Dynamic Trader Daily Report

Comprehensive Analysis and Education For the Serious Trader and Investor

Published By
Dynamic Traders Group, Inc.
DynamicTraders.com
dt@dynamictraders.com
520-797-3668

Wednesday, March 22, 2000

Prepared by: Stephen Griffiths
Steve@dynamictraders.com

Today I would like to continue with the topic of practical Elliott wave analysis, with a look at the individual waves of a five wave sequence, starting with Wave one.

Impulsive Wave One

First, I would like to start with a ***summary*** of Wave 1:

1. Wave 1, as one of the impulsive waves, should sub-divide into a five wave sequence of lesser degree.

2. Wave 1 is usually greater in **Price** and **Time** than the recent corrective swings of similar degree.

Wave 1 is the first wave in a new impulsive structure. Wave 1 is rarely the longest of the impulsive waves in a completed five-wave sequence. Wave 1 will very often be similar in price and time to the correction in the prior trend, as Wave 1's are still frequently considered to be just another correction in an established trend by the majority of Traders. The first clue that Wave 1 is not just another correction is when the minor pattern sub-divides into 5 waves. A five wave structure is impulsive, whereas most corrections are three wave structures such as ABC's.

An overbalance in both **Price** *and* **Time** is the *initial signal* that a market has made a reversal of greater degree than any of the corrections in the prior trend. An overbalance in Price and Time is where the current swing is greater in both Price and Time when compared to the corrective swings in the prior trend.

If a swing sub-divides into five waves of lesser degree that overbalance both the Price and Time of the corrections in the prior trend, it is a strong indication that this is may be the Wave 1 in a new impulsive sequence.

Let's have a look at a few examples:

Time Overbalance in (May) Orange Juice

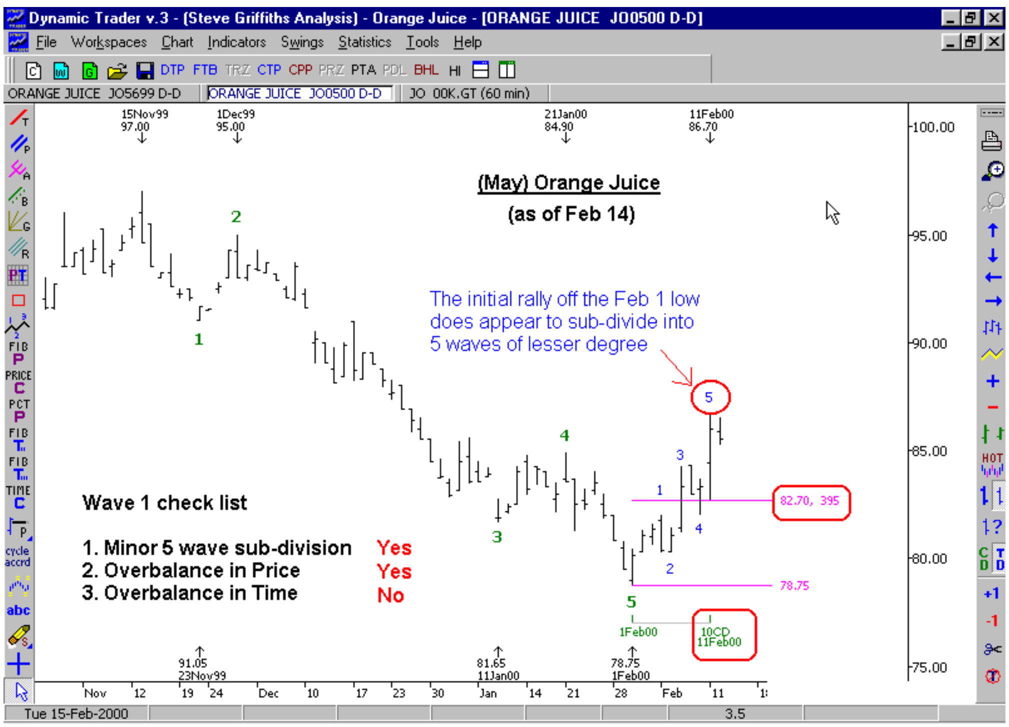
Price Overbalance in (May) Orange Juice

The longest corrective swing in the prior five-wave decline lasted 10 calendar days. An overbalance of **Time** would happen if Orange Juice rallied for more than 10 calendar days off the Wave 5 low on Feb 1.

The largest corrective swing in the prior five-wave decline lasted 3.95 points. An overbalance of **Price** would happen if Orange Juice rallied for more than 3.95 points off the Wave 5 low on Feb 1.

The last point to look at is **Pattern**, and whether the rally off the Feb 1 low appeared to subdivide into 5 waves of lesser degree.

<u>Minor **Pattern** in (May) Orange Juice, plus pattern position on Feb 14</u>

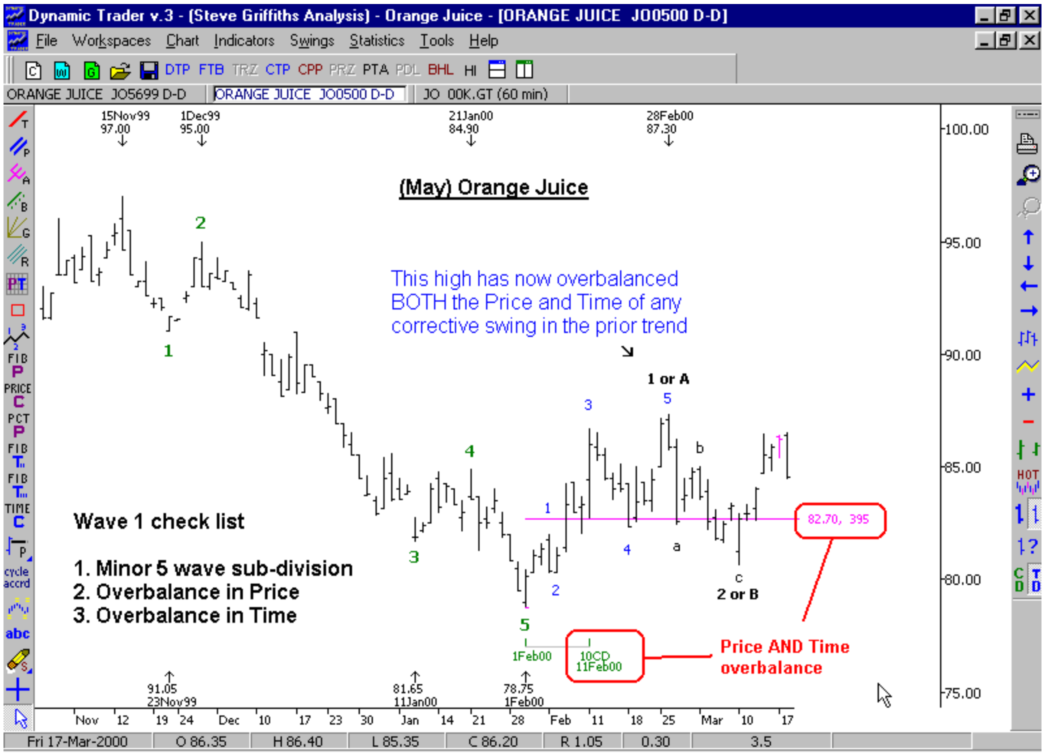


The initial rally off the Feb 1 low sub-divided into 5 waves of lesser degree.

So can this rally into the high of Feb 11 be considered as the start of a new impulsive trend?

As it stands, **no**. Because we have only met two of the three criteria - this rally only lasted 10 calendar days, *equaling* the longest corrective swing in the prior trend and not *overbalancing* it.

Although it did look like the high of Feb 11 had completed a Wave 1, it would now take a rally past this high for *initial confirmation* that the prior trend had indeed completed and a new trend is underway.



On Feb 25, OJ made a new high beyond the Feb 11 high, causing a time overbalance.

This is a good example to show how the picture continually evolves as the market provides us with more information. On Feb 11 it appeared the Wave 1 high was complete, but it had not yet confirmed a new trend. Hence when the decline off the Feb 28 high sub-divided into a perfect ABC, it now looked *more likely* that Feb 28 had completed the Wave 1 high and not Feb 11 as initially anticipated.

Key trading strategies for Wave 1

If we have correctly identified the termination of a five-wave trend and are currently in a trade off this tend termination, the protective stop should never be placed further away than one tick beyond the trend extreme (Wave-5 high or low). Wave 2 should not exceed the extreme of Wave 1. If it does, the current wave count is incorrect, and hence we should no longer be in the trade.

The purpose of identifying the termination of a potential Wave 1 is not to trade the Wave 2, but to identify the Wave 2 correction. The end of the Wave 2 or B correction is the termination of a correction against the new trend. The objective is then to identify the termination of the Wave 2 or B in order to trade in the direction of the main trend once the correction is complete.

Tomorrow I will continue looking at the individual waves when we'll take a look at Wave 2.

Today's Trading Lessons

1. Wave 1, as one of the impulsive waves, should sub-divide into a five wave sequence of lesser degree.

2. Wave 1 is usually greater in **Price** and **Time** than the recent corrective swings of similar degree.

Continued on next page

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 22
BP: June New Rec	The long position taken on Tuesday at 157.82 was stopped out at the open today of 156.72. Today's outside reversal day has probably completed a low. Because of the wide-range day, the out-side day entry strategy results in more capital exposure than is acceptable. The specific trade strategy below is in the event the BP makes a decline to near the 50% retracement of the outside day before continuing to advance. ST&IT Units: Buy at 157.22 or better and place the initial protective sell-stop at 156.58.
SF: June New Rec	Void the recent buy strategy. The SF is near the 61.8% retracement. Nothing has changed in the outlook for an advance off the March 7 low. ST&IT Units: Trail a buy-stop to go long one tick above the prior day's high. Place the initial protective sell-stop one tick below the recent low.
Corn: May New Rec	Today was a Gann Pull-Back and an Inside Day. A break above Tuesday's high should signal a minor W.4 low is complete and project a W.5 high at 243 or higher. See yesterday's chart for comments. ST&IT Units: Buy on a 237.0 stop and place the initial protective sell-stop at 231.4.
Beans: May New Rec	The long trade taken March 16 at 531.5 was stopped out Tuesday, March 21 at the 523.2 protective stop. Even though the recent long trade was stopped out, Tuesday's low in is in the ideal position to have completed a W.4. ST&IT Units: Buy on a 532.2 stop and place the protective sell-stop at 525.6.
Cattle: June L – 3/22, 69.20	The go long trade strategy was elected today at the 69.20 buy stop. ST & IT Units: Adjust the protective sell stop to 68.62.
Sugar: May S – 3/20, 516	ST & IT Units: Lower the stop and reverse buy-stop to 5.27. If filled on the new long trade, place the initial protective sell-stop at 5.05.
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.
AD: June	The long position taken on Monday at 60.85 was stopped out today at the 60.55 protective sell-stop. There are no new trade recs at this time.

Other Markets of Interest Summary

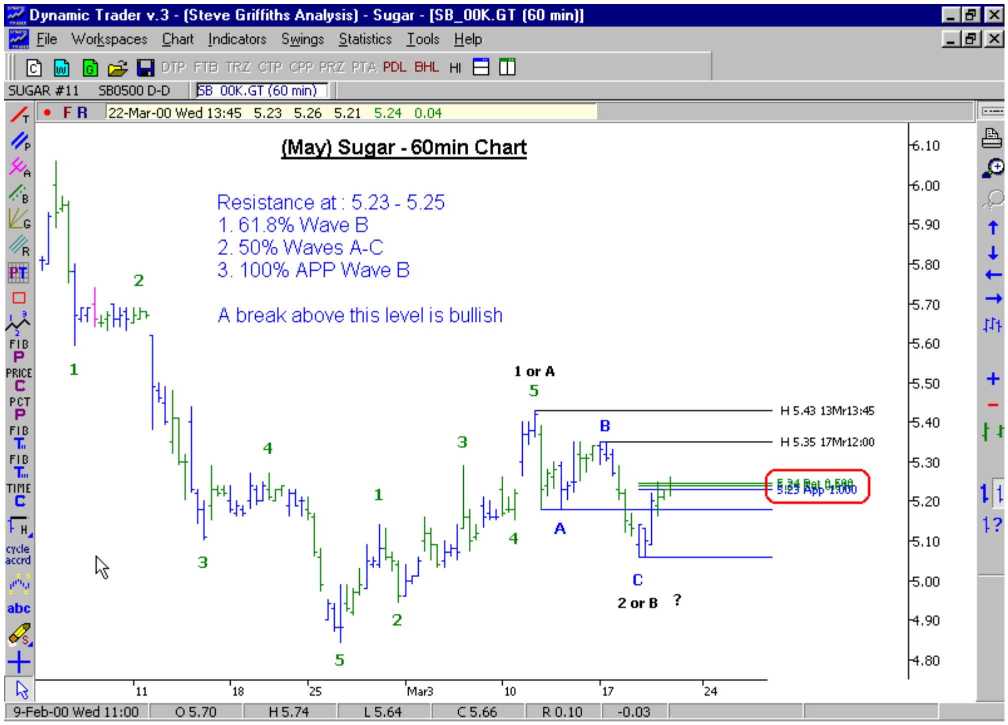
Market	Other Markets of Interest - March 22
S&P: June	Possible short-term top (W. 5:3) at W 5:3 resistance of 1513-1530. A decline below the recent minor swing low at 1505.50 would be initial confirmation of a top. See Chart for additional comments and shorter-term analysis.
Bonds: June	Probable top from the Jan 18 low by Mar 21, should be no higher than 97.09. Although we are one day past the ideal time target for a high, bonds remain in a position to complete a top. A trade below the last minor low at 96-05 would be initial confirmation a top is complete.
Yen: June	Prepare for a Wave-B low by early April in the 94.36-92.76 range. See the daily chart in Saturday's report. Wave 5:a:B is probably complete with today's Reversal Confirmation Day. Short-term traders should stay alert for a potential rally into a minor Wave b (of B) high in the coming days. Today was also an Inside Day. See chart on next page.
Silver: May	The long position taken March 15 at 517.5 elected the 507 stop-and-reverse to a net short position on Monday, March 20. The net short position was stopped out the following day at the 514.5 protective buy-stop. Gold appears to have completed a five-wave decline at the March 20 low. The outlook for silver has not changed. Time analysis suggests the breakout from the prolonged trading range should be up. ST&IT Units: Buy silver on a 523.5 stop and place the protective sell-stop at 514.5.

Please see the Charts on the next two pages.

Good Trading,

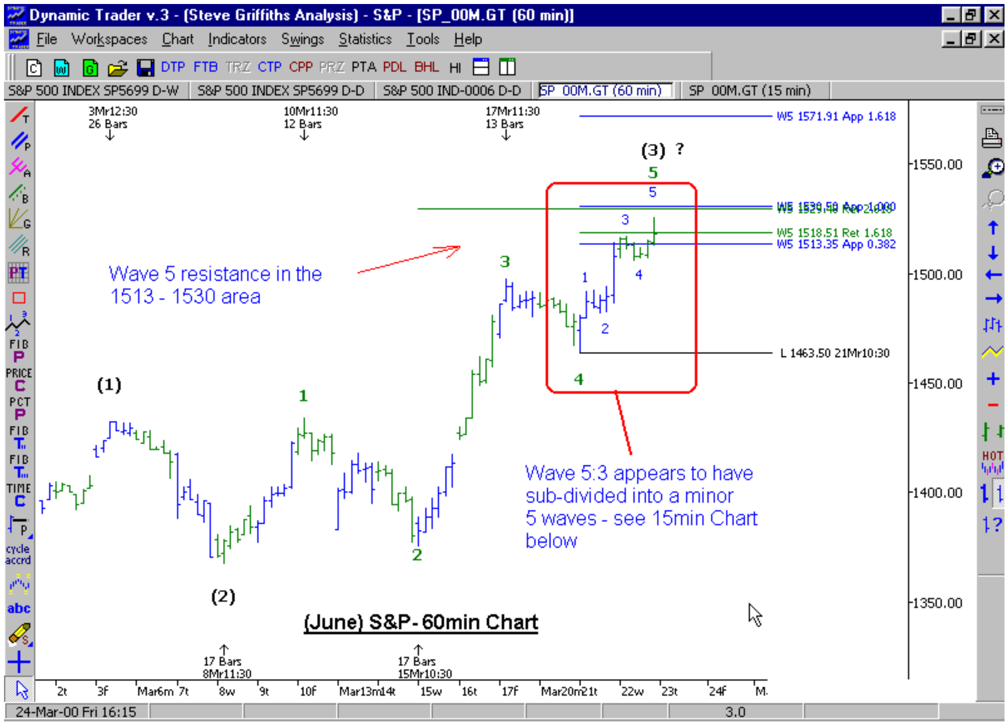
Steve
Steve@dynamictraders.com

(May) 60min Sugar Chart



(June) 60min Yen Chart

(June) 60min S&P Chart



(June) 15min S&P Chart – a close up of the last Wave 5 on the 60min chart