

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 a look at how Bonds unfolded last week, concentrating on how Elliott Wave can provide us with a signal that our current opinion is incorrect, and hence we need to re-evaluate our current position. This can be thought of as a *Pattern Stop Loss*.

Bonds – looking for the Wave 2 or B correction – Pt 2

Yesterday I left the Bond example with last Wednesday's (March 29) *inside day* providing a possible trade entry trigger off the completion of a minor abc, for a potential Wave 2 or B high. The very next day the market traded slightly higher, thus voiding this potential *inside day* sell set-up.

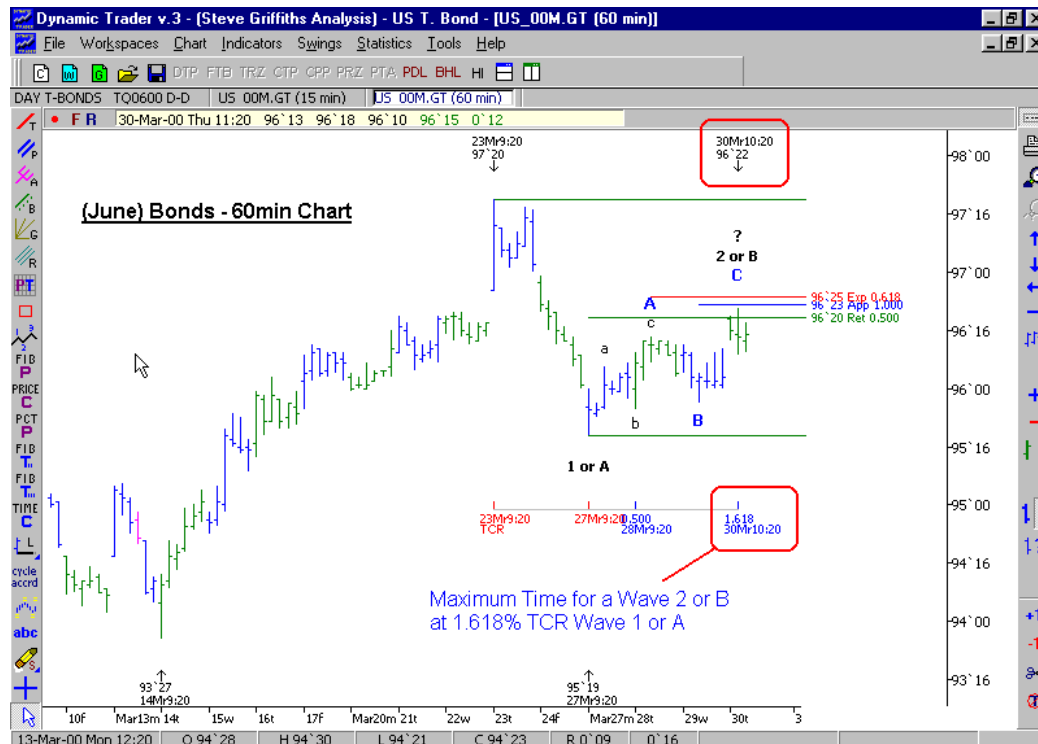
If we now have a look at the situation a few hours after open on the next day, Thursday Mar 30, we can see that the **Pattern** still appeared to be unfolding as a perfect ABC correction. Where the minor abc from yesterday is now making up the new Wave A. Please see the chart on the next page.

This very often happens in real time trading, where what we first think of as a completed abc, is only the Wave A of a larger ABC correction. The question is, what makes this new ABC different and *more important* than the minor abc yesterday?

As first sight this ABC has the same characteristics as yesterday's minor abc, with the high of the day so far right at the *typical Price* cluster for an ABC where Wave-C equals:

- 100% APP Wave A
- 1.618% external retracement Wave B
- 50% retracement Wave 1 or A

The **Pattern** appears to be unfolding as a simple ABC which is *typical* for a Wave 2 or B correction. **But**, the main difference between the ABC correction shown in yesterday's tutorial and the one shown on the chart below is **Time**. The potential ABC shown below has reached the 1.618% Time Retracement of Wave 1 or A which is the *maximum* anticipated for a potential Wave 2 or B correction.



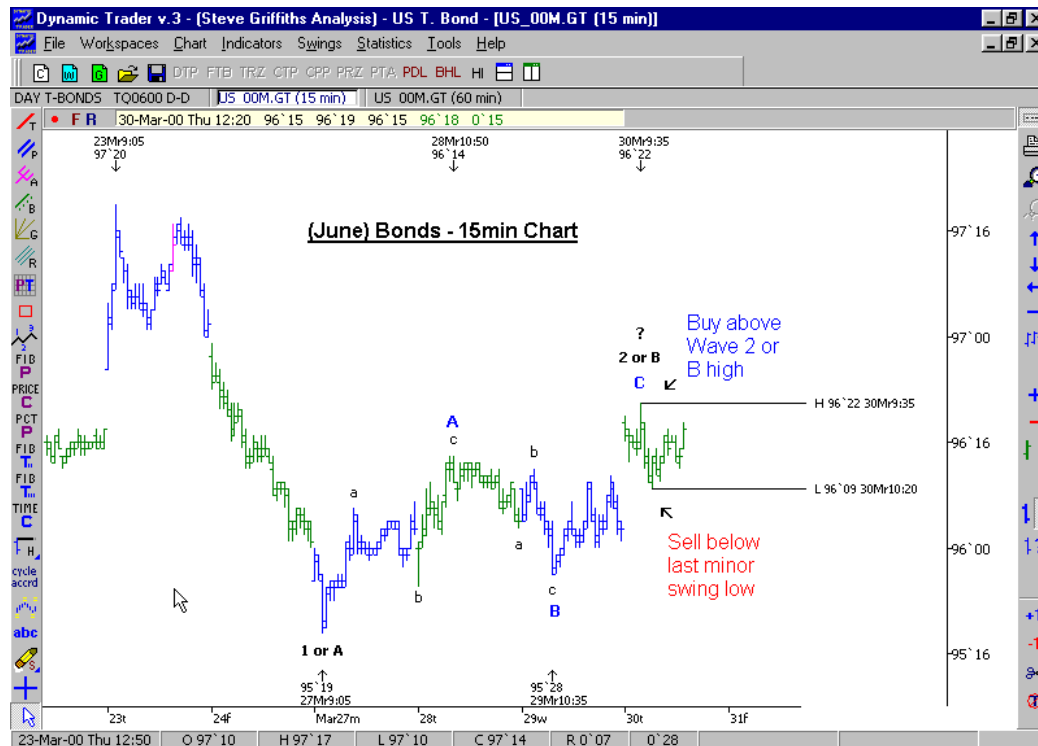
At first sight the **Price** and **Pattern** appear to be *typical* for a potential ABC Wave 2 or B correction. **But Time** is at the *maximum*.

This is where the Dynamic Trading approach has such an advantage over standard technical analysis, as we consider three independent parameters in our analysis, *Price, Time and Pattern*.

Now we have established that this ABC correction is unfolding right at the point in **Time** which we would consider as the *maximum* for the anticipated Wave 2 or B high. *If* the market now rallies and exceeds this high of 96-22 at 10:20 on Mar 30, it would mean that we should no longer consider the rally off the Mar 27 low as a Wave 2 or B correction, thus invalidating our current opinion that Mar 23 completed a high. This is what we consider a *Pattern Stop Loss*, because if the market exceeds the *maximum* parameters for the current *Pattern* it is no longer valid.

At this point in time Bonds were at a *decision point* where a decline below the last minor low would signal that 10:20 on Mar 30 completed a Wave 2 or B high and a Wave 3 or C decline should follow. Or an advance above 96-22 would signal the Wave 2 or B assumption was incorrect and an impulsive rally was likely to follow. Thus the parameters were set to either *confirm* or *invalidate* our current opinion of the position of Bonds.

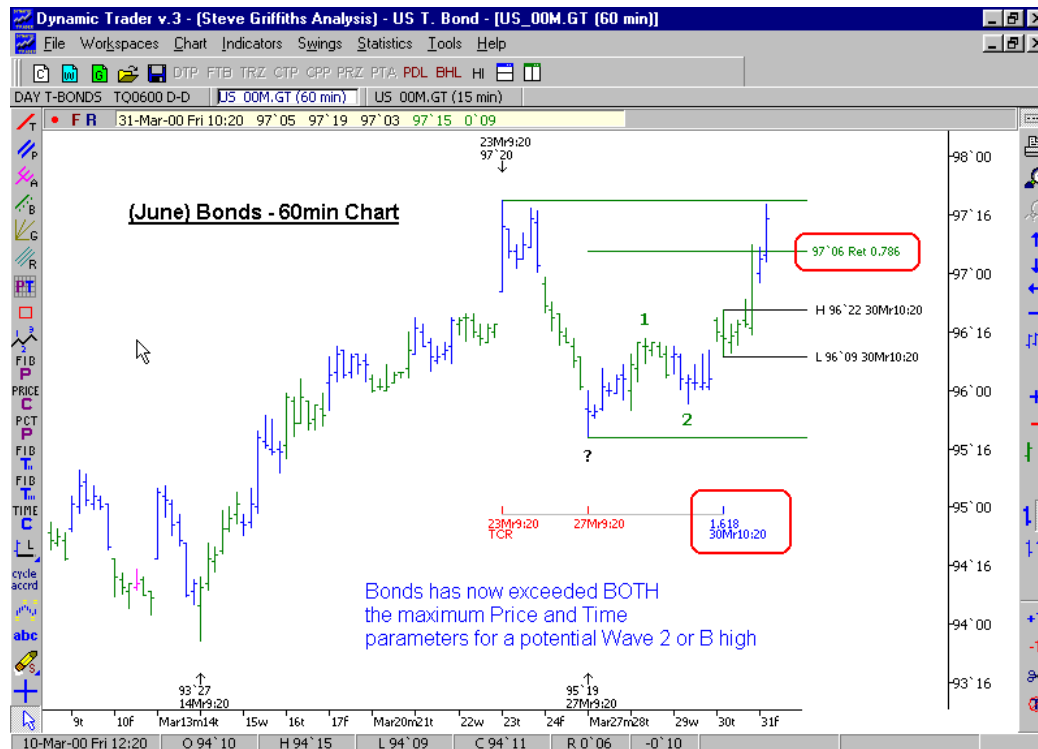
I would now like to move down a time frame to see how this looks on a 15min Chart. You do not need to do this in all situations; it is just that in this example the parameters are clearer to see on a 15min Chart.



Thus a *tradable opportunity* was set up to go with which ever way Bonds traded out from the 96-22 to 96-09 trading range. No forecasting, no complicated Elliott labelling, just setting parameters that would *either confirm* or *invalidate* the current outlook and designing a trading strategy around these parameters.

Although this example has focused on intraday data (as I wanted to use a current example from this report from last week), and you would have needed access to real time data to catch this last trade, the same techniques apply to all markets and all time frames. It is the principle of a *Pattern Stop Loss* that I wish to stress today and setting parameters where the market action itself will *either confirm* or *invalidate* our current opinion.

The chart below shows the outcome and how by the end of the day the market had also traded beyond the 78.6% **Price** retracement of what we had considered the Wave 1 or A decline, thus breaking both the *maximum Price* and *Time* parameters for a potential Wave 2 or B high. A rally to new highs was now likely from here.



Tomorrow I look at how to start to place an Elliott count on a blank chart, and describe the process I go through when starting a new analysis from scratch.

Today's Trading Lessons

1. We can use Elliott Wave analysis to set a *Pattern Stop Loss* where we can set parameters where the market action itself would *either confirm or invalidate* our current opinion.
2. Sometimes the market sets up a situation where we can design a trading strategy to "go with the flow" of whichever way the market trades out of a range.

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 4 |
|---|---|
| OJ: May Same Rec. as yesterday | Today Orange Juice made an inside day. <u>ST & IT Units</u> Buy Orange Juice on a 83.95 stop. If filled place the protective sell-stop at 81.85. |
| Beans: May | Today's decline stopped out the ST unit at 545.6 and the LT unit at 530.4. There are no new specific trade recommendations. The April 3 high is in the high-probability time period for a high that lasts 2-4 weeks. See the Soybeans 2000 report. |
| Yen: June L-3/23, 94.71 | <u>IT Units</u> : Raise the protective sell-stop on the IT unit to 95.76, 1 tick under today's outside day low |
| Sugar: May L-3/23, 5.30 | <u>IT Unit</u> : Continue to trail the protective sell-stop on the IT unit 1 tick below the prior day's low, 5.74 for tomorrow. |

Other Markets of Interest Summary

| Market | Other Markets of Interest – April 4 |
|----------------------|---|
| S&P: June | See chart and comments on following page. |
| Bonds: June | Today probably completed the advance from the Jan. 18 low. A trade below 97.10 confirms the rally is complete. See chart on next page. |
| BP: June | The BP has reached near the ideal price target for a Wave-C high but the pattern is not clearly defined enough to make a specific trade rec. |
| Corn: May | On Monday Corn reversed at the 78.6% Price retracement of the Mar 17 – Mar 29 decline, as anticipated last week. This is probably a Wave B high. If so, then a Wave C decline should follow, to below the Wave A extreme of 224. Ideal Wave C Price target is 219-222. |

Good Trading,

Steve

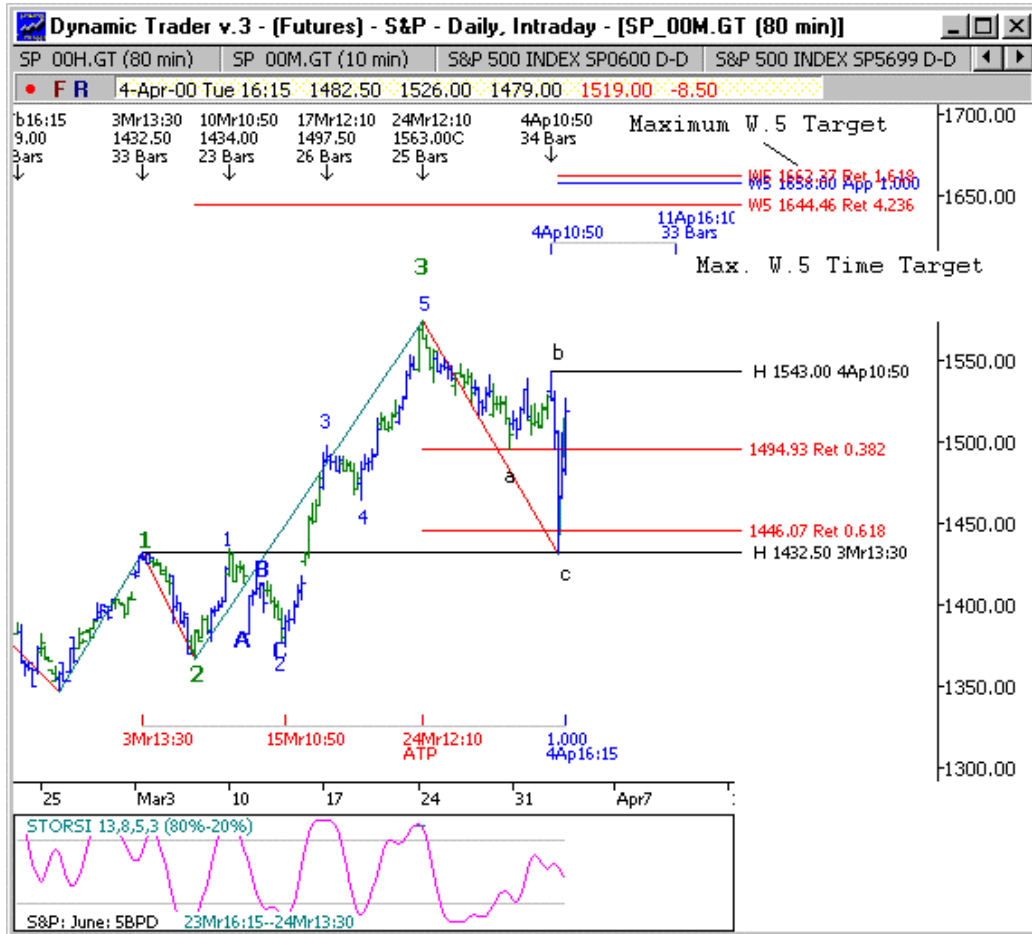
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S&P Chart

A trade over today's high at 1543.00 will signal today's low is Wave-4 and Wave-5 should be complete no later than April 11.

A trade below today's low at 1431.00 signals the wave count shown below is incorrect and March 24 completed a five-wave advance from the Feb. 28 low and probably a larger degree top and the S&P should continue to decline to below the Feb. 28 low.

1644-1663: Maximum Wave-5 Price Target if 1543 exceeded.



Bonds (June)

