



## How to Read the Kase Commentary on Gas for Traders and Tactical Hedgers

### About the Commentary

For traders and hedgers interested in what is going to happen in the gas market over the next few weeks, the Kase Commentary provides a level of accuracy and detail unparalleled in the industry. The Kase Commentary has proved to be over 90% accurate not only on price direction but in forecasting the exact prices (within a few cents) to which the market will trade or at which the market will turn.

The forecasts conform to the highest standards of mainstream technical analysis practice, as developed by award winning, Chartered Market Technician, Cynthia Kase - the only fully accredited market technician with an energy cash market and OTC trading background.

In addition to the forecasts, the commentary provides position recommendations, profit taking and exit points, trading and hedging strategy recommendations, and trading lessons. The Commentary is highly technical and therefore has been made interactive. This means that technical words and phrases are linked to definitions throughout the Commentary giving the reader a means to better understand the overall analysis.

### Reading the Table

	<b>Timers 2</b>	<b>Positions 3</b>	<b>Stop 1 4</b>	<b>Stop 2 5</b>	<b>Stop 3 6</b>	<b>Rev 1 7</b>	<b>Rev 2 8</b>	<b>Rev 3 9</b>	<b>Watch for Close 10</b>
NGV06	Flat	S	5.125	5.187	5.261	0.185	0.247	0.321	\$6.11
NGX06	Flat	S	6.459	6.496	6.538	0.124	0.161	0.203	\$7.53
NGZ06	Flat	S	7.786	7.895	7.985	0.146	0.255	0.345	\$9.03

### Column 1

The first column shows the commodity symbol and contract month. For example, NGV06 is the October 2006 natural gas contract. (Please see “Symbols” on the last page for a listing of delivery month symbols).

### Columns 2 and 3

The second and third columns show Kase’s position recommendations as of Friday’s close. The designations used are “L” for long, “S” for short, and “Flat” for holding no trade. Additional qualifiers are used along with these designations:

- + = Fully in position with no warning signs.
- n = Fully in position, but with some warning signs that warrant caution.
- = Some profit taking has occurred, and only a portion of the volume is in trade.

For example, an L- would indicate that, while a long trade would have been previously the proper position, an exit signal has been generated on a portion of the volumes. The remainder of the

trade will be held until a stop signal is generated for a full exit, or a renewed buy signal is generated, in which case the trade would be brought back up to full size.

#### Column 2 is the recommendation for “Market Timers”

Market timers are those holding trades for an average of 3 to 10 days, taking modest risk. Kase defines “modest” as the level of risk, which must be taken to both ride the intermediate term trends in the market and trade the equivalent of a 20 to 60 minute time frame.

#### Column 3 is the recommendation for “Position Holders”

Position holders are trend followers. This category includes both market timers who wish to scale up to positions during longer-term trends, as well as those who wish to avoid the shorter-term market moves, and wish to trade only during sustained trends.

#### “Market Timers” vs. “Position Holders”

Many market participants would like to be position holders because they feel that holding positions longer term is easier and requires less work. However, the risk of this style of trading is often too high for them.

Position holders require longer, larger trends to justify a trade, or justify lifting a hedge. Once the relationship between risk and the term of a trade is understood, most participants opt for a market timer strategy.

In *highly trending markets*, position holders have the advantage. One can take a relatively large position, and hold it, scaling up and down somewhat during the trend, and only going flat during very large corrections. Timers during these periods exit the market during corrections and later re-enter. Because the market is trending clearly, the transaction costs of getting in and out may be viewed as a negative for the timers.

In *choppy markets*, timers have the advantage, as the market “trends” in one direction or another only for very short periods of time.

#### **Columns 4, 5 and 6**

These columns show Kase’s recommended stops - the point at which trades should be exited if the market moves against the position. These stops are a blend of those which Kase’s trading software (StatWare) generates for market timers and position holders. Market timers rely on stop 1 more heavily, and position holders use stop 3 as the first stop at which to exit trades. Stop 2 is used to “scale-out” along with either stop 1 or stop 3. If the stop is shown in italics, this means that the particular stop shown has already been hit.

If there is conflict between timers and position holders, for example, if timers are long and positions are short, the stops are shown for timers. Position holders are able to calculate stops, as necessary, from the information in columns 7, 8 and 9 as discussed below.

Remember: One cannot get away from the objective qualities of the market. The stops and exit points are derived from volatility and are thus dictated by the market, not subjectivity.

#### **Columns 7, 8 and 9**

The seventh, eighth and ninth columns show reversal values (in cents) that are used to calculate new stop levels should the market move in favor of the position. The reversal value is the

amount of money that must be sacrificed before an exit is triggered. This value is deducted from the highest high, if long, or added to the lowest low, if short, to determine the current stop values.

### **Column 10**

The tenth and final column in the table shows prices, which Kase considers critical if the market closes over or below. If the market is trading below the level, then the value is a “close over”. If the market is trading above the level, then the value is a “close below”. The implications of this closing level are explained in the analysis section (see below).

### **The Recap Section**

The recap section briefly reviews Kase’s market call from the previous week against the actual outcome of price activity in order to assist traders in evaluating the performance of the commentary.

### **The Bias and Forecast Summary Section**

The bias and forecast summary section presents three price outlook scenarios for the coming week as detailed in the analysis section. The primary scenario is the most likely to occur. The purpose of the secondary view, is so that the reader will have a fall back. We intend the secondary scenario to explain what to expect if we are incorrect about our primary, and how to judge that this is indeed the case. The secondary is just that, and unless clearly stated, has relatively low, but not negligible odds. Odds are in favor of our primary view. The unlikely scenario would occur only if some extreme event were to happen.

Thus, while we would encourage the reader not to assume complacently that the secondary will not take place, odds are in favor, both in terms of our week-to-week statements, as well as our record, for the primary.

### **The Analysis Section**

This section gives an in depth analysis of Kase’s current market outlook, and states the forecast and strong bias for the forthcoming week. In this section the first three nearby contracts are analyzed (four when rolling over to a new nearby). Important technical factors such as patterns, support, resistance, and the like are detailed, as well as deductions, specific observations, biases, short-term and long-term targets, and important decision points.

Drawing upon background and experience, Kase selects upside and downside targets by using traditional forecasting techniques combined with judgment in evaluating the results.

### **The Monte Carlo Section**

Also incorporated are rigorous statistical techniques such as stress testing using Monte Carlo simulations. The result of the combination of all of these techniques and experience is a highly accurate and unbiased forecast that is reflective of traditional and sound technical analysis.

### **The Strategy Section**

This section outlines Kase’s strategy for both position holders and market timers for the next week or two. The commentary discusses how aggressively to trade in either direction, what turning points to look out for, points at which strategy should be adjusted, how to best catch turns based on current market formations and similar advice.

### **Outer Month Section**

Similar to the analysis section for nearby contracts, the outer month section provides analysis and forecasts for a selected outer contract month, usually two quarters removed from the front.

## Signal Review Section

The purpose of this section is to give commentary readers who are also users of Kase StatWare®, or any other technical methodology, a backdrop against which to both check their trades, as well as to compare their interpretation of the software against Kase's. This section sets forth the ideal and “dispassionate” trader scenario, and readers who take the time to go through all the signals weekly will improve quickly in the use of Kase technology.

1	2	3	4	5	6	7	8	9	10	11	12	13	14
Trade	Position	TV	Entry	Time	Price	Indication	TV	Exits	Time	Price	Indication	%	Gain/Loss
1	L	55	9/5	1007	5.922	2nd Buy	233	9/5	1409	5.97	KCDD	80	0.066
							55	9/6	1025	6.06	Reversal	20	
2	S	55	9/6	1025	6.06	2nd Sell	610	9/8	1636	5.66	Weekend	100	0.400
												<b>Total Gains/Loss</b>	<b>0.466</b>
												<b>Average Gain/Loss</b>	<b>0.233</b>

The table reads as follows:

- Column one shows the trade number.
- Columns two through seven contain data that represents the entry point of the trade. Note that below these columns is a comments field that will contain special notes about the trade.
  - Column two is the position entered. This is either long (L) or short (S).
  - Column three is the time frame (TV). This is the time frame used to enter the trade. Normally this will be the timing (i.e. 8 tick) chart.
  - Columns four through six indicate the date, time and price the trade was entered.
  - Column seven is the entry indication (i.e. 2<sup>nd</sup> Sell).
- Columns eight through 13 contain data representing the exit points of the trade. Because a trade is normally exited in two phases there are two rows used for exit signals.
  - Column eight is the time frame (TV). This is the time frame used to exit the trade. Normally this will be the monitor (i.e. 34 tick) chart.
  - Columns nine through 11 indicate the date, time and price that a trade was exited.
  - Column 12 is the exit signal. These values are abbreviated and can be found in the legend below the table.
  - Column 13 is the percent of the trade that was lifted (i.e. 80% for KCD Divergence).
- Column 14 is the gain or loss that was made on the overall trade.

### Summary Table Legend

KCD Divergence	KCDD
KCD Peak	KCDP
PeakOscillator Divergence	KPOD
PeakOut Local	PL
PeakOut Global	PG
DevStop #	Dev#
Access	(A)

### Tick Volume and Index Table

For traders using intra-day bars, Kase sets forth the recommended tick volume size for the bar lengths for each contract. These tick volume settings are to be applied to price data. Ideally the main chart followed during the day should have 5-8 bars per session while the timing chart should have roughly three or four times that amount.

The index values listed are derived from Kase's acclaimed PeakOscillator, which measures the rate of change of trend. The index values are a measure of current momentum relative to historical market behavior. The nearer the index values to 100%, the greater the probability of a turn in the opposite direction.

### The Mini Trading Lesson

The mini trading lesson section of the report, which appears in most issues of the commentary, provides the trader with additional insight regarding the theory behind, the interpretation of, and the effective use of our trading systems and related indicators.

SYMBOL	MONTH
F	January
G	February
H	March
J	April
K	May
M	June
N	July
Q	August
U	September
V	October
X	November
Z	December