

# 2023 New Member Report Guide

**By: The CMR Team**

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## Table of Contents

Thank You! .....	3
Important Disclaimer .....	3
Member Dashboard and New Member Web Page .....	3
Contrarian Trading: Fading the Crowd .....	4
Market Participation: Identifying a Crowded Market .....	5
Commercial Traders.....	6
Large Speculators.....	6
Small Speculators.....	6
Market Action: News Failures and Reversal Price Action.....	7
Equities .....	7
Fixed Income.....	7
Currencies .....	7
Energies.....	7
Metals .....	7
Grains.....	7
Livestock .....	7
COT Position Charts and Market Commentary .....	8
CMR COT Charts Website .....	8
How to Read COT Position Charts .....	9
Proprietary COT Index Interpretation and Maximum Crowdedness .....	10
COT Index Heat Map.....	12
Putting it all together.....	13
Current Positions and Weekly Trades .....	14



## Thank You!

If you are reading this guide, that means you have joined our Crowded Market Report (CMR) Community and you 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. Whether you signed up for the full CMR membership or the Charts/Index Only Membership, we are very grateful.

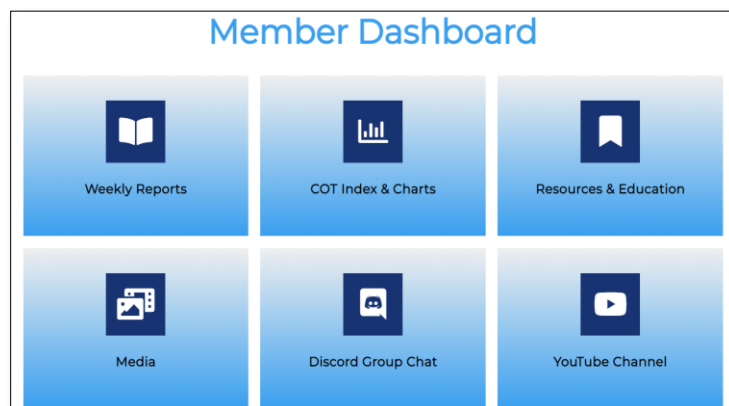
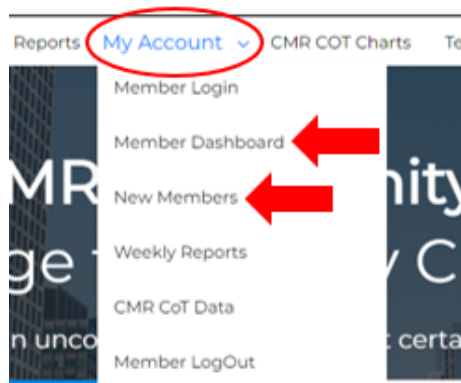
**Please note that this guide is meant for the full CMR membership, but everyone can benefit from reading the entire guide.**

## Important Disclaimer

The purpose of CMR and the services we provide including our Discord Community, is for **EDUCATIONAL** purposes only. We do not tell you what to trade and when to put on the trade. We give you the knowledge and tools to make trading decisions that skew the reward/risk ratio in your favor, which 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 get quick rich approach to trading or trading alerts, then CMR is not for you.

## Member Dashboard and New Member Web Page

We highly recommend that all new members click on the new member web page and review the content. It provides a basic understanding of the website and how to navigate. Once that is complete, the next step would be for members to go to the Member Dashboard to easily access different parts of the website. We attempted to keep the experience simple and user friendly.



## Contrarian Trading: Fading the Crowd

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

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 - 2022, 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 person has been wrong frequently that fading a position they placed or referenced may make sense if price action adds confirmation. Example, a pundit on CNBC states that Silver is a buy now, and historically they have been wrong, then shorting Silver may be a worthwhile trade if positioning is crowded or close to being crowded.

## 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 Commodity Futures Trading Commission (CFTC). The data reflects market participation as of the previous Tuesday's close.

For example, Friday's report published on 01/06/2023, would include market participation data as of Tuesday, 01/03/2023. For 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.

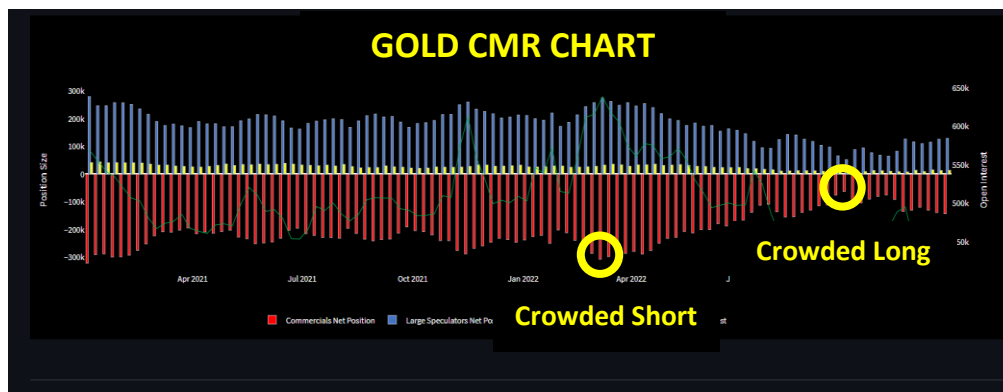
The specific COT data used by CMR is the Futures Only Reports and it contains three main participants: Commercials (aka Comm\_Positions on the report), Large Speculators (aka NonComm\_Positions on the report), and Small Speculators (NonRept\_Positions on the report). Total reportable positions sum up to zero where Commercial positions equals the inverse total of Large and Small Speculators combined. This is an important note that will be referenced later as well, when attempting to interpret CMR COT charts. Commercial Traders minus Large Speculators minus Small Speculators equals zero. In other words, total Commercial Traders' position represents the opposite position of Speculators combined.

The COT report data is indexed, which means the data is reviewed with 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 absolute data is the challenge of waiting for absolute data to become crowded, which may take an extended period of time. That is why the data is "indexed" to show amount of crowding over 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 and once again, being very disciplined with risk management.

## 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. 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 creating less revenue volatility. Commercials are often short because they are hedging (or selling), and that level is what is indexed. The chart below provides additional clarity.



The first yellow circle shows Commercial Traders in Gold crowded short on a relative basis where they represent the inverse position of total Speculators. The second yellow circle shows Commercial Traders crowded long on a relative basis looking back twenty-two months. An important note is that for Commercials to be considered max crowded long does not mean they have to be net long. As shown in the Gold chart, they just have to be the least short they have been across the look back period. Least short = bullish (and vice versa). This applies to all three Trader types and not just Commercials.

Another type of Commercial Traders, which is non-traditional, are the Commodity Index Funds. The key to being categorized as a Commercial Trader is being classified as a “hedger”, which allows for reduced margin requirements and no position limits as long as you own the commodity being hedged.

## Large Speculators

Large Speculators are trading position size large enough that 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 of a Large Speculator is a Hedge Fund. A benefit of having Large Speculators is the added liquidity to the futures markets in exchange for profits for assuming price risk.

## 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.

**The Commitments of Traders Bible by Stephen Briese is a terrific book and contains a great deal of detail that will help you improve 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 swine flu impacting Lean Hogs (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 a stock market rally after bullish news is released) which may be considered as bearish market action confirmation as well. In this example, if Speculators were crowded long, shorting the Nasdaq would be the trade, since high beta stocks usually lead rallies in the stock market and in this example the Nasdaq lagged.

## COT Position Charts and Market Commentary

The Commitment of Traders Report (COT) is a sentiment indicator that is based on actual market positions versus opinion surveys (ex. AAll 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.

## CMR COT Charts Website

In 2022, we published our exclusive and comprehensive COT chart website. CMR charts are an industry leader and include more markets and categories than any other service, with the option to go back twenty years or more on certain contracts. The chart webpage allows you to view positioning by category or by a specific market as shown below. It is quite simple to use and is the first version of CMR charts. We are currently working on adding more features in 2023.



CMR CHARTS

Menu

- Futures Market Categories
- Futures Market Categories
- Futures Markets
- Homepage

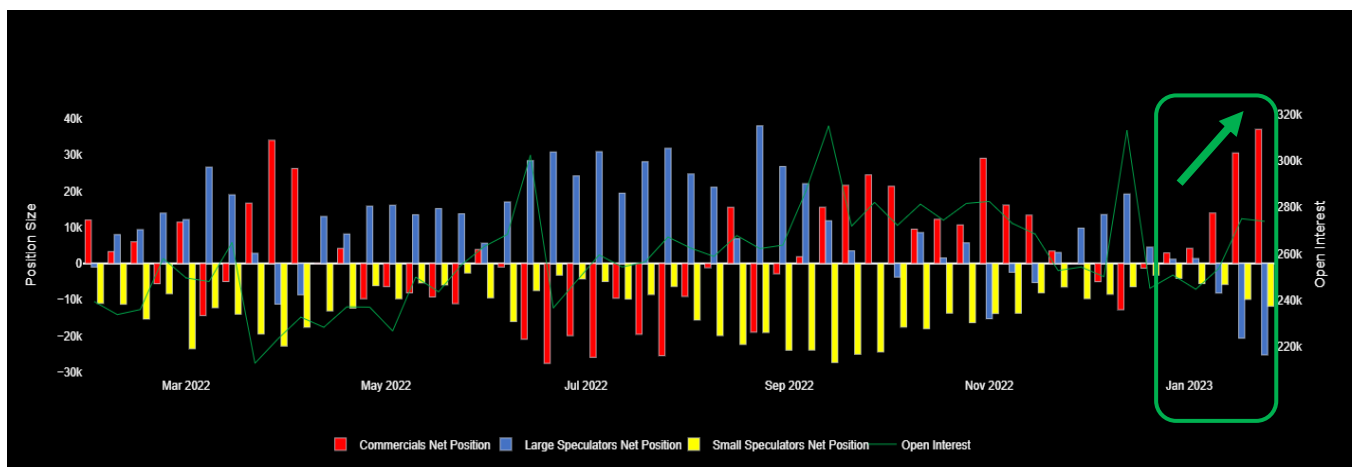
- 1 Click Menu Arrow
- 2 Select Category or Markets
- 3 Select the chart



## How to Read COT Position Charts

COT position charts consist of three main elements: Commercials Traders net position, Large Speculators net position and Small Speculators net position. Open Interest is included for additional reference. Commercials equals the inverse total of Large and Small Speculators combined. In other words, Commercials are on the opposite side of the trade with Speculators and when you add up long and short positions that are open, it should equal zero.

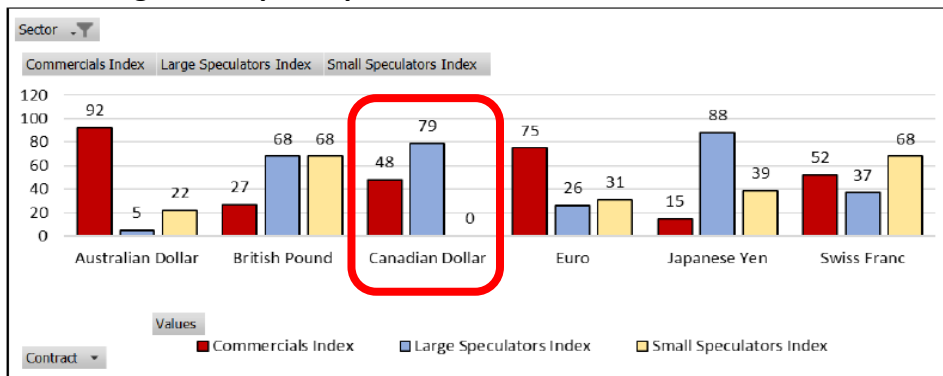
That is why we recommend reading the change in Commercial traders' position week over week, to know what traders did that week. If Commercials bought, then Speculators as a whole sold and vice versa. In the Nasdaq example below, you can see that Speculators, as a whole, increased their shorts (or sold the market) during January 2023, since Commercials' position (red column) increased their long position week over week.



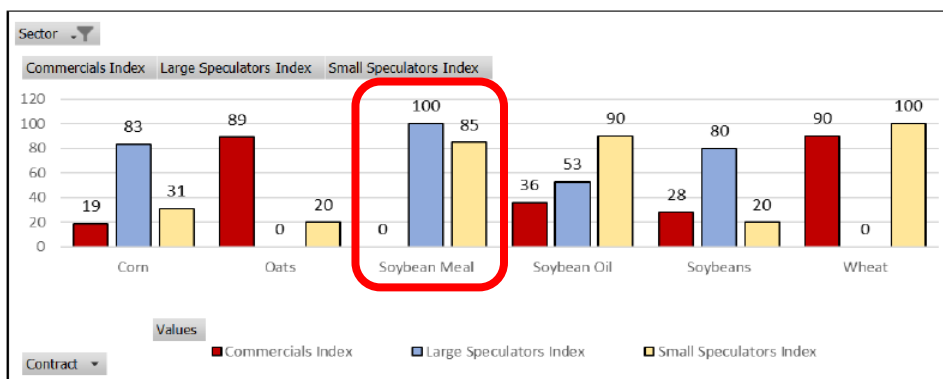
## Proprietary COT Index Interpretation and Maximum Crowdedness

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 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.**

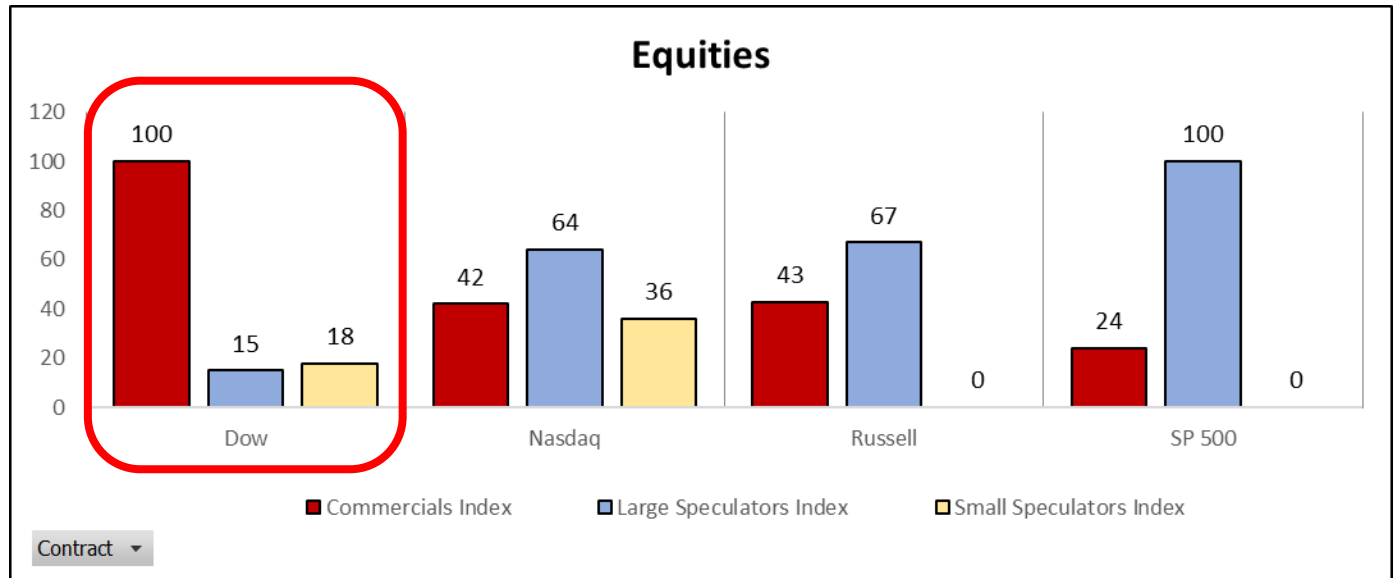


- Second Example: In Soybean Meal, Small Speculators (85) are not max crowded, Large Speculators (100) are max crowded long, and Commercials (0) are max crowded short. **This would qualify as meeting market participation for a short entry (trading on the side of Commercials and fading the Speculators).** 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:



Final thought on the oscillator/index. Once a market becomes crowded, it does not mean the trade should be executed. This has been mentioned a few times, MARKET CONFIRMATION is critical and must be in place for the trade to be executed. Also, the level of crowdedness does not have any predictive power as far as market direction. The goal is to identify crowded markets and to skew risk/reward in your favor where over time, you become a more consistent and profitable trader.

## 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 Corn Small Speculators changing by -32 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](http://www.crowdedmarketreport.com/cot-data).

Contract	Sector	Comm Variance	LG Spec Variance	SM Spec Variance	1/29/2023			1/22/2023		
					Commercials	Large Speculators	Small Speculators	Commercials	Large Specs	Small Specs
30-Year Bonds	Fixed Income	-6	0	17	71	0	96	77	0	79
10-Year Notes	Fixed Income	-2	0	5	91	0	96	93	0	91
5-Year Notes	Fixed Income	-6	6	0	83	7	100	89	1	100
2-Year Notes	Fixed Income	1	-2	7	79	16	75	78	18	68
Nasdaq	Equities	0	0	-8	100	0	64	100	0	72
SP 500	Equities	-14	13	9	20	57	90	34	44	81
Dow	Equities	0	-1	-7	38	57	75	38	58	82
Russell	Equities	3	-6	18	21	75	97	18	81	79
Live Cattle	Livestock	16	-21	34	33	64	41	17	85	7
Lean Hogs	Livestock	0	0	0	100	0	100	100	0	100
Cocoa	Softs	20	-20	15	32	72	52	12	92	37
Sugar	Softs	2	-1	-3	40	56	60	38	57	63
Orange Juice	Softs	0	0	28	0	100	28	0	100	0
Coffee	Softs	-16	15	2	84	15	70	100	0	68
Cotton	Softs	-12	13	4	88	13	14	100	0	10
Lumber	Softs	-5	14	-21	69	46	24	74	32	45
Gold	Metals	0	0	0	0	100	100	0	100	100
Silver	Metals	12	-13	-2	12	87	98	0	100	100
Palladium	Metals	3	-3	-5	95	4	30	92	7	35
Platinum	Metals	9	-9	3	23	72	100	14	81	97
Copper	Metals	-3	4	0	51	49	59	54	45	59
Australian Dollar	Currencies	5	1	-12	15	79	68	10	78	80
British Pound	Currencies	-5	2	5	20	71	100	25	69	95
Canadian Dollar	Currencies	2	-6	12	100	0	41	98	6	29
Japanese Yen	Currencies	0	0	-2	0	100	98	0	100	100
Euro	Currencies	-4	4	0	0	94	62	4	90	62
Swiss Franc	Currencies	1	-11	11	31	51	85	30	62	74
Crude Oil	Energies	-12	8	23	68	34	23	80	26	0
Unleaded Gas	Energies	0	3	11	0	100	70	0	97	59
Heating Oil	Energies	-19	17	8	6	86	100	25	69	92
Natural Gas	Energies	-9	9	6	91	9	44	100	0	38
Corn	Grains and Seed Oils	1	3	-32	80	27	8	79	24	40
Oats	Grains and Seed Oils	0	0	0	81	32	74	81	32	74
Wheat	Grains and Seed Oils	0	0	8	100	0	100	100	0	92
Soybeans	Grains and Seed Oils	4	-6	2	56	50	11	52	56	9
Soybean Meal	Grains and Seed Oils	23	-23	-6	23	77	25	0	100	31
Soybean Oil	Grains and Seed Oils	27	-24	-29	78	22	22	51	46	51

## Putting it all together...

In this section, Jason will summarize the markets, add commentary, and tie 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 01/22/2023 Report

*So now, let us check this idea vs COT positioning.*

***The positioning in stocks** is beneficial to being long, particularly in Nasdaq. I have said in the past that the next bull market does not look like the last one, and that in the next bull market tech will not lead. Unfortunately, I now hear this all the time. At the same time, we now find Speculators most short Nasdaq. Let us not forget the Dow can rally about 8.5% from here and be at all-time highs, while the Nasdaq can rally 30% from here and still be around 10% below all-time highs. On a longer-term chart this will show as Nasdaq underperformance but certainly would not be that on a shorter-term time frame in a world where Nasdaq goes up 30% vs Dow up 8.5%.*

***Fixed Income** COT is saying buy. This does not reconcile with the above macro thought, which is great as far as I am concerned because it stops me from being short Fixed Income. I did get out of my Fixed Income longs on Thursday close after hearing my favorite fade duo talk about being long TLT as one of their favorite trades, and then seeing Fixed Income have a reversal day down. I will however be looking for news failure and a reversal here to get long either 30-Year Bonds or 10-Year Notes.*

***In commodities** I am already long Cotton, which should theoretically give me all the economic growth, buy commodity exposure I need. There are no other commodity markets giving buy signals in COT from my read.*

*One more observation I would make here is how we are seeing Speculators both short Equities and short Fixed Income. The first reaction of many here is one of these has to be wrong, because if fixed oncome is going to go up, and rates down, then the economy will be weakening and that is bad for stocks. To this I would counter with first of all, it was higher rates that allegedly led to stocks going down in 2022, so why can't lower rates be a catalyst for stocks to go up. Second, I do not see why both can't be wrong at the same time, just because this is what mass positioning does over time. So far this year, with both stocks and bonds up, this has in fact been the case.*

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 exists, 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 that level. Intraday moves through the stop may not trigger the stop if the market does not close above or below that level. A member may execute trades based on their trading style if they choose to and we always recommend maintaining your trading style and adding what you learned from CMR as an additional tool. So, if you have a set point to close the trade, and it works for your process, then so be it. The key is to be disciplined, consistent and disciplined day in and day out.

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.

