

Jim Wyckoff Asks, "Do You Wanna Fight?"

By Jim Wyckoff

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I was busy Friday morning writing my "Glance at the Markets" feature for financials, when I got an email from a trader. He said he was bullish coffee and wanted to go long. All morning long, it seemed, trader emails had been popping up on my computer screen--and many were advocating playing the long side of markets these traders perceived as being at a price low enough to be a "bargain buy." Among my emails Friday morning, another trader was bullish gold, and still another was bullish wheat; another bullish cocoa.

That's when I decided to put away the "Glance" feature and instead write about the perils of "fighting the tape" (trend) in markets. Think about it: Do traders really want to fight the market? Remember, only the markets are ALWAYS right. No one else.

Traders many times think like consumer shoppers think: "I need to buy at bargain-basement prices to get the very best deal." (My wonderful wife many times comes home with a bag full of clothes, saying, "Honey, I just couldn't pass up these bargains; I just had to buy them.") Unfortunately, when trading futures markets (or stocks), thinking like a consumer shopper is unwise and unprofitable. I think one of the major mistakes most traders make is trying to "bargain hunt" and go long a market (or a stock) that he or she perceives as being "low-priced."

The same is true for trying to sell (go short) a market at perceived high prices. Crude oil is a good example here. All this year, the trading landscape has been littered with the carcasses of traders trying to pick a top in crude oil. These top-pickers have so far been brutalized by the market--which is always right.

Don't fight the tape. If the general market trend is one way, do not trade against it. In my "Top 10" trading rules list, rule No.1 is: Are the daily, weekly and monthly charts all in agreement on trend? If I'm thinking about position-trading a market and the aforementioned charts are not in agreement on trend, I'll likely pass on the trade. And I certainly won't initiate a position trade that is against the overall trends shown on the charts.

Some traders may prudently ask, "What about "contrary opinion" trading and the Commitments of Traders (COT) reports showing commercials buying in downtrends? Well, I cannot argue that contrary thinking and trading is valid and is employed successfully by some traders. I have used contrary thinking and trading, myself. But I think that type of trading method is an exception and not the rule, regarding becoming a successful trader. It's a bit like a winning football team with a very good running attack. Their running game makes them a winning team, but they occasionally sprinkle in a pass here and there to keep the defense honest. Also, commercial traders (the big boys in the business) most times seem to be on the right side of the market. However, we as individual traders do not have the resources (research staff, worldwide connections, very deep pockets, etc.) that the commercials enjoy.

Also, when good market trends get underway, even though trend traders don't "catch the bottom" (or the top), there is usually plenty of distance for the market to run to allow good profits to accrue.

So, if there are traders out there in cyberspace that really do want to fight the tape (the market), drop me an email before you take on this behemoth. In a quick sentence or two, I'll give you my honest opinion. I really do enjoy hearing from all my readers worldwide.