

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.

Today I would like to continue with the topic of practical Elliott wave analysis, with a look at the basics.

Practical Elliott Wave Analysis - Basics

There have been many books written on the subject of Elliott Wave analysis, most of which go into great detail outlining and categorizing all of the possible Elliott wave patterns. Essentially, the Elliott Wave principle is a catalogue of defined chart patterns that once recognized, should not only indicate the current position of the market, but also imply the most probable future direction.

If any of you have read any of these books you will have seen just how many possible patterns are defined. The majority of these patterns form many of the *complex* patterns that make up corrections. As far as a practical approach to the markets goes, most of these more complex corrections cannot be correctly identified *at the time* and are only obvious *after the fact*. This is fine for armchair traders and academics, but for traders who are required to put money on the line in real time trading, they are best avoided.

Elliott wave basics

- The basis of the Elliott wave principle is that most trends unfold in *five waves in the direction of the main trend* and *three waves in a correction to the trend*.
- Markets usually unfold in *three's* and *five's*. Five wave patterns are *impulsive* structures. Three wave patterns are *corrective* structures.
- It is that simple! *Five's and Three's, Five's and Three's*

Let's have a look at some recent examples:

(May) Wheat – Daily Chart – 5 Waves examples



(May) Corn – Daily Chart – simple ABC correction example

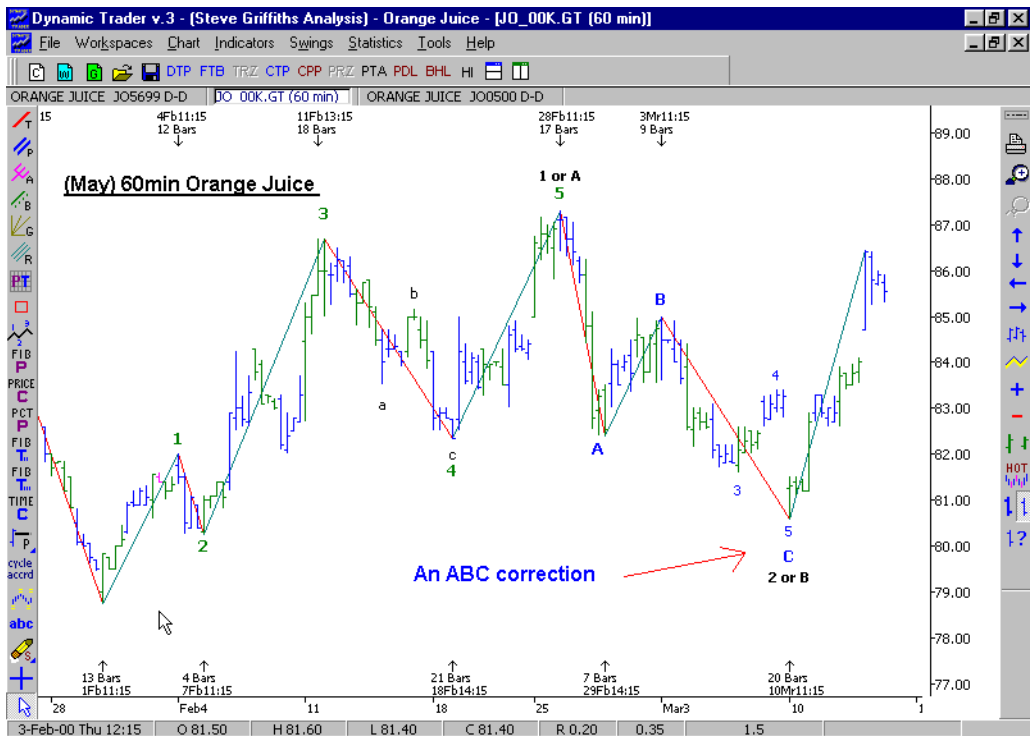


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(May) Soybean Oil – 60min – 5 waves example



(May) Orange Juice – 60min – simple ABC correction example



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On all these examples we can see nice and simple 5 wave advances and 3 wave corrections. *Five's and Three's, Five's and Three's.*

Elliott wave analysis can really be this simple. There are too many people today who insist on making Elliott wave analysis far more complicated than it should be. *Five's and Three's, Five's and Three's.*

If the activity of all markets could be as easily identified as these examples at all times, trading would be a simple exercise of entering and exiting a market on the completion of these patterns. Needless to say, it does not work out as easily as this, for two reasons:

1. *Markets only exhibit a useful Elliott wave pattern about 50% of the time.*

If we try and place a count on every market all of the time, this means forcing a count where one logically does not exist. If you try and do this, not only is the Pattern information useless, but could lead to a totally incorrect analysis, and prove very costly. We have all frequently seen this many times from market analysts who restrict their analysis methods to just the Elliott wave principle, very often going to great lengths to try and justify their current count using ever more ridiculous and complex counts. The X wave is a classic example. Whenever you see an X wave placed on an Elliott count this should simply mean *don't know!*

2. *At times, particularly with some of the complex corrections, there is simply little clue as to the Pattern position of the market.*

Many corrections are only evident *after the fact* and as such it is far better to leave that particular market until the pattern becomes clearer. All the indications may be that the market is in a correction, but once a market gets beyond a simple ABC, there is usually no confident interpretation of the current Elliott count (there are a couple of obvious exceptions such as the ABCDE, but these are the exceptions). When this is the case, do not try and force a count, just for the sake of having Elliott wave labels on your chart.

After 10 years of trading some of my best trades still come from identifying simple ABC corrections – absolute no brainers – where the trade just jumps off the screen.

Today's Trading Lessons

1. The basis of the Elliott wave principle is that most trends unfold in *five waves in the direction of the main trend and three waves in a correction to the trend. Five's and Three's, Five's and Three's.*
2. Markets only exhibit a useful Elliott wave pattern about 50% of the time.
3. At times, particularly with some of the *complex corrections*, there is simply little clue as to the Pattern position of the market.

Potential Trade Set-ups and Trade Follow-ups

Orange Juice (May) Orange Juice made an *inside day* today. For Traders who are not already long, this is an opportunity for a *trend continuation* trade. Initial resistance is at 86.97-87.30, then 89.15

Short and Intermediate Term Units (L-83.45, 3/14)

Maintain the protective sell-stop on both units at 82.55, just below the last minor swing low and the 61.8% retracement.

If Orange Juice trades to 89.15, the *typical* Price target for a Wave C, raise the protective sell stop on the short-term unit to 1 tick below the 1 day low.

Silver (May)

Short and Intermediate Term Units (L-517.5, 3/15)

Maintain the protective sell-stop on both units at 507, just below the last minor swing low, and the 78.6% retracement.

Soybeans (May) Today's rally triggered the go long strategy outlined in Yesterday's Report.

Short and Intermediate Term Units (L-531.2, 3/16)

Maintain the protective sell-stop on both units at 523.2,

S&P (June) Today's rally stopped right in the Key resistance zone of 1473 to 1483.40 outlined in yesterday's and Saturday's Reports. A close above this level is a Bullish signal and confirms that the low of Feb 28 completed a Wave E low.

Good Trading,

Steve

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