COMMENT
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secretary

From: Paul Cross [paulcross@qwest.net]
Sent: Sunday, July 16, 2006 6:07 PM
To: secretary
Subject: COT reports

Thank you for the opportunity to comment. Capital markets need the freest possible flow of information to avoid otherwiset monopolistic power of the very large entities acting within these markets.

Specifically, and in response to your request for comments, I am deeply concerned that the CFTC would consider discontinuing such a popular and insightful report. While the report may need modification, the number and size of exemptions granted by the Commission would seem to demand more transparency, not less. In general, any modification must avoid discontinuing, suspending, or delaying, the Commitments reporting. And the Commission should take precautions to implement report changes in such a way as to maintain continuity with historical data. Absent historical reference, the report becomes nearly unintelligible. My specific responses to your numbered inquiries are as follows: 1.As an individual trader, I use the COT report to alert me to sudden position changes that would indicate a reversal in sentiment by a particular trader group. I also look at total positions against their historical ranges to identify sentiment extremes among the various trader groups.
a. The size of the commercial long and short totals, as well as the ratio of these, is useful in discovering extremes or significant changes in sentiment within the "trade." Historically, large one-sided positions among commercial traders has indicated a potential price trend change in the direction of the commercial position. Likewise, resumptions in major trends often follow a large change in commercial buying or selling patterns. b. Non-commercial large traders have historically shown a preference for momentum trading strategies and, thus, provided the buying power in bull trends and the selling power in bear trends. I look for a trend to accelerate in the direction of predominant one-sided large speculator trading. I anticipate declining large speculator participation and am alert for potential trend reversals when their positions approach historical long or short extremes. c. In uptrends, the extent that large non-commercial traders are willing to bid forward futures prices to a premium over normal carrying charges gives me an indication of the potential strength and longevity of bullish conditions. In downtrends, momentum selling usually results large speculators holding shorts and net short positions near their historical extremes at price bottoms in both futures and cash prices. 2.The Haig working paper on the CFTC website lists 41 related scholarly works, many apparently using COT data, and this is probably not a comprehensive list. Numerous magazine articles and at least 2 books have been devoted to the COT. 3. Market transparency is the antithesis of manipulative advantage, and the COT report makes US futures the most transparent of any exchange in the world. Do traders change their tactics based on date in the COT report? If they do, those reactions are promptly reported in next week's issue. This self correcting feature is unusual in a potentially market-moving report. 4.The Commission MUST continue publishing the CoT report. 5.Since the large traders are not identified, only the Commission can judge the need for additional trader categories.
I would prefer to see non-traditional hedger listed under a separate category and reserve the commercial category for traditional hedgers.
6.The COT report is not the only source of information regarding the potential size and timing of investment fund rolls. Even if it were, the market would soon arbitrage out any unfair advantage. Transparency is the antithesis of manipulative advantage. 7.a. The COT report is not the sole source of trader information. In fact many of these entities report their positions on SEC forms and/or published financial statements. For the CFTC to quit disclosing aggregate homogeneous positions would actually tilt the playing field in favor of large players who have the resources to aggregate this information from other sources. b. Insiders don't need to "guess" the identity or position totals. They can get actual names from SEC and other (less public) sources and deduce futures position sizes from equity reports and broker contacts. By publishing factual aggregate totals, the Commission only levels the playing field to the disadvantage of potential manipulators who access inside or non-public sources. c. The Commission has already increased the threshold number of reportable traders needed to publish Commitments data from 4 to 20. The Commission has to balance this perceived need for privacy of individual trading concerns against the benefits of transparency. It seems to me that a market's susceptibility to manipulation is

inversely related to the number of large trader participants. Publishing the aggregate totals in the COT report is the antidote, not the poison. 8. 9. For simplicity, categories should be consistent for all markets. If the total for a particular category in a particular market is zero, it doesn't take much effort to place it there. This provides flexibility to the Commission in future trader classification. As the Commission points out, the derivatives landscape is constantly changing and new products and non-traditional participants may be just around the corner for any market. 10. Users of the COT report have benefited with each and every increase in reporting frequency. Less frequent partial reports create doubt, cloud transparency, and can't help anyone besides inside players. 11.
Reportable traders are already required to report speculative positions separate from "bona fide hedges." This should not be a hardship, particularly in the case of these large traders, whose reporting is automated. Any inconvenience is more than offset by the public's need to know.

Please consider these elements, and please continue to publish the COT reports as openly and promptly as possible.

Sincerely,
Paul C. Cross

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