Dynamic Trader Daily Report

Comprehensive Analysis and Education For the Serious Trader and Investor

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Today I would like to continue with the topic of practical Elliott wave analysis, with a look at the rules (or guidelines as I prefer to think of them) of an *Impulsive* sequence.

Impulsive Sequence – Rules and Guidelines

First, I would like to start with a ***general description*** of Impulsive waves.

1. Impulsive waves unfold in a five wave pattern. A five wave pattern is always part of a larger degree trend.

2. Waves 1,3 and 5 within a five wave pattern are themselves impulsive waves of lesser degree, and as such they should each sub-divide into a five wave pattern.

3. Once a five wave pattern is complete, the entire sequence should be corrected by a pattern of a least three waves (ABC).

4. One of the impulsive waves will usually extend, or will be noticeably longer in price than the other two impulsive waves. This is normally wave three, but in the commodity markets this is very often wave five.

5. The two non-extended waves are frequently close to having the same price range.

Now let's move onto the specific ***Elliott rules*** (or guidelines as I prefer to think of them) of an impulsive five wave sequence.

1. Wave two cannot retrace past the beginning of wave one

2. Wave three should not be the shortest of the three waves (1,3 and 5) in a five wave sequence.

3. Wave four should not trade into the territory of wave one.

As you can see I have used the words *guidelines* instead of *rules* and the phrase *should not* rather than *cannot*. I do this because I believe a lot of the feeling and original ideas of Elliott's work has been bst over the years in a bid to make the theory more rigid, and able to be applied by a set of specific rules.

In Elliott's early work there were no X-waves, no complex corrections, just three's and five's. Sometimes a wave four traded into the area of wave one, and wave 3 was the shortest impulsive wave. But here the *form of the wave was more important than the rules.*

This is the idea I wish to re-instate here, and why I encourage you all to think of the Elliott wave principle as a set of *guidelines* rather than a set of rigid and inflexible rules, where the overall form and feeing of the wave pattern is more important than the specific rules. It is said that technical analysis is part science and part art; well this is the art part!

This is where so many of the automatic Elliott wave counting software programs fall down. They can apply the science with the rigid application of a set of rules, but they cannot look at a chart and tell whether their count *looks right*, or whether their current interpretation is *way off*.

That said; let's now have a look at these Elliott guidelines (rules) in practice:

Here is a recent example in Wheat, where the Wave 4 did briefly dip into the area of the wave 1 high, hence breaking the specific rule number 3 which states "wave 4 cannot trade into the area of wave 1". As we can see from the chart, Wheat did go onto complete a nice five wave sequence after apparently breaking this one rule. Therefore I would prefer to think of this rule, or guideline as:

- Wave four should not *close* into the *closing extreme* of wave one.

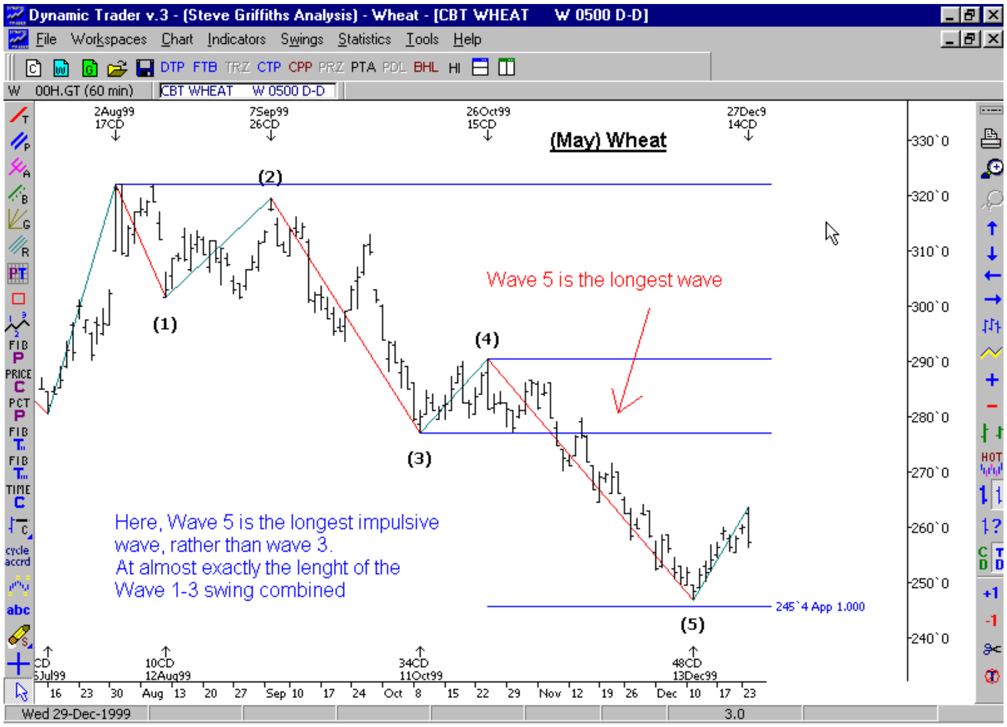
Let's have another look at this Wheat chart, but only plotting closing prices:

Here we can see a very different picture, where the wave four *closing low* is well above the wave one *closing high*.

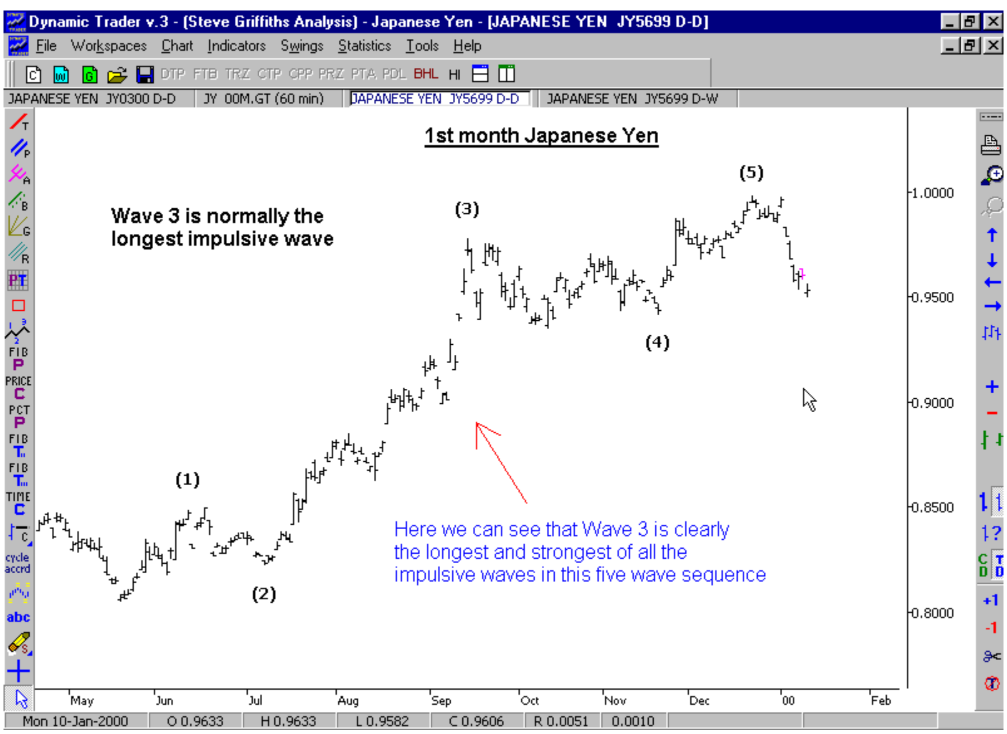
Next lets have a look at the same Wheat chart, but at the five wave decline into the Dec 99 lows. Please see the chart on the next page. Where the wave 5 is the longest impulsive wave, rather than the wave 3.

The next example on the Japanese Yen show how (particularly in the financial markets) wave 3 is *normally* the longest of the three impulsive Elliott waves. Again, please see the chart on the next page.

Wave 5 on (May) Wheat



Wave 3 on the Japanese Yen



Tomorrow I will move onto have a look at the corrective waves (waves 2 and 4) in a completed Elliott wave sequence.

Today's Trading Lessons

Here is a summary of the ***Elliott* wave *rules*** (or guidelines as I prefer to think of them) in an impulsive sequence.

1. Wave 2 cannot retrace past the beginning of wave 1.
2. Wave 3 should not be the shortest of the three waves (1,3 and 5) in a five wave sequence.
3. Wave 4 should not close into the closing extreme of wave 1.

Specific Trade Recommendations Summary For March 20

This table only includes those markets with outstanding trades and open specific trade recommendations.

Market – Current Position	Trade Recommendation and Stop-Loss For Existing Positions March 20
BP: June	ST&IT Units: As long as the June BP has not closed below 156.94, buy on a 157.82 stop and place the initial protective sell-stop at 157.02.
SF: June	ST & IT Units: As long as the June SF has not closed below 60.43, buy on a 61.07 stop and place the initial protective sell-stop at 60.42.
Cattle: June	New buy strategy. ST & IT Units: As long as cattle have not traded below 68.55, buy on a 69.20 stop. Place the initial protective sell-stop one tick below the recent low.
AD: June L – 3/20, 60.85	The go-long strategy was elected on the close. ST & IT Units: The initial protective sell-stop is at 60.55, one tick below yesterday's low.
Silver: May S – 3/20, 507	Long position taken on March 15 at 517.5 was stopped and reversed to a net short position today. ST&IT Units: The protective buy-stop is at 514.5.
Beans: May L-3/16, 531.2	ST&IT Units: Maintain the protective sell-stop at 523.2.
Sugar: May S – 3/20, 516	The 5.16 stop to go-short was elected today. ST & IT Units: The protective buy-stop is at 5.36.
OJ: May L-3/14, 83.45	ST&IT Units: Maintain the protective sell-stop at 82.55. If OJ trades to 89.05, trail the stop on the ST unit one tick below the prior day's low.

Other Markets of Interest Summary For March 20

Market	Other Markets of Interest - March 20
S&P: June	Probable short-term top (W.3 or 3:3) by March 21, ideally near 1505.3.
Bonds: June	Probable top from the Jan. 18 low by March 21, should be no higher than 97.09. A trade below the last minor low at 95-31 would be initial confirmation of a top.
Yen: June	Prepare for a Wave-B low by early April in the 94.36-92.76 range.
Corn: May	Probable short-term high near 243-246 and no higher than 253.4.

There are no charts included with today's market updates.

Good Trading,

Steve