

Dynamic Trader Daily Report

Comprehensive Analysis and Education For the Serious Trader and Investor

Published By
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Monday, January 03, 2000

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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.

As promised last week, I would like to take a day out from the regular training tutorials to have a special look at where to place your Initial Stop and when you can start to adjust it, since last week there was some confusion regarding a typo in the price of one protective sell-stop in Bonds.

I hope this will help you to understand how and why we place our stops where we do and in the very unlikely event we do make a mistake, you will know to question the price, double checking it with your own charts.

Steve

Initial Stop Placement

First, we must ask why we need to place a stop at all. The answer is simple: *All* our trading is based on *probabilities* and as such, we will make losses, but it is our ability to keep these losses *small* in comparison to our profits that makes us successful traders.

Hence, we need to be out of a losing position as soon as the market has told us that we are incorrect in our analysis.

This is a very important point, so I will repeat it. *We need to be out of our position at the point where the market itself has proved our analysis incorrect.*

Let's now come back to our Long position entered on 23rd December to demonstrate what I mean. The assumption was that the *Reversal Day* low of the 22nd Dec was a Wave C low and higher prices were anticipated. The **Price** and **Time coincidence** at this low was covered in some detail in last week's tutorials.



So the question to ask is, at what point does the market have to trade to prove this analysis incorrect?

The answer: One tick below the Reversal Day low of the 22nd. Hence, this was the position of our *Initial* protective sell-stop at 90-24.

The market then made an *inside day* on the 28th Dec. As this Wave C low was made at the *maximum Price and Time* target anticipated for a potential Wave C, there was also the *possibility* that the low of 22nd Dec was not a Wave C, but only a pause in a new Wave 3 down. Hence the Trade Alert mid week to use the break from this *inside day* to reverse the current Long position to a new net Short position.

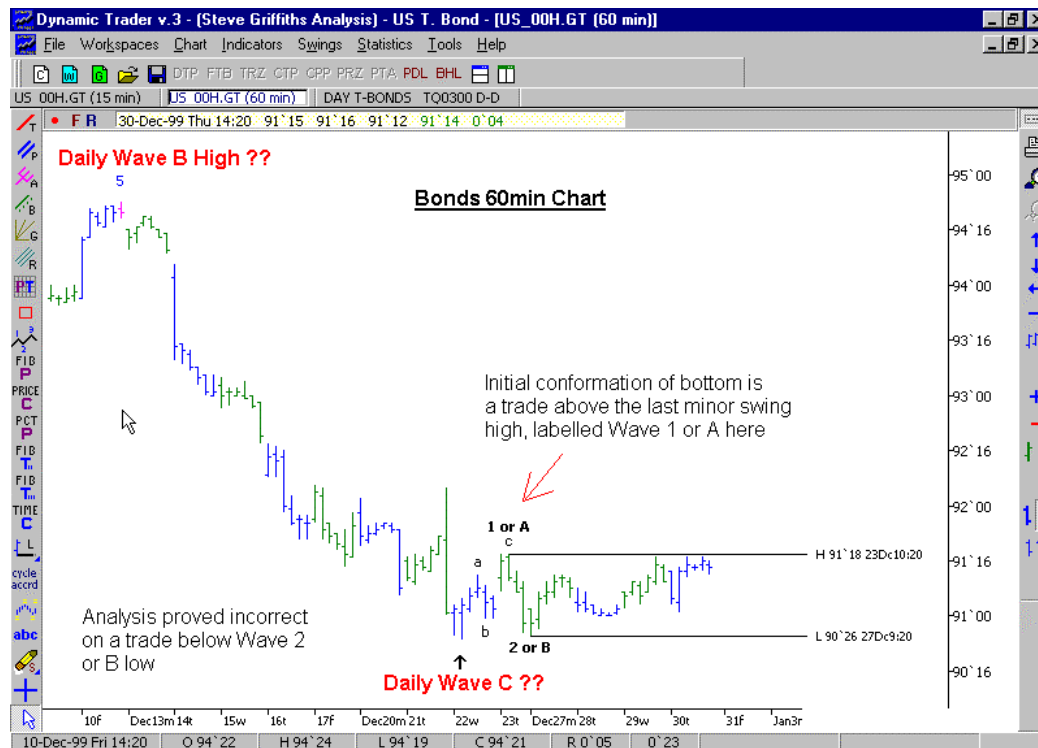
On a 60min Chart the low of the 17th Dec appeared to be a minor Wave 2 or B low. As such a break below this low would also give us confirmation that a corrective rally off the 22nd Dec low had terminated and lower process were anticipated.

As such, this is where the protective sell-stop was raised to, one tick below the low of the 27th Dec at 90-25.

This is where the protective sell-stop will stay until we have *initial conformation* that the market is rallying from here and higher prices are likely.

So the last question to ask is, at what point does the market have to trade to give us *initial conformation* that our original analysis is correct and therefore at least a minor rally is anticipated?

The answer: One tick above the last minor swing high of 23rd Dec at 91-18.



Do you see the logical process here?

We are defining parameters by which the *market itself* either confirms or proves our original analysis incorrect. The stop is then adjusted to keep us in a trade until the *market itself* makes this decision for us.

Now the market is sitting right between our two parameters of 91-18 and 90-26. Do I know which way the market will break? No, all I know is that a trade above 91-18 gives me *initial conformation* that a bottom is in at the 22nd Dec low and at least a minor rally is anticipated. Therefore, I want to stay Long off the Reversal Day low of the 22nd Dec; or a trade below 90-26 confirms this analysis is incorrect and I should now be out of my Long position, taking a small loss and even thinking (in this particular example) of reversing to a net Short trade.

As you can see all of this analysis is performed using Day Session only data. We do not consider the overnight session for trade entry and Stop placement.

Today's Trading Lessons

1. The Initial Stop goes at the point where our original analysis would be proved incorrect.
 2. This is normally one tick beyond our Reversal Day entry, or one tick beyond the last minor swing High / Low if using Intraday data.
 3. As the market gives us more information we can begin to adjust this Initial Stop.
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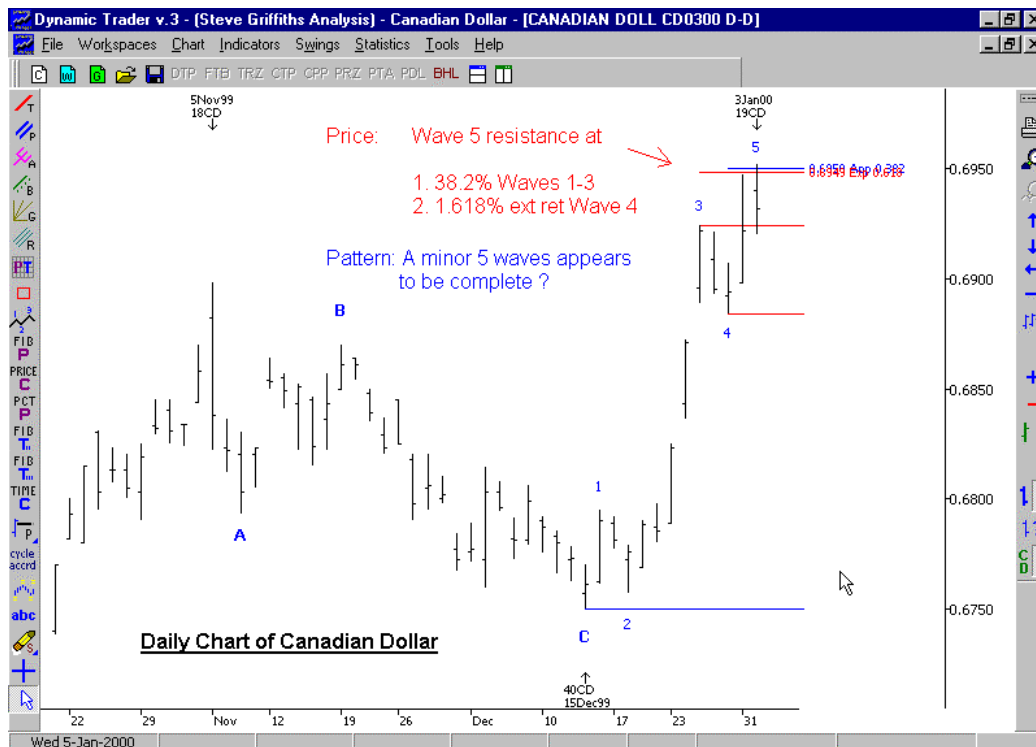
Potential Trade Set-ups and Trade Follow-ups

(March) British Pound. The Pound has reached our **Price** and **Time** for a potential Wave C High as outlined in Last week's report. We will now look to enter the market Short on a Reversal Day.

Short and Intermediate Term Units (L-12/6 161.32)

Adjust the Stop on both Long positions to 1 Tick below the 1DL.
Sell on the close (Reverse existing Longs to Short if not already stopped out) if the close is below the current day's open and the prior day's close.

(March) Canadian Dollar. Although not a specific trading recommendation, the Canadian Dollar appears to have completed a minor 5-wave rally.



(March) Bonds. We were stopped out of both our Long positions at the low of Friday's Trading at 90-25. The market has now declined below what we had considered as a Wave C low on 22nd Dec at 90-25. This invalidates this view and confirms that the market is now in a Wave 3 down.

(Feb) Lean Hogs. We were stopped out of both our Short positions today at 56.10. Stand aside from this market for now.

Good Trading,

Steve

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