

Those who cannot remember the past are condemned to repeat it. Santayana, *The Life of Reason*

In the predictability of human psychology lies both evidence of and responsibility for the truth of that statement. Futures prices move most dramatically when anticipating fundamental change—and adjust equally as dramatically upon realizing it, a phenomenon intrinsic to the seasonal approach.

Seasonal Principles

The approach itself is hardly new, nor need it be limited only to those markets directly influenced by weather. Cash market and futures traders have long used the technique to take advantage of annually repeating price movement. Seasonal analysis originates from the following premise: Each market has its own fundamental forces that are particularly characteristic to it and that act upon it every year. If one can find empirical evidence for patterns of market reaction to such forces, then one can more broadly define seasonality as a consistent market tendency to repeat similar price movement annually. As such, it becomes an analytical principle valid for any market.

A *seasonal pattern* for any market evolves from consistent price responses to annually recurring conditions—not only weather but, in some cases, fiscal calendars, in other cases, commercial buying/selling schedules, tax liabilities, quarterly Treasury refundings, or even futures contract specifications (delivery, expiration). In any given year, then, such forces may affect a market to a greater or lesser degree and cause it to react in a more or less timely manner.

Daily Seasonal Patterns

Thus, every market, both cash and futures, develops a seasonal pattern peculiar unto itself. **MRCI** computes each contract's *daily* seasonal pattern, uniquely derived from and a composite of daily futures price activity during designated years. Prices-as-a-percentage-of-annual-range, rather than prices only, are averaged for each calendar day to calculate *relative historical behavior*. The patterns ultimately plotted illustrate well-defined market tendencies for tops, bottoms, and trends from which to better anticipate future price movement and judge current market activity.

Contract Specificity

In futures, one not only trades “the market” but enters into a specific contract. Each tends to have a distinctive seasonal pattern due to the particular influences stemming from that contract's expiration date, such as its relationship to cash, its designation as “new crop/old crop”, etc.

These relevant considerations may distinguish the typical behavior of one contract versus another. For instance, one contract more than another may often hold greater potential from the long side, may typically begin its seasonal rise earlier, or normally be subject to more hedging pressure.

Bull/Bear Patterns

Of course, market behavior does not always coincide with its seasonal pattern; markets are dynamic, patterns an evolutionary composite. Macro-economic forces ensure bull and bear trends, which may offer the greatest trading opportunities but which exhibit behavior diametrically opposed one to the other. Therefore, dissecting seasonal behavior into two even more distinct patterns, one bullish and one bearish, provides yet another perspective from which to discover emerging trends and to understand what behavior to anticipate—*and when*.

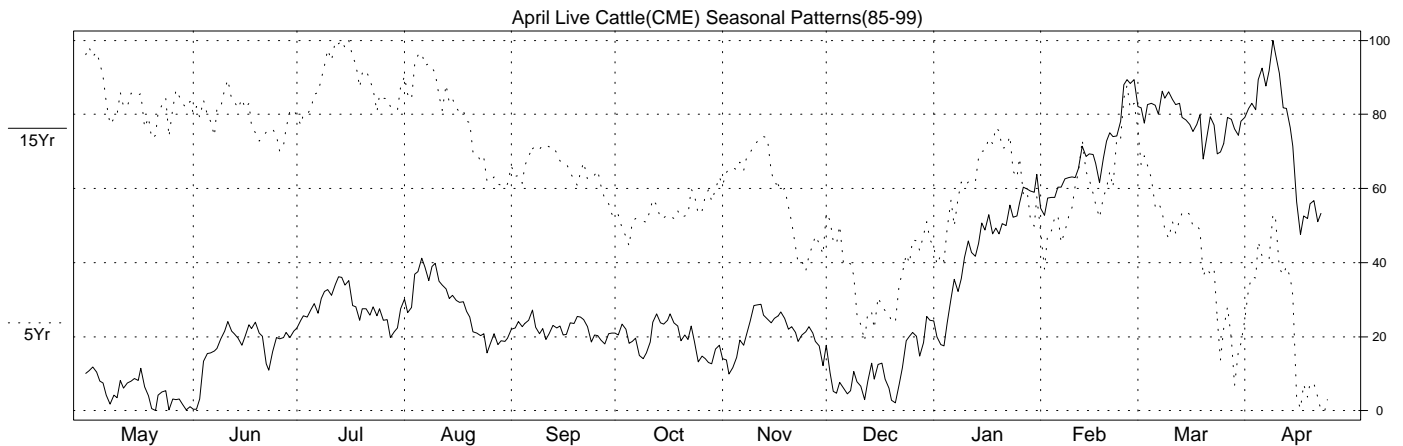
This edition further studies behavioral patterns by examining both bullish and bearish market biases. To be included in either composite, a contract year must meet a strict mathematical definition: *The absolute value of the slope of the line best describing its closing-price scatterplot must exceed a predetermined level*.

Therefore, years with a “*neutral*” bias are excluded, the purpose being to illustrate only typical bullish and typical bearish patterns of behavior. The nature of these patterns themselves may then be further examined for such things as time windows critical to “breakouts” and/or trend definition, the significance of when the two patterns cross, and purely bullish/bearish strategies.

The Seasonal Pattern Charts

Each chart consists of two aspects of a market’s seasonal pattern—the most recent 15-year (solid line) and its most recent 5-year (dotted line). Thus, any evolution in the pattern may be perceived, as well as trends, tops, and bottoms coincident to both. The numerical index to the right measures the greatest historical tendency for the market to make a seasonal high (100) or low (0) at a given time.

Besides illustrating the more obvious seasonal tops, seasonal bottoms, and seasonal trends, these patterns also suggest certain cause/effect phenomena which may present secondary opportunities. For instance, do smaller but well-defined breaks/rallies typically precede certain events, such as Thanksgiving or first deliveries against a lead contract? If so, does there exist an implied opportunity?



The Bull/Bear Charts

Each bull/bear chart consists of one composite pattern for bull years (solid line) and one for bear years (dotted line), with component contract years for each indicated in the box (“72” denotes 1972) for reference. Rather than chronologically, the order of contract years listed is determined by the degree of inclination/declination of the line best describing its scatterplot. In other words, the ***most bullish (as defined by comparing slopes) of the bull years is listed first, but the most bearish of the bear years is listed last.***

That neither bull nor bear pattern reaches either 0 or 100 reflects a conscious decision made to better reproduce the vigor of dynamic trends. When MRCI constructs a 15-year pattern, averaged raw percentage values for each calendar day typically lie between 35 and 65—and are then blown out to between 0 and 100 to reflect greatest ***tendency***. That final step is not taken when constructing these bull/bear patterns, and thus each better represents the extent of the typical bull or bear move.

