Mastering Online Commodity Trading

Commodities are the actual physical goods like corn, crude oil, gold, soybeans and so on. Commodities have the same premise as any other investment that is gaining out of selling something.

Commodity trading describes the commodity markets rather than the commodity investment as the name itself implies, the reason being that commodities do not increase rapidly over time like stocks do and therefore majority of the people take a trading approach with commodities to get profit. So, it is sensible to have a buy and hold strategy for stocks and a trading strategy for commodities.

The commodities have high leverage and instead of shares they trade in contracts. It is possible to buy and sell positions when the market is open and there is no need to take actual delivery of the stock physically.

There are three types in the commodity market:

Commercials: Commercials form the most of the trading in commodity markets where in the things involved are the production, processing or merchandising of a commodity.

Large speculators: Large speculators are a group of investors who aggregate their money together to minimize the risk and increase the gain. Large speculators have money managers who assist in investment decision for the investors like mutual funds in the market.

Small speculators: Small speculators are individual commodity traders who trade through a commodity broker or on their own accounts.

Both small and large speculators have the ability to shake up the commodity market.

To trade commodities, it is essential to have a basic knowledge about the futures contract, specifications for each commodity and trading strategies. Commodity traders usually follow two types of trading strategies, trend following approach or a range trading approach.
Trend following: Prices that are in the trend are probable to continue in that direction and the odds are in favor of the trader. Trend following strategies are dependent on having some big movers each year but a close watch should be kept on them.

Range trading: Under a ranger trading strategy, selling the market when it is at the top of its range and buying the market when it gets to the bottom of its range is followed which is well suited for a long period of time. In this type, one of the markets would break out of its range and have a big move where the traders face the risk of losing. They may hold on to a position thinking that the market might gain its position soon or make things worse.

But whatever be the trading strategies, the basic things needed are discipline and money management. No matter how the trade looks, it is advisable not to take too much of risk.
To get above average returns in the long run, a commodity trading strategy is safer instead of buy and hold strategies with commodities. If there is no sound-trading plan, a promising outcome is not feasible.

About the Author

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