

# Dynamic Trader Daily Report

Comprehensive Analysis and Education For the Serious Trader and Investor

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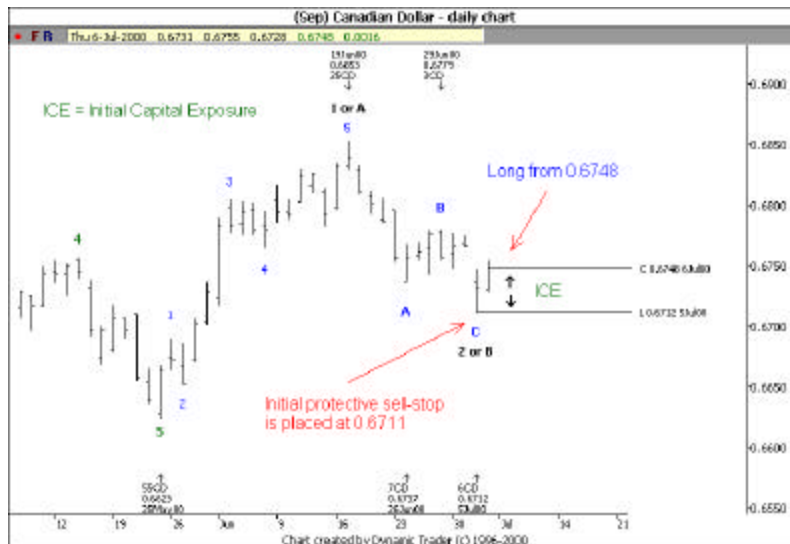
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The analysis and trading strategies described in this report are for educational purposes only. The commentary in this report may or may not relate to a specific trade recommendation made in the Dynamic Trader Report. The weekday issues of the Dynamic 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.

## How To Calculate The Maximum Number Of Contracts Per Trade

Over the past week and a half I have been looking at the price, time and pattern analysis that resulted in a long trade off the Wave 2 or B low on Jul 5 in the Canadian Dollar. In our specific trade recommendations in the report, we usually begin with two units. Let's take a look at what would be the maximum number of initial units for any trade using the CD long trade as an example.

First, let's review the initial trade entry on Jul 6 and the initial protective sell-stop position on a daily chart of the (Sep) Canadian Dollar.



The reversal-confirmation-day on Jul 6 elected a long trade on the close at 0.6748. The initial protective sell-stop was placed one tick under the Jul 5, Wave 2 or B low at 0.6711. This results in an **Initial Capital Exposure (ICE)** of  $(0.6748 - 0.6711) \times \$1000 = \$370$  per contract (ignoring slippage and commission).

What is the maximum number of contracts that could be traded given this initial capital exposure?

I suggest not risking more than 3% of your trading fund on any single trade. The *maximum* percentage should never exceed 5%. The actual figure depends on the trader, as individual traders are comfortable with different percentages. I know of many funds that will not allow their CTA's to have an individual position that exceeds 1%.

Taking two fund sizes of \$10,000 and \$50,000 as an example, how many contracts may the trader take off this Canadian Dollar set-up?

Example 1 - \$10,000 account balance.

**5% of \$10,000 = \$500.**

Therefore no single position may have an *initial capital exposure* of greater than \$500. This trader may take one long Canadian Dollar position requiring an initial capital exposure of \$370 per contract.

Example 2 - \$50,000 account.

**5% of \$50,000 = \$2,500.**

No single position may have an *initial capital exposure* of greater than \$2,500 which would allow this trader to take six long Canadian Dollar positions requiring an initial capital exposure of \$370 per contract each.

Of course the question will arise of what to do if the initial capital exposure required to take a trade is greater than 5% of your current account size. In this circumstance the answer is simple – **DO NOT** take the trade, as the single largest killer of small trading accounts is uncontrolled large losses!

This may seem as if this may prevent the trader from participating in the market and therefore unable to make any profit. **BUT**, one of the main aspects of trading is *capital preservation*, because without trading capital the trader will be unable to take any future trades.

This is a very misunderstood and little published topic in this industry, as most newsletters and trading programs are primarily concerned with trading profits, but this is only part of a complete trading plan. The trader must have the patience and discipline to wait for and only take the best and highest probability trades. The correct course of action may sometimes mean doing nothing and passing a trade by for another better opportunity in the near future.

There will always be trading losses; in fact losses are an integral part of a successful trading plan. It is by keeping these losses small in relation to profits that produce long-term success in the business of speculation.

A full understanding of initial capital exposure is essential if losses are to be kept under control; therefore I suggest that traders should not risk more than 3-5% on any single trade. Use this as a starting point to work out the figure you are most comfortable with, but never allow this figure to drift above 5%

### Lessons Learned

How to calculate the maximum number of contracts that may be taken when a trade is first entered.

Good Trading,  
Steve  
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## Specific Trade Recommendations Summary For July 19

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

Market	New Trade Recommendations or Stop-Loss For Existing Positions
<b>Bonds (Sept.)</b> <u>New Rec.</u>	The same rec. as yesterday but with the new re-calculated prices. <u>ST &amp; IT Units</u> : As long as bonds have not traded below 96.19, sell at 97.20 or better (three ticks below the 50% retracement) with a protective buy-stop at 98.15 (three ticks above the 78.6% retracement).
<b>Swiss Franc (Sept.)</b> <u>New Rec.</u>	The Swiss Franc appears to have completed a Wave C correction, right in the typical WC price target, and the 61.8% price retracement of the May 19 to Jun 16 rally. Wave C also appears to have sub-divided into 5 waves of lesser degree. See chart below. <u>ST &amp; IT Units</u> : As long as the Swiss Franc has not closed below 0.5942, buy on the close if the close is above the current day's open and the prior day's close. Place the initial protective sell -stop one tick below the recent low.
<b>CD (Sept.)</b> <u>L-7/6, .6748</u>	<u>ST &amp; IT Units</u> : Maintain the protective sell-stop on both units at .6739.
<b>Crude Sept.</b> <u>S-7/19, 30.38</u>	Today's reversal confirmation day triggered a short trade on the close at 30.38. <u>ST &amp; IT Units</u> Place the initial protective buy-stop at 31.03 one tick above the recent high. For those not already short, you may today's inside-day provides the set-up for a potential short trade.
<b>Gold (Aug.)</b>	Today's decline stopped out the long position at 280.50. There are no new recommendations.
<b>Copper (Sept.)</b> <u>L-7/10, .81.50</u>	<u>ST Unit</u> : The short-term unit was stopped out today at 84.45. <u>IT Unit</u> : Maintain the protective sell- stop at 83.25.
<b>Cotton (Dec.)</b> <u>L-7/12, 58.20</u>	<u>ST Unit</u> The short-term unit was closed on the close today at 62.50 <u>IT Unit</u> : Maintain the protective sell-stop on the IT unit at 58.75, just below the 61.8% price retracement.

Continued on the next page.

## Summary of Open Trade Positions as of July 19

Market	Month	L / S	Unit	Opened	Price	Closed	Price	# Ctr	P/L	O/C
CD	Sept	L	ST&IT	7/6	.6748	-	.6789	2	\$820	O
Copper	Sept	L	ST	7/10	81.50	7/19	84.45	1	\$737.5	C
Copper	Sept	L	IT	7/10	81.50	-	84.75	1	\$812.5	O
Cotton	Dec	L	ST	7/12	58.20	7/19	62.50	1	\$2150	C
Cotton	Dec	L	IT	7/12	58.20	-	62.50	1	\$2150	O
Gold	Aug	L	ST&IT	7/17	283.50	7/19	280.50	2	(\$600)	C
Crude Oil	Sept	S	ST&IT	7/17	29.75	7/18	30.56	2	(\$1620)	C
Crude Oil	Sept	S	ST&IT	7/19	30.38	-	30.38	2	\$0	O

## Other Markets of Interest Summary For July 19

Market	Other Markets of Interest
<b>S&amp;P</b>	<p>Today's low tagged the 50% retracement, just below the ideal price target for a Wave 4 at 1503.8-1498.6, which includes the 38.2% retracement of Wave 3 and where Wave 4 = 100% Wave 2.</p> <p>Although the S&amp;P traded into the Wave 4 price target today, the minor pattern has not unfolded as an ABC and the decline is less than a 38.2% time retracement of Wave 3. Both these factors suggest a Wave-4 correction is not complete. However, if we consider July 17 is a Wave-3 high, Wave-4 should not close below 1490.5 (W.1 closing high) and any trade below 1491.0 (W.1 extreme high) is a warning July 14 is not a W.3 high and a top may be complete.</p> <p>Since we consider the larger degree trend should be up to about July 25 and reach above the July 17 high, and, today's low is near the extreme acceptable for a Wave-4, short term traders may consider a long trade as long as the S&amp;P has not traded much below 1491.0</p> <p>See chart below.</p>
<b>Nasdaq 100</b> <b>Soybeans</b>	<p>Minimum W.3 target at 4228 (Cash).</p> <p>Same comments as yesterday.</p> <p>When a market has been in such a sustained bear trend, and we do not have a firm opinion of the Elliott position, the safest trade entry is on the first correction to the initial rally off the low. This is the Wave 2 or B low.</p>

(Sep) Swiss Franc – daily chart



(Sep) S&P – 60min chart

