

## **WHAT ARE THE COMMITMENTS OF TRADERS?**

The Commitments of Traders Report (COT) is a weekly report from the CFTC providing a breakdown of each Tuesday's open interest for markets in which 20 or more traders hold positions equal to or above the reporting levels established by the CFTC. Open interest is broken down by aggregate commercial, non-commercial, and non-reportable holdings.

Every Tuesday the Commodity Futures Trading Commission (CFTC), which is the governmental body that oversees the Futures markets, gathers data on open interest in each separate futures market from the exchange on which that market is listed. The open interest is first sorted into two categories: reportable positions and non-reportable positions.

A reportable position is any position (futures and/or options) controlled by a single person or entity that exceeds a certain size (the reporting limit). Reporting limits vary from market to market. That portion of the open interest that falls into the reportable positions category is then broken down between commercial interests who have direct dealings in the underlying physical commodity, either as producers or as users, and other holders of largest positions whose interest is speculative.

The Commitments of Traders report presents this data in a table format and a fresh report (for futures contracts only) is released every Friday. The following Monday a report combining futures contracts and options is released. The basic significance of the report is that it provides a program of who the players are in the futures game: commercials, large speculators, and small speculators (non-reporting positions). It also shows what role they are playing (buying or selling).

The logical question is whether or not this information can be of any use to the individual trader. We believe, with some qualifications, that the answer is yes. In the past, the general rule of thumb was to bet with the largest speculators and/or against the small speculators. The reasoning was that the large speculators had invested time and effort to obtain accurate information which then motivated them to invest their money in a particular position. On the other hand, traders in the category of small speculators were seen, in general, to be trading off of emotion induced by the latest "news".

Over the past ten years or so, however, the make up of the large speculator category has been altered by the rapid growth of commodity funds. These are large pools of trading capital controlled by a manager or team of managers. Many, but not all, managers take positions, and liquidate them, based on

technically generated signals. In and of itself, this is not a particularly bad thing until one considers that many of the managers follow similar technical systems. It could be argued that this type of herd behavior is not much different in net result from the "news" driven, emotional trading behavior ascribed to the small speculator albeit without the news and, perhaps, without the emotion.

At Capitol, we feel the commercial interests have replaced the large speculator category as the group whose trading activity should be monitored. The reasoning, here, is that they have both the motivation and the resources to get a better handle on the fundamentals underlying the markets in which they have positions. That idea has led us to develop this graphic representation of changes in the positions of the commercials as they become apparent through the commitments of traders report.

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Capitol Commodity Services, Inc. was established in 1983. We have been servicing futures traders for over 25 years! If you are new to futures trading, we will help you every step of the way. Experienced traders can utilize our exclusive proprietary trading tools. Our rates are competitive, without skimping on the amenities. Our clients say they enjoy working with us and love the personal attention.

Lannie Cohen, managing founder and President of Capitol Commodity Services, Inc.(CCS), has 29 years of investment experience. Prior to the formation of CCS, Mr. Cohen worked for Merrill Lynch in both the Indianapolis office and at the Chicago Board of Trade. Mr. Cohen is currently registered with the National Futures Association and the Commodity Futures Trading Commission. Mr. Cohen holds a B.A. degree from The Kelley School of Business at Indiana University and serves on the boards of USA Harvest and Indiana Harvest. He can be contacted by email at: [lc@ccstrade.com](mailto:lc@ccstrade.com), website [www.ccstrade.com](http://www.ccstrade.com) or telephone 317-848-8050/800-876-8050.

**THERE IS A RISK OF LOSS IN FUTURES TRADING AND IS NOT SUITABLE FOR ALL INVESTORS. ONLY RISK CAPITAL SHOULD BE USED WHEN TRADING FUTURES.**

**PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.**

**\* THE PLACEMENT OF CONTINGENT ORDERS BY YOU OR YOUR TRADING ADVISOR, SUCH AS A "STOP-LOSS" OR "STOP-LIMIT" ORDER, WILL NOT NECESSARILY LIMIT YOUR LOSSES TO THE INTENDED AMOUNTS, SINCE MARKET CONDITIONS MAY MAKE IT IMPOSSIBLE TO EXECUTE SUCH ORDERS.**

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