

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 5's

Today I would like to wrap up the discussion on Wave 5's with a look at a few situations you may find in your own trading, where things are not quite ideal.

I believe this will be one of the benefits of this new daily training in that I will not just be teaching "straight from the manual", but I will also be demonstrating how to apply the techniques in real time trading. This will include how to handle some of the less obvious situations that very often arise.

To demonstrate what I mean, I will use two specific trade recommendations from the Saturday Reports where we were able to enter a trade following the completion of a 5 Wave sequence, but where the Wave 5 termination did not stack up as ideal.

So how can we work with this to identify a low risk trade set-up? The simple answer is to wait until the Wave 5 has terminated, and then look to enter on the first correction to the new trend – the Wave 2 or B.

We need to use some method to signal to us that the five-wave trend should be complete. One way that I often use is a simple trend line to give an *initial confirmation* that the Wave 5 has terminated. We should not automatically trade off the break of this trend line, but use it as a signal to start looking for the Wave 2 or B correction.

Please see the Chart on the next page:

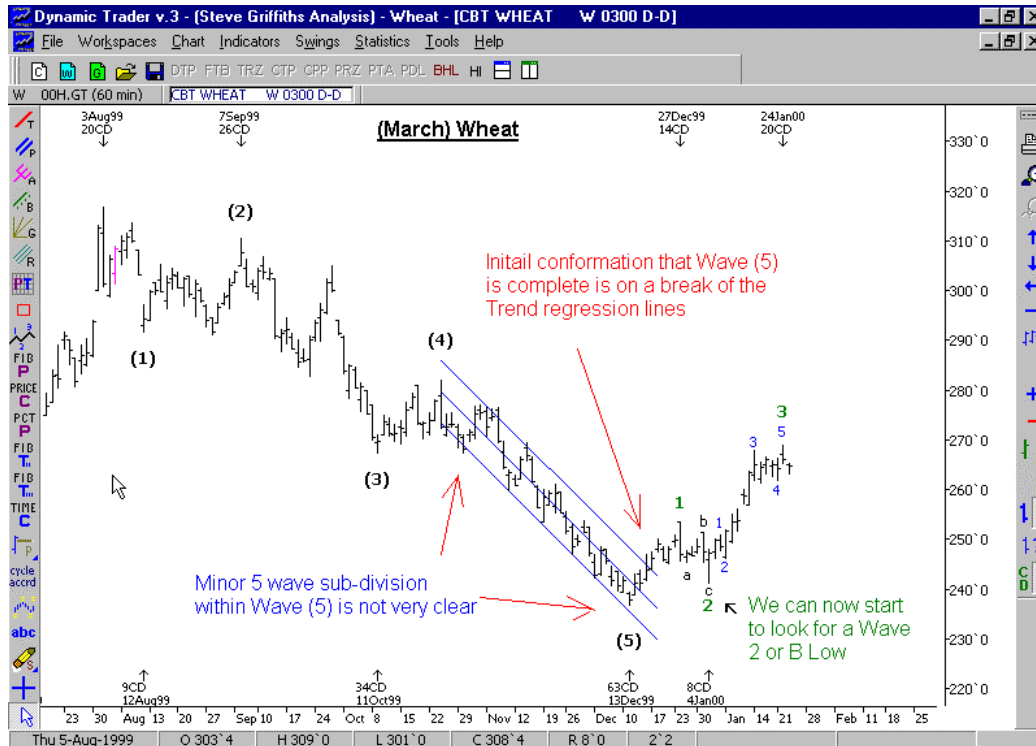


In this example, the *larger degree picture* suggested that Cotton was in a Wave (5) decline off the Oct 14 high. However, the Wave (5) was not subdividing into an ideal minor five-wave structure. However, the decline was very orderly and a break of a simple trend line drawn connecting the highs of this Wave (5) decline, as shown in the above chart, gave us an *initial confirmation* that the decline was over.

Once we have a signal that the trend may be complete, we can start to look for the Wave 2 or B low after the initial rally off the Wave 5 bottom terminates. The signal that the Wave 2 or B low is complete is if a market trades above what we believe to be the Wave 1 or A high. Hence the trade recommendation in the DT Report to enter a Long position in Cotton on a break above the Wave 1 or A high (Labeled Wave 1 in the above chart), which would be a signal the Wave 2 or B low should be complete.

Here is another example in (March) Wheat, again where the termination of the Wave 5 decline itself was not obvious, but still resulted in a profitable trade recommendation in the DT Report.

Please see the Chart on the next page.



Again the *larger degree picture* appeared to be completing a Wave (5) decline, but the wave (5) was not sub-dividing into an obvious minor five-wave structure.

So why try and guess the Wave (5) bottom when the minor pattern is not ideal? Instead, simply let the market itself give you an *initial indication* that this Wave (5) is over, then start to look for the Wave 2 or B low to enter a low risk trade. Hence the recent trade recommendation off the Jan 4 low.

Trading does not have to be Rocket Science to be profitable!

For those of you who like a more mathematical approach, you can use the Trend regression lines to achieve the same result as the simple trend line in the Cotton example, see the above chart. Trend regression lines contain 2 sigma (96%) of the data within them. So a break from the Trend regression lines can also be used as *initial confirmation* that the current move is over. Trend regression lines are particularly useful if the trend has been fairly orderly, as in the two examples above.

Today's Trading Lessons

1. Sometimes Wave 5 terminations are not at perfect **Price**, **Time** and **Pattern** targets. Two simple ways of giving you *initial confirmation* that the Wave 5 has terminated are:
 - A break of a simple trend line
 - Or trend regression channel.
2. Once the market has provided you with this *initial confirmation* that the trend is complete, you may then start to look for the Wave 2 or B correction for a trading opportunity.

Next Report

No report is delivered on Friday's. Next report Saturday, Jan. 29, 2000.

Good Trading,

Steve

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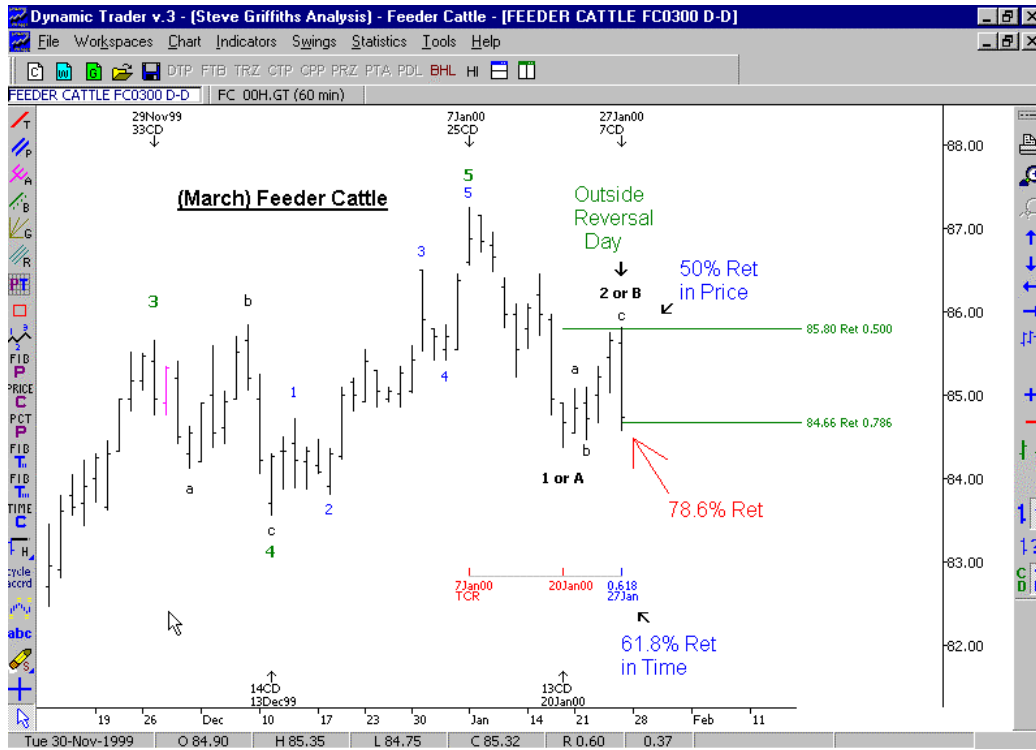
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Potential Trade Set-ups and Trade Follow-ups

Set-ups, alerts and follow-ups prepared by Steven Griffiths (SG) and Robert Miner (RM)

(March) Feeder Cattle (SG). Although not a specific trading recommendation, Feeder Cattle appear to have completed a Wave 2 or B high with today's *Outside Reversal Day* at the coincidence of a 50% retracement in **Price** and 61.8% retracement in **Time**.

Today's low is at the 78.6% retracement of the Wave 2 or B rally, hence traders may consider a short trade on a break of today's low of 84.55.



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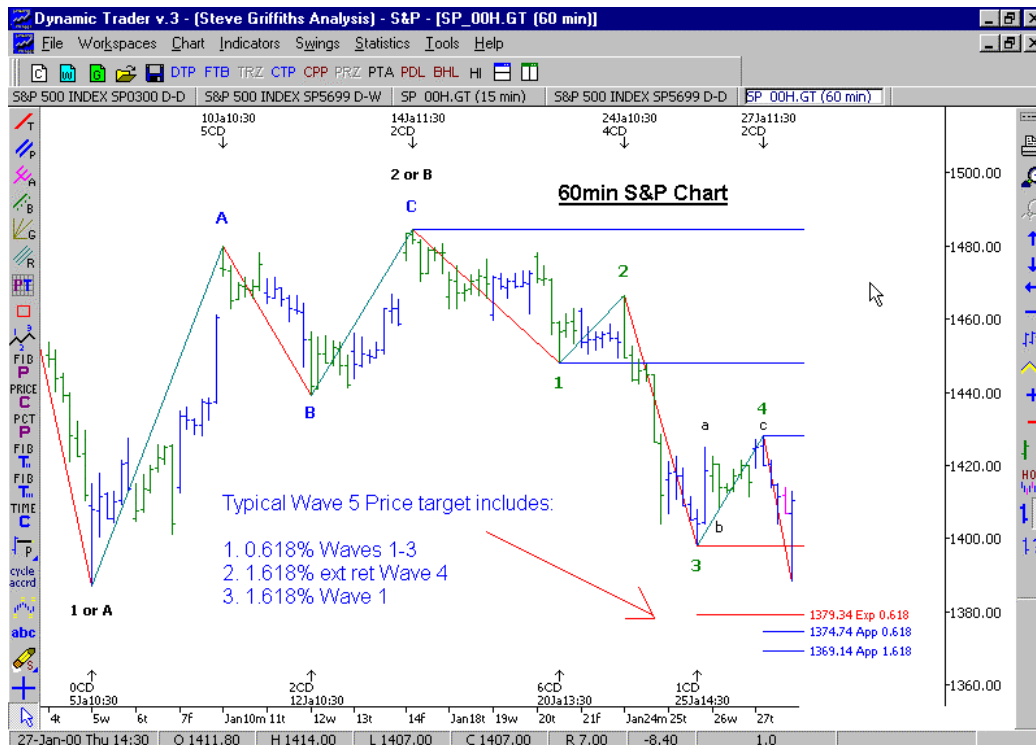
(March) S&P (SG) Although not a specific trading recommendation, the last leg down on the S&P appears to be sub-dividing into 5 minor waves on the 60min Chart. The *typical* Wave 5 target of 1369-1379 falls within the broad range for a Wave C low of 1360-1375 on the Daily Chart as outlined in Saturday's report.

Traders should be alert to the possibility that the S&P may be nearing a potential bottom if the market trades into this **Price** zone.

Intermediate Term Unit (S-1/24, 1447.25) (RM)

Since the S&P appears to have completed a Wave 4 high and is approaching the ideal price target for Wave 5, adjust the protective buy-stop to 1428.75, one tick above the Wave 4 high.

If the S&P trades to 1381.0 (just above the W.5 target), trail the protective buy-stop one tick above the prior day's high.



AD (March) (RM)

Yesterday appears to have completed a minor five-wave decline right at the 50% retracement. While not a specific trade recommendation, short term traders may want to consider a long trade using the inside-day trade entry strategy as today was an inside-day.

Copper (March) (RM)

Today made a reversal-day low at the 50% retracement and just above what should be the maximum support target for a Wave 4. Today's low is only one day short of a 100% Alternate Time Projection with Wave 2. While not a specific trade recommendation, traders should consider a long trade from the current price levels for a potential Wave 5 rally to a new high.

Sugar (March) (RM)

Today's inside-day provides another trade entry set-up for a potential long position given we believe Wednesday completed a Wave-5 low.

Wheat (March) (RM)

Intermediate Term Unit (L-1/7, 251)

Today's outside reversal day low was made at the ideal target for a Wave-4 low as shown in Saturday's report. Adjust the protective sell-stop to 256.2, one tick below today's low. While not a specific trade recommendation, traders not already long should consider going long from the current position for a potential Wave 5 rally to a new high.

End