

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.

Wave 2 or B – Price Time and Pattern

Over the past few weeks I have been looking at ABC corrections in their different forms. Today I would like to take this one stage further and include the ABC correction forming as part of a Wave 2 or B correction. Then tomorrow I would like to start to look at some of the trading strategies we employ once we have identified the termination of a potential Wave 2 or B.

Wave 2 or B's are the *first* correction off the *first* move off a major Top or Bottom and as such, offer some of the best trading opportunities, as they give you the chance to enter a new trend very close to its beginning.

Let's start by summarizing the *minimum*, *typical* and *maximum* **Price**, **Time** and **Pattern** characteristics of Wave 2 or B's:

Pattern:

Wave 2 or B's *normally* unfold in a simple abc.

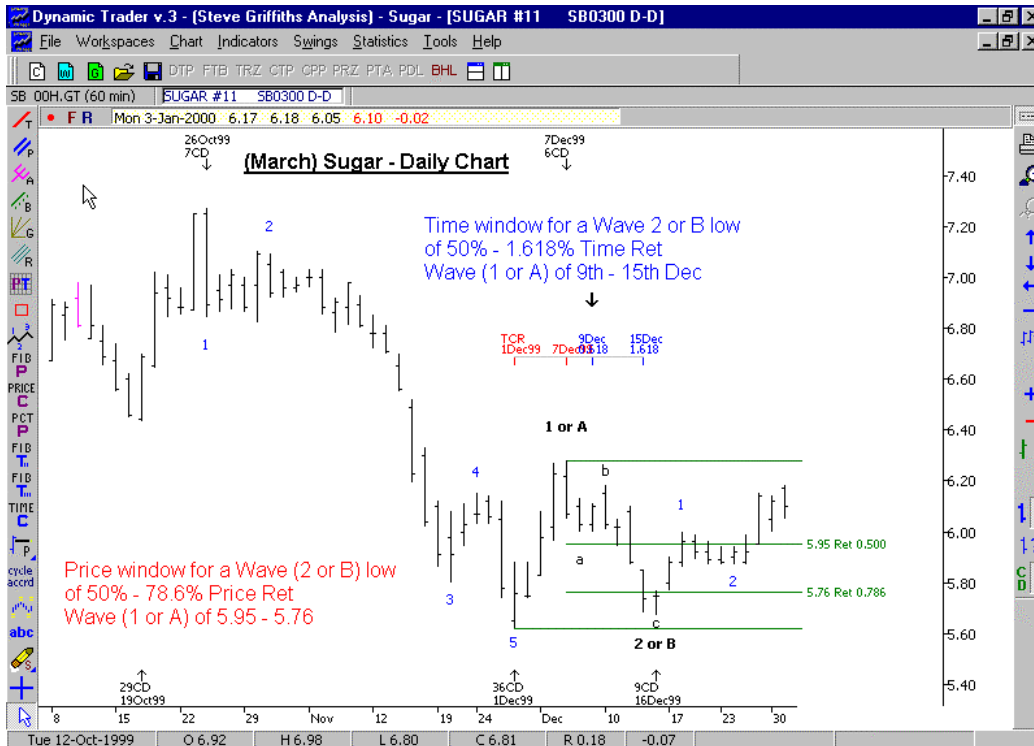
Time:

Wave 2 or B's *normally* terminate between a 50% **Time** retracement and a 1.618% **Time** retracement of the first swing (Wave 1 or A) and *typically* at either a 0.618% or 100% **Time** retracement.

Price:

Wave 2 or B's *normally* terminate between a 50% **Price** retracement and a 78.6% **Price** retracement of the first swing (Wave 1 or A) and *typically* at a 61.8% **Price** retracement.

See the chart below for a recent example on Sugar that I have been looking at in some detail over the past few weeks.



Here we see that the market made an important low on 1st December, and then rallied into the 7th December high. This was the *first rally off an important bottom* and hence can be considered a potential Wave 1 or A. Our task now is to identify, *in advance*, the areas in **Price** and **Time** where the next move is likely to terminate. This we would anticipate as being a potential Wave 2 or B low.

- In **Time**, a 50% - 1.618% retracement of the 1st Dec – 7th Dec rally falls on 9th – 15th December.
- In **Price**, a 50% - 78.6% retracement of the 1st Dec – 7th Dec rally falls on 5.95 – 5.76.

These are the broad areas where we need to be alert for the termination of this Wave 2 or B low.

As this correction starts to unfold we should start to monitor the minor **Pattern**, which will *typically* take the form of a simple abc. We can then use this minor abc to narrow down our initial **Price** and **Time** targets to get a better idea of when and where we anticipate the Wave 2 or B low could terminate.

Check the 60min Chart below to see the detail of this abc correction:

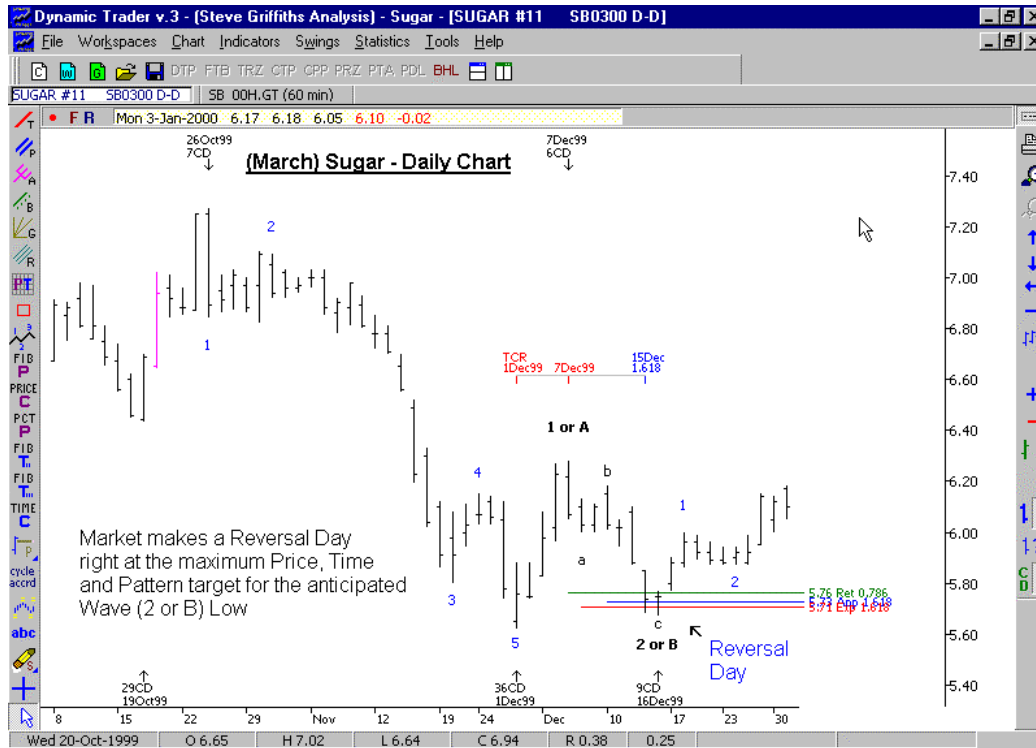


Here the **maximum Price** target for the termination of a Wave C of 1.618% Wave A at 5.73 and 1.618% Wave B at 5.71, both fall in the *same area* as the **maximum Price** retracement anticipated for Wave 2 or B of 78.6% Wave 1 or A at 5.76. In other words, we have a *cluster of different* relationships from *different* swings and *different* degrees of swing all falling in the same narrow area.

Now we amend the **maximum Price** Target where we anticipate this correction will terminate, from just the 78.6% Price retracement of Wave 1 or A in the first chart to include this minor abc correction. This now becomes 5.71-5.76.

On the 15th Dec the market dropped into this **Price** support area of 5.71-5.76, right at our maximum **Time** target of 15th Dec, unfolding in a minor abc **Pattern**. **Price**, **Time** and **Pattern** have coincided. The process now becomes completely automatic, as we now look to enter a Long position using one of our *Reversal Day* strategies, as long as the market *has not made new closing lows* beyond this **maximum Price** and **Time** target.

This is exactly what happened - a Reversal Day on the 16th Dec, just one day past the maximum time target! On the 16th Dec. the market made a new low and the close was above the prior day's close and above, (well equal to) the current day's open.



The trade entry would have been to enter Long on the close of the 16th, with the Initial Stop (from yesterday's tutorial) placed at the point where the market would have to trade to invalidate this analysis. In other words, one tick below the low of the 16th Dec at 5.66.

From a *practical trading perspective*, as this *Reversal Day* would not have been obvious as the market was closing on the 16th (as the close was equal to the open) you could have entered Long on open the next day, or placed a Stop order to go Long on a break of the Reversal Day high.

We are now long from the very day of what we anticipate could be a Wave 2 or B low. What do we do now? Tomorrow I will move onto how we manage this trade, including why we use a short-term and long-term position.

Today's Trading Lessons

1. Once **Price**, **Time** and **Pattern** coincide look to enter the market using one of our *Reversal Day* Patterns
2. The protective Stop goes one tick beyond our Reversal Day entry, or one tick beyond the last minor swing High / Low if using Intraday data.

Potential Trade Set-ups and Trade Follow-ups

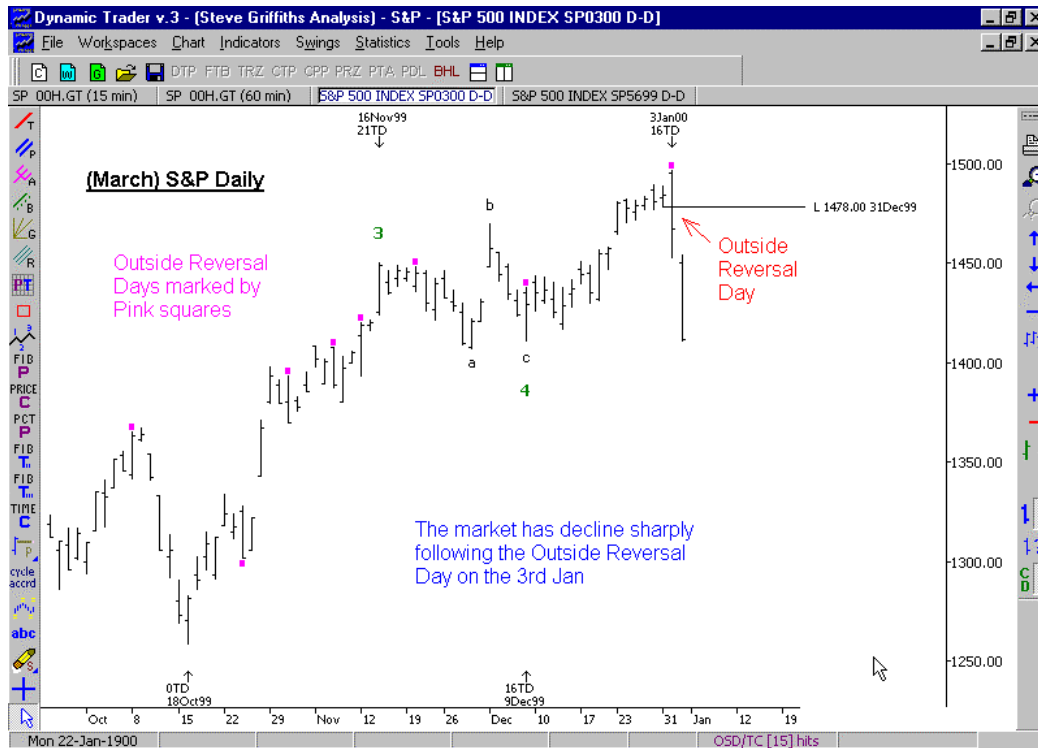
(March) Sugar. Today's sharp sell off stopped us out of both our Long and Short-term positions at 5.86.

(March) S&P. The S&P has sold off sharply in the last few days, closing below 1429.80, the Wave (3) high of 19th July. This has given us an *initial indication*, as per Robert's last report, that the Bull trend is complete. A close below the support level of 1389 – 1399, which includes the last minor Wave 4 low, would confirm this.



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The high of the 3rd Jan was actually an *Outside Reversal Day*. This is a very strong indication of a market turn. Unfortunately this is the one Reversal Pattern that I cannot prepare you for *in advance* in the Daily Report, as it requires being able to monitor the market during trading hours.



The trade would have been to Sell below the prior day's low, once the market opened above the prior day's high. I will be covering all of these *Daily Reversal Patterns* in more detail in a future tutorial.

(March) British Pound. The BP did not make the Reversal Day as anticipated yesterday, as today's close was above the open, so no trade was taken.

Although not a specific trading recommendation, short-term traders may consider a short trade below today's low of 1.6346, as the market has backed off from **Price** and **Time** coincidence for a *potential* Wave C High. A trade above 1.6404 would invalidate this set-up.

(March) Wheat. Although not a specific trading recommendation, wheat appears to have made an abc Wave (2 or B) low, and traders should consider positioning long above the Wave B High of 251 ½



Good Trading,

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