

Dynamic Trader Daily Report

Comprehensive Analysis and Education For the Serious Trader and Investor

Published By
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Thursday, February 10, 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.

Trend Reversal Entry Strategies – Part 4

I would like to end this week's series on trend reversal entry strategies with the Reversal Confirmation Day entry signal. This is the signal we usually use for the specific trade recommendations at trend-reversals in the DT Report.

The Reversal Confirmation Day signal

Technically the reversal confirmation day signal is not a trend-reversal signal, because it is usually made within 1-3 days of the actual pivot. This entry signal is used when we suspect the market has reversed at projected Price, Time and Pattern for the termination of a trend, but none of the 3 daily trend reversal signals described earlier this week were made at the pivot high or low.

In other words, we suspect that the current trend has terminated and we are now looking to enter the market at the first daily pattern signal after the pivot that provides some confirmation the trend has change.

Reversal Confirmation Day entry rules for a top (reverse for a bottom)

1. A trend reversal is suspected of having taken place, but none of the three daily trend reversal patterns were made.
2. Sell on the close if the close is below the current day's open and the prior day's close.

The Reversal Confirmation Day Signal incorporates two important factors that signal trend direction - the close is below the current day's open (in the case of a top) and the prior day's close. This is a sign of some weakness entering the market and therefore at least a minor degree of trend change has probably been made.

A Stronger Signal: A more reliable signal is to add the qualifier that the low of the day of entry must exceed the prior days low. In other words (in the case of a top), sell on the close if the close is below the current day's open and the prior day's close and the current day's low is below the prior day's low.

Let's have a look at a few examples:



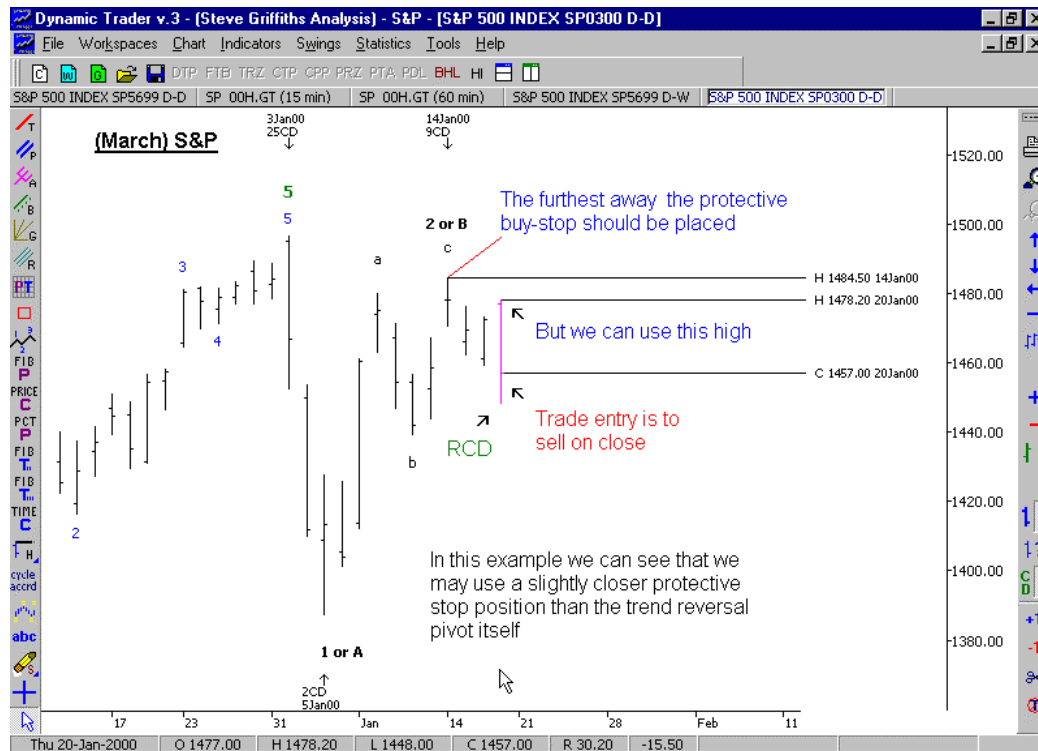
Here on the S&P, we suspected that a trend reversal happened on Jan 14, a potential Wave 2 or B high. But it was not until a few days later that the reversal confirmation day signal appeared.

In this example the reversal confirmation day signal was also an outside day.

As we have already seen the trade entry is on the close of the reversal confirmation day itself, but what about the protective stop? As usual the logical place a protective stop should be is where the market would have to trade to prove our current analysis incorrect. For a daily trend reversal signal this is the high (or low) of the trend reversal day itself.

The reversal confirmation day trade-entry shown above is few days after the actual high, leaving the protective stop quite a way from our trade entry. This may result in a larger than acceptable capital exposure for the trade.

Using the high (or low) of the trend reversal is the *maximum* place the protective stop is to be placed. Depending on the recent market position and short-term activity, very often we can identify a logical place for a much closer stop. In this example, the reversal confirmation day was also an outside day, hence the protective stop may be placed just above the high of the day of entry.



In this situation, placing the stop just above the outside day high may also result in an initial capital exposure that is greater than acceptable to your trading plan. Keep in mind that the set-up signalled a reversal should be complete and we can always go to the short-term data for an entry strategy now that we know we want to trade from the short side.

Sometimes the stop may be placed just beyond a minor swing high (or low) that is evident on the short-term data.

As explained yesterday, if the capital exposure required for a trade-entry / initial protective-stop daily reversal signal is greater than what is acceptable for your trading plan, do not take the trade – no matter how good the set-up looks.

There are nearly always alternative entry triggers on a shorter-term time frame with intraday data, or simply pass the trade by for a more suitable trade set-up in the future. This is a very important topic and one I will spend some time on in a future tutorial - initial risk and trade management.

Let's have a look at another example in the British Pound where the recent decline off the Jan 20 high both started and terminated with a reversal confirmation day signal. See the chart below.



Lastly, there will be no trade tutorials in the weekly report next week as I am off for a week's skiing and snowboarding in the French Alps. Bob will update the trade recommendations each day as usual.

I hope you all have a good week in the markets!

Today's Trading Lessons

1. A Reversal Confirmation Day entry is considered only after we suspect that a trend reversal has taken place, but none of the three daily trend reversal patterns were made.
2. Trade entry is to sell on the close if the close is below the current day's open and the prior day's close for a top (reverse for a bottom).
3. Initial protective stop is placed no further away than 1 tick beyond the trend reversal itself.
4. Very often we have a minor high or low that enables us to place the protective stop order closer to reduce the capital exposure on the trade.

Notes From Robert

Why The Reversal Confirmation Day Signal Is Used In The DT Reports

If a trend reversal is often signalled 1-3 daily bars earlier by one of the three daily trend reversal signals (reversal day, signal day and snap back reversal day) described in this week's tutorials and in the Dynamic Trading book, why is the Reversal Confirmation Day Signal usually used as the entry strategy when a specific trade recommendation is made in the DT Reports at a suspected trend reversal?

The answer is simple – To avoid confusion. If I made the entry strategy as part of a specific trade recommendation to buy (sell) on the close of any daily reversal signal, we would have hundreds of emails the next day asking what is a daily reversal signal and did yesterday (today) qualify? To spell out the exact entry and protective stop conditions avoids the confusion and gives the subscriber something specific to act on.

Now that you have reviewed all of the daily reversal signals in the tutorials this week, you will know that whenever a Reversal Confirmation Day trade-entry instruction is given in the report, you may also act on a daily reversal signal which often comes 1 or 2 days earlier and closer to the pivot which results in less capital exposure.

Continued on next page.

Potential Trade Set-ups and Trade Follow-ups

(June) Live Cattle

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

Today we were stopped out of the intermediate-term unit at 69.35.

(March) Wheat Wheat has now closed above the Wave 3 high of Jan 24 at 269 confirming the wave 5 rally as anticipated off the Feb 4 low.

Short and Intermediate Term Units (L-2/7, 259)

1. Raise the protective Sell-stop on both units to 256.2, just below the minor w2 of 5.
2. If Wheat trades to 275 raise the protective Sell-stop on the short-term unit to 1 tick below the 1 day low (275 is where w1 of 5 = 1.618 w3 of 5).

(March) S&P Although not a specific trading recommendation, Traders may look to position Short on an abc correction into at least a 50% Price retracement of the decline off the Feb 8 high, with a Stop no further away than just above the 78.6% Price retracement, as outlined yesterday.

Sugar (May) – New Trade Rec

May sugar today completed a double inside day at the 61.8% retracement. You can usually trade the breakout of a double inside day in either direction for at least a short-term trend. Since the longer term analysis suggests Feb. 1 completed a five-wave decline and sugar is currently at the 61.8% retracement, the best set-up is to consider a long position if sugars breaks up. The initial capital exposure is very small.

Short and Intermediate Term Units

Buy May sugar on a 5.81 stop and place the protective sell-stop at 5.62.

Good Trading,

Steve

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