Dynamic Trader Daily Report

Comprehensive Analysis and Education For the Serious Trader and Investor

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Trend Reversal Entry Strategies – Part 2

This week I will describe and illustrate three reversal patterns that use daily data and one strategy that uses intraday data, these are:

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

Today I would like to move onto the first of the Daily reversal patterns – the Reversal Day.

The Reversal Day

From Chapter 6 of Robert Miner's Book, Dynamic Trading we have:

<u>Reversal Day entry signal for a top (reverse for a bottom)</u>

A *reversal day* top is made when a market makes a new daily high but closes below the prior day's close and the current day's open. The trend to new highs was unable to be sustained by the close of the day.

There are two variations on the *reversal day*, these are the *key reversal day* and the *outside key reversal day*, where:

1. The *key reversal day* opens below the prior day's close, makes a new daily high, but then closes below the prior day's close and the current day's open.
2. The *outside key reversal* day meets all the criteria of a *key reversal day* but is also an *outside day*.

Let's have a look at a few recent reversal-day examples, starting with the S&P:

Here we can see last Friday the S&P made a new high, but this buying wasn't sustained and the S&P declined to close below the open and Thursday's close. This inability to continue a rally into new highs is taken as a sign of weakness, especially if it occurs when Price, Time and Pattern are also indicating the potential for a market top.

This last sentence is very important so I will repeat it - *a daily reversal pattern should only to be acted on if the Price, Time and Pattern analysis is indicating the potential for a market turn*. In a strong Wave 3, you will get reversal days indicating temporary weakens, but these will not result in a top.

This is one of the strengths of the whole Dynamic Trading approach, we require different market dimensions to come together *at the same time* before we look to take a trade. Trading on Pattern alone or trading on Price alone, is like trying to stay sat on a bar stool after a few pints with only one leg of the stool on the floor at any one time – a disaster just waiting to happen!

If the reversal day is made at the projected time, price and pattern targets for a trend reversal, we need to be able to enter a trade with a *small controlled risk*.

The trade entry trigger for a top is to sell (buy for a bottom) on the close of the reversal day *if* the initial criteria for the reversal day are met:

The initial protective buy-stop then goes at the place where our analysis would be proved incorrect. This is just above the high of the reversal day itself.

I hope you have all seen the real beauty of this combination of Price, Time, Pattern and these trade entry strategies? When we are correct and have a winning trade, we are positioned in the market from the *very day* of the trend termination with a very small risk. In this example, we anticipate that if Feb 4 is the termination of the minor wave 2 of a larger degree Wave 3 down, then the S&P should decline well below the Jan 31 low at 1357.

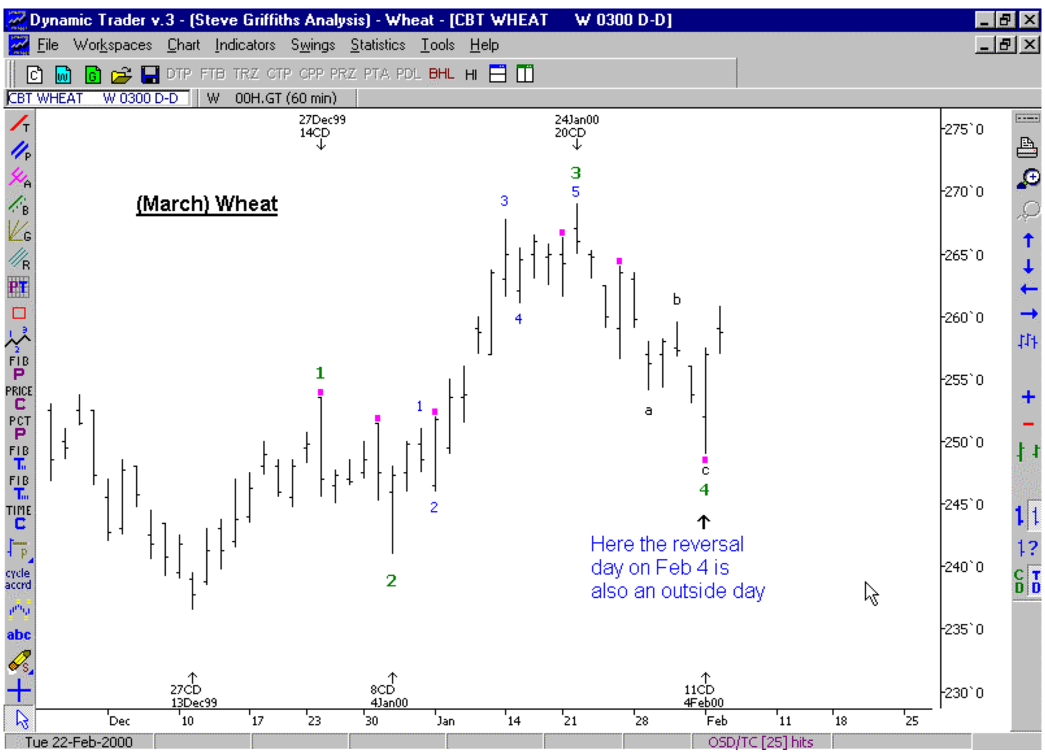
So an initial risk of approximately 14 points (1431.50 – 144.30) for an anticipated decline of over 74 points (1431.30 – 1357) is what gives us such a great advantage over the period of a year.

I will be covering initial risk and profit to initial risk ratios in a future tutorial.

The Thursday, Feb. 4 DT Report noted that the S&P had reached the 61.8% retracement and completed the initial conditions for a Gann-Pull-Pack trend continuation set-up for a potential short-position. On Friday, the S&P made the reversal day which provided the trend reversal set-up to go short on the close. While that short position would have been stopped out today, the conditions for a corrective high were in place and the trend-reversal trade was elected with a relatively *small controlled risk* which was *objectively defined* by the rules of the pattern set-up.

Every trade will not be a winner. But to remain in the business of trading, you must increase the odds of having a winning trade by only taking trades that meet the Dynamic Trading criteria of trend-reversal or trend-continuation set-ups and only accepting trades that have a relatively small controlled risk that is within the risk parameters of your trading plan.

Reversal days can also be outside days, as in this example with (March) Wheat where the reversal day completely engulfed the prior day's trading range:



An outside-reversal day at the coincidence of time, price and pattern is a very strong trend-reversal signal.

Lastly, as I know this will be a very popular question, we use *day session only* charts for all of these daily reversal signals, not *all session* charts that include any overnight trading.

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. A *reversal day* top is made when a market makes a new daily high but closes below the prior day's close and the current day's open (reverse for a reversal day bottom).
3. The trade entry trigger is to sell (if a top, reverse for a bottom) on the close of the reversal day *if* the initial criteria for the reversal day are met.
4. The protective buy-stop (reverse for a long trade) is placed one tick above the high of the reversal day itself.
5. The initial entry price and stop placement are completely objective. The trader knows exactly what the risk will be before the trade is made and can decide if the trade fits within his or her trading plan.

Continued on next page.

Potential Trade Set-ups and Trade Follow-ups

(June) Live Cattle

Intermediate Term Unit (L-1/31, 69.60)

1. Today we were stopped out of the short-term unit at 69.70.
2. Raise the protective Sell-stop on the intermediate-term unit to 69.35, just below the last minor swing low.

(March) S&P

Short and Intermediate Term Unit (S-2/7, 1427.50)
Today we were stopped out of both units on open at 1441.00.
The S&P is approaching the critical resistance zone at 1454.5-1457.2. Tomorrow is the 100% Alternate Time Projection of the 1/5L-1/14H from the 1/31 low. The S&P is reaching the extreme time and price projections for a corrective high.

(March) Bonds

Short and Intermediate Term Unit (S-2/7, 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)
The protective Sell-stop on both units is at 248 ¾ for tomorrow.

(March) Yen The Yen has reached the ideal price target to complete Wave 5 of (5) from the Wave (4) high on Jan 21. See the chart on the next page.

If W.5:5 is complete in this price zone, a corrective rally should reach at least the 50% retracement of the Dec 22 to Feb 8 decline.

Although not a specific trade recommendation, traders may look to position Long tomorrow if one of the trend reversal entry strategies is elected.

Good Trading,

Steve
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Yen Chart


Dynamic Trader v.3 - [Steve Griffiths Analysis] - Japanese Yen - [JAPANESE YEN JY5699 D-D]
Daily Japanese yen
22Dec99
33CD
(5)
2
1
Jan 21 W4 high
4
50% Ret
0.9572 Ret 0.500
3
minor 5 waves
C
(4)
Wave 5
Price support
area
0.9188 Exp 0.618
48 CD's
0CD
19Nov99
48CD
8Feb00
1.0000
0.9800
0.9600
0.9400
0.9200
0.9000
Thu 2-Mar-2000