Dynamic Trader Daily Report

Comprehensive Analysis and Education For the Serious Trader and Investor

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Trend Reversal Entry Strategies – Part 1

Last week I took a look at some trade entry strategies we can use to enter a position *once* the new trend is already established which are called *trend-continuation trade-entry strategies*. This week I would like to look at the second category of entry techniques we use to enter a position, but at the start of a new trend, these are called *trend-reversal trade-entry* strategies.

Trend reversal entry strategies are designed to Buy at or very near the bottom and Sell at or very near to the top. Most academic trading advisors and trading books regurgitate the often repeated trading *rule* to never try to top or bottom pick. This is because most standard technical analysis techniques use *lagging indicators*. They do not have the methods that project *in advance* the **Price** and **Time** zones for trend reversal and the **Pattern** studies that signal trend termination.

This is a major part of the Dynamic Training approach, being able to identify *in advance* areas in **Price** and **Time** were trends are likely to terminate. Hence we are able to enter very close to the trend reversal itself with a very low capital exposure.

This week I will describe and illustrate three reversal patterns that use daily data and one strategy that used intraday data which are:

- Reversal Day
- Signal Day
- Snap-back Reversal Day
- Break of the last minor swing high or low

I will cover each of these this week, staring with the last one, break of the last minor swing high or low.

Intraday entry strategies – break of the last minor swing high or low

Before I continue I must stress that before we *even consider* entering the market with any of these trend reversal techniques the market must be at a position where a trend reversal is likely. In other words, the market must be at **Price**, **Time** and **Pattern** *coincidence* for a possible top or bottom.

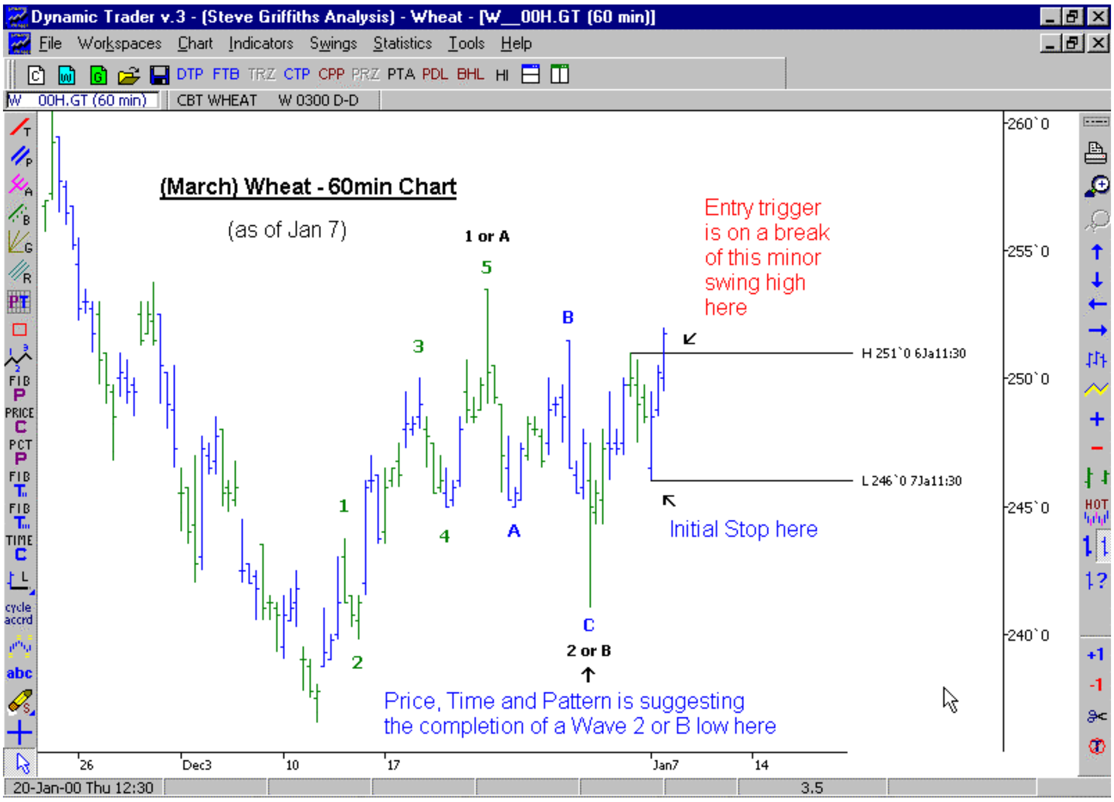
This is where studies that concentrate on a *single dimension* of market activity such as Japanese candlesticks fall down. For example, you can get many reversal patterns in a strong Wave 3, all of which will result in losses, as the market was not at a **Price**, **Time** and **Pattern** *coincidence* to signal a potential termination of the trend.

All our trend reversal entry techniques are designed so that the market has to show us some signs of either strength or weakness at our **Price**, **Time** and **Pattern** coincidence before we enter a trade at a trend reversal. With intraday data, one of the most simple, logical and reliable signals a trend has reversed is on the break of the last minor swing high or low.

Lets have a look at a few examples:

In this 60min Chart of (March) Wheat we had a potential Wave 2 or B low forming on Jan 4. The market then rallied and put in a minor swing high, as shown in the above Chart.

Our trigger to enter a new Long position would be *if* the market continued to rally and break this minor swing high. This is exactly what happened as we can see in the next Chart:



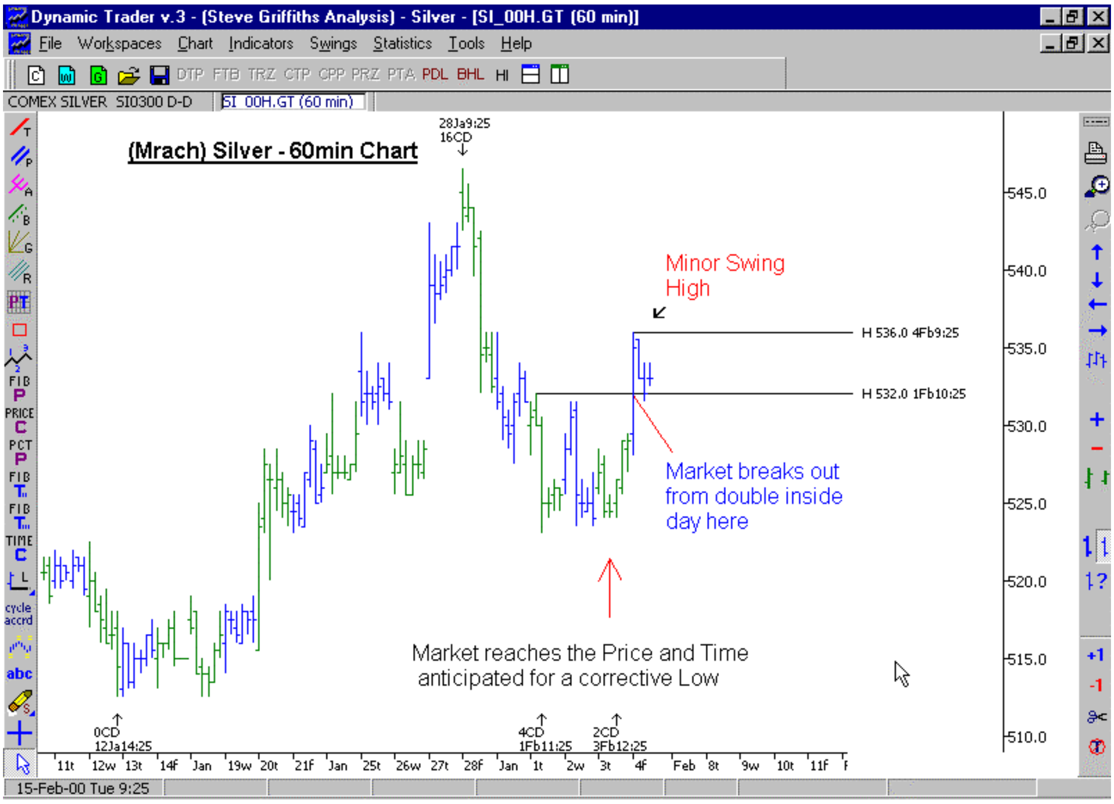
Our initial protective sell-stop would then be just below the last minor swing low, as the market should not retrace back to this level *if the trade is valid*. Always keep in mind the principle of stop placement – Place the stop at that point the market invalidates the trade position. The definition of a bull trend is higher highs and higher lows. If we believe the trend has reversed up on the break above the minor swing high, the market should make higher lows. A break of the minor swing low invalidates the long-position.

The Saturday, Jan 29 DT Report anticipated that silver had completed a Wave 1 or A high on Jan. 28 and should make a correction into a Wave 2 or B low. Silver declined into the general **Price** and **Time** targets anticipated for a corrective Wave 2 or B low as anticipated but the **Pattern** did not appear to have completed a correction. Usually we anticipate that corrections take the form of a simple ABC where wave C exceeds the Price extreme of wave A. The Jan. 28-Feb. 3 decline did not make an ABC or anything close to it. So here we had two out of three pieces coming together, time and price but not pattern, which was not good enough to signal a low risk trade entry.

Then early in Friday's trading session the market broke out from the double inside day to the upside formed by Wednesday's and Thursday's Price action. This was *initial conformation* of a bottom, not a signal to enter a position on its own, just initial conformation.

Now we have three factors suggesting a bottom (Price, Time and break form a double inside day), and only one against (not an ideal corrective pattern). The probabilities have changed, it is like playing Poker, where you started the game with a pair of Ace's, but in the next deal you received a third Ace. Two was not good enough to bet on, but three is!

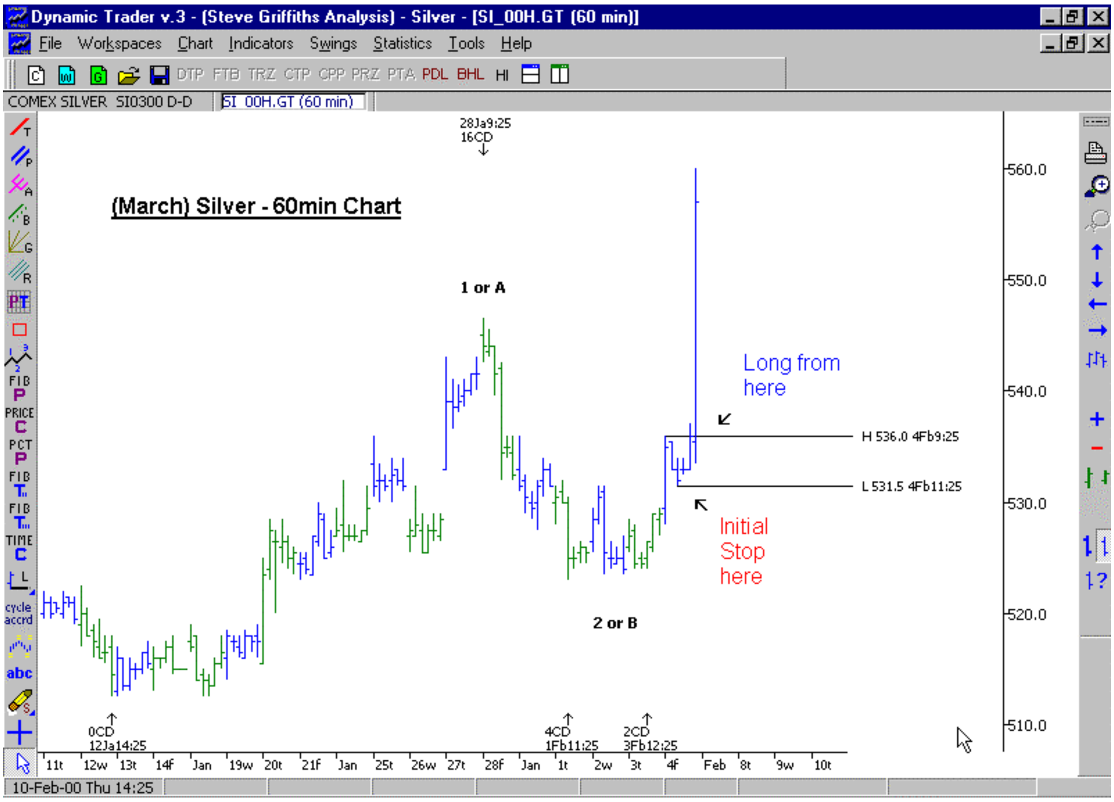
Now short-term traders who have access to intraday data can consider using a break of a minor swing high to enter a new Long position.



Trading is all about probabilities; as of the close on Thursday, the probabilities were not good enough to warrant a specific trading recommendation for silver to enter the market on the break of the double inside day. But *once* the market broke this double inside day to the upside the picture changed.

Hence you could *now* use this intraday technique of the break of the last minor swing high to enter a new Long position.

See the chart on the next page.



The initial protective sell-stop would then go just below the last minor swing low.

Tomorrow I will continue with Trend reversal entry techniques, but only using Daily charts for the entry trigger.

In future tutorials I will describe other entry techniques using intraday data.

Today's Trading Lessons

1. Trend reversal entry techniques are only considered once a market has reached a *coincidence* of **Time**, **Price** and **Pattern** to signal the possible termination of the current trend.
2. When using intraday data, a break of the last minor swing high or low can be used as the trigger to enter a new trade.
3. The initial protective stop is placed one tick beyond the opposing minor swing low or high which makes the initial entry price and stop placement completely objective.

Potential Trade Set-ups and Trade Follow-ups

(March) Pound

Short and Intermediate Term Unit (S-1/25, 164.42)
We were stopped out of both Units today at 159.30 for a Profit of $3,200 on each unit.

(June) Live Cattle

Short and Intermediate Term Unit (L-1/31, 69.60)
1. Raise the protective Sell-stop on the short-term unit to 69.70.
2. The protective Sell-stop on the intermediate-term unit is at 69.20 for tomorrow, 1 tick below the 78.6% retracement.

(March) S&P

Short and Intermediate Term Unit (S-2/7, 1427.50)
Short from 1427.25 today.
The protective Buy-stop on both units is at 1439.50 for tomorrow.

(March) Bonds

Short and Intermediate Term Unit (S-2/7, 93-22)
Short from open today at 93-22.
The protective Buy-stop on both units is at 94-24 for tomorrow.

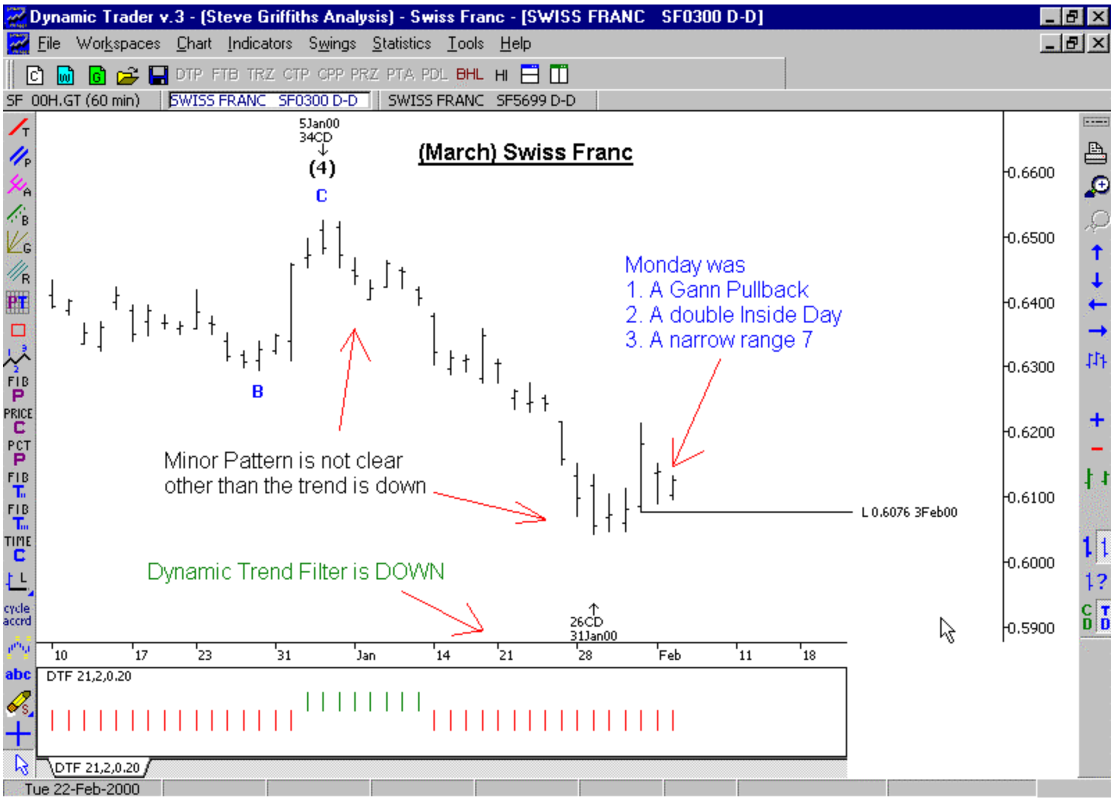
(March) Wheat

Short and Intermediate Term Unit (L-2/7, 259)
Long from open today at 259.
The protective Sell-stop on both units is at 248 ¾ for tomorrow.

(March) Silver Although not a specific trading recommendation, today Silver retraced sharply off the *typical* Wave C **Price** target as outlined in Saturday's report. With such volatility it may be wise to stand aside this market for a while

Continued on next page.

(March) Swiss Franc Although not a specific trading recommendation, the Swiss franc appears to be winding up ready for a continued decline. Today was a Gann Pullback, a double inside day and the narrowest range day for the last 7 trading sessions. Traders may want to consider a short trade on a break below the recent trading range as defined by last Thursday (Feb 3) for a *trend continuation trade*.



Although there is no clear minor Pattern, the trend does appear to be down.

Good Trading,

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