


GETTING TECHNICAL WITH FUTURES & OPTIONS: USER GUIDE

Each week Trading Central's analyst team will identify a new exciting Technical Pattern that occurred in the recent past, and share their knowledge and expertise on how they would best position a futures or options strategy to take advantage of such an event.



TECHNICAL PATTERN & OPTION STRATEGIES

Copper recovery thanks to an inverted head-and-shoulders

The inverted head-and-shoulders, a reversal pattern, takes shape at the end of a bearish trend. The formation consists of a head, a right shoulder and a horizontal (or slightly declining) neckline that links shoulders' highs. To confirm a bullish reversal, volume has to decrease between the first part of the head and the first part of the right shoulder while it has to raise between the second part of the head and the second part of the right shoulder. This pattern is confirmed when prices break through the neckline. The timing is to wait for a pulback on the neckline, which will play a support role (polarity principle).

WHAT TO LOOK FOR
A simple explanation of the Technical Pattern with key identifying features and confirmation signals.

CONFIRMATION OF AN INVERTED HEAD-AND-SHOULDERS: COPPER MARCH 2016



CHART VIEW
This is what the Technical Pattern looks like on a chart.

ADAPTED OPTION STRATEGY: BULL CALL SPREAD

As the upside potential is limited by the pattern's theoretical target, a bull spread allows to lower the cost of the strategy (in comparison to a straight long call) by the sell of a call out of the money. As a consequence, the strategy consists in the simultaneous purchase of a call with a Strike at 215c (between the neckline and the theoretical target) and the sell of a call with a Strike at 235c (above the theoretical target at 232c).

BULL CALL SPREAD: Leg 1	
Trading Symbol	HG
Option Type	CALL
Option Strategy	BUY
Strike	215
Expiration	Apr 2016

BULL CALL SPREAD: Leg 2	
Trading Symbol	HG
Option Type	CALL
Option Strategy	SELL
Strike	235
Expiration	Apr 2016

OPTIONS PLAY
Here's our optimized option strategy with an easy-to-follow trade setup

ADAPTIVE FUTURES STRATEGY

Trading Symbol	HG
Strategy	Buy at 2.14
Target	2.32
Stop Loss	2.00
Contract Expiry	May 2016

POTENTIAL UPSIDE PER CONTRACT

A target at 2.32 is calculated by flipping the pattern's height from the head's low to the neckline reported from the neckline's upward breakout. Once the measured move up has completed at 2.32, taking profit is highly recommended.

POTENTIAL DOWNSIDE PER CONTRACT

If the price fails to accelerate and falls back below the right shoulder's bottom, invalidating this bullish reversal pattern. The position is quickly closed as the price drops below 2.00.

ACTUAL OUTCOME



THE GETAWAY
Every trade needs an exit plan, whether to get out on top or limit the damage. This is how we would have done it.

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Inverted head-and-shoulders happening now in the markets

Copper: HG



Platinum: XPT



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- EU Commission Directive 2004/39 dated 21 April 2004
- EU Commission Directive 2003/725 dated 22 December 2003

REAL-WORLD EXAMPLES
What's really exciting is that we'll provide one or two examples of similar Technical Patterns that are happening in the markets RIGHT NOW!