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

Monday, April 03, 2000

Prepared by: Stephen Griffiths
Steve@dynamictraders.com

Over the next few weeks, I would like to look at various examples demonstrating how we can put the Elliott Wave analysis theory covered in the last two weeks into practice on a day-to-day basis. We will start today with Bonds.

Bonds – looking for the Wave 2 or B correction

Last Saturday's report assumed that Mar 23 completed a top from the Jan 18 low, and anticipated that a correction to that rally should follow. I suggest you all re-read the section on Bonds from the Saturday, March 25 report before proceeding with today's tutorial. As we have all seen over the last few months, the Elliott position of Bonds has been very unclear. Even if the pattern position is not clearly defined, the **Price** and **Time** analysis may be used to identify low-risk trade set-ups.

> <u>Assumption</u>
> Mar 23 completed a top and a correction to the Jan 18 to Mar 23 rally should now follow.

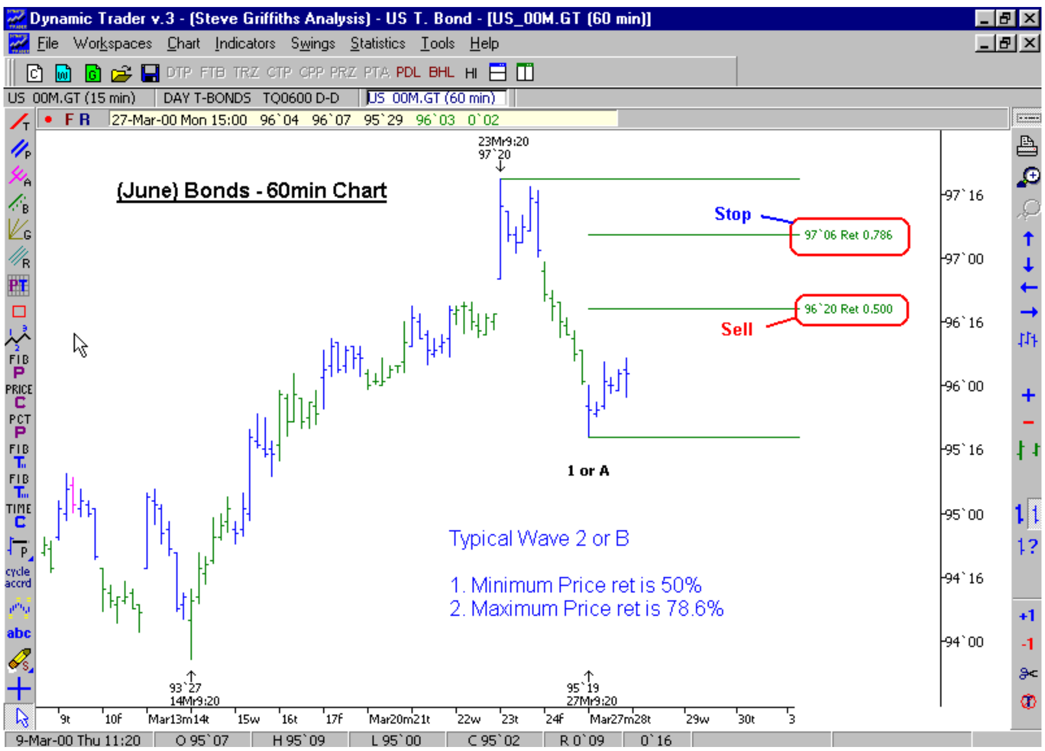
If we have identified a potential market turn, but are not positioned off the very turn itself, the next best place to look to initiate a trade is on the correction to the first move off the current high or low - in other words the Wave 2 or B.

Do we need an Elliott count on the Chart to be able to look for and anticipate a *tradable opportunity* in the coming days? No, this is why Bob did not place any Elliott counts on the chart in the March 25 report. Unless an Elliott wave pattern is clearly defined, placing Elliott wave counts on a chart will just confuse matters and possibly lead to an incorrect analysis when there is no *obvious and usable* Elliott information available.

Remember, Elliott wave analysis is only one of the tools we use to help identify *tradable opportunities.*

I would now like to continue running through last week's activity in Bonds, explaining in a little more detail the specific trade recommendations made during the week and the logic behind them. I believe this is important, as it will demonstrate how to approach Elliott analysis on a day-to-day basis as the market provides more information each day.

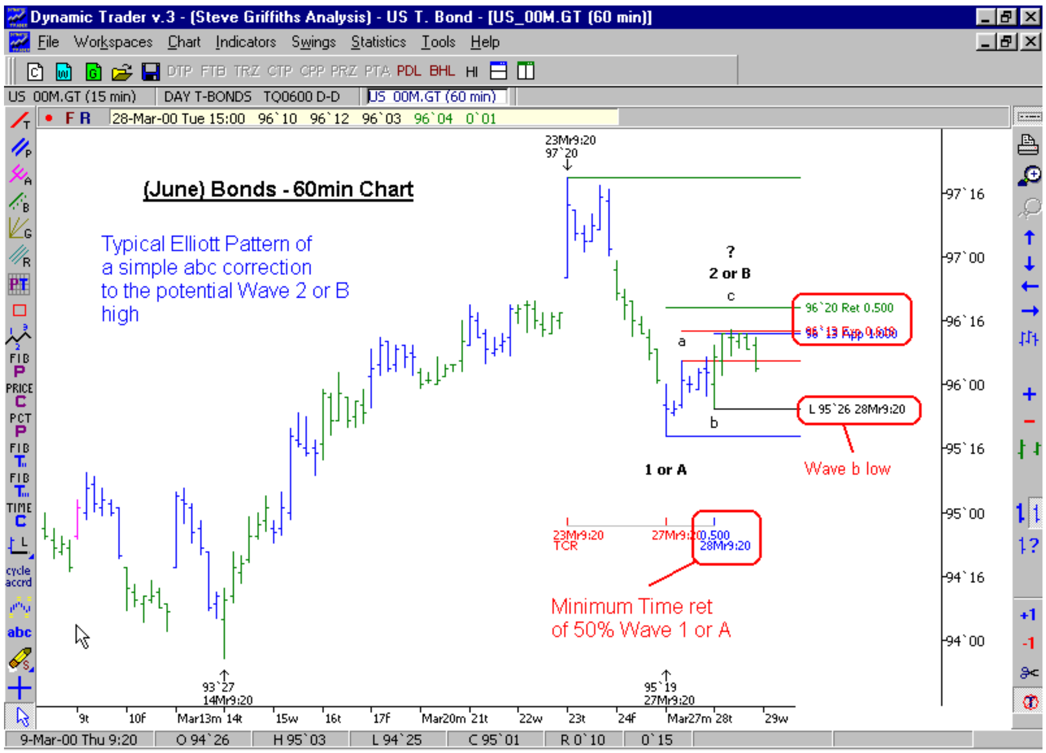
The specific trade recommendation from the Saturday, March 25 report was to sell Bonds on a 50% retracement of the decline off the Mar 23 high, and place the protective buy-stop just above the 78.6% retracement of the same decline. The intention was to take advantage of the *typical* **Price** characteristics of a Wave 2 or B correction, in that the *minimum* **Price** retracement anticipated is 50% and the *maximum* is 78.6%.



To identify a trading opportunity, we did not need to have an Elliott count placed on the entire chart, just an appreciation that Mar 23 *probably* completed a High from a **Price** and **Time** perspective.

The exact trade set-up came from knowing the **typical** *minimum* and *maximum* **Price** characteristics of the *first correction* to the *initial move* off this Mar 23 high – a potential Wave 2 or B.

The next day, Bonds rallied in what appeared to be a minor abc **Pattern**. An ABC is the *typical* pattern for a Wave 2 or B correction. The Wave-c target where Wave-c equalled 100% Wave A and the 162% External Retracement of Wave B were at 96-13, the *typical* **Price** target for a Wave C. This Wave C price target fell in the same area as the 50% ret of Wave 1 or A at 96-20. Bonds were also past the *minimum* **Time** retracement anticipated for a Wave 2 or B, which is a 50% Time Retracement of Wave 1 or A.



Hence **Price**, **Time** and **Pattern** were all coinciding, signalling a potential Wave 2 or B high had terminated. All that was needed now was for the *market itself* to give us the entry trigger for a new trade.

Again, do you all see how this *potential tradable opportunity* was set up without a full Elliott Analysis placed on the chart, just an assumption that Mar 23 completed a top from a **Price** and **Time** perspective?

The very next day (Mar 29), Bonds made an *inside day,* hence providing the potential trade set-up reported in Wednesday's report to Sell bonds on a 95-25 Stop. 96-25 was 1 tick below both the low of the day prior to the inside day (standard inside day entry trigger) and 1 tick below the minor Wave b low. A break beyond the Wave B extreme is *initial confirmation* that a simple ABC correction is complete.

I have started with this example on Bonds to demonstrate that sometimes you do not need to have a complete Elliott analysis on a chart, with every minor wiggle categorised with ever decreasing degrees of Elliot waves. From a *practical trading perspective,* all we are interested in is identifying a *tradable opportunity* that allows us to enter the market with a *small controlled risk*.

We then have parameters that either *confirm* or *invalidate* our current opinion (more on this tomorrow). We will let the armchair traders and academics argue about what is or is not the correct count and where they think the market will be at some time in the future.

Tomorrow, I would like to continue with this same Bond example, looking at what happened the next day, Mar 30, to show how we can use Elliott analysis as a *Pattern Stop Loss* to determine when the market proves our current opinion to be incorrect. We will also look at how sometimes this can be used to identify a tradable opportunity in the opposite direction to our original opinion.

Today's Trading Lessons

1. Every section of market data will not have a clearly defined Elliott wave structure. From a *practical trading perspective,* all we are interested in is identifying a *tradable opportunity* that allows us to enter the market with a *small controlled risk*.

2. We then let the market itself either *confirm* or *invalidate* our current opinion.

Specific Trade Recommendations Summary

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

Market – Current Position	New Trade Recommendation or Stop-Loss For Existing Positions April 3
OJ: May Flat	On Friday OJ closed below 81.86, thus voiding the specific go-long set-up described in Thursday's report. However, Friday's low was still made in the high probability price target for a W.C low (81.85-81.65). Short and Intermediate Term Units Buy OJ on a 93.95 stop and place the initial protective sell-stop at 81.75.
Silver: May Flat	Today's rally stopped out both short positions taken on March 29 at 505.5 at the 506.5 protective buy-stop. There are no specific trade recommendations to add.
AD: June Flat	Friday's decline stopped out both long positions taken on March 27 at 61.44 at the open of 60.34 There are no additional specific trade recommendations at this time.
Yen: June L-3/23, 94.71	The ST unit was stopped out near today's open at 96.60 IT Units: Raise the protective sell-stop on the IT unit to 95.22. 1 tick under the 78.6% ret.
Beans: May L-3/24, 530.6	ST Unit: Continue to trail the protective sell-stop on the ST unit 1 tick below the prior day's low. IT Unit: Raise the protective sell-stop on the IT unit to 531.2, one tick under the minor Wave 1 closing high.
Sugar: May L-3/23, 5.30	IT Unit: Continue to trail the protective sell-stop on the IT unit one tick below the prior day's low.

Other Markets of Interest Summary

Market	Other Markets of Interest – April 3
S&P: June	See the comments on the below.
Bonds: June	Critical resistance at 98.21-99.01.
BP: June	The assumption is a low is complete on March 22, which should be followed by a 3-4 week or more corrective rally. Consider short-term trend continuation long trades.
Corn: May	Today Corn reversed at the 78.6% Price retracement of the Mar 17 – Mar 29 decline, as anticipated last week.

Good Trading,

Steve
Steve@dynamictraders.com

S&P (June, 80-minute)

The S&P continues to give mixed signals. The March 24 high was not made at a time projection for a top and March 24 appears to have completed Waves 1-3. If this is the case, Thursday's low is important. It should be the Wave-4 low if the Waves 1-3 count is correct from the Feb. 28 low to the March 24 high.

The first thing I do if a market position is unclear is to identify what the market could do to provide new information. The short-term high made Friday, March 31 was right in the high-high time rhythm window for a ST high. The difference of Friday's high and the prior ST highs is it was made below the previous high and was preceded by a very ST rally. Between the two highs, most of the time was spent in a decline, not a rally, a ST bearish factor. Should the S&P decline below Thursday's low at 1494 without having rallied above the March 24 high, it will be an important bearish signal a top is complete.

Should the S&P continue to rally from Thursday's low, we will assume Thursday's low is the Wave-4 and the Wave-4 should be complete between this Thursday-Monday.

A close below 1429.3, the Wave-1 closing high confirms a high is in place.

Given the critical position of the S&P at Thursday's low, traders should consider an inside-day breakout set-up in either direction, as the break below or away from Thursday's low should last several days.