

Trade Set-Up and Trading Strategies

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The ideal trade set-ups are in place for a trend reversal trade when the time, price and pattern analysis are each in a position to complete a trend. If traders have the patience to wait for the set-up, the capital exposure is relatively low and the probability of gain is relatively high. This tutorial will use the present position of soybeans as a trade example.

The first job is to make an analysis of the time, price and pattern position. After reviewing this tutorial, go to the *Dynamic Trader Software Example* page to see how the unique routines in *Dynamic Trader* allow the trader to project the high probability trend reversal targets.

(Continued on the next page.)

Pattern

The current pattern position with soybeans appears very simple (as of June 10). The current swing down appears to be a fifth wave. The assumption is the bear trend from the Nov. high will complete when Wave-5 is complete. The implications are important. If a five wave impulse trend completes on the current swing, the rally should be greater in time and price than any rally since the five-wave sequence began in Nov. 1997. The prior two rallies (waves 2 and 4) lasted just 3-4 weeks and 30-40 cents. While these rallies were not significant, the next rally should be greater in time and price. Depending on the larger degree position of beans, the rally may be much greater. At this point in time we are only trying to establish what should be the minimum bull trend swing once the current decline is complete.



Price

The ideal price target for Wave-5 is 612-600 (see the chart above). This range includes where $W.5 = 38.2\% W.1-3$ and $162\% W.4$. This zone also includes where $W.3-5 = 262\% W.2$. See the *Dynamic Trading* book or *Course* for more information regarding the most typical price projections for Wave-5.

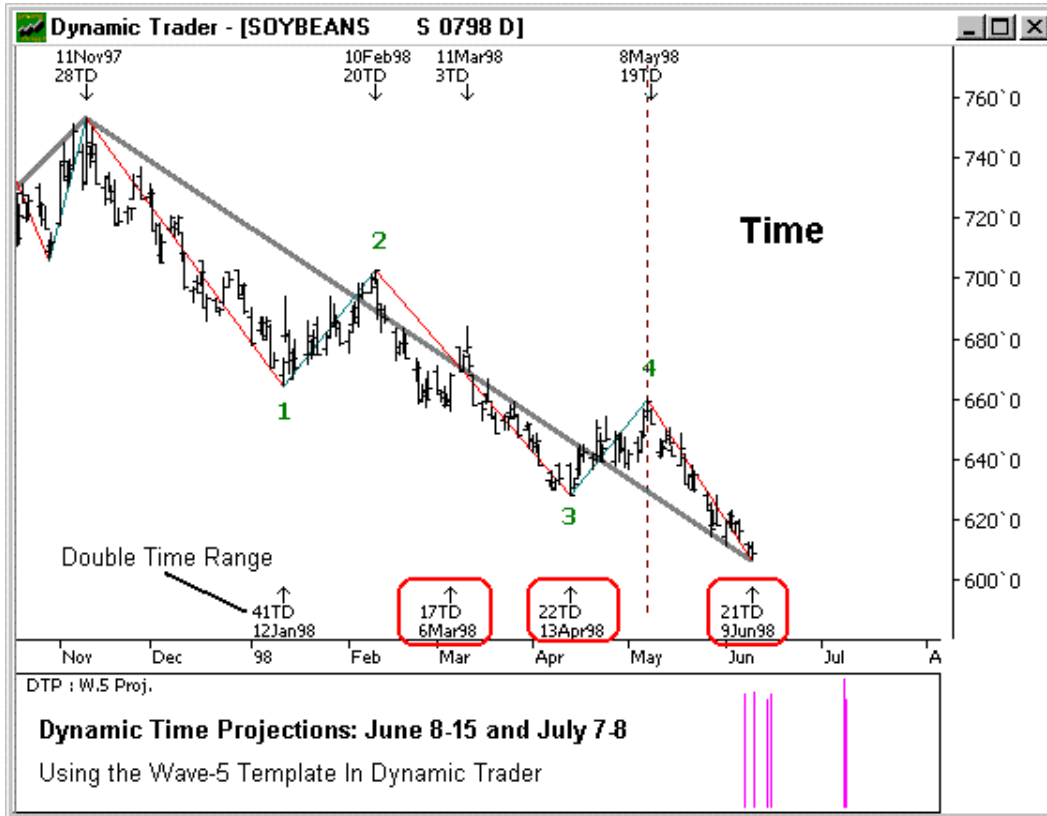
An important Elliott wave guideline is Wave-3 should not be the shortest impulse wave in price. Currently, Wave-3 is shorter in price than Wave-1 which implies Wave-5 should be shorter in price than Wave-3. The 100% Alternate Price Projection of W.5 versus W.3 falls at 584.6. The odds are high that Wave-5 will not exceed 584.6 before making a bottom. There are several other Wave-5 price projections that fall as low as 576.4, not far below 584.6, so we will consider the price zone of 585-576 as the maximum target to complete Wave-5.

The ideal price targets are where projections from at least two degrees coincide. The 60-minute chart below shows that Wave-5 appears to be subdividing into five waves. If this is the case, Wave-5:5 would ideally complete at 606-603 which falls right in the larger degree zone of 612-600. The low-to-date (June 9) was made at 606.4, just ½ cent above the ideal minor degree price target.



Time

So far, price and pattern appear to be in the ideal position to make a low. The *Dynamic Time Projection* report in *Dynamic Trader* projects the ideal time zones to complete Wave-5 at June 8-15 or July 7-8. The Wave-5 templates were used. The recent short-term time rhythm confirms the June 8-15 period. The two recent swings down have been 17-22 days. The swing down prior to that was 41 trading days or twice the recent periods.



The Set-Up – The Trade Trigger

The dynamic technical analysis which includes the time, price and pattern position have all coincided to suggest that beans are at or near an intermediate degree or larger low. The set-up is now in place. We need a trigger to put us into the trade.

The simplest entry strategy for a trend reversal trade is to enter at one of the *daily reversal signals* described in *Dynamic Trading*. This week’s report suggests entering on the *reversal-confirmation* (enter on the close if the close is above the current day’s open and the prior day’s close). When a daily reversal signal is used to enter the trade, the stop is defined as one tick below the recent low. The stop

position relative to the entry position depends on the daily ranges, but it is usually very close to the entry price.

What Voids The Trade Consideration

While beans appear to be at or near the ideal position to make a low, the bear market may continue much lower. We are not interested in predicting the future, only trading the market. Unless we clearly accept that a market may to exactly the opposite of what our high probability analysis suggests, we will eventually be in big trouble. That is why we must always identify the exact market action that will void our consideration of a trade.

If beans continue lower and close below the maximum price projection for a Wave-5 low (576), the current trade position set-up is voided. If beans close below 576, we could then no longer assume a five-wave structure is about to complete. The trading strategy should continue to be oriented to trend reversal long positions as long as beans have not closed below 576. If a long position is entered on a *trend-reversal* entry trigger, the protective sell-stop is place just one tick below the recent low. If the position is stopped out, long positions should continue to be entered at reversal signals at time and price projections as long as beans have not closed below 576.

How To Think – How To Act

This tutorial has used the current position of soybeans to describe how to think and act when considering a trade position. There are three legs to every trade: technical analysis, entry strategies and trade management. This tutorial has discussed the first two legs. If a long soybean trade is successfully entered in the days ahead, next month's *Traders Education Tutorial* will discuss trade management.

To see some of the unique time and price projection routines in *Dynamic Trader*, go to the [Dynamic Trader Software Example](#) to see how Dynamic Trader made the time and price projection shown in the charts in this tutorial.