

Dynamic Trader Daily Report

Comprehensive Analysis and Education For the Serious Trader and Investor

Published By
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Monday, March 13, 2000

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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.

This week, I would like to continue from last week with a look at Initial Risk and the number of contracts you can trade for any given account size. I also want to introduce two more trade entry techniques, both of which use the shorter-term charts to enter a longer-term set-up. Later in the week, I will then start on the topic of objective Elliott wave analysis.

The break of the first hour's Trading Range

As an example for this, I would like to use the current set-up on (May) Orange Juice. First let's review the longer-term position using the Daily Chart:



Here we see that the decline off the Feb 28 High appears to have terminated right in the major **Price** support zone of 80-10 to 80.80, as highlighted in last Monday's Report.

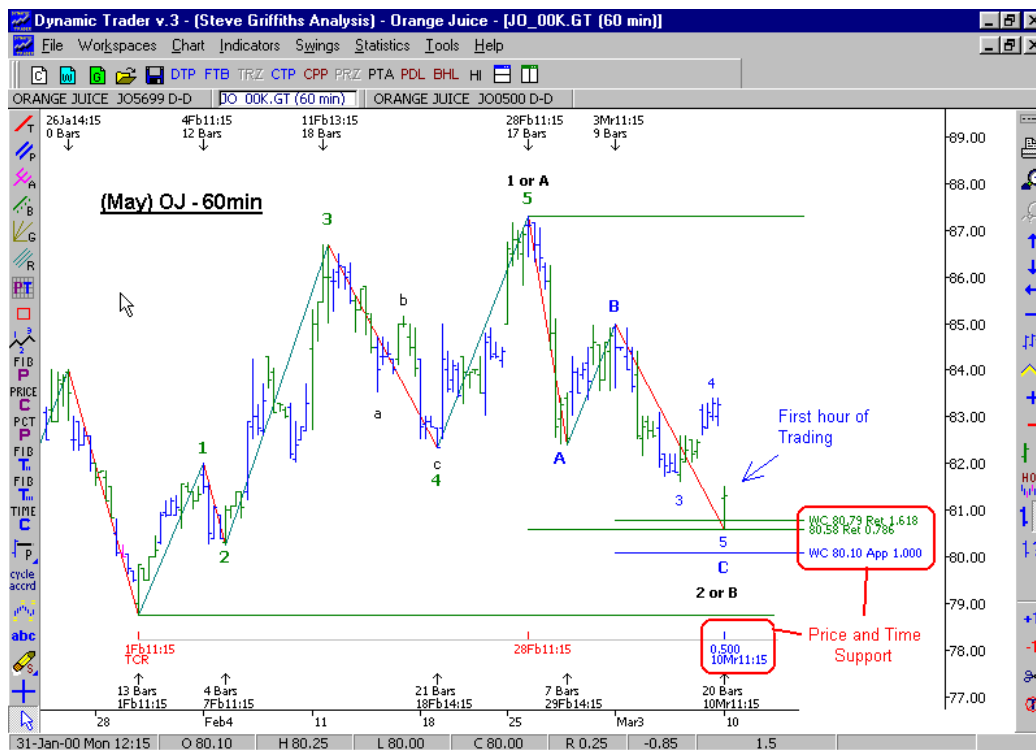
This **Price** Support zone is made up of:

- The *typical* Price cluster for a Wave C
- The *maximum* Price Target for a Wave 2 or B low

The decline off the Feb 28 high has (so far) declined in a simple ABC, which is the typical **Pattern** for a Wave 2 or B. Friday was the 50% **Time** retracement of the Feb 1 to Feb 28 rally, this is the *minimum* **Time** target for a potential Wave 2 or B correction.

On Friday, as the market declined into this Price support area of 80.10-80.80, all the pieces fell into place for a *possible* Wave 2 or B low.

Let's now have a look at a 60min Chart one hour after the market opened on Friday:



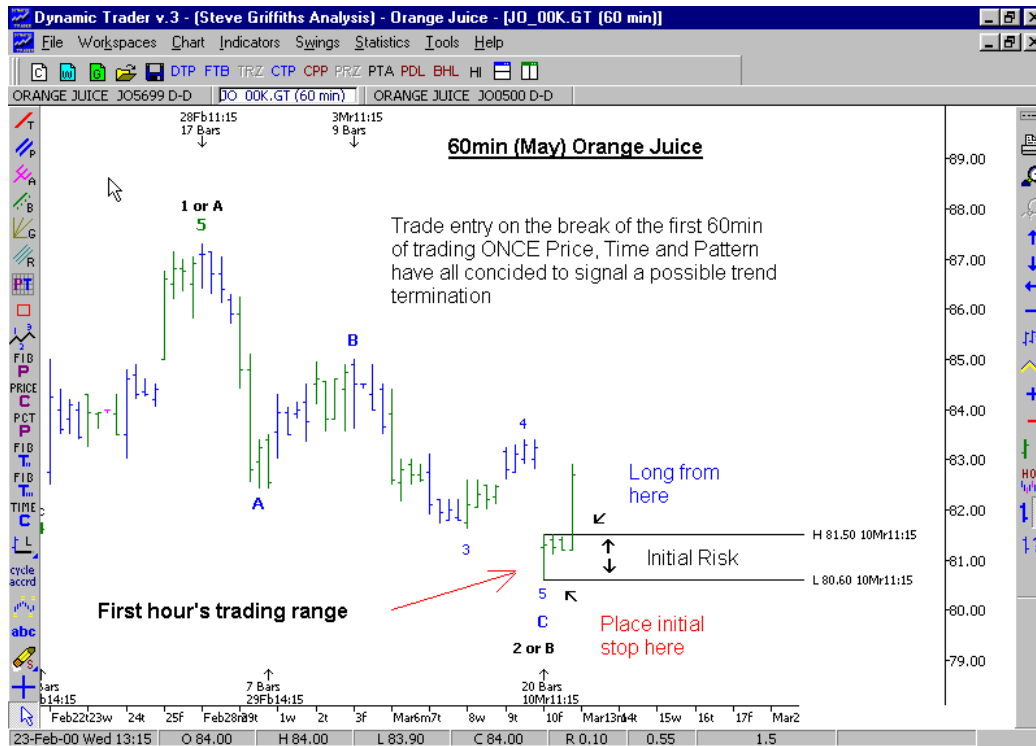
Here we can see that Orange Juice dropped right into **Price** and **Time** support, and then rallied.

There was a study performed in the 70's that uncovered that when a market makes a trending day, the high or low for the day is normally made within the first 60 minutes of trading.

This allows us to develop a trade entry strategy to take advantage of this *typical* market behavior, but only **once** a market has reached the **Price, Time** and **Pattern** for a *potential trend change*.

The rationale for this trade set-up is that *once* a market has declined (for a buy set-up) into **Price, Time** and **Pattern** support, the *probabilities* suggest that the current market trend is nearing a possible termination. *If* the market then breaks the high of the first hour's trading range (for a buy set-up), it is then unlikely to return to break the low of the first hour *if* the current day is to unfold as a trending day. In other words, as the market breaks the first 60min trading range, the *probabilities* are suggesting that a low (for a buy set-up) is now in place. As with all our analysis and trade entry strategies, we are looking for techniques that shift the *probabilities* into our favor.

Let's have look at the trade entry set-up:



Place a buy stop order to enter a new long trade just above the range of the first hour of trading. If filled, place the protective sell stop 1 tick below the low of the first hour.

This would mean entering a trade with an initial risk or initial capital exposure of:

- Initial Risk = $(81.55 - 80.55) \times \$150 = \underline{\$150}$ per contract.

This would mean if you currently have a \$10,000 trading account you may trade 3 contracts to keep the initial risk under 5%.

Current Portfolio:	£8,329.11	1.58	<u>\$10,000.00</u>	Commission:	\$0.00		
Commodity	Long or Short	No of Lots	Initial Price	Stop Price	Tick Value	Profit / (Loss)	% Risk
Contract Long	Long	<u>3</u>	81.55 Current Price:	80.55 82.70	\$150.0	(\$450.00) \$517.50	<u>4.50%</u> 5.18%
				<u>Profit to Loss ratio:</u>		<u>1.15</u>	
Contract Short	Short	-	- Current Price:	-	\$50.0	#VALUE! #VALUE!	#VALUE! #VALUE!
				<u>Profit to Loss ratio:</u>		#VALUE!	

I have also included a look at the Profit to Loss ratio at Friday's close of 82.70, in the above example. Here we can see the real beauty of entering right at the initial stages of a potential trend change – at the close, the trade was already showing a Profit of just over 100% of the initial risk or initial capital exposure required to enter the trade.

Yes, this is pure top and bottom picking, and something some of the more standard technical analysis methods frown upon, but then they do not have the tools to identify the high probability **Price**, **Time** and **Pattern** support and resistance zones *in advance*, that makes trading like this possible.

Do you need real time data to be able to identify set-ups such as these? The answer to this is No. All that is needed is a quick call to your Broker one hour after the market opened to obtain the range for the trading session so far. You can then place the entry order described above.

As with all our trade entry techniques, the actual trade entry trigger and initial stop placement are completely automatic. In this example, **once** the market had declined into **Price**, **Time** and **Pattern** support for a potential Wave 2 or B low (calculations that were all performed *in advance*), you could go brain dead (as Bob phrases it), and simply place the appropriate orders, and the market will do the rest!

Tomorrow I will move onto the signal that gives us initial confirmation that a trend has terminated and how to build a trade entry strategy around that signal.

Today's Trading Lessons

1. Before considering a trade entry strategy, **Price**, **Time** and **Pattern** must coincide, indicating the potential for a trend change.
2. One of the trade entry strategies that we may use to initiate a new trade is on the break of the first 60min trading range.
3. The actual trade entry trigger and initial stop placement are *completely automatic*, simply place the appropriate orders and the market will do the rest!

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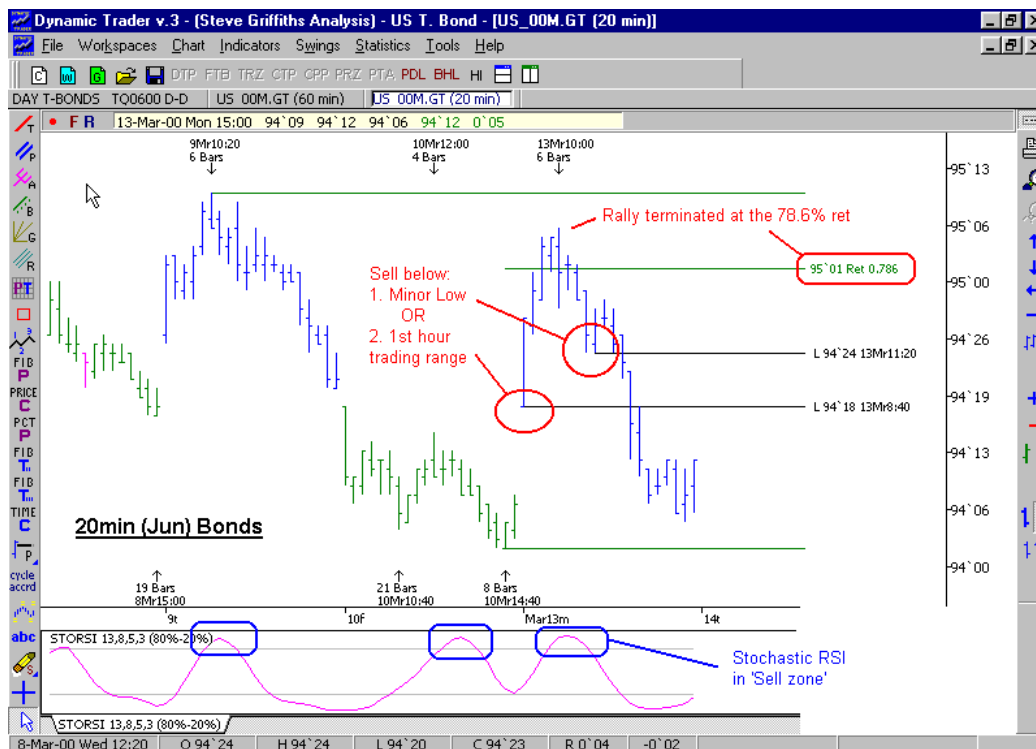
Potential Trade Set-ups and Trade Follow-ups

Yen (June)

Short and Intermediate Term Units (Rolled over to June 3/10)

Maintain the protective sell-stop on both units 1 tick below the 1-day low, 96.24 for tomorrow.

Bonds (June) Today Bonds reversed as anticipated in the "potential go short strategy" outlined in Saturday's Report. See chart below.



Although not a specific recommendation, Traders may consider a short position on a break of Friday's low at 94-02. This not a specific recommendation due to the high initial capital exposure required for the trade.

Gold (April) Gold is in a similar position to Silver, in that the market continues to move sideways in a relatively narrow trading range. Although not a specific trading recommendation, Traders could consider a long position above 295.4 and a short position below 289.2.

Beans (May) Today Beans rallied above 520, thus voiding the immediate bearish outlook. Today's high is at the coincidence of the 100% 1st Alt and the 78.6% retracement of the last swing.

We will now look for an opportunity to position long, ideally on an ABC correction into a 50% - 78.6% retracement.

Corn (May) Corn is in a similar position to Beans, in that today's high is at the coincidence of the 100% 1st Alt and the 78.6% retracement of the last swing. The advance off the Feb 28 now low looks to be unfolding in a minor 5 waves. If this is the case, the current rally could be the Wave 1:3.

As with Beans, we will now look for an opportunity to position long, ideally on an ABC correction into a 50% - 78.6% retracement.

Orange Juice (May) Although not a specific trading recommendation, if there is a decline into the 50% - 78.6% retracement zone of the rally off Friday's low at 81.95 - 81.18, Traders should consider this as an opportunity to enter a long position. Ideally, the decline will sub-divide into a minor abc.

Good Trading,

Steve

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