Trade Set-Ups After Trend Reversals

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"The safest time to enter a trade is at the first reaction to the new trend."

W.D. Gann

Ideally, the Dynamic Trader technical analysis projects the precise time and price targets for a trend reversal and the objective trading strategies trigger a trade-entry at the reversal. The real-world of trading is not always ideal. The statement by W.D. Gann above should be an important guiding principle for all traders.

All markets almost all of the time provide a low-risk trade entry set-up relatively soon after a reversal has been made. The Dynamic Trading approach to technical analysis and trading strategies helps us to identify this secondary set-up. Why did Gann call it the "safest time to enter a trade?" Because we are entering the trade after a market has reversed and the new trend direction is underway. The key to safely entering the market after a trend reversal is the ability to identify the precise pivot when the market changed direction.

Many prior tutorials and the Dynamic Trading book describe how to project the time, price and pattern position of a market at trend reversals. This tutorial will describe one technique to enter the new trend direction once the reversal is complete.

Bonds At The Nov. 6, 1998 Low

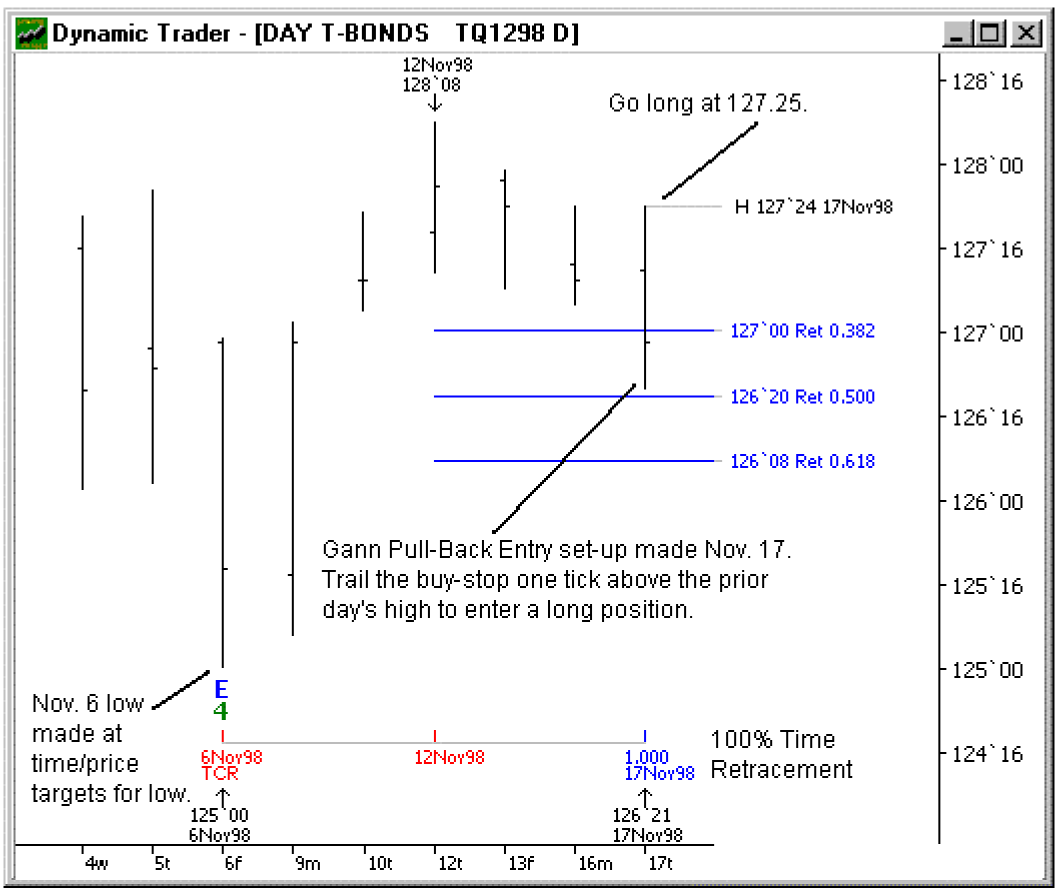
Dynamic Trader projected well in advance that bonds should complete a major Wave-4 low in the **Nov. 4-9** Projected Turning Point Period for a low and ideally in the **125.25-125.14** price zone. On **Nov. 6**, bonds made a closing low at **125.19** and daily low at 125.00. The Dynamic Trading book teaches the four high-probability daily reversal signals to use to enter a trade once a market has reached the time and price projections for trend change. One of those daily reversal signals is the *snap-back-reversal-day* (SBRD) which was made the next trading day on Monday, Nov. 9. The SBRD signaled the trend-reversal, trade-entry for a long position.

Traders who did not enter on the reversal signal had another low-risk, high-probability set-up a few days later on the initial reaction to the new trend direction.

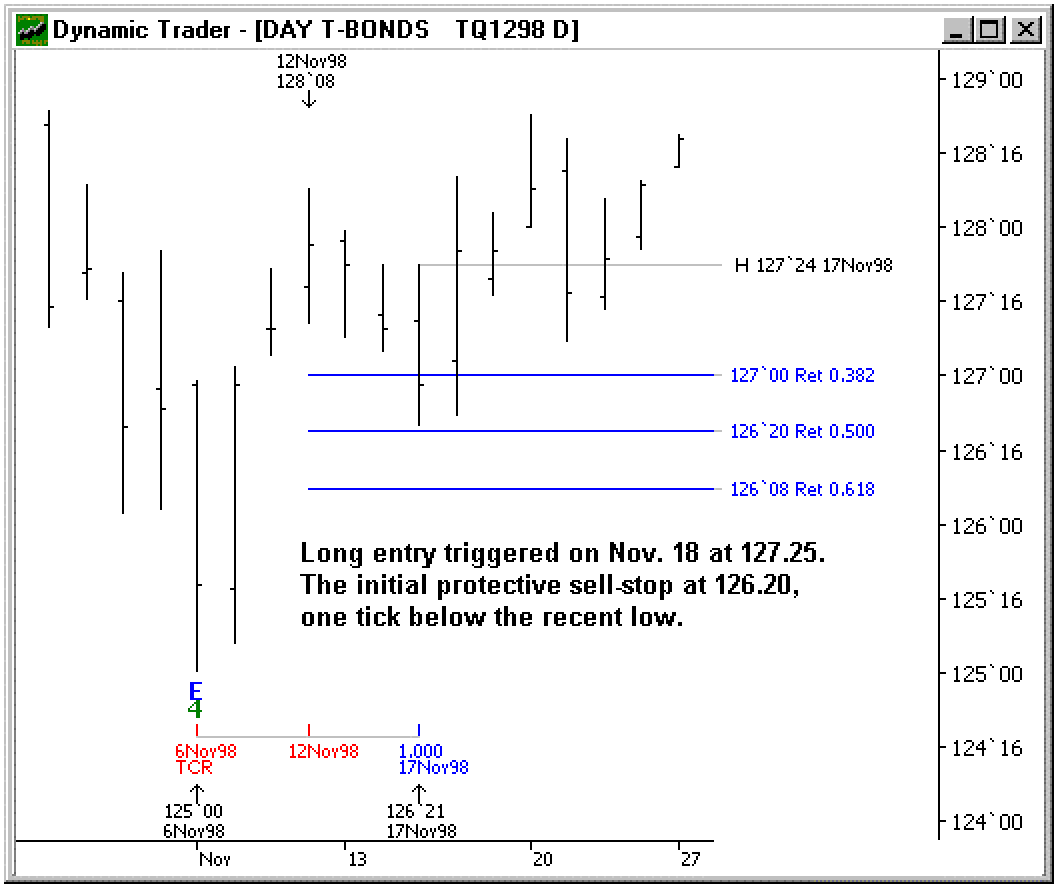
Trade-Entry Set-Up On Initial Reaction To New Trend

One of the easiest and safest trend-continuation trade-entry set-ups is the Gann Pull-Back (GPB) which is described in the Dynamic Trading book and Trading Course that is included with the Dynamic Trader software. In brief, this entry set-up waits for a minimum 3-day pull back from the trend. A buy-stop (bull market) is then trailed one tick above the prior day's high once the initial 3-day pull back is made. If a trade entry is triggered, the initial protective sell-stop is placed one tick below the recent minor low.

On Nov. 17, bonds completed a 3-day pull back to one tick above the 50% retracement. A buy-stop to enter a long position was then trailed each day at one tick above the prior day's high. Traders would begin the following day, Nov. 18, with a day order to enter a long position at 127.25, one tick above the Nov. 17 high. If filled, the protective sell-stop would be placed at the lower of 126.20 (one tick below the Nov. 17 low) or one tick below the low of entry day.



On Nov. 18, the 125.25 buy-stop to enter a long position was elected. The initial protective sell-stop was placed at 126.20, one tick below the Nov. 17 low which was lower than the Nov. 18 low. Bonds continued to rally immediately putting the long position in a profitable trade.



Trade-Entry and Initial Protective Stop-Loss Strategies Should Be Completely "Mechanical"

An important part of the Dynamic Trading approach is the trade-entry and initial protective stop-loss strategies. Once a trading opportunity is identified, Dynamic Trading teaches the specific trend-reversal and trend-continuation entry strategies that are completely objective or "mechanical." It becomes simply a matter of having the patience and discipline to wait for the set-up and take action.

The Gann Pull-Back is one of three trend-continuation entry-strategies that I teach in the Dynamic Trading book and DT Trading Course. It requires the market to have met the conditions for at least a minor pull-back before the entry set-up is made. The buy-stop is trailed which requires the market to make at least a minor confirmation by a trade above the prior day's high before the trade is considered. I know of many DT Owners who use the Gann Pull-Back set-up exclusively to enter trend trades once a reversal is complete.

You Don't Have To Be A Top and Bottom Picker

The Dynamic Trading approach to technical analysis often projects the time and price of trend reversals with amazing consistency. For various reasons, a trader may not be prepared to take a trend reversal trade as it unfolds. The analysis may not be up-to-date, the trader may not be monitoring that particular market, the trader may be on holiday when the reversal is made, etc. What ever the reason, once a reversal is made, there are many opportunities to enter a trade in the new trend direction. Entering the trade on the initial reaction against the new trend using the Gann Pull-Back strategy is just one technique. Other strategies will be described in future Traders Education Tutorials.

Also see this month's Dynamic Trader Software Example page for an example how Dynamic Trader is used to make the time and price projections for the current bond trend.

Dynamic Trader Software and Trading Course

If you would like to learn a comprehensive and practical approach to technical analysis and trading strategies, check out the Dynamic Trader Software and Trading Course at www.dynamictraders.com.

Robert Miner's book *Dynamic Trading* Named Trading Book of the Year

Robert's *Dynamic Trading* book has been named the Trading Book of the Year by the 1999 Supertraders Almanac.