Dynamic Trader Daily Report

Comprehensive Analysis and Education For the Serious Trader and Investor

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Before I start today's report I would like to thank one subscriber for spotting a mistake in yesterday's Report on page 2 on the *maximum* Time target for Wave 4 in relation to the Wave 3 swing. When proofing the report I mistakenly changed 161.8% to 61.8%. Thanks for spotting this for me!

To clarify, the *maximum* **Time** target for Wave 4 in relation to Wave 3 is 161.8%.

Day Trading special on Bonds

Today I would like to do a special tutorial on applying some of the techniques reviewed over the last couple of weeks, but specifically on shorter-term charts and Day Trading.

With all analysis, we normally start from the larger-degree time frame and work down. The reason for this is that the best trades are normally in the direction of the *larger degree* trend. It is like swimming in a river, it is far easier to go with the flow than against it! This is particularly true when Day Trading, as all our Profit has to come within the time span of 1 trading day, hence the stronger and the larger degree trend the better.

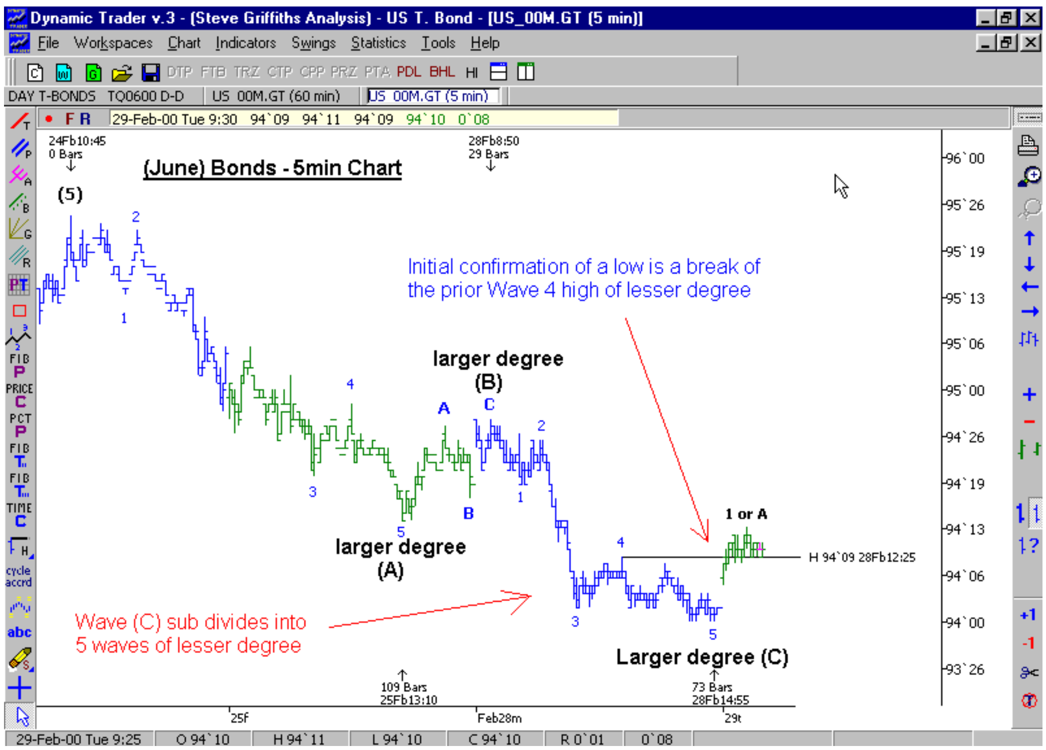
<u>Step 1 – The longer-term position</u>

For this example I would like to go back a couple of days in the Bond market where Monday's report highlighted that Bonds were considered to be right at the typical **Price** and **Time** target for a potential Wave 4 low on the 60min Chart. This was also the topic of the training tutorial yesterday, so we should all be very familiar with the analysis on this potential set-up.

Monday's low in (June) Bonds at 94.00 was at the **Price**, **Time** and **Pattern** coincidence for a potential Wave 4 low on the 60min Chart.

Step 2 – Initial confirmation of the current position

Before we look to enter a trade off a potential trend termination, we normally require that the market itself gives us at least an *initial indication* that the trend has indeed turned.



The initial confirmation of a Wave (C) low on Feb 28 was a break of the prior minor Wave 4 high at 94-09. This initial rally off a completed Wave (C) low is considered a Wave 1 or A.

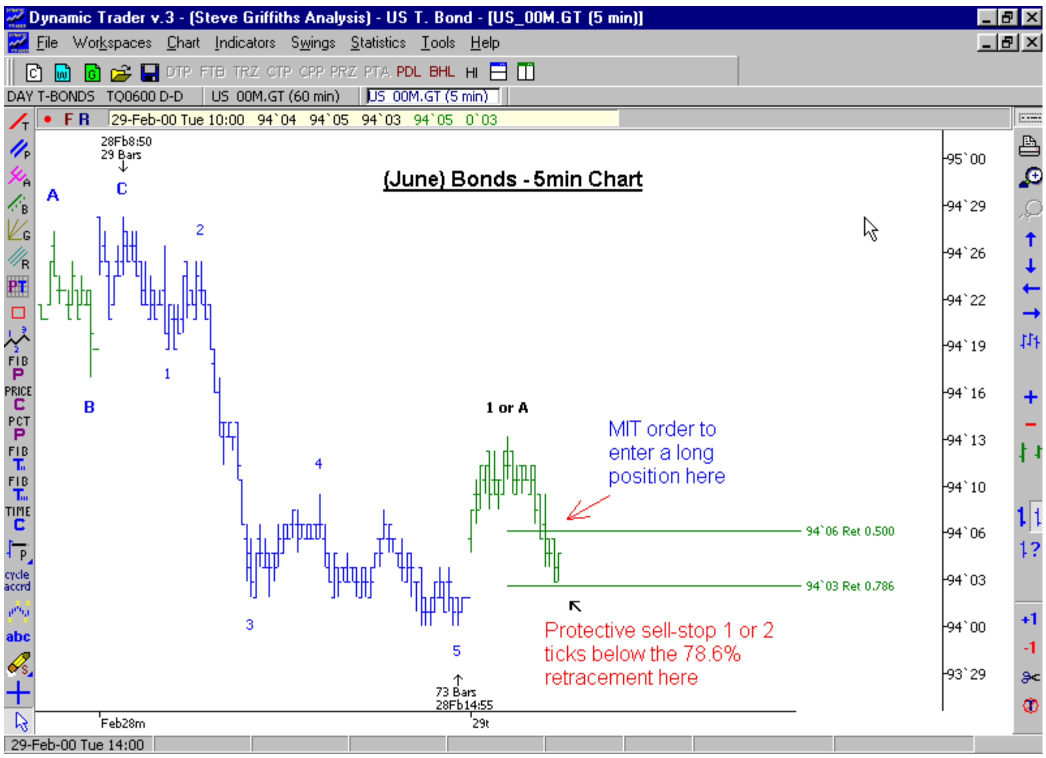
The chart also shows how the Wave (C) sub divided perfectly into 5 waves of lesser degree. This was also a **Pattern** indication that the Wave (C) was terminating at the 94-00 low.

Step 3 – Setting up the trade *in advance*

As with all our trade entry strategies, we need to have a plan of action prepared *in advance*, so the trade entry and initial stop loss placement are completely automatic. This is even more important in the very often fast moving and hectic world of day trading.

From Tuesday's Report, which reviewed Wave 2 or B's, we know that Wave 2 or B *normally* terminates within the broad range of a 50% to 78.6% **Price** retracement of Wave 1 or A. Hence we could place a MIT (market if touched) buy order to enter a long position on a 50% retracement to this initial Wave 1 or A rally, with a protective sell-stop just below the 78.6% Price retracement.

This would mean we would be entering a trade in the direction of the new larger degree trend at the *minimum* Wave 2 or B correction, with the protective stop at the place where our analysis would be proved incorrect, just beyond the *maximum* Price target for a Wave 2 or B correction.



In this example, this would result in a long trade from 94-06, with the protective sell stop at 94-01, an initial risk of 5 points or $156.25 per contract.

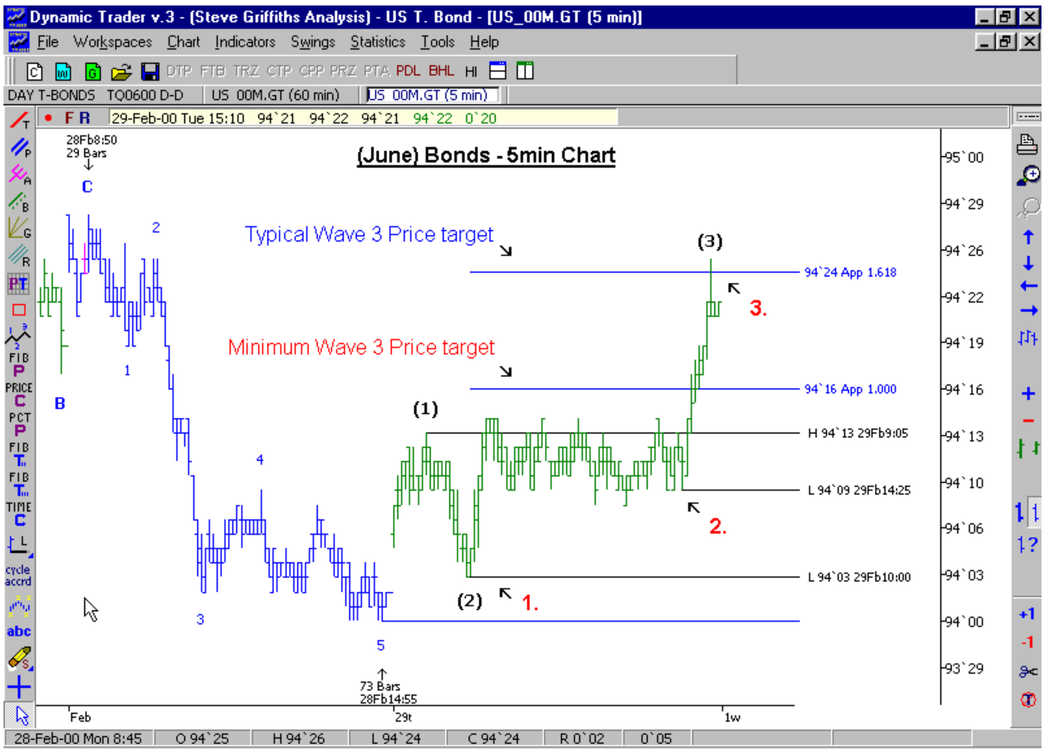
I suggest using a protective stop of 2 ticks beyond the 78.6% retracement as particularly with short-term intraday charts, markets have a habit of just clipping these levels before reversing.

Step 4 – Managing the trade and setting Profit objectives

As with the initial entry, you need to have in place a completely objective strategy for managing the trade and taking Profits.

First, let's review the longer-term position. The low at 94-00 on Feb 28 is considered a Wave 4 low on a 60min chart; hence a continued rally to above the Wave 3 high of 95-24 is anticipated. Therefore, on the shorter time frame, all rallies should be considered impulsive.

Let's have a look at how the rest of the day evolved and step through the adjustment of the protective sell-stop as Bonds rallied.



1. Long from 94-06, with the initial protective sell-stop at 94-01, 2 ticks below the 78.8% ret of Wave 1.
2. Initial confirmation of the Wave (2) low was on a trade above the Wave (1) high at 94-13. Raise the protective sell-stop to 1 tick below the Wave (2) low of 94-03, point **1.** on the chart.
3. Initial confirmation that the current rally is indeed a Wave (3) as anticipated was on a trade above the 100% APP (minimum Wave 3 Price target). Raise the protective sell-stop to 1 tick below the last minor swing low of 94-09, point **2.** on the chart.
4. Once the typical Wave 3 Price target is broken at 94-24, point **3.** on the chart, trail the protective sell stop 1 tick below the 1 bar low.
5. Exit the entire position on close if not already stopped out.

This would have resulted in holding the position into the close at 94-22, for a profit of 16 points, or $500 per contract.

This is exactly the same analysis procedure as reviewed in the training tutorials over the last two weeks for Wave 2's and 3's, and trade management strategies used on Daily Charts, except using a 5min chart.

One question I get asked very often on Day Trading is whether you should trade every day. The answer to this is NO. As for all analysis, the best trading opportunities arise from having the patience to wait for and only trade the ideal set-ups. It is even more tempting to break this rule when you are sitting in front of a screen watching only one market unfold during the day.

Today's special tutorial has demonstrated that all analysis and trade strategies are set-up in advance, making their execution completely automatic. The idea of a day trader sitting in front of a bank of screens full of charts trading by instincts and their gut feeling is very far from the truth.

Next week I will return to Daily Charts with a look at some of the Indicators we can use to help in our analysis.

Today's Trading Lessons

1. All analysis and trading strategies can be applied to all markets and used on all time frames.

2. The Day Trader must have the patience and discipline to wait for and only trade the ideal set-ups. This may mean some days without any trades.

Continued on next page.

Potential Trade Set-ups and Trade Follow-ups

Yen (March)

Short and Intermediate Term Units (L-2/28, 91.87)
Maintain the protective sell-stop on both units at 91.72, just below the minor Wave 1 closing high.
If the Yen trades to 94.38, trail the stop on the short-term unit 1 tick below the 1 day low (minor W3 = 1.618% minor W1 at 94.38).

Bonds (June) Bonds are approaching the *typical* **Price** and **Time** targets for a Wave C (and *minimum* for a Wave 3) high off the Feb 28 low on a 60min Chart. See the chart on the next page.

This is an important junction, as a reversal at typical Price and Time coincidence for a Wave C would indicate the minor rally off the Feb 28 low is only a correction in a new declining section off the Feb 24 high, whereas new highs past 95-09 and 11:20 tomorrow (NY time) is a bullish signal, and confirms Feb 28 as a minor Wave 4 low.

Short and Intermediate Term Units (L-2/29, 94-29)

1. Raise the protective sell stop (no longer a stop and reverse) to 94-14.

2. Reverse the current long position (or take a new short position if already stopped out) by selling on the close **if** tomorrow the close is below the open and the prior day's close (a Reversal Confirmation Day). If filled, place the protective buy-stop 1 tick above the high of the day of entry or the high of the prior day, whichever is higher.

3. If Bonds close above 95-09, without first being stopped out, raise the protective sell-stop on the current long position to 94-21, 1 tick below the Wave 1 closing high.

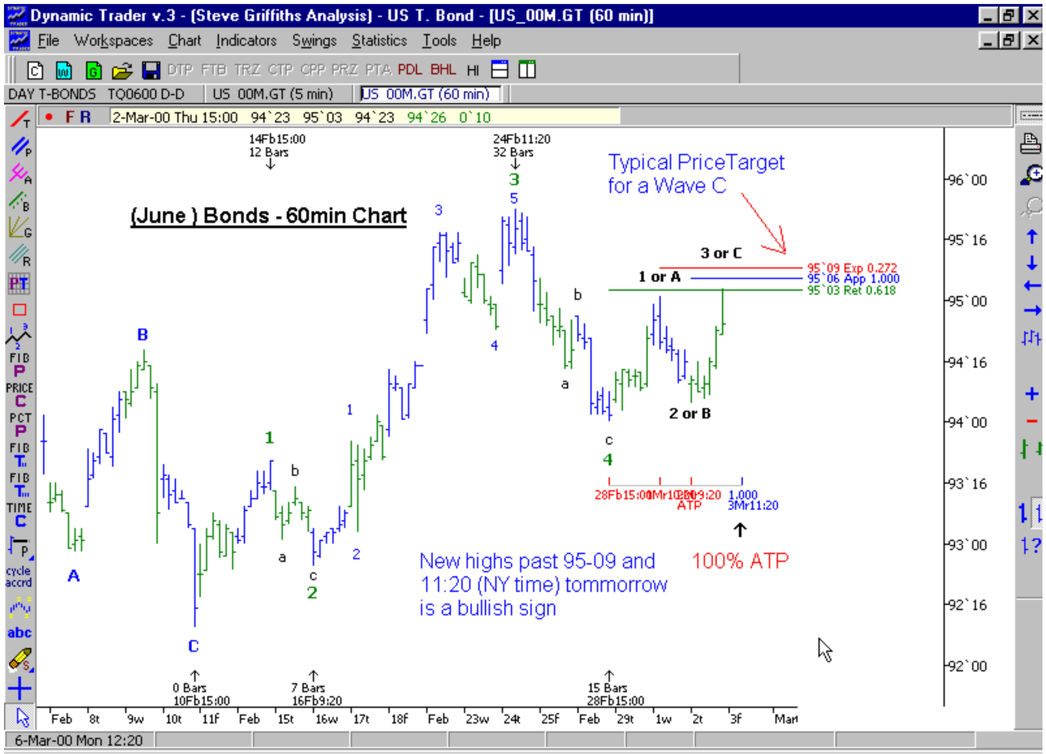
Pound (Mar) The pound made an *inside day* today. Although not a specific trading recommendation, Traders may consider a short trade on the break of Wednesday's low at 157.50 for a *trend continuation trade*.

S&P (Mar) The S&P is approaching the **Price** and **Time** coincidence for at least a short term high:

- **Price** resistance: 1384 – 1389
- **Time** resistance: 10:30 – 14:30 tomorrow (NY time)

New highs beyond 14:30 tomorrow and a close above 1389 is a bullish sign.

(June) Bonds 60min Chart:



Good Trading,

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