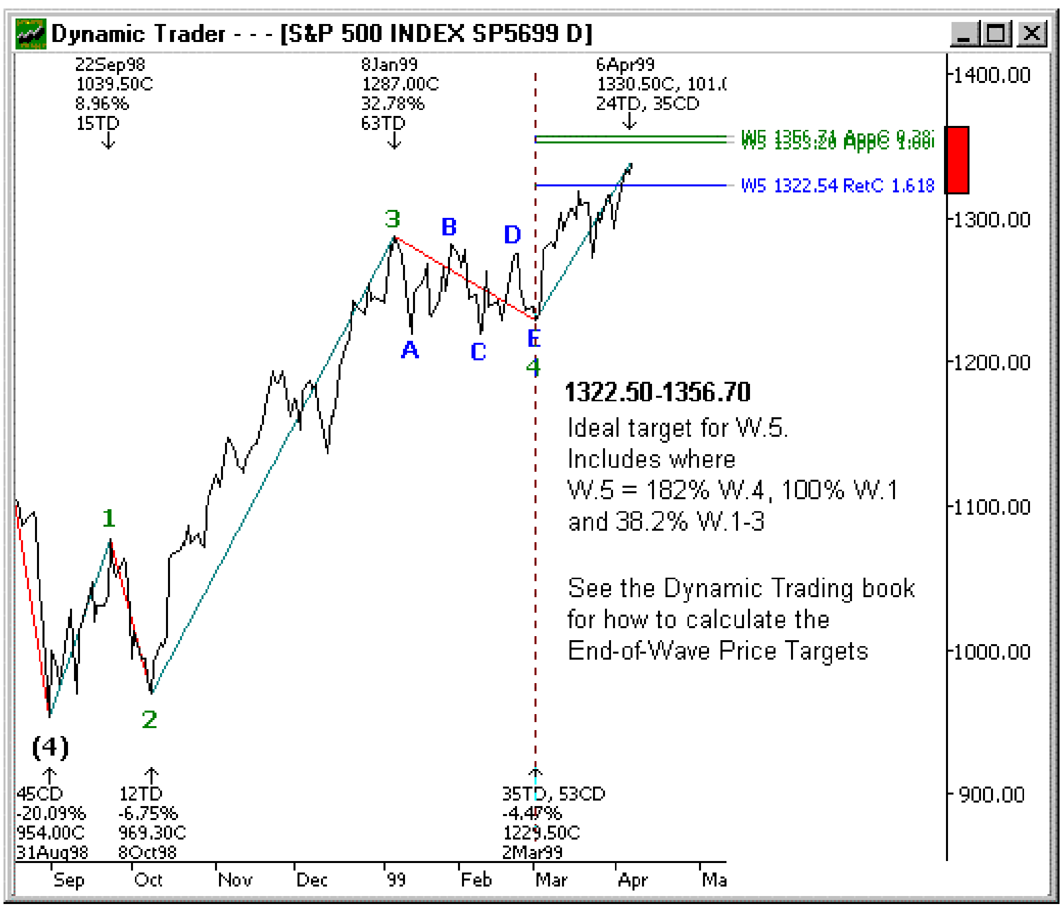
How To Use Dynamic Price Projections

The Dynamic Trading book as well as the DT Trading Course that is included with the Dynamic Trader Software describes what price projections are the most relevant for each market condition.

Once the price projections are made, how are they used to help make a trading decision? Let's consider a current example.

The high probability price projections are made for the S&P for the End-of-Wave-Five assuming March 2 is a Wave-4 low on the close-only data. If you do not have the Dynamic Trading book, you can download the "Wave-5 Price Projections" tutorial from the Traders Education Tutorial Archives to learn which price projections are the most important to target the end of a Wave-5.

The <u>1322.55-1356.70</u> price range is the <u>ideal</u> target to complete Wave-5 based on the daily close-only data of the nearest futures continuous contract (currently June). The price range includes the three most important wave relationships which include where W.5 = 100% W.1, 162% W.4 and 38.2% W.1-3.



How do we use this price target as part of our trading strategies? The price target was first projected shortly after the March 2 low. One of the most important pieces of information a trader can have is trend direction and the high probability minimum time and price targets for the current trend. If we have this information, we know which side of the market to trade, at least until the minimum targets are reached.

The S&P closed at 1318.60 on March 18, just four points short of the minimum target zone at 1322.55. On March 19, the S&P traded into the target zone. Once a market reaches the ideal target range, stops should be brought very close to the market and trades in the direction of the current trend should be avoided except for very short-term trades.

The S&P advanced 89 points from the March 2 closing low to the March 18 closing high. There were a lot of opportunities to initiate long positions and to maintain the position until the S&P approached the target zone from the early-March low to mid-March.

So far we have only considered the price target. Time targets are also important. In fact, W. D. Gann said time is the most important factor and I agree with him. The ideal time target for a Wave-5 high was the week beginning April 5 (ideally, April 7-9 which the short-term time factors have now stretched through April 13). See this month's DT Software Example page for more on the recent time targets.

The minimum price target was reached March 19 but the ideal time target was still over two weeks away. What does this tell us? More than likely, the S&P would remain sideways to up into the week beginning April 5. Dynamic Traders would not want to be too anxious to initiate short positions because the time target had not been reached. Since the price target had already been reached, the odds were a continued price advance would be fairly minimal.

What if the S&P continues to advance beyond the ideal target zone with the upper limit at 1356.70 basis the nearest futures close? If one target zone is exceeded, the odds are a market will continue at least into the next target zone. What is the next target zone for the S&P?

The target zone above 1356.70 is the <u>1428.40-1436.00</u> range (not shown on the chart above). The projections for this next higher Wave-5 target zone are also described in the Dynamic Trading book. This is the probable maximum target for a five-wave advance that began on Aug. 31. If the S&P makes *two-consecutively-higher-daily-closes-above 1356.70*, the odds are the advance will continue to at least 1428.40, the beginning of the next target zone. It usually takes two-consecutively-higher-daily-closes-above the upper limits of a target range to confirm a continuation of the trend to the next target zone. Can you see how to develop trading strategies around these price targets?

Let's summarize:

1. The odds are very high (85%+) that a market will reach at least the minimum target zone before a trend terminates. If this is the case, trading strategies should always be oriented to the direction of the trend until a market approaches the minimum target zone.
2. Once a market approaches the minimum target zone, stops on current positions should be brought relatively close to the market. Trades against the trend should only be initiated if the market reaches the price target zone within a time target zone. At the coincidence of time, price and pattern, change is inevitable.
3. If the market makes two-consecutive-closes beyond the extreme of the target zone, it is a signal the market should continue to trend at least into the next target zone. We would not anticipate the end of the trend before the next target zone is reached.

Dynamic Trading technical analysis and Dynamic Trading trade strategies and trade management give the trader a significant edge. How would you like to be able to have a reliable method to project the high-probability time and price targets for any degree of trend, no matter what the market condition?

If you would like a thorough training in Dynamic Time and Price analysis and trading strategies, study the Dynamic Trading book. If you would like the most unique and comprehensive technical analysis software for time, price and pattern analysis, consider Dynamic Trader. The second half of 1999 is going to take a lot of people by surprise and present some of the best opportunities of the decade. Be prepared with the knowledge and the tools for success.

Next month's Traders Education Tutorial will discuss the trading strategies to that recognize the trend reversal almost immediately, one a market has reached the time and price projections for a trend reversal.