

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.

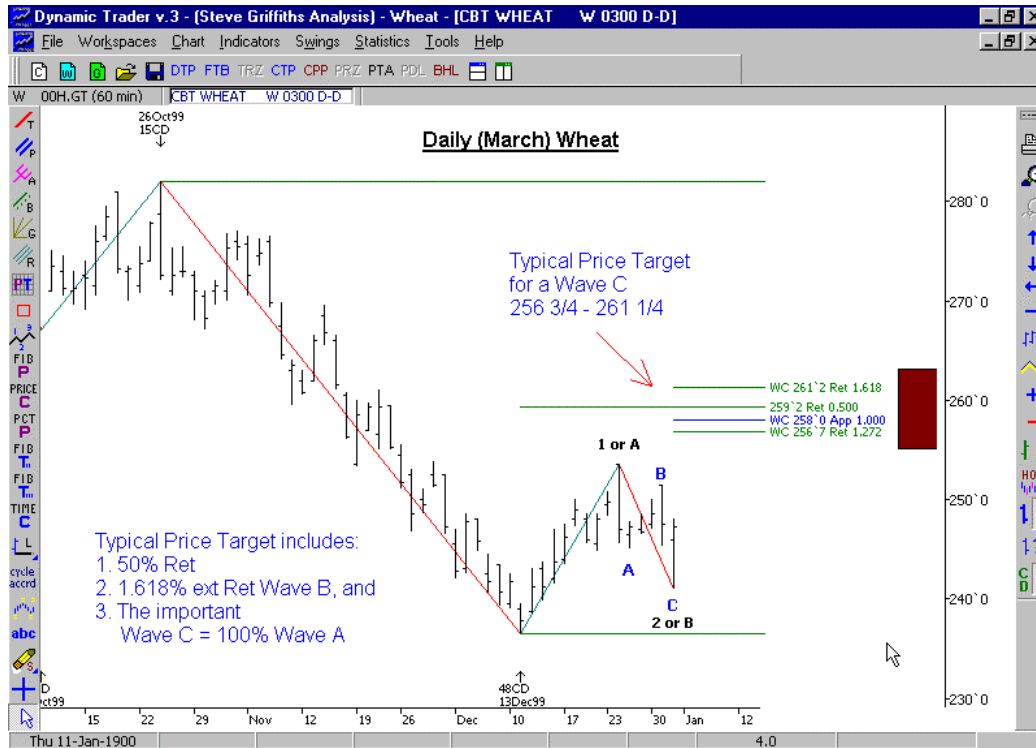
Trading Strategies once a trend reversal trade is entered

Today I would have liked to continue straight on from yesterday's report following our Sugar trade as it rallied into either a Wave C or a new Wave 3. But the sharp decline yesterday now makes this unlikely, so I would like to change my current training example to (March) Wheat. Here, as we saw from yesterday's report, it has made what appears to be a nice abc Wave (2 or B) Low.

If yesterday had been a *Reversal Day*, (where the market closed above the prior day's close), I would have made a specific trading recommendation to go Long. As it stands, we will have to wait for another signal to enter Long in the next day or so. But for now let's assume we are Long 2 positions, one a *short-term*, the other an *Intermediate-term* off the close yesterday at 247 $\frac{1}{4}$. Our Initial Stop would then be at the point where the market would prove our analysis incorrect: just below the Reversal Day low at 240 $\frac{1}{2}$.

From last week's training our *minimum* assumption of **Pattern** is that the market will now make *at least* a simple ABC correction. So now we project *in advance* the areas where we anticipate a rally could terminate *if* the rally from here only turns out to be a *correction* in a continued down trend rather than the new *impulsive* rally as anticipated. In other words, a Wave C rather than a Wave 3.

See Chart on the next page.



The first question I hear you all ask, is why do we *first assume* that a rally will only be an abc correction?

Despite what you may have heard, nobody can tell you with certainty where the market will be tomorrow or next week. Trading is all about *probabilities*. Our Dynamic Trading analysis seeks to put these probabilities on our side by allowing us to anticipate *in advance* the *high probability set-ups* where market turns are usually made. This allows us to enter trades with a close stop loss, so when we make losses they are small in relation to our Profits.

As this market stands, we do not know for sure whether the low of 4th Jan is a Wave 2 low and the start of a large, (Wave 3 type), move up; or only a Wave B low and part of a ABC correction in a continued down trend. Yes, we can have an opinion based on our interpretation of the *longer-term* Elliott Pattern going into the low of the 13th Dec, but we never know for sure. As we have seen from Sugar, the market has a habit of changing its mind just when the Elliott Pattern appears to be unfolding perfectly!

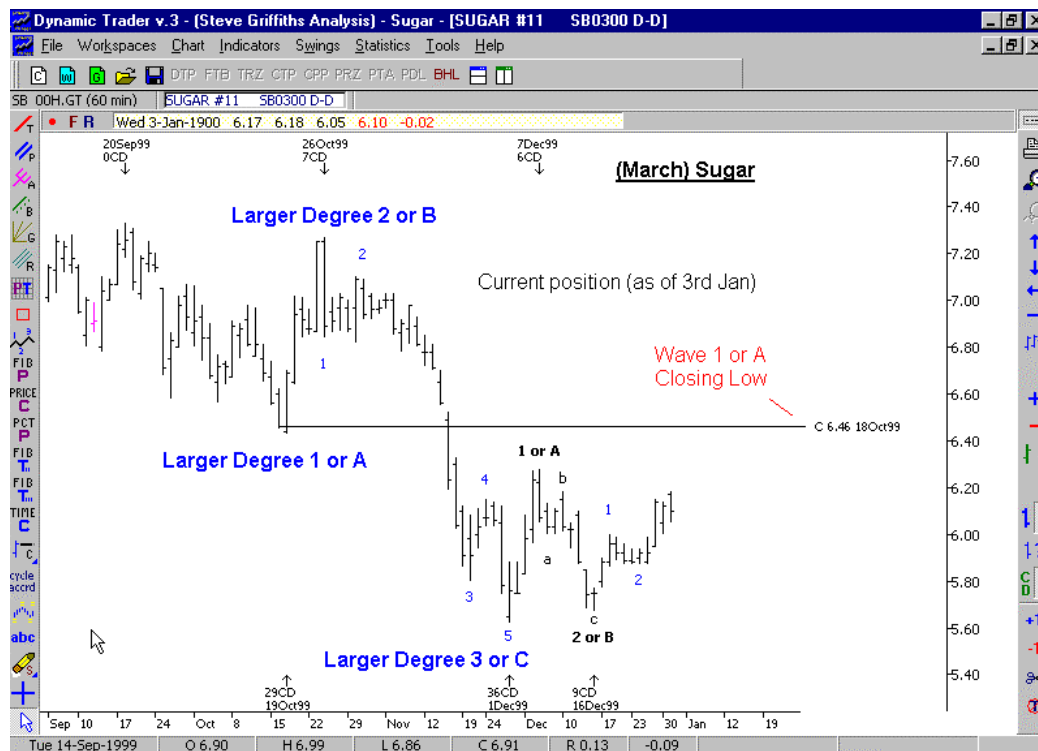
As traders, we are concerned more with making profits rather than predicting with certainty where the market will be at some time in the future.

Hence, we look to trade 2 units: one *short-term* designed to capture the most Profit *if* this rally only turns out to be a *corrective* Wave C type move, and a second *Intermediate-term* designed to capture the larger Wave 3 type move if it develops.

At first glance this may seem a little vague, but as the market unfolds it gives us more information to work with, which then helps to either confirm or invalidate our current opinion, hence allowing us to either add positions (using trend continuation strategies) or adjust our stops accordingly.

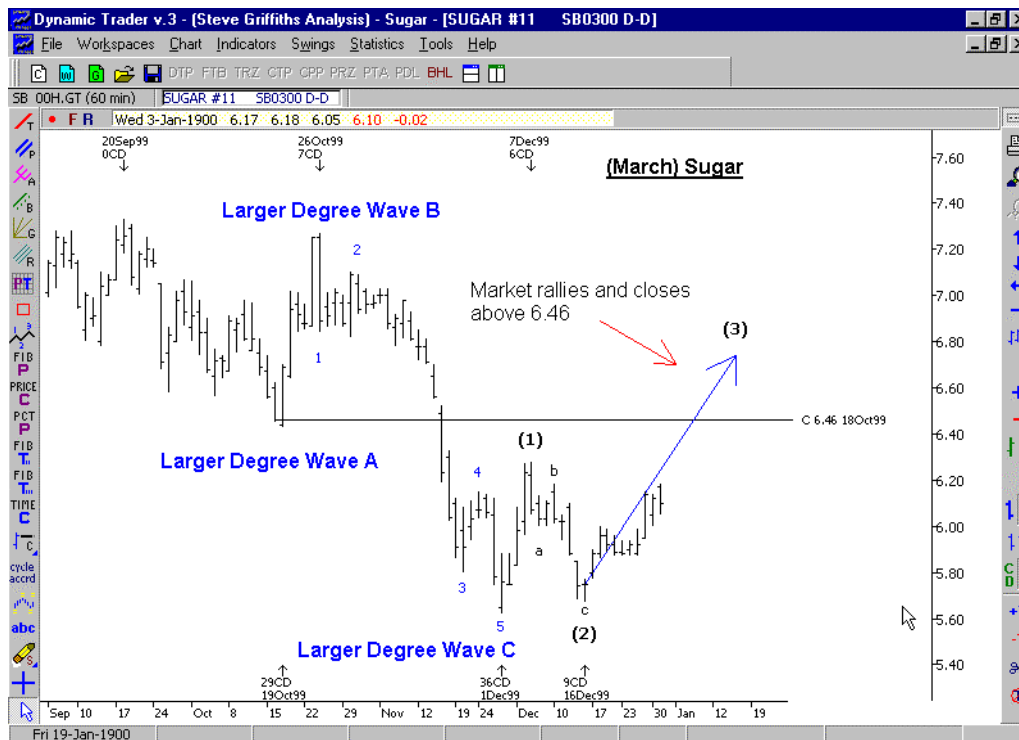
The perfect example of this would have been Sugar, from Bob's last report of 1/1/00. *If* Sugar had traded and *closed* above 6.46, the Wave (1 or A) low as labeled, the current rally had to be a Wave 3 and not a Wave C. *If* it was to be a Wave C, it had to be part of a correction and the correction following a Wave 3 is a Wave 4. In Elliott terms a Wave 4 should not close into the closing range of Wave 1.

Confused? Let's look at what I mean on a few Charts:

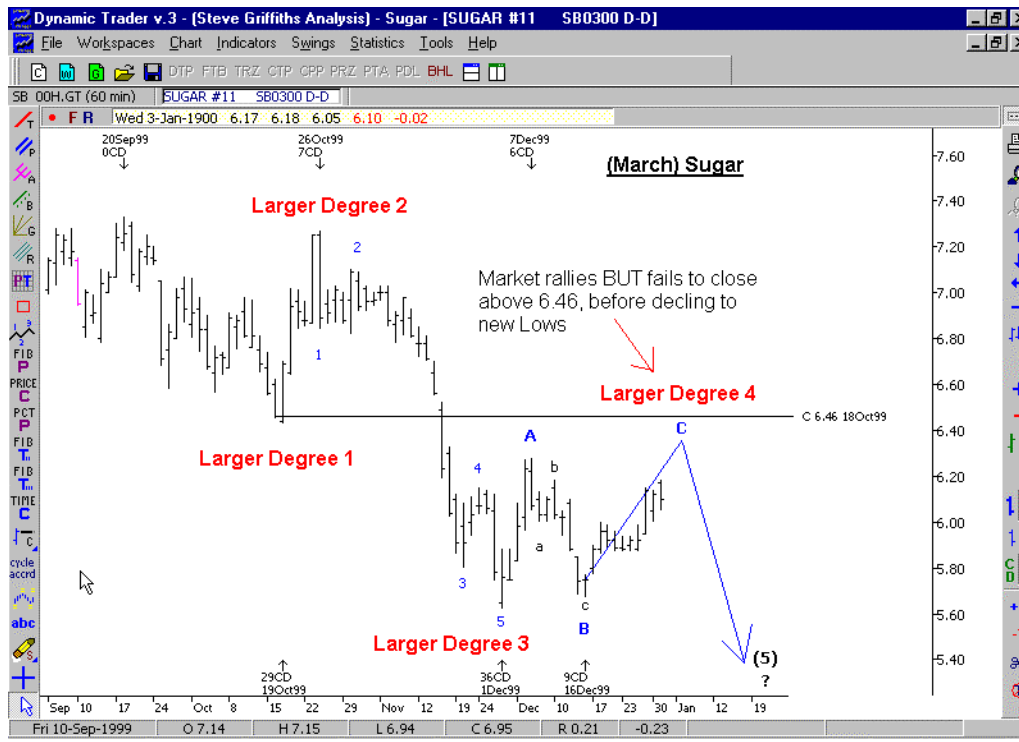


Here is the current dilemma: is the low of 1st Dec a *larger degree* Wave 3 or a *larger degree* Wave C? Which would then lead to: is the current rally off the 16th Dec low only a Wave B in an abc correction forming as part of a larger degree Wave 4? Or a Wave 2 and forming as part of a new impulsive rally off a major Wave C corrective bottom on 1st Dec?

Option 1 – The start of a new impulsive move



Option 2 – Only an ABC correction



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This is why we use the 2 positions: *if* option 1 unfolded, the *Intermediate-term* position would be there to capture the maximum Profits in a new Wave (3) type move. *If* option 2 unfolded, the *short-term* position would capture the *maximum* Profits possible at the Wave C high.

So how do we accomplish this in our trading? The simplest option is to raise the protective stop on our *short-term* position close to the market to protect profits, when the market reaches the *typical* target for a Wave C. The easiest way to achieve this is to run the Stop 1 tick below the 1 day high (1DH) or the 1 day low (1DL).

Tomorrow I will continue with how to adjust the protective Stop on the *Intermediate-term* position as the market makes a Wave 3 type rally.

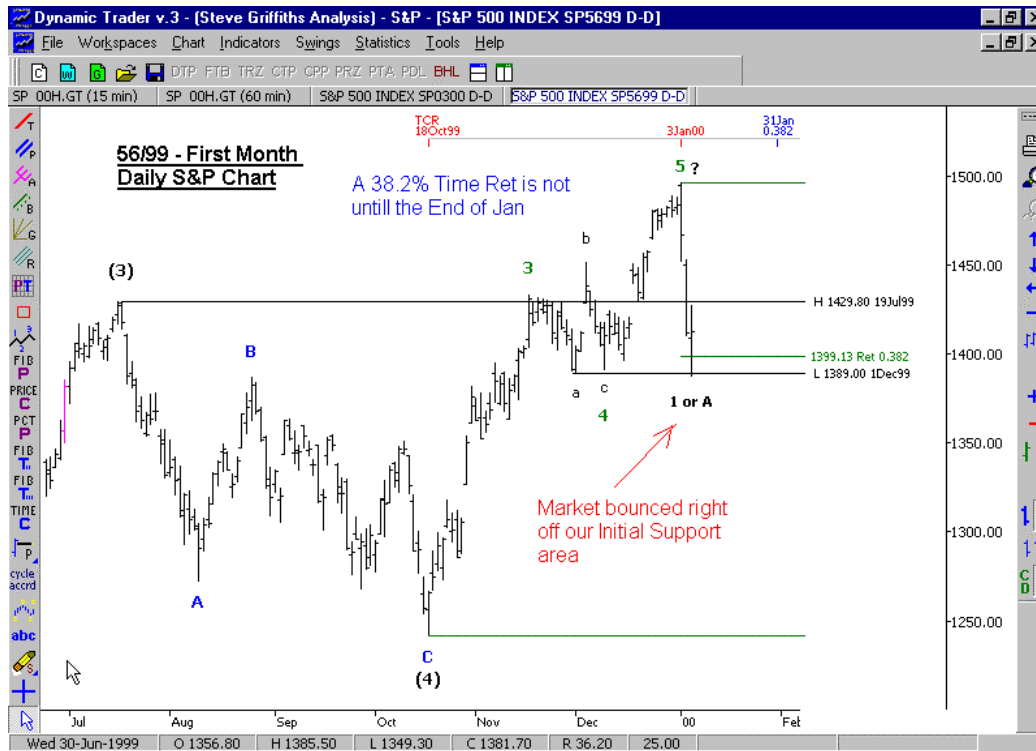
Today's Trading Lessons

1. Look to trade 2 positions off a trend reversal, one a *short-term*, the second an *Intermediate-term*.
 2. Once the market reaches the *typical Price* Target for a Wave C raise the protective Stop on the *short-term* position to 1 tick below the 1DL or 1DH.
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Potential Trade Set-ups and Trade Follow-ups

(March) S&P. The S&P bounced nicely from our 1389-1399 Initial **Price** support area today. If we now consider the 3rd Jan as completing a 5-wave advance from the 18th Oct Low, the decline off this high is unlikely to terminate prior to the end of January.



I will update this market in more detail in the Weekend report.

(March) British Pound. The Pound is nearing the end of our *maximum* **Time** target for a Wave C of 3rd – 6th Jan, and the market is still in the *typical* **Price** target for a Wave C.

Short and Intermediate Term Units

For tomorrow only 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. A trade above 1.6478 invalidates this set-up.

(Feb) Oil Complex The Oil complex (Crude Oil, Heating Oil and Unleaded Gasoline) all appear to have recently completed 5-wave advances. Although not a specific trading recommendation, traders may want to consider a short trade on the break from Tuesdays trading range, as they all made *inside days* today. I will cover these markets in more detail in the weekend report.

(March) Cotton The last minor Wave 4 high on Cotton is at 52.19. The initial advance off a prior 5-wave sequence often terminates *in the area of* the prior Wave 4 of lesser degree. A 61.8% Time ret of the last swing down is on 6th Jan. This initial advance off the 20th Dec low may now be nearing an end.

As per Roberts 01/01/2000 report "If Cotton trades to 52.15, trail the stop on the *short-term* position 1 tick below the 1DL."

(Feb) Gold. Although not a specific trading recommendation, traders may want to consider a short trade on the break from Tuesdays trading range, as Gold made *inside days* today. Although I have no strong opinion on the *short-term* position of this market, Tuesdays low was right at a 78.6% **Price** Ret.

(March) Sugar. Sugar now appears to be unfolding in some sort of complex Wave 4. Although not a specific trading recommendation, a break below what we considered as the B wave Low of 16th Dec at 5.67, would confirm this correction is indeed over, and a decline to new lows likely.

Good Trading,

Steve
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