Dynamic Trader Daily Report

Comprehensive Analysis and Education For the Serious Trader and Investor

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Wave 4 – Price, Time and Pattern

Yesterday we saw how even though sometimes the wave 4 can unfold in a more complex pattern (than a simple ABC), it will usually terminate at a **Time** and **Price** *cluster* from prior swings.

Price

Today I would like to have a detailed look at the *minimum*, *typical* and *maximum* **Price** relationships for a Wave 4. As you may have noticed, as we progress up the Elliott Waves we start to have more waves to work with. For a Wave 2 we have the retracement of Wave 1, for Wave 3 and C we have the Wave 1 and Wave 2, and now we have **Price** relationships of the Wave 3 (last swing), Wave 2 (1st Alt) and Waves 1-3 (entire move so far).

Let's start with the **Wave 3**, the last swing, where:

- The *minimum* **Price** retracement anticipated is 38.2%
- The *typical* **Price** retracements anticipated are 38.2% or 50%
- The *maximum* **Price** retracement anticipated is 61.8%

Yes, the 38.2% is covered twice, as both the *minimum* target and one of the *typical* **Price** relationships of the Wave 3 swing.

Now let's move onto the entire swing to date, Waves 1-3:

With the **Waves 1-3**, the entire move so far, we have:

- The *minimum* **Price** retracement anticipated is 23.6%
- The *typical* **Price** retracements anticipated are 38.2% or 50%
- The *maximum* **Price** retracement anticipated is 61.8%

And lastly we have relationships to the length of the Wave 2, where we do not have any reliable *minimum* or *maximum* relationships (unlike with Time), but here are ones to watch out for:

With the **Waves 2**, the 1st Alt, we have:

- Wave 4 is very often either 0.618%, 100% or 1.618% the length of Wave 2

As you can see from the ratios used in these 3 different calculations, Wave 4 is usually a lesser percentage retracement of Wave 3 than Wave 2 was to Wave 1. (W4:W3%<W2:W1%)

Let's have a look at a few examples:

1. Daily Heating Oil:

1. Weekly Crude Oil:

Here we can see on both charts the Wave 4's terminated right at a *cluster* of **Price** relationships from different swings. As always, it is the *cluster* of these **Price** relationships in a *relatively tight range* that produces the most reliable Support and Resistance areas.

Lastly, I would like to cover what we consider to be the *maximum* allowed for a Wave 4. With a Wave 1, Elliott rules state that a Wave 2 can only be considered a Wave 2 as long as it *does not close* beyond the start of Wave 1. We have a similar rule (or a guideline as I prefer to think of them), for Wave 4. This is where Wave 4 *should not close* into the *closing* area of Wave 1.

As you can see in this paragraph I have used the words *should* and *guidelines* rather than *cannot* and *rules*. This is because when we work with the markets we are only ever dealing with *probabilities,* as sometimes the markets simply do not follow the rules. So rather then being rigid, I would prefer to be a little flexible, and work with what the market is current telling me *should* happen rather than what a book says *will* happen. This is more in keeping with the *spirit* of the original writings of Elliott himself, rather than the specific rules that are written about nowadays.

Let's have a look at an example of the Wave 1 closing extreme:

Here this Wave 4 in Heating Oil toyed with the Wave 1 closing High, but did not close beyond it.

Tomorrow I will move onto **Time** where we will see a similar approach - the best support and resistance **Times** are where *clusters* of **Time** relationships from different swings fall together in *a relatively tight range*.

Today's Trading Lessons

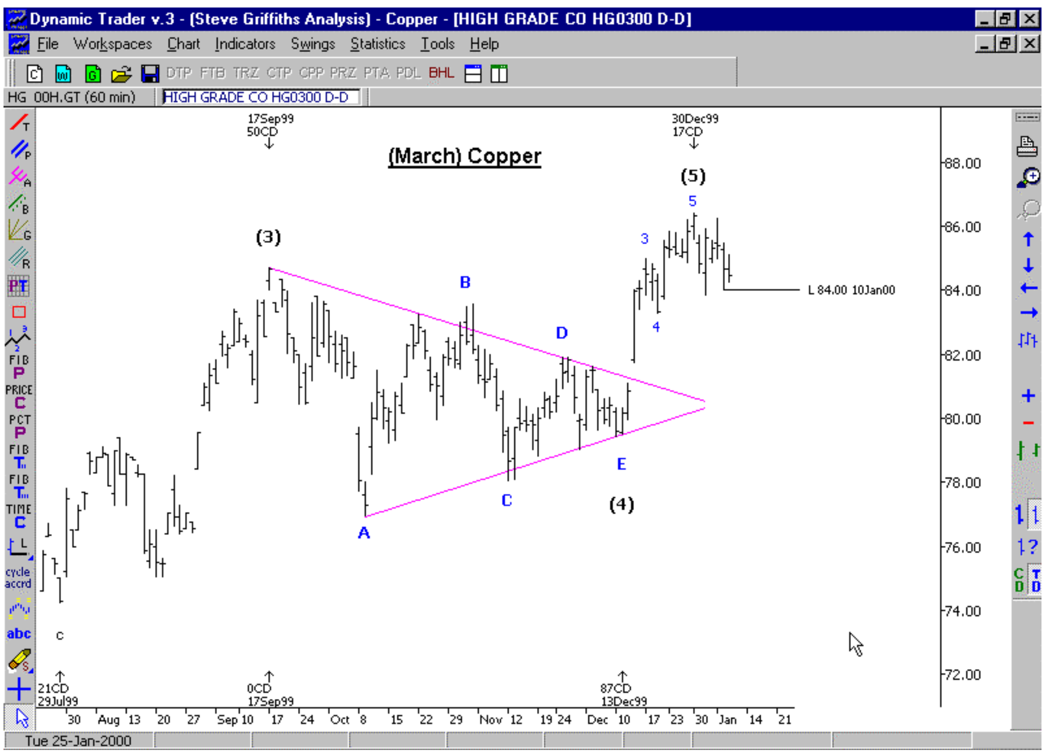
1. The best **Price** support areas are where a *cluster* of **Price** relationships fall together in *a relatively tight range*.
2. The *minimum* **Price** retracement for a Wave 4 is 38.2% Wave 3. Hence from a trading perspective do not be too keen to enter a Wave 4 before this *minimum* **Price** retracement, unless the internal structure of Wave 4 appears complete.
3. As a *maximum*, Wave 4 *should not close* into the *closing* extreme of Wave 1.

Potential Trade Set-ups and Trade Follow-ups

Bonds (March). Although not a specific trading recommendation, Bond's have now continued to decline as anticipated in Saturday's report. A close below 89-24 would suggest a continued decline to new lows. The next support level is 88-06 to 88.07, the *typical* **Price** target for a Wave 3.

Lean Hogs (Feb). Although not a specific trading recommendation, Hogs have now made a double inside day. Traders may consider continuing with the *inside day* Sell strategy outline in yesterday's report for a *trend continuation set-up*.

Copper (March). Although not a specific trading recommendation, Copper appears to have completed a 5 wave advance on 30th Dec, if this is correct traders may consider using today's *inside day* to Sell on a break of Monday's low for a *trend continuation set-up*.



Good Trading,

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