

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's Lesson

How to calculate initial capital exposure.

This week I would like to have a detailed look at initial capital exposure (or initial risk as it is more commonly but incorrectly referred to) on a new trade. Personally, I believe this is one of the most important aspects required for a successful trading plan. If a trader takes trades that result in too large a loss for the current size of their trading account, they are doomed to failure.

This subject is rarely tackled by other newsletters and trading gurus, as they generally prefer to talk about profits. Focusing on what to do when all does not go as planned is normally one of the subjects that is avoided. So this week I wish to bring this topic out into the open and provide some specific rules and guidelines for putting your trading on a firm foundation for long-term success.

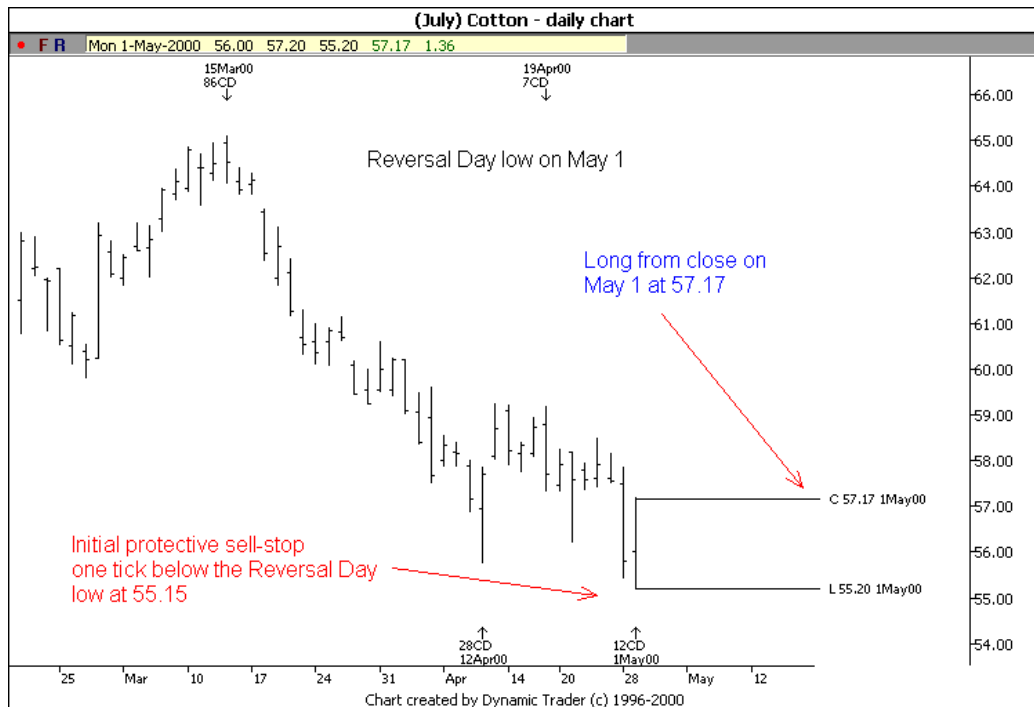
Firstly, I would like to stress again that all trading is just a **matter of probabilities**. Nobody can know for sure what the future will hold or where a particular commodity will be tomorrow or next week. The objective for a market can only be a guess, an educated guess, but a guess all the same. Some newsletters and trading gurus would like you to believe otherwise, but then very few of them have a successful track record of *trading real money* of their own.

The Dynamic Trading approach to the markets aims to put the probabilities on the side of the trader, keeping losses small and running profits. There will always be losses; they are an integral part of the cost of trading. We therefore need a way of keeping these losses under control, allowing us to always have the trading capital available to take advantage of the profitable trades.

Initial capital exposure is defined as the dollar amount a trader would lose if the trade moved against them straight away:

- **Initial capital exposure** = (opening price – initial protective stop price) x tick value

To explain this, I would like to look at a recent trade in (July) Cotton:



Here the initial capital exposure required to take this trade would be \$1,010 per contract (ignoring slippage and commission):

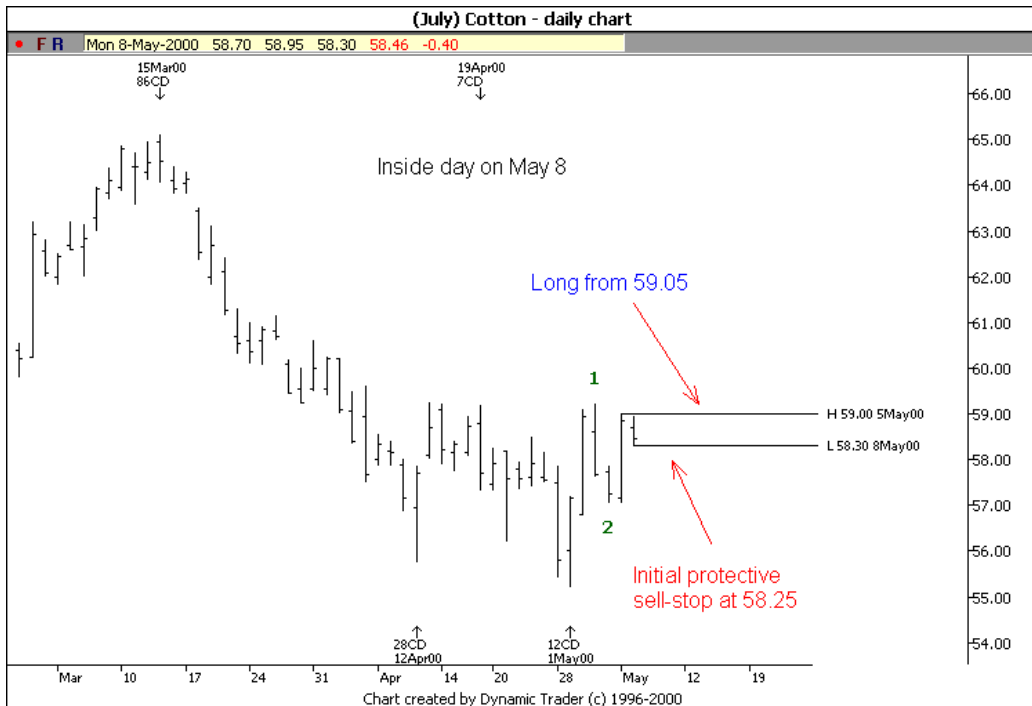
- **Initial capital exposure** = (57.17 – 55.15) x \$500
= \$1,010

The question you need to ask yourself is, with my current account size can I afford to lose \$1,000 per contract if this trade does not turn out as anticipated and results in a loss?

I know this is not the question you would like to ask yourself, as most traders prefer to focus on how much they will make if Cotton rallies strongly. But if long-term success is to be achieved, the first thing that needs to be addressed and controlled is the potential loss.

This may all seem a bit negative, but if a particular initial capital exposure is too large for your current account size there will always be another set-up, either in another market or at a later date.

Compare this to the initial capital exposure of \$400 per contract (ignoring slippage and commission) required to take the inside day set-up on May 8:



• **Initial capital exposure** = $(59.05 - 58.25) \times \$500 = \400

The point I wish to leave you with today is that sometimes, a new trade will carry an unacceptably high initial capital exposure for your current account size. Therefore it is perfectly acceptable to pass this trade by, as there will always be another trade at a later date or in another market.

Tomorrow I will address in detail the procedure to calculate the acceptable initial capital exposure for different account sizes.

Lessons Learned

How to calculate the initial capital exposure on a trade.

Good Trading,
Steve

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Specific Trade Recommendations Summary For May 15

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

Market	New Trade Recommendations or Stop-Loss For Existing Positions
S&P: June	<p>All analysis and trade strategies for the full S&P contract. Trade execution on the E-Mini contract.</p> <p>Today's rallied stopped out the IT unit at 1440.0.</p> <p>Today may have completed a W.B low although it was shallower in price than typical. If so, the ideal W.C time and price targets are tomorrow afternoon and 1470.9 (78.6% Ret) to 1480.5 (where W.C = 100% W.A).</p> <p>Tomorrow afternoon is also where W.C = 100% W.A in time and the 38.2% time retracement. The time, price and pattern position of the S&P suggests a top will coincide with the FMOC meeting.</p> <p>A daily close above 1480.5 would void the immediate bearish outlook.</p> <p>See the 80-minute chart below.</p>
Yen: June	<p>Today the Yen declined below .9224, thus voiding the go-long strategy.</p> <p>There are no new recommendations.</p>
Copper: July <u>S-5/15, 84.05</u>	<p>Today's decline triggered a new short position from 84.05.</p> <p><u>ST & IT Units</u>: Maintain the protective buy-stop at 84.95.</p>
Cotton: July <u>L-5/1, 57.19</u>	<p><u>IT Unit</u>: Trail the protective sell-stop one tick below the 1DL, 61.35 for tomorrow.</p>
Beans: July <u>New Rec.</u>	<p>Today's decline stopped out the long position on the open at 555.</p> <p>Beans still appear to be in a position to complete an ABC corrective low. A close below the support level of 542.2 – 544.4 would be very bearish. This support level is very important as it includes the 78.6% price retracement of the Apr 28 to May 3 rally. A close below this level would indicate a continued decline to below the Apr 28 low.</p> <p>See chart below for additional comments.</p> <p><u>ST & IT</u>: As long as Beans have not closed below 542.2, buy on the close if the close is above the open and the prior day's close. Place the initial protective sell-stop one tick below the recent low.</p>

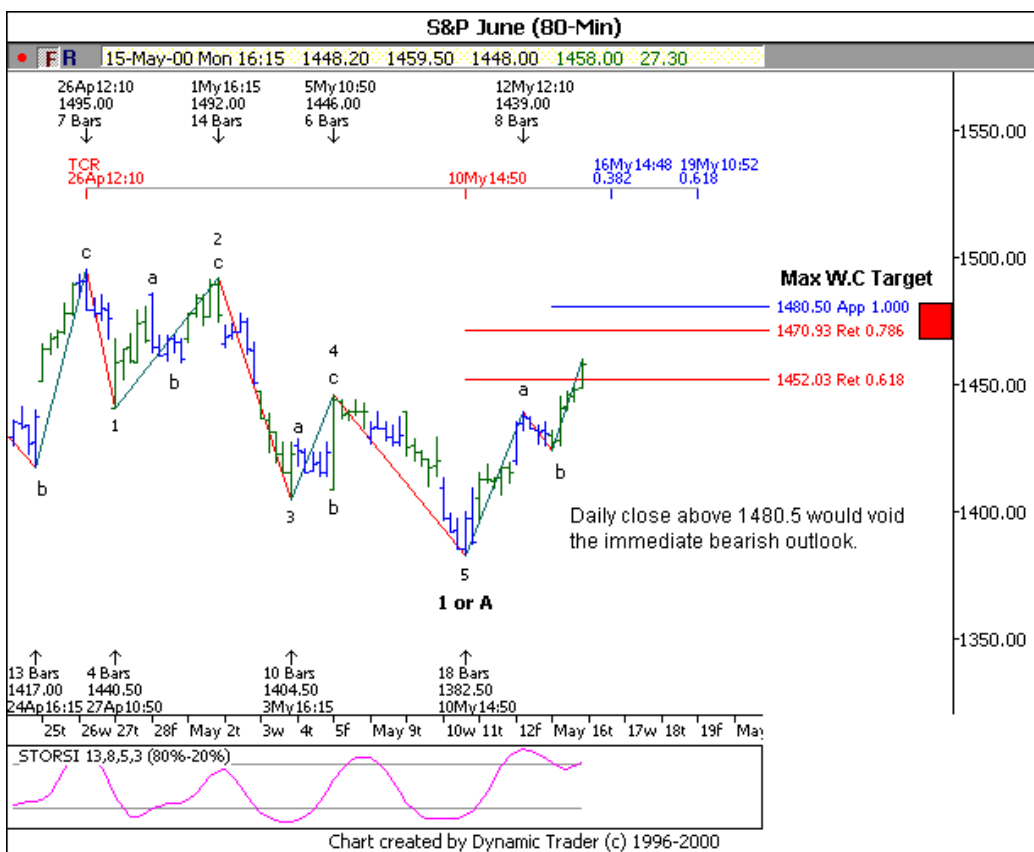
Summary of Open Trade Positions As of May 15

Market	L / S	Unit	Opened	Price	Closed	Price	# Ctr	P/L	O/C
S&P: June	Short	IT	5/9	1419.25	5/15	1440	1	(\$1,037.5)	C
Cotton (July)	Long	IT	5/1	57.19	-	62.70	1	\$2755	O
Beans (July)	Long	ST&IT	5/10	564.0	5/15	555	2	(\$900)	C
Copper (July)	Short	ST&IT	5/15	84.05	-	83.95	2	\$50	O

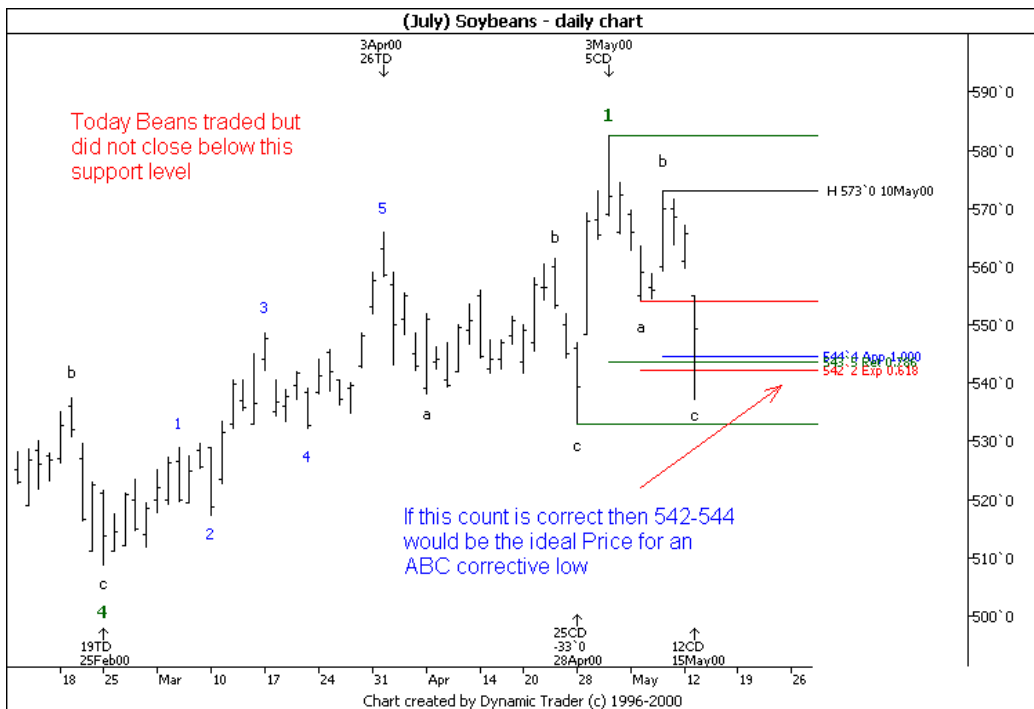
Other Markets of Interest Summary For May 15

Market	Other Markets of Interest
Nasdaq 100: June	Today the Nasdaq traded above the Wave 4 high outlined in Saturday's report. It would take a close above the minor W1 closing low of May 3 at 3585 to void this short-term bearish count.
Bonds: June	Should decline to below the May 8 low to complete Wave-5. Today Bonds made an inside day.
Dollar Index	Wave-5 top should be complete. A correction lasting at least four weeks and reaching 104.32 or lower should follow.
Corn: July	Similar position to Beans, today probably completed an ABC corrective low.

(June) S&P – daily chart



(July) Soybeans – daily chart



(July) Soybeans – 60min chart

