

Technical Traders Should Still Examine Fundamentals

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Those who have read my features know I base the vast majority of my trading decisions on technical indicators and chart analysis--and also on market psychology. However, I do not ignore certain fundamentals that could impact the markets I'm trading. Neither should you.

In this feature I'd like to share with you the types of fundamentals in various markets about which technically oriented traders should be aware. While this article will be most beneficial to beginning and intermediate traders, the experienced traders may enjoy it as a "refresher."

I've told my readers many times that I have been very fortunate in my career in the futures industry. When I was a reporter and editor for FWN, I was forced to learn about the fundamentals impacting all the markets I covered. (At one time or another, I covered every futures market traded in the U.S., and also many overseas futures markets.) I had to talk to traders and analysts every day, regarding the fundamentals that impacted the particular market on which I was reporting.

Realizing very few get that kind of unique opportunity to learn about market fundamentals, what can beginning to intermediate traders do to "get up to speed" regarding the fundamentals of the markets they wish to trade?

Here are some useful nuggets to consider regarding market fundamentals:

- You should know in what increments your market trades, the contract size, if it's physically deliverable, cash settled or both, and when first-notice day and last trading day occur. This information is all free and available on the websites of the exchanges on which the markets trade. For example, if you trade U.S. T-bonds, you should know that prices trade in 32nds of a point, based on a yield of 6%. You don't have to become an expert on yields, deliveries or notices, but you should be aware of the concepts. Reading about what the exchanges have to say about their markets is a great way to start out learning fundamentals.
- The Internet is indeed a wonderful tool to help you learn about futures market fundamentals--for free. Use your favorite search engine and do a search on your market of interest. However, make sure you use "futures" in the search words, as this will narrow the focus of the search engine.
- Here's a caveat on market fundamentals: **The professional traders anticipate them and many times factor the fundamentals into price even before they occur.** In fact, this happens quite often in futures markets. For example, it stands to reason that heating oil demand will increase in late fall and winter, and that heating oil futures prices should rise in that timeframe, as opposed to summertime prices. A novice trader may think it's a no-brainer to go long the December heating oil contract in September. However, keep in mind all the professional traders and commercial traders know this, and they have likely already factored this seasonal fundamental into the price of the December contract.

- There are U.S. government economic reports that sometimes have a significant impact on markets. Associations also release reports that impact futures markets. Even private analysts' estimates can move markets. Try to learn about the reports or estimates that have the potential to impact the market you wish to trade. You should make it a priority to know, in advance, the release of any scheduled report or forecast that has the potential to move your market. For example, if you are thinking about establishing a position in the T-Bond market and the U.S. employment report is due out the next day, you may want to wait until the report is released before entering your position. The employment report can whipsaw the bond market in the minutes after it's released, which could stop you out of your position.
- If you like to trade financial futures markets, newspapers like the Wall Street Journal and Investors Business Daily have sections that follow bonds, stock indexes and currencies, etc. Reading about how fundamental events impact these markets allows you to get up to speed on fundamentals.
- If you trade commodities like cotton, coffee or cocoa, it's a little more difficult to find fundamental news sources for free.

You may want to subscribe to a news service like Bridge, where specialized reporters scour the world for news that impacts those markets. The U.S. Department of Agriculture has a website with reports on many commodities that trade in futures markets, including not only the major U.S. row crops, but also markets like coffee and orange juice.

Finally, traders should consider the knowledge of market fundamentals as just one more tool in their trading toolbox. The more tools in a trader's toolbox, the higher the odds he or she will be a successful trader.