

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 rules (or guidelines as I prefer to think of them) of a *corrective* sequence.

Corrective Sequence – Rules and Guidelines

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

1. The corrective waves within a five wave structure are waves two and four
2. Corrections normally unfold in at least a three wave, ABC pattern.
3. Three wave ABC corrections normally take the form of 5-3-5 or 3-3-5, where the wave A may sub divide into either five or three waves, wave B normally sub divides into three waves (as it is a correction in its own right) and wave C normally sub divide into five waves.
4. Three wave ABC corrections may take several different forms, the most common is a simple ABC where Wave C exceeds the price extreme of the wave A.
5. Wave 4 corrections tend to terminate *in the area* of the wave 4 of lesser degree, that is Wave-4 of 3.
6. Once a correction terminates, a new five wave sequence should follow.

While there is basically one pattern for an impulsive wave, corrections may take a number of different forms. This is what I believe has lead the Elliott wave principle into such confusion over the years, as people seem to be obsessed with having the *correct* Elliott count on all their charts all of the time. Sometimes, particularly with the more complex corrections, there is simply no count that will lead us to a confident opinion of the current position of a market.

And as such it is almost impossible to predict what form the correction may take. All labeling beyond a simple ABC is little more than guess work. The form of a complex correction usually only becomes apparent *after the fact*.

When this happens, the simplest thing to do is accept that the current position of the market is unclear from a pattern position and either wait for the market pattern to become clearer or look to another opportunity in another market.

There is little practical trading value in knowing all of the variations of the many complex corrections. The purpose of trading is to use Elliott Wave theory to identify the high-probability low-risk trading opportunities and not to be obsessed with pattern analysis. This is the realm of armchair traders and academics who may argue to their hearts content about which particular Elliott Pattern is the correct one.

There is the old joke about putting 10 Elliott wave analysts in a room with a chart of one market and them coming up with 12 different Elliott counts! Well, Dynamic Traders should not be one of these 10. Think in simple three's and five's. When the pattern is simple and obvious use it. Otherwise don't force a count just for the sake of having Elliott labels on all your charts. This is particularly true for corrections.

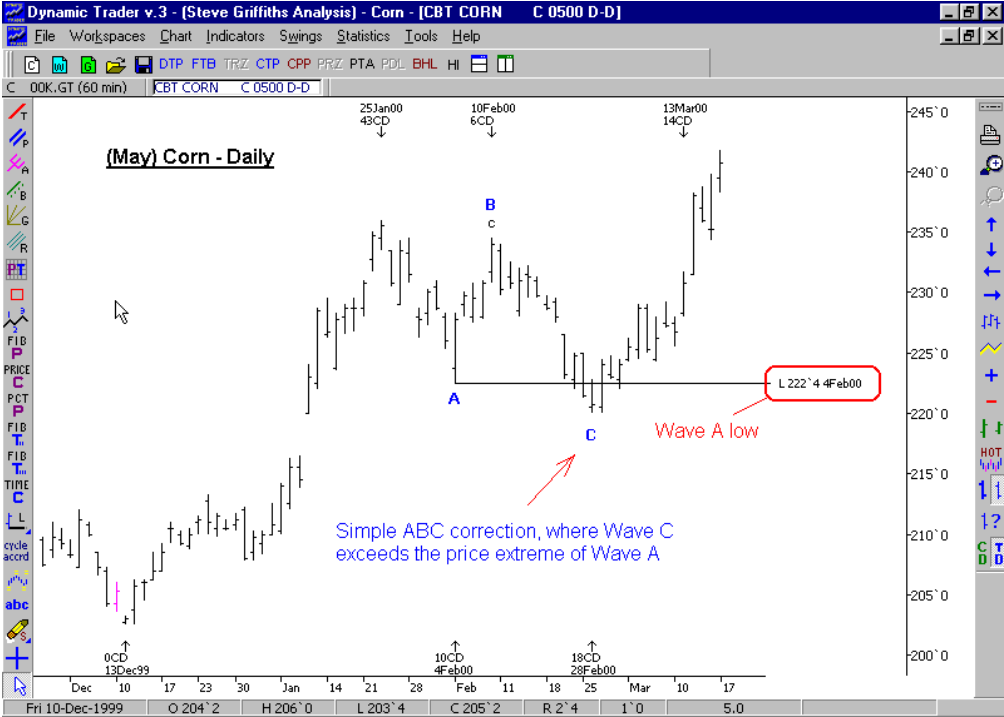
But even though a specific Elliott pattern may be unclear, most corrections will terminate at a Price and Time *coincidence*. Price and Time may also be used to help us identify the parameters that will either confirm or invalidate where and when a particular correction is complete. This is often far more practical use to us as traders than knowing the exact count at this precise moment in time.

As such we will always assume that a correction will *at least* take the form of a simple ABC were the Wave C exceeds the price extreme of Wave A. Then as the market unfolds we can update our analysis where necessary.

Let's have a look at a recent example on (May) Corn where we can see the decline off the Feb 28 high unfolded as a simple ABC were the Wave C exceeded the price extreme of Wave A – Chart 1 on the following page.

Then Chart 2 shows the sub-division of this ABC as a *typical* 5-3-5 of lesser degree.

(May) Corn – Daily Chart



(May) Corn – 60 Chart showing the minor sub-divisions of the ABC



While every market correction does not make an ABC which subdivides ideally, one of our trading objectives is to identify when a market is indeed making such a high-probability pattern set-up that we can use to help to identify the end of the correction.

Tomorrow I will start to look at the main characteristics of the individual waves within a five 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 a corrective sequence.

1. The corrective waves within a five wave structure are waves two and four.
2. Corrections normally unfold in at least a three wave, ABC pattern.
3. Three wave ABC corrections may take several different forms, the most common is a simple ABC where Wave C exceeds the price extreme of the wave A.
4. Three wave ABC corrections normally take the form of 5-3-5 or 3-3-5. In both cases, Wave-C is typically subdivides into five-waves of lesser degree.

Specific Trade Recommendations Summary

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

Market – Current Position	Trade Recommendations and Stop-Loss For Existing Positions March 21
Cattle: June	<u>ST & IT Units</u> : As long as live 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.
BP: June L – 3/21, 157.82	The 157.82 stop to go-long was elected today. <u>ST&IT Units</u> : Maintain the initial protective sell-stop at 157.02.
AD: June L – 3/20, 60.85	<u>ST & IT Units</u> : Maintain the protective sell-stop at 60.55, one tick below Monday's low.
Sugar: May S – 3/20, 516	See chart on the next page for comments. <u>ST & IT Units</u> : Change the protective buy-stop at 5.36 to a stop and reverse. If filled on the new long trade, place the initial protective sell-stop at 5.05.
OJ: May L-3/14, 83.45	<u>ST&IT Units</u> : 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

Market	Other Markets of Interest - March 21
S&P: June	Possible short-term top (W. 5:3), W 5:3 resistance <u>1513-1530</u> . A decline below the recent minor swing low (W. 4:3), at 1463.50 would be initial confirmation of a top. See chart on the next page.
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 96-05 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. A close below the minor w1 closing high of Mar 6 at 228.6 would confirm a top has completed. See chart and comments on next page.

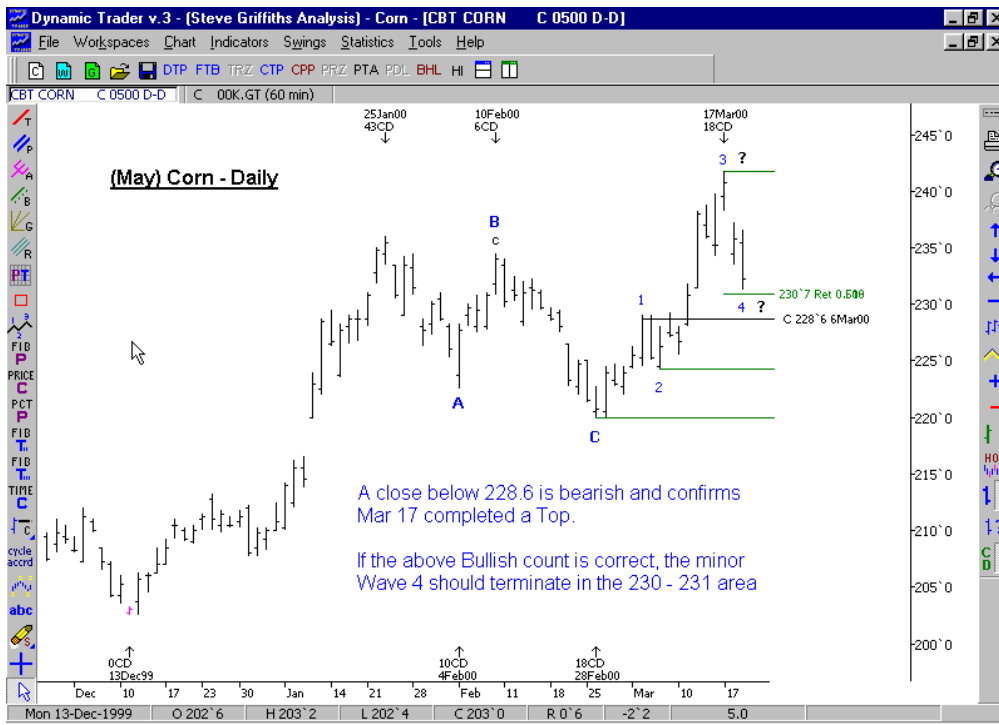
Please see the Charts on the next two pages.

Good Trading,

Steve

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Daily (May) Corn Chart

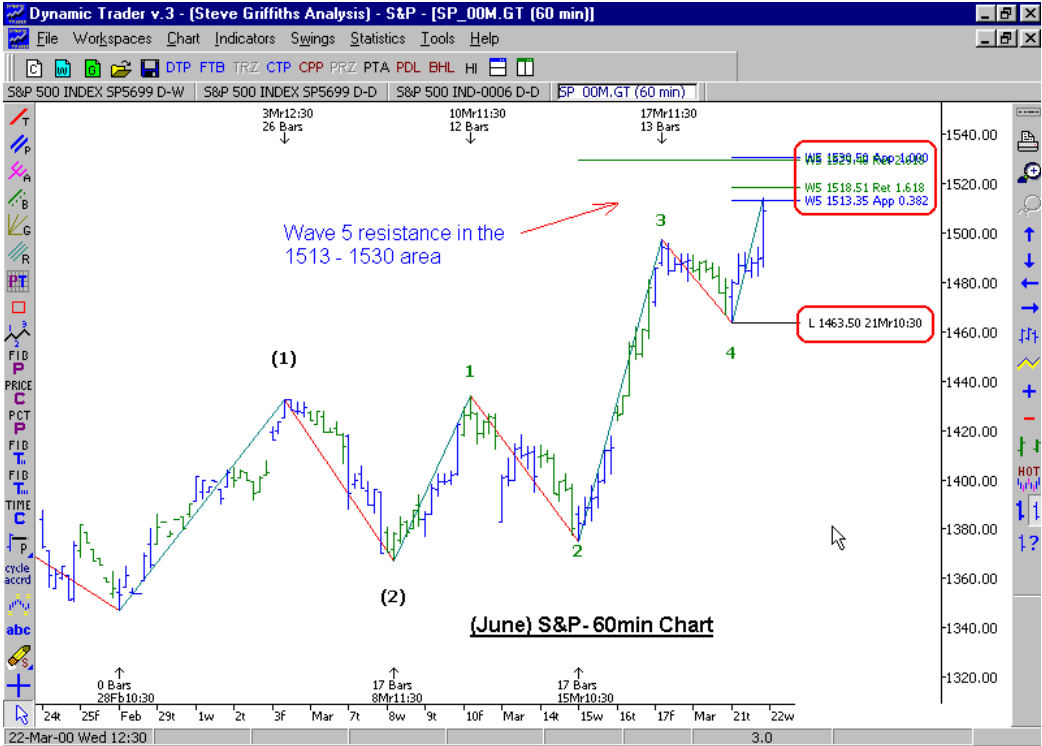


60min (May) Sugar Chart



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60min (June) S&P Chart



End of Report