

## Correlation Between Markets

The only thing that will ever come close to the Holy Grail is correlation. Correlation is money flow. Money flows from one commodity to another.

No indicator out there, MACD, STOCH, etc., can deliver a better indication of the directionality of the market than correlation.

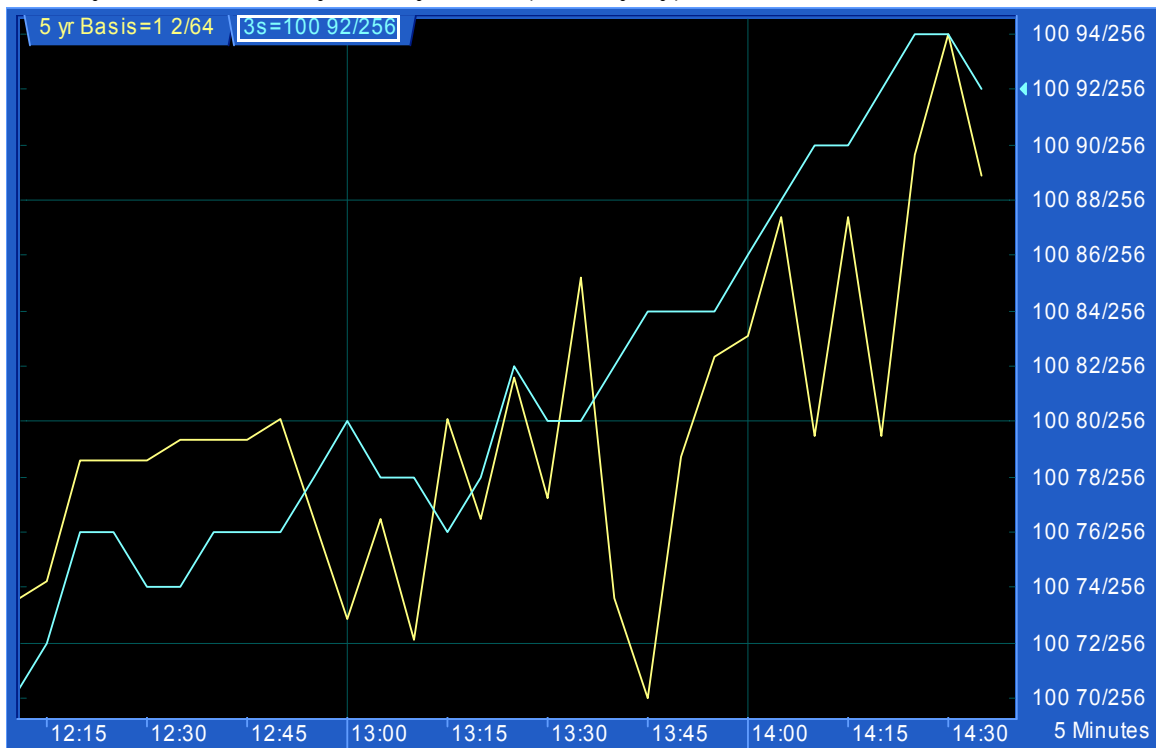
- As you look at the charts in this note, the obvious question pops-up, “*how do I trade it?*”
  - You must look at it yourself. Meaning, get the chart up and see how the two interact.
  - I have ideas how to trade it and have implemented them.
  - Like:
  - Drawing fib retracements from the last pivot high/low is a great way to measure where the lead contract is headed compared to the lagging contract.
    - The above retracements can be done in ANY time frame.
  - Or, take a 30 min chart and draw level lines at the prior days high and low, then change the chart to a 5min time frame. Trade those 30 min lines on the 5 min time frame. Meaning, buy the support/sell the resistance. Use those lines as a trading range. If the 5 min pierces those lines it usually means that it’s under/over priced.
    - Try it on different time frames and see what works for your commodity.
  - HOWEVER
    - You MUST take something into consideration. Like if there is a big number release looming that day or its auction time (see below in this paper).
  - I like the above trading method, on days and times of day, when the market isn’t doing much.
  - With many different traders looking at something, within our company, ideas will surely manifest. Ideas that I would’ve never thought of. (The more eyes on the method, the more ideas that manifest.)
  - I’d try paper trading your ideas first.
  - **Most importantly** - understand that this is for day hours! 7:20 am – 2:00 pm CENTRAL TIME (CDT).
  - Lastly, understand that these types of indicators do NOT work during big numbers. Nor do they work the first

thing in the morning. Usually it takes time (say a half hour after 7:20 AM CDT) to get the charts built. That's due to the cash markets trading so thinly over night and in the first 15 or 20 minutes after 7:20 AM CDT.

- Also, there are auctions. Be very careful trading these in quarterly auctions. The week before and the week of the auction. Go back in time, on your charts, and look how they react during the week before and the week of an auction.
- None of these are perfect, but if you are using Money Management, then you should be fine because when these work, which is most of the time, they are very very good.

## The 5y Basis and 3y

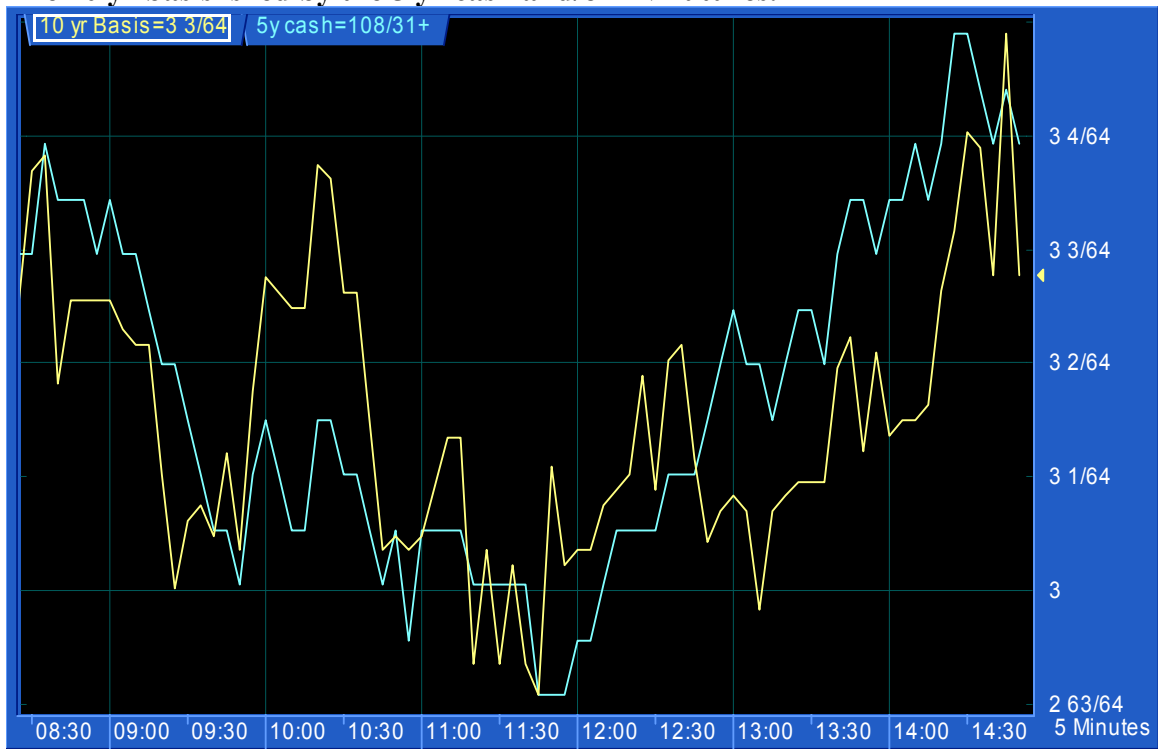
The 5 yr basis is lead by the 3 yr cash (also try 2y)



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## The 10yr Basis and 5y

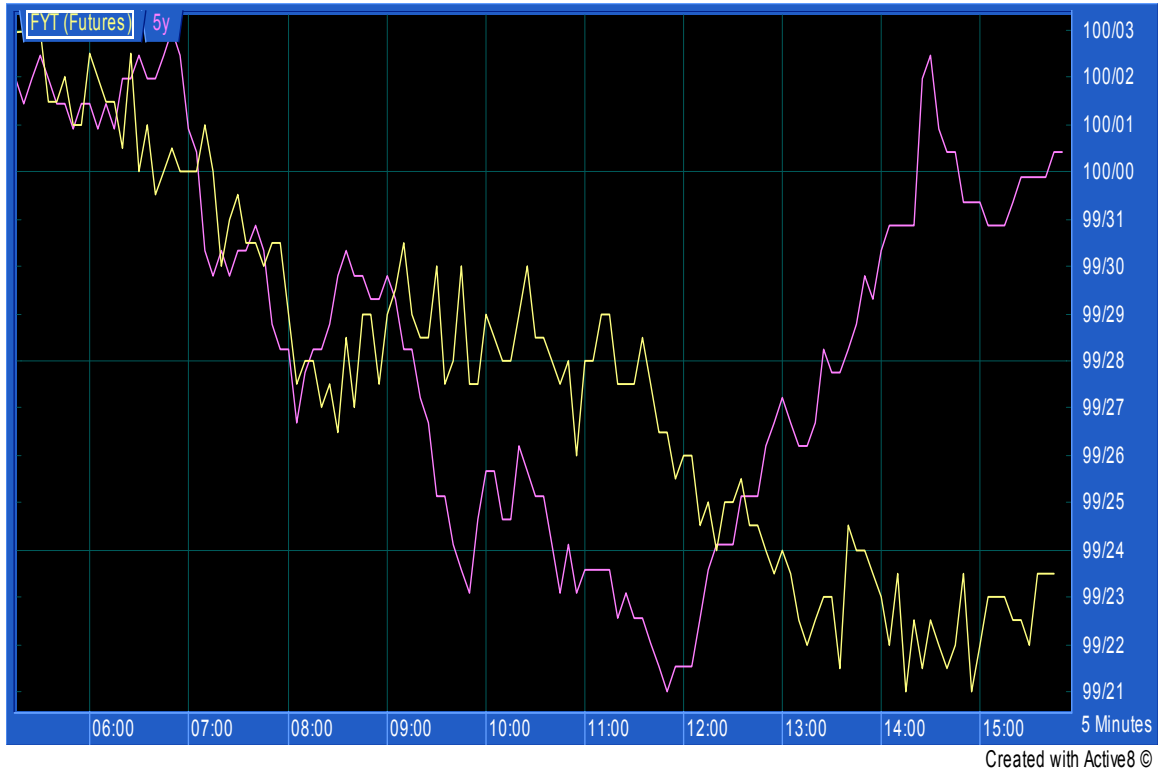
The 10 yr basis is led by the 5 yr cash and/or FV futures.



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## The FYT and 5y

The Futures FYT is led by the 5 yr cash. [Note: these two have a tendency to not work after 1 pm CDT.]

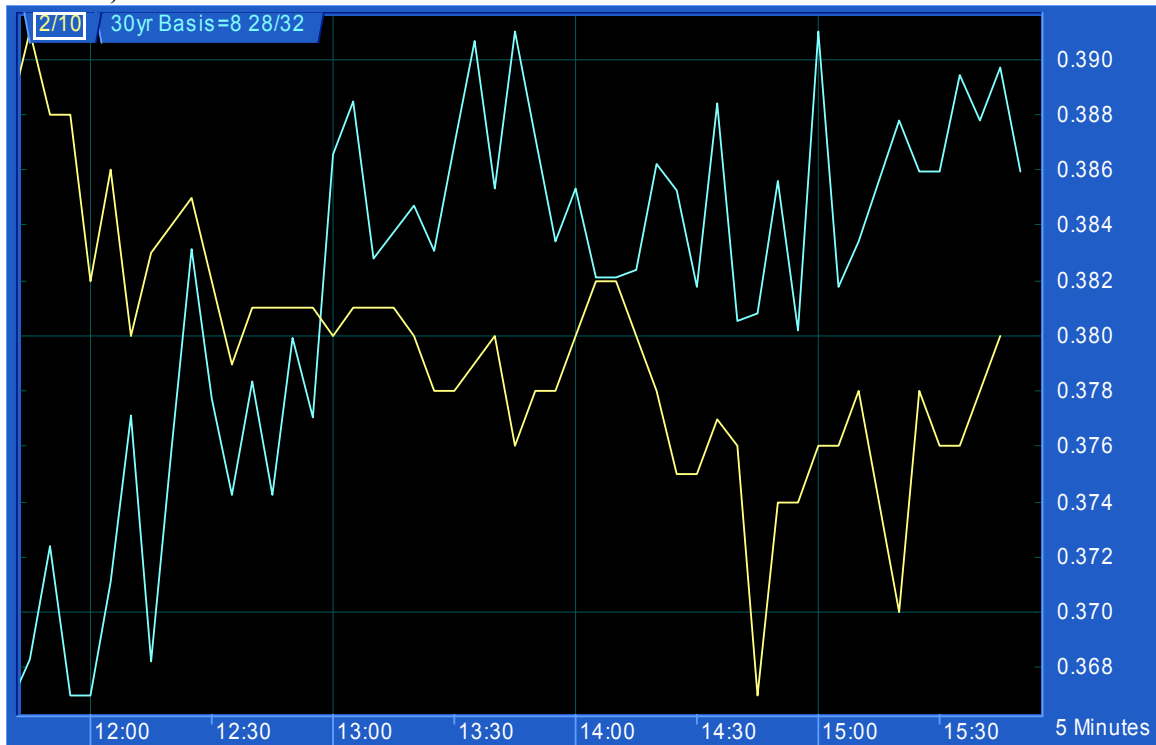


## 30yr Basis and the 2/10

The 30 year basis leads the 2/10 spread.

**HOWEVER, NOTE THAT THEY MIRROR EACH OTHER.**

**SO THE 30Y BASIS GOES UP THE 2/10 GOES DOWN. THE 30Y BASIS GOES DOWN, THE 2/10 GOES UP.**



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## 2/5/10 PRICE fly and TY

The 2/5/10 PRICE fly (not yield) leads TY Futures.

Note: this is a price fly, not yield.

