

INTERVIEW WITH CYNTHIA KASE, CMT, MFTA

BY AMBER HESTLA-BARNHART

How would you describe your job?

Well I wouldn't really ask the question that way. I would ask, "What do you do professionally?"

I don't really think of myself as having a job, per se, as I have owned and operated my own business, Kase and Company, Inc., since 1992. The company has two foci. One is providing hedging and trading advisory services and software solutions to the corporate and institutional energy sector. In that context we publish two weekly newsletters, one on WTI and Brent, and another on natural gas, NG. In addition we have energy sector hedging services that include quarterly risk management studies and software products delivered via web. One is called the Kase HedgeModel and the other Kase ezHedge. So, I direct, review and edit the forecasts involved with these services, and I still do the hedging recommendation write ups myself. Dean Rogers who's an MTA member manages the day-to-day functions. Dean also writes the newsletters. We also do custom consulting and expert legal witness work in the energy trading and hedging sector, in which I am usually not only directly but principally engaged.

The other focus of the business is technical analysis indicator/algorithm development and related products. Our Kase StatWare is carried by many charting platforms, including Bloomberg, eSignal, CQG, etc. I spent the better part of 2013 developing a new product that was launched as KaseX on Bloomberg. So the actual algorithm design and tweaking, I do myself, and Dean oversees the programming.

I also write educational articles, design classes and the like. I write a Tech Brief for Bloomberg every other week or so. I'm currently working on a 13-part video series and workbook for a major educational publisher.

Much of what I do is run the business. My first priority is making sure we stay in business – that means ensuring we have a steady stream of new business. A key challenge is that now that Kase has been in business so long, many of my long time contacts are retiring.

Running the business also involves coordinating with Dean and his staff, developing marketing strategy, deal making – directly with clients as well as with third-party and other cooperative ventures, and overseeing the mundane aspects of business, accounts payable and receivable, writing contracts, setting priorities, dealing with insurance, taxes, and that sort of thing.

What led you to look at the particular markets you specialize in?

As an algorithm developer, I deal with all markets. As a trading and hedging advisor, I specialize in energy. I have a BS and ME in Chemical Engineering, and worked for 10 years as an engineer, starting in 1973. I joined Standard Oil Company of California (now Chevron after the merger with Gulf) in 1980, working in the corporate engineering department, and three years later, as part of their management development program, was transferred into Chevron

International's oil trading group. That was the same year that crude oil futures began to trade, and in which we saw PCs leave "test" rooms and arrive in offices. My department had one PC with two floppy drives. I think it was an 8086. I was transferred to NYC in late 1985 where I traded international physical cargoes, first of crude for a while, then clean products. My territory was (more or less) the western half of the western hemisphere and Trans-Atlantic, plus Chile.

At the end of the decade I went to work for Chemical Bank as their first commodity derivatives trader, and then consulted with the Saudis after that. When I started Kase and Company, Inc., being independent was a key goal, and, with my background in energy, that specialty was a natural fit.

So that's why I have always specialized in energy, and more broadly in futures, as opposed to equities.

Do you look at any fundamental or economic inputs to develop your opinions?

No.

What advice would you have for someone starting in the business today?

1. Set goals. Describe what sort of life and work you want now and in the future.
2. Be realistic about the "cost" of meeting your goals. Be prepared to "pay the price".
3. Convince those around you, especially family and friends to be supportive of your goals.
4. Stay healthy.
5. Being smart is not enough. Time and effort are the differentiators.
6. Put off short-term gratification to achieve longer-term goals.
7. Study. Carry a book, magazine or tablet with you at all times.
8. Choose a path that emphasizes your strengths, and suits your personality.
9. Seek a mentor.
10. Strive for excellence, not perfection.
11. Hone your communication skills.
12. Be ethical and honest.
13. Persevere.

How did being oriented towards commodities influence your trading style, your work as an analyst/forecaster and your algorithm development?

As an oil and refined products trader, and energy futures trader (and I think this is true for those who trade sugar, or wheat, for example, as well) I have never focused on stock picking or building and managing a portfolio. I've never done sector analysis, or looked at relative strength. My emphasis was on trading one or two instruments at a time, well. A gasoline trader, for example, doesn't have the luxury of choosing to trade soybeans or lumber if the gasoline market isn't trending or is otherwise difficult.

So my focus has always been on market timing and trade risk management. This is why I developed my trading algorithms, Kase StatWare and now KaseX and Kase Private Label. The key is that when one is trading a portfolio, diversification helps reduce risk. If you have 100 trades in place on a given day, and you cut losses and let profits run,

your odds of having a winning day are better than if you trade one instrument using the same system that day. So a one thing at a time trader needs to be more precise, and monitor risks much more closely.

Another difference is that I have always been a trader or trading advisor, not an investment advisor. My time horizons have always been short term. Most of the market participants in the energy industry tend to rely on fundamental advice for long term decisions. Technicals are good for surviving the short term in order to be around for the long term. So when I say “short term”, I don’t mean day trading per se, but holding trades from three to five days, to perhaps a few weeks. The challenge is for single instrument traders that normal market fluctuations on a daily chart are often too large to tolerate, and at the level of a daily chart, if the market isn’t trending, it’s too tough to trade without dropping down to intraday.

Because my focus has always been using intraday – meaning bar lengths of less than a day – I have been interested more than portfolio managers would be in different bar types. That’s why I developed my Universal Bars back in the 1980s, now known as Kase Bars. Also, for a long time now, energy and many other futures markets have become, more or less, 24 hour markets. This has made bar types that adjust for slow overnight periods followed by a burst of activity when the day session opens increasingly important.

Having to deal with a particular market under all conditions, trending, choppy, erratic, volatile, increases the importance of developing detailed expectations of future market behavior. So, forecasting becomes an important element of trading strategy. That’s why my firm has published weekly forecasts on crude and natural gas since early 1993. Also, I’ve never known a professional energy trader to use an automated, black box system. Traders are expected to be flexible relative to their firms’ fluctuating needs and goals, and to use their judgment in developing their strategy. This often comes as a surprise to retail traders – but – if a firm used automated systems, they wouldn’t need traders, after all. Another reason is that diversification, often necessary for the success of a black box system, isn’t available to single market traders.

Technically, volume doesn’t play much of a part. That’s because, as a futures contract becomes more prompt, it becomes more active. There might be lower and higher volume days, sure, but overall, the time to expiration overwhelms any volume considerations.

What research area do you think offers the greatest potential in technical analysis at this time (something like an indicator, charting technique or trading tool)?

A relatively new field has to do with how data is presented. I mentioned Kase Bars earlier, equal True Range bars. I would like to work on developing 3D charts. Let’s say you were to cut a tube in half, and plot, say, 60 minute bars on the inside of the tube, you could make all the bars appear the same height by increasing or decreasing the radius of the tube. I actually wrote a paper back in the ‘80s on this idea, and maybe now technology is catching up enough to do this. You could get a read-out of the radius or even display a virtual plot of the tube. Another thing I think would be great is to integrate sophisticated forecasting techniques into everyday trading tools.

I also would like to do some statistical work on wave formations and retracements, such as how often one sees a complex versus a simple correction. How often corrections are, say 62 percent versus 89 percent, and the percent of the time waves extend to various Fibonacci projections. We’ve done a lot of work on this in the past, but pure research always comes behind programming for business.



About the Interviewee

Cynthia A. Kase, CMT, MFTA, president of Kase and Company, Inc. CTA has been a member of the MTA since July 1, 1991, won the Best of the Best award for relative strength/momentum in 1996, and most recently won the 2014 Technical Analyst award for Best Commodity, Energy, and Power, Research and Strategy. Kase, who grew up in Malden, MA, has a BS and ME in Chemical Engineering and served as an engineering duty officer in the USNR-R for 15 years, achieving the rank of Lieutenant Commander. Having worked for a major integrated oil company as an engineer, she was transferred into the international trading division in 1983, and traded physical cargoes through the end of the decade. In 1990 she became the first commodity derivatives trader at a major money center bank, and then consulted with the Saudis for a year on energy technical analysis and risk management. In September 1992, Kase launched Kase and Company, Inc. whose work is described in this interview.

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