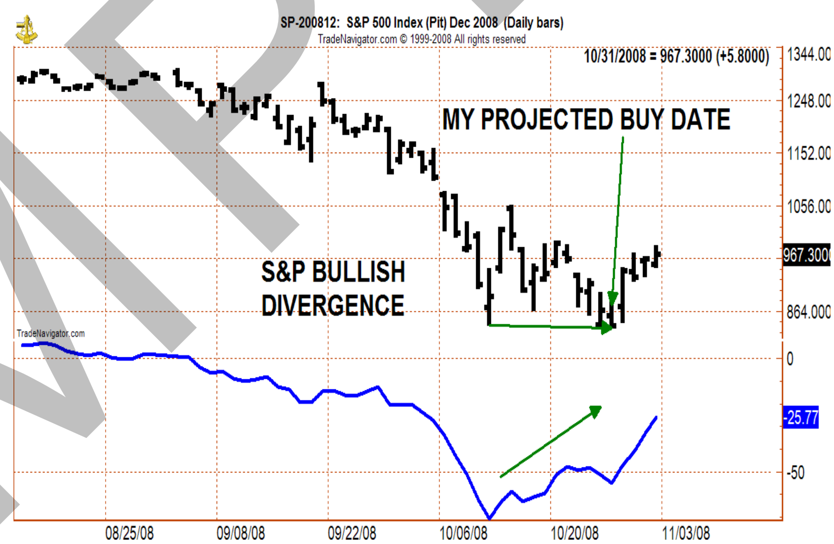
Interest Rates

I believe that the next major move in US interest rates will be to the upside. My forecast is based on the 50-60 year long term cycle which now points higher. The current Federal Reserve policy is to keep rates low as part of the economic bailout. Ultimately this policy will cause a backlash in which rates will rise throughout the world. My analysis and forecasts have been and remain bearish for US interest rate futures. I also advised you that the dollar would decline to test support. The financial rescue plan will likely result in huge interest rate increases. SEE CHART AT RIGHT.



Stocks

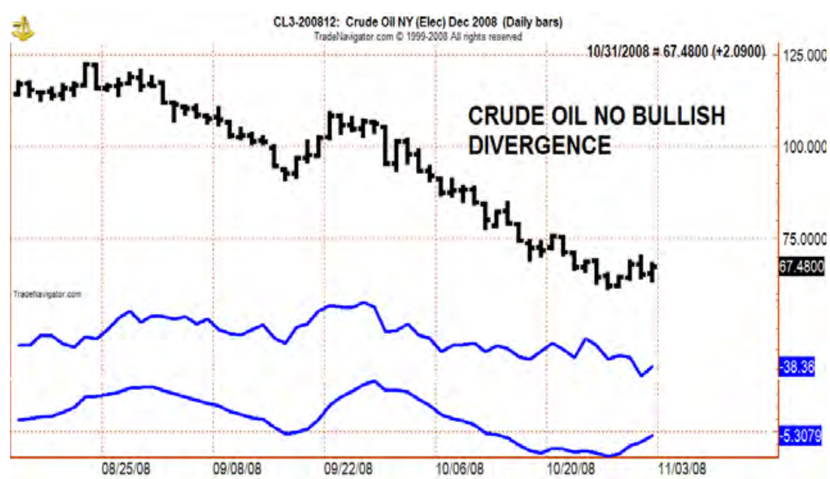
Based on my cycles work, I told you that the odds favored a significant low in the US stock market by the end of 2008. I was clear and specific in my advice to go long on the close of trading 27 October. I showed you the history of this seasonal back to 1901! S&P futures have rallied over $30,000 in value since that date. Stock market lows are likely in late October based on seasonals that have been correct over a large percentage of the time. The panic selling and massive volatility that infected stock markets all over the world were expected into what I believe will be the best investment opportunities in the last 20 years. While opportunities will be fantastic, you must wait for timing triggers or you must be willing to dollar cost average into quality stocks over the next few months. So far the rallies have been encouraging but we must wait for weekly buy triggers in order to be more certain. A daily buy trigger has developed.



Energies

The energy futures markets collapsed following a period of excessive bullish sentiment and runaway bull move. Efforts by OPEC to prop up prices by lowering production will likely have only a minimal and limited effect, as has been the case in the past. The simple fact is that by continuing their stranglehold on the markets for so many years OEC has short itself in the foot.

As we go to press the markets are still attempting to bottom. I believe that lows are likely very soon. The natural gas market has more upside potential on an intermediate and long-term basis. Given the length and severity of the decline in all energies the odds of a major recovery rally are significant. I do not believe that these bull markets are over as yet and I suspect that a rally back to the $90 level is very likely.
I recommend watching daily momentum divergence for triggers that could come within the next few days. WAIT FOR TIMING triggers to go long. The developing short term lows are also likely to lift energy stocks for what could be recovery rallies.



Monkey….(Cont'd from page 1)

The Problem

There have been many attempts to help traders overcome the basic limitations that stand in their way. Some believe that a good trading system will somehow automatically resolve trading issues. The fact is that even the best of trading systems or methods in the hands of a trader with poor discipline is a waste of time and money. The fact is that a marginally effective trading system can perform well under the guidance and implementation of a disciplined trader. But there is a far greater issue than that. The simple fact of the matter, as my friend so eloquently stated is that traders are not willing to examine and resolve their weak side because it's not pretty. In fact, most of the time it's terribly ugly. To examine your weaknesses can cause remorse, anger and frustration. And although this is the first part of the trip and although things get much better after we have confessed our shortcomings the fact remains that the first step is the most difficult.

An Example

As many of you know, I have been presenting trading Webinars for a few years. Because my Webinars give real value and solid information, they are always well attended. I recently announced another Webinar for next week (8 November) at which I plan to discuss the psychology and behavioral aspect of trading. The purpose is to show traders how they can overcome the behavioral limitations and improve their results by gaining confidence which, in turn, promotes discipline. Although this is one of the most important Webinars I have ever given, it currently has the smallest number of sign ups. In fact, registrations are about 80% less than normal. Why? The answer is the same, No money likes to look at his own butt!

The Solution

I have been in the markets in many different aspects for over 40 years. I have seen so many different types of markets and so many types of traders. I have seen traders make every mistake in the book. I have made almost every mistake in the book. I even invented a few until I finally learned the right way. I still make some mistakes but they are always fewer and not as egregious. I have seen people who have great trading methods and fantastic skill as analysts lose money because they have a weak behavioral side. The answer is simple: bite the bullet, do it now, don't be afraid to look at your butt and make the change.

A Bold And Brave Forecast

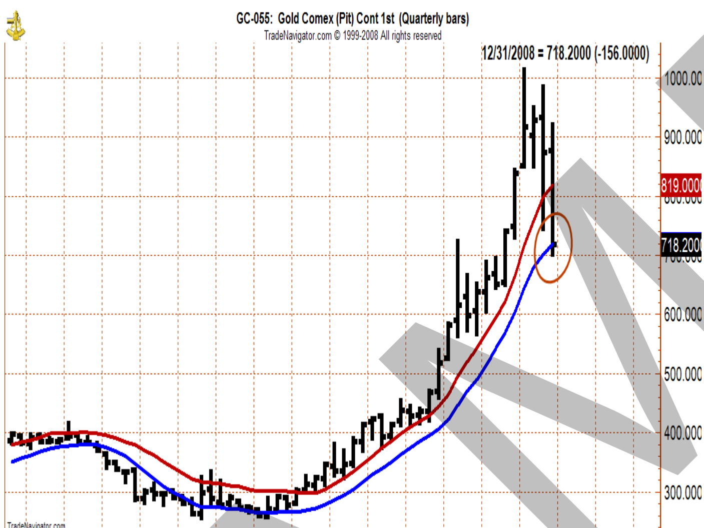
The financial world is in turmoil. Markets all over the world are collapsing before our very eyes. Some companies, once held in high esteem are turning into dust virtually overnight. Dire predictions abound. Some say the worst is yet to come. Some claim that world economies are heading into a severe depression that will take many years to resolve. I remind you of several very important facts that you must keep uppermost in mind at this time.

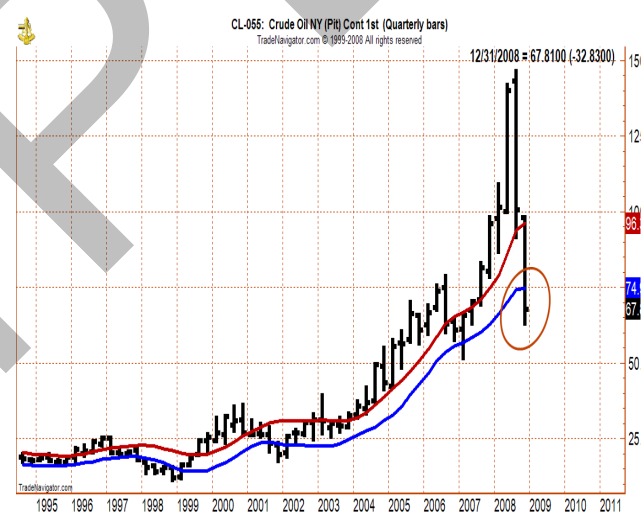
1) As subscribers you should have been prepared for the commodity price collapse, for the bubble in energies and for the decline in real estate and the ensuing domino effect throughout all sectors of the financial markets
2) Look at the long term cycles which are now NEGATING the dire forecasts and REMEMBER that these are the same cycles I talked about when the tops were being made. They were correct at the tops and they will likely be correct at the bottoms.
3) REMEMBER that many of those who are now forecasting the "end of the world" are the same people who predicted the "Goldilocks economy" and continued growth when the markets were topping. They were dead wrong at the top and they will be dead wrong at the bottom
4) So here is my general, brave and bold forecast. I believe, based on the cycles, the data, the indicators and the psychology of the markets that a fast and furious recovery is coming sooner, bigger and more amazingly than virtually any so called expert or economist is either able to or willing to say. I believe that we have been fooled into believing that economies have been seriously damaged. DO NOT UNDERESTIMATE the ability of record world demand for food and industrial commodities as well as energy to drive a recovery the likes of which we have never seen before. Hopefully you will have read this here FIRST and you will remember my words!

Long Term Support being Tested – How to Use it for Trading

Many commodity markets are now testing long-term support. These tests are critically important in determining the direction of the next major moves. Here is the procedure I recommend for using support effectively. Shown at the bottom of the page are the current long-term support level charts for crude oil and gold.

- Long-term support is a setup. It is NOT a call to action. It is, rather, a preliminary indication that the odds favor a rally. But odds are only odds until they are validated by a TRIGGER. Therefore we do not buy at support (or sell at resistance) in the absence of a specific timing trigger or triggers.
- I use the MAC for determining support and resistance. The MAC is a method I developed over 25 years ago. It consists of 2 simple moving averages; 10 periods of the highs and 8 periods of the lows.
- When a market has been in an uptrend and then reacts to the low of the MAC it tends to find support. But support does not always hold. If we use a timing trigger once a market has fallen to support then we have better odds of a rally developing from the support level
- Once support has been hit we begin to watch for daily timing triggers. Those who are familiar with my work know that I use the following timing triggers, any one of which is acceptable to use after support has been hit: MAC with Williams AD/MA, MACD and/or Momentum divergence triggers.





THERE IS A RISK OF LOSS IN FUTURES TRADING

Comments in this letter are subject to change as a function of market conditions.
Recommendations are given via hotline, fax, e-mail, Internet or tape updates.

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