

Dynamic Trader Daily Report

Comprehensive Analysis and Education For the Serious Trader and Investor

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The analysis and trading strategies described in this report are for educational purposes only. The commentary in this report may or may not relate to a specific trade recommendation made in the Dynamic Trader Report. The weekday issues of the Dynamic Trader Report are prepared by Stephen Griffiths and are primarily for trading education purposes with alerts for potential trade set-ups for markets described in the Saturday issue prepared by Robert Miner.

Over the next couple of days I will take a look at two of the indicators I use most in Dynamic Trader, the Stochastic RSI and the Dynamic Trend Filter. Then later in the week, I intend to start a series on initial risk, risk to reward, and trade management strategies.

Stochastic RSI

As with most indicators, if we consider the standard method of using them for buy or sell signals whenever the indicator moves back from extreme readings, we normally find that buy signals are profitable during bull moves and sell signals are profitable during bear moves. In other words, the best use of an indicator is to identify reactions against the main trend.

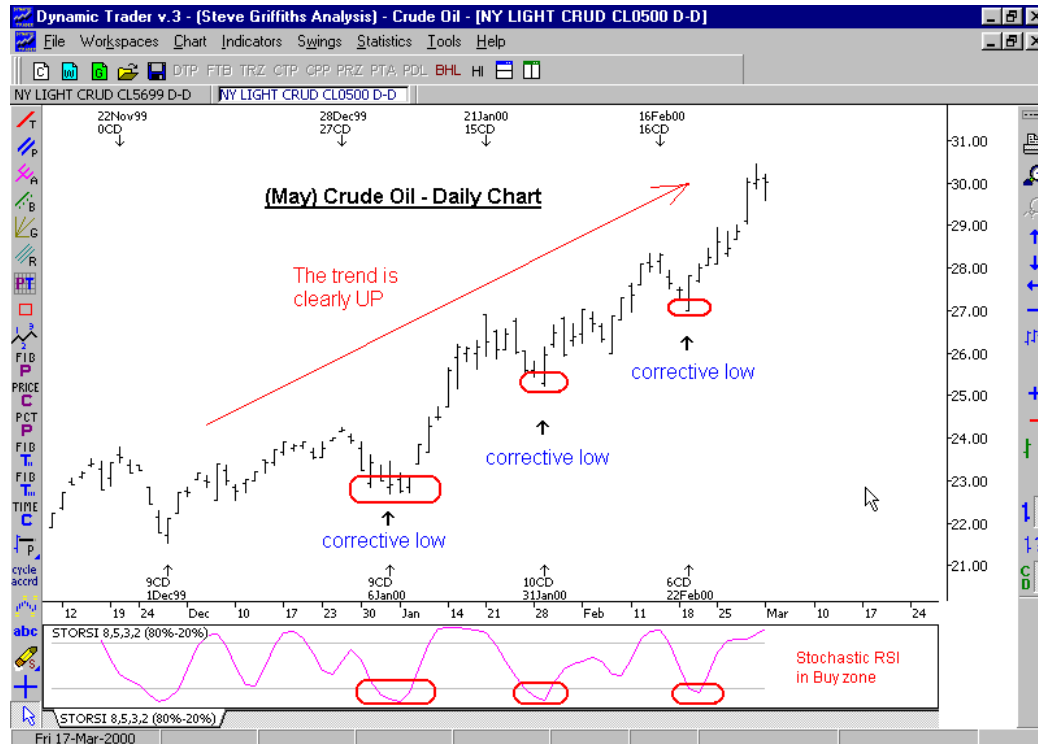
Therefore indicators may only be considered within the **Price, Time** and **Pattern** position of the current market. If our analysis does not provide a firm opinion of the trend position of the current market, then ignore indicator position as a part of your analysis and trading plan.

If a trend is bullish, an extreme low indicator position may be considered as a potential buy set-up. If a trend is bearish, an extreme high indicator position may be considered as a sell set-up.

The stochastic RSI is therefore best used to identify low-risk, high-probability, trade-entry set-ups on *reactions against* the main trend.

Over the next few pages I will have a look at a few different examples.

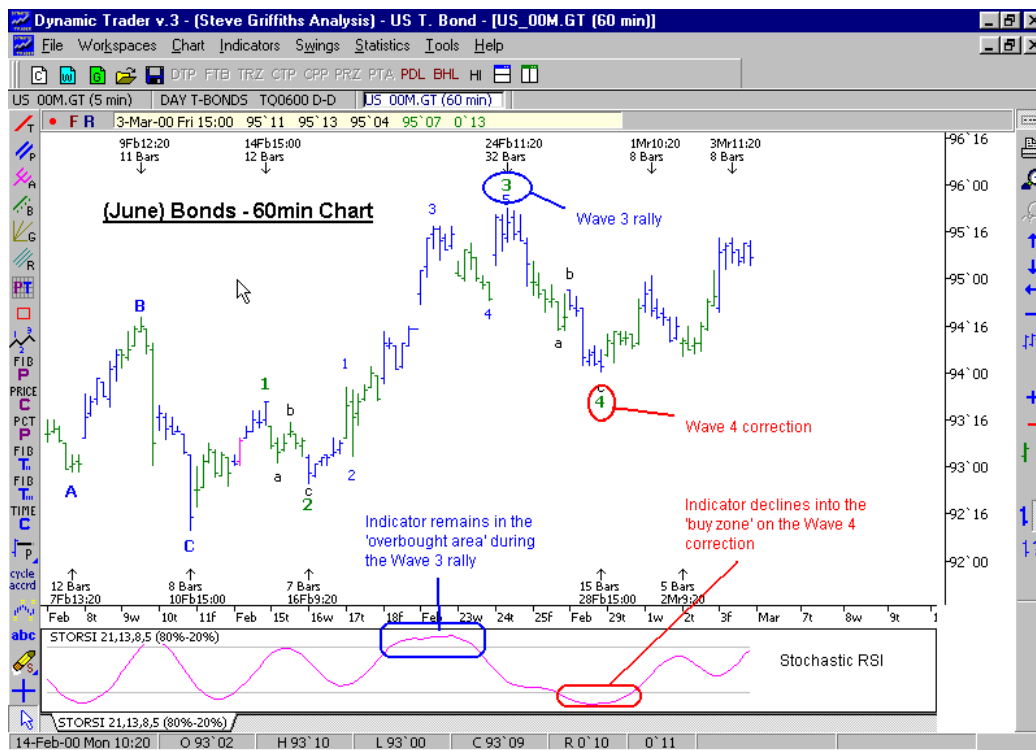
Here is a good example taken from a Daily chart of (May) Crude Oil, where we can see that Crude has been in a clearly defined up trend for some while now:



Each time the Stochastic RSI dipped into an extreme low position (below the 20% line), it was an indication that Crude was in a position to make a minor corrective low. As we can see from the chart, this is exactly what happened.

For this example I have used an 8-5-3 Stochastic RSI, as this is an excellent short-term position indicator that usually reaches an extreme (above 80% or below 20%) on minor reactions against a strong trend. This is similar to the Gann Pullback set-up covered last month, as these settings for the Stochastic RSI recognize that minor reactions against an established trend usually last 3-6 trading days. If we were considering larger degree corrections, we would use the 13-8-5 or 21-13-8 settings.

Let's have a look at another example, but this time using intraday data.



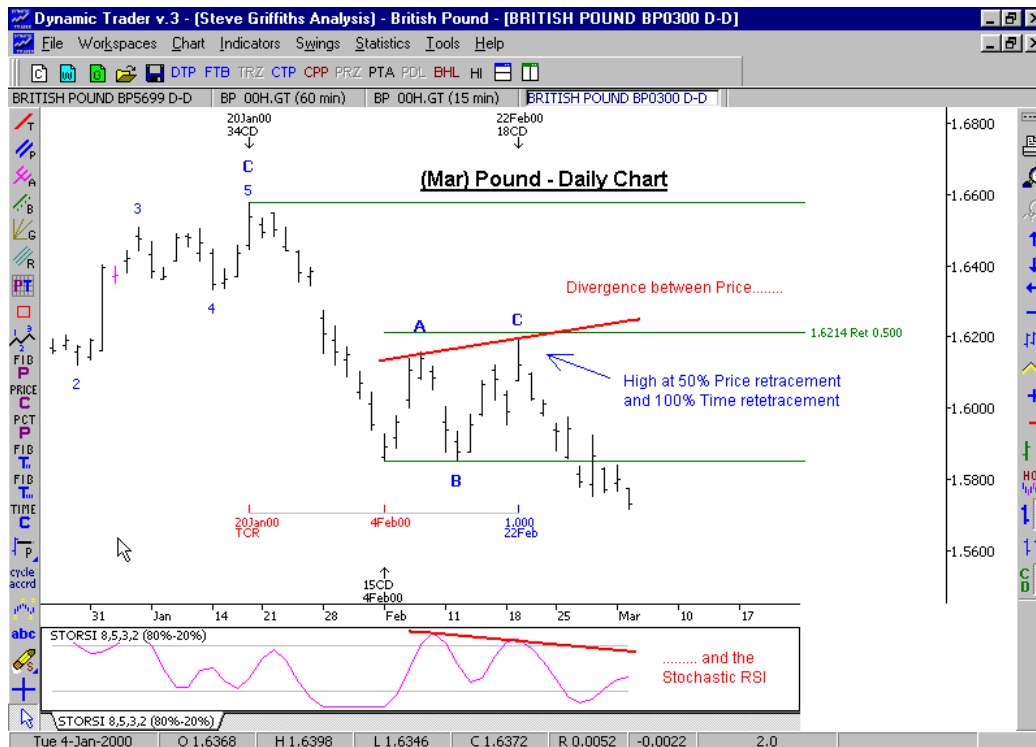
Here we can see on this 60min Bond Chart how the indicator remained 'overbought' during the Wave 3 rally, but declined into the 'buy zone' as the corrective Wave 4 low came in on Feb 24.

In this example I have used a 21-13-8 Stochastic RSI, so this does raise the question, which values should I use for these settings?

It is very simple, bring up 3-4 months of daily data (or the equivalent if using an intraday chart), and then look to see if the current settings catch *most* of the corrections against the trend. Remember, we are only interested in set-ups on the corrective highs and lows. Extreme readings are not useful in the direction of the trend. If the parameters do not catch the corrections, simply adjust the settings until they do. The assumption is always that the current rhythm of the market will continue until proven otherwise.

As a starting point, I have found that 8-5-3 works very well when using Daily charts, I then look to slightly longer settings when using an intraday chart. But please consider these as guidelines only, and feel free to use which settings you have found work best from your own research.

Lastly, the most common use of standard technical indicators, where a top or bottom is indicated by a divergence between the Price and indicator itself, can also be applied to the Stochastic RSI.



Here the Wave C high in the Pound on Feb 22 was showing a divergence with the 8-5-3 Stochastic RSI. This is still only used in the context of the Price, Time and Pattern position of the market, and not as a stand-alone indication of a top or bottom.

Tomorrow I will introduce the Dynamic Trend filter as a method of identifying the main trend when we do not have a confident Elliott count to work with on a Chart. I will also combine these two indicators with some of the trend continuation entry strategies discussed last month.

Today's Trading Lessons

1. Technical indicators may only be considered within the **Price**, **Time** and **Pattern** position of the current market.
2. The stochastic RSI is best used to identify low-risk, high-probability, trade-entry set-up on *reactions against* the main trend.
3. If a trend is bullish, an extreme low indicator position may be considered as a potential buy set-up. If a trend is bearish an extreme high indicator position may be considered as a potential sell set-up.

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 the short-term unit at 92.49, and on the long-term unit at 91.72.

Bonds (June) Bonds made an *inside day* today. A break below the low of Friday's trading range at 94-20 would be *initial* confirmation of a Wave C corrective top on the 60min chart, outlined as the Alternative Wave Count in Saturday's Report. A close below the Wave B low of Mar 2 at 94-05 would confirm this and lower prices are likely.

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

Raise the protective sell-stop on both units to 94-19, and change to a stop and reverse. **If filled**, place the initial protective buy-stop on the new short position at 95-03.

Pound (Mar) Correction to Saturday's Report. The Bearish Continuation (not Bullish) signal is a Close Below 156.96 (not Close Above).

Gold (Apr) Although Gold made an *inside day* today, the 78.6% retracement is only just below the market at 288. If Gold breaks below 289.2, Traders who are already short from the suggestion in last Tuesday's Report should consider using the break from this inside day to tighten their protective buy-stop.

Orange Juice (May) Orange Juice has declined from the 50% retracement at 84.85 as suggested in last Wednesday's Report. Traders who are already short should be aware of major support in the 80.10-80.80 area.

See chart on the next page.

