2022 New Member Report Guide

Crowded Market Report Review

By: The CMR Team

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Thank You!

If you are reading this guide, that means you have joined our CMR Community and are here to learn and improve your trading. We thank you for allowing us the opportunity to help educate you on the world of Futures, Trading and most importantly Risk Management.

Important Disclaimer

The purpose of CMR and our Discord Community is educational, we do not tell you what to trade and when. We give you the knowledge and tools to make trading decisions that skew the reward/risk ratio that may allow for positive returns over time. Our motto at CMR is ***"The slow road to the rich house"***, and we genuinely believe in that approach. If you are looking for a quick rich approach to trading or trading alerts, then CMR is not for you.

Contrarian Trading: Fading the Crowd

Contrarian trading does not mean counter trend-following trading. On most occasions, the goal is to pick the turn of a market where the trend has ended, but it also may mean buying alongside the trend. Contrarian trading is being on the other side of a crowded market, and there have been instance where Speculators sold into a new all-time high, which called for a long entry.

To execute a contrarian trade, it requires two components to be met which are equally important: **market participation and market action**. In the report, the goal is to identify the crowded markets (market participation) where Speculators have reached maximum crowded levels and then wait for price action to qualify the trade, which we also refer to as a News Failure event or a reversal candle of the highs (or lows).

Each trade has no guarantee that it will work, but the trade provides a skewed reward/risk ratio, where over time, the winners should make up for the losers and generate positive returns. Once again, for you to be successful as a trader, you MUST have a **disciplined risk management process**. For example, if your process is to risk one hundred basis points with each trade, and after a losing trade, you decide to risk two hundred basis points, or average down a losing trade, **your chances of success will diminish the more undisciplined you are.**

It should be noted that on occasion additional discretion is used to assess if the market is truly crowded. With the additional money supply provided by the Federal Reserve and the abnormal market supply and demand created in 2020 and 2021, certain markets require a longer-term review for additional confirmation that the market has reached max crowded levels.

Lastly, there are times where specific "Human COT Indicators" that may play a role in decision making, where historically, this indicator has been wrong significantly that fading a position that they placed or referenced may make sense if price action adds confirmation.

Market Participation: Identifying a Crowded Market

A market becomes crowded long or short once it reaches a specific reading on the Commitment of Traders (COT) Index (also known as an oscillator) which is proprietary to CMR and was developed through extensive back testing and thirty years of trading experience. The COT Index is based on the COT report that is published every Friday by the CFTC. The data reflects market participation as of the previous Tuesday's close. For example, Friday's report published on 2/18/2022, would include market participation data as of Tuesday, 2/15/2022. More information on the CFTC and the COT report, you can visit https://www.cftc.gov/MarketReports/CommitmentsofTraders/index.htm. Excerpt from the CFTC:

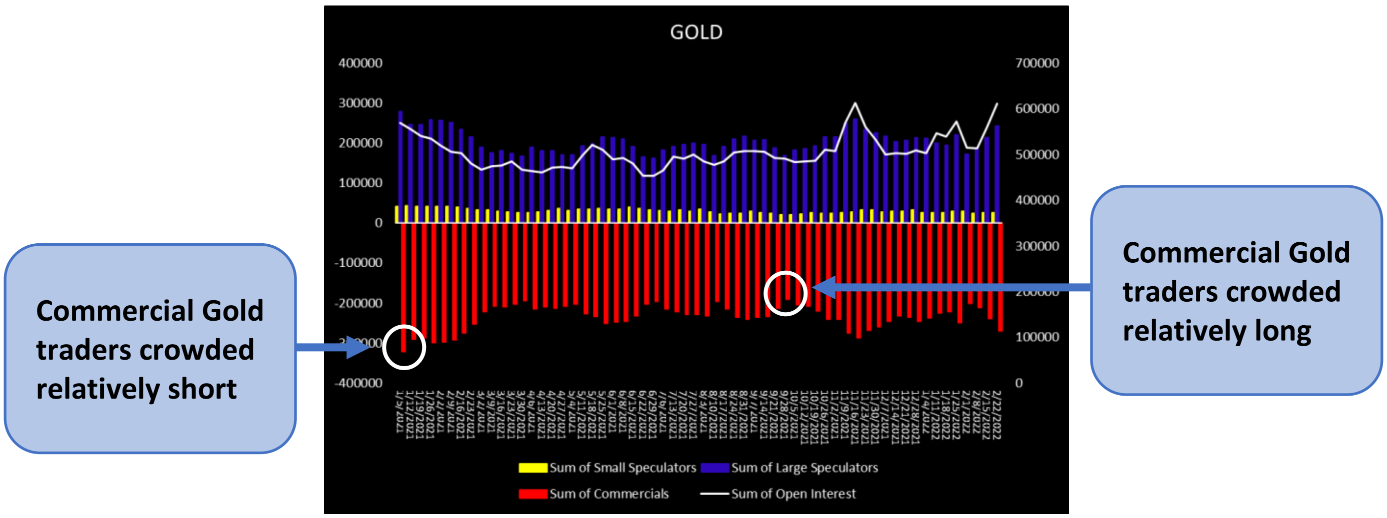
> *The Commodity Futures Trading Commission (Commission or CFTC) publishes the Commitments of Traders (COT) reports to help the public understand market dynamics. Specifically, the COT reports provide a breakdown of each Tuesday's open interest for futures and options on futures markets in which twenty or more traders hold positions equal to or above the reporting levels established by the CFTC.*

The specific COT data used by CMR is the Futures Only Reports and it contains three main participants: Commercials (aka Comm_Positions on the report), Large Speculators (aka NonComm_Postions on the report), and Small Speculators (NonRept_Positions on the report). Total reportable positions sum up to zero where Commercial positions equals the inverse total of Large and Small Speculators combined. The data is indexed, which means it has a look back period (similar to a Relative Strength Index or even a Moving Average). The index length is needed to produce a number and has been tested. As a result of Jason's cynical view of back tests and the dangers of fitting, we attempt to include additional commentary about the history of the positioning as well.

The reason the data is indexed versus just looking at the raw data is the challenge of waiting for raw data to become crowded, which may take an extended period of time. That is why the data is "indexed" to show amount of crowding of a relative time. Selection of the period to use for each market requires educated guessing, and has its pitfalls, which is why there is a heightened level of scrutiny, discretion and listening to the media and other financial sources to confirm or disprove the crowdedness. That is why it is important to be patient for news failure events.

Commercial Traders

Commercial traders are also known as Hedgers and why the commodity markets were created. They participate in the Futures market to hedge a commodity they own based on current supply and demand levels. In other words, are people or companies that deal with actual commodities as part of doing business. One clear example is Gold Miners. They mine and sell physical Gold and may need to hedge their future sales by selling Gold Futures to lock in currently quoted selling prices and have better forecasting and predictability (aka less volatility). Commercials are often short because they are hedging (aka selling the commodity), and that level is what is indexed. The chart below provides additional clarity.



Another type of Commercial Traders, which is non-traditional, are the Commodity Index Funds. The key to being classified as a Commercial Trader is being classified as a Hedger, which allows for reduced margin requirements and no position limits.

Large Speculators

Large Speculators are traders whose trading levels are high enough that they require reporting to the CFTC and are Speculating in the Futures Market, rather than hedging. Trading levels vary from one commodity to the other and a trader may be considered a Large Speculator in one commodity, but a Small Speculator in another. The most common example is Hedge Funds, unless they were hedging a commodity they own, then they would be considered a Commercial Trader. Other examples include Commodity Pool operators and Commodity Trading Advisors. A benefit of having Large Speculators is the added liquidity to the futures markets in exchange for profits for assuming price risk from Hedgers.

Small Speculators

Small Speculators (also referred to as non-reportable traders) are the remaining traders once you take total Commercials positions and remove all the Large Speculator positions. Small Speculators position size is not large enough to be reported to the CFTC but since the COT report is a zero-sum report, any positions remaining after the Large Speculators have been considered would be owned by small traders.

One of the books we highly recommend on CMR is The Commitments of Traders Bible by Stephen Briese. It contains a great deal of detail and will help you in improving your COT knowledge.

Market Action: News Failures and Reversal Price Action

Market action is equally significant as market participation. For contrarian trading to be successful, both have to be confirmed. This is mentioned again because it is critically important. A trader will fail if they try to trade on market participation alone (ex. Shorting a market because Speculators are max long) or attempting to front run the trade and not waiting for the market action to qualify the trade. A trend can be powerful and market participation can remain extended for an extended period of time (example: Lean Hogs' run in 2020). That is why patience, risk management and waiting for price action confirmation is key to this process. Examples of news failure events are listed below. As far as reversal off the highs or lows, that is simply a market making a new high or low and closing down or up on the day, respectively.

Equities

Consumer Price Index (CPI), an inflation indicator, coming in lower than forecast (bullish Equities) but the market ends the day red.

Fixed Income

The Federal Reserve states that they will raise rates in the upcoming months (bearish Fixed Income), but the market ends the day green.

Currencies

Weak economic news for the currency's market is released by the government (bearish that currency) and the market ends the day green.

Energies

Inventory supply levels are lower than expected (bullish Energy) and Crude Oil ends the day red.

Metals

Inflation data is released and is higher than expected (bullish Precious Metals) and Gold ends the day red.

Grains

The WASDE report is released with data that is bullish the Grains market, but Corn ends the day red.

Livestock

A surprise report of a swine flu impacting Lean Hogs supply (bullish Lean Hogs) and the market ends the day red.

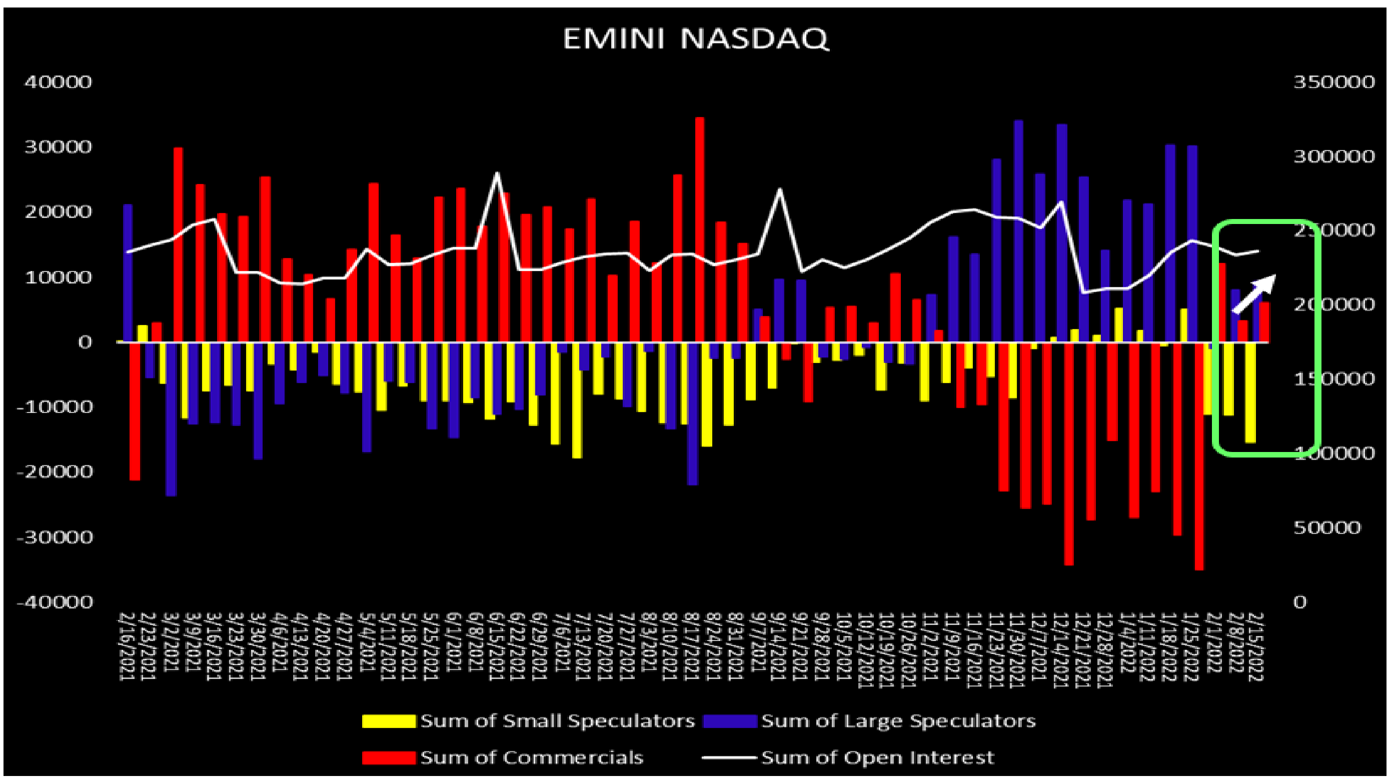
For these examples of news failure events, max crowded levels (reviewed in detail below) must first be met before a trade is initiated. These news failure events speak to the tone of the market and the change of market behavior to news and headlines. Other price action includes correlation failures (example: Nasdaq underperforming during an Equity rally after bullish news is released) which may be considered as market action confirmation as well.

COT Position Charts and Market Commentary

The COT is a sentiment indicator that is based on actual market positions versus opinion surveys (ex. AAII Survey) and index polls (CNN Fear and Greed Index) and will always be considered the source of truth for market participation and sentiment. The COT is not perfect and has flaws such as the lag in information (released on Friday, but only contains data as of last Tuesday), and most of the trades are exited on Friday at the end of the day once the COT data is released, which allows for a small-time frame to execute or close out the trade.

How to Read COT Position Charts

COT position charts consist of three main elements: Commercials, Large Speculators and Small Speculators. Open Interest is included for additional reference. Commercials equals the inverse total of Large and Small Speculators combined. That is why we recommend reading the change in Commercials in order to know what changed week over week. In the Nasdaq example below, you can see that Speculators, as a whole, reduced their shorts (or bought the market) on 2/15/2022 since Commercials' position (red column) increased their long position week over week.

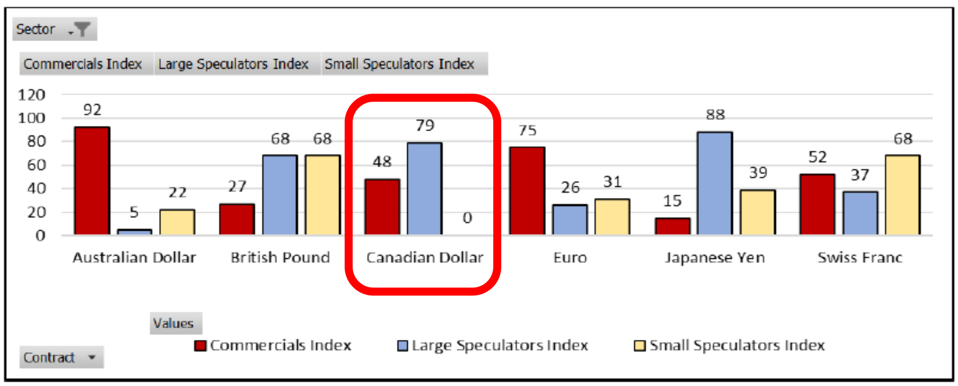


We are developing CMR exclusive COT Charts that will be published on the website, where you can select a specific period to view. In the meantime, we include our charts via an excel file at www.crowdedmarketreport.com/cot-data.

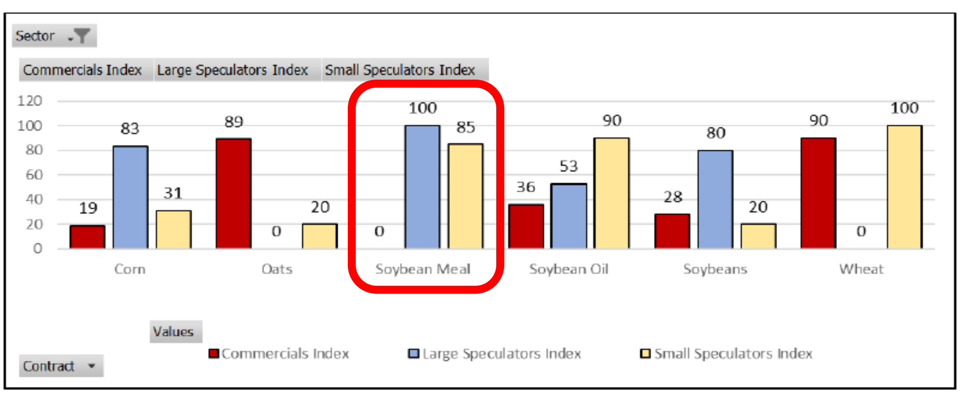
Proprietary COT Index Interpretation and Maximum Crowdedness

The COT Index was developed by Jason after extensive back testing and many years of trading experience. The index is an oscillator with a relative look back period that provides a level of market crowdedness. The indicator uses a scale of 0 – 100, where is 0 equals maximum short level (aka max crowded short) and 100 equals maximum long level (aka max crowded long). As far as the CMR process, any value that is 5 or less, qualifies as having met maximum crowded level short. Similarly, a value of 95 or higher indicates a maximum crowded level long. There are instances where Small or Large Speculators may meet these maximum levels on their own, but that does not mean that market has met market participation requirements. In order to meet the requirements, Commercials must inversely be crowded as well. Here are two examples to better clarify this point:

- First Example: In the Canadian Dollar, Small Speculators (0) are max crowded short; Large Speculators (79) are not crowded, and Commercials (48) are not Crowded. **This would not qualify as meeting market participation.**

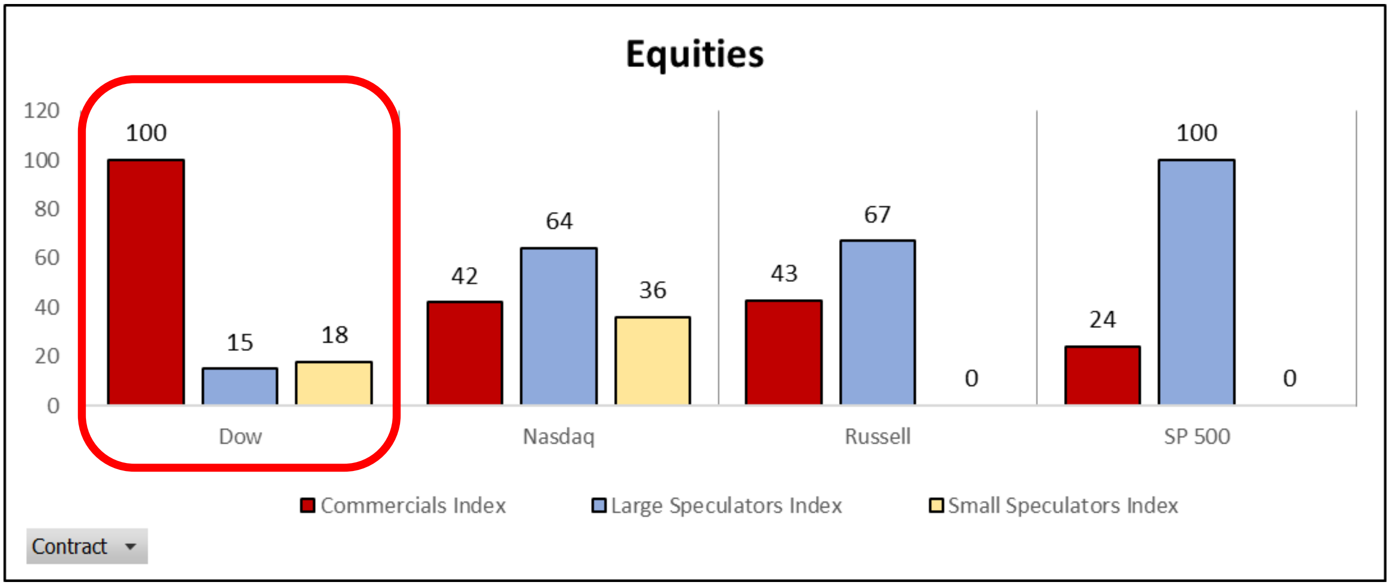


- Second Example: In Soybean Meal, Small Speculators (85) are not max crowded, Large Speculators (100) are max crowded long, and Commercials (0) are max crowded short. **This would qualify as meeting market participation for a short entry (trading on the side of Commercials and fading the Speculators).** To further explain, Small Speculators represent a small percent of market participation, which is why Commercials reached maximum levels, even though Small Speculators did not, as Large Speculators represent a high enough percent of Speculator participation to crowd the market.



[NOTE] In Equities, once Commercials reach 0 or 100, the trade qualifies as max crowded, regardless of what the Speculators levels are.

Example:



COT Index Heat Map

The heat map is a visual representation of how the COT Index changed week over week, to help identify which markets changed the most. For Example, the map shows Heating Oil Large Speculators changing by 79 points, week over week, where they sold the market. We share the data going back more than a year via an excel file each week at www.crowdedmarketreport.com/cot-data.

Contract	Sector	Comm Variance	LG Spec Variance	SM Spec Variance	2/20/2022			2/13/2022		
					Commercials	Large Spec	Small Spec	Commercials	Large Spec	Small Spec
30-Year Bonds	Fixed Income	-3	3	2	21	94	44	24	91	42
10-Year Notes	Fixed Income	-5	5	4	77	32	18	82	27	14
5-Year Notes	Fixed Income	5	-10	3	67	48	19	62	58	16
2-Year Notes	Fixed Income	16	-19	12	56	59	17	40	78	5
Nasdaq	Equities	4	2	-19	59	56	3	55	54	22
SP 500	Equities	-3	7	-7	40	88	0	43	81	7
Dow	Equities	5	-10	9	86	31	9	81	41	0
Russell	Equities	-6	9	0	51	59	0	57	50	0
Live Cattle	Livestock	0	0	-10	0	100	0	0	100	10
Lean Hogs	Livestock	0	0	0	0	100	100	0	100	100
Cocoa	Softs	0	0	0	0	100	100	0	100	100
Sugar	Softs	1	-1	-3	51	52	27	50	53	30
Orange Juice	Softs	8	-8	-5	13	81	95	5	89	100
Coffee	Softs	0	0	-16	0	100	84	0	100	100
Cotton	Softs	10	-6	-29	46	52	59	36	58	88
Lumber	Softs	6	3	-28	50	53	24	44	50	52
Gold	Metals	-28	30	5	50	50	34	78	20	29
Silver	Metals	-10	14	-4	78	26	28	88	12	32
Palladium	Metals	0	1	-5	90	9	51	90	8	56
Platinum	Metals	5	-8	38	60	45	51	55	53	13
Copper	Metals	-11	10	12	36	61	76	47	51	64
Australian Dollar	Currencies	0	-1	4	92	4	26	92	5	22
British Pound	Currencies	-7	14	-16	20	82	52	27	68	68
Canadian Dollar	Currencies	-21	8	4	27	87	4	48	79	0
Japanese Yen	Currencies	17	-13	-22	32	75	17	15	88	39
Euro	Currencies	-5	4	5	70	30	36	75	26	31
Swiss Franc	Currencies	6	-1	-12	58	36	56	52	37	68
Crude Oil	Energies	9	-8	-17	89	8	40	80	16	57
Unleaded Gas	Energies	0	-1	4	10	92	73	10	93	69
Heating Oil	Energies	12	-79	-18	86	1	62	74	80	80
Natural Gas	Energies	7	-7	4	87	15	61	80	22	57
Corn	Grains and Seed Oils	2	-1	-2	19	83	31	17	84	33
Oats	Grains and Seed Oils	-2	0	3	89	0	20	91	0	17
Wheat	Grains and Seed Oils	8	0	0	90	0	100	82	0	100
Soybeans	Grains and Seed Oils	-3	2	6	28	80	20	31	78	14
Soybean Meal	Grains and Seed Oils	0	0	0	0	100	85	0	100	85
Soybean Oil	Grains and Seed Oils	-4	2	20	36	53	90	40	51	70

Putting it all together…

In this section, Jason will summarize the markets, adds commentary, and ties the story together. As each market is analyzed individually, there are correlations and impact that carry across all markets. For example, the impact of inflation on Equities, Fixed Income and Metals. Here is an excerpt that demonstrates this process:

Excerpt from the 02/20/2022 Report

> *In Equities, it would seem that the fact Global Central Banks are now planning on pretty drastically reducing the liquidity party they have provided for over a decade, makes it pretty obvious that inflated assets prices, such as stocks, are now due to come down, and possibly come down quite drastically. Everyone is always told not to fight the Fed, and yet, here we are, testing new lows on stock indices, breaking below what are traditionally highly watched moving averages, and there are no signs that people are getting overly short here. In fact, as I've been highlighting over the past couple of weeks, it seems many pundits are trying to take the contrarian approach here and pick market bottoms. Also, as I keep saying, even the bears are not short, as they wait for a bounce to sell into.*
>
> *In Energies, we hear every day how there is basically no oil left in storage, and the market is at, or very close to new highs. Yet again we don't see any crowding at all in positioning and in fact see Speculators spending most weeks actually reducing longs across the complex.*
>
> *I think there is an interesting side show to all of this, which is the daily headlines from the Ukraine situation. It seems that if Russia invades the Ukraine, it is supposed to be bearish Equities/bullish Fixed Income/bullish Energy. So, when the days come when we are told there is some détente, stocks are supposed to go up, bonds down, and energy down. I think this sideshow is clouding people's judgement and taking them out of what would be nice trades with the uncrowded trend.*

It is especially important to review previous reports and this section specifically to understand the CMR story of the markets on an individual level and as a whole.

Current Positions and Weekly Trades

In these sections, current CMR positions are listed with dates of trades and stop level. This section also covers what trades were executed the previous week. A trade is exited once the stop level is met or the COT Index turns neutral. The goal as a trader is to exploit an edge in the market and if the positioning edge no longer exits, then the trade is closed, and profit is booked. A neutral reading equals Commercials near the 50 level, or Speculators selling or buying the market enough week over week that it shows a change in behavior. The CMR trading process attempts to capture market turns for the most part. Stops are based on a close above the most recent high (or low depending on the trade) and requires the market to close above or below the level. Intraday moves through the stop may not trigger the stop if the market does not close above or below the level. A member may execute trades based on their trading style if they choose to.

It is important to note that this style of trading does incur slippage depending on market action and how it closes above/below the stop level. An example for additional clarity:

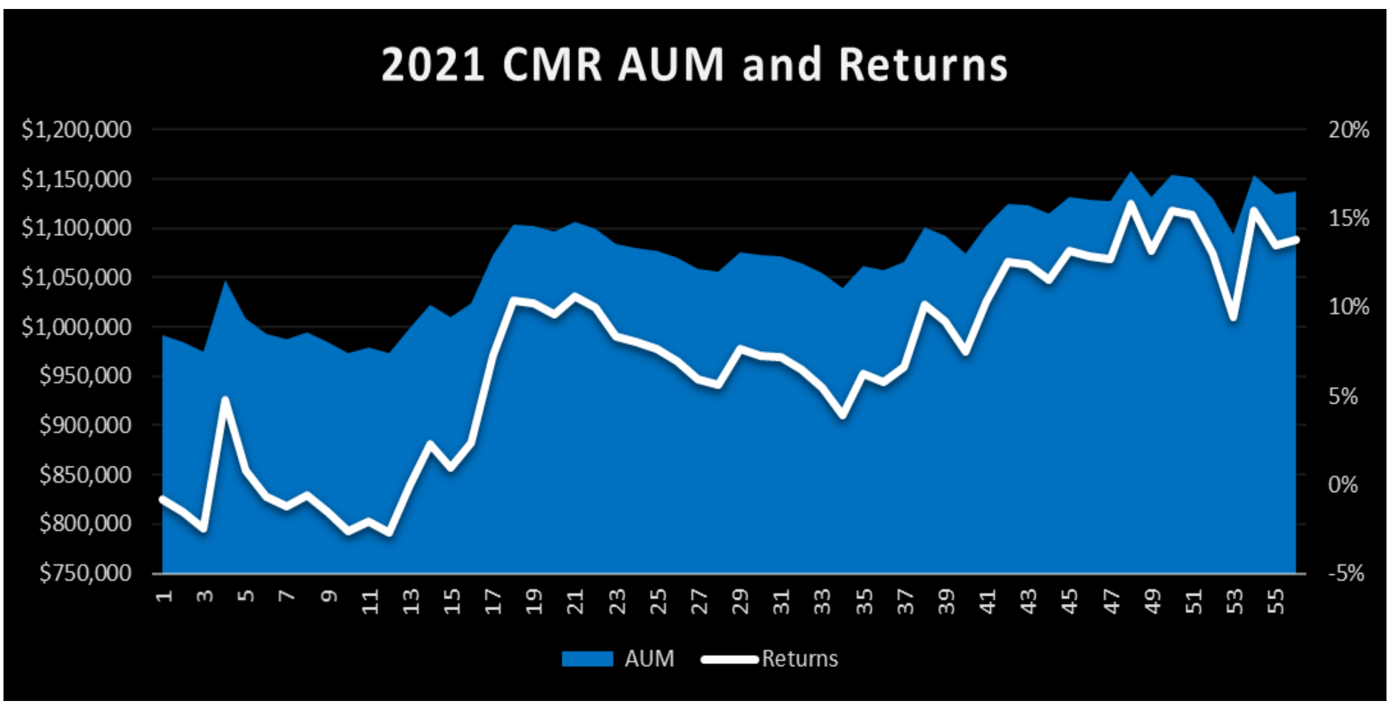
In this Soybean Meal example, after Speculators reached max crowded level long, market action confirmation occurred once there was a reversal day after making a new high (red arrow). A few days later, the market rallied intraday and made new highs, but the market reversed again (blue arrow) and did not close above the previous high which is why the trade was not stopped out.

CMR Performance

During 2021, **CMR trades were documented each week throughout the year**, and produced a return of 13.8% on a theoretical account that started with $1,000,000 and risked 100 bps (or 1%) per trade. This is based on following the CMR process without trader discretion.

2021 CMR Trading Results – Futures Only

- Success Rate
  - Win rate: 36%
  - Loss rate: 64%
- Type of Trade
  - Long: 43%
  - Short: 57%
- Average Return Rate
  - Winning Trades: 1.7%
  - Losing Trades: -0.7%
- Top and Bottom Trades
  - Best trade returned 7.4%
  - Worst trade returned -3.8%
- Cotton, Russell 2000, and Nasdaq were the most common markets traded with five trades each



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