

Factor Members Private Twitter Feed - March 2, 2024



FactorMembers   @factor_members · Mar 2



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Is trading commodity futures an investment or pure speculation?

I had a conversation with a trader friend this week on whether the trading of commodity futures (or active trading of equities for that matter) could be considered as an investment or is it pure speculation.

On the surface, commodity futures contracts are NOT an investment – the trading of futures (and even active trading of equities) is pure speculation. Warren Buffett is an investor. He buys entire companies for their intrinsic value, hoping to gain from very long-term appreciation due to the growth of the business and their earning power.

In contrast, futures traders and active stock market speculators hope to gain from price appreciation (buy low, sell higher). This is especially true for traders who use technical analysis as their primary trading tool. In short, investing is interested in the name of the asset on the top of the chart (and what it represents) while speculators are interested in the price scale.

Yet, in a real sense I consider my approach to commodity trading to be an investment, not speculation. Let me explain. Corn, Copper, Lumber, T-Notes, Sugar et all are just the instruments I trade.

My investment is in the process I have developed over the years as a market participant. I am invested in the earning power of a systematic set of guidelines and rules to buy and sell futures contracts in such a way that has historically delivered annual gains >40% per annum. It is Factor LLC and its algorithms that I am invested in – not the markets traded by the system.