MTPredictor Trading/Training Course

(Risk/Reward trading with Elliott wave)

Part 2

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Chapter 1 - Introduction

Welcome to Part 2 of the MTPredictor Trading/training Course. This will take MTPredictor to more advanced levels. It will allow you to use the software to perform manual and more advanced analysis to uncover additional trade set-ups and manage open positions. The individual routines in the MTPredictor program will be covered in more depth. We'll take a look behind the scenes to show you the analysis techniques underlying the automatic trade set-ups that were the main body of the prior section.

Firstly, I will take you through the individual modules that comprise the standard trade set-ups from Part 1. In particular, we will look at the WPTs, the coloured reversal bars and then show you how the software can automatically identify not only the simple ABC correction, but also all of the standard Elliott wave patterns with the "Show Elliott waves" module.

The WPT module will allow you to project in advance the most likely support or resistance areas for any of the main Elliott wave sequences to end. This offers a huge advantage over some standard technical analysis techniques as it will enable you to be prepared in advance for the areas of support or resistance where most Elliott wave swings will end - whereas standard technical analysis only allows you to react after a high or low has unfolded.

The coloured reversal bars also provide a way to confirm whether a market has indeed found support or resistance at the projected WPTs.

The "Show Elliott waves" module is one of the most important automatic routines in the software, mainly because it enables you to automatically identify Elliott wave patterns *in isolation*. As you saw in Section I, this is the best way to approach Elliott wave analysis. This module does not stop there - it is also capable of automatically projecting the most likely areas (using the WPTs) for most of the Elliott wave patterns to end. Combined with automatic coloured reversal bars, the "Show Elliott waves" module will be one of the main modules to use on a daily basis

I will also take a look at the topic of numerology, and go behind the scenes on the WPTs to show you which numbers are used in the software.

I will also look at how to perform advanced Elliott wave analysis manually. Again with the main focus on working only with the most obvious and reliable Elliott wave patterns, taken in isolation.

You can then use your own manual Elliott wave counts to perform advanced analysis using the modules within MTPredictor to be able to uncover additional trade set-ups.

I will also cover some advanced trade management techniques that will allow you to tweak the basic trade management rules as outlined in Section II. This enables you to take account of specific market situations, for example when a particular trade is more likely to unfold as a strong wave (3) swing, this will allow you to maximise your profit on this particular trade, above and beyond the basic trade management techniques.

So far all the charts you have seen in Parts 1 and 2 of the Trading Course have been daily charts. In this section I will consider how MTPredictor (and its techniques) can be applied to short-term charts and, in particular, will take a detailed look at day-trading. I will also look at the longer-term picture, and show how these techniques can be applied to weekly charts.

Also covered are a number of additional trade entry techniques, for example the Minor Pullback that will allow you to enter a trade once the main trend is already in force.

It's advisable to proceed through this section one chapter at a time, because each chapter will build on what you have learnt in the prior chapter.

Part 2 will take your MTPredictor analysis to a higher level and allow you to perform more advanced analysis with the aim of advancing up the Techniques Curve™. However, the same overriding principle will apply throughout the whole of this section: you should always look to only take a trade set-up that allows you to enter the trade with a small initial risk compared with the potential profit. This was the fundamental building block upon which Part 1 and the automatic routines were based, so it should still be applied throughout all your advanced analysis and trade set-ups, no matter how they were uncovered.

Thanks, and good trading . . . .

Steve Griffiths

Chapter 2 – Important numbers

The whole topic of numerology is vast and complicated, and is far beyond an in-depth study here, so, if you are interested in this area, I do suggest that you do some further reading and study yourselves. All I would like to do in this chapter is to cover the numbers that are used in MTPredictor and discuss why they are important.

The first major source of these numbers in market analysis can be traced back to R. N. Elliott and W.D. Gann, and possibly much earlier. There have also been many fine analysts in more recent years who have taken on the subject of numerology and applied it to Price and Time analysis with great success.

If you head even further back in history, several leading mathematicians feature, such as Pythagoras and Fibonacci. Fibonacci however, was the key source for most of the ratios now used in the financial markets.

Leonardo Fibonacci was reputed to be one of the greatest mathematicians of the Middle Ages, publishing a number of papers in the years 1200 – 1220, and is best-known for his *Fibonacci number series*, the implications of which I'll go into in greater detail soon.

The Fibonacci number series is the answer to this type of question: if you had two rabbits and let them breed, how many rabbits would you have at some defined point in the future? This seems a bizarre start to one of the most important number series in the financial markets.

The number sequence starts at 1, and then adds the previous two numbers together to produce the next number in the series:

1 + 1 = 2
1 + 2 = 3
2 + 3 = 5
3 + 5 = 8
5 + 8 = 13
8 + 13 = 21

And so the number series goes on:

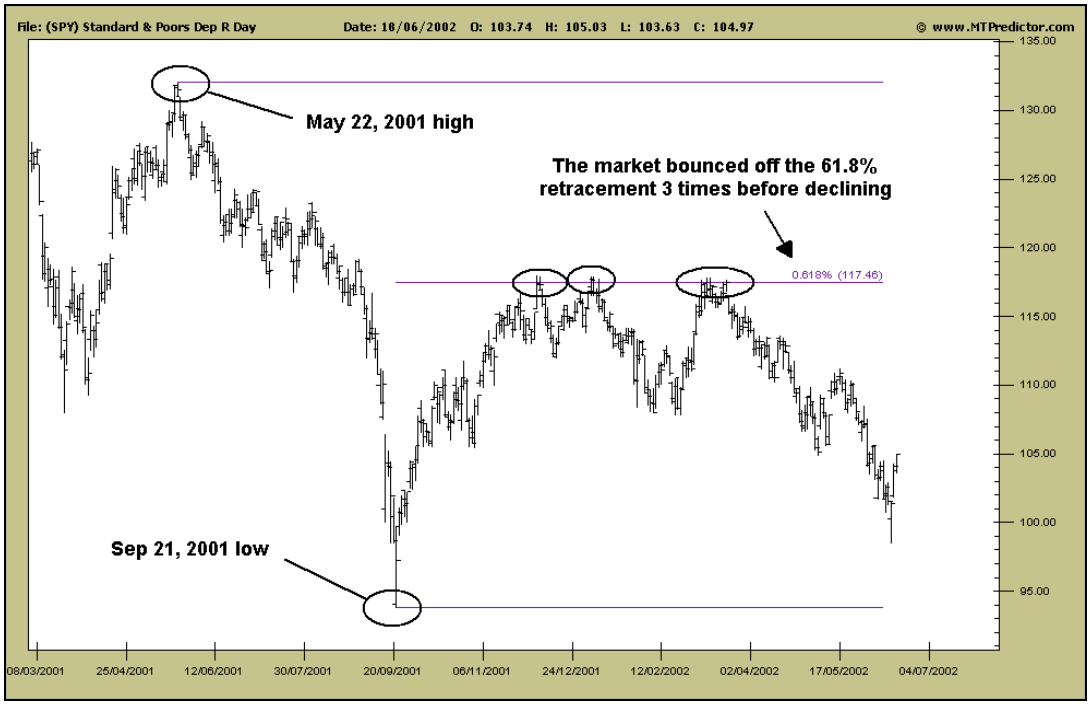
1, 1, 2, 3, 5, 8, 13, 21, 34, 55, 89, 144, 233, 377 etc.

Okay, so far we have a set of numbers that is important for performing *static counts* in the markets, particularly in Time analysis (more on this later). This is the Fibonacci number series. However, this number series is unique, in that if you take any two adjacent numbers and divide the bigger by the smaller they come closer and closer to 1.618. 1.618 is one of the most important numbers governing the natural world.

For example 55/34 = 1.6176, and 377/233 = 1.61803

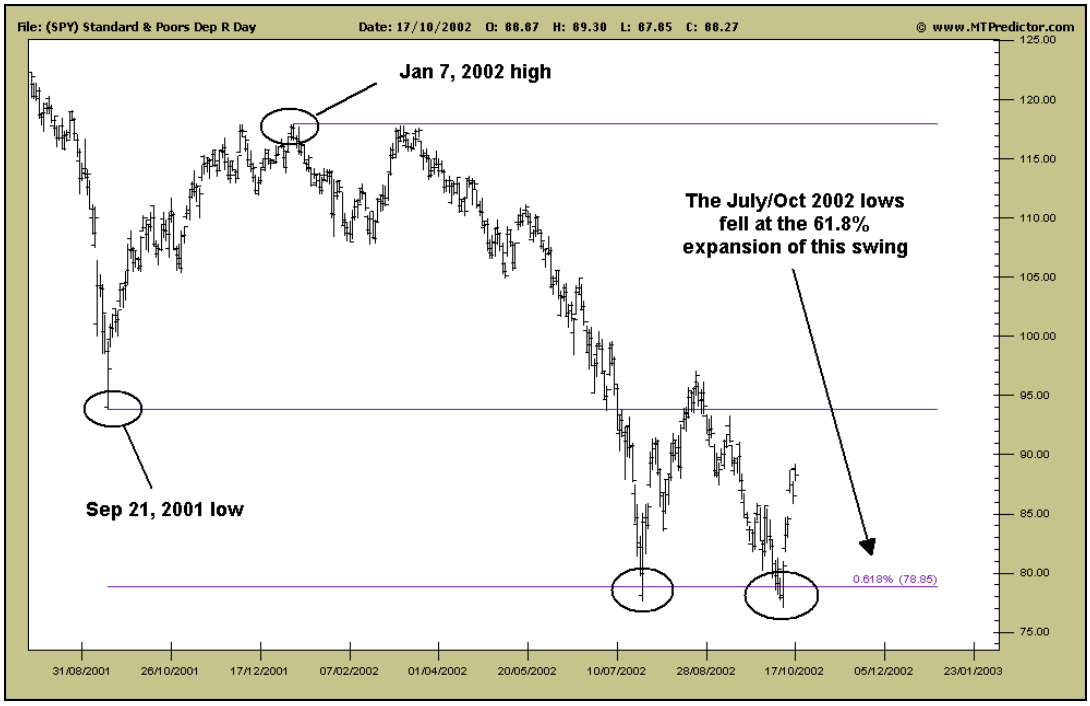
The significance of 1.618, and its reciprocal 0.618, is astonishing because this ratio can be found throughout all aspects of nature, from how shellfish grow to ratios between different elements of the human body. This ratio can even be found within the Great Pyramid of Giza in Egypt, or even in the ratios of subjects in masterpieces of art. I encourage you to look into this ratio in more detail for yourself, however for the purposes of this book, all you need to know is that the ratios of 1.618 and 0.618 are the fundamental building blocks from which swings in financial markets appear to unfold.

Let me show you a few examples, starting with a simple retracement of a prior swing on the SPY (the US stock that tracks the S&P index):



Here you can see how the market declined off the May 22 high into the September 21 low in 2001. The market then rallied back up, however, as you can see from the chart above, this rally stopped right at the 0.618 level. In fact, the market made three attempts to break his level, but it could not, before it declined sharply.

If you now move a little further forward in time to look at the decline off this high on January 7 2002, you can see how the market found support at the 0.618 expansion of the September 21 to January 7 rally:



I know many of you will already be familiar with price retracements, however some of you may not have seen (or indeed heard of) price expansions. A price expansion is simply taking the value of a swing, multiplying that value by a certain ratio (in this case 0.618) and then either adding onto the higher value (to expand upwards), or subtracting from the lower value (to expand downwards).

Here you can see how the double bottom at the July/October lows in 2002 fell right at this 0.618 expansion level of the prior swing.

Price retracements and expansions are not the only price calculations performed on swings in the markets; you can also use price projections. A price projection is where you take the length of one swing in the market then project it from a third point, with the original length multiplied by certain ratios. I'll cover this in more detail in later sections, however a good example of this is the chart on the next page.

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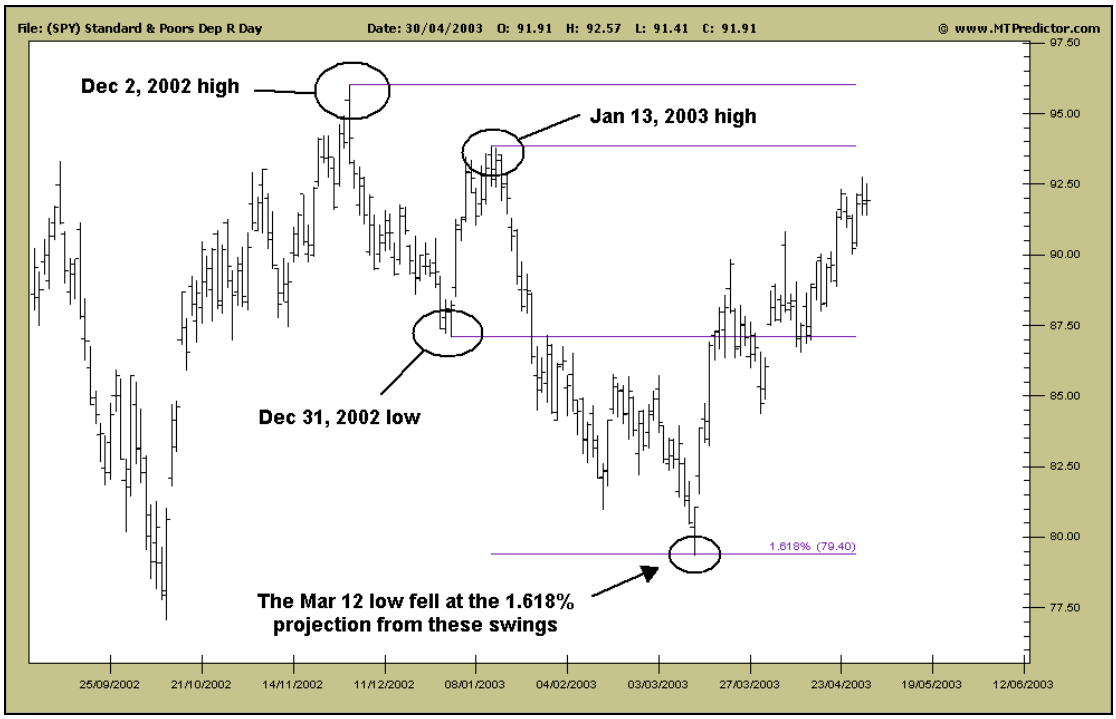
Here I have taken the length of the price swing from the December 2 high into the December 31 low in 2002, then multiplied this value by 1.618 and then subtracted it from the January 30 2003 high. In effect, what this is doing is taking 1.618 times the December 2 to December 31 swing and then projecting that from the Jan 30 high.



As you can see in the chart above, the March 13 low felt exactly at this 1.618 projection.

I did not have to look very far, or actually very far back in time, to find some excellent examples of how the stock market made major turns just using the 1.618 and 0.618 ratios of prior swings in the market.

I hope this has shown how important the Fibonacci ratios of 1.618 and 0.618 are, and how they can be used as multipliers in conjunction with prior swings in the markets to help project future levels where support or resistance may unfold.

These ratios are not the only ratios to use. There are two more important ratios derived from the primary 0.618 ratio: 0.786 and 0.382. 0.786 is the square root of 0.618, and 0.382 is the square of 0.618.

In addition, two more important ratios are derived from the important 1.618 ratio: 2.618 and 4.236. 2.618 is the square of 1.618, and 4.236 is the cube of 1.618.

As a result, the main Fibonacci ratios that I consider most important are 0.382, 0.618, 0.786, 1.618, 2.618 and 4.236.

There is also one more ratio that I use: 1.272, which is the square root of 1.618.

As you can see, at first sight this may seem slightly complicated, but all you need to realise is that all these ratios are derived from the bedrock 0.618 and 1.618 Fibonacci ratios. All that is needed to produce these numbers is some simple maths. However, when performing normal analysis you do not need to worry about this, as the MTPredictor software program takes care of all these numbers for you.

If you would like to take your study of numerology further, then you can start to look at additional ratios that are derived from the square, circle, triangle and rectangle. From these arise such ratios as 1.414, which is the square root of 2, which is the value of the hypoteneuses from the square of equal sides of 1. The square root of 5, which is 2.236, is another important number.

As you may have gathered, the main use of the these ratios is in taking the price length of a prior swing in the market, then multiplying it by one of these ratios, then projecting it from another point. This then projects into the future support or resistance levels where the market may well make a turn. This is called *dynamic analysis*, where prior ratios are multiplied and then projected into the future.

Another way to use these numbers is in *static analysis*, simply adding the value of these numbers to prior points. However, this is most relevant to Time analysis, so I will leave an in-depth study of this for the chapter dealing with Time analysis.

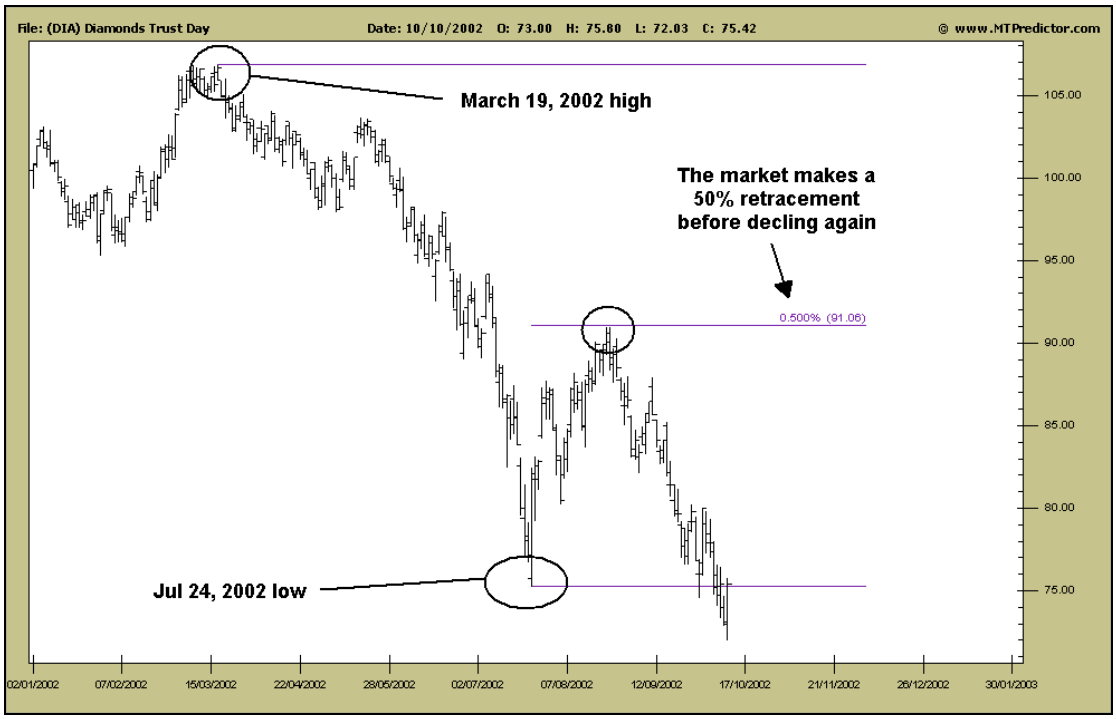
I will go into more detail on which ratios and which swings are used in the next chapter on WPTs, but my concern in this chapter is to introduce the ratios that are used in MTPredictor: mainly based on the Fibonacci ratios of 0.382, 0.618, 0.786, 1.272, 1.618, 2.618 and 4.236.

R. N. Elliott made extensive use of the Fibonacci ratios and number sequence in his work developing the Elliott wave theory in the 1930s. You will see more of his work once I cover static Time counts in later chapters.

However, the Fibonacci numbers are not the only ones that are important in the markets. As I touched on a few paragraphs ago, there are also important numbers derived from the most basic mathematical relationships of 100% and 50%. The main reason for these ratios' importance is that they are very obvious places on a chart for support and resistance to be seen. W. D. Gann based much of his work on these numbers.

Let me show you a few examples.

The 50% value is best used as a retracement level. If you look at the chart below, you can see how Diamonds Trust (DIA), the US stock that tracks the Dow Jones Industrials index, made a rally off the July 24 2002 low that retraced half (or 0.50) of the March 19 to July 24 decline:



Once the market had reached the 50% (0.50) retracement level, it turned, made a high and continued to decline from there.

Very often a counter trend swing will retrace 50% of the prior move before making either a high a low. This is a very obvious level, of which most technical traders are aware.

The second ratio of 100% is best used as either a price expansion or a price projection.

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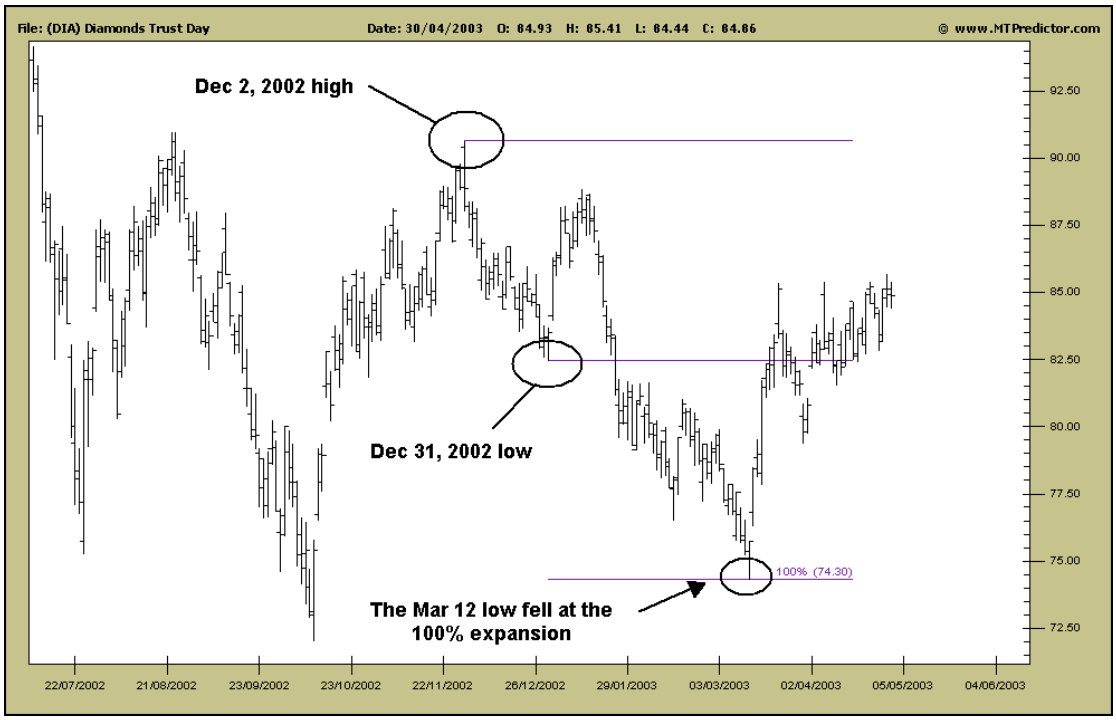
This second chart on the DIA shows how very often a turn in the market will be made after a move has continued 100% (1.00) of the prior swing:



Here the price difference between the December 2 2002 high and the December 31 2002 low was expanded below the December 31 low by 1.00. As you can see, the ultimate low of March 12 felt right at this 100% expansion level.

You would be amazed how many times this price relationship works in the markets, particularly as it is a relationship that is not very well known. Many you will be familiar with price retracements, but I guess that few of you will have seen price expansions before and, particularly, the way a 100% expansion of a prior swing will very often produce a turn in the market.

The third method of price calculation is the price projection. I will take a look at an example of this on the next page.

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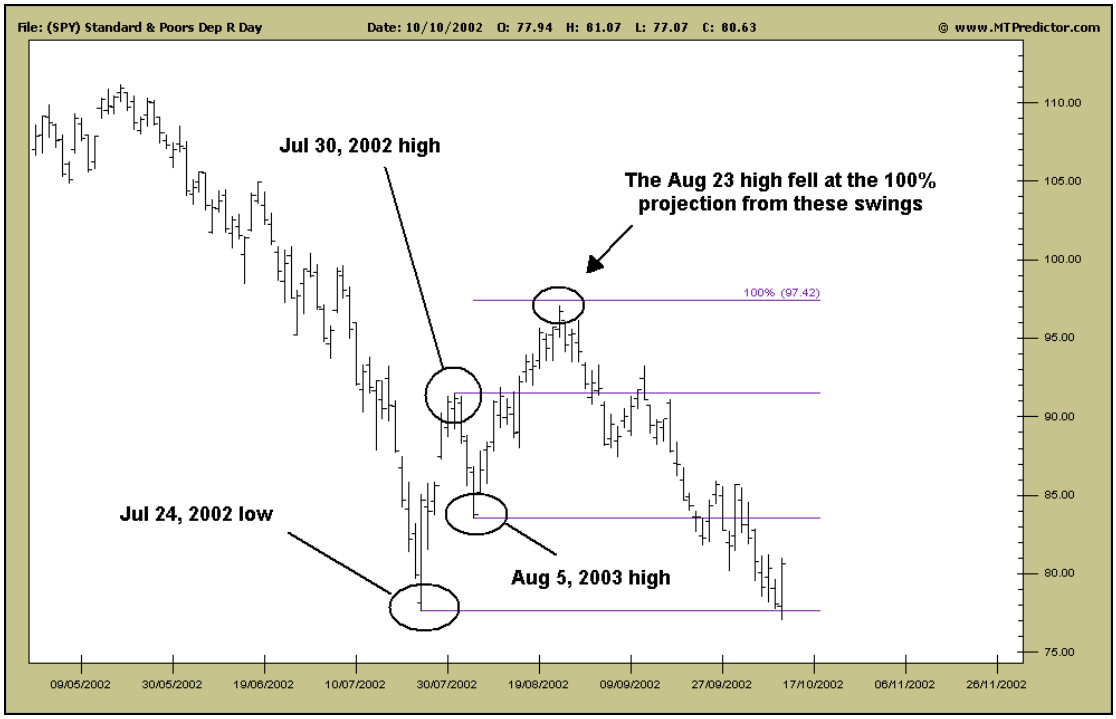
Here is a chart of the SPY, the US stock that tracks the S&P 500 index:



As you can see from the chart above the August 23 high felt right at the 100% (1.00) projection of the July 24 low into the July 30 high projected from the August 5 low.

This is a very important relationship, because it is a three swing correction where the third and first swings are equal in price. Or put another way, this can be labelled an ABC correction where wave A is equal in price to Wave C. I hope this sounds very familiar from what you have read earlier in this course.

W.D Gann was probably the most famous market technician to make extensive use of ratios derived from 1. In particular, the 50% retracement can be directly attributed to him. Most of the analysis in this book is related to the Elliott wave theory and the Fibonacci number series, so the ratios based on 1.618 and 0.618 are considered more important, although the 0.50 and 1.00 ratios do have their place.

As such, you should add 1.00 and 0.50 into the current list of important numbers.

At first sight this may seem very complicated, however you do not need to spend too much time on the chapter or worry about what ratios to use, how to use them, or what swings to use them from, because MTPredictor can perform all this work for you. As a result, this chapter should be treated more as *information only* rather than an in-depth study.

Summary

There are two sets of numbers that are important for performing mathematical analysis in the markets.

- The first of these is the Fibonacci sequence: 1, 1, 2, 3, 5, 8, 13, 21, 34, 55, 89, 144, 233, 377 etc, where these numbers are normally used for static Time counts.
- The second is 0.382, 0.5, 0.618, 0.786, 1.00, 1.272, 1.618, 2.618 and 4.236, where most of these numbers are derived from the important 1.618 (and 0.618) ratios that derive from the first series, and are mainly used for dynamic analysis, with the length of a prior swing being multiplied by these ratios.

As you have seen in this chapter, very often financial markets make reversals at, or very near to, price retracements, expansions or projections of prior market swings which are then multiplied by these particular ratios.

In other words, you can use these ratios to help anticipate future support and resistance areas where markets are likely to make a reversal so they should be considered *leading indicators* because they can help project in advance potential future support and resistance areas.

Again, this chapter is by no means a full and complete look at the topic of numerology, there are many additional sources you may want to consider if you wish to take your study of numerology further. There are also additional ratios and additional techniques that can be used to anticipate future support and resistance areas. This chapter contains only the ratios and techniques that I have found useful based on my own experience in the markets.

However, I do suggest that if you are interested, you do take your own study and research further, not only because it can lead to additional ratios and techniques to use, but also because the topic is absolutely fascinating! It is a real eye-opener to see how often these important ratios unfold in everyday life. It will certainly change the way you look at many elements from nature from now on.

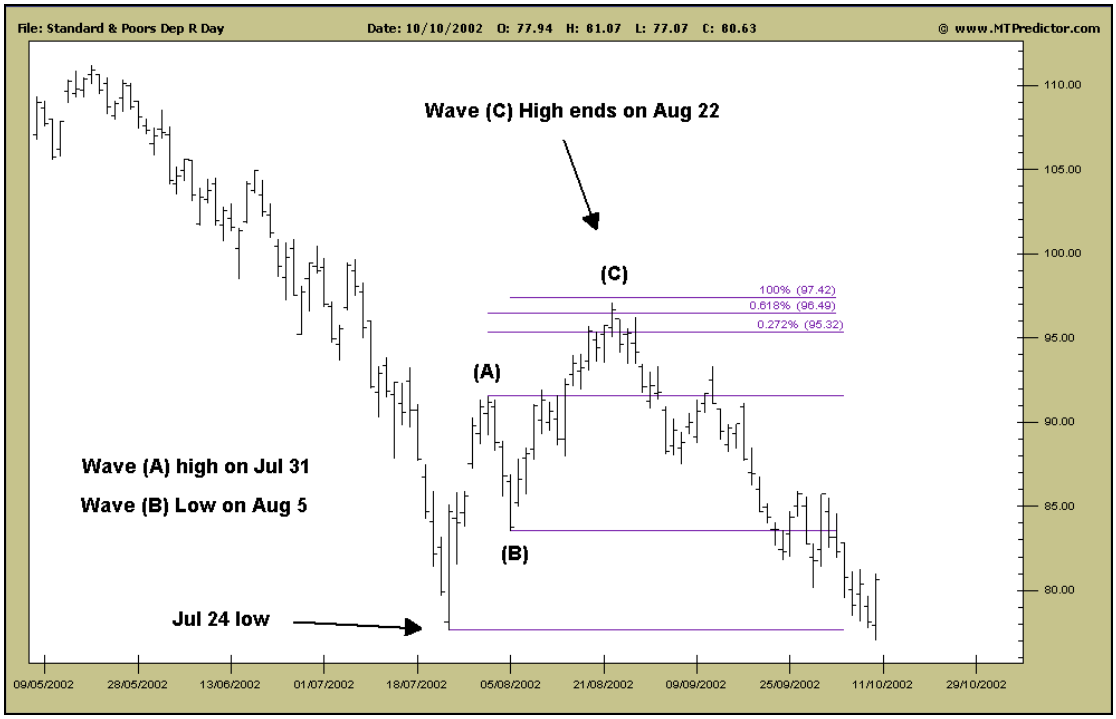
Chapter 3 – WPTs (Wave Price Targets)

As you saw in the last chapter, there are a number of important ratios that can be used to multiply prior price swings in the markets, to then project future support and resistance areas. Just to recap, these numbers are mainly based on the ratio of 1.618, and are as follows:

0.382, 0.5, 0.618, 0.786, 1.00, 1.272, 1.618, 2.618 and 4.236

You also saw a number of examples in the last chapter where a market reversed at either a projection or extension of a prior swing using these ratios. This chapter will take this one stage further, to show you how the best support or resistance areas are where multiple ratios from multiple swings fall in the same area. This is like a *clustering* of Price targets with the most likely areas for a change in trend where the highest number of ratios falls in the smallest area.

Let me show you an example on the SPY (a US stock):

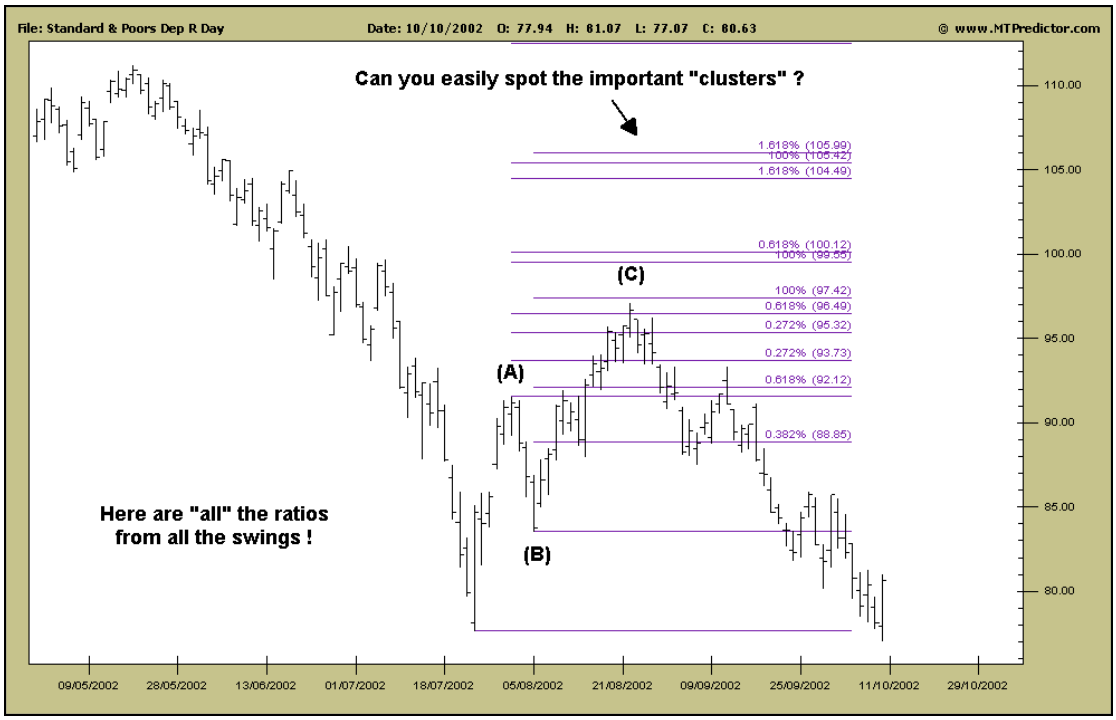


Here you can see how the wave C high of August 22 2002 ended right in the cluster of the following Price ratios:

- 1.00 Wave (A) projected from the Wave (B) low,
- 0.618 expansion of the Wave (B) swing and
- 0.272 expansion of the Wave (A) swing

As you can see, this Price cluster worked superbly as it nailed the exact high of August 22.

However, the picture is slightly less clear if I go back one stage and place *all* the Price ratios from all of the swings on the chart at the same time:



Here you can see a very confusing picture, with Price ratios and lines all over the chart. So how can you decide which ratios from which swings are important, or indeed where the clusters are and which ones are more important than others ?

The simple answer is: you do not need to know, as MTPredictor will do all this for you.

Some of you may take a look at the chart and think “yes, I can see a few Price clusters and this does not seem too difficult”. But what about when you move onto a wave 5, and are dealing with 4 price swings as opposed to just 2 ? Multiply that by the number of ratios, and the number of lines that suddenly appear on your chart increases significantly.

Let me show you example on the next page

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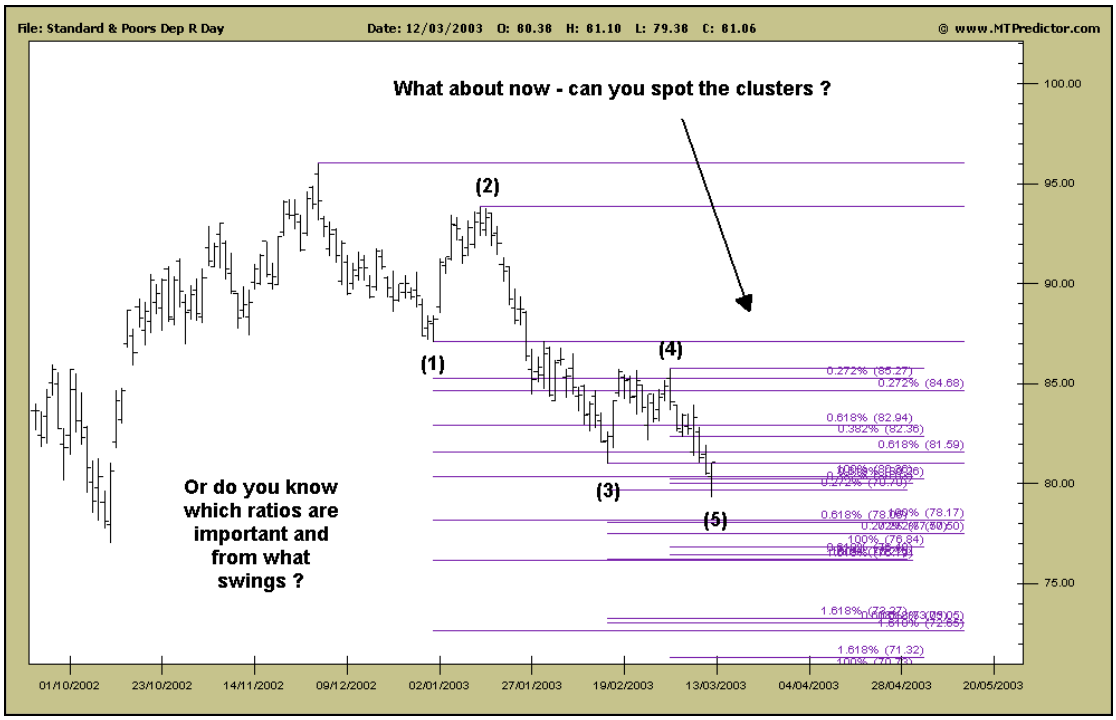
Here is an example of the ratios to use to help identify the most likely areas for a wave 5 swing to end:



As you see, the situation now gets far more difficult, with Price ratios and lines everywhere, especially when you take into account that you have to know which ratios are more important and from which swings, when projecting support or resistance areas for different Elliot wave counts.

This is where MTPredictor comes in, as it uses my 17 years experience in the markets to automatically perform these calculations with a few simple mouse clicks.

As an example, let's return to the first chart in this chapter on trying to decide where the most important support or resistance areas were for a potential Wave C swing.

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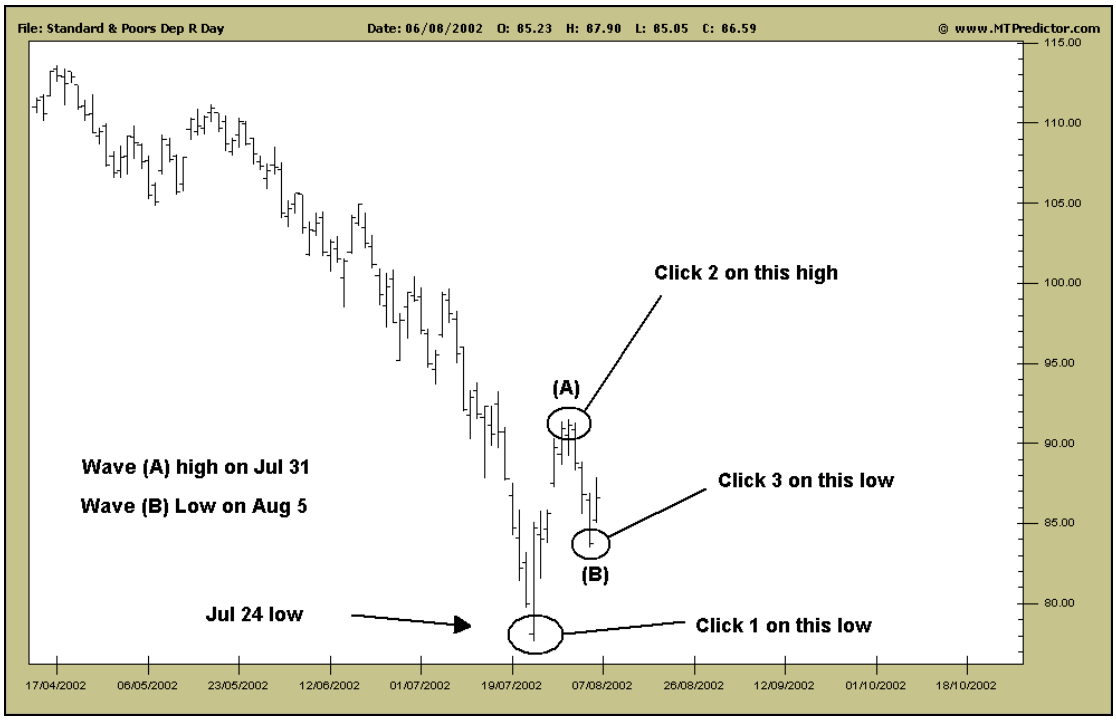
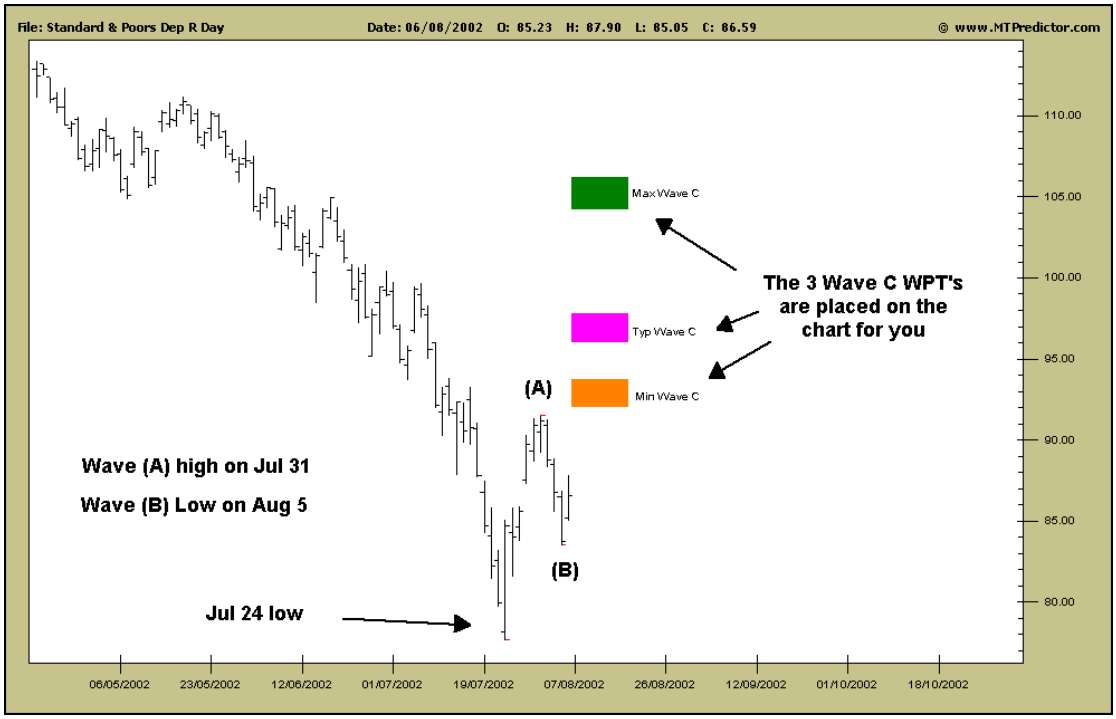
Here you have the same chart on the SPY with the waves A and B complete, the task now is to project the most likely resistance areas for the wave C high to end:

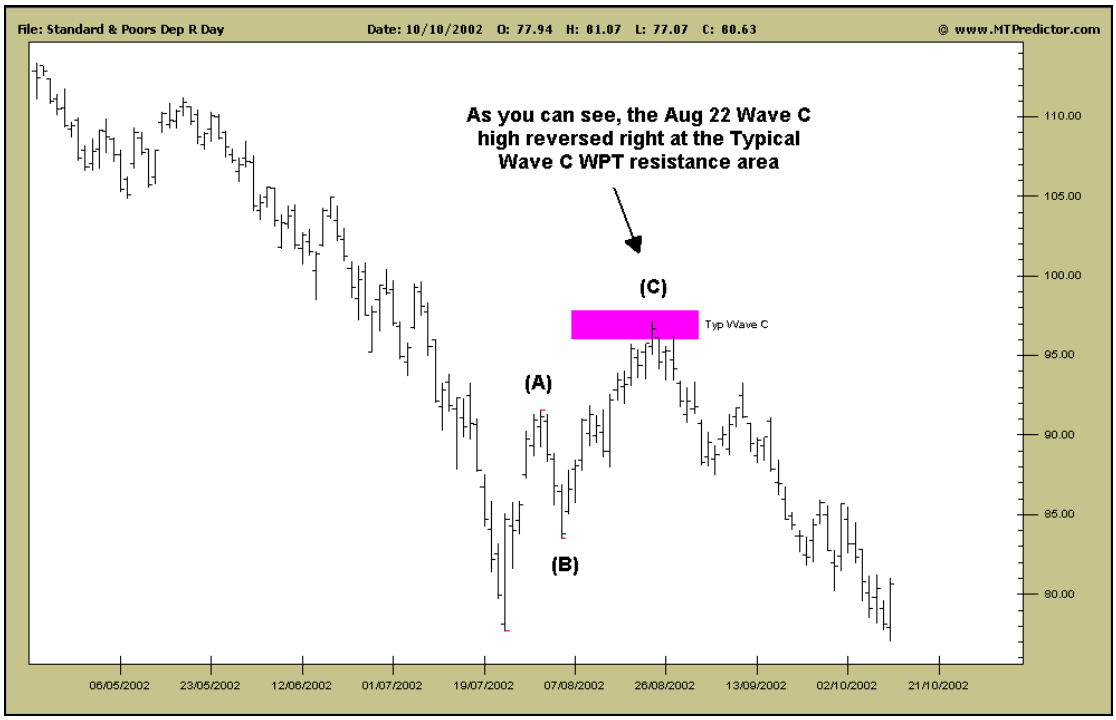


After selecting the "wave C WPT up" from the WPT module, all you have to do is make three mouse clicks on the chart: the first on the July 24 low, the next on the wave A high on July 31, the last one on the wave B low on August 5. And the 3 wave C WPTs will be drawn on the chart for you:



This is a lot easier (and quicker) than trying to decide which ratio to use from which swings, and then where the Price clusters are. As you can see from the second chart on the last page, there are 3 distinct areas where resistance should be anticipated, where the anticipated wave C high is likely to end.

Let's move forward in time and see what happened:



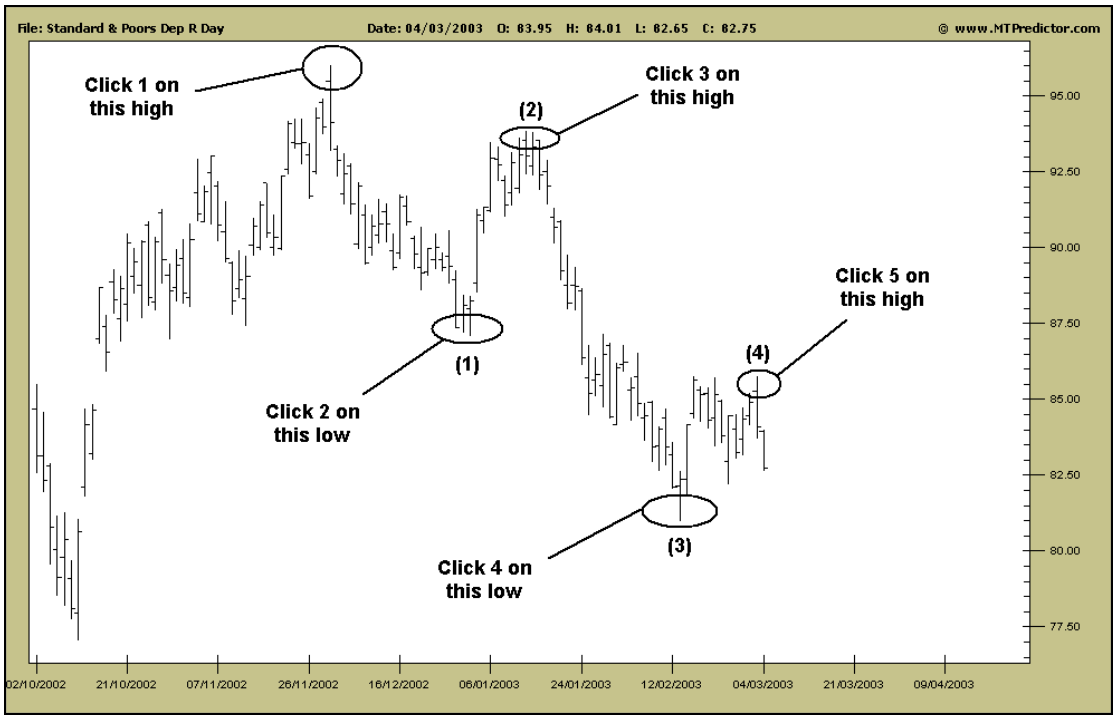
As you can see, the SPY reversed and made a wave C high right at the typical wave C WPT resistance area. But more importantly, all that was needed to place this area on the chart was three simple and quick mouse clicks - all very easy indeed !

Also, I hope you all spotted that these projections were made well *in advance* of the market reaching this level. Please go back and have a look at the chart a few pages ago where the initial projections were made, these were made only one day after the wave B low was complete. In this way, you can be prepared well in advance for future support and resistance levels where swings are likely to end.

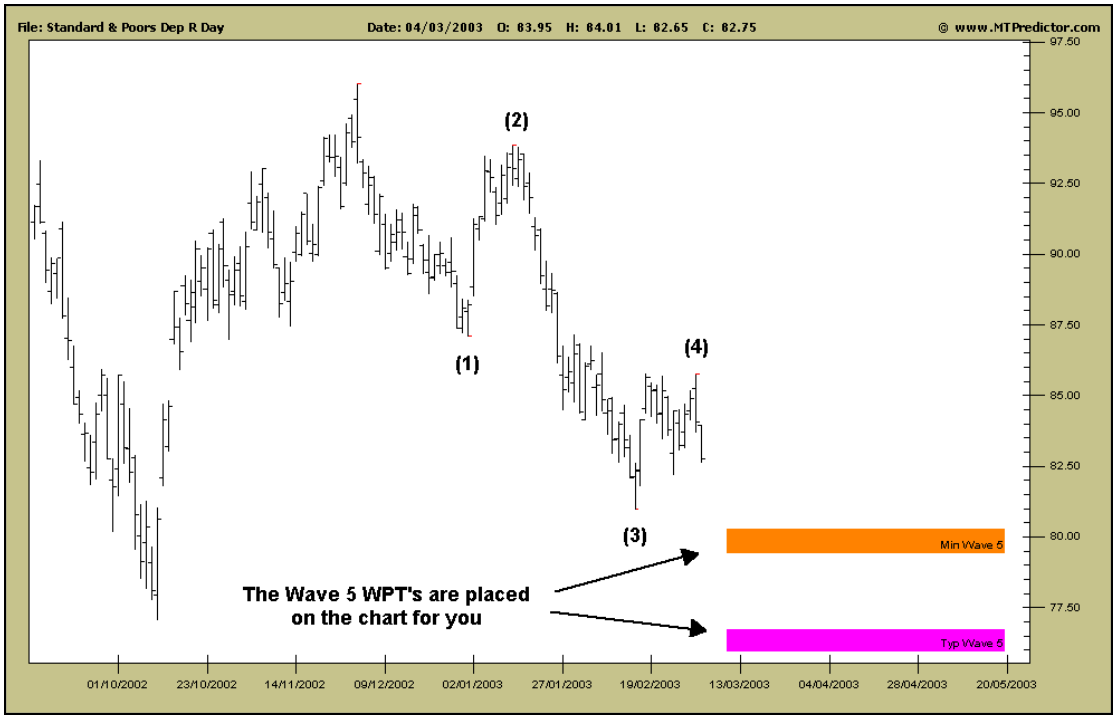
Let's take a look at the second example in this chapter on the wave 5 low.

Continued on the next page . . . .

As with the first example, all you have to do after selecting the required WPT is to make the required number of clicks on the chart, (I'll go into more detail on the number of clicks needed for each WPT later in this chapter), the WPTs will then be drawn automatically for you:

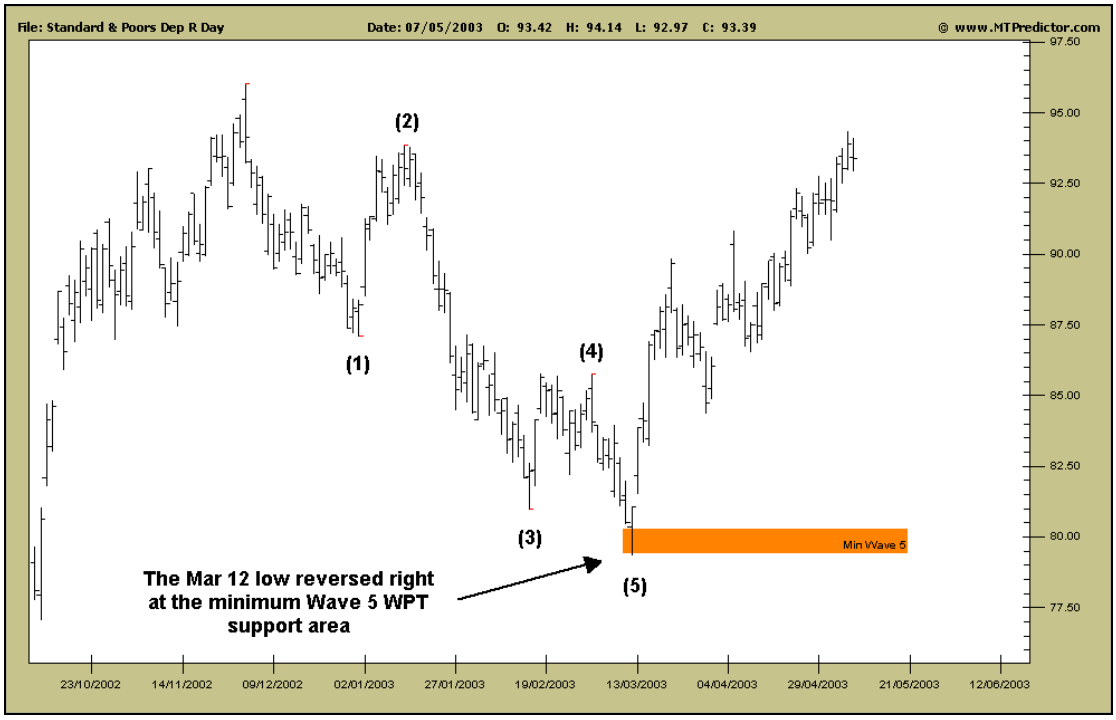


As you can see from the chart above, for a wave 5 WPT, you need to make 5 mouse clicks. As before, the wave 5 (W)PTs will then be drawn for you:



As you can see from the second chart on the prior page, two distinct levels were projected where support should be anticipated for the end of the anticipated wave 5 swing. There was a maximum Wave 5 WPT, but this was well below the viewable area of the chart, so was not shown. But also, these projections were made only one bar after the wave 4 high was complete. In other words, you were (again) prepared well in advance of the market reaching these levels for potential support.

Let's see what happened:



As you can see, the SPY declined and then reversed right at the minimum wave 5 WPT support area before rallying strongly.

Please note, this is not a perfect example chosen *in hindsight*. I made this very projection (on the S&P futures) on national television (CNBC Europe) a week in advance. Please see the web site (www.MTPredictor.com) for a video clip.

I hope you can see how the WPTs can make projecting future support and resistance areas very easy indeed. The most important point to note here is that the MTPredictor software program performs all the important calculations of which ratios to use, which swings to project from and which clusters are important, for you. All you have to do is select the required WPT and make a few simple and quick mouse clicks on the chart. The support/resistance areas will appear as coloured areas on the chart for you - all very simple and easy indeed.

This is a lot easier and quicker than trying to do all the calculations manually !

Chapter 3 – WPTs (Wave Price Targets)

As a number of you may have already spotted, these WPTs are used for projecting support and resistance areas, where individual Elliot waves are likely to end. As such, there needs to be an obvious and workable Elliot wave count on the chart already to be able to make best use of these WPTs.

As I have already outlined in the first section of this course, a workable Elliot wave count is not always obvious on all charts, all the time. However, when there is an obvious Elliot wave count, these WPTs can be used to project where the next wave is most likely to end.

At first sight, this may seem slightly complicated, however these WPTs will be used in additional modules within the MTPredictor software program, in particular as part of the "Show Elliot waves" and "Trade set-ups" modules. However, this chapter is designed as an introduction to these WPTs, and also to show how you can use these WPTs manually to make your own projections with your own manual Elliott wave count.

Over the next few pages I would like to cover which swings you should click on to make the projections for each of the WPTs.

Wave 1orA WPT

In Elliot wave terms, the wave 1orA is the initial swing off an important high or low, usually the end of the prior 5 wave sequence. So, the only swing you can work off is the prior wave 5 - for this WPT all that is needed is to perform two mouse clicks, the first on the end of the prior wave 5, the second on the end of the prior wave 4. In other words, you select the last swing going into the wave 5 high or low.

Please see the chart on the next page.

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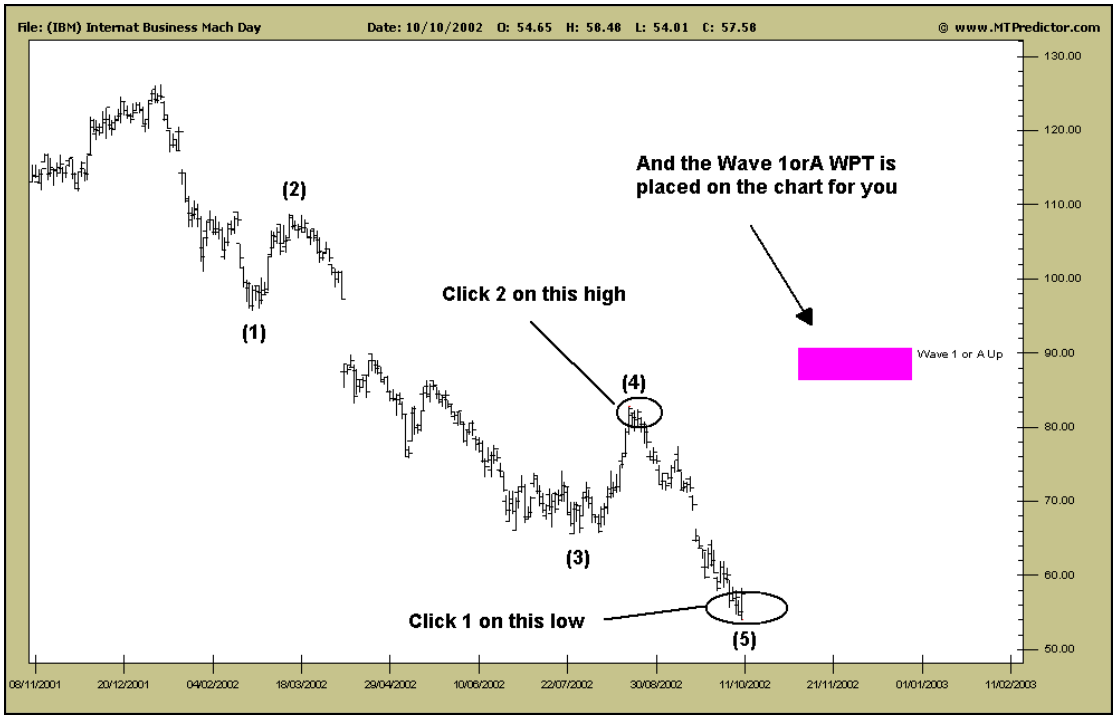
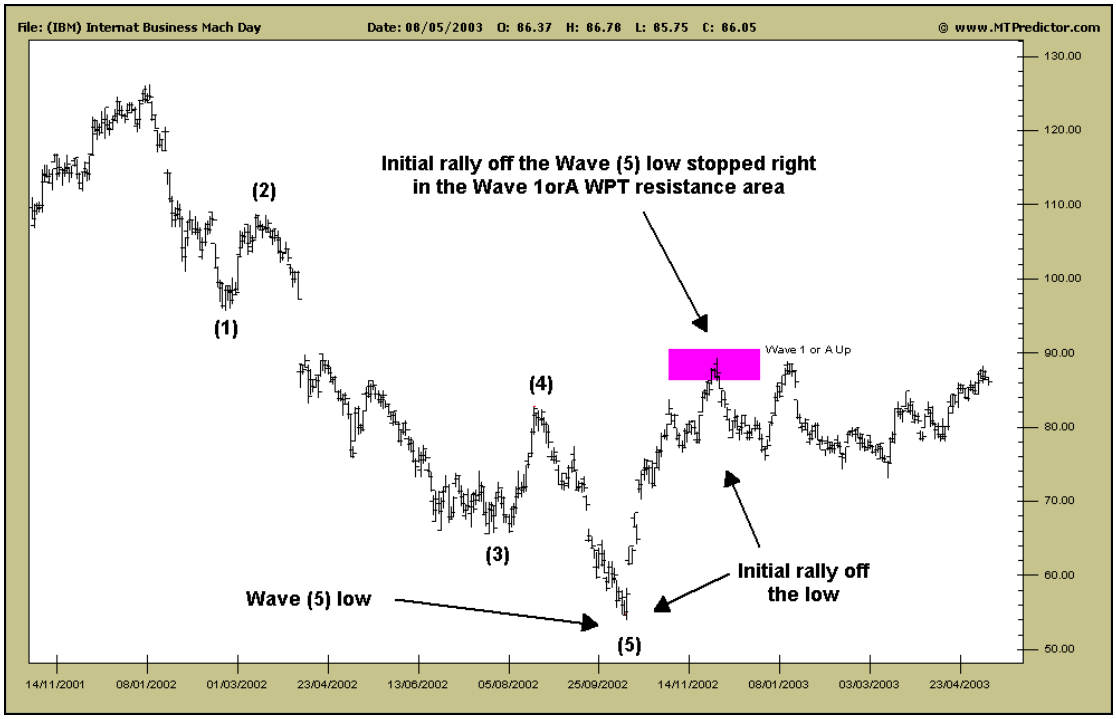
Here is a recent example on a Daily chart of IBM:



The first click is performed on the wave 5 low of October 10, and the second click is performed on the wave 4 high of August 19, the wave 1orA WPT is then displayed on the chart for you.

Let's see what unfolded over the next few months:



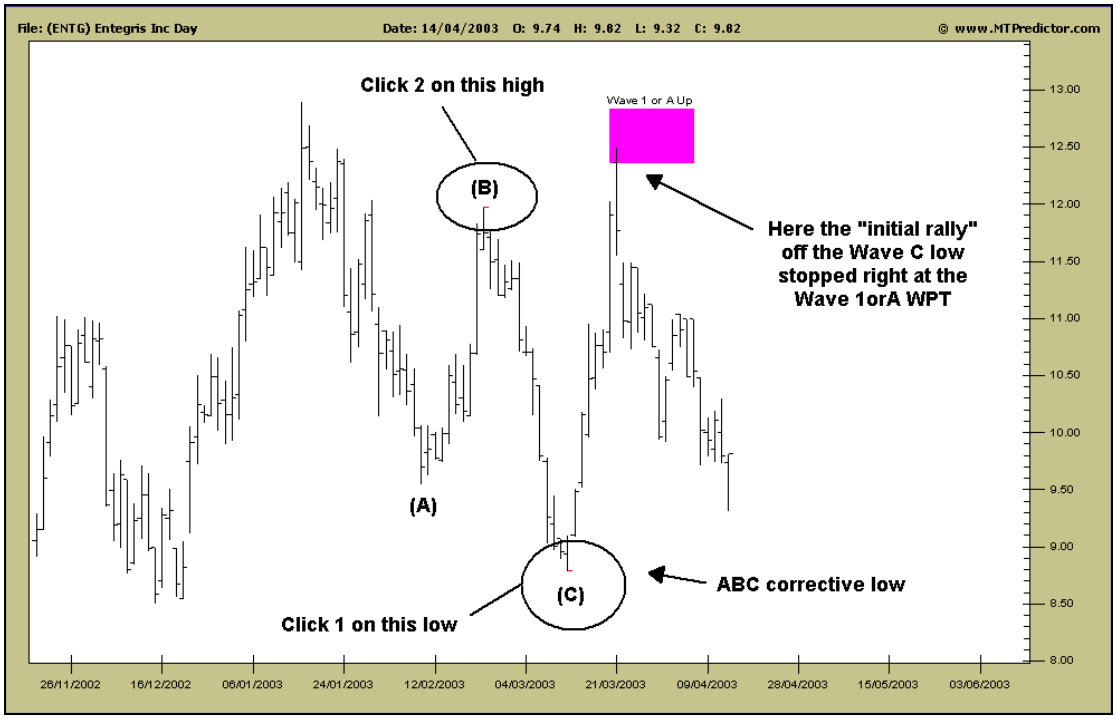
As you can see, from the second chart on the last page, IBM rallied off its wave (5) low on October 10 only to stop right at the Wave 1orA WPT that was projected nearly two months earlier.

In this way, the Wave 1orA WPT can be used as a target for the initial swing off a completed wave (5) high or low.

This is not the only application for this particular WPT: as it uses the last swing into an important high or low, it has several other applications.

The second application is where you have a completed wave C high or low, and you wish to project where the initial swing off that high or low is likely to find support or resistance.

Here is an example from a US stock, Entergis Inc (ENTG):



You can see how the initial rally off the wave C low stopped right at the wave 1orA WPT resistance area.

Again, this is not an isolated or idealised example produced with the benefit of hindsight, this example and the projected Wave 1orA resistance area was mentioned days in advance in the MTPredictor Daily Report.

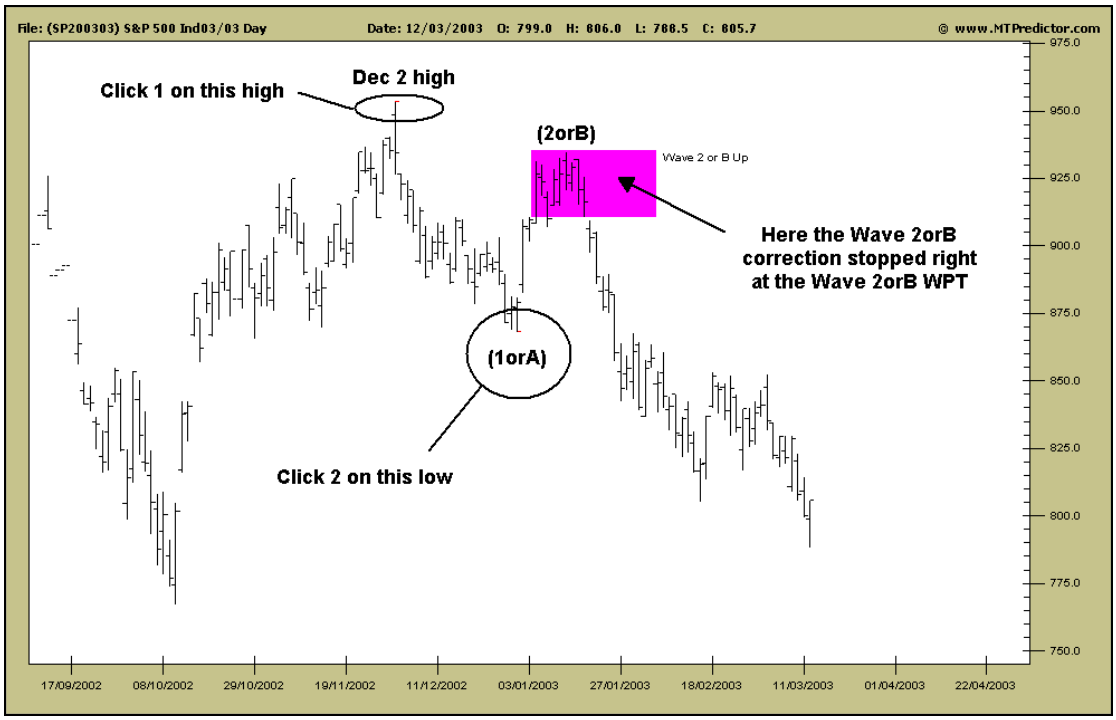
Although Entergis Inc may rally higher in the future, I hope you can see how this WPT can be used to project where the *initial swing* off a wave C high or low is likely to end.

Wave 2orB WPT

In Elliot wave terms, the wave 2orB is the second swing off an important high or low, and is the corrective swing following the initial wave 1orA swing. It is very important to be able to identify the end of this swing because, once complete, the main trend normally resumes. W. D. Gann stated that the safest place to enter a trade is at the end of the first correction to the initial swing off an important high or low - this is the end of the wave 2orB swing.

Because you only have one swing, you only need two mouse clicks on the chart to project the wave 2orB WPT.

Let's take a look at an example on the (Mar) contract of the S&P 500 Futures:



He can see how the first correction to initial decline off the December 2 high ended right in the wave 2orB WPT, the S&P continued lower from there.

As with all WPTs, the wave 2orB WPT works equally well providing resistance for a potential high, or support for a potential low.

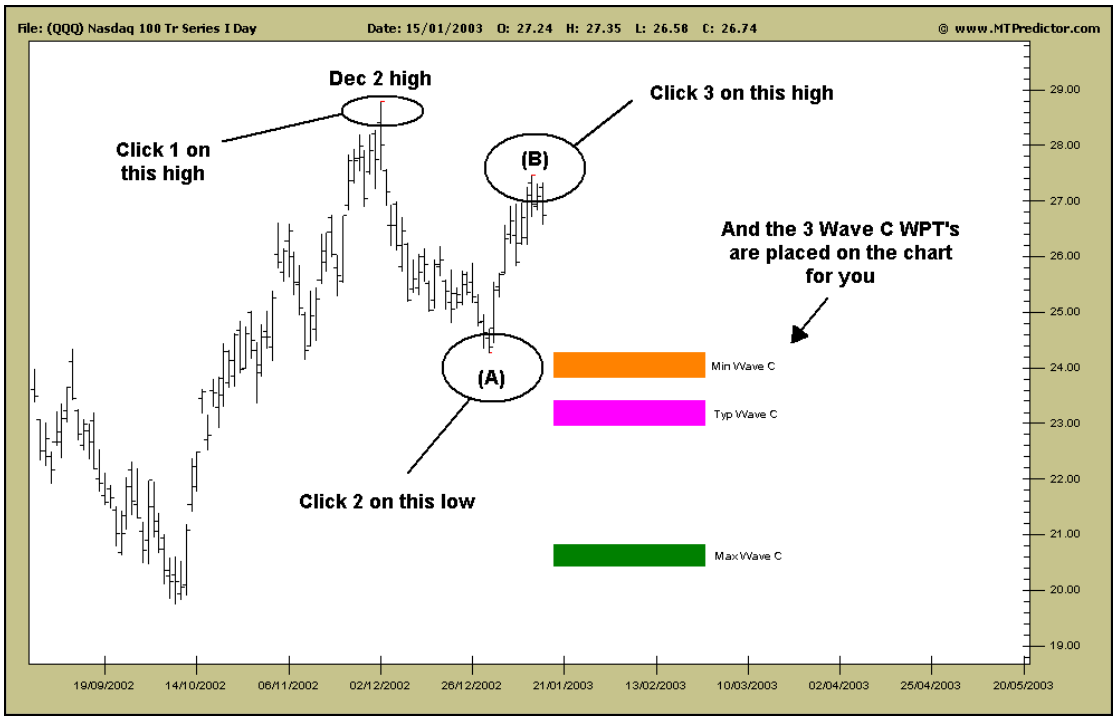
Continued on the next page . . . .

Wave C WPT

Once a wave 2orB low or high is complete the next swing would be considered either a wave C or wave 3. In this section I will cover the wave C WPT, which will lead on to a simple way of confirming when a wave 3orC swing is *more likely* to be a wave 3.

The first question I can hear is: why don't we know whether it is a wave 3 or a Wave C ? The simple answer is that, at this stage, you could be anticipating either a simple ABC correction or an impulsive 123 move off the last important high or low. Until the move has unfolded a little more, you cannot know for sure which one is unfolding. I'll come back to this question in more detail in a future section, but for now you should always assume that a wave C will unfold until proven otherwise, then you should use the wave 3 WPTs. If you like, you can use the wave C WPTs as minimum price targets.

As you now have two swings to work with, the Wave 1orA and the Wave 2orB, you will require three mouse clicks on the chart, once the wave C up or down has been selected:

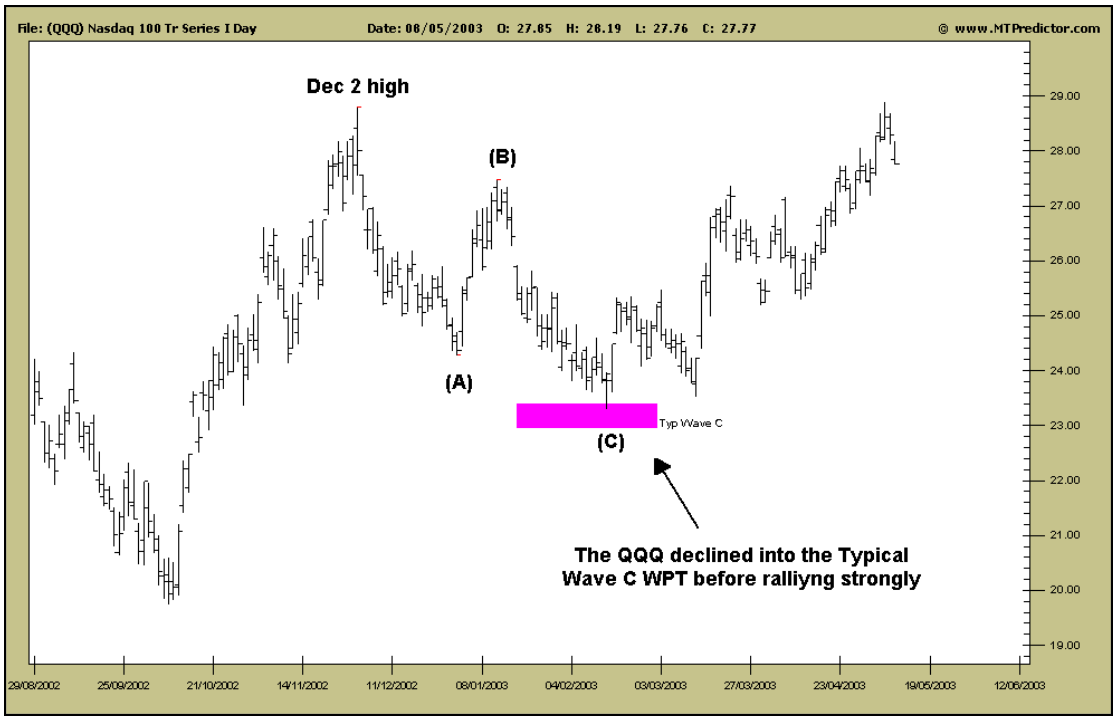


On the QQQ (NASDAQ tracking stock) you can see how, after the third mouse click was made, three potential wave C support levels were placed on the chart for you. These were the minimum, typical and maximum wave C WPTs.

Again, I hope you can see how these levels can be placed on the chart well in advance of the market getting there.

There are three potential areas where a wave C swing could end. As the name suggests, the *typical* wave C WPT is the area where most wave C swings end. The next most important area is dependent on where in the *larger-degree* picture you are. If the current wave C is unfolding as part of the large degree wave (2orB), then the second most important area is the maximum wave C WPT. However, if the ABC correction is unfolding as part of a *larger-degree* wave (4), or indeed just an ABC correction on its own, then the second most important area is the minimum wave C WPT.

In the current example on the QQQ, the market made a wave C decline that reversed right at the typical wave C WPT before rallying strongly.



As outlined above, the typical wave C WPT is the most important support or resistance area, and the area where most wave Cs will end.

Sometimes, when you add the wave C WPTs onto the chart there will be no minimum wave C WPT, because MTPredictor requires that the wave C high or low is beyond the price extreme of the wave A high or low. Therefore, if the minimum wave C WPT does not fall beyond the wave A extreme it will not be plotted. This happens rarely, but when it does the first wave C WPT you'll see on your chart will be the typical wave C WPT.

Let me show you a couple more examples.

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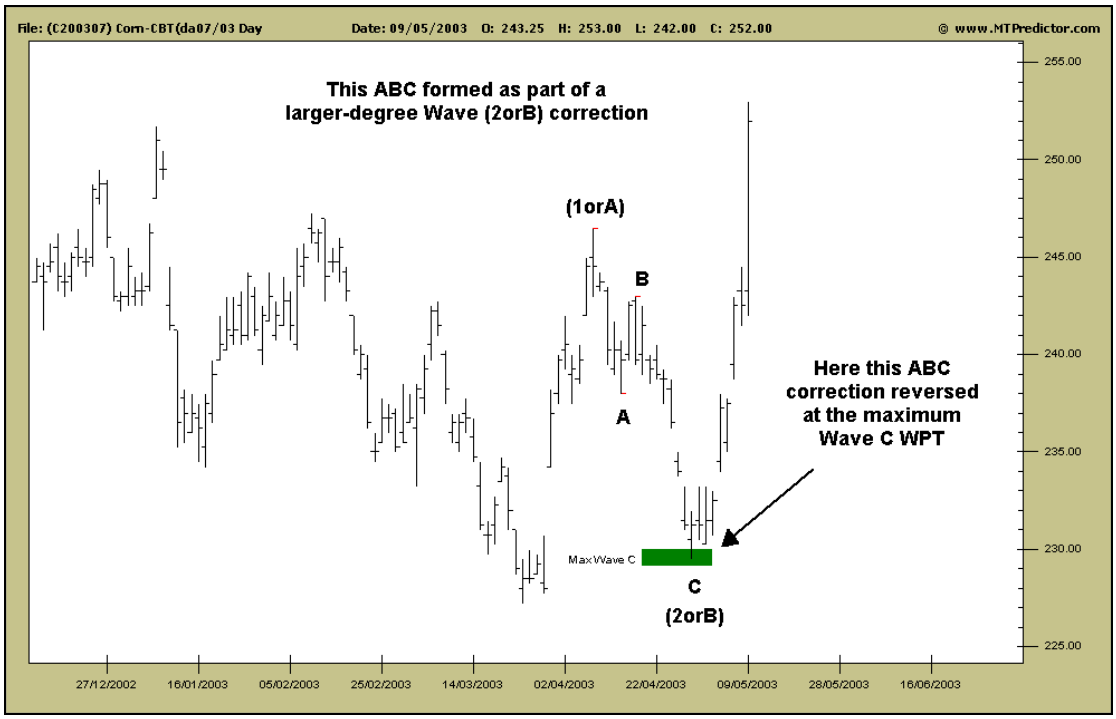
Here we can see another ABC correction that unfolded on a daily chart of (Jul) Corn, where the wave C low reversed right at the maximum wave C WPT:



This is the only place where you should use the maximum wave C WPT. The main reason for this is that the price level of the maximum wave C WPT is approximately the same as for the typical wave 3 WPT. As I'll show you in the next section, most of the time when a market reaches this WPT the current swing should be considered an impulsive 123 rather corrective ABC.

However, there is one important exception to this, when the ABC correction unfolds as part of a large degree wave (2orB) this is the only time you should use the maximum wave C WPT. Then, as outlined above, this is the second most important wave C support area.

As you can see from the chart above, a *larger-degree* Wave (2orB) swing will very often terminate at either the typical wave C WPT or, as in this example, the maximum wave C WPT.

Again, this is not a carefully chosen example with the benefit of hindsight: this trade set-up was reported at the time in the MTPredictor daily report. As you can see, this WPT caught the very day of the low, before Corn rallied strongly !

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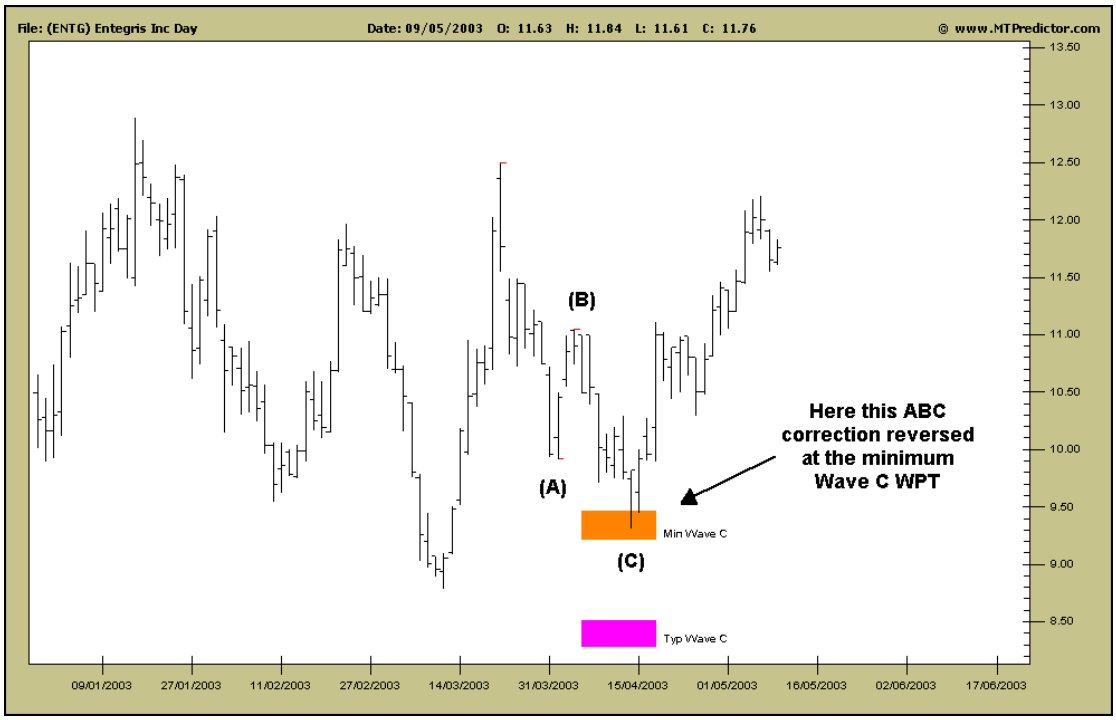
Next is an example on Energis Inc, a US stock, where the ABC correction reversed right at the minimum wave C WPT:



As outlined on the previous page, the minimum wave C WPT is the second most important price support or resistance level (after the typical wave C WPT) where a wave C is likely to end, as long as the ABC correction does not unfold as part of a larger degree wave (2orB).

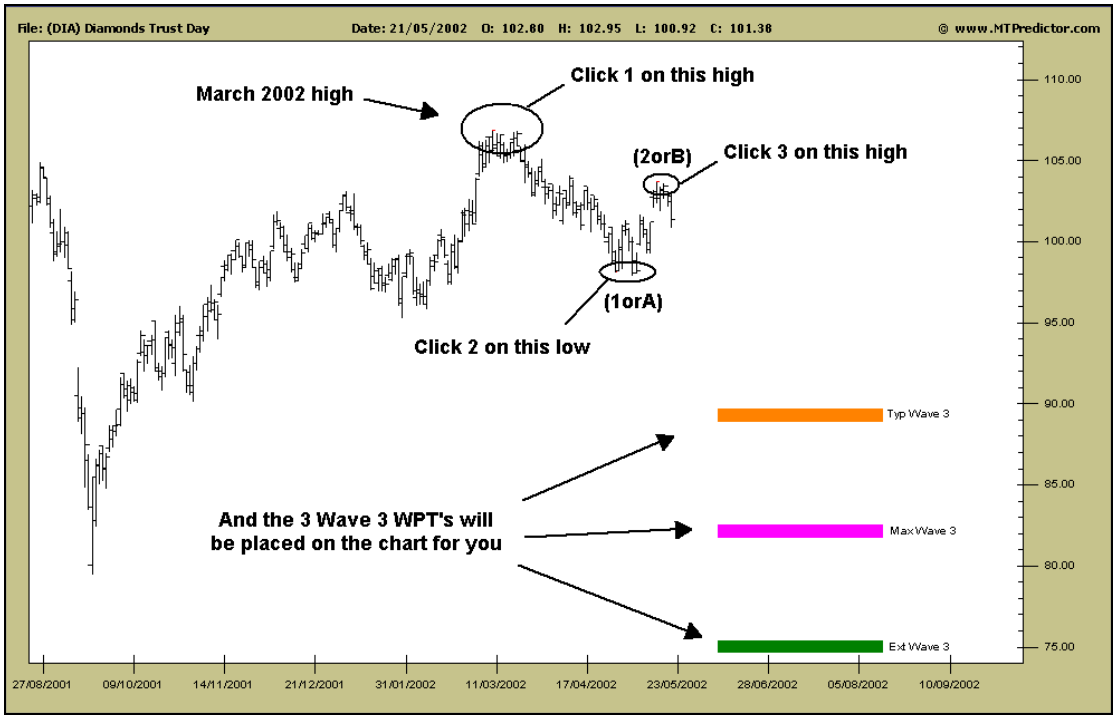
As outlined before, sometimes, when you add the wave C WPTs onto the chart there will be no minimum wave C WPT, because MTPredictor requires that the wave C high or low is beyond the price extreme of the wave A high or low. Therefore, if the minimum wave C WPT does not fall beyond the wave A extreme it will not be plotted. This happens rarely, but when it does the first wave C WPT that you'll see on your chart will be the typical wave C WPT.

Just to recap, the most important area where wave C is likely to end is the typical wave C WPT. This is the same no matter where the ABC correction unfolds. The second most important area for most ABC corrections, including where the ABC correction unfolds as part of the large degree wave (4) or, indeed if the ABC correction unfolds by itself, is the minimum wave C WPT.

However, if the ABC correction unfolds as part of a large degree wave (2orB) then, and only then, you should consider using the maximum wave C WPT, anticipating it as the second most likely area where the ABC could end.

Wave 3 WPT

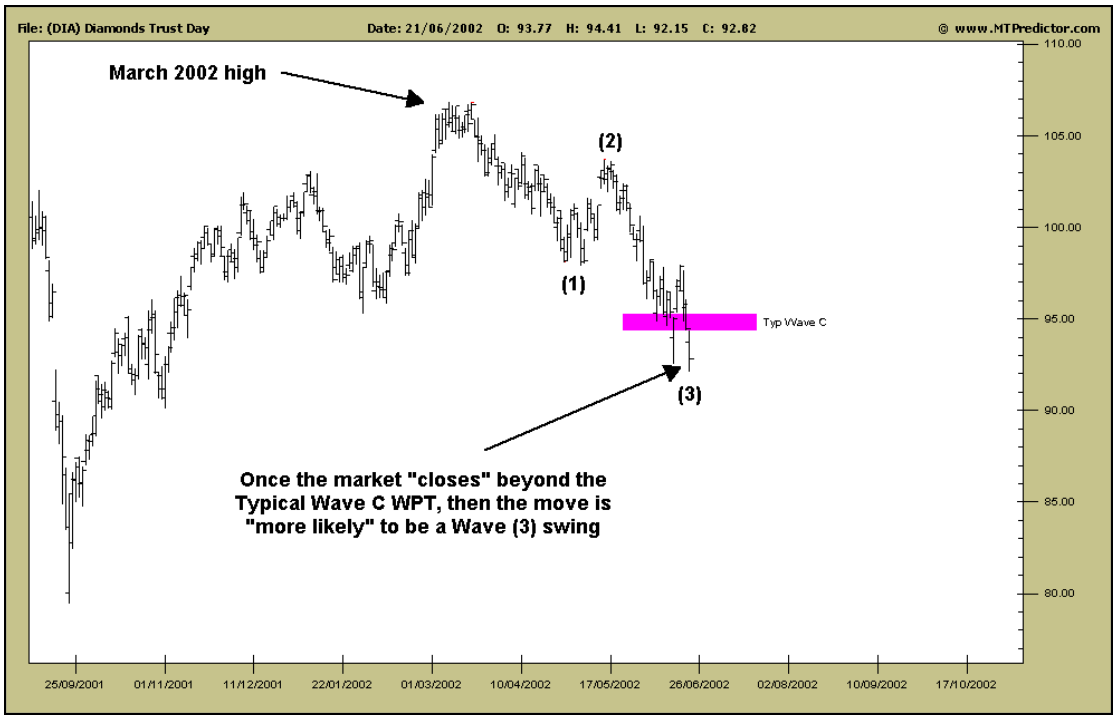
As with the Wave C WPTs, there are two swings to work with, the Wave 1orA and the Wave 2orB, therefore three mouse clicks are required on the chart, once the wave 3 up or down has been selected:



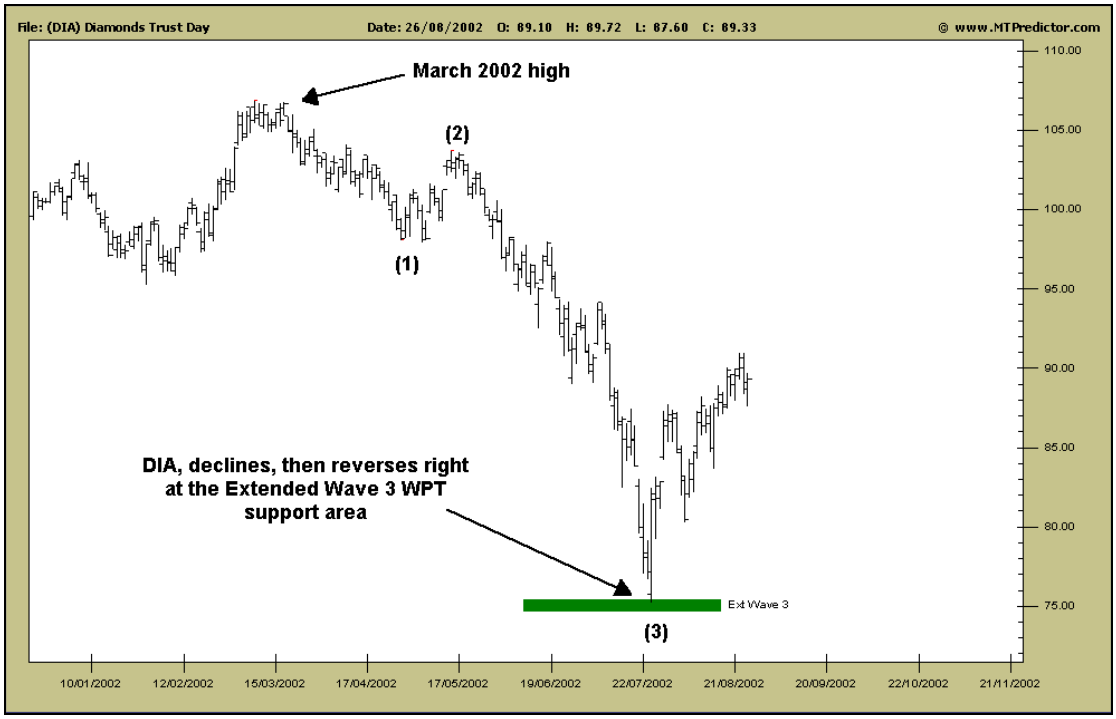
As you can see from the chart above, these wave 3 WPT projections can be made as soon as the wave (2orB) high or low is complete. At this stage you do not know for sure whether the anticipated decline will only be a wave (C) correction or an impulsive wave (3) swing. However, if you had any additional reasons for thinking a strong decline is possible, you could then apply the wave 3 WPTs as early as I have shown on the chart above.

But how, at this stage, can you know whether the anticipated swing is going to be a wave (C) or a wave (3)? Well, the simple answer is that just based on these swings you can't know. There are some clues that may help bias you towards either a wave (C) or wave (3), which I will cover in a later chapter. But, keeping things simple, the easiest way is to first place the wave C WPTs on the chart using them as minimum targets then, *if* the market in question closes beyond the typical wave C WPT, the current swing should be considered more likely to be a wave (3).

As outlined in the prior section, the only exception to this is where the current swing is considered to be a wave C and is unfolding as part of a large degree wave (2orB). Then a close beyond the typical wave C WPT would only indicate a continued move into the maximum wave C WPT Please see the last section for more details.



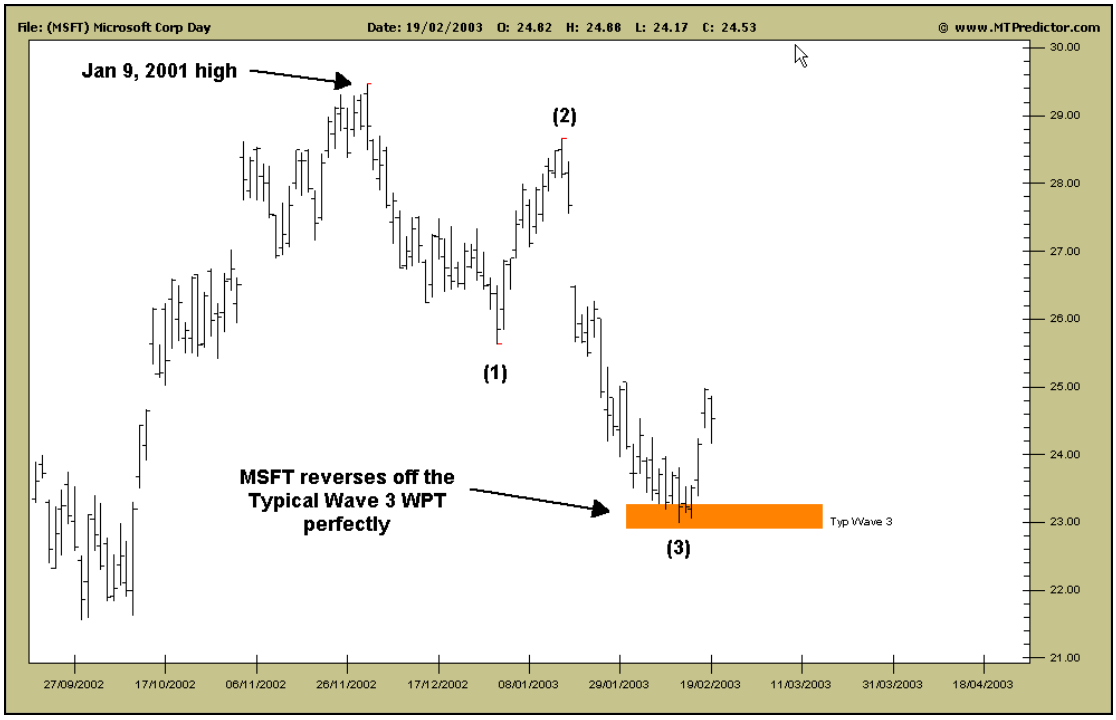
Here you can see how this decline on DIA has now closed below the typical wave C WPT, you should now consider that this decline is more likely to be a wave (3) type swing. You can therefore use the wave 3 WPTs for targets to anticipate where this decline is likely to end.



As you can see from the chart above, DIA continued to decline sharply, finally finding support at the extended wave 3 WPT.

Most wave (3) swings will end in the typical wave 3 WPT, however some will reach the maximum wave 3 WPT. Rarely will any swing reach the extended wave 3 WPT - if it does, then you know that the current swing is very near its end.

Here is another example on Microsoft, where you can see how the current decline has reversed right of the typical wave 3 WPT.



As with the wave C WPTs, the wave 3 WPTs can be used very effectively to project into the future areas where support or resistance should be anticipated.

Again, I hope you can see how the WPTs can help *prepare in advance* for these support or resistance areas, allowing you to be prepared to take action, rather than simply *reacting to* prior market action. In other words, WPTs should be considered leading indicators.

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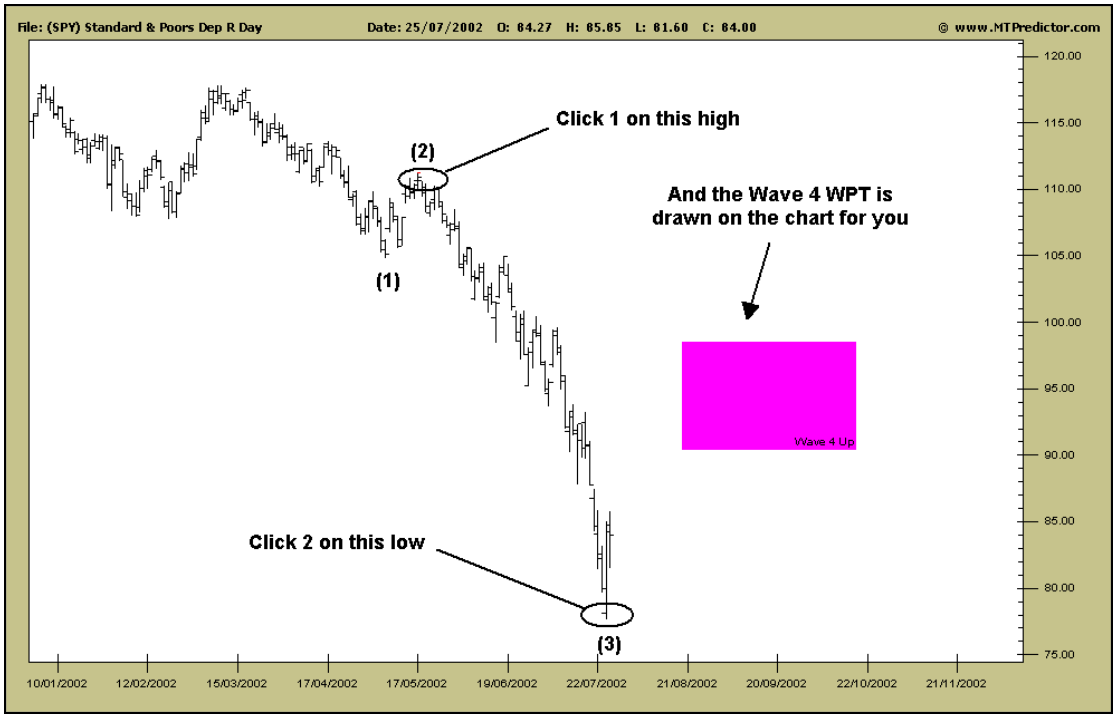
Wave 4 WPT

A wave 4 WPT only needs two clicks on the chart, the first on the start of the wave 3 swing and the second on the end of the wave 3 swing:



You can see on this example on the SPY (a US stock), how, once you suspected that a wave 3 swing was complete, you could, with just two simple mouse clicks, place the wave 4 WPT on the chart.

Although this is quite a wide WPT, it does give you an *initial target* for where the wave 4 correction is likely to end and, as you will see on the next page, this initial broad range can be narrowed down by using the *lesser-degree* wave C WPTs as the Wave (4) correction unfolds.

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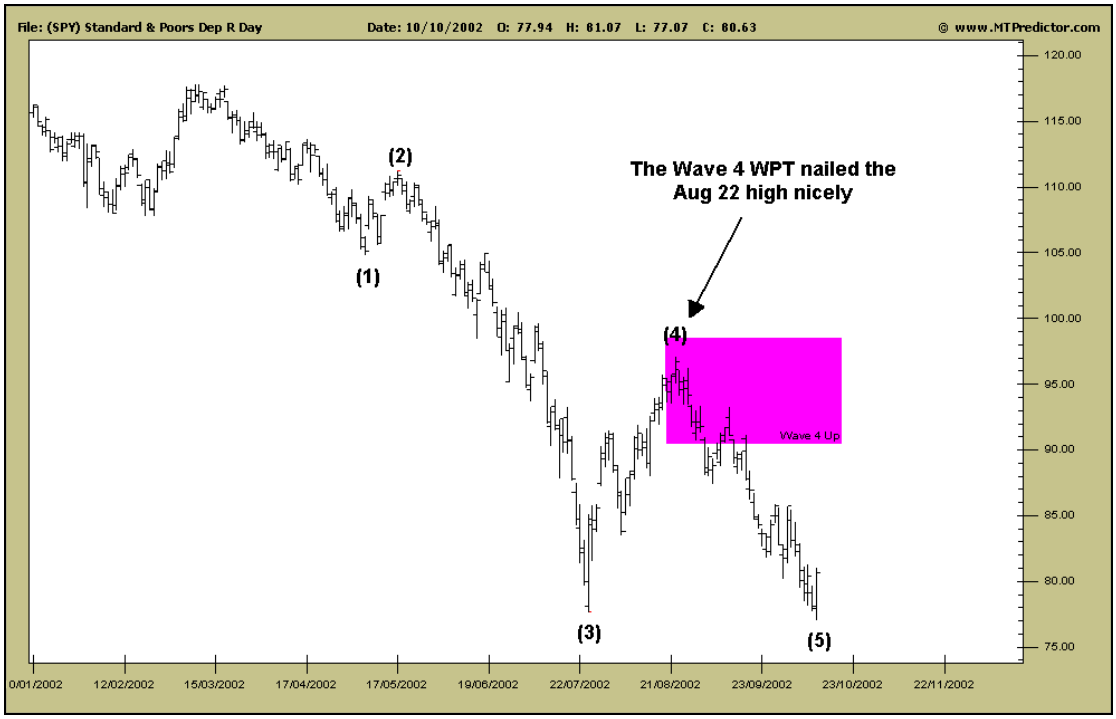
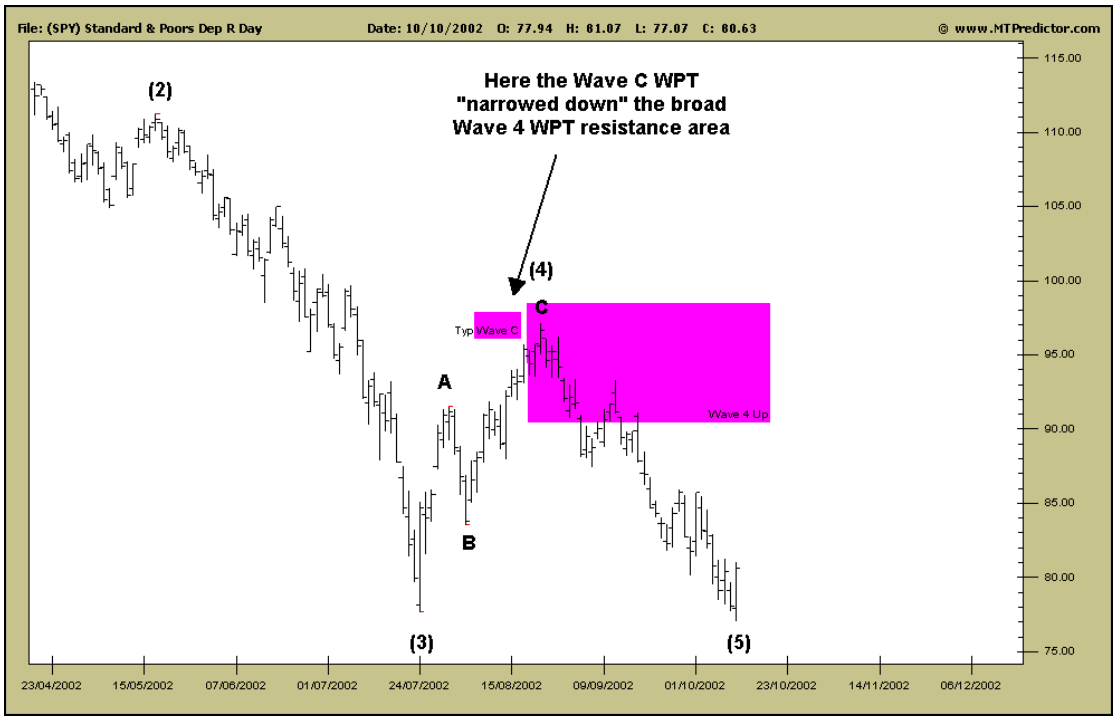
Let's see how this unfolded:



As you see, the SPY made a wave 4 corrective high right in this WPT before declining to new lows. I hope you can also see that this wave 4 actually unfolded as a simple ABC correction, therefore you can use this to help narrow down the initial broad wave 4 WPT:



Here you can see how the August the 22nd high fell right at the typical wave C WPT.

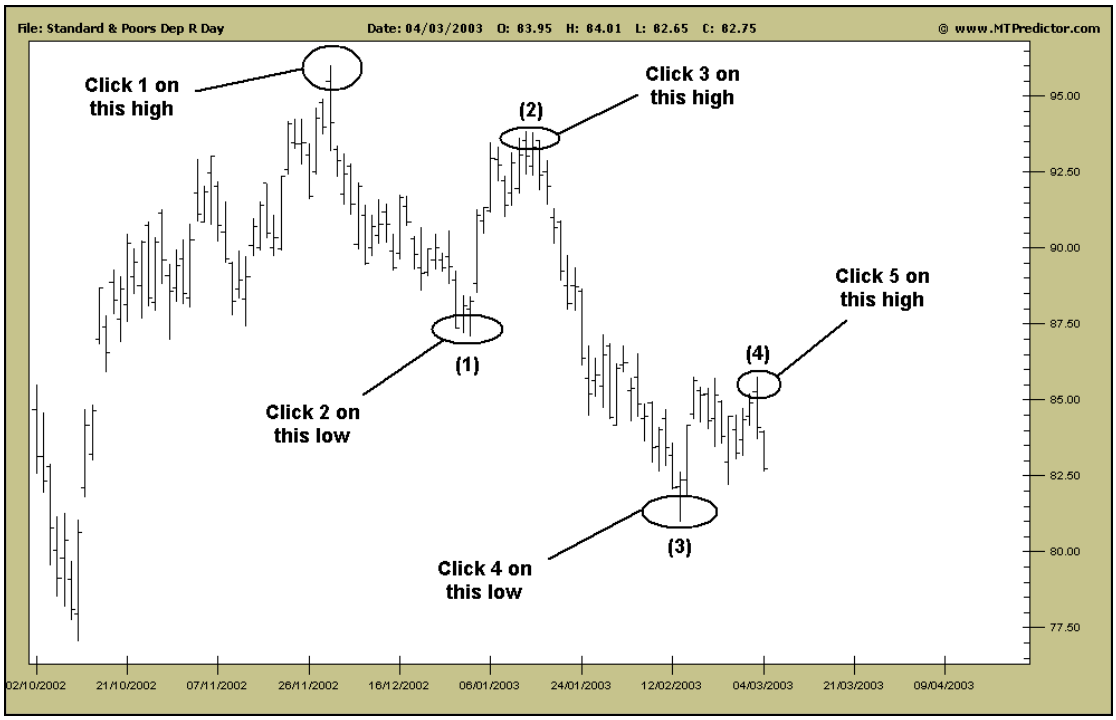
However, the most important point is that the wave C WPT (of the ABC correction that made up the wave 4) fell *within* the broad wave 4 WPT. This is where support levels of two different degrees of swings coincided in the same area.

As you see, the wave 4 WPT provided a broad range of where the wave 4 correction was anticipated to end.

Wave 5 WPT

A wave 5 WPT needs 5 mouse clicks on the chart once the wave 5 up or down has been selected. The first of these is the start of the wave 1, the second is the end of the wave 1, the third is the end of the wave 2, the fourth is the end of the wave 3, and the fifth and last click is the end of the wave 4.

Let's take another look at the example we used earlier in this chapter on the SPY:



As you can see from the chart above, for a wave 5 WPT, you need to make five mouse clicks. The wave 5 WPTs will then be drawn for you:

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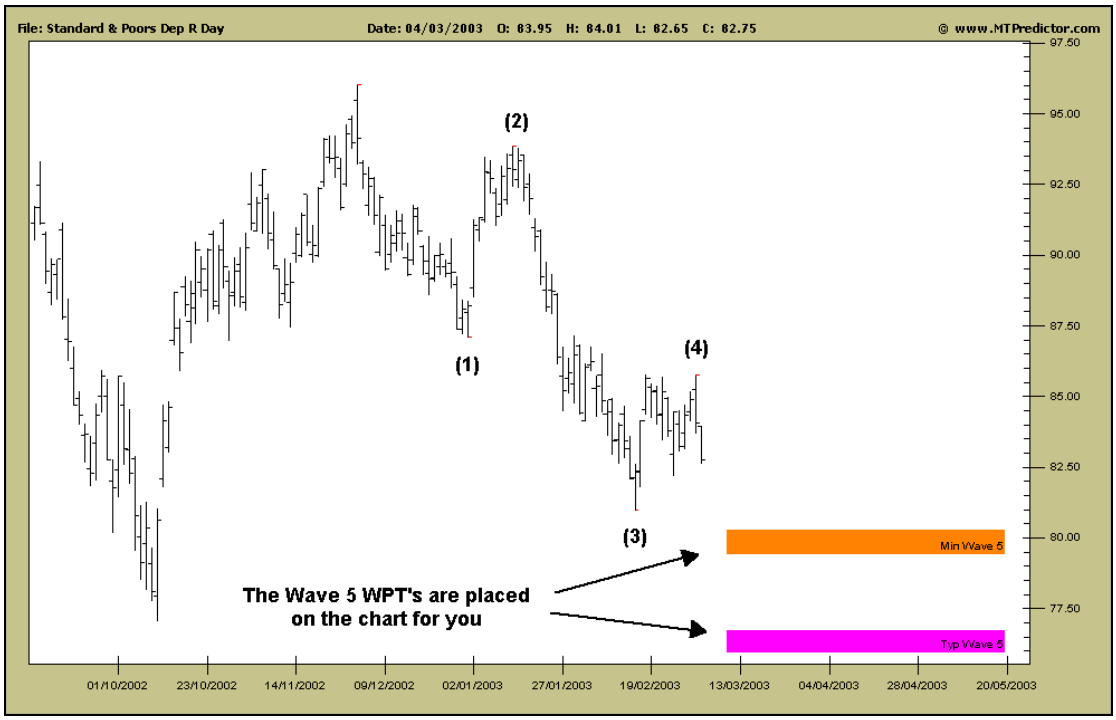
Once you have made the last wave 5 WPT click, the wave 5 WPTs will be drawn on the chart for you:



As you can see from the chart above, the minimum and typical wave 5 WPTs have been placed on the chart. There was a maximum Wave 5 WPT, but this was well below the viewable area of the chart, so was not shown.

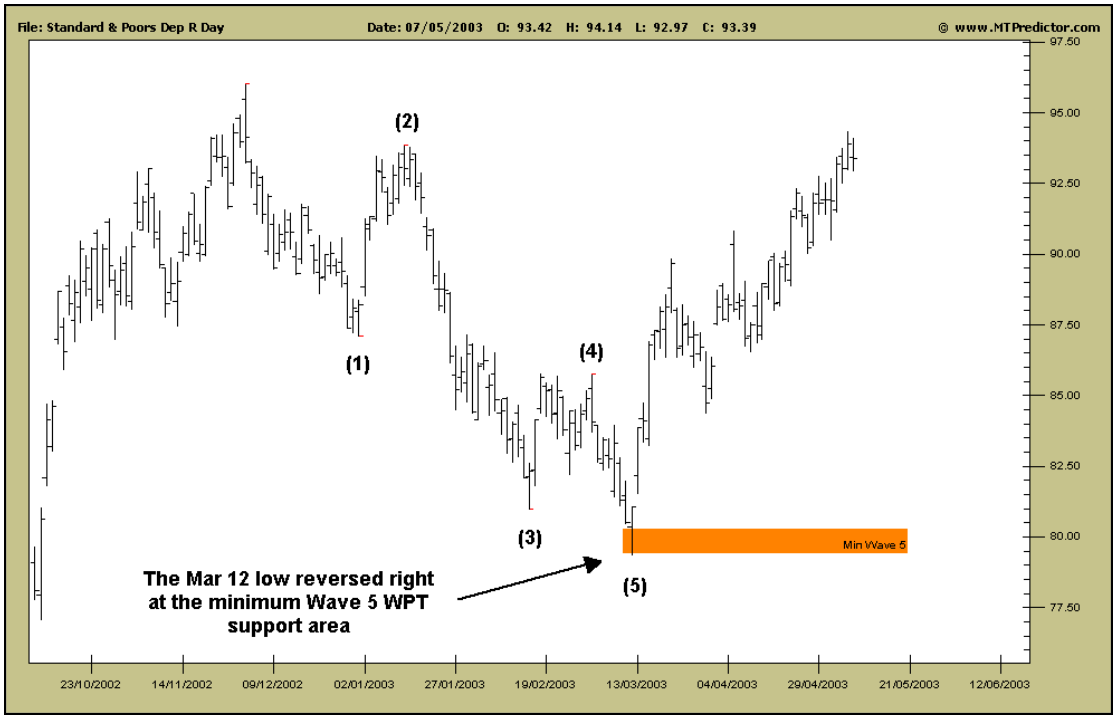
As I have mentioned earlier, these projections were made only one bar after the wave 4 high was complete. In other words, you were (again) prepared well in advance of the market reaching these levels for potential support.

Please note: this was not an *idealised example* taken with the benefit of hindsight; I made this very projection (using the S&P Futures) on live TV (CNBC Europe) on March 4, which was the same day as the last bar on the chart above.

Let's see what happened:

Continued on the next page . .. . .

Here is the result:



As you can see, the SPY declined, then reversed right at the minimum wave 5 WPT support area before rallying strongly.

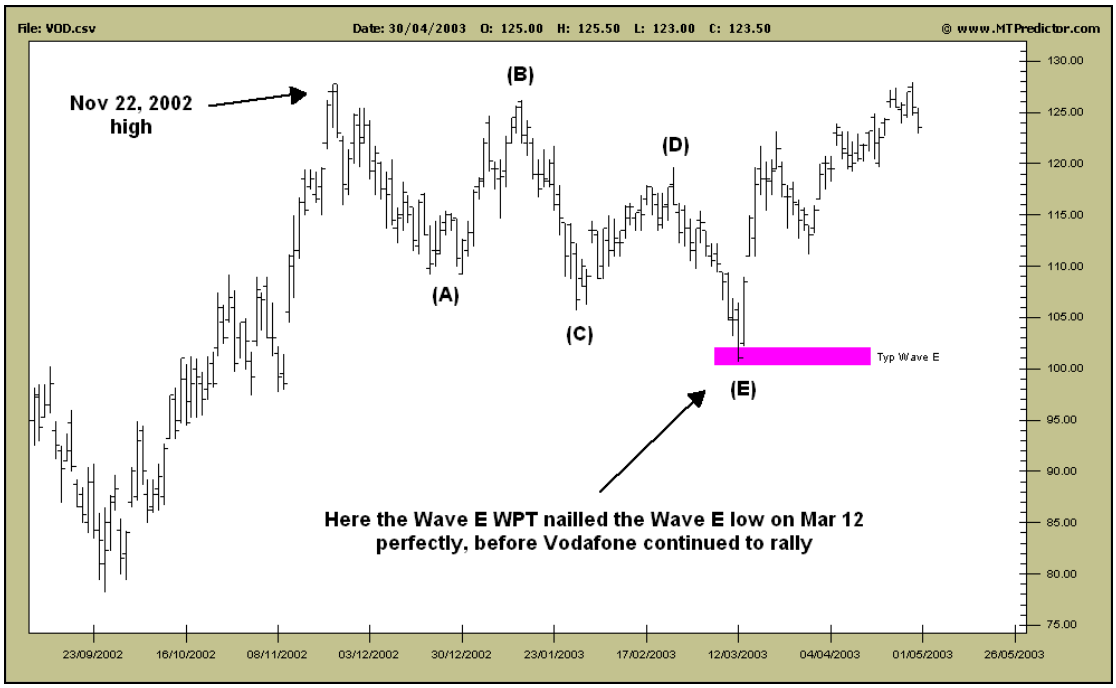
As the name suggests, the most likely area where a wave 5 high or low will end is in the typical wave 5 WPT. The second most likely area is the minimum wave 5 WPT, with very few wave 5s reaching the maximum wave 5 WPT.

Continued on the next page . . . .

Wave E WPT

The wave E WPT is very similar to the wave (5), in fact it is just a 5 wave sequence that has failed some of the wave 5 Elliott wave criteria. As such the wave E WPT needs 5 mouse clicks on the chart once the wave E up or down has been selected. The first of these is the start of the wave A, the second is the end of the wave A, the third is the end of the wave B, the fourth is the end of the wave C, and the fifth and last click is the end of the wave D.

Please see the example below:



As you see from the chart above, Vodafone (a UK share) made an ABCDE decline off the November 22 high into the March 12 low, which stopped right at the typical wave E WPT. Vodafone then rallied sharply of this WPT support level.

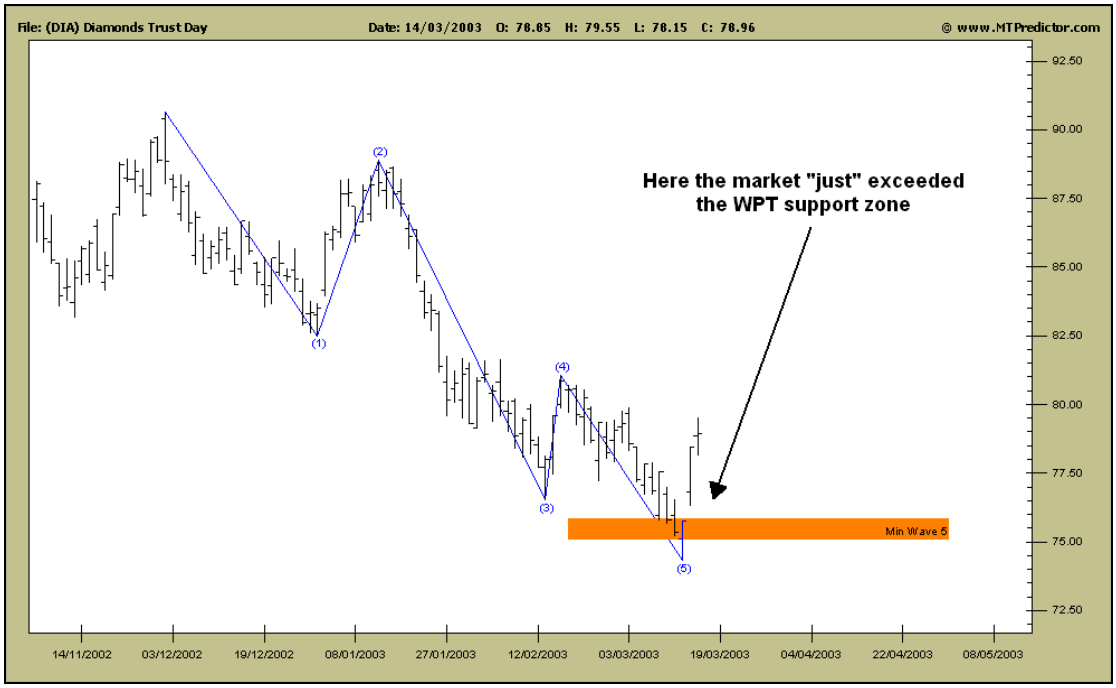
There is only one WPT support or resistance level for a wave E.

Continued on the next page . . . .

The near-miss

In most of the examples you have seen so far in this chapter, the market in question has reversed from within the WPT support or resistance zone precisely. However, sometimes, the market in question will slightly exceed the WPT support or resistance zone, so the question is whether this is still a valid signal ?

The answer to this depends on how far the market exceeds the WPT support or resistance zone, and whether the market instantly reacts back after exceeding the support or resistance zone. If you look at the chart below on DIA, you can see how the low of March 12 closed back within the minimum wave 5 WPT support zone, although the low of the day was slightly below the support zone:



As such, I would say that yes, DIA did find support at this wave 5 WPT, and this was a valid signal.

Most of this is judgemental, and this is where the *Art* part of trading comes in to help us with the pure *Science* of the WPTs. As a general guideline, if the market in question does slightly exceed a WPT, I would give it roughly 1/2 of the WPT either side as leeway. What this means is if the WPT is 10 points wide, then I would allow the high or low of the bar in question to be either 5 points above or 5 points below the WPT to be still valid. Or, the market in question immediately reverses back to within the WPT to be valid. This was the situation with DIA where, although the market traded slightly below the WPT, it immediately reversed and closed back within the WPT.

Examples

Over the next few pages I would like to look at several different markets to show how their highs and lows unfolded at the appropriate WPT support or resistance areas.

Throughout these examples, I'd like you to consider that the best support or resistance areas are projected when you have a clear and obvious Elliott wave count to work with. If you try project WPTs using an Elliott wave count that is unclear, particularly if the market in question is unfolding in a very choppy and sideways period, then these WPTs simply will not work.

As such, my best advice is to only use these WPTs where the current Elliott wave pattern is clear and obvious. This advice also applies to manually labelling Elliott wave counts, or indeed verifying the automatic wave count within MTPredictor. The best and most reliable set-ups come from a market pattern that is clear and obvious.

I apologise for stressing this point, however as you will have seen from prior sections, I believe that most markets tend to unfold in a clear and obvious Elliott wave count only about 50% of the time. This means that most of the time you are unable to label the chart with a clear obvious wave count, so you are unable to use the WPTs for reliable support or resistance projection.

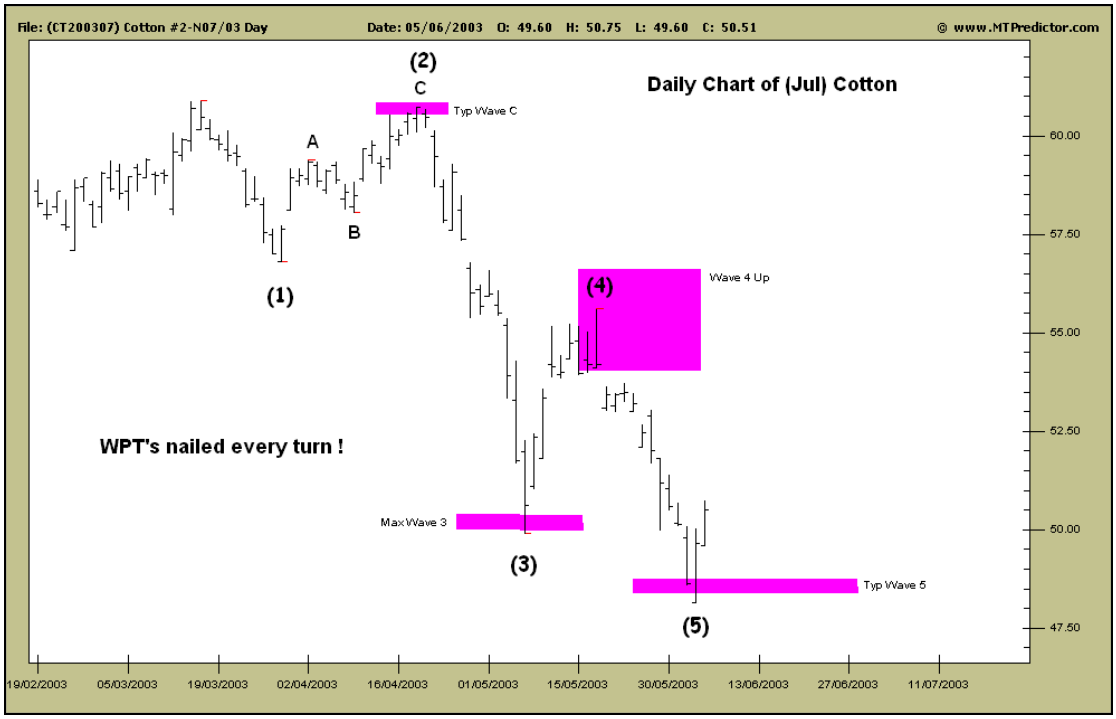
This may be obvious, but it is human nature to want to try to project future movements on all market activity all the time - from my own experience I believe that you simply cannot do this. It is not that the techniques are invalid; it is simply that the market does not unfold in a reliable and obvious pattern enough of the time. Again I stress, these WPTs are excellent ways to project in advance potential support or resistance areas where a market is likely to turn, however you MUST only use them when you have a clear and obvious Elliott wave count.

Because you can place the WPTs on the chart *before* the market gets there, they should be considered *leading indicators*. In other words they can *prepare you in advance* for potential support and resistance areas.

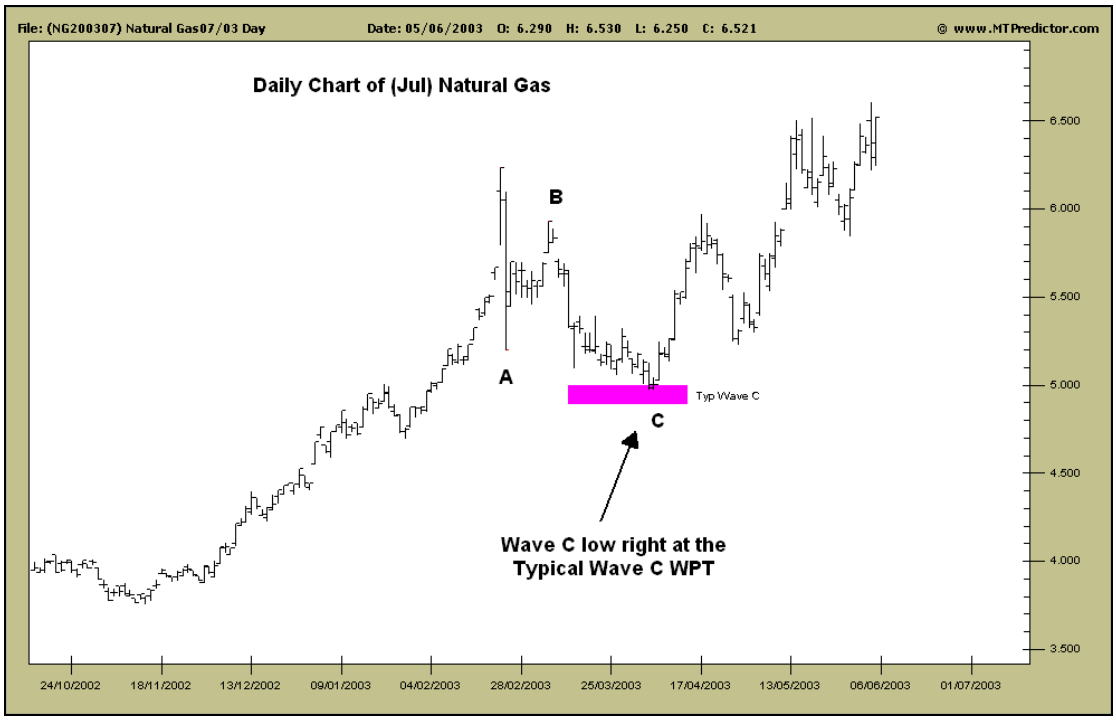
As you will see from the examples on the next few pages, I did not have to look too far, nor indeed too far back, to find many excellent examples of how the WPTs nailed the exact level a market made a turn. Although this does not happen all the time, I hope you can see that most of the time these WPTs will be able to prepare you in advance for a likely turn in the market.

Continued on the next few pages . . .

Here is an example on (Jul) Cotton:



Here is an example on (Jul) Unleaded Gas:



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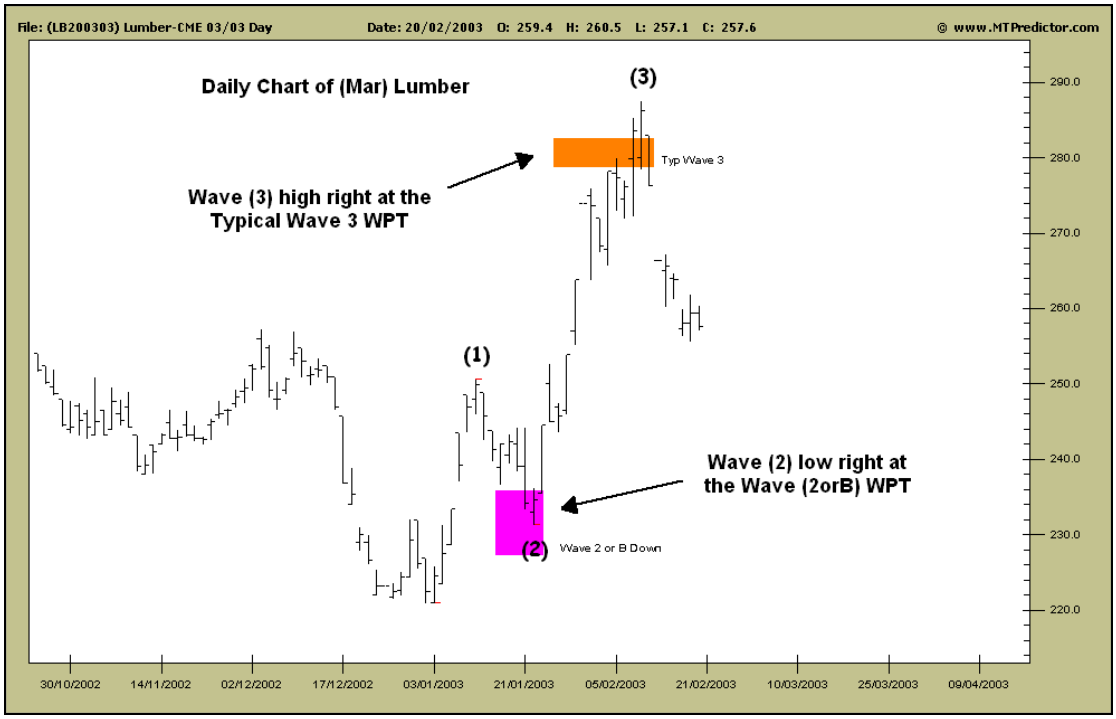
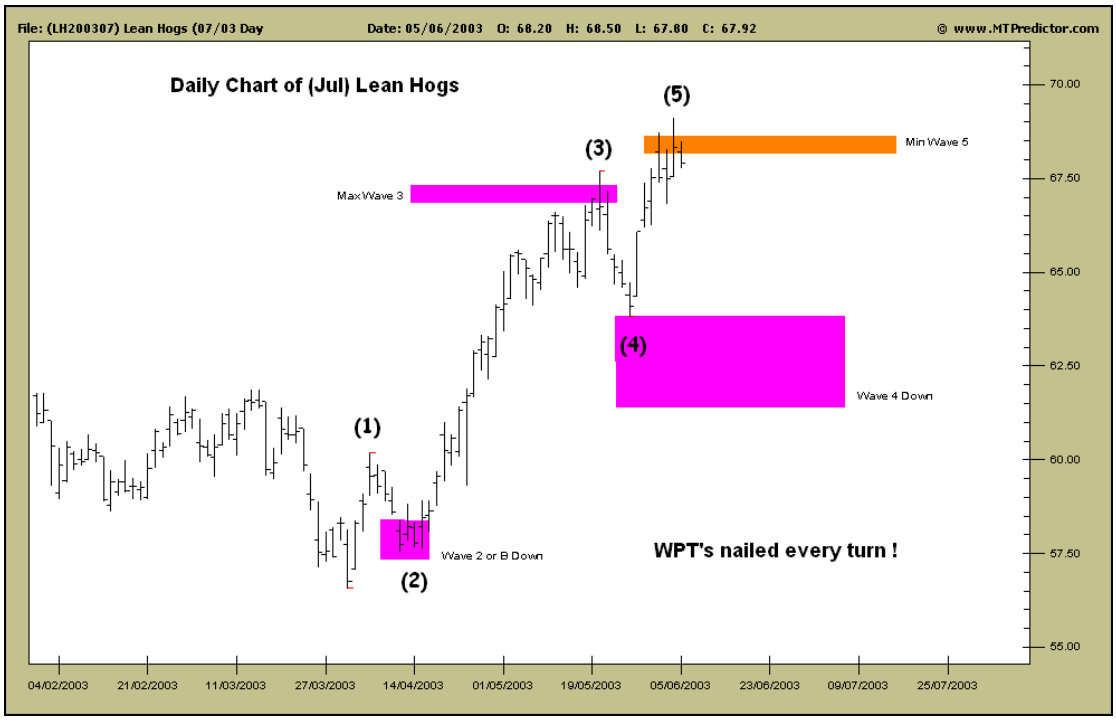
Here is an example on (Mar) Lumber:



Here is an example on (Jul) Lean Hogs:



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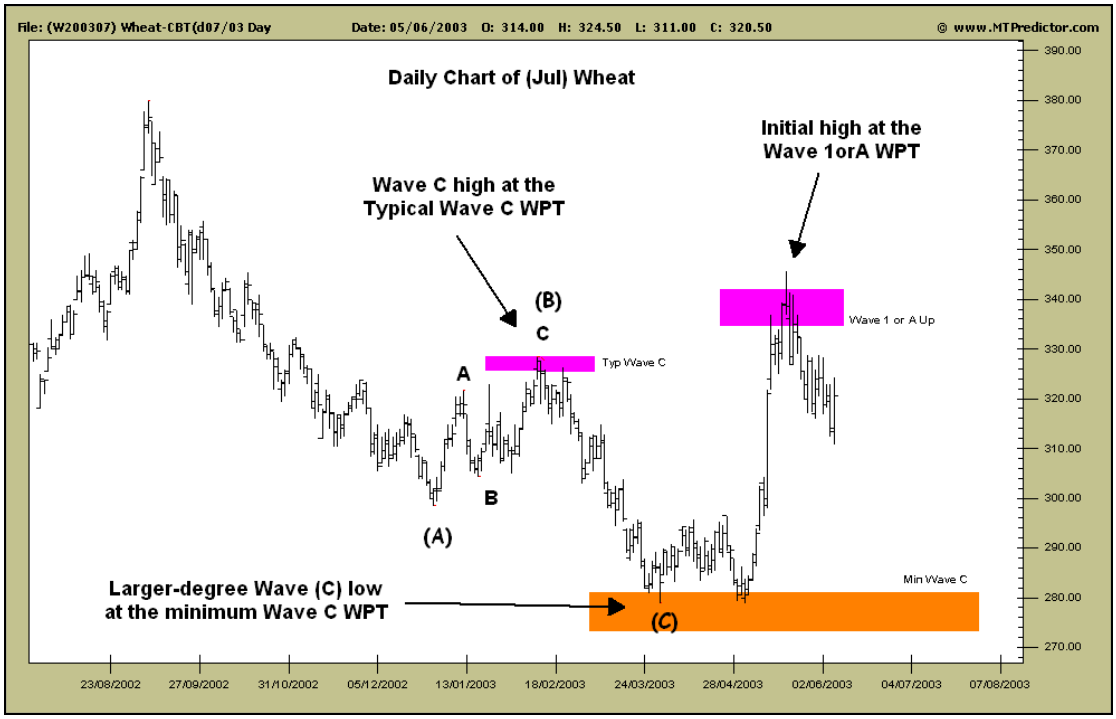
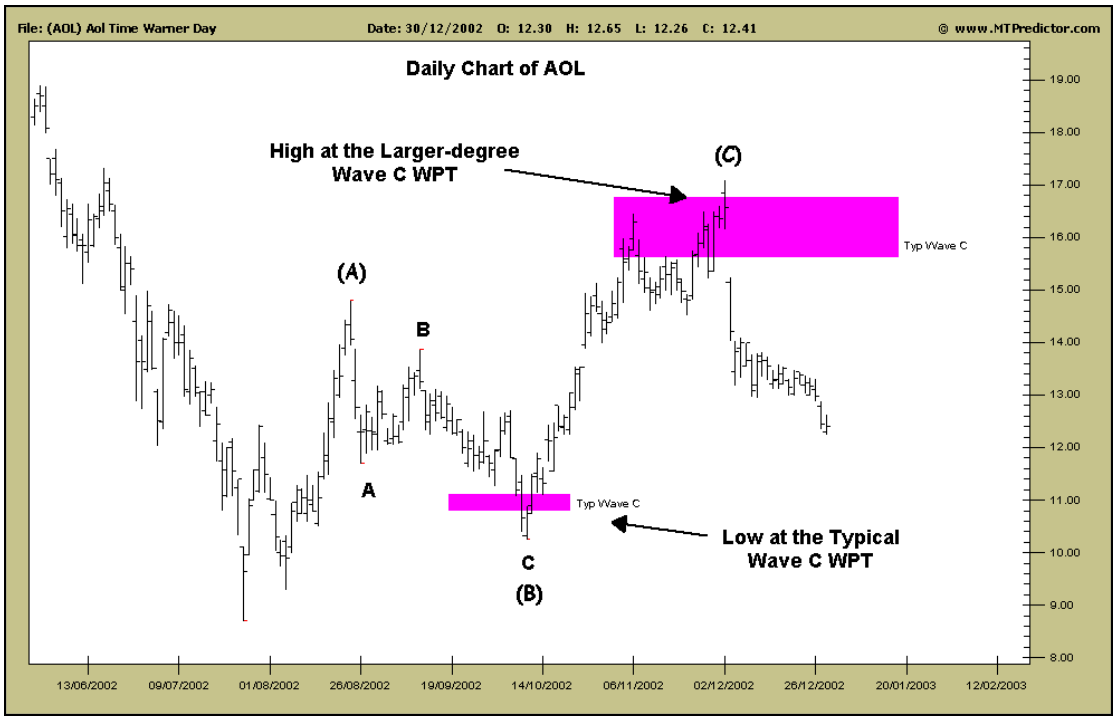
Here is an example on (Jul) Wheat:



Here is an example on AOL:



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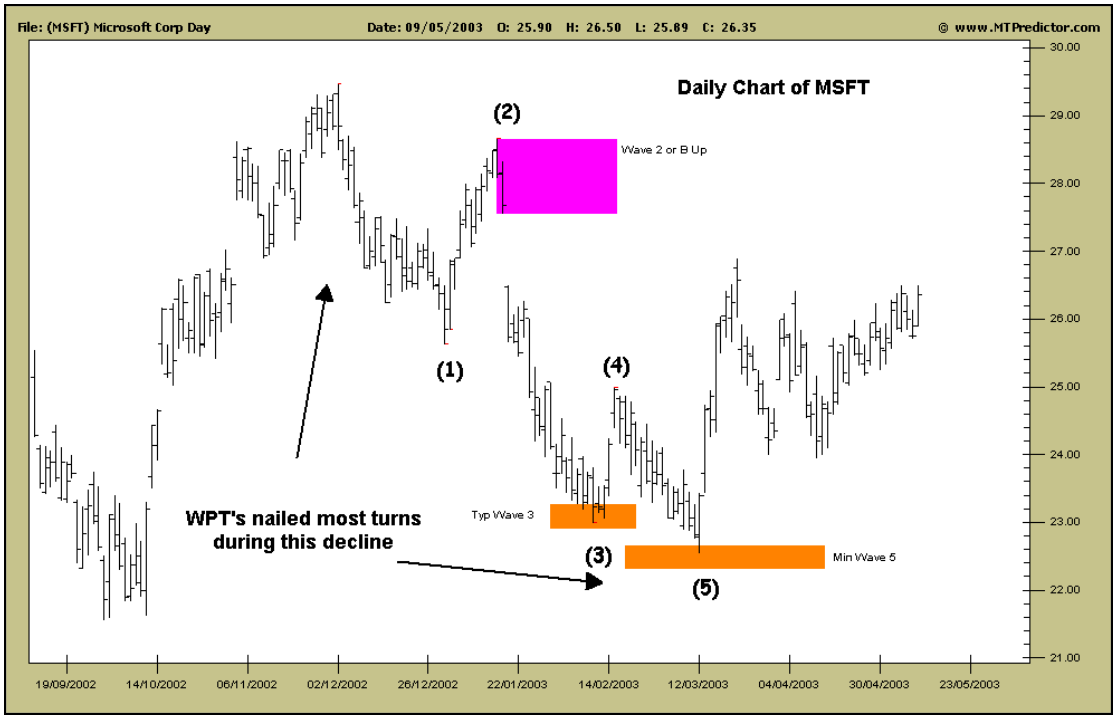
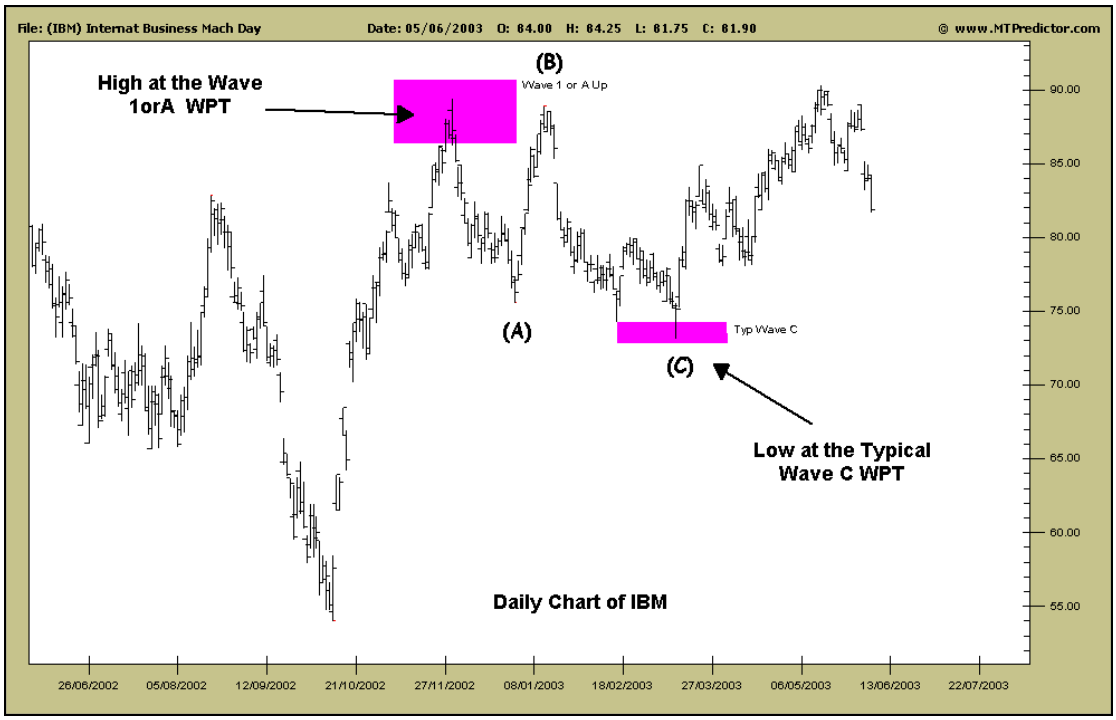
Here is an example on MSFT:



Here is an example on IBM:



I could continue with many more examples, but I am sure you get the idea by now. I hope you can see that most turns will usually unfold at a WPT support or resistance area.

Summary

I hope you can see how these WPTs make projecting the areas where specific Elliott waves are likely to end very easy indeed. Normally all that is needed is just a few simple and quick mouse clicks. There is no need to perform all the individual price projections or expansions of each individual wave, nor is there any need to know which ratios are important from which swings, because the MTPredictor software program does all this for you. All you have to do is identify the start and end of the swings in question, and make a few mouse clicks.

However, the most important point is that these WPTs work best when you have an obvious and easy to recognise Elliott wave count. As you have seen in earlier chapters this is not always the case, so the best advice is always to keep things simple and only use them when you can see an obvious or easily recognisable wave count.

Furthermore, I hope you can see how the areas can help you prepare in advance for future support or resistance areas, this is very important as it allows you to be *prepared to* take action, rather than simply *reacting to* prior market action. In other words, WPTs should be considered *leading indicators*. This is very different to normal technical analysis where most of the indicators are *lagging*, in other words they only tell you that a high or low has unfolded, not the areas where a high or low is *likely* to unfold.

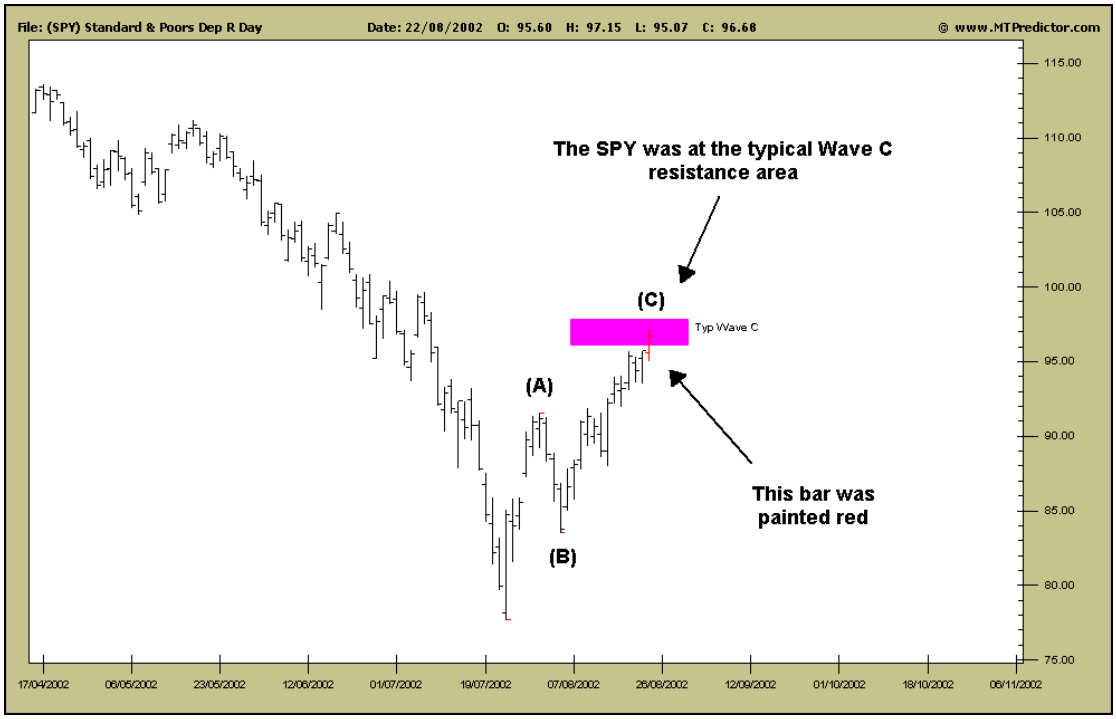
It does not matter whether the chart is a daily chart of a US stock, or a weekly chart of a commodity, or even a five-minute chart on the E Mini SP500, these WPTs work equally well on all markets and on all time frames.

Chapter 4 – Coloured Reversal Bars

In the last chapter you saw that WPTs could be used to anticipate where any of the Elliott wave sequences were most likely to end; however this is not the end of the story. Once a market enters a WPT support or resistant area, all this means is that it is at an area where a high or low is likely to unfold, it does not mean that a high or low will unfold.

The next stage is to have a method that gives you an indication that the market (by its own actions) is actually finding support our resistance at the projected area. These are the coloured Reversal Bars in MTPredictor.

Let me show you an example:



Here you can see from the example in the last chapter the SPY has reached the typical wave C WPT resistance area, the MTPredictor software program has also painted the bar of August 22 red, this would be considered a sell Reversal Bar (blue bars are potential buy set-ups).

The SPY is now at a level where a wave C high is anticipated to unfold, and you have a signal that may well indicate a high is actually unfolding. Confirmation that the high is completed would be *if* the SPY trades below the low of the red sell Reversal Bar (of August 22).

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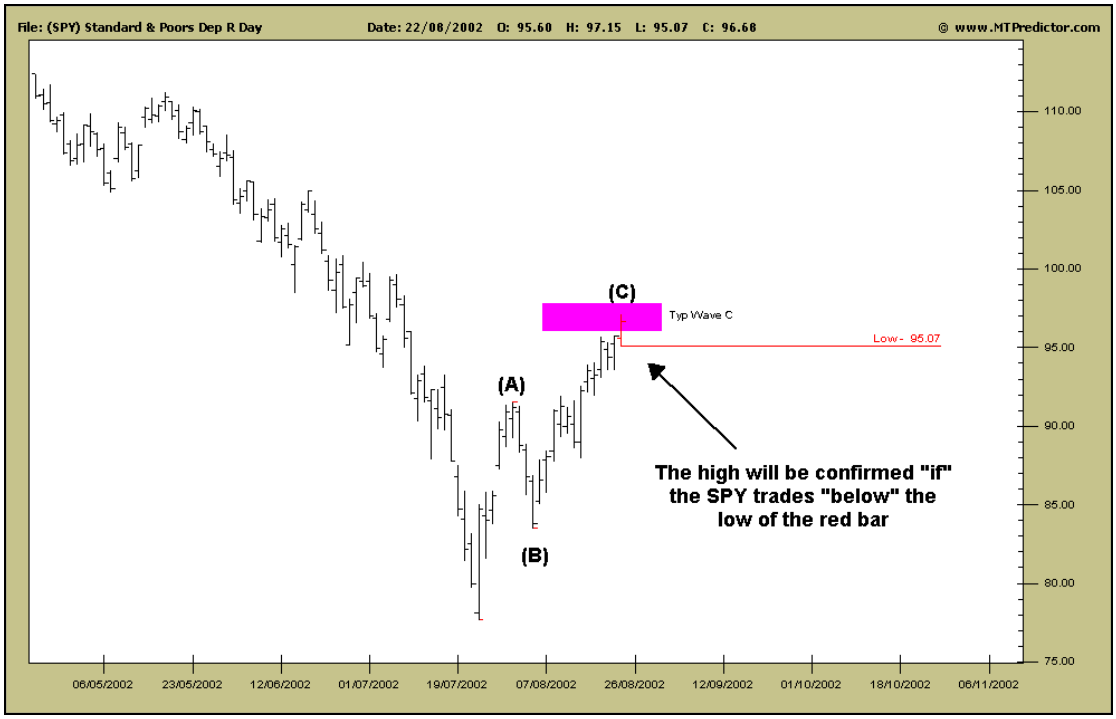
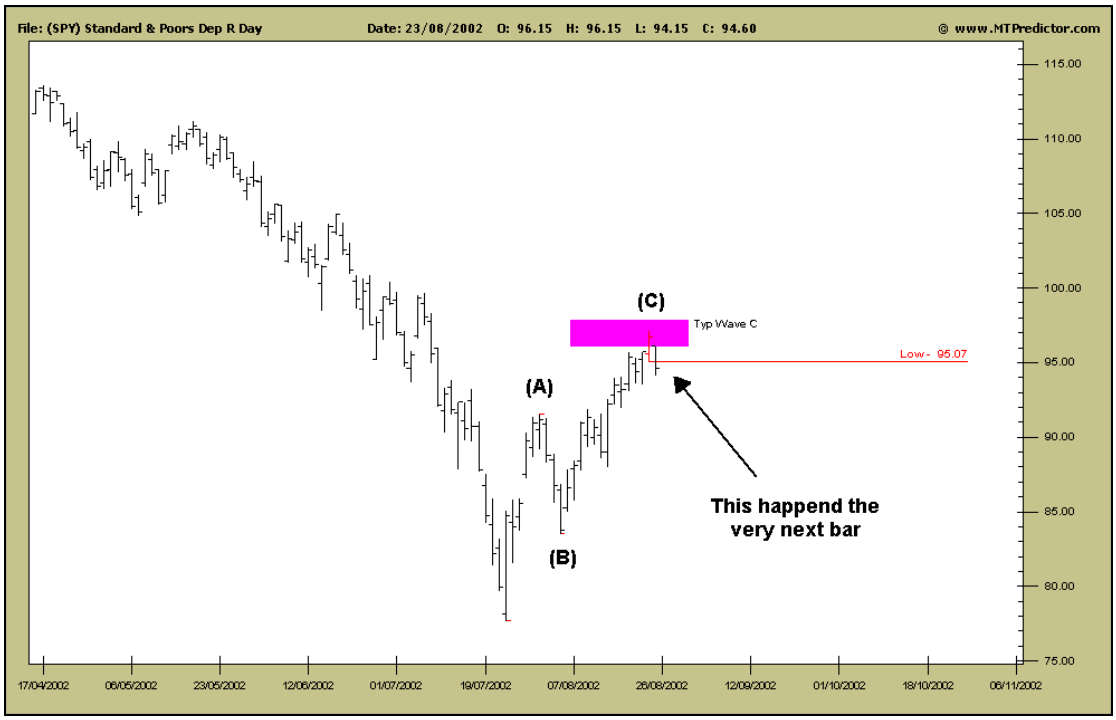
Let's see what this looks like on the chart:



Let's now move forward and see what happens one day later:



As you can see on the chart above, the SPY has now declined below the low of the red sell Reversal Bar (of August 22). This has now confirmed that the wave C high is complete and that the SPY should continue lower from here.

At this point three things have combined at the same time to signal a potential change in trend:

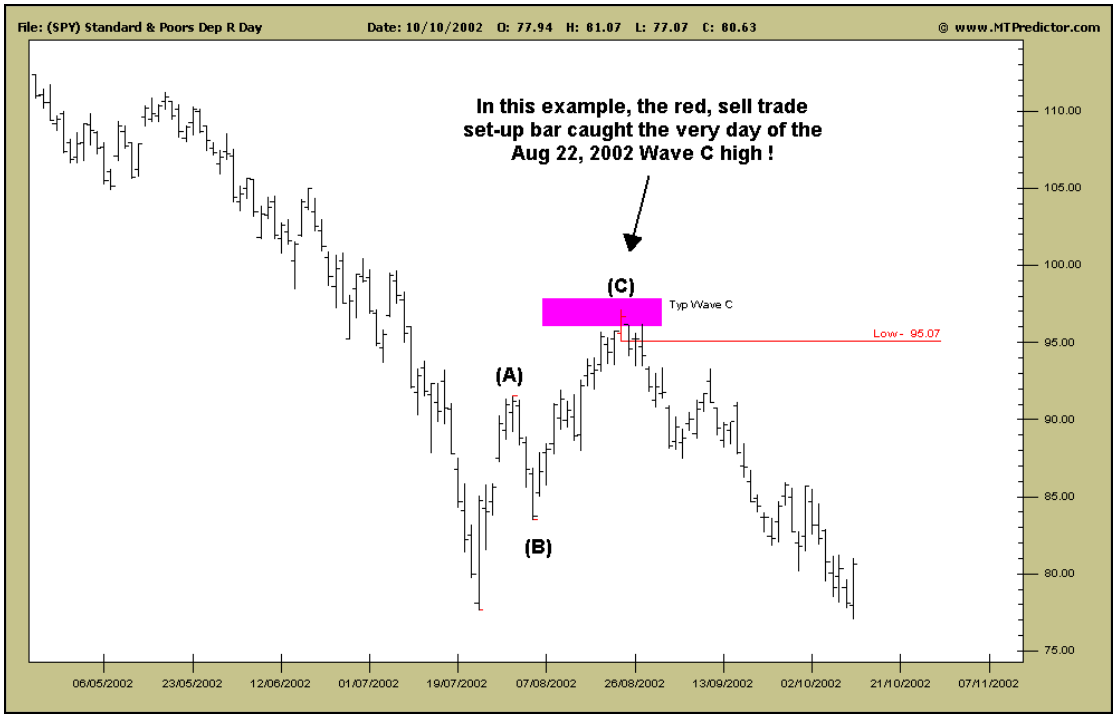
- Firstly, the market in question (the SPY) was at a level where a high was anticipated to unfold - the typical wave C WPT resistance area.

- Secondly, the market in question (the SPY) made a red sell Reversal Bar that unfolded right in the typical wave C WPT resistance area.

- Thirdly, the market in question (the SPY) then declined below the low of the red sell Reversal Bar.

As you see, these 3 things meant that the SPY was not only at an area where a high was anticipated to unfold but it had also indicated that a high was actually likely to unfold (by a red sell Reversal Bar appearing at the WPT) and the SPY (by its own actions) confirmed that the high was complete by declining below the low of the red, sell, reversal bar.

Let's see what happened:



As you can see, the SPY did indeed continue to decline from this level, in fact the red sell Reversal Bar, of August 22, was the actual day the wave C high ended !

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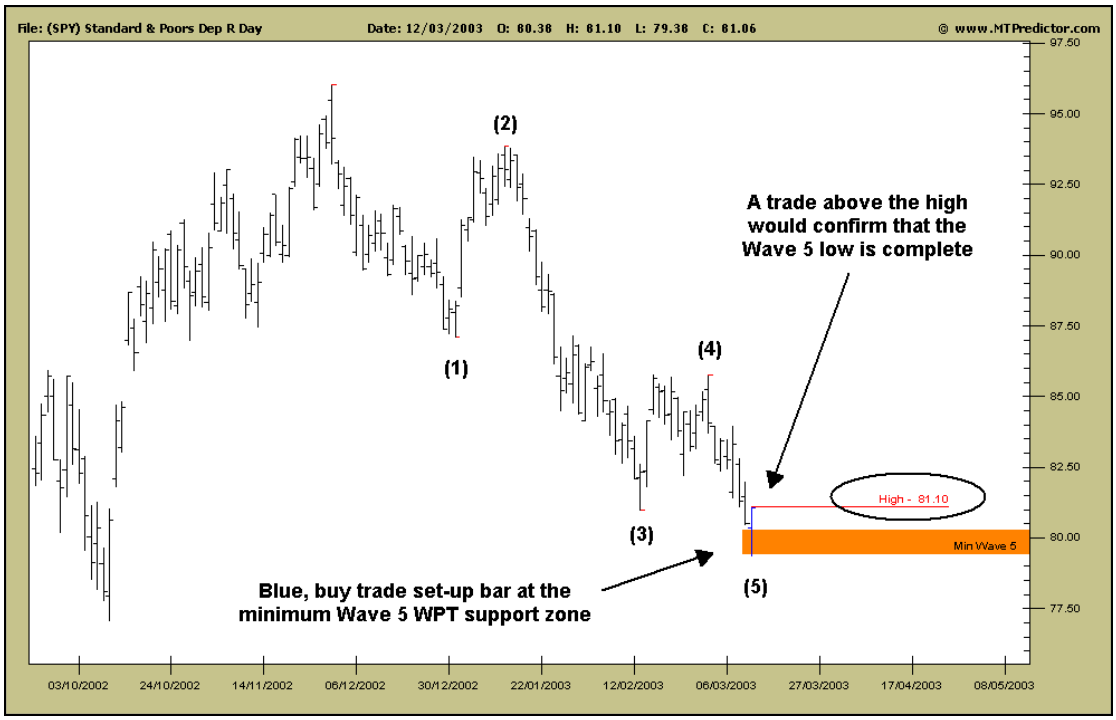
Let's take a look at another example from the last chapter, again on the SPY, but this time the wave 5 low of March 12:



As you saw in the last chapter, March 12 fell right at the minimum wave 5 WPT, which was the first area where a potential wave 5 low was anticipated to unfold. As you have already seen, this is only the first criterion that is needed for the low to be confirmed - as before we require three things to come together at the same time to signal a potential change in trend:

- Firstly, the market in question (the SPY) is at a level where a low is anticipated to unfold - the minimum wave 5 WPT support area.

- Secondly, the market in question (the SPY) made a blue buy Reversal Bar that unfolded right in the minimum wave 5 WPT support area.

- Thirdly, the market in question (the SPY) then rallied above the high of the blue buy Reversal Bar.

As you see, these three developments meant that the SPY was not only at an area where a low was anticipated to unfold, but also that the SPY had given an indication that a low was likely to unfold (by a blue, buy, reversal bar appearing at the WPT). Let's now see what happens.

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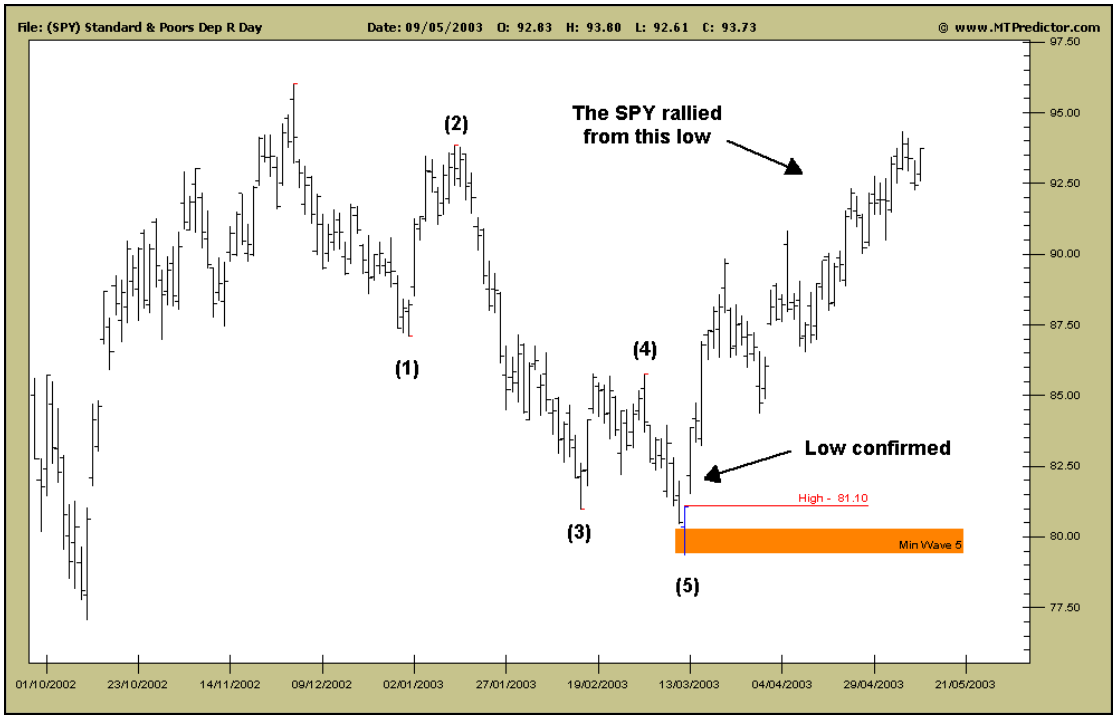
Here is the result:



The very next day the SPY rallied above the high of the blue Reversal Bar, this confirmed that the wave 5 low was complete. As you can see on the chart above, the SPY continued to rally strongly, leaving March 12 as the very day the wave 5 low ended.

As you have seen in these two examples, a coloured Reversal Bar gives you the first indication that support or resistance is unfolding at the anticipated WPT. However, the market must exceed either the high (for a buy set-up) or the low (for a sell set-up) of the Reversal Bar to confirm the change in trend.

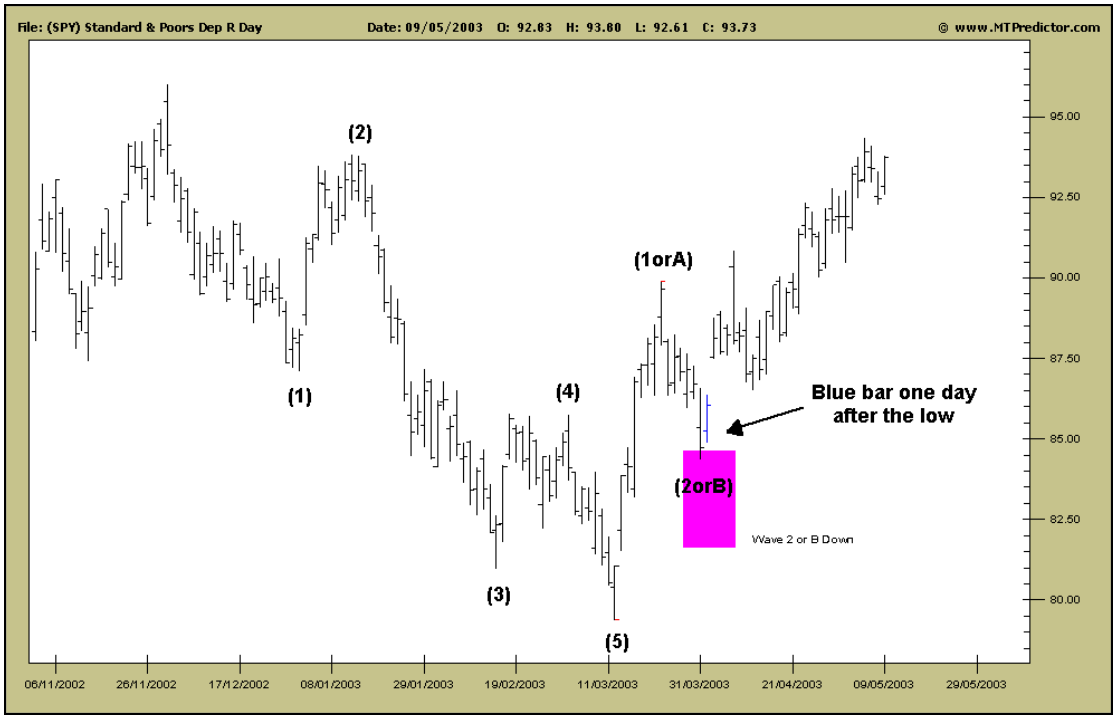
What this also means is that the coloured Reversal Bars are only relevant when they appear at WPT support or resistance areas. This makes sense because the market has to be at an area where a high or low is anticipated, as most highs or low unfold at the WPT support or resistance areas. Therefore if a coloured Reversal Bar unfolds in the middle of a trend, it has a low probability of actually making a change in trend, therefore it is meaningless and should be ignored.

This is a very important point, so I'll stress it again: if the market makes a coloured Reversal Bar it should be ignored unless in unfolds at a WPT support or resistance area.

When it unfolds at a WPT support or resistance area, then the market is very likely to make a change in trend, however you must wait until either the high or low of the coloured trade to the bar is exceeded for the change in trend to be confirmed.

The MTPredictor software program uses a unique combination of criteria to calculate these coloured Reversal Bars. As you have seen so far, coloured Reversal Bars very often unfold on the very day a high or low is made. Usually if they do not unfold on the exact day of a turn, they will unfold one day later.

Here's an example.



Here the wave 2orB low on the SPY ended on March 31 (in the wave 2orB WPT support zone), however, the blue buy Reversal Bar did not unfold until one day later on April 1.

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Summary

As you have seen in this chapter, coloured Reversal Bars are the final piece in the puzzle that indicate whether a change in trend is unfolding. First we require the market be at a WPT support or resistance area where the current trend is likely to end; then we require that a coloured (red or blue) Reversal Bar unfolds at that WPT; finally, we require that the market in question exceeds either the high (for a buy) or the low (for a sell) of the Reversal Bar to confirm that the change in trend is complete.

In this way, you can usually nail the exact day when the current Elliot wave sequence is liked to end.

Just to recap, for a change in trend we require three criteria to come together at the same time:

1. Firstly, the market in question is at a level where a high or low is anticipated to unfold - this is normally a WPT support or resistance area.

2. Secondly, the market in question makes a coloured (red or blue) Reversal Bar, and that bar unfolds in the WPT support or resistance area.

3. Thirdly, the market in question then exceeds the high (for a buy set-up) or the low (for a sell set-up) of the Reversal Bar.

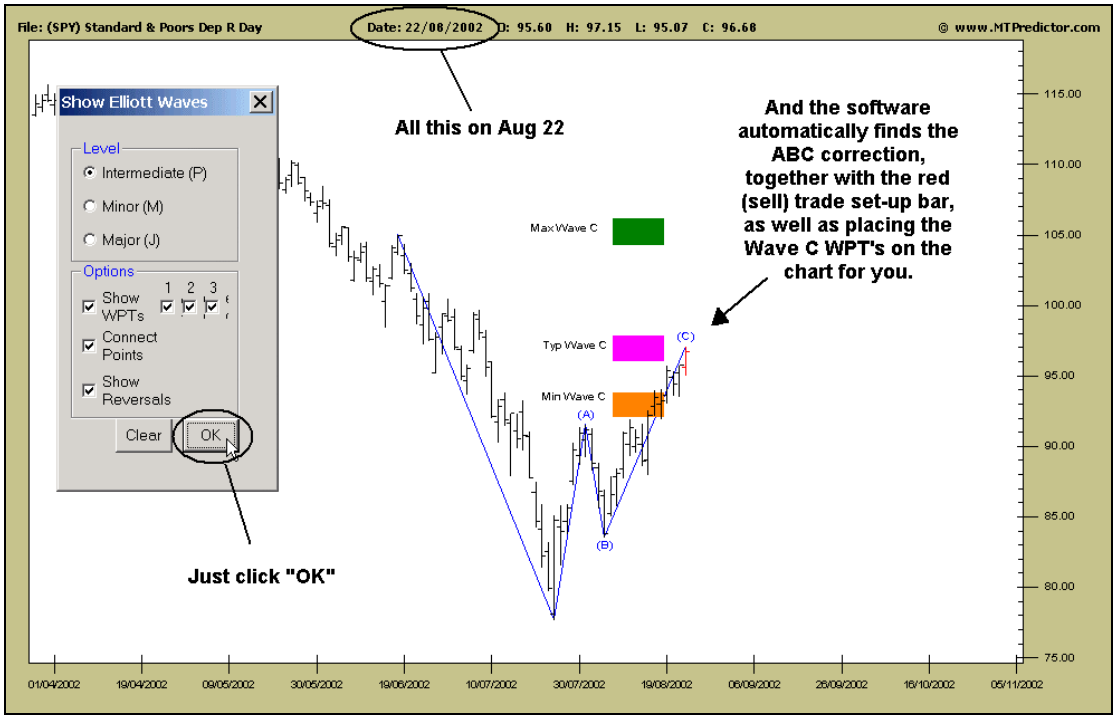
Once these three criteria have been met, then a market is very likely ending the current Elliot wave sequence and making a reversal. Often, these techniques allow you to catch the very day the market makes this reversal.

Chapter 5 – Show Elliott Waves

The last two chapters have shown how the WPT module and the coloured Reversal Bars, when combined together, allow you to not only anticipate where the current Elliott wave sequence is most likely to end but also, by a break of the high or low of the coloured Reversal Bars, gives you confirmation that the current Elliott swing is ending. So wouldn't it be nice if you had a way to do this automatically, quickly and easily ?

This is where the "Show Elliott waves" module comes in within the MTPredictor software program.

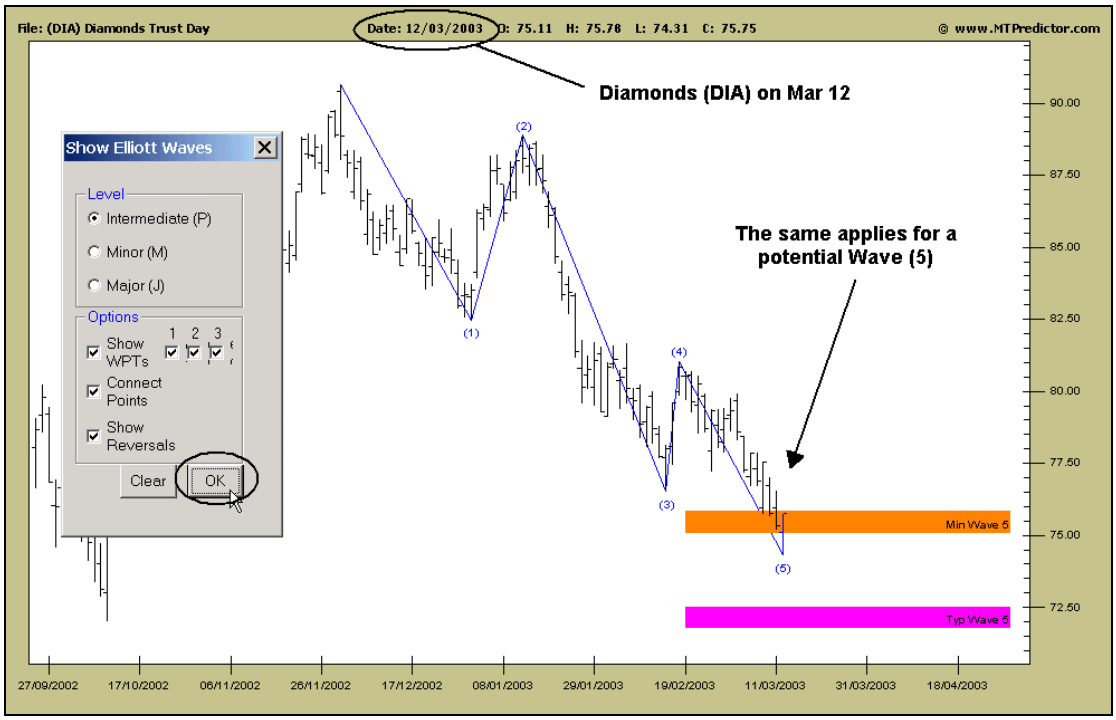
Let me show you an example:



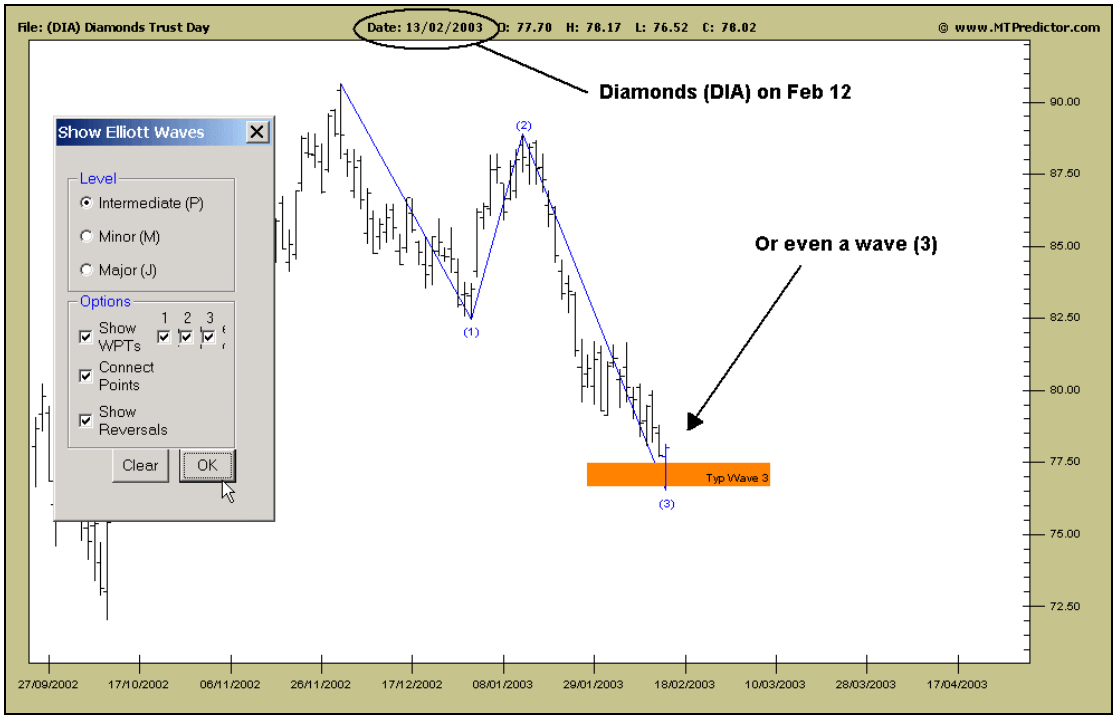
If you look at the chart above, you can see how on August 22 2002, on a daily chart of the SPY, the software automatically found an ABC correction. You should all be familiar with this chart by now, because this is the example I used in the last few chapters. However the "Show Elliott waves" module does not stop there. As you can see from the chart above, the last bar on the chart (which was August 22) was painted red which, as you know form the last chapter, would be considered a sell trade set up bar. The three wave C WPTs were also placed on the chart automatically for you - all this with just one simple mouse click.

I hope you see how easy it was to be able to identify the potential wave C high on August 22: all you had to do was select the "Show Elliott waves" module and then click OK.

Let's take a look at another example, this time on a US stock, Diamonds (DIA) on March 13 2002:



Again, all you had to do was select the "Show Elliott waves" module and click OK, and the potential wave 5 low is automatically identified for you together with the wave 5 WPT support levels and the blue buy trade set up bar on March 13. What about a month earlier ?



As you see from the second chart on the prior page, again the "Show Elliott waves" module has identified a potential wave 3 decline, also placing the appropriate WPTs on the chart for you (which in this instance was the typical wave 3 WPT) and also a blue Reversal Bar on February 13. As you have seen in the prior chapter, when a coloured reversal bar unfolds at a WPT, confirmation that the current Elliott wave sequence is over is a trade beyond the high or low of that Bar. As such, all that was required was one mouse click using the "Show Elliott waves" module and the end of the current wave 3 decline was automatically identified on DIA on February 13.

These are only three isolated examples - the "Show Elliott waves" module is capable of automatically identifying all of the most common Elliott waves patterns. However as you have also seen from these examples, it also automatically displays the appropriate WPT support resistance areas on the chart, and also colours the appropriate bars either red (for a sell) or blue (for a buy) for you. In this way, identifying the potential end of an Elliott wave sequence has become as simple and easy as just a couple of mouse clicks.

As I have outlined in the prior chapter, to signal the end of the current Elliott wave sequence three things have to combine at the same time:

- Firstly, the market in question is at a level where a high or low is anticipated to unfold - normally a WPT support or resistance area.

- Secondly, the market in question makes a coloured (red or blue) Reversal Bar, and that bar unfolds in the WPT support or resistance area.

- Thirdly, the market in question then exceeds the high (for a buy set-up) or the low (for a sell set-up) of the Reversal Bar.

Once these three criteria have been met, then a market is very likely ending the current Elliot wave sequence and making a reversal. Often, these techniques allow you to catch the very day the market makes this reversal.

What the "Show Elliott waves" module does for you is allow you to display all the relevant information on the chart by just one simple mouse click. All that is needed then is that the market (by its own actions) either confirms or invalidates the set-up, as outlined in point 3 above.

More importantly, the "Show Elliott waves" module performs the hard job of identifying the most likely Elliott wave count automatically for you.

Continued on the next page . ..

At this point, this module may not seem that different from some of the other Elliott wave software programs on the market today. However, it is the way that the software not only automatically identifies the most likely Elliott wave count but also displays the WPT projected targets on the chart and colours the Reversal Bars for you, that is unique.

The main difference between MTPredictor and other Elliott wave software programs is the unique way it calculates its Elliott wave count.

As I outlined in the section on practical Elliott wave analysis, I believe that the main weakness of the Elliott wave theory (as its mainly taught today) is the way it should not be applied to all charts all the time. Also, I do not believe that because an Elliott wave sequence is complete, it automatically leads onto another sequence. At this point, I suggest you go back and re-read the section on practical Elliott wave analysis.

MTPredictor looks at the chart in *isolation*, so it can form an unbiased opinion of the most likely current Elliott wave count, without having to rely on prior market behaviour. In this way, it can more reliably identify the end of the current swing. This can then be used to either enter a new trade set-up or adjust stops on current positions. Without the need for either prior history, or trying to force a projection onto the future, MTPredictor is able to focus on the task at hand, which is identifying the most likely area for the current Elliott wave sequence to end.

This also has another major advantage, in that as the market moves forward in time, MTPredictor does not change its Elliott wave count. This is a major drawback with some of the other Elliott wave software programs on the market today, because once you have made a trading decision based on a current Elliott wave count, the last thing you want to happen is for the software to suddenly change its mind and re-label its wave count, leaving you in confusion.

When you are trader, you have to make a decision based on information at hand here and now. This is the way MTPredictor looks at the market. In other words, it will take a view on the most likely Elliott wave count based on the last bar on the current chart. Once the information is placed on the chart, it will not step back and then re-label its analysis at some point in the future.

Nor will it give you a choice of *alternate* wave counts which, again, can be fitted into the past market history once more data has been added to the chart. Again, when you are trading, this can confuse you hugely.

The best way to think of this is that MTPredictor is designed to identify “trade set-ups” here and now, and not try to predict the future. This is more akin to what we do as traders.

Again, a very important point to understand is that MTPredictor works off the last bar displayed on the chart. Therefore, if you wish to look at some point in history (to see what the Elliott wave count was at that time), you have to use the "training mode" to return the last bar on the chart to the date in question. I will cover this in more detail in a later chapter, but again I want to stress that MTPredictor will perform its automatic Elliott wave routines just on the last bar of the current chart.

This has a major advantage over some of the other Elliott wave software programs available today, in that you can return the chart back to some point in history, apply the automatic analysis, then move forward day by day, and see how the market unfolds in relation to the automatic analysis. In other words, the analysis you placed on the chart will not change as new market data is added. Again this is more akin to a how you act as a trader, because if you are long or short in a market you can't go back and say, "actually I was short rather than long" - you have to take your position as it is in the market and manage it accordingly. This is why MTPredictor works more like a trader than a software program.

Another major advantage of MTPredictor, over some of the other Elliott wave software programs available on the market today, is the way that MTPredictor only labels an Elliott wave count, *if* a valid wave count is present up to the last bar on the current chart. As I outlined in the section on Elliott wave analysis, it is my opinion that a valid Elliott wave count only exists on a current chart about 50% of the time. As such, if a wave count is placed on the chart that is not *ideal*, then it not only has a low probability of working out as anticipated, but it can give you a misleading opinion as to where the market may go in the future, very often leading you to losing trades. So, it makes no sense at all to me to have a software program that will either place Elliot wave counts on the chart all the time, or indeed, give you so many alternate interpretations of the current position, that anything could be fitted onto the chart *in hindsight*.

As a trader, this makes no sense at all - why should you put your own money at risk in the market when the current pattern is unclear, so the current trade (or position you are in) has a low probability of unfolding as anticipated. It makes far more sense to only bet on the high probability trades, which are most likely to unfold as anticipated.

This is why, if a valid Elliott wave count is not present on the chart (as of the last bar on the chart), then MTPredictor will not try to label a low probability wave count - it will say is "No Elliott wave sequence found".

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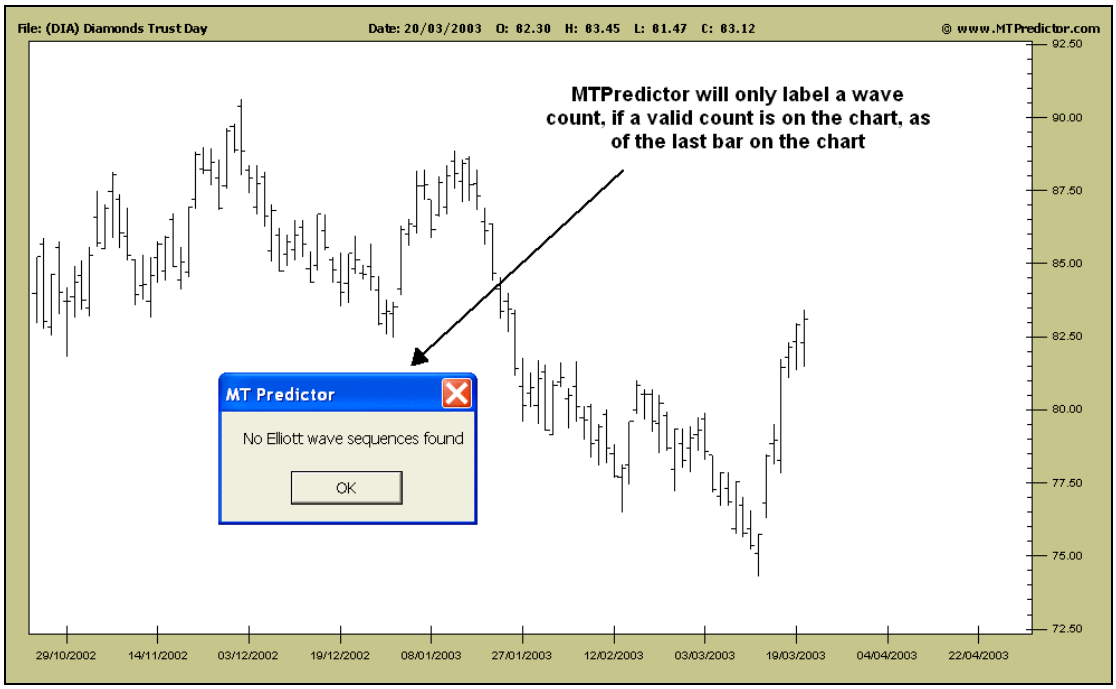
Here you can see how MTPredictor will not try to force a wave count on the chart if it is not valid:



Some of you may find this slightly confusing, but it does make perfect sense, because as a trader you should not be in the market all of the time. Therefore it makes no sense to try to force a wave count on the chart all of the time either. As a trader, you will have the greatest success if you only trade the highest probability trade set-ups, this is why MTPredictor is designed to only give you information on the current chart when the likelihood of the current wave count unfolding as anticipated has the highest probability.

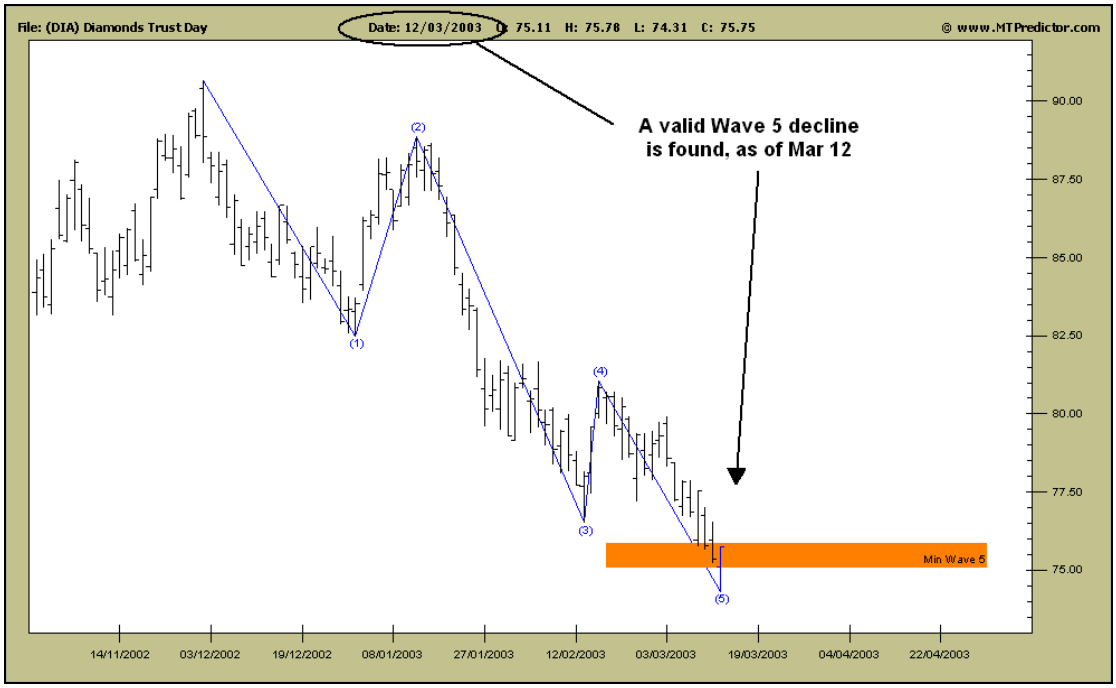
Obviously, no Elliott wave count is 100% accurate, as the future is always uncertain, but I hope you can see that it makes most sense to only work with the *highest probability* wave counts and set-ups, where the likelihood of success is the greatest. In this way, you can target your valuable trading capital to where the likelihood of making a profit is the highest. When the probability of success is lower, you can keep your powder dry and preserve your trading capital. It makes no sense at all to throw good money (your trading capital) after low probability trade set-ups.

I hope you can all understand this point, because it still surprises me how many traders wish to either trade every day, or, they simply want to know where the market is headed every day. As you have seen, I personally believe that this cannot be done with enough accuracy all the time. However, there will always be a newsletter, software program or a friend down the pub who will have an opinion on the market. The danger is that if this opinion is the same as yours (for example, you are long and would like the market to go up), you will be happy to listen to anybody who will validate your current trade position. However, based on personal experience over the last 17 years, this is not a good way to trade and will usually end in losses.

Again, I wish to stress that in my opinion Elliott wave analysis is only accurate about 50% of the time, therefore MTPredictor has been designed to only give you automatic Elliott wave counts, when it has found a *valid* wave count. In this way it will not confuse you with low probability and misleading wave counts.

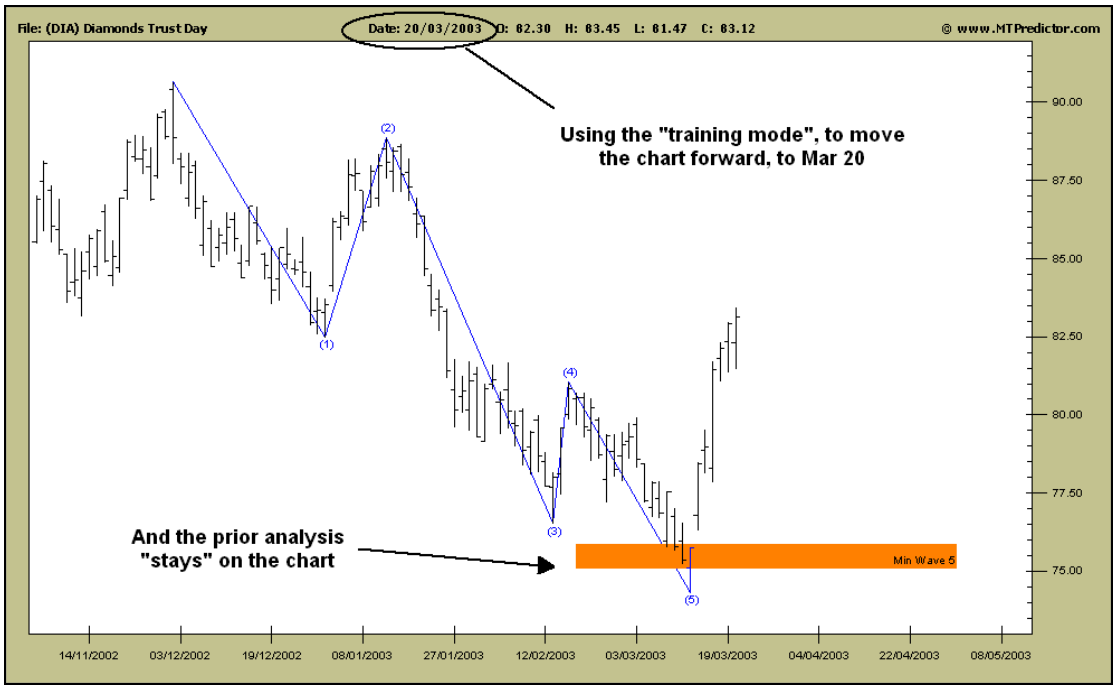
However, because MTPredictor is a software program, sometimes it will not find a wave count, although there is a valid one. This is when you can decide to override the automatic routines, and perform some *manual analysis* yourself. I will go into greater detail on this in the next chapter. However, I recommend that you perform your own manual analysis only if you are experienced at Elliott wave analysis. In the early days, or while you are learning, it is far better to just stick with what the software finds via its automatic wave counts. In this way it will keep you on track and allow you to focus on the highest probability wave counts.

Again, because of the unique way MTPredictor performs its Elliott wave analysis, and the way that most the time it will not find an Elliott wave count, sometimes you will need to use the "training mode" to return the chart to the last important swing pivot and then apply the automatic routines to uncover a wave count that would have unfolded in the past. For example, on the chart on the prior page, which was current up to Mar 20, the software did not find a valid Elliott wave count. However, a few days earlier, on March 12, the software did automatically find a valid 5 wave decline:



Once you have returned the chart, using the training mode, back to March 12, as you can see above, a 5 wave decline was automatically found. Again, using the training mode, you can now return the chart back to the current day, which is March 20 here.

And as you can see from the chart below, the automatic analysis that was applied to the chart on March 12 stays on the chart:



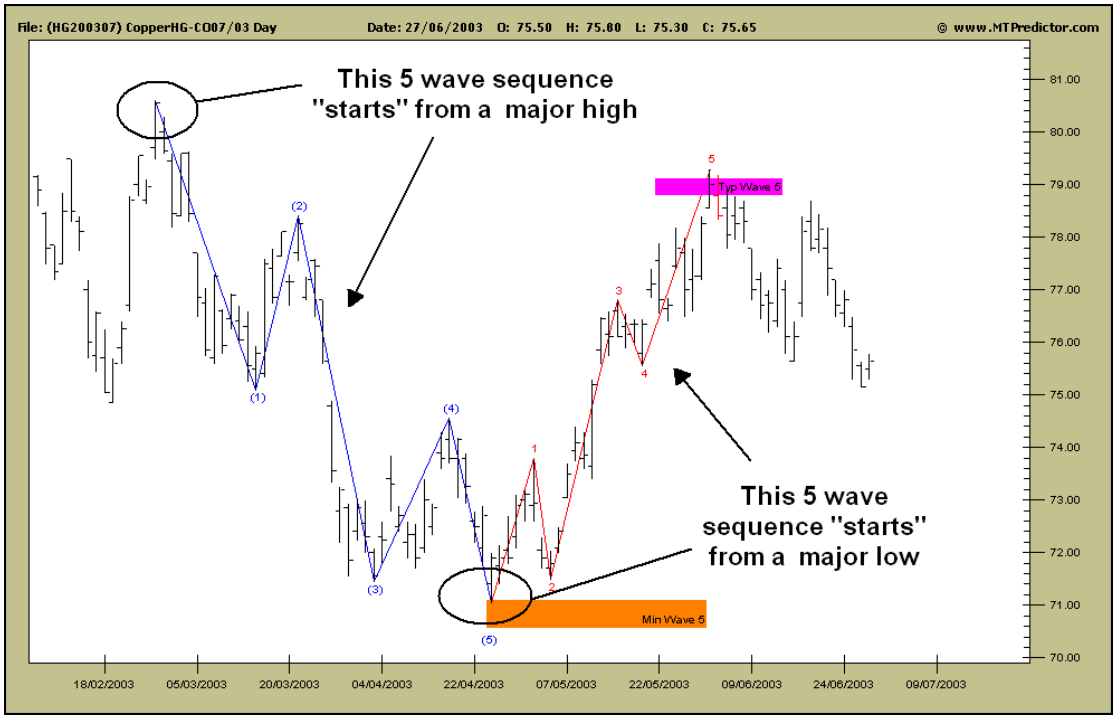
As you see, this provides a way for you to test how the market unfolds off some prior analysis, without the software changing its mind, or re-labelling the chart as you move forward in time.

I will go into more detail on this in this section on the "training mode". However I thought it was important to demonstrate this point in this chapter because, as you have seen, the "Show Elliott waves" module only works as of the last bar on the chart. So, sometimes you have to change this last bar by using the training mode to perform automatic analysis at some point in history.

Lastly, I always suggest that you visually check the automatic wave count as found by the software, to make sure that it makes sense - in particular, that the Elliott wave sequence starts from a sensible place on the chart.

Let me show you an example on the next page.

Here you can see how, on this daily chart of Copper, each of the two 5 wave sequences both started from major turns in the market. This is what happens most of the time.



However, what should you do in a situation like this ?

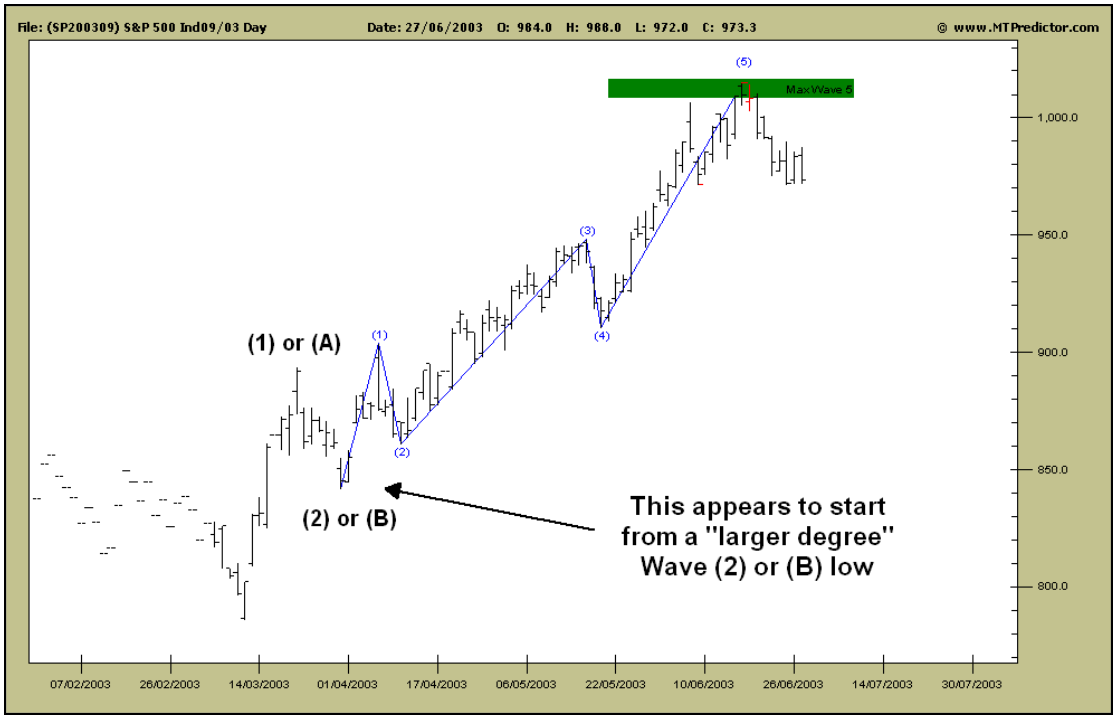
This was the situation on the S&P future on a daily chart towards the end of June 2003.

As you can see on the second chart on the prior page, the start of this particular 5 wave sequence did not unfold at a major low, so does this mean that this is an invalid sequence and should be ignored?

Before I continue, please let me stress that this situation unfolds only rarely. Most of the time the automatic routines within MTPredictor find only ideal and perfect Elliott wave counts, as shown in the example on Copper two pages ago.

Because you can sometimes get a valid 5 wave count that starts at the end of a running correction, we have included the ability within MTPredictor to identify such situations. However, this does mean that you should visually check each automatic wave count to see that it starts at a sensible place.

Let's take a look in more detail at the current example on a daily chart of the S&P:



Here you can see that although the automatic wave count (as shown by the connected thin blue lines) did not start at a major low, this low could be considered a *larger-degree* wave (2) or (B) low. As such, this particular wave count still *makes sense*.

Please compare this with the situation a couple of weeks later on the same chart.

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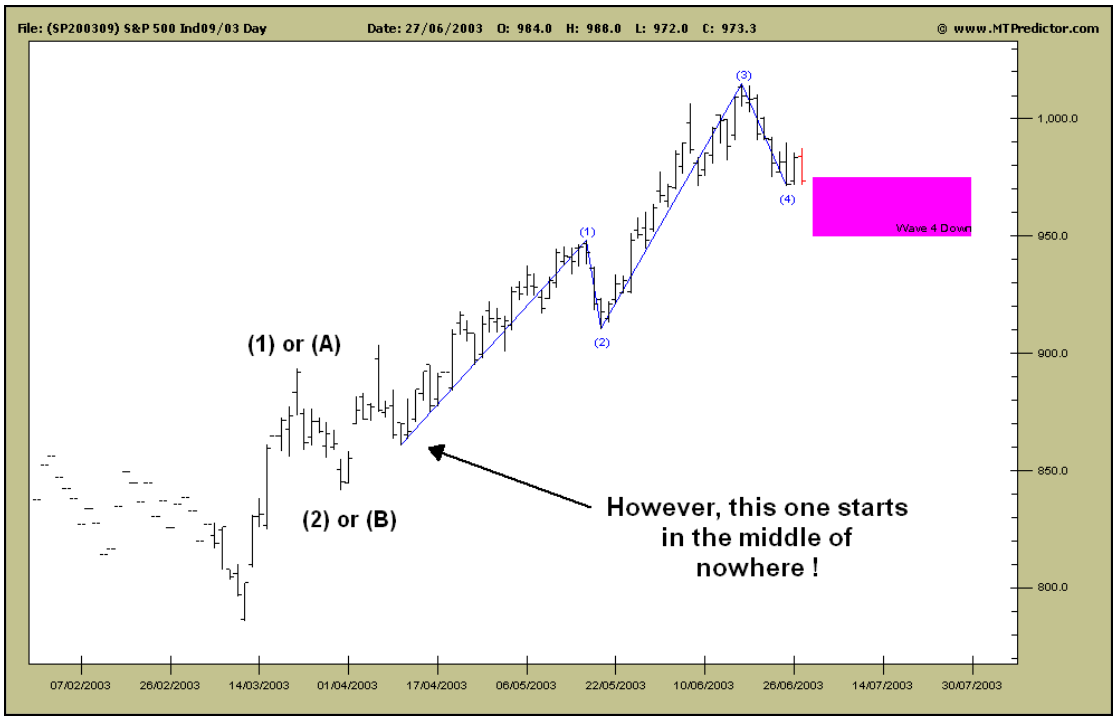
Two weeks later the automatic routines found this particular wave count. In your opinion, should this still be considered a valid wave count?



As you see from the chart above, this particular wave count differs dramatically from the one on the prior page in that it starts from a minor swing low that is in the middle of nowhere. As such, this should not be considered a valid wave count.

Please do not get too involved with this fine point of the automatic routines within MTPredictor for now, as this situation happens only rarely. However, when it does occur, please take the time to look at the chart and see whether the complete sequence starts at a sensible place.

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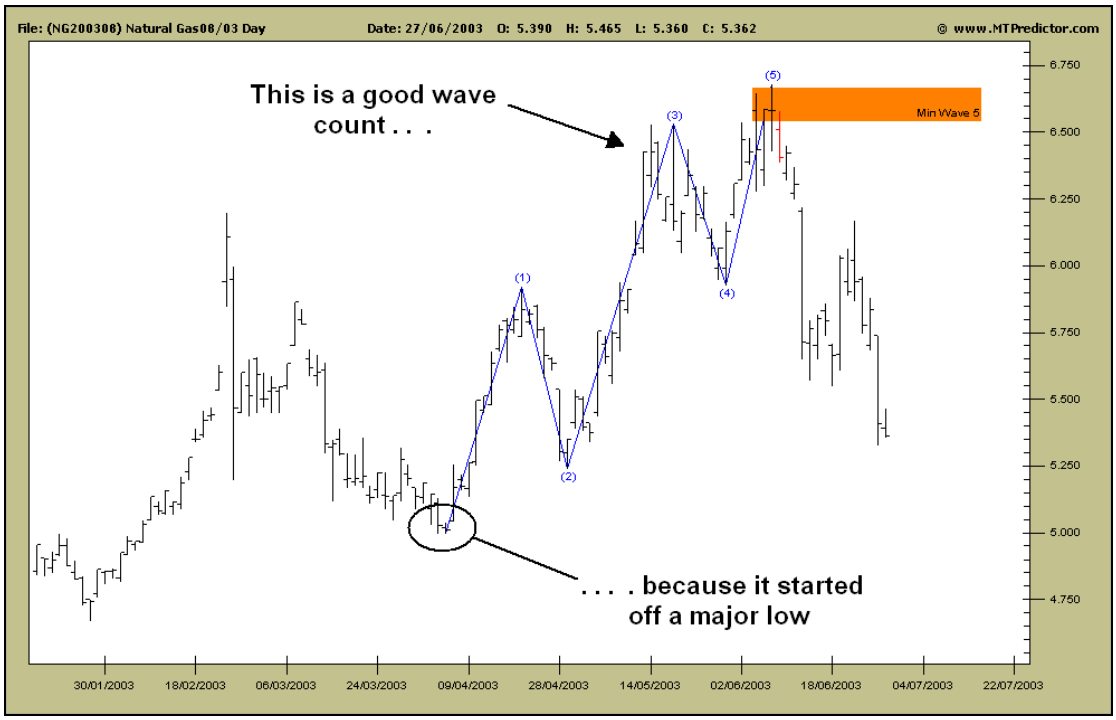
But most of the time the automatic routines within the MTPredictor software will find wave counts such as this:



Here you can see how a 5 wave rally was automatically found on a daily chart of Natural Gas where, most importantly, the start of this 5 wave sequence occurred at a major low, so it should be considered a valid wave count.

As you can see, the ultimate high of this rally in Natural Gas ended right at the minimum wave 5 WPT.

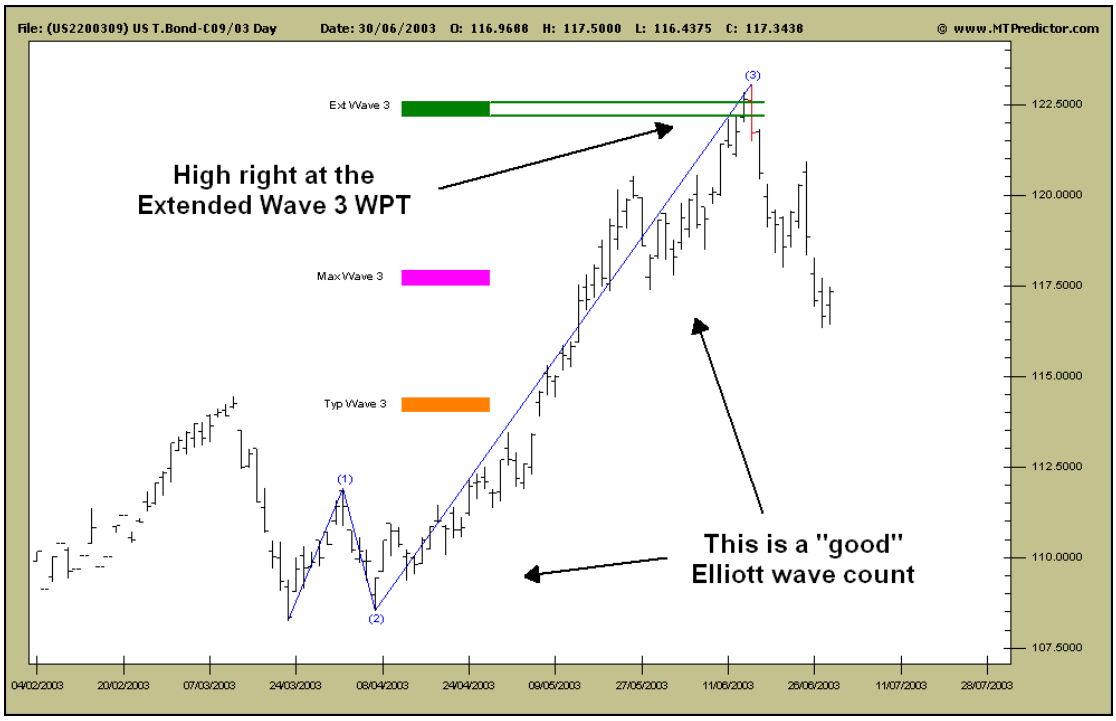
Over the next few pages, I would like to include some examples of the automatic "Show Elliott waves" routine in MTPredictor, to give you a flavour of the types of automatic wave counts that ca be found.

Again, I wish to stress that this particular Elliott wave engine is unique, as it only works off the last bar on the current chart, and also only works *in isolation* from earlier bars on the chart. As such, in many of these examples, I have used the training mode to return back to the last major high a low then apply the "Show Elliott waves" routine, then turn off the training mode to return back to the current day to show you how the market unfolded after the Elliott wave count was found.

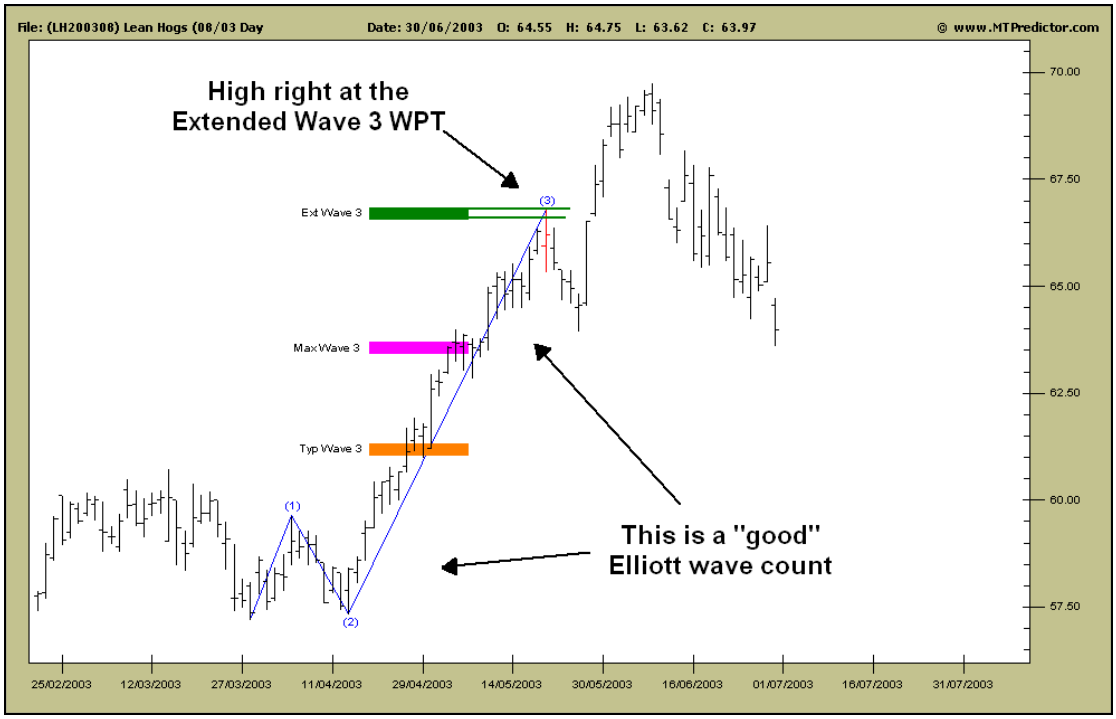
The main point I wish you to take away from all these examples is how they are all ideal and perfect wave counts, the best type of Elliott wave count to work with. Anything else is best avoided.

Examples

Here is an example on (Jun) T. Bonds:



Here is an example on (Aug) Lean Hogs:



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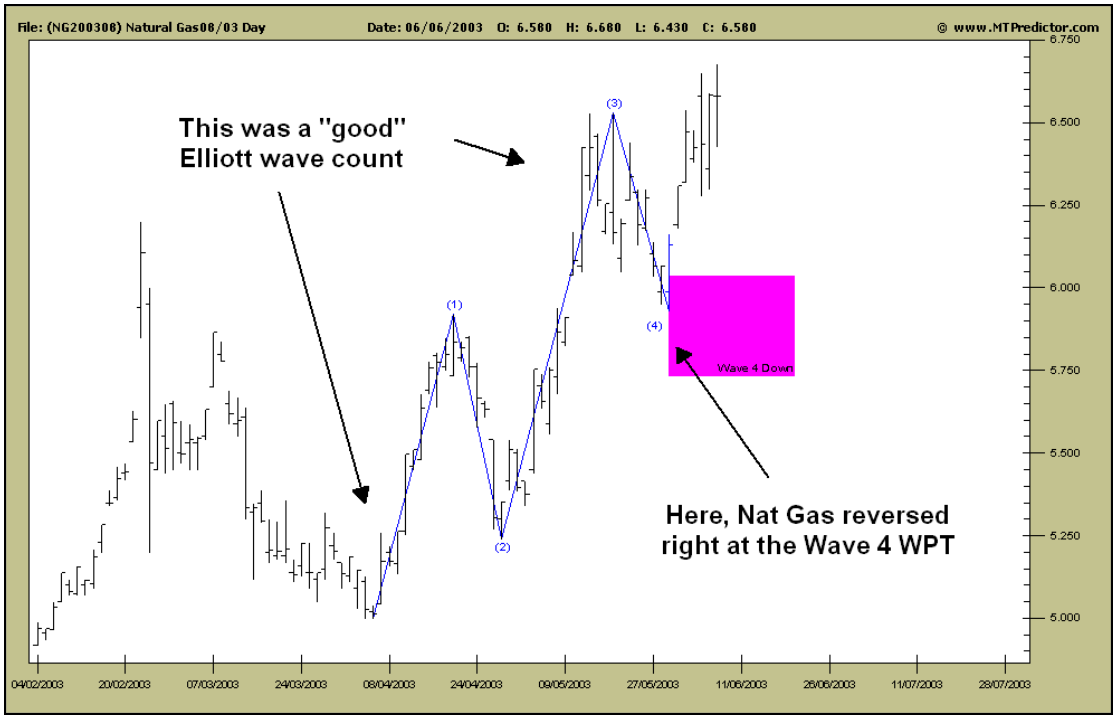
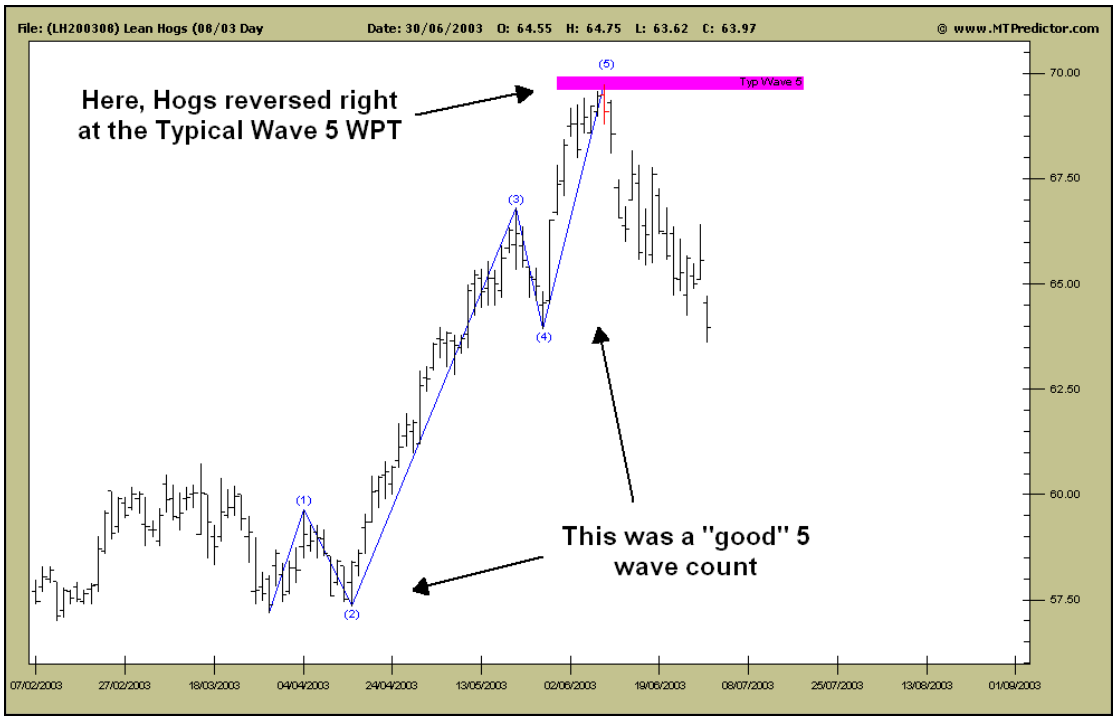
Here is an example on (Aug) Natural Gas:



Here is an example on (Aug) Lean Hogs:



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The MTPredictor software program can automatically identify three degrees of Elliott wave count; these are Minor, Intermediate and Major. So far, most of the examples shown in this course have been using the Intermediate degree option in the "Show Elliott wave module". This is the most common degree of wave, and the one that should be used most of the time.

However, the minor waves can be particularly useful in identifying the minor swings that sometimes unfold *within* the Intermediate degree swings, particularly in Wave (3)s and Wave (5)s. For more information on multiple degrees of Elliott waves, please see chapter 15.

The Major degree of Elliott waves can be particularly useful if you decide to take a *longer-term* view, and wish to look for swings and trade set-ups that unfold over a slightly longer period,

Please note, these wave conventions are specific to the MTPredictor software program, and may not relate to other Elliott wave software or other sources of Elliott wave education.

Over the next few pages, I will show some examples of the types of swings that the Minor and Major settings in the "Show Elliott waves module" are capable of finding.

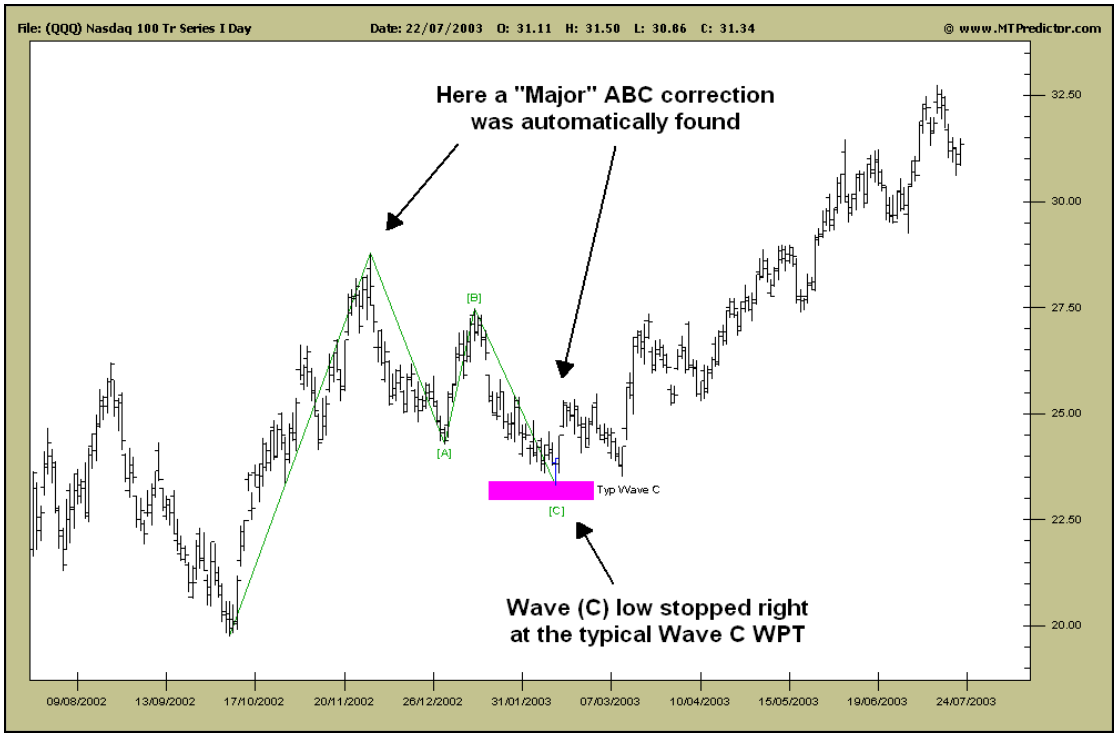
Again, I stress that the best type of Elliott wave counts to work with are the ones that unfold as *ideal* and *perfect* Elliott wave patterns. Anything else is best avoided. Also, these different degrees of swing should be used *in isolation* to identify the end of the current swing. Unlike some other Elliott wave education, sometimes these different degrees of swing do not unfold *within* each other. As such, they should be treated in isolation from each other.

As this may be slightly confusing, I will re-state this another way. Each different degree of swing should be treated in its own right, it does not necessarily mean that a Minor wave sequence unfolds as part of an Intermediate degree swing, or indeed that a Major swing comprises an Intermediate degree pattern. Each degree of swing should be treated in isolation.

This goes back to the idea that Elliott wave analysis is only correct about 50% of the time, and one of the standard Elliott wave rules, stating that waves sub-divide into minor waves and unfold as part of a larger-degree pattern, does not always work out. As such, each degree of swing automatically found by the MTPredictor software should be treated to identify just the end of the current swing, and should be treated in isolation from other degrees of swing or indeed in isolation from other Elliott patterns of the same degree.

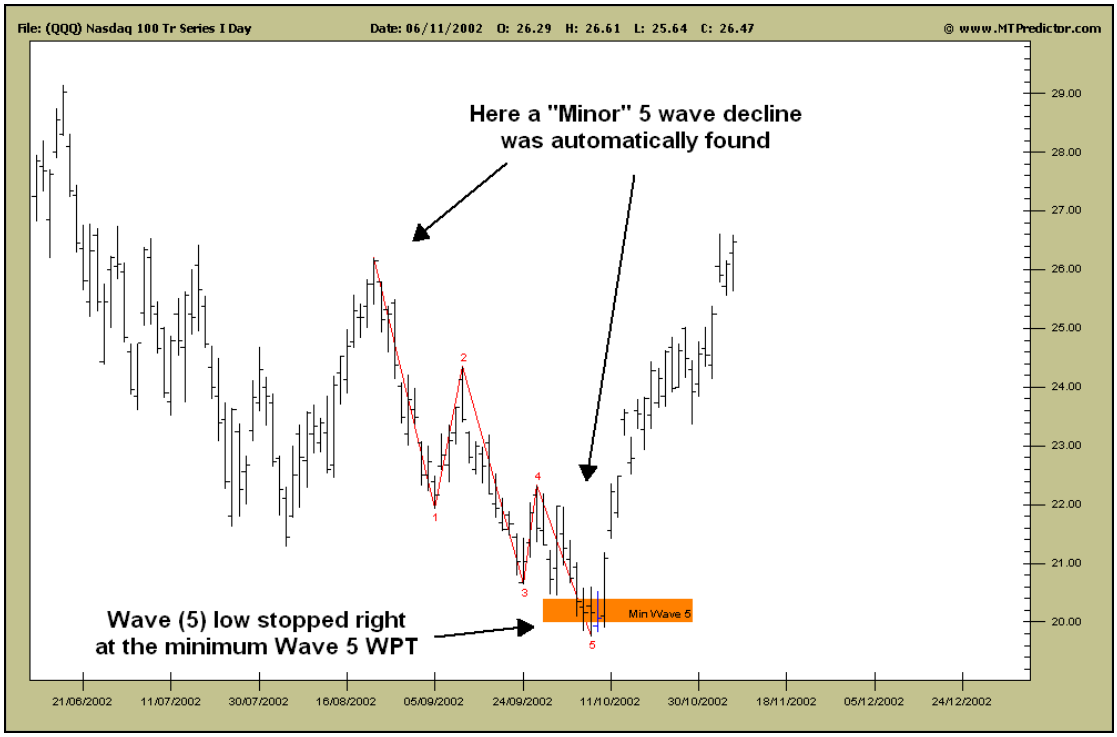
For more information and the reason for this, please see the section earlier in this course on practical Elliott wave analysis.

Here is an example of a “Major” ABC correction, automatically found on the QQQ:

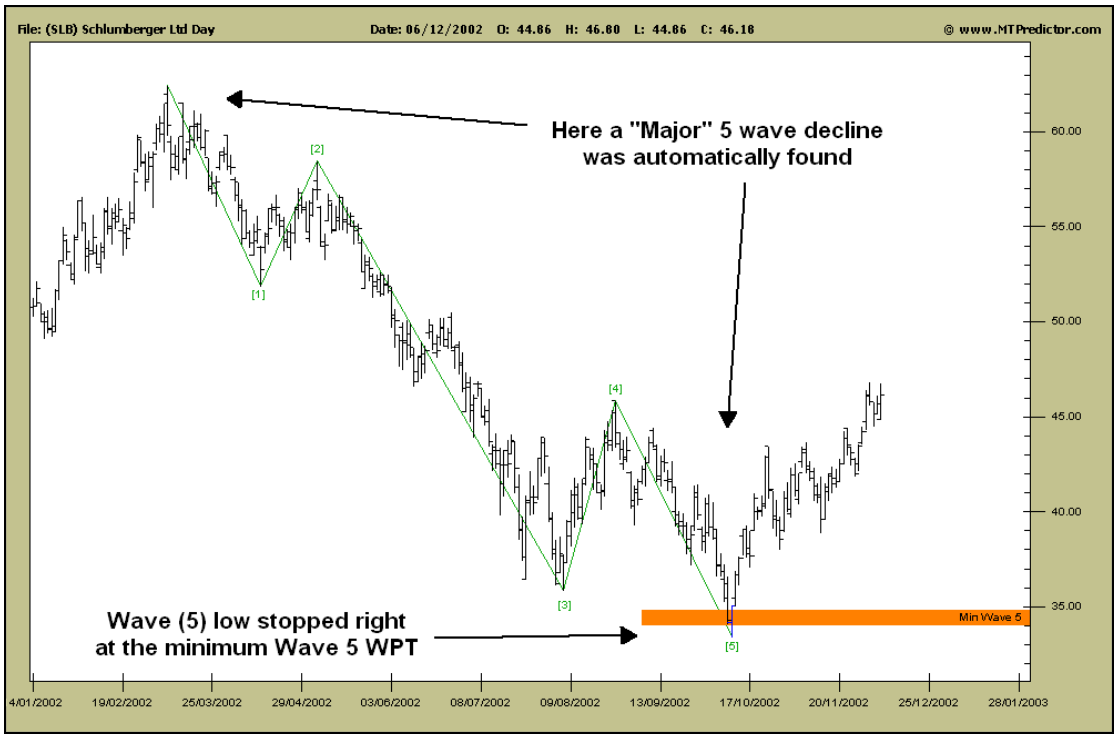


Here is an example of a “Major” 5-wave decline, automatically found on the SPY:

Here is an example of a “Minor” 5-wave decline, automatically found on the QQQ:

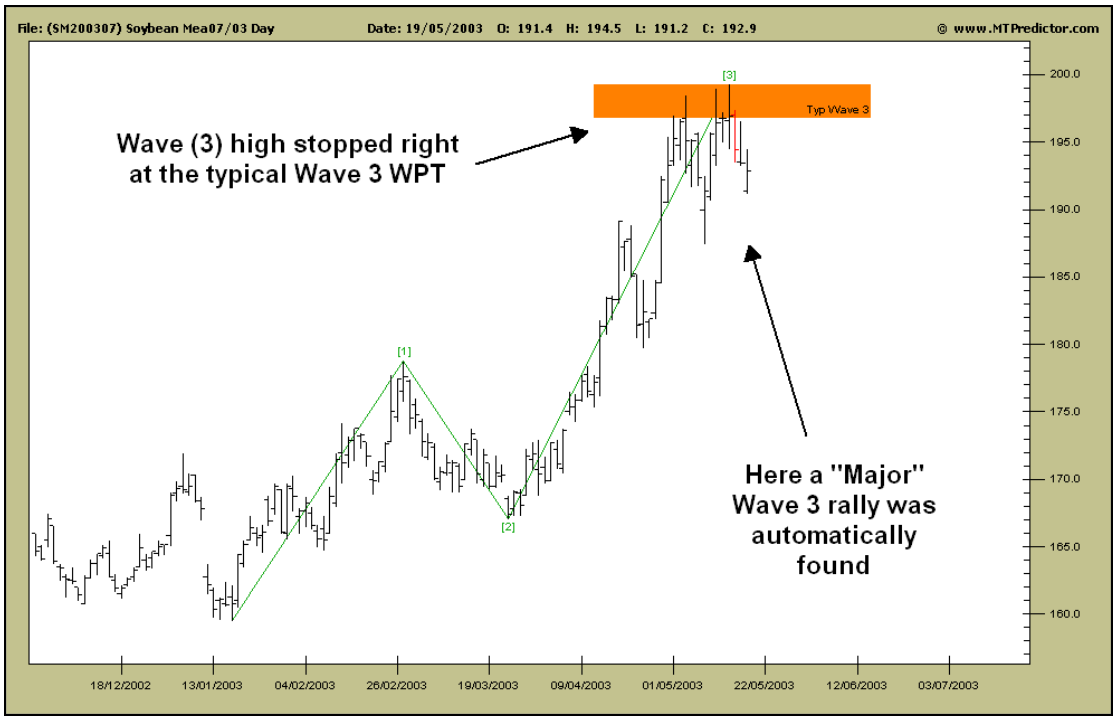


Here is an example of a “Major” 5-wave decline, automatically found on SLB:



Here is an example of a “Minor” 5-wave decline, automatically found on Natural Gas:

Here is an example of a “Major” 3-wave rally, automatically found on Soybean Meal:



I could include many more examples, but I am sure you get the idea.

Summary

As you have seen in this chapter the “Show Elliott waves” module is capable of automatically identifying all of the most common Elliott waves patterns on three different degrees of swing: Minor, Intermediate and Major, if and ONLY if a valid Elliott wave count is present on the current chart as of the last bar. This is a very important point, especially when you take into account (as outlined in Section I) that a valid Elliott wave count is present only on 50% of the charts, 50% of the time. Therefore, placing an Elliott wave count on all charts all of the time would just be misleading. This is why MTPredictor only places a valid Elliott wave count on the chart when one is present. This is very different when compared with many of the other Elliott wave software programs available today.

As you have seen from the examples in this chapter, MTPredictor can also automatically place the appropriate WPT support or resistance areas on the chart for you, and colours the appropriate bars either red (for a sell) or blue (for a buy).

In this way, identifying the potential end of an Elliott wave sequence has become as simple and easy as just a couple of mouse clicks.

As outlined in the prior chapter, to signal the end of the current Elliott wave sequence three developments have to come together at the same time:

- Firstly, the market in question is at a level where a high or low is anticipated to unfold - normally a WPT support or resistance area.

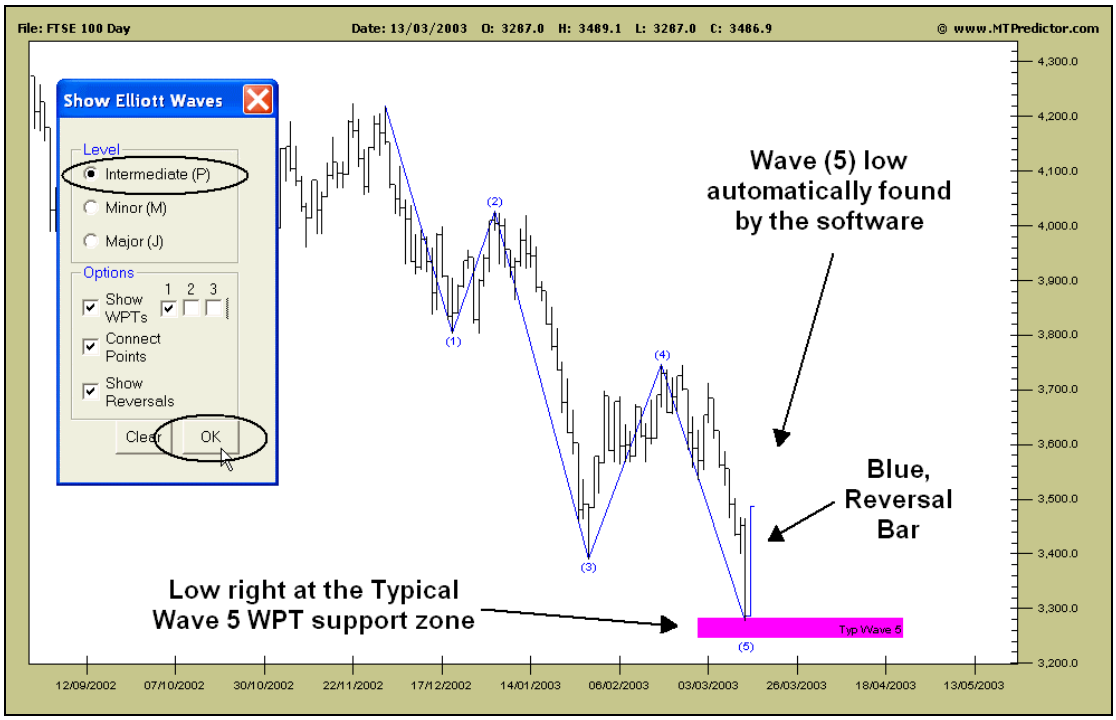
- Secondly, the market in question makes a coloured (red or blue) Reversal Bar, and that bar unfolds in the WPT support or resistance area.

- Thirdly, the market in question then exceeds the high (for a buy set-up) or the low (for a sell set-up) of the Reversal Bar.

Once these three criteria have been met, then a market is very likely ending the current Elliott wave sequence and making a reversal.

Often, this module allows you to catch the very day a market makes a reversal - please see the example on the next page.

Here is the situation on the FTSE 100 Index (UK Stock market index) on March 13 2003:



As you can see from the chart above, the software (using the Show Elliott waves module) has automatically identified a 5-wave decline. But more importantly, the low of Mar 12/13 was right at the Typical Wave 5 WPT support zone which, as you all know, is the most likely area for a 5-wave swing to end, and Mar 13 is a blue Reversal Bar.

As you saw earlier in this chapter, this means that if the high of Mar 13 is exceeded, then all three things have combined to signal a potential low is at hand. However, the critical point is that the software automatically identified this, including automatically projecting the WPT support zone and painting Mar 13 blue.

So let's see how this has turned out.

Here is the position 6 months later in September 2003:

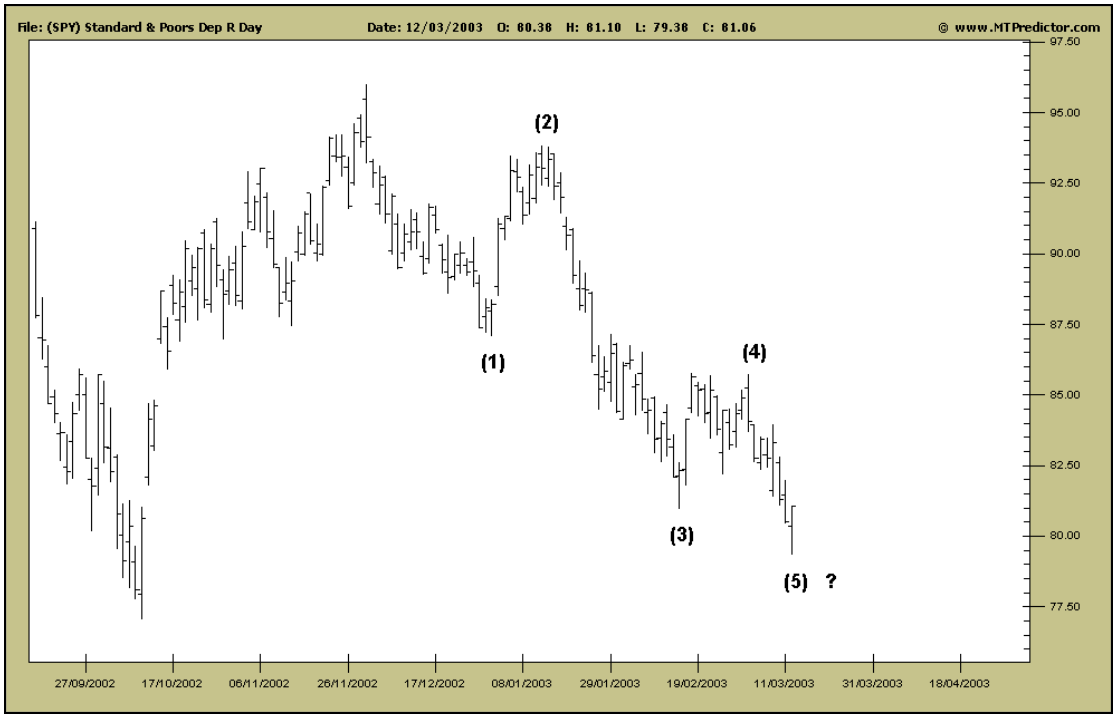
As you can see, the FTSE has rallied very nicely off this low. In fact, this was the exact low that ended a three year bear market, from which a strong initial rally has unfolded.

Chapter 6 – Manual Analysis

In the last chapter, you saw how you could use the "Show Elliott waves" module in MTPredictor to automatically identify the appropriate Elliott wave count along with coloured Reversal Bars and WPT support and resistance areas. Normally, this is all you need to do to find out if an Elliott wave sequence is coming to an end. However, sometimes this automatic module will not find an Elliott wave count. This does not mean that a valid Elliott wave count is not present, just that the Elliott wave count is not perfect. When this happens, you can decide to perform your Elliott wave analysis manually.

If you are experienced with Elliott wave analysis, and you are comfortable placing an Elliott wave count on the chart, you can then use the WPT module and trade set-ups module manually to help identify potential trade set-ups.

Let me show you an example:



Although the software did not automatically identify this wave count, any experienced Elliott wave analyst among you should agree that this is the most obvious wave count on this portion of the chart.

Having decided on this wave count, you could then use the WPT module to project the most likely areas for the wave 5 low to end; also apply the coloured Reversal Bars, to help confirm the low. This was covered in the last two chapters.

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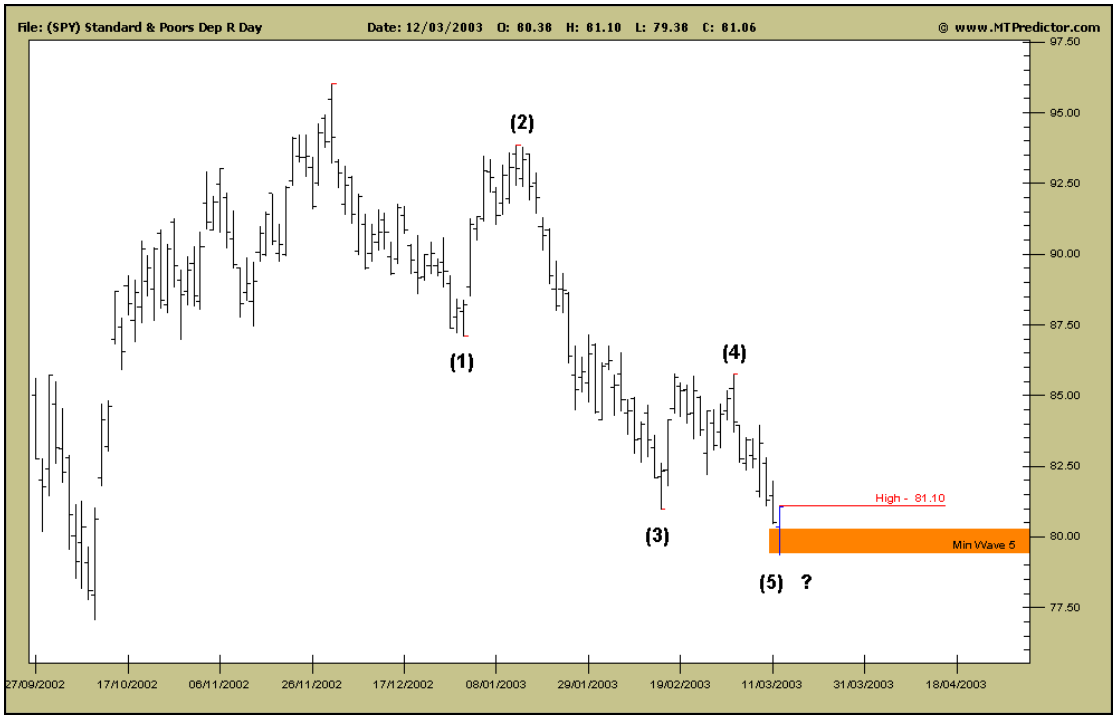
As you see, a potential low is in the process of unfolding on March 12:



You should be very familiar with this chart, as it is the one I have used in the last two chapters. However, the point here is how the WPT and coloured Reversal Bars were applied manually using the swings as identified by this wave count. In this way, it was very easy to identify the area where this wave 5 low was likely to end once you had a good idea of the Elliott wave position.

However, I do realise that many are not experienced at Elliott wave analysis, and may find it difficult placing an Elliott wave count on a chart. I suggest that you all re-read the chapter on practical Elliott wave analysis earlier in this book, as this gives all the rules and guidelines that should be followed when placing Elliott wave counts manually on charts. I also suggest that you read the next chapter that takes this basic Elliott wave analysis to the next level, where I cover more advanced Elliott wave patterns.

Normally, the most difficult thing is to try to identify which swings to use when placing an Elliott wave count on a chart. For this I suggest using the "Pivots Module" and then selecting to display the "Connected Pivots" for the degree of swing you are interested in. Using the Intermediate degree usually easily identifies most swings.

Let me show you how this looks on the current chart.

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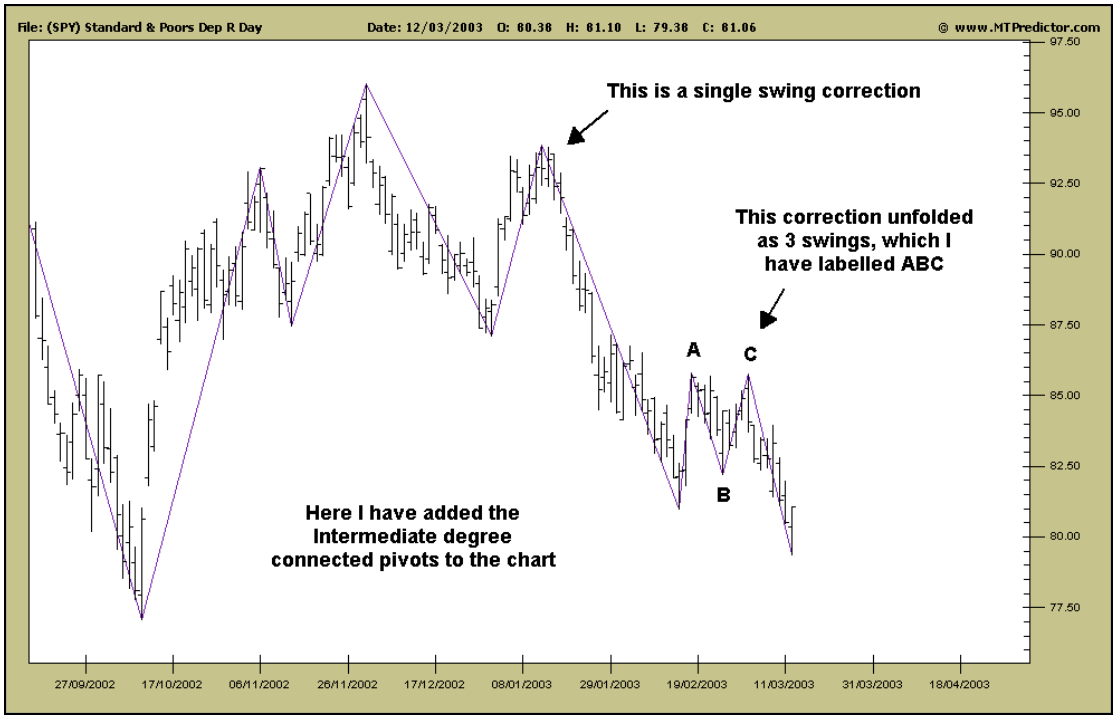
Here I have chosen to display the intermediate degree connected pivots:

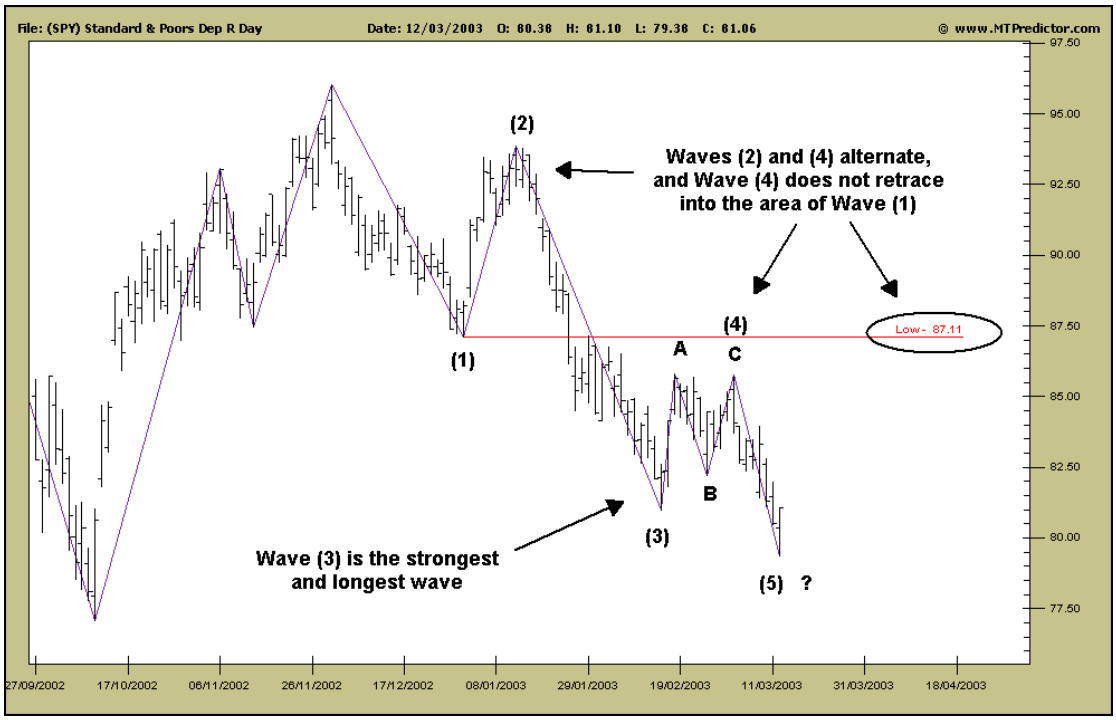


As you can see from the chart above, there appear to be two corrective swings within this declining section, the second of which appears to have subdivided into three minor swings which I have labelled ABC. The first of the swings is just a single correction. If you refer back to the chapter on practical Elliott wave analysis, you will see that the *rule of alternation* suggests that if one of the corrective swings (waves 2 or 4) sub-divides into an ABC, then the other corrective swing (waves 4 or 2) will be a simple correction. This is exactly what is unfolding here.

As such you can start to have a good idea of how to label the chart based on these connected pivots.

Please see the chart on the next page . . .

Here is the most obvious Elliott wave count, which is guided by the swings as identified by the connected pivots:



Let's take a moment just to double-check this Elliott wave count to see that it does not break any of the Elliott wave rules or guidelines.

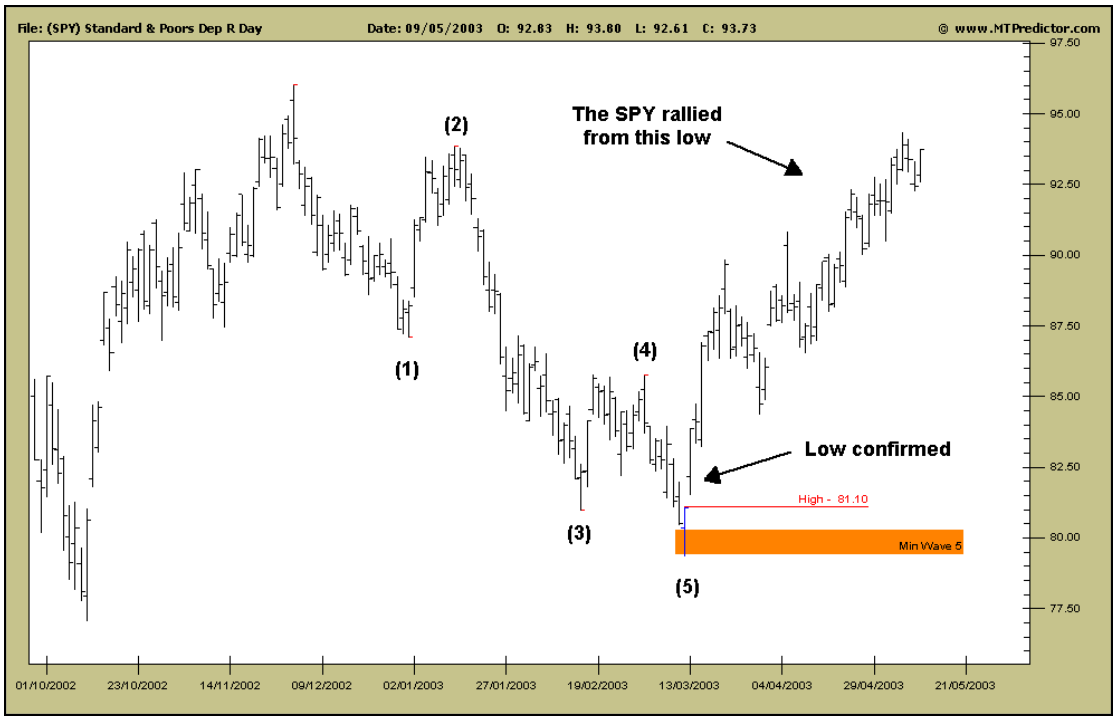
1. Firstly, wave (3) is the strongest and longest wave,
2. Secondly, wave (4) does not retrace into the area of wave (1),
3. Thirdly, the minor pattern of waves (2) and (4) alternates.

As such, this would be considered a good Elliott wave count and one that obeys the standard Elliott wave rules and guidelines.

As before, once you have an idea of the most likely current Elliott wave pattern you can then apply the WPT module *manually* to get an idea of the next support and resistance, so where the current swing is likely to end. Once the market in question reaches one of the WPTs you can then apply the coloured Reversal Bars to give you an idea of whether the market is actually making a turn at the projected WPT.

As you have seen in the last two chapters, this is simply a matter of a few mouse clicks. The most difficult part is placing the Elliott wave count on the chart manually. However, what I wish to stress is that if you use the connected pivots to help identify the most obvious swings on the chart, then placing a manual Elliott wave count on the chart becomes a lot easier.

If you cannot remember the outcome from the last chapter here is what happened next:



As you see, the SPY rallied nicely off this low, in fact March 12 was the very day the wave 5 decline ended.

But I hope you can see how easy it was to be able to identify the area where the wave 5 low was anticipated to end (WPT support), and then the trigger that signalled the low was indeed complete (blue Reversal Bar) once you had placed the manual Elliott wave count on the chart and then used it as a guide for the WPTs.

Again, if you find this difficult or you are in any way uncomfortable with placing manual Elliott wave counts on charts, then it is far better to stick to the automatic routines and let the MTPredictor software identify the wave counts for you.

However, I am aware that once you are familiar with MTPredictor and Elliott wave analysis, then you will want to take your analysis to the next level and start to perform your own analysis manually.

Lets take a look at another example:

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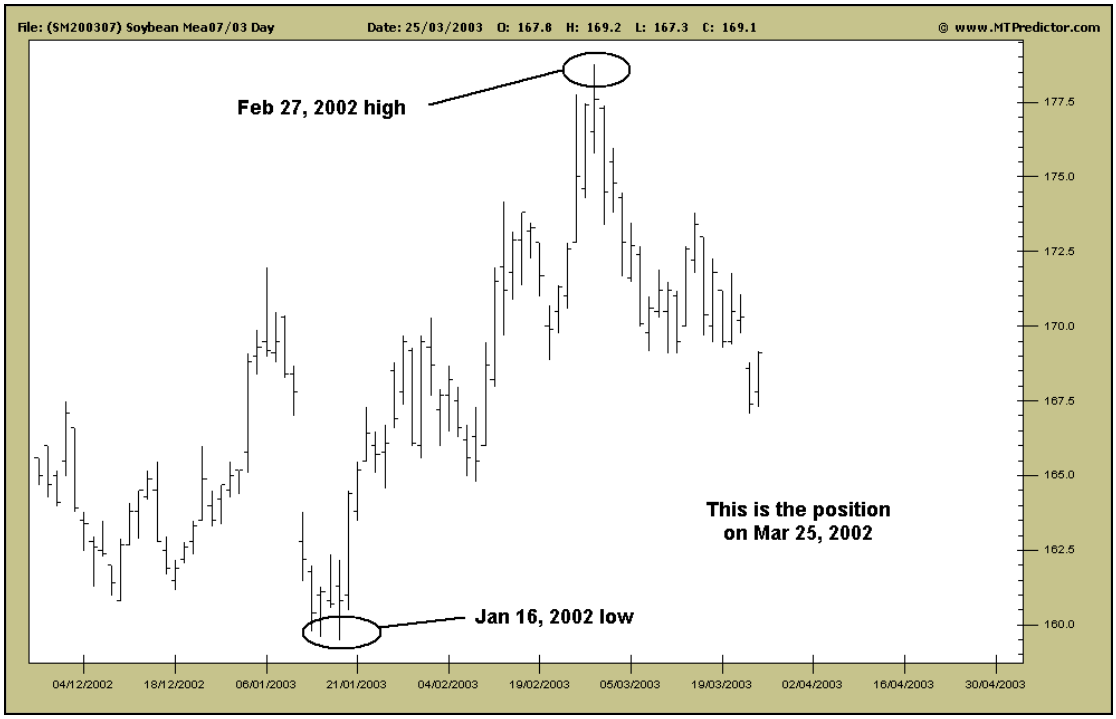
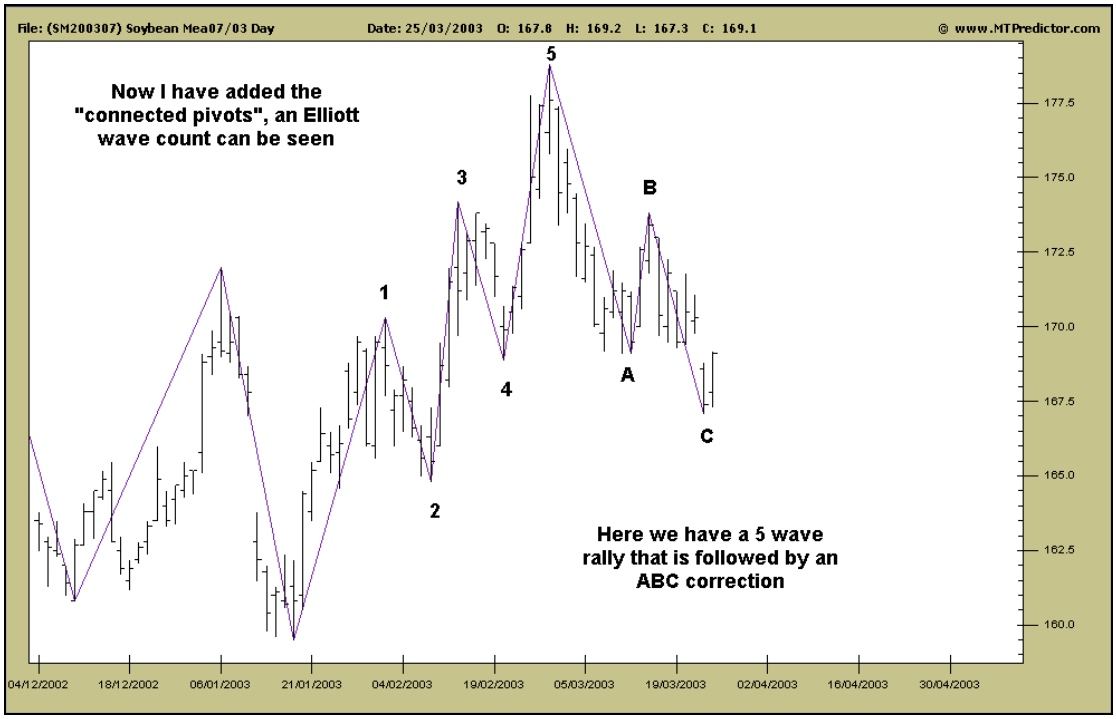
Here is example on (Jul) Soybean meal, on March 25:



Here you can see this market made a strong rally up from the low on Jan 16 into a high on February 27 and has then since declined. To help us place a *manual* Elliott wave count on the chart let's now add the intermediate degree connected pivots:



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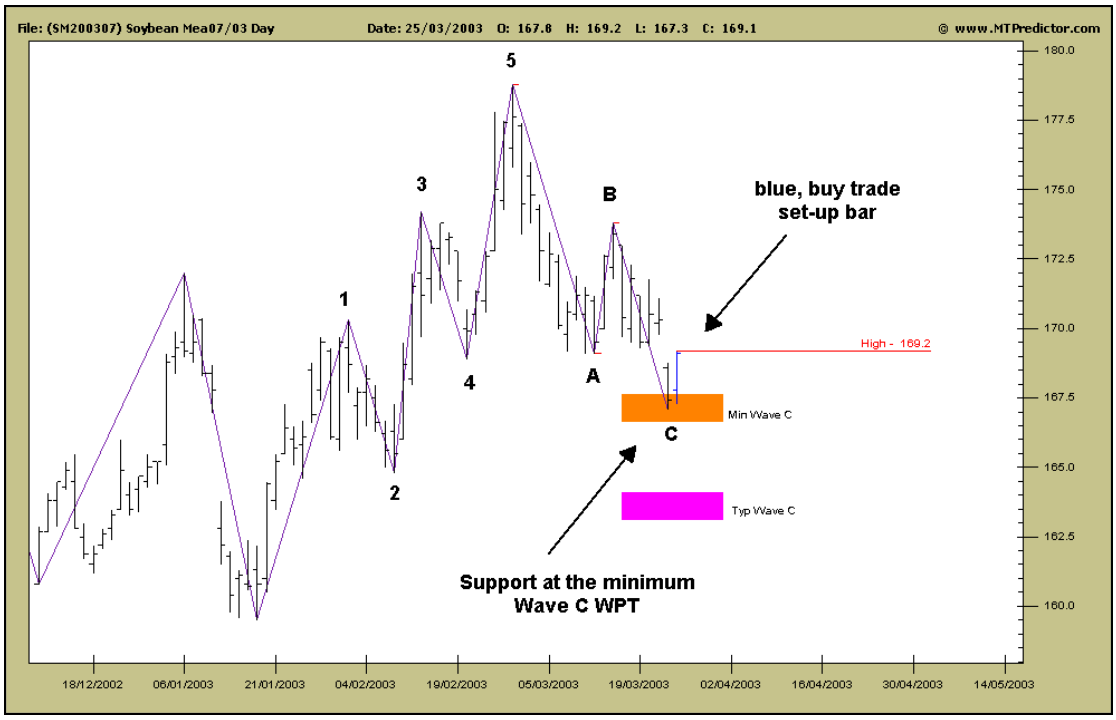
As you see on the second chart on the last page, once the connected pivots are placed on the chart it is fairly obvious that the rally from the January 16 low into the February 27 high unfolded in five swings: this would be considered a 12345 wave advance. Then the decline off the February 27 high unfolded in three swings: this would be considered an ABC correction.

Armed with this Elliott wave count, you could then use the WPT module and manually place the wave C WPTs on the chart to get an idea where the wave C correction off the February 27 high was likely to end.



As you can see on the chart above, the low of February 24 fell right at the minimum wave C WPT. With February 25 painted as a blue Reversal Bar, you suddenly have a potential buy set-up unfolding.

Okay, now you have a potential wave C low unfolding, the next task to perform is to *evaluate the trade set-up*. As you have seen in the chapter on the automatic trade set-ups within MTPredictor, it is important to consider only trade set-ups that have an initial risk to reward ratio of greater than 2:1. Therefore, you will have to manually add the larger-degree profit targets on the chart and then look at the potential profit at the first of these targets, in relation to the initial risk required to take the trade.

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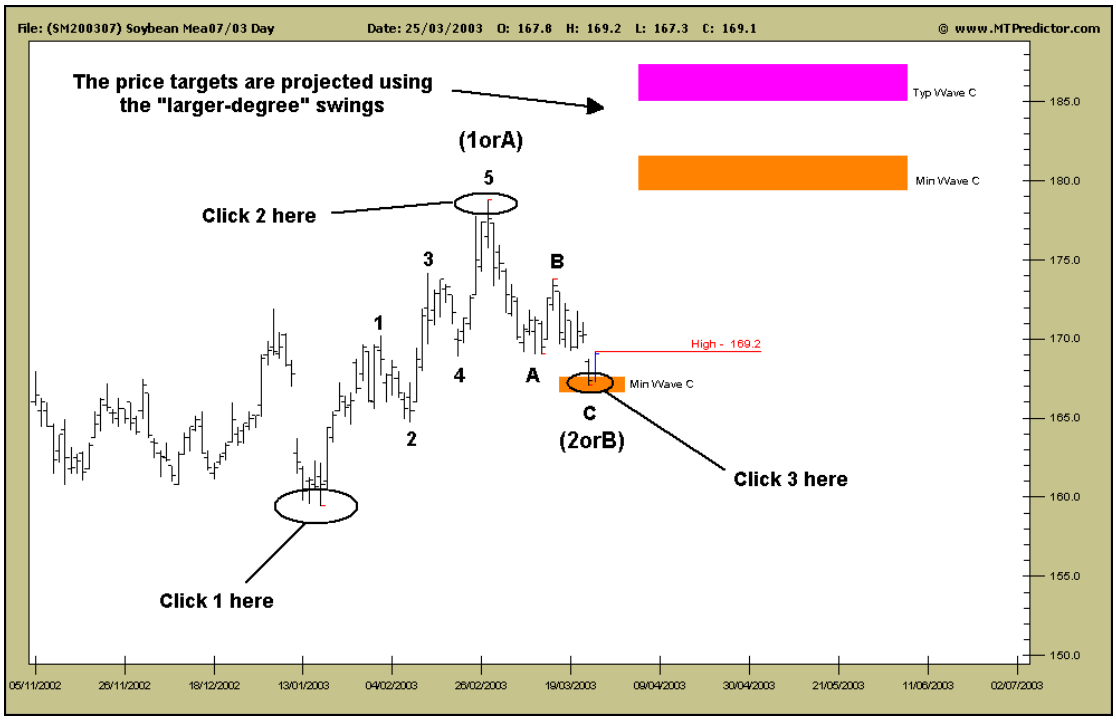
On the chart below I have used the WPT module to manually add the wave C WPTs on to this chart using the larger-degree swings:



The larger-degree (1orA) swing would be the January 16 to February 27 rally, and the January 27 to March 24 decline would be considered the larger-degree (2orB) swing. As outlined in the chapter on WPTs, all this takes is three simple and quick mouse clicks, as on the chart above. As you see, this projects potential profit targets up by the February 27 high.

Now you need to work out what the potential profit would be (in relation to be initial risk) at the first of these profit targets, using the “risk to reward module”.

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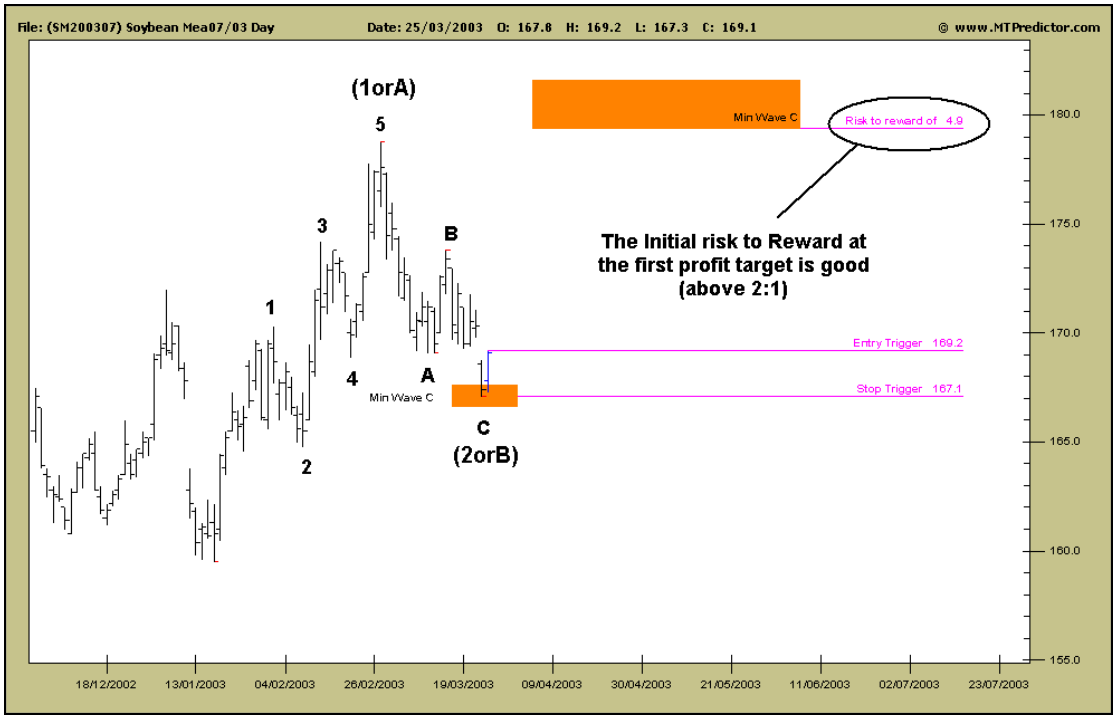
Here I have worked out what the potential profit would be at the first profit target, the minimum wave C WPT, using the Initial Risk to Reward module:



Again, all this needs is a couple of quick and simple mouse clicks. As you see from the chart above, the potential profit at the first projected profit target would be nearly 5 times the initial risk required to take this trade. As this is greater than the minimum requirement of 2:1, this will be considered a good trade set-up.

Although it has taken a number of pages to describe how to perform this manual analysis, I hope you can see that at each stage all that was required was a few simple and quick mouse clicks. All we are doing with this manual analysis is following the same procedure as the software would do itself within the automatic routines for the Wave C, TS1 and TS2 trade set-ups - the only difference is that you are performing the analysis based on your own manual Elliott wave count.

The only time I would suggest doing this, is when you can see an obvious Elliott wave count on the chart, which the software has not been able to automatically identify. Most of the time the software will find the trade set-ups automatically for you, and perform all these analyses, price projections and risk to reward calculations automatically as well.

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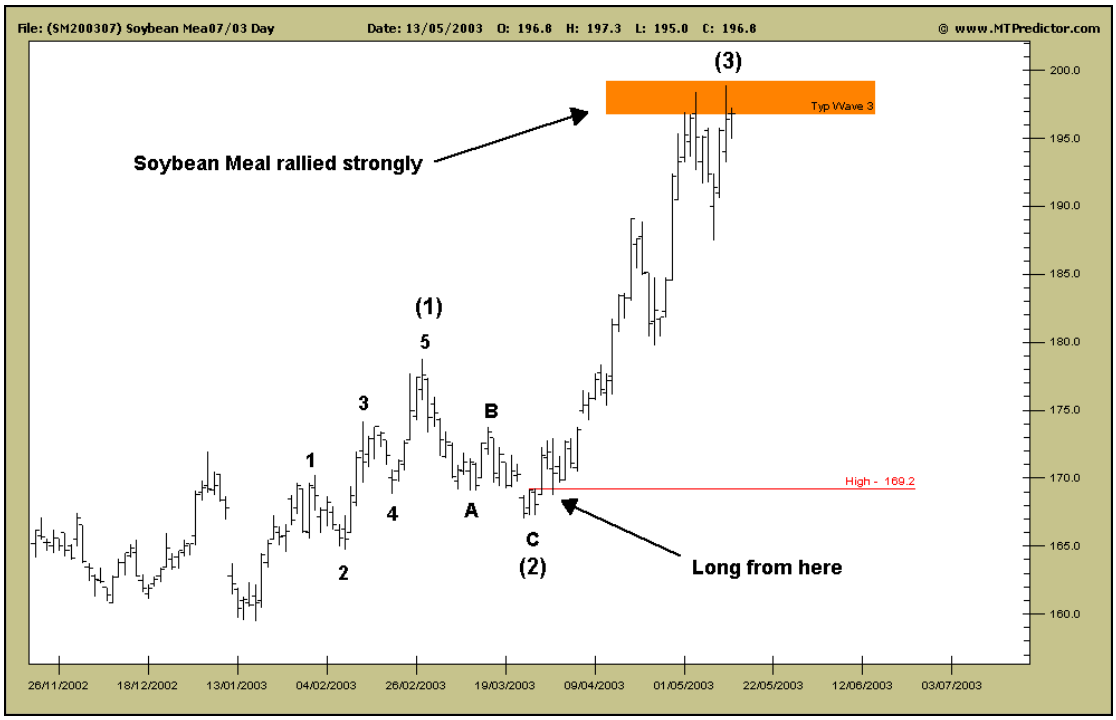
Let's see how this unfolded:



At the time of writing, Soybean meal had rallied very strongly off this buy set-up. As you can see from the chart above, the ensuing rally had unfolded as a strong wave 3 type swing. Although I have not shown it here, the open profit on this potential trade (at the time of writing) would have been approximately 14 times the initial risk (ignoring slippage and commission). In anybody's books, this was a very good trade!

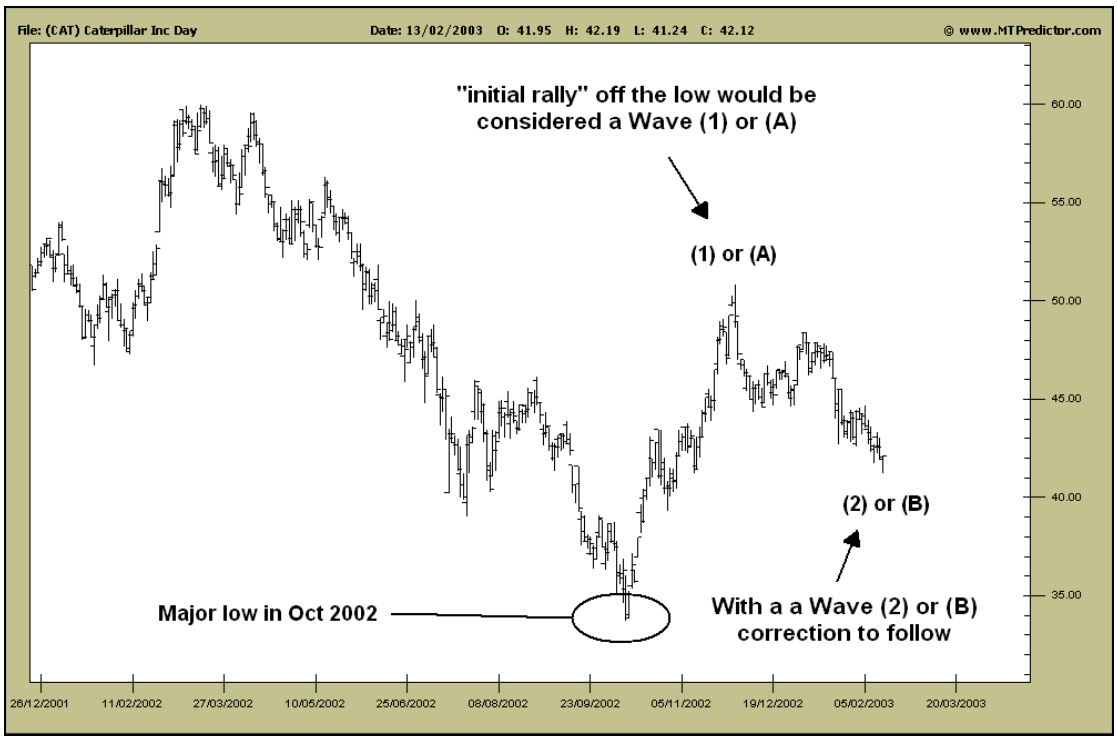
Again, I wish to stress that this was not an idealised trade picked with the benefit of hindsight. This trade set-up was mentioned at the time in the MTPredictor Daily report.

Continued on the next page . . .

Manual analysis does not stop there - the possibilities are endless, the only limitation being your ability the spot the waves in the market. I have already shown in this chapter how the connected pivots can help (in the early stages of learning Elliot wave analysis) to identify a potential Elliott wave count. However, once you become more experienced and are comfortable placing wave counts on a chart, then the specific modules and routines in MTPredictor will be invaluable tools to help you uncover potential trade set-ups quickly and easily based on your own manual wave counts.

No matter how experienced you become in Elliott wave analysis, my main advice (which is the same throughout this course) is to work only with an easily recognisable and obvious wave count. Please remember that this is only on any given chart about 50% of the time, with the simple ABC correction the most reliable and best pattern to use. In particular, my favourite set-up is where it unfolds as part of the *first correction* to the *initial swing* off an *important high or low* – the basis of the TS1 trade set-up.

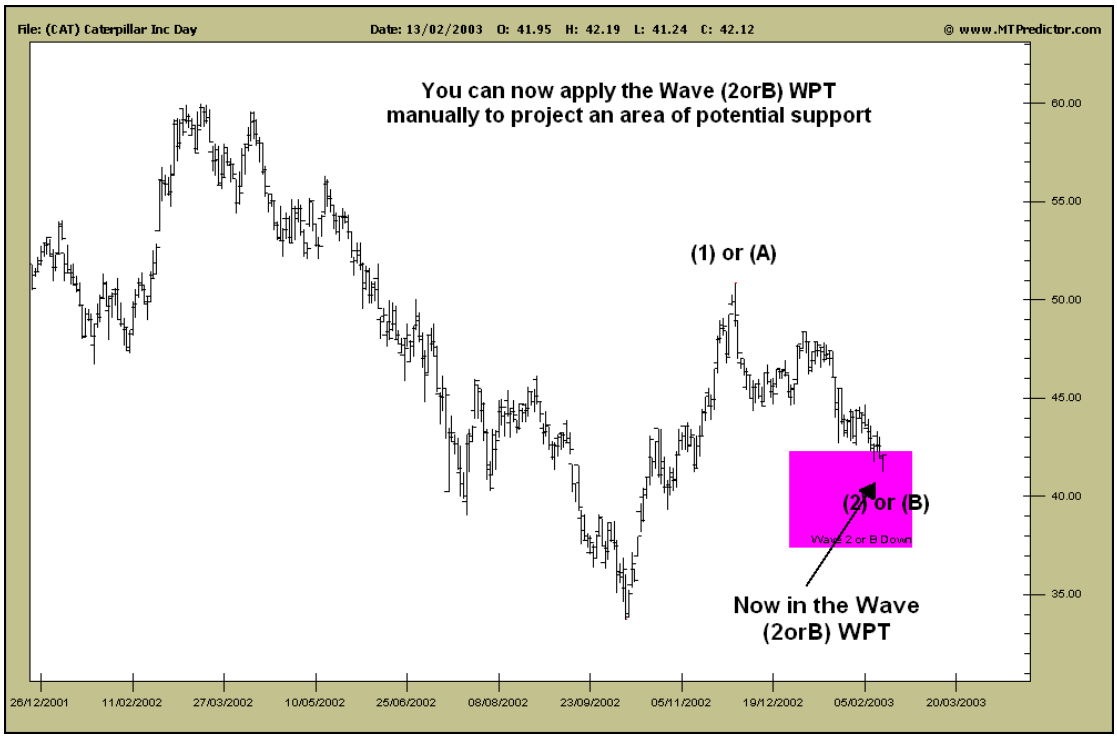
Let me show you another example, this time on a US Stock – Caterpillar Inc (CAT):



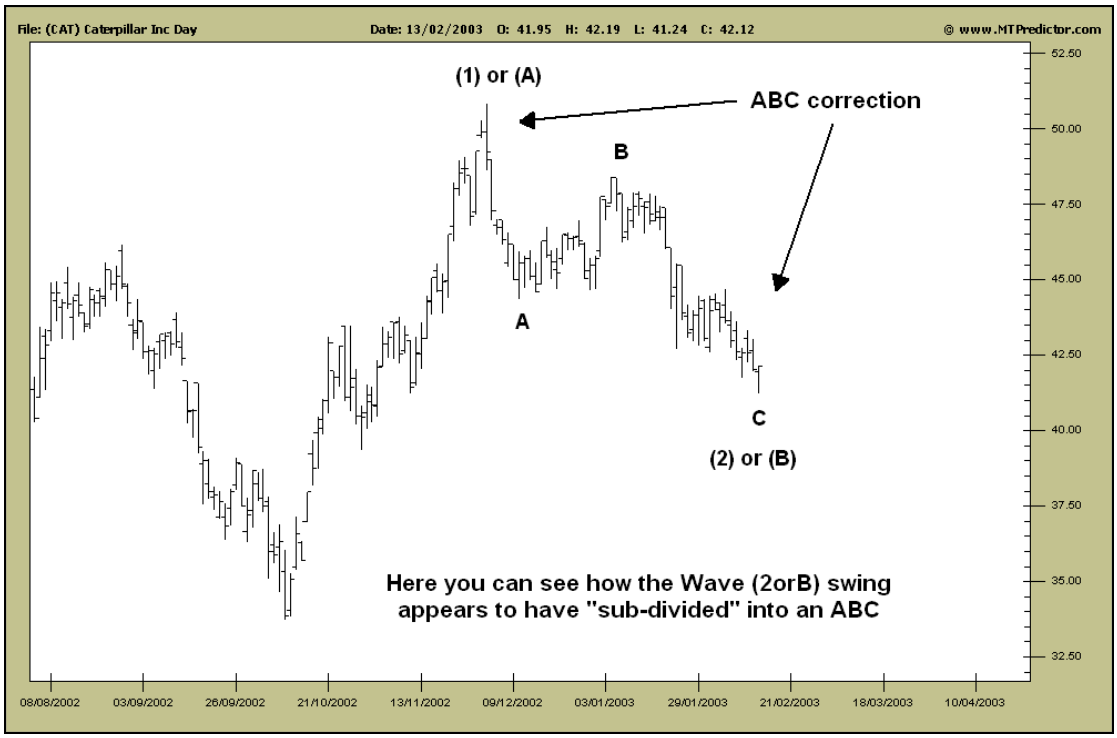
Here you can see how CAT has made a strong initial rally off what appears to be a major low in October 2002. CAT is now in the process of making a corrective decline.

In Elliott wave terms this would be considered a Wave (1orA) rally followed by a Wave (2orB) correction. Therefore the first thing to do is to see whether CAT has entered the area where this corrective decline is likely to end - for this you would use the Wave 2orB WPT.

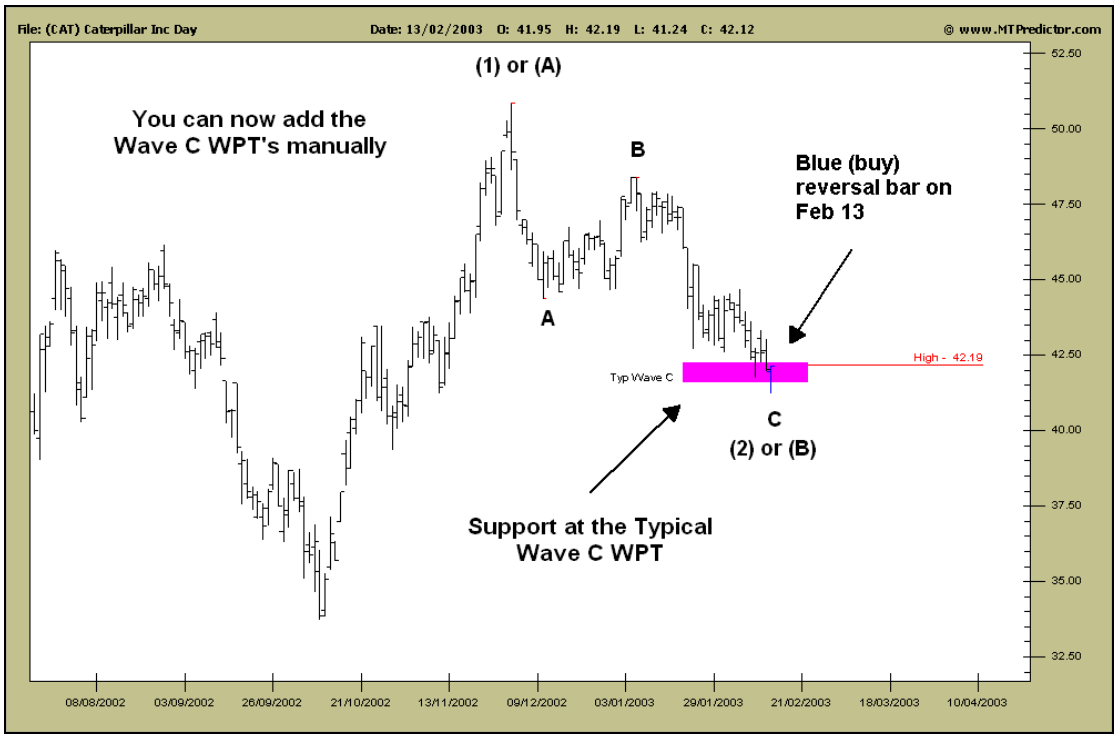
As you can see from the chart below, CAT has now entered the Wave 2orB WPT, therefore should be considered to be in the broad area where this corrective decline is most likely to end. However, at the moment, this area is still quite large.



But if you now look closer at the minor pattern *within* the Wave (2orB) correction, you can see three swings (an ABC) have unfolded.



Now you can use the Wave C WPT's to see whether this ABC correction is in the area where the Wave C swing is likely to end:



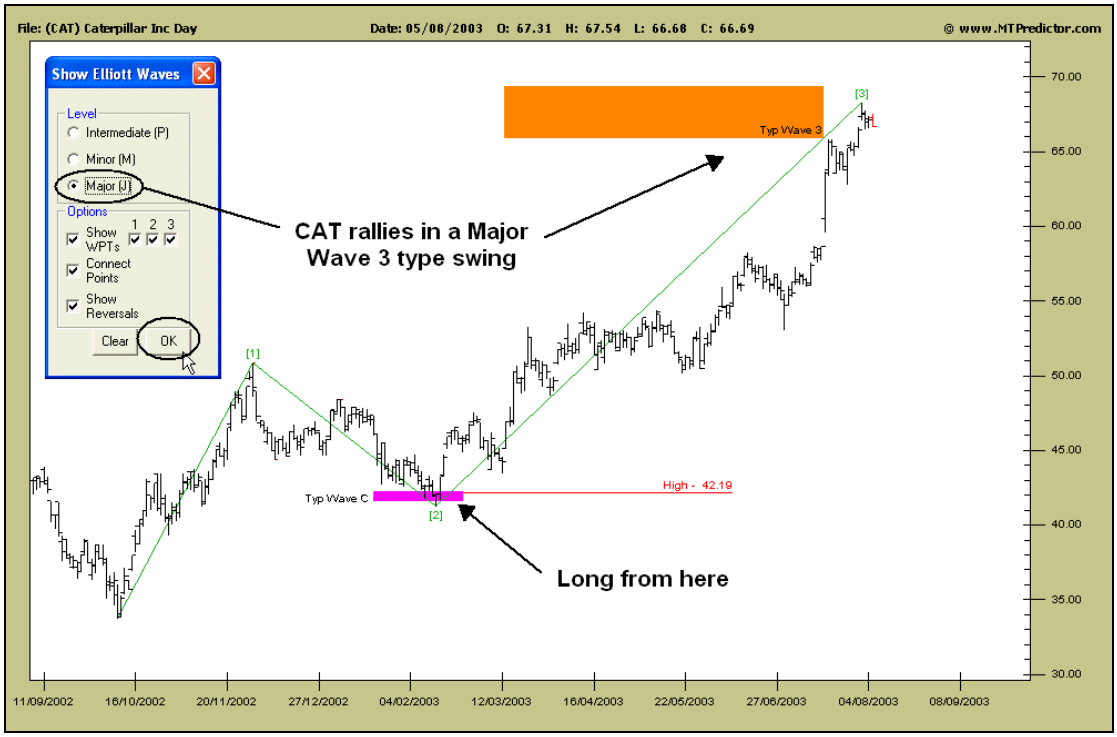
As you can see from the chart above, CAT has reached the area of the typical Wave C WPT. As you have seen in prior chapters, this is the area where most Wave C's are likely to end.

The chart above also shows how the last bar on the chart was coloured blue, so should be considered as a potential buy Reversal Bar. As outlined earlier in this chapter, this market has now reached an area where this correction was likely to end (the typical Wave C WPT) and has given a sign that the correct decline was ending (the blue buy Reversal Bar). Now, if CAT rallied above the high of this Reversal Bar, then you should consider the current ABC correction complete, and that CAT would rally from here.

In addition, the completion of this Wave C low would also signal the completion of the larger-degree Wave (2orB) low. As such, you should anticipate that CAT would rally in a larger-degree Wave (C) or (3) type swing from here.

I hope you can see how using the WPTs and coloured Reversal Bar made identifying this potential trade set-up very easy indeed. All you needed was a couple of quick and easy mouse clicks.

Let's more forward in time to see how this unfolded:



As you can see, CAT rallied strongly off this low, and turned out to be a Major Wave (3) type swing.

The main point I wish you to take away from this example, is how the tools in MTPredictor, in particular the WPT's and coloured Reversal Bars, made identifying a potential long trade very easy indeed. In fact, these enabled you to identify the very day this Wave C, and larger-degree Wave (2orB) low, ended. This placed you in the perfect position to be able to take full advantage of the ensuing strong rally.

Again, when you look at any Elliott wave count, either applied manually or found automatically by the software, please be aware that a valid wave count is only applicable about 50% of the time. Do not expect to be able to label all charts all of the time. In particular, my main piece of advice would be to only work with an Elliot wave count when it is obvious and easy to recognise. You need to think of this in terms of *identifying potential trade set-ups* rather then trying to use Elliott wave to *predict the future*.

This is where the simple ABC correction comes in because, taken in isolation, it is one of the simplest, and easiest Elliott wave patterns to recognise. And as you have seen from this example, it can help identify some great trade set-ups.

Summary

In this chapter I have shown how you can add the WPTs and then apply the coloured Reversal Bars to a chart manually using your own *manual* Elliott wave count. You can also apply the risk to reward calculations by using the risk to reward module manually as well. In essence, you can apply all the techniques that are part of the automatic wave C, TS1 and TS2 trade set-ups, by themselves manually. In this way, you can very often uncover additional trade set-ups not automatically found by the "Show Elliott waves" module

I suggested that the most difficult part of this process was knowing which swings to use when considering a manual Elliott wave count. To help, I suggested using the "Connected Pivots". Once the connected pivots are placed on the chart, often an Elliott wave count will become apparent.

Please remember that a valid and obvious Elliott wave count is only present approximately 50% of the time. As such, please do not try to force a wave count, just for the sake of performing some manual analysis. As I suggested in Section I, only use an Elliott wave count if the pattern is both obvious and easy to recognise, otherwise please ignore the chart and move onto another market.

In the next chapter, I will look at some more in-depth Elliott wave patterns, above and beyond the simple ABC, that both the software automatically identifies and that can be applied to a chart manually. If you do perform this Elliott wave analysis manually, then, as outlined in this chapter, you can use your manual Elliott wave counts as the basis to add WPTs and coloured reversal bars to confirm potential trade set-ups.

Chapter 7 – Advanced Elliott wave Analysis

In the first section of this book, I went into great detail on Elliott wave theory and the practical application of Elliott wave analysis in the markets. I then concluded that no matter how good this analysis method looked in theory, it did not bear out what it promised in practice. In fact, I went on to suggest that the Elliott wave theory should only be applied to markets approximately 50% of the time, and the reason why so many Elliott wave analysts get into trouble in the market, is that once in a reliable and obvious pattern, it moves out of phase, or drifts into the 50% of the time that it is not working. As such, I suggested that the theory was best used only for finding a simple ABC correction, and also suggested that this simple pattern should be used simply for finding trade set-ups, and not trying to analyse the market or predict the future.

However, there are times when the Elliott wave patterns appear to be unfolding within the *good* 50%, and it is at times like these that you can use some other (more advanced) sections of the theory to help uncover potential trade set-ups. But at all times, you must be fully aware that any market could drift back into the *bad* 50%, so I would suggest that when performing additional and advanced analysis as outlined in this chapter, you only use it to identify the end of the current swing. In other words, you treat the Elliott wave pattern you are working on *in isolation*. I have found this approach works better than trying to use the theory to *forecast* where a market will be at some point in the future. As you have seen, the theory has the nasty habit of drifting in and out of phase just when you least expect it. So, as long as you bear this in mind, and are aware of this, then there are additional aspects to the Elliott wave theory that can be useful.

Before continuing with this chapter, I suggest you go back and read chapter 3 on the basic Elliott wave patterns and the basic Elliott wave rules and guidelines, because I will be taking these and applying them to more advanced situations in this chapter - you should be familiar with all these basic rules and guidelines before continuing.

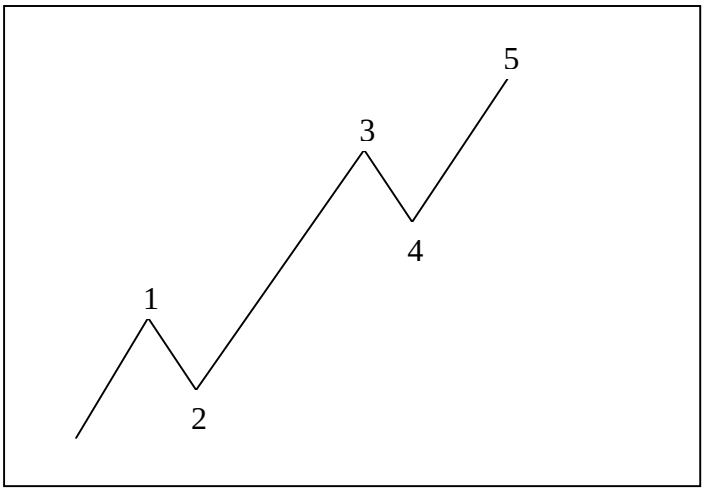
During this chapter I will take various isolated patterns, that I believe have a better than average reliability, and then show how you can use them in your own trading. But more importantly, I will give you guidelines when I think it is best to use these advanced patterns and, crucially, when you should definitely not use them.

This chapter will contain a mixture of automatic patterns as found by the “Show Elliott waves” module and also ones derived from pure *manual* Elliott wave analysis.

Let's start with the first, and most obvious pattern, the 5 wave swing.

Five wave swing

Let's see what this looks like:



Here you can see the simple basic form of a 5 wave swing, where you have 5 waves that unfold in the direction of the main trend, therefore it is considered an impulsive pattern. And this is where the first problem lies, because you are trying to pick the end of a strong and impulsive trend, 5 wave sequences have a nasty habit of continuing further than anticipated. As such, if you try trading off the end of a wave 5, you will make more trading losses than are strictly necessary.

Nevertheless, as I said at the beginning of this chapter, I do realise that some of you will want to perform your own analysis and will want to take trades off the end of wave 5s, therefore I will show how to keep these losses to a minimum and how to make this as safe as it can be. If you are new to Elliott wave analysis, I definitely do not recommend that you try trading off the end of a wave 5 !

As with any Elliott wave pattern, the most reliable analysis comes from only dealing with a pattern that is simple, and very obvious. If it takes you more than two seconds to either perform your own manual Elliott wave analysis, or to justify an automatic analysis as generated from the "Show Elliott waves" module, then the pattern is probably not reliable and as such should be avoided.

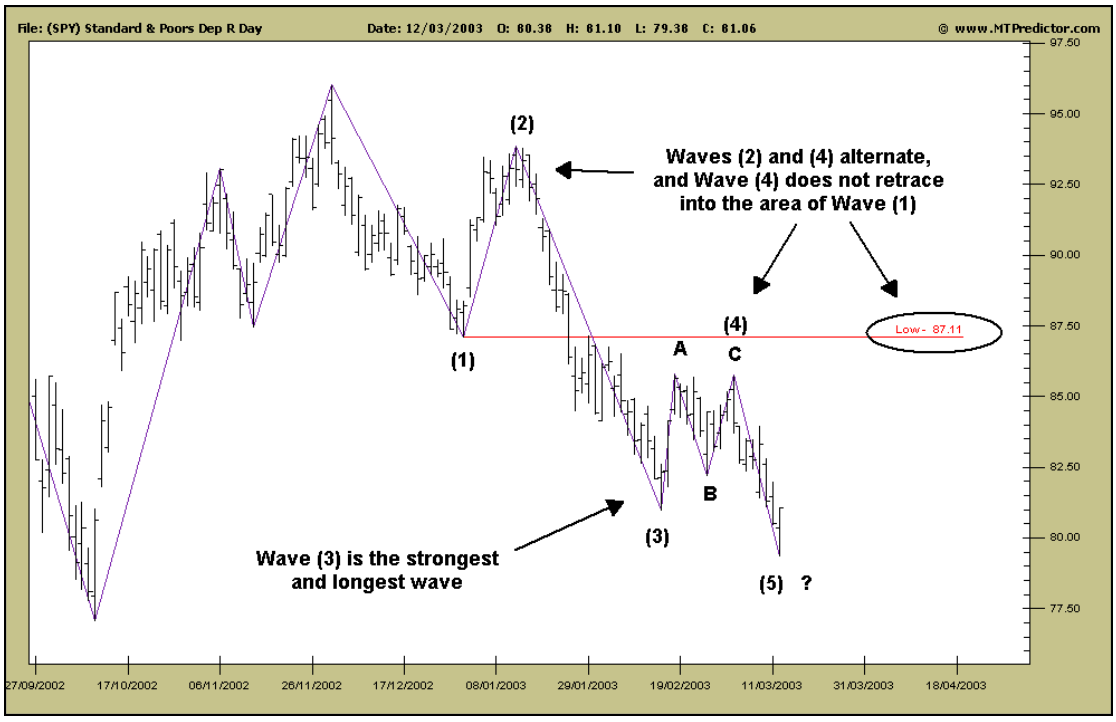
I cannot stress this enough because, as you have seen, Elliott wave analysis is only reliable approximately 50% of the time, so you have a 50% chance of dealing with a pattern that is just not there. The overriding guideline here should be *keep it simple* and only work with a pattern that is obvious.

To that end, I'd like to quickly review the main rules for a 5 wave sequence. These are:

- Wave 2 cannot retrace past the start of Wave 1
- Wave 3 cannot be the shortest wave in a completed 5 wave sequence, and
- Wave 4 cannot retrace into Wave 1

As long as you follow these three guidelines you should be okay. Another one of the guidelines that I like is that wave 3 is usually the longest wave, so if this is obvious on a chart, then you are probably dealing with a reliable 5 wave pattern.

Let's look at a couple of examples:



The first of these is the example on a US stock, the SPY, that you looked at in chapter 12, where a manual Elliott wave count was uncovered with the help of the intermediate degree connected pivots. As you have already seen, this was a good looking and *obvious* 5 wave sequence and therefore should be considered a reliable Elliott wave count to work with.

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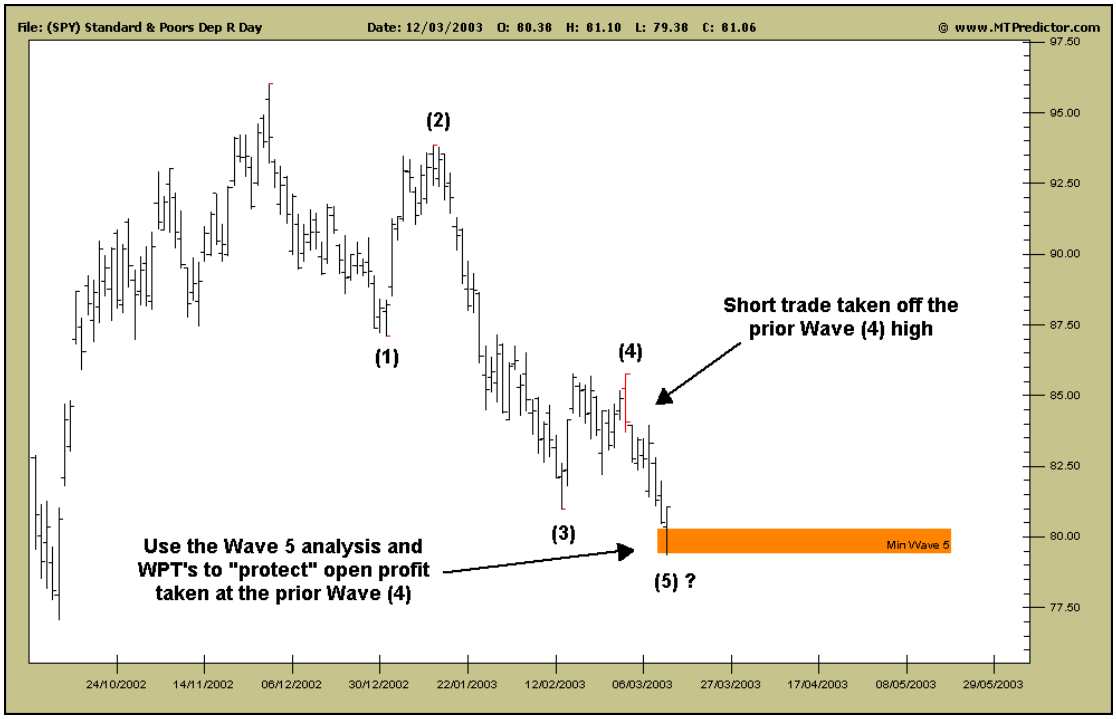
So how can the current analysis of a potential 5 wave low be best used ?



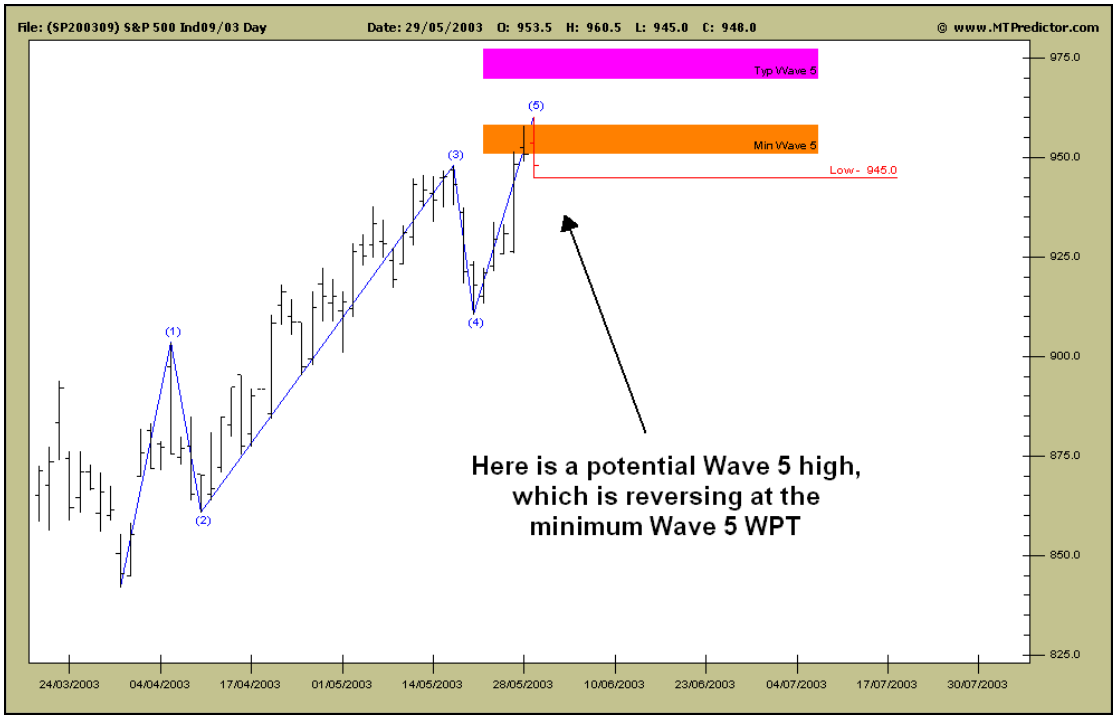
The most reliable use for identifying the end of a wave 5 swing is to protect current open profits that have grown in a trade from the prior wave 4 swing. In this way, you are looking to maximise the profits as the current impulsive swing is coming to an end.

I wish to stress - this is the most reliable way of using a 5 wave sequence, to only manage profits on current open positions taken earlier (normally at the end of the prior wave 4 correction) in the direction of the main trend.

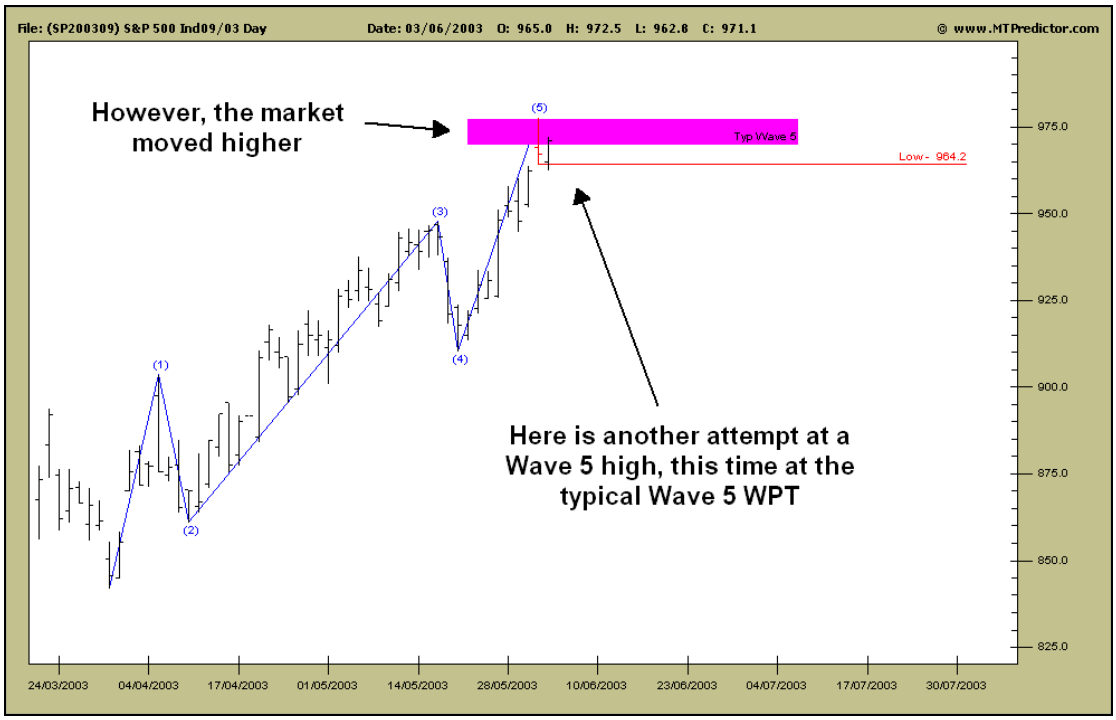
However, although it is against my better judgement because I know how often wave 5s tend to overrun, I know that some of you will want to be able to take new positions off the end of a wave 5. As such, I will cover a few guidelines that will help reduce the risk on this potential type of trade set-up. As you will have gathered, personally I do not like trying to pick the end of an impulsive trend, as it is like standing in front of a freight train, you have a nasty habit of getting squashed !

Let me show you an example.

Here is a potential Wave (5) high on the S&P on May 29 2003:

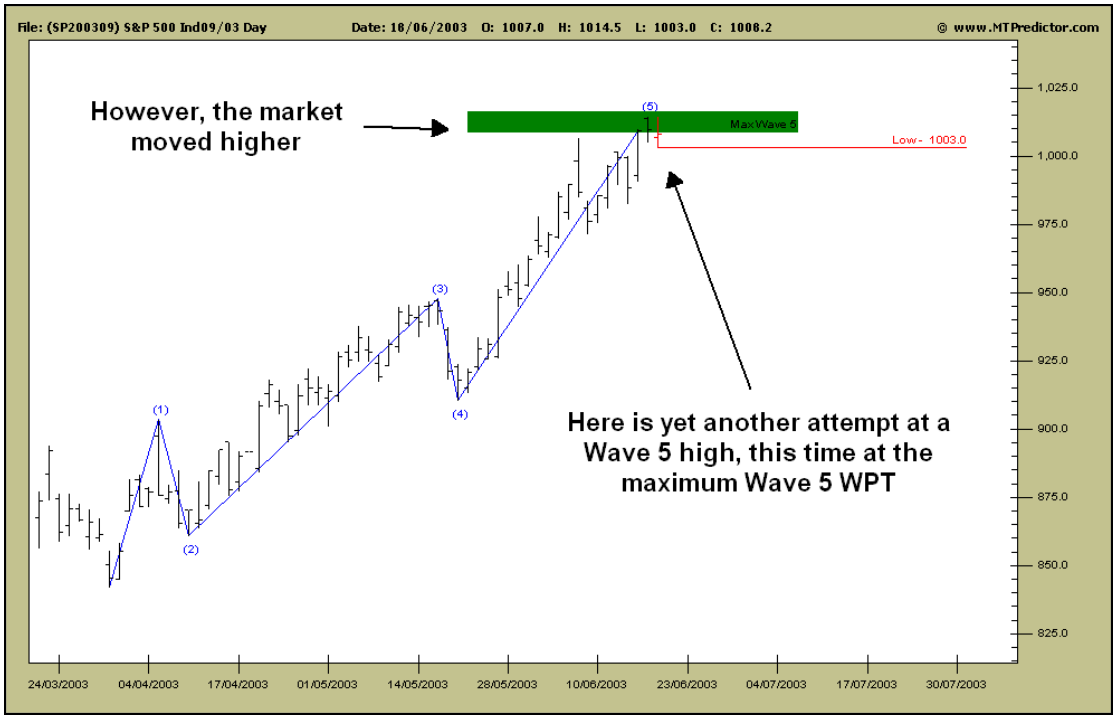


However, the S&P had other ideas and moved higher:



This created another attempt at a Wave (5) high.

However, the S&P, moved yet higher, stopping out the last short trade for a loss:



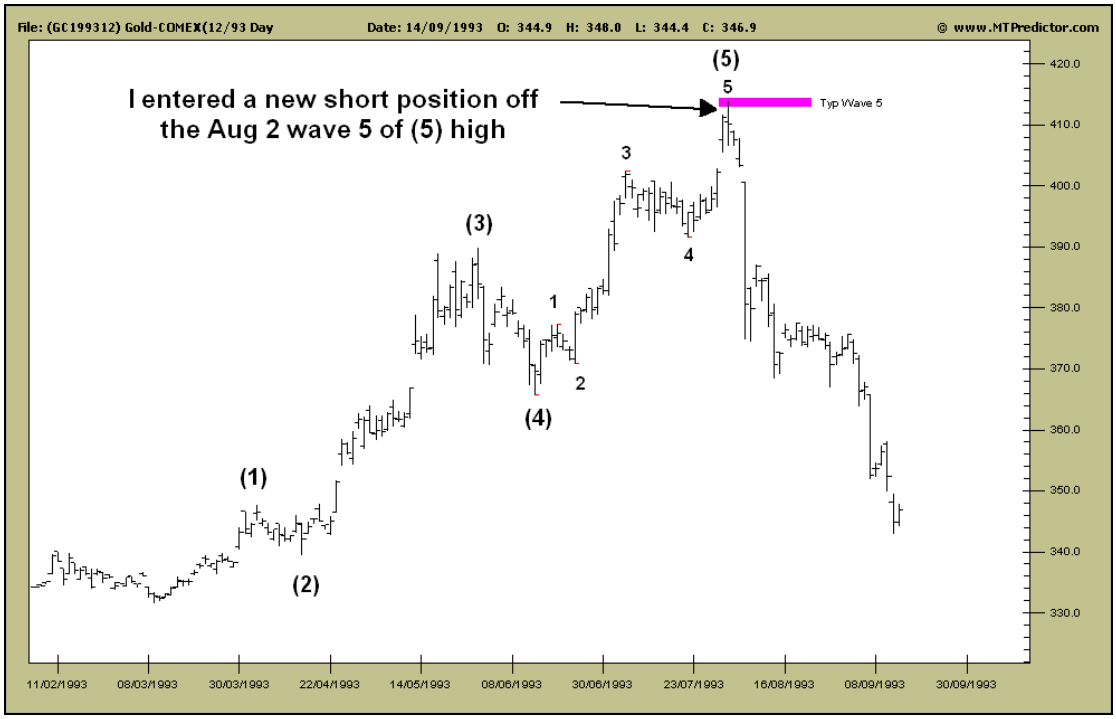
Only now, at the third attempt did the anticipated Wave (5) unfold:

As you can see, the S&P made three attempts at making a wave 5 high, where it appeared that the market was reversing firstly at the minimum Wave 5 WPT, secondly at the typical Wave 5 WPT, finally at the maximum Wave 5 WPT, which stopped the rally and produced a high.

Although this particular sequence only made one small trading loss before the high eventually unfolded as anticipated, markets are not always this kind. And sometimes, trying to pick the end of a Wave 5 swing can result in several consecutive losses before the eventual high or low unfolds. Although the profit from the last trade may outweigh the losses incurred earlier, I hope you can see that this strategy can result in several small losses.

Some traders are happy with this, and are comfortable trading this set-up, however, I now prefer a less stressful approach in which the trades are taken in the direction of the main trend – in other words, off the end of a simple ABC correction.

Having said that, catching the very end of a strong trend can produce some very spectacular trades. Here is one great example I always remember from early in my trading career on Gold:



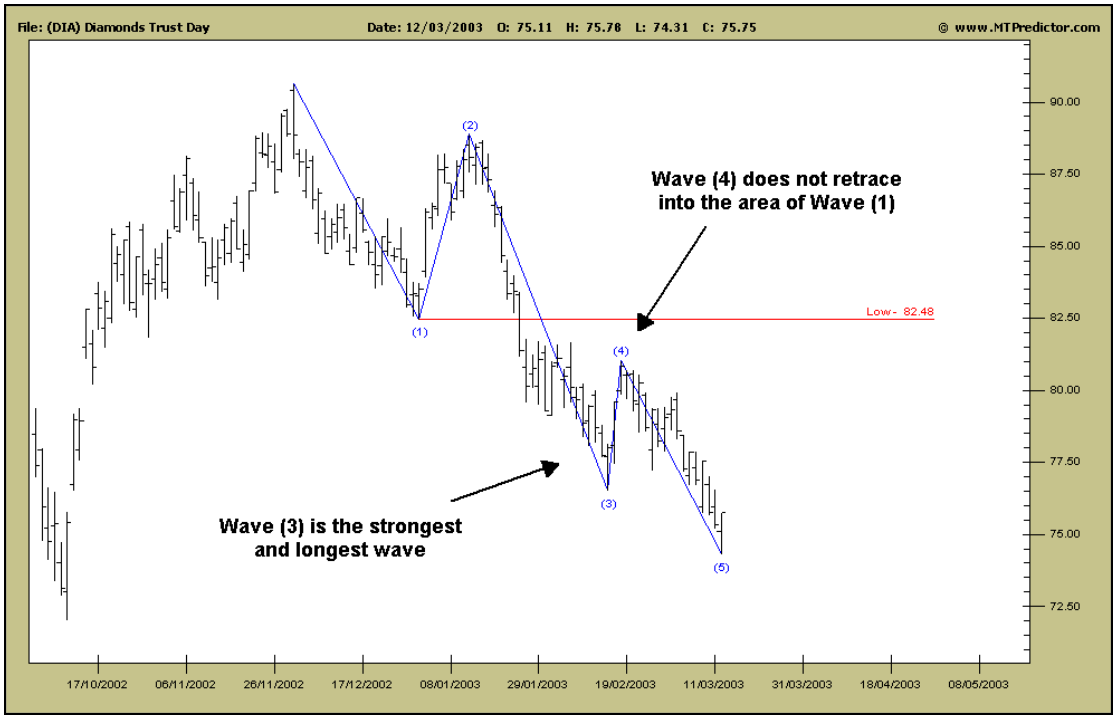
My broker thought I was mad entering this order. However, as you can see, this turned out to be a spectacular trade, catching the very day a strong rally ended.

But trades like this (although they do happen) are in the minority and, over time, the losses from all the other failed wave 5 trades eat away at these few large profits.

Okay, now warned, I can continue!

Here is another recent example that you've seen in the last couple of chapters on DIA (the US stock tracking the Dow Jones Industrials index), where this particular 5 wave sequence was automatically found using the "Show Elliott waves" module.

However, although the software has automatically identified a 5 wave count, I always do suggest that you actually look at the chart and see whether it is found an *obvious* and *good-looking* sequence. As I have discussed already, the more obvious and better-looking the sequence the more reliable it is to work with.



As you see from the chart above, this 5 wave sequence looks to be a good and obvious sequence where the basic guidelines have been followed. In particular, the wave 4 high does not retrace into the prior wave 1 swing, and wave 3 is definitely the strongest and longest wave. As such, I would judge this to be a good 5 wave sequence.

Now you have decided that this is a good-looking 5 wave count you can use the wave 5 WPTs to get an idea of where this wave 5 low is like to end. You can also use the coloured Reversal Bars as confirmation of whether support is actually unfolding at the WPT support levels.

As you have seen in prior chapters, the "Show Elliott waves" module is capable of doing all this for you with one simple mouse click.

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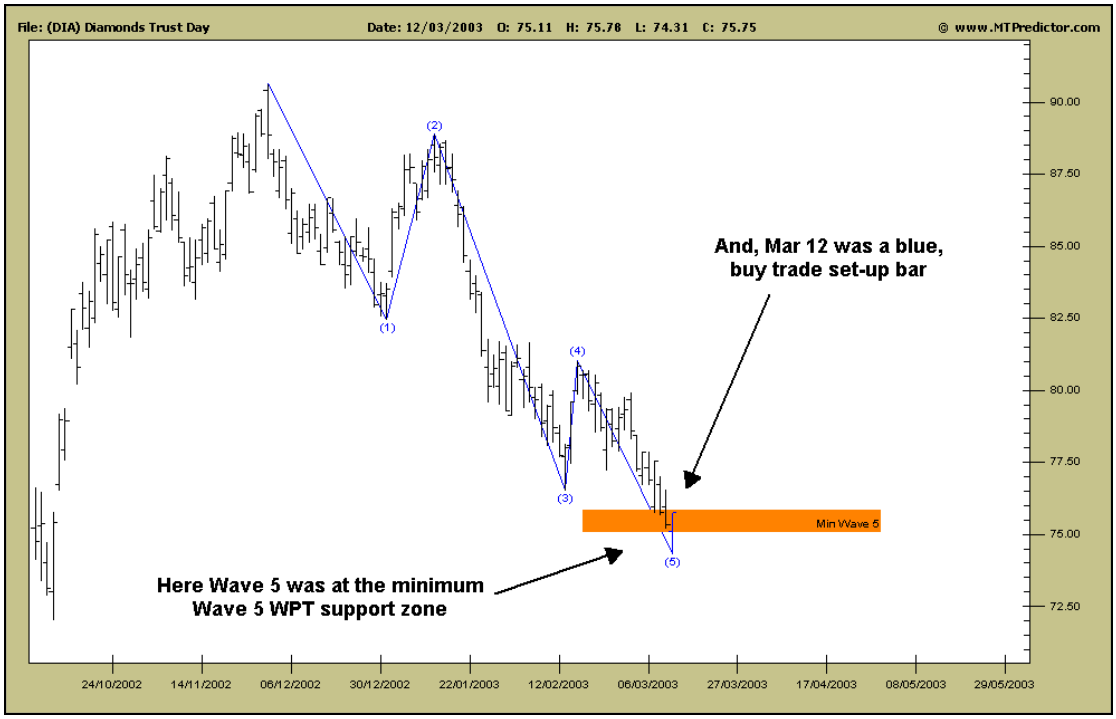
Here you can see the situation on March 12:



As you see from the chart above, the market in question (DIA) is in the process of making a wave 5 low, with a good-looking and obvious 5 wave count. The software has also projected the minimum wave 5 WPT support level, and the last bar on the chart, March 12, is painted blue.

As you have seen prior chapters, if DIA trades above the high of this blue Reversal Bar then it would be initial confirmation that this wave 5 low is complete.

Armed with this knowledge, can you now consider taking a long position in DIA, on the assumption that if confirmed, DIA will rally off this wave 5 low ?

At first sight, the answer to this question would appear to be “yes”. However, as you have seen in prior chapters, you need to have an idea of where the initial target would be following this wave 5 low and then, most importantly, to look at what the potential profit would be at this first target relative to the initial risk required to take the trade. It is exactly the same procedure to follow, no matter what trade you are considering. As I have demonstrated in the past, for a successful long-term approach to the markets, it is vitally important that you restrict your trading to only the highest probability trade set-ups. These are the ones where the potential profit is large in relation to the initial risk, ideally above a minimum of 2:1.

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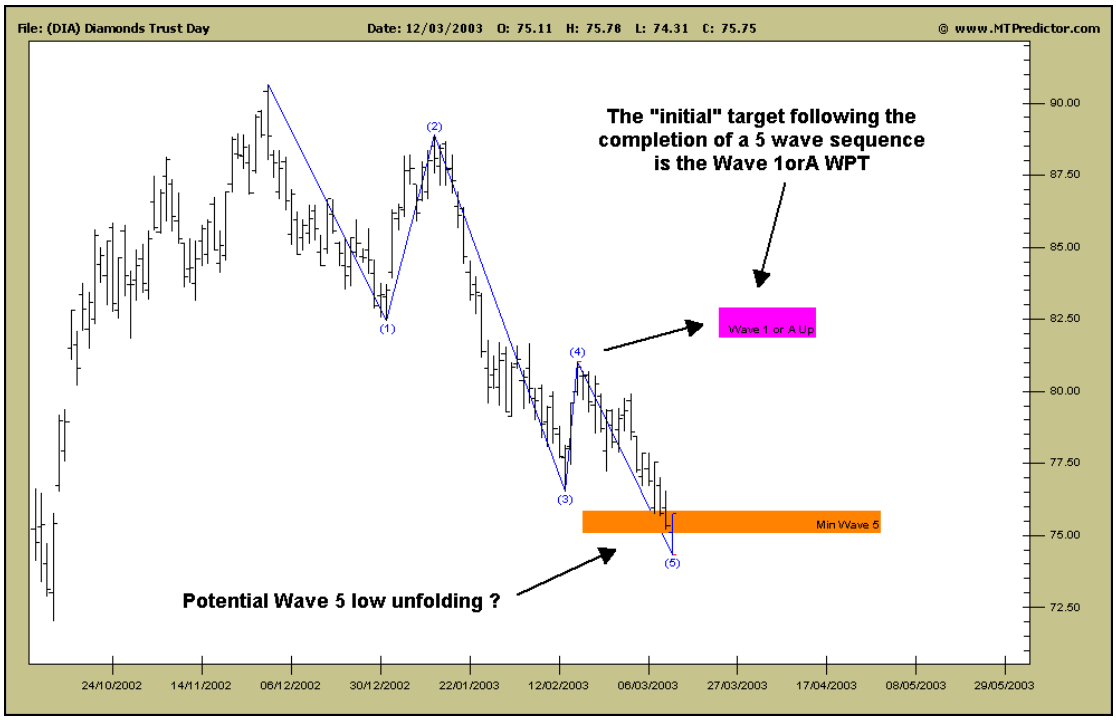
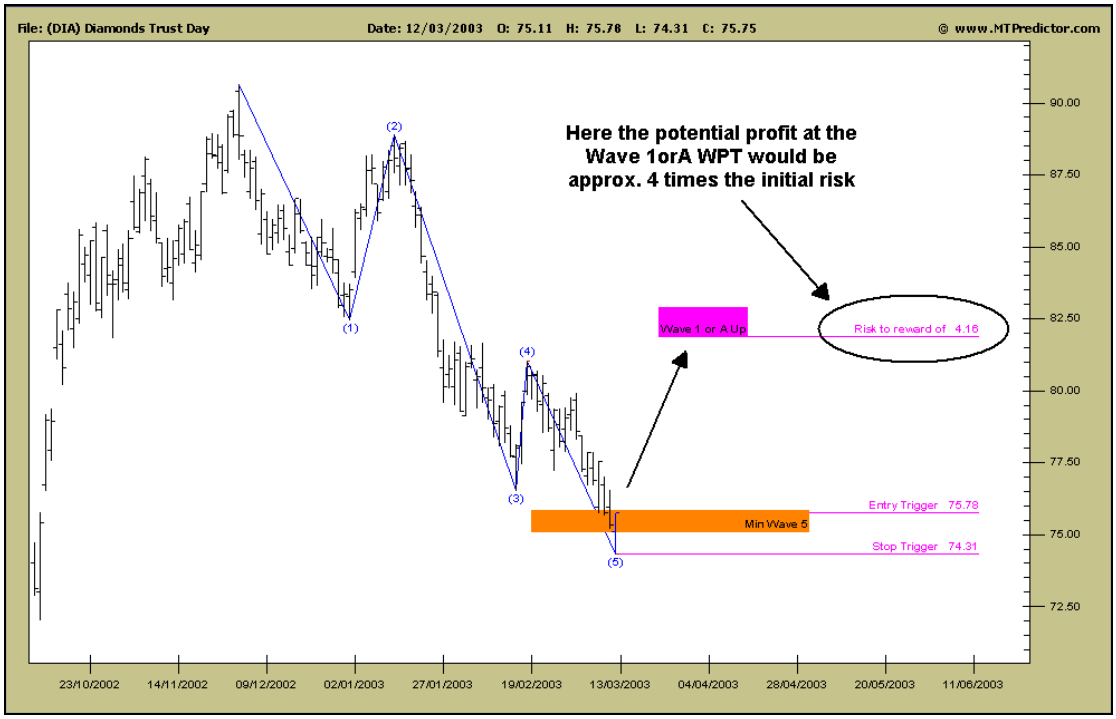
The first target following a completed wave 5 high or low is the wave 1orA WPT taken from the wave 5 swing:



As you see, this is some way above the market. However you need to perform the initial risk to reward calculation to see whether this is above the important 2:1 level:



For this, you can use the “risk to reward module”.

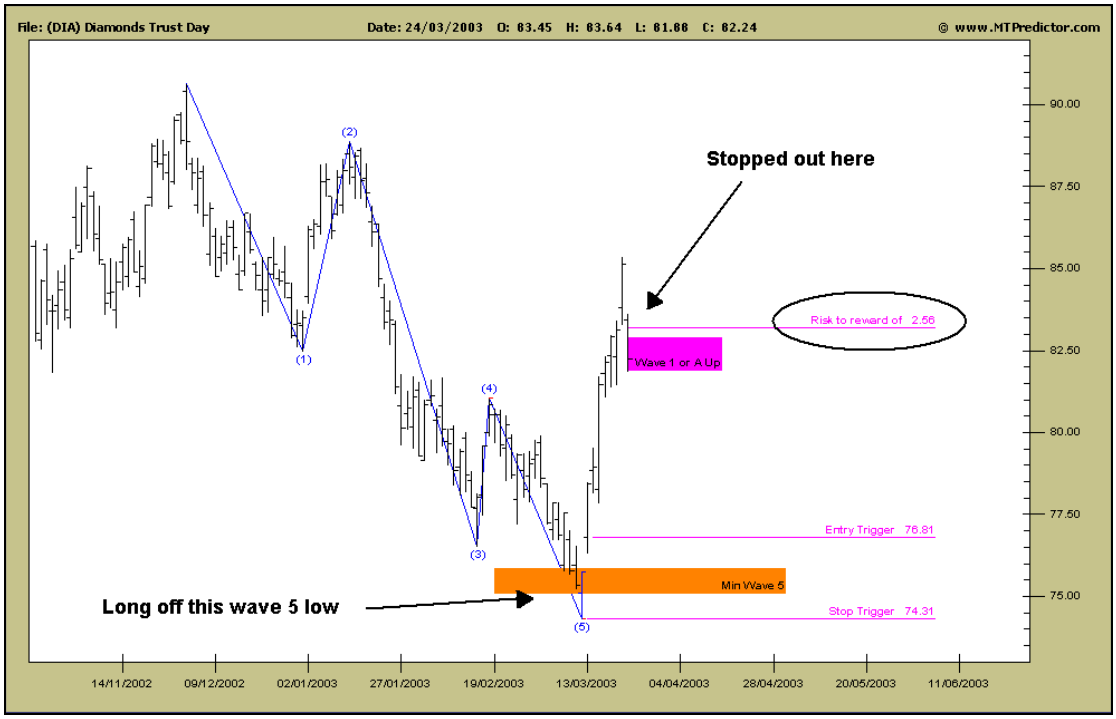
As you see from the second chart on the last page, the potential profit at the Wave 1orA WPT would be approximately 4 times the initial risk required to take the trade (ignoring slippage and commission).

Anything above twice the initial risk at the first projected profit target should be considered a good trade.

As I have said earlier in this chapter, personally I do not like trading off the end of a wave 5, however if this is in your trading plan, you do have the tools and techniques within MTPredictor that allow you to analyse these types of positions.

I hope you can see that to help to increase the reliability of these particular trades, I suggest that you restrict your trades to only the ones that come off the best and most obvious wave 5 patterns, but the wave 5 must end in one of the projected wave 5 WPTs with a coloured Reversal Bar. Then you must double-check the initial risk to reward of the potential trade at the first projected profit target. If this is above the 2:1 minimum, then and only then, should you consider a trade.

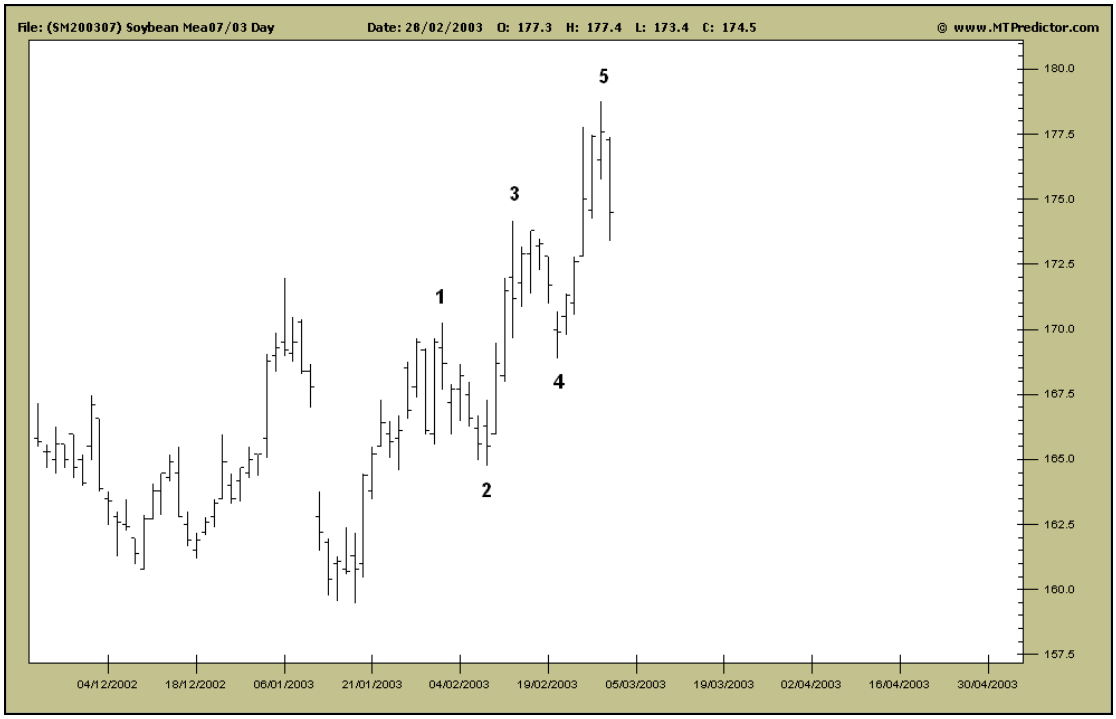
Let's see how this trade would have turned out:



As you can see, DIA did indeed rally smartly and the simple strategy of trailing your protective stop just below the low once the market had reached this first projected profit target of the Wave 1orA WPT would have made a profit of approximately 2 ½ times the initial risk (ignoring slippage and commission). This profit was slightly reduced compared with the anticipated target because of the gap open on the day after the wave 5 low on March 13.

I'll come back to this example later in this chapter.

Lets take a look at another example.



In the chart above, which is (Jul) Soybean Meal, you can see that a 5 wave advance appears to have unfolded. This is the *manual* Elliot wave count that you saw in the last chapter.

However, at first sight this does not appear to be as *perfect* as the prior example on DIA. In particular, the wave 3 is not obviously the longest and strongest wave, and also the wave 4 does encroach upon the area of the prior wave 1 high. Although these two criteria do not invalidate this as a potential 5 wave rally, they do not help make it a perfect 5 wave rally.

Remember, you are not after a 5 wave count that is simply *valid*, rather you are looking for a 5 wave count that is the best of the best - it must be perfect and, more importantly, obvious.

Again, even though this is not a perfect example, let's just take this one stage further and perform the analysis of this set-up as in the prior example on DIA, to see whether it carries enough profit potential at the first profit target. You are not only looking for the trade to come off a 5 wave pattern that is perfect, but also one that carries a potential profit of at least twice the initial risk at the first profit target.

If you stick to these guidelines, then (although I personally do not like trading off the end of a wave 5), you are at least stacking the odds of success in your favour.

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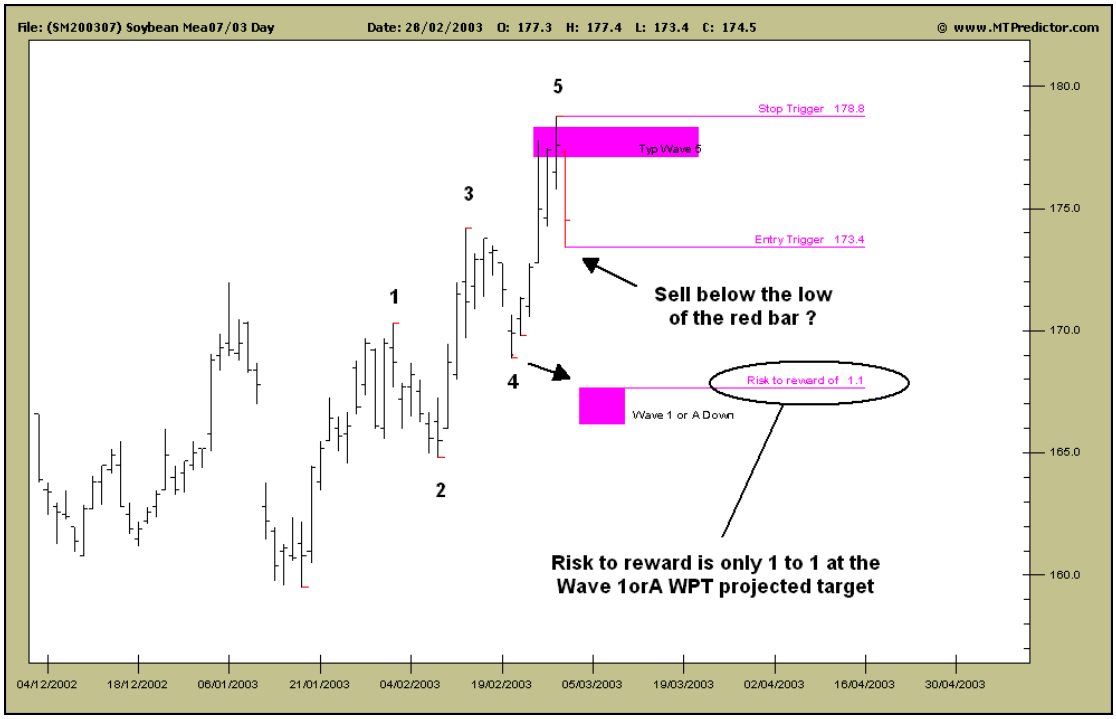
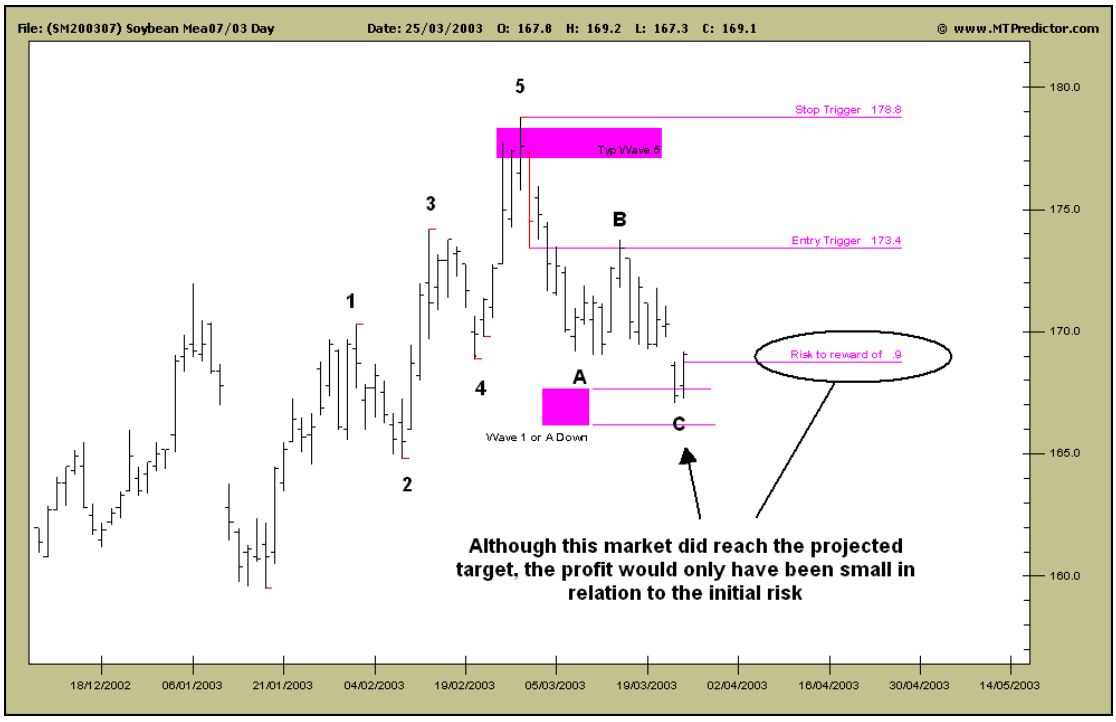
Here is the 5 wave rally again:



Here you can see, that a red sell Reversal Bar has unfolded as the market reversed off the typical wave 5 WPT resistance area. You now need to calculate the potential profit, as it relates to initial risk, at the first profit target. In this example this would be at the wave 1orA WPT. As you can see from the chart above this only works out to be approximately 1 to 1. In other words, it falls short of the minimum 2:1 level you require to consider the trade.



As you can see from the second chart on the prior page, Soybean Meal, did indeed decline off this wave 5 high, and actually continued to decline into the Wave 1orA WPT support area, exactly as anticipated.

However, using the same trade management strategy as in the example on DIA, this would have resulted in a profit of only 0.8 times the initial risk. I can hear some say that any profit is a good profit, so what is the issue here?

Well, if you take trades that consistently make profits that are smaller than the losses, then you will be putting yourself in a difficult position to make money over time. I am sure you understand that focusing on taking trades that make profits that are larger than your losses over time, gives you a much better chance of watching your trading capital grow.

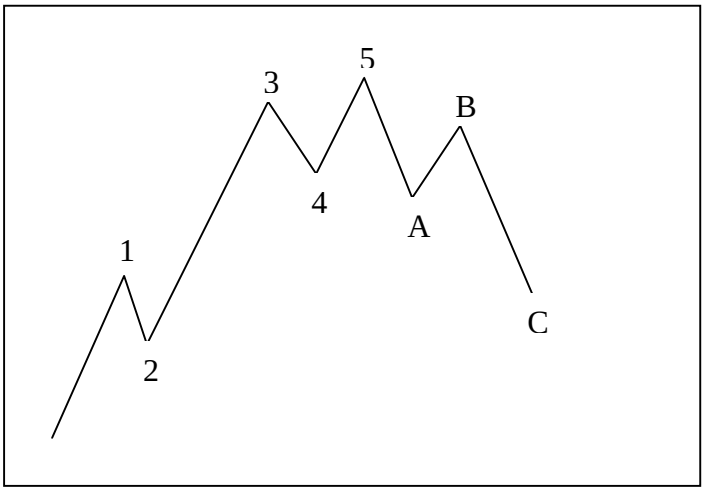
This is why it is so important to always look at the potential profit in relation to initial risk whenever you are considering any new trade set-up. It does not matter how good a trade set-up may look, or indeed whether the market unfolds as you anticipate, because it is not predicting the future that makes money for you, it is trading profits and trading losses. This is why it is crucial to keep your trading profits large, and keep the trading losses small. By only focusing on trades that carry the potential to make 2x times the initial risk (on average), then you are heading towards this aim.

The next example I like to look at is taken from general observation 5, where once a 5 wave sequence is complete it will normally be corrected by at least a three wave swing, normally an ABC.

Once a 5 wave sequence is complete, the whole sequence is corrected

Again, this is an isolated example, but I have found it works more times than not from my own practical experience. It also leads on nicely from the prior section on taking a trade off the end of a 5 wave sequence.

To remind you of this guideline please take a look at the chart below:



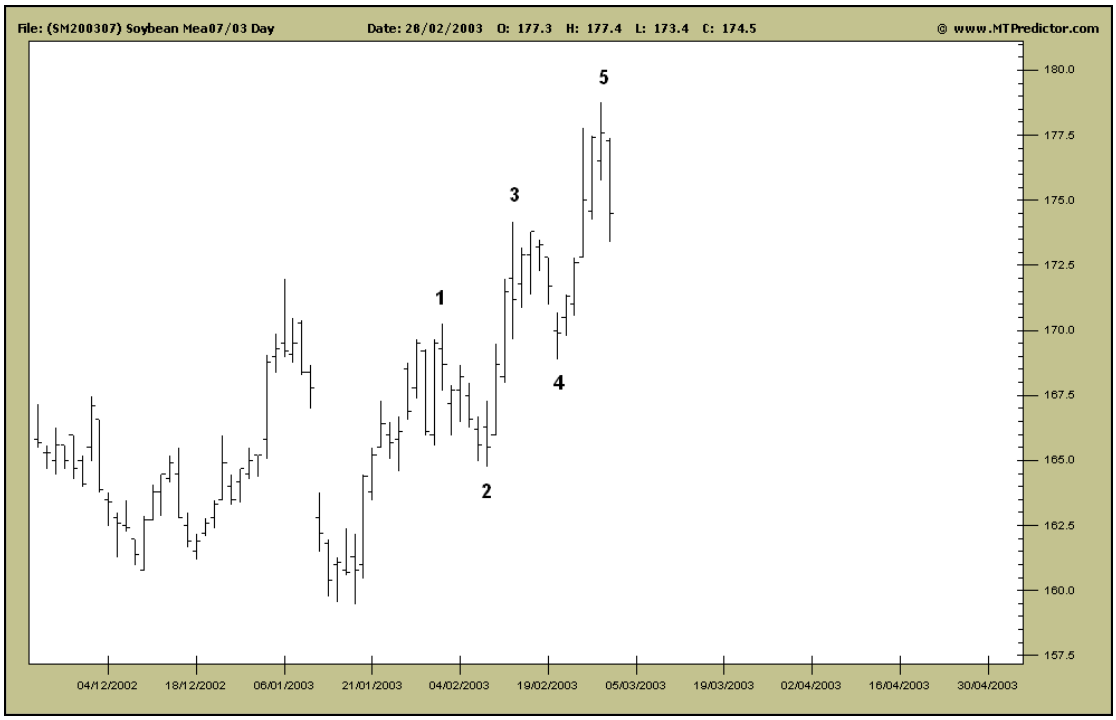
Here you can see that once a 5 wave sequence is complete, the whole 5 wave sequence is corrected, which means that it is normally followed by at least another three sections, normally a simple ABC.

So what does this mean for you when you are performing *manual* Elliott wave analysis ?

There are several ways you can use this, the first of which is where you have identified a 5 wave swing, either manually or via the "Show Elliott waves" module. Once this 5 wave swing is complete, you can then start to look for a simple ABC correction with the aim of identifying the end of the wave C to take a new position.

Let me show you an example on the next page . . .

Here is the same example you saw in the last section on Soybean Meal, where there was a 5 wave rally unfolding:



As you saw in the last section, this was not a good enough 5 wave count to consider a new short position as the wave 5 high was ending, but was, nevertheless, a valid 5 wave count - so how can you make use of it?

As outlined on the prior page, once a 5 wave sequence is complete, the most likely pattern to unfold following this is a simple ABC correction. As you have already seen, the simple ABC correction is the best and most reliable Elliott wave pattern to consider taking a trade from. Therefore, once this 5 wave sequence has been identified you can then focus on this particular market over the next few weeks to be ready and waiting for a potential ABC correction.

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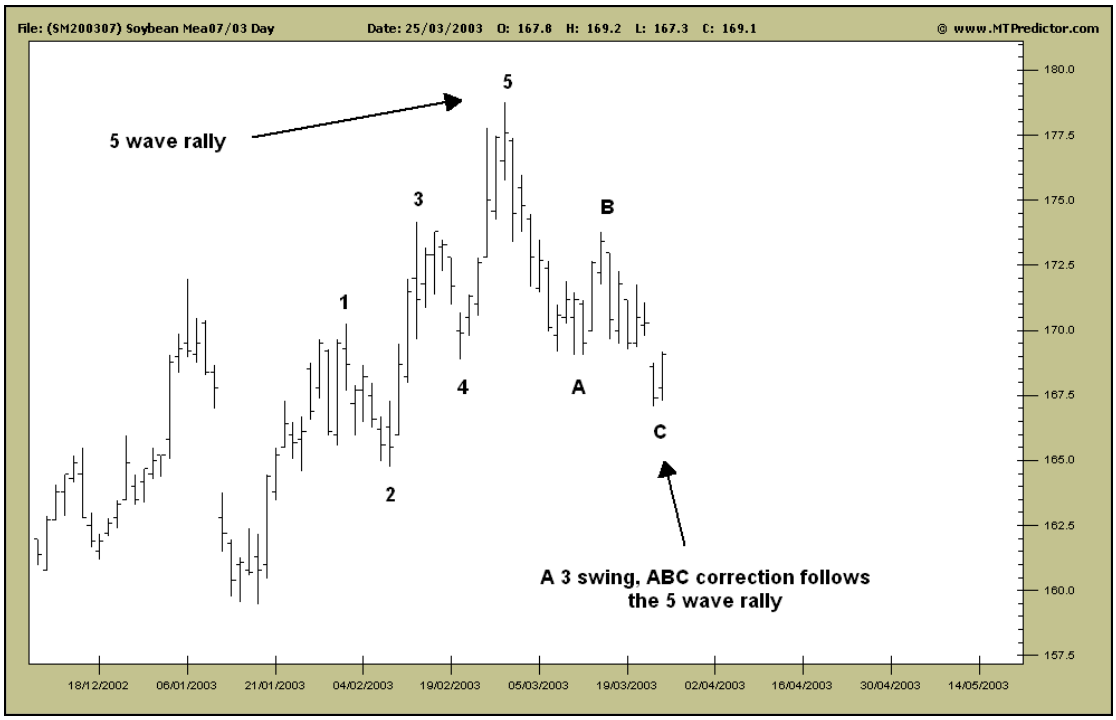
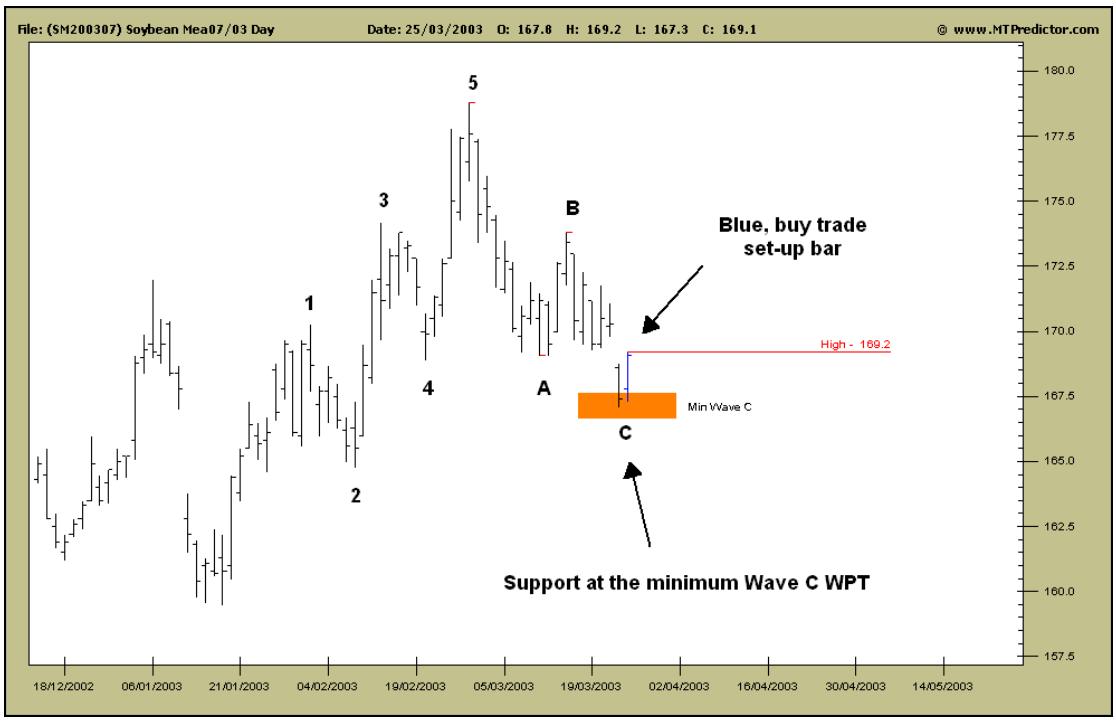
And sure enough, the wait has paid off, with the decline off this wave 5 high unfolding as a simple ABC correction:



As before, you will now have to look at this wave C low to see whether it is unfolding at a good support level - one of the wave C WPTs - and whether a coloured Reversal Bar (in this example a blue bar, as it is a potential buy set-up) is also unfolding at the low:



As you can see from the second chart on the prior page, all the pieces do appear to be in place for a potential long trade off the Wave C low.

However, the most important point in this example is how, once the 5 wave sequence had been identified, you could use this to then anticipate, and be ready for, a potential ABC correction off which the actual trade was taken. Although this example involved pure manual analysis, and was not automatically found by the software, I hope you see how the trade set-up was found by keeping the Elliott wave analysis both *simple* and *obvious*.

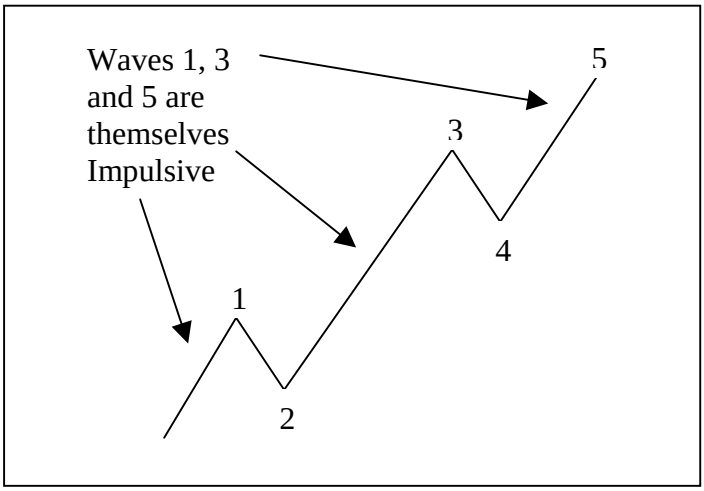
Please refer back to the prior chapter to see how this set-up unfolded.

The next Elliott wave guideline that I would like to look at is where the larger-degree waves normally sub-divide into a minor Elliott pattern. Again, this is one of the guidelines that from my own experience tends to work well enough to consider paying particular attention to.

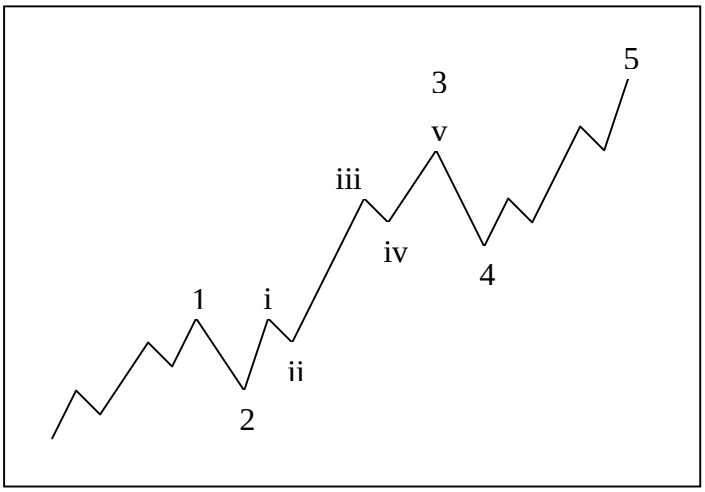
Continued on the next page . . . .

Each Elliott wave should sub-divide into a minor Elliott patten

What this means is that each of the impulsive Elliott waves, should sub-divide in their own right into a minor 5 wave pattern.



These impulsive waves (1, 3 and 5) should each sub-divide into *lesser-degree* 5-wave patterns.



Here I have labelled the Wave (3) as unfolding as a minor 5 waves, labelled i, ii, iii, iv and v, but both the Waves (1) and (5) should also sub-divide into a *lesser-degree* 5 wave pattern.

The same should be true of the two corrective waves, which are waves 2 and 4.

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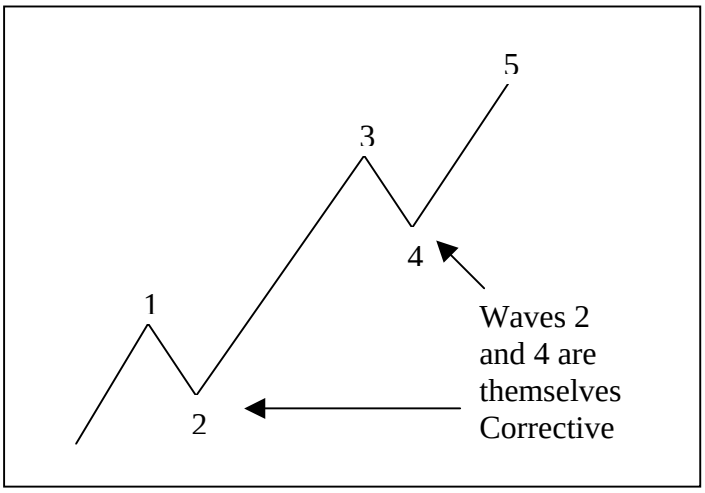
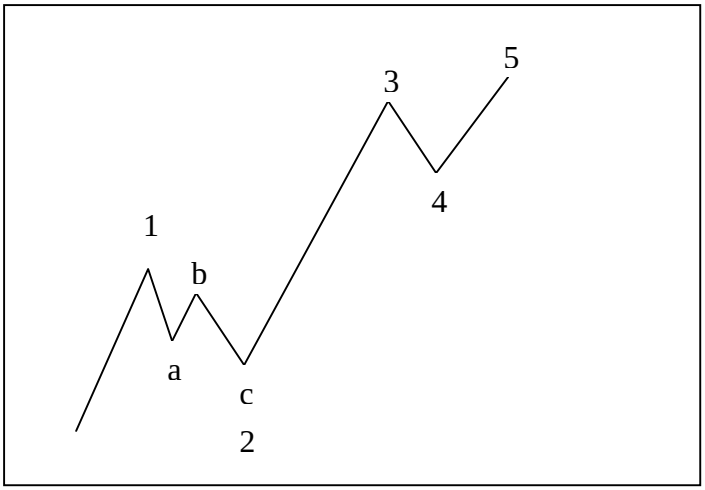
Here you can see how waves (2) and (4) are the corrective waves in a complete Elliott wave sequence:



However, the corrective waves, (2 or 4) will normally sub-divide into either a simple ABC or one of the more complex corrective Elliott wave patterns, please see the example below:

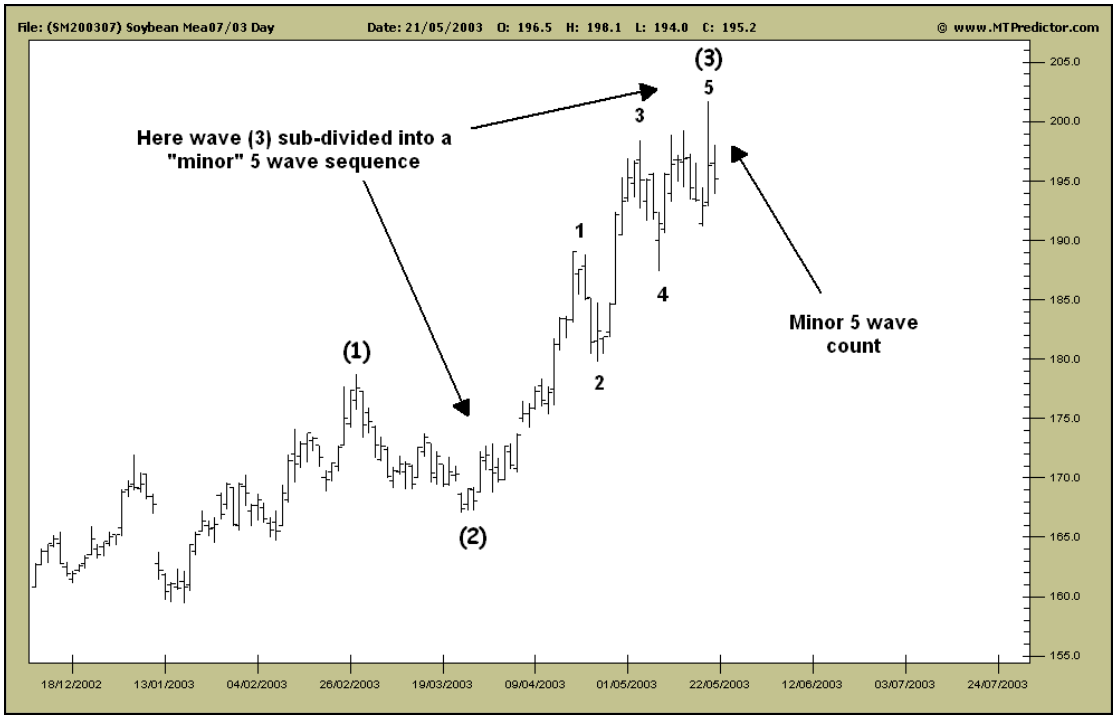


Here I have labelled the Wave (2) as unfolding as a minor 3 wave correction, labelled a, b and c, but wave (4) should also sub-divide into a minor corrective sequence.

There are several ways you can make use of this information, the best way being to use the minor pattern to help identify when the larger-degree pattern is coming to an end.

Let's take a look at example on the next page.

As you should be very familiar with this (Jul) Soybean Meal trade at the moment, let's move forward in time from the example in the last section and take a look at how Soybean Meal unfolded from the ABC corrective low.



As you can see from the chart above, Soybean Meal rallied strongly of this wave (2) low in a wave (3) type swing. However, the most interesting point is how the wave (3) appeared to sub-divide into a minor 5 waves. Although this required some manual analysis to label these waves, I hope you can see how the minor 5 wave count was very obvious on the chart.

Although this minor 5 wave count was not *perfect*, (wave 3 was not the longest and strongest of the waves), you can still apply the wave 5 WPTs manually to get an idea of where this minor 5 wave sequence is likely to end.

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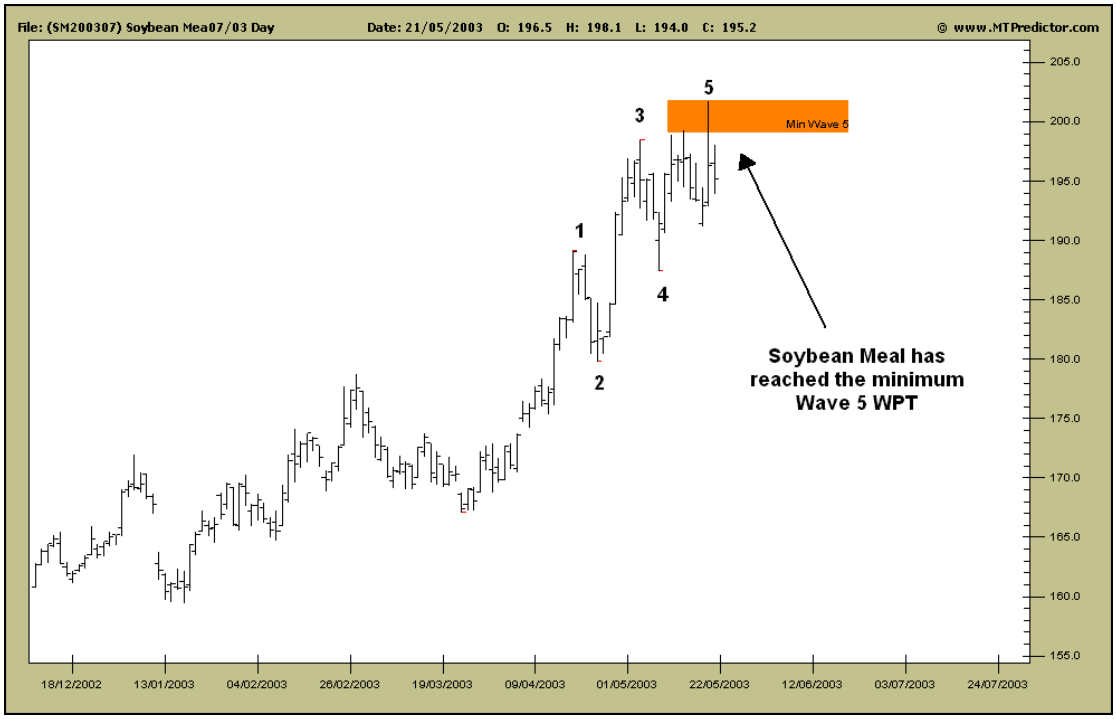
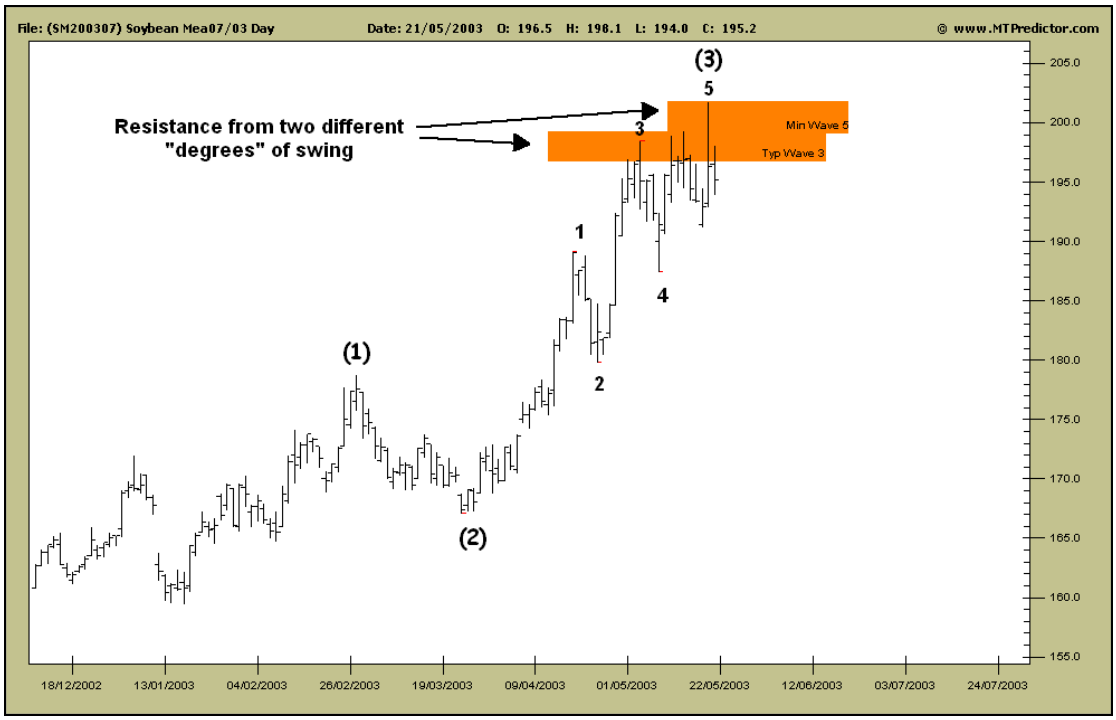
Here I have added the wave 5 WPTs manually using this minor wave 5 sequence:



And as you can see from the chart above, Soybean Meal had reached the minimum wave 5 WPT resistance area. However, because this is only a minor count, this is not the only WPT you can add to the chart, you can also add the larger-degree WPTs using the larger-degree waves (1) and (2):

Here you can see that Soybean Meal was also at the larger-degree typical wave (3) WPT.

What this means is that not only is this market at a resistance area where the minor wave 5 rally is likely to end, but it is also at a resistance area where the larger-degree wave (3) is likely to end. In other words, it has resistance from two different degrees of swing coinciding in the same area:



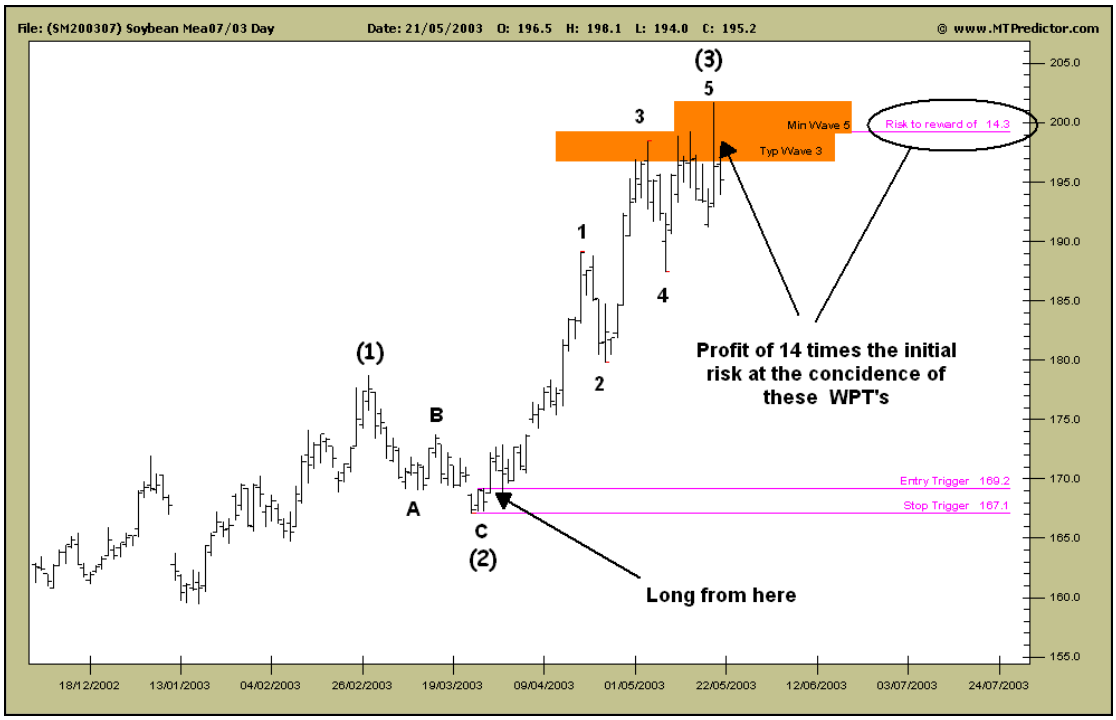
I hope you see how this is a very powerful resistance area where a high is very likely to unfold.

But the most important aspect of this chapter is how the larger-degree wave (3) swing sub-divided into a minor 5 wave count. You can use this minor 5 wave count to project areas where this minor 5 wave rally was likely to end. If these minor wave 5 WPTs coincided with WPTs from the larger-degree swings, then there is added evidence that the current swing is likely coming to an end.

As this example is for the end of a larger-degree Wave (3), you should NEVER use the end of the minor 5 waves *within* the Wave (3) to enter a new position. You should only use a minor 5 wave sequence that unfolds as part of a larger-degree Wave (3) to help mange a trade taken off the prior Wave (2).

However, you may consider adding to existing positions (pyramiding), at the minor Wave 2 or 4 swings, *in the direction of* the main larger-degree Wave (3) swing.

Let's now look at the current long position off what is now the larger-degree wave (2) low:



As you can see, the current profit would be standing at approximately 14 times the initial risk (ignoring slippage and commission). In anybody's book, this is a huge profit and one that you should now start to protect.

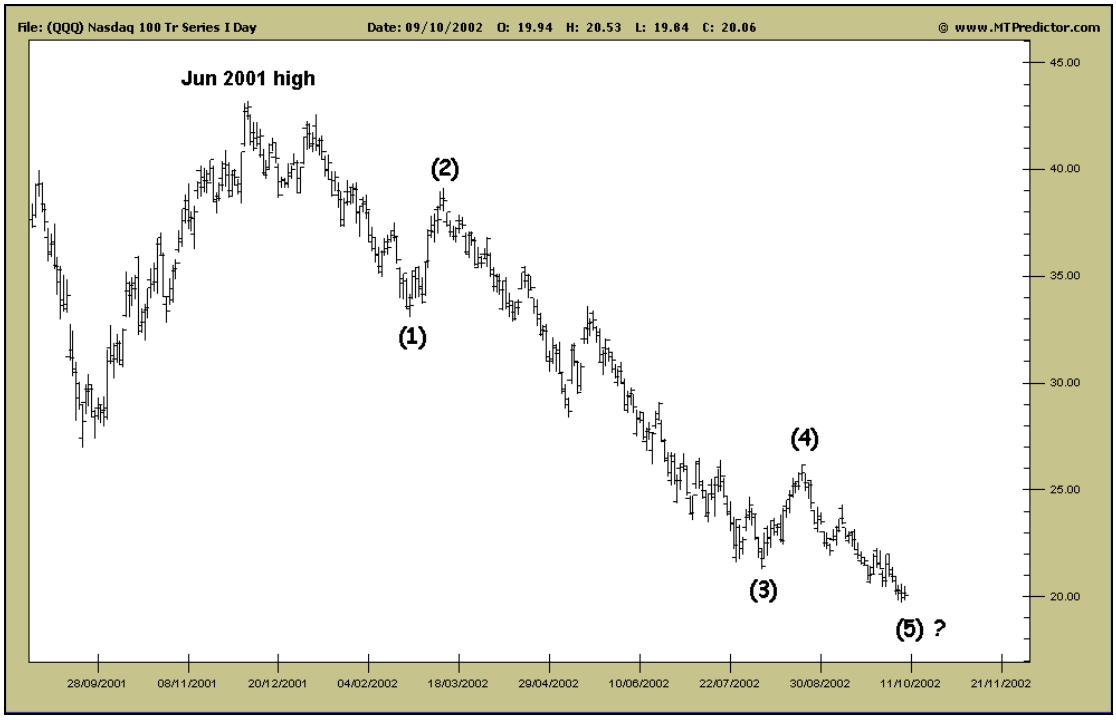
Again, I must stress here that you should *never* consider taking a new position off the end of a wave (3). The main reason for this is that a wave (3) is usually the strongest and longest in any of the Elliott wave sequence, therefore has the highest probability of overrunning any WPT targets. As such, getting caught in the wrong direction in a strong wave 3 is tantamount to financial suicide, and is to be avoided at all costs.

I hope you can see that this is the one place where you must *never* consider using the end of a wave 5 sequence to take a new position, because, as you have seen in this example, the minor 5 wave sequence is actually unfolding as part of a larger-degree wave (3).

So I repeat, never consider taking a new position on the end of the 5 wave sequence, when it unfolds as part of a larger-degree wave (3). All you should ever be doing at this point is looking to protect profit on current open positions, which were usually taken off the prior wave (2) high or low.

Let's now move on to look at another situation where the minor swings within the larger-degree pattern can help identify when the larger-degree Elliott wave sequence may be coming to an end.

This is an example on the QQQ (the US stock that tracks the NASDAQ index). You'll see this example again as it is the topic of a later chapter but, for now, the particular area I would like to focus on is the October 2002 low:



You can see how the decline off the June 2001 high appears to be unfolding in 5 waves, automatically found by the software using the *major* option in the "Show Elliott waves" module. You know from Section I that most impulsive swings tend to unfold in 5 waves, as such you should now suspect that this decline is nearing an end, or at the very least, is in the last section.

You can now zoom in to look at the minor waves within the wave (5) to see if they can help identify where this whole declining sequence is likely to end. Remember, what you are looking for is (ideally) the larger-degree wave (5), as it is one of the impulsive Elliott wave swings, *sub-dividing* into a minor 5 wave sequence.

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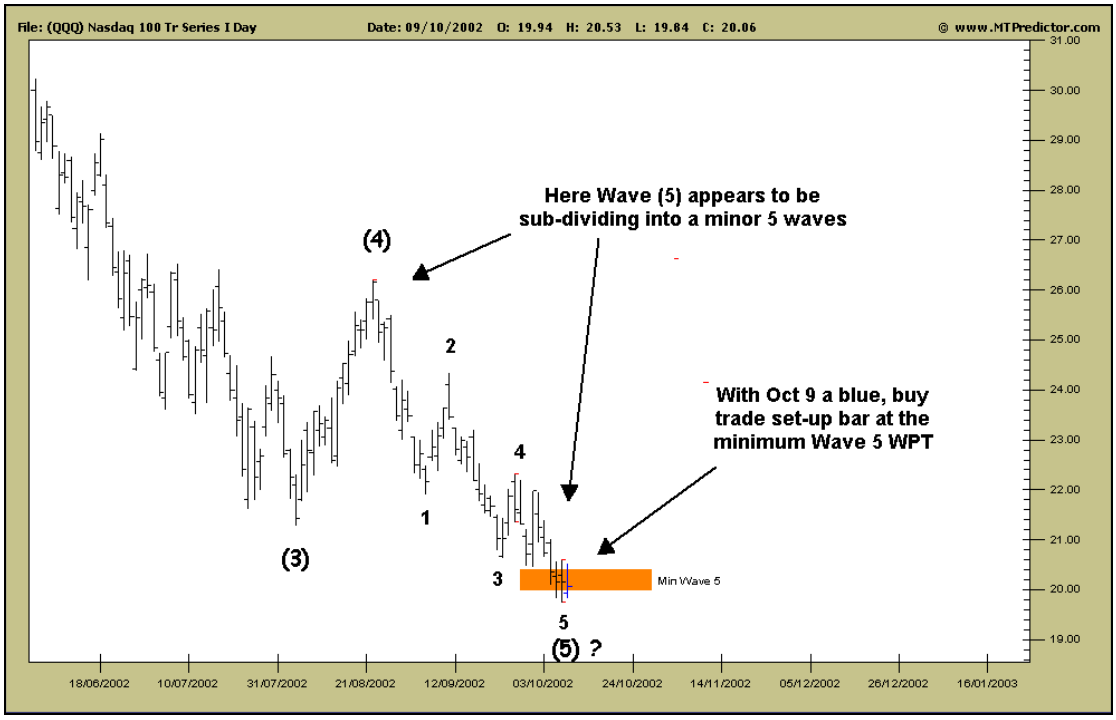
Sure enough, when you zoom in and look at this last declining section, you can see that the larger-degree wave (5) did indeed sub-divide into a minor 5 wave swing. This was automatically found using the *minor* option in the "Show Elliott waves" module.



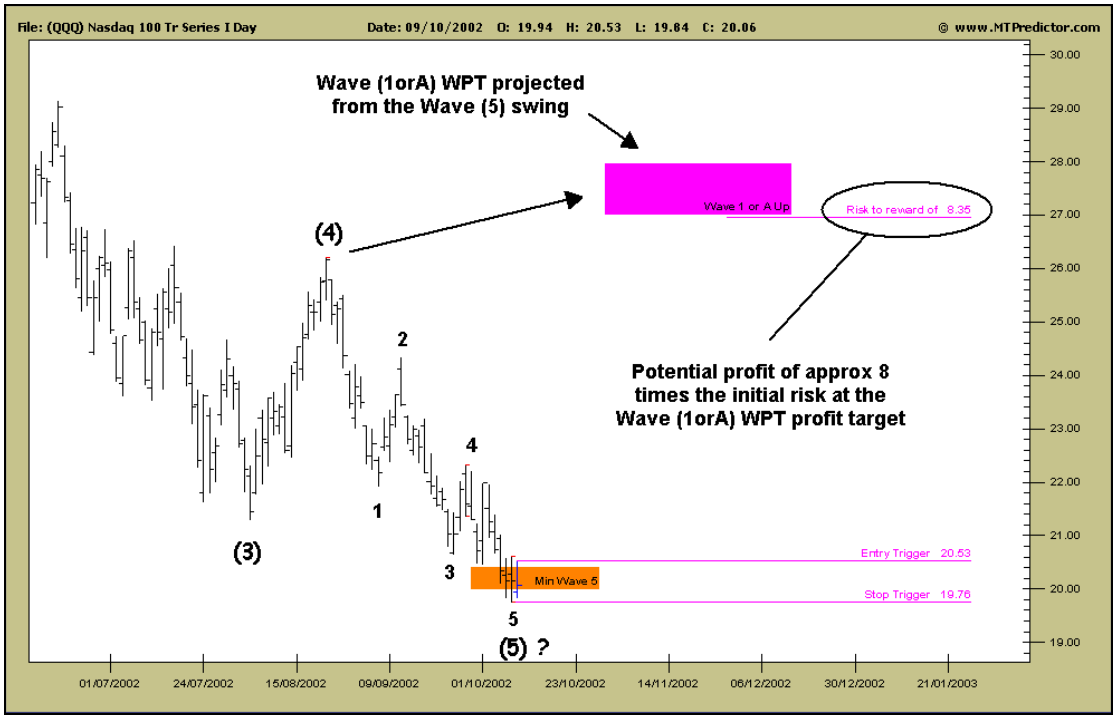
Not only that, but as of October 9, the QQQ was right in the minimum wave 5 WPT and October 9 was also a blue buy reversal bar. These were both automatically displayed on the chart for you as part of the show Elliott waves routine.

As you have seen in earlier chapters, when a market exceeds the high or low of the coloured trade set up bar that falls at a WPT support or resistance area, then the current Elliott wave sequence is complete. So, if the QQQ exceeded the high of the blue buy reversal bar of October 9, that would signal that this minor 5-wave decline was over. This would, in turn, signal that the entire larger-degree wave (5) decline from the June 2001 high was also complete.

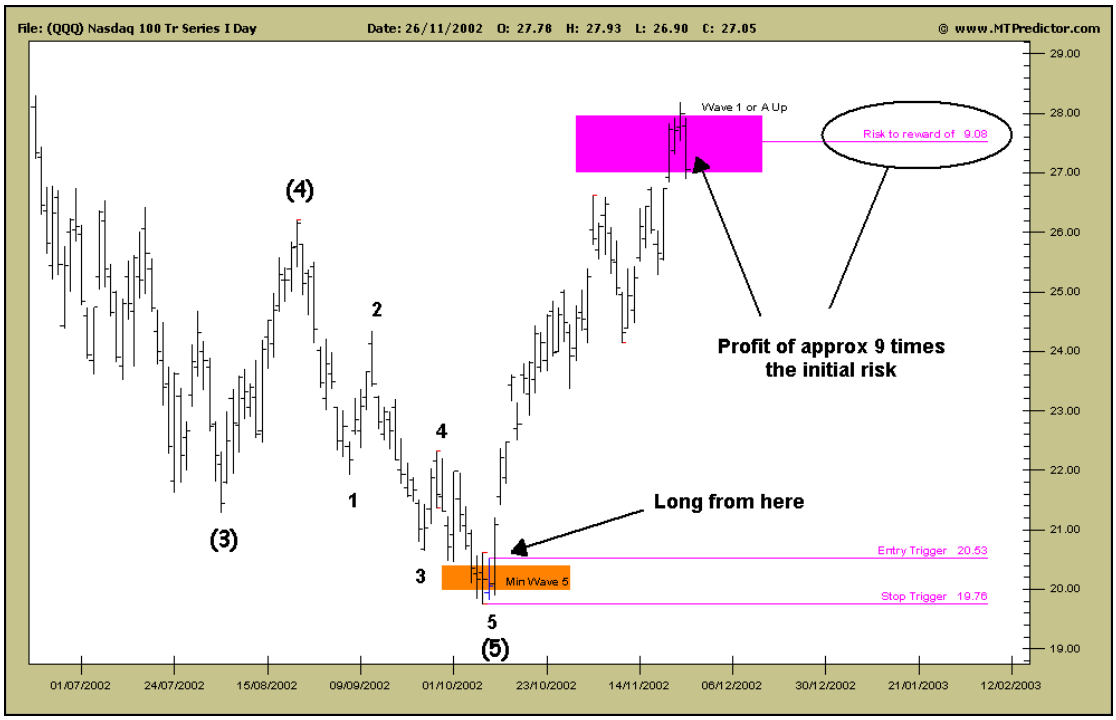
Although the situation is not quite as ideal as you saw in the prior example, mainly because the minimum wave 5 WPT as projected from the minor 5 wave sequence did not coincide with a larger-degree wave (5) WPT, using this minor 5 wave swing that enabled you to identify the area where the decline from the June 2001 high was likely to end.

So how could you use this information for a potential trade set-up ?

As you have seen in previous examples, the analysis does not stop there. You now need to project the first anticipated price target and use this target to calculate the potential profit in relation to the initial risk:



As you can see, this works out to be approximately 8 times the initial risk, and would be considered a good trade to take. Let's see how this unfolded:

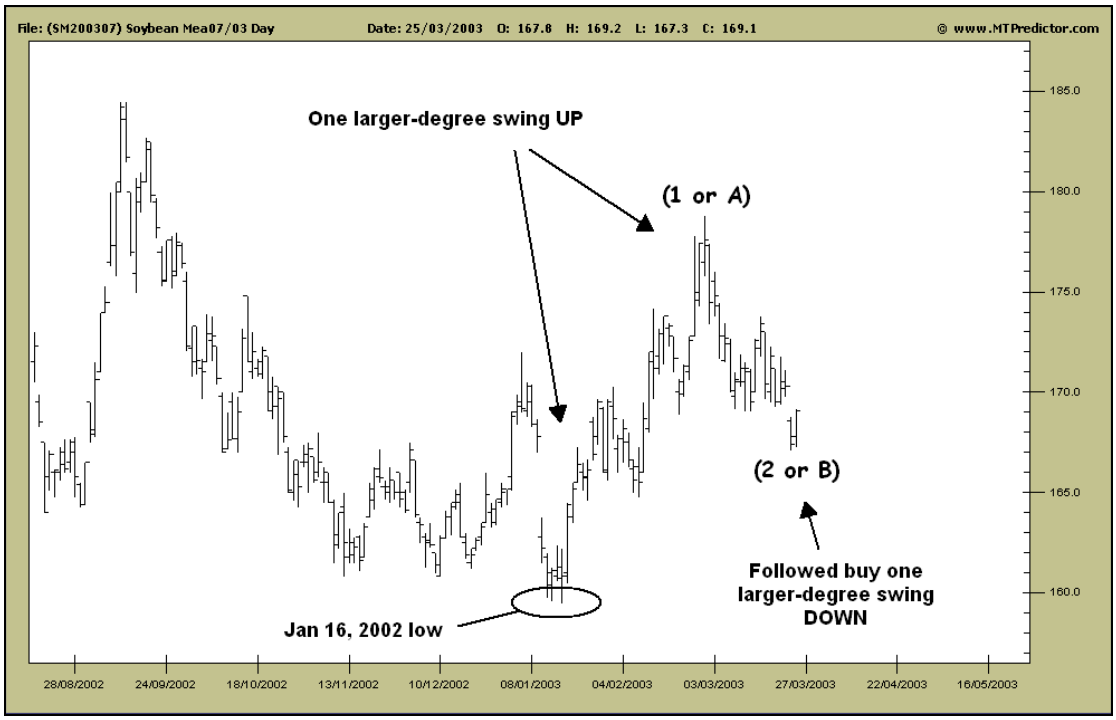


The QQQ did in fact rally off this low, not stopping until it reached the wave 1orA WPT. Using the simple stop loss strategy of trailing your stop loss below the prior day's low once the market in question reached this WPT, would have resulted in a profit of approximately 9 times the initial risk (ignoring slippage in commission). Not only that, but it would also have allowed you to nail the exact point the decline off the June 2001 high ended.

However, the most important point to take from this example is how the minor 5 waves within the larger-degree wave (5) swing helped identify the area where the entire larger-degree wave (5) sequence was likely to end.

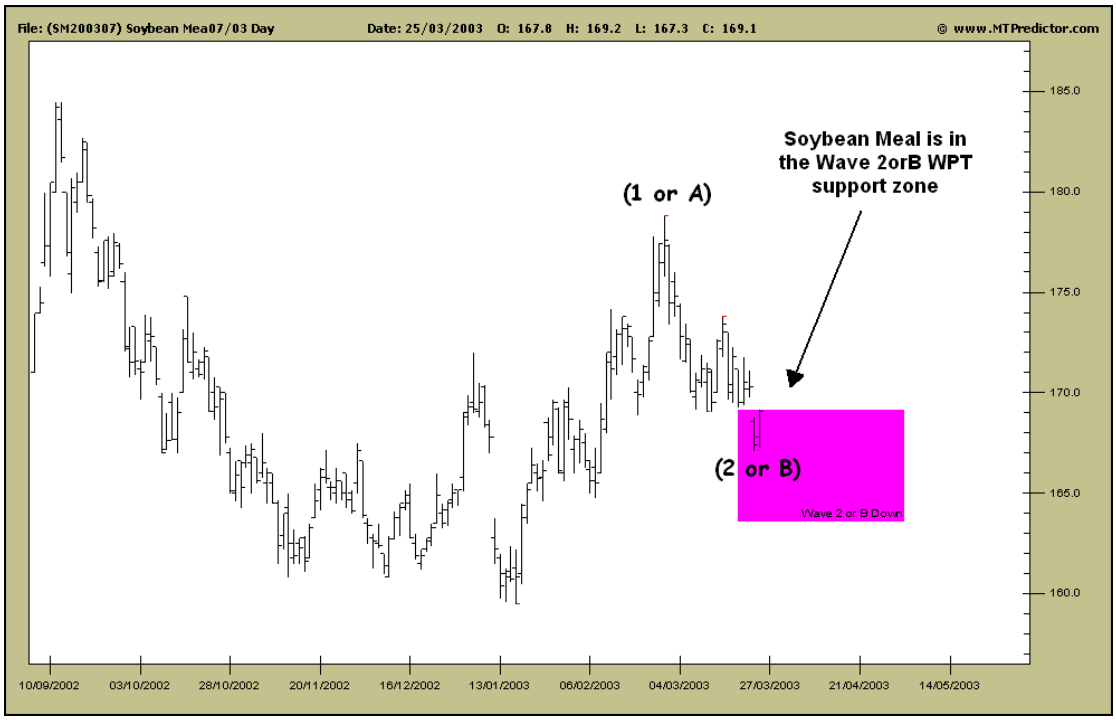
The previous two examples have shown how a minor 5 wave sequence can be used to identify the end of the larger-degree Elliott wave sequence (wave (3) in the first example and wave (5) in the second example), the first to protect a current open profit (because it was part of a *larger-degree* Wave (3)), while the second may be used to take a new position. However, the idea that the minor pattern unfolds within the larger-degree waves is not restricted to the impulsive swings, the corrective swings (waves 2 and 4), should also *ideally* sub-divide into minor patterns.

Let's take a look at an example:



This example needs little introduction as you have seen it a number of times before, it is of course (Jul) Soybean Meal. Although you are looking at this example for larger-degree waves sub-dividing into minor degree waves, I hope you can see how sometimes one particular example fulfils many of the different Elliott wave guidelines. The last time you looked at this was when you saw how an ABC correction should follow a 5 wave sequence.

Back to the current example, as you can see from the chart on the last page, Soybean Meal made an initial rally of the Jan 16 2001 low, which was followed by a correction. In Elliott wave terms this would be considered a wave (1orA) advance then a wave (2orB) correction. I'll cover the reason for labeling these waves in this manner in a later chapter, however all I wish you to understand in this example is that there has been one swing up from an important low, which was then corrected by another swing down:



As you can see from the chart above, this larger-degree wave (2orB) swing has declined into the wave 2orB WPT support area. This is the area where this wave (2orB) swing is likely to end.

You can now look *within* the larger degree wave (2orB) correction to see if there is a minor pattern within this swing:

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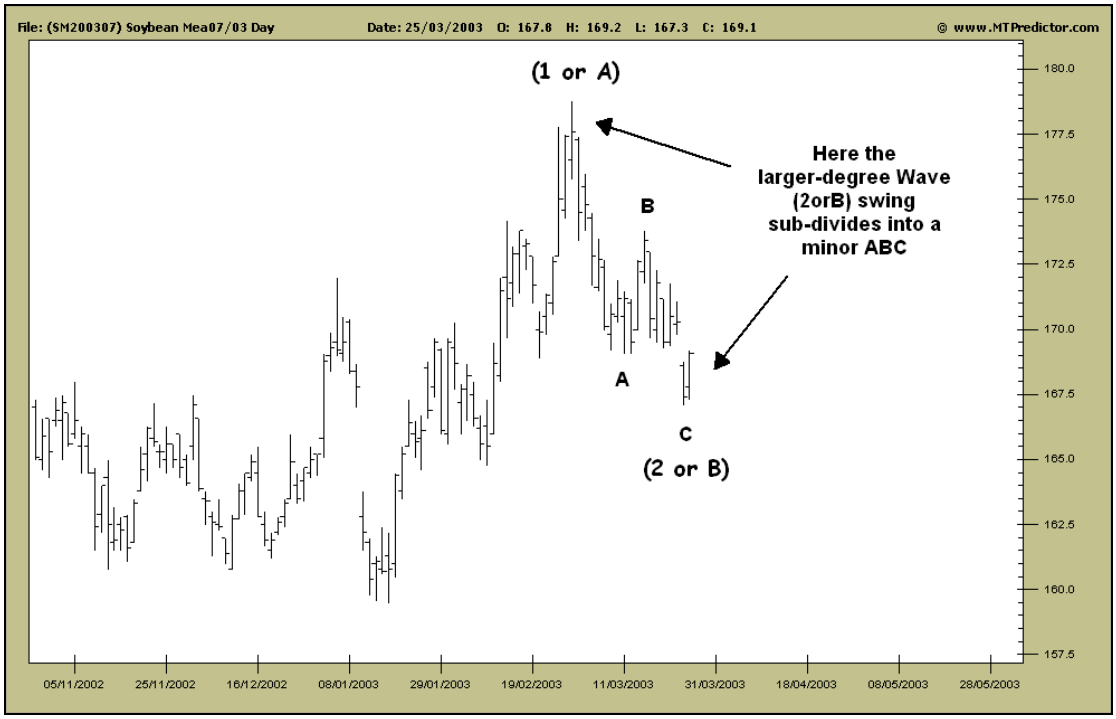
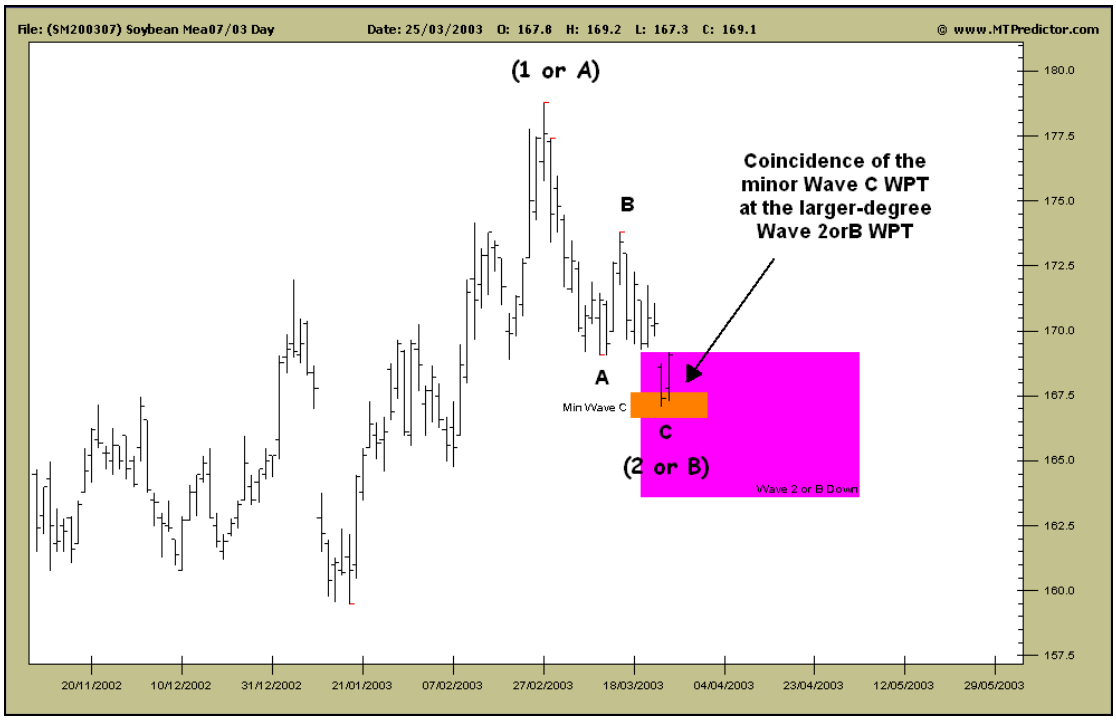
Here is the minor pattern:



As you can see from the chart above, the larger-degree wave (2orB) swing has sub-divided into a minor three waves, which you would consider A, B and C. In a similar way to the earlier examples you can now use the WPTs to try to identify an area where this minor ABC pattern is likely to end:



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As you can see from the second chart on the prior page, the low of March 25 fell at the minimum wave C WPT, using these minor ABC swings. The minimum wave C WPT also fell *within* the larger-degree wave (2orB) WPT support area. As you have seen in the past, where two WPTs from different degrees of swing coincide then it is a good potential support (or resistance) area.

I will not continue to show how this example unfolds, as you have seen it a number of times earlier in the chapter, however what I would like you to focus on is how the larger-degree wave (2orB) sub-divided into a minor ABC sequence. You could therefore use the end of this ABC sequence to help identify the end of the larger-degree wave (2orB) swing. This is very similar to what you have done in the last two examples.

This is the basis for the TS1 trade set up within the automatic routines of MTPredictor. The idea is that if you can identify the end of the minor wave C, that will also identify the end of the larger-degree wave (2orB) swing which will then place you in a trade to take advantage as the larger-degree wave (3orC) swing unfolds.

You will see this example yet again in a later chapter, where you will see that this particular trade set-up is what I would consider to be the best trade in the book. The main reason is that if you can identify the end of a larger-degree wave (2) correction, you are in the ideal position to take full advantage of a wave (3) type swing. As you have already seen, wave (3)s are usually the strongest and longest of any Elliott wave swing, carrying the larger profit potential. Therefore, to be able to climb aboard a new trade as this swing is just starting is probably one of the most profitable trade you will encounter.

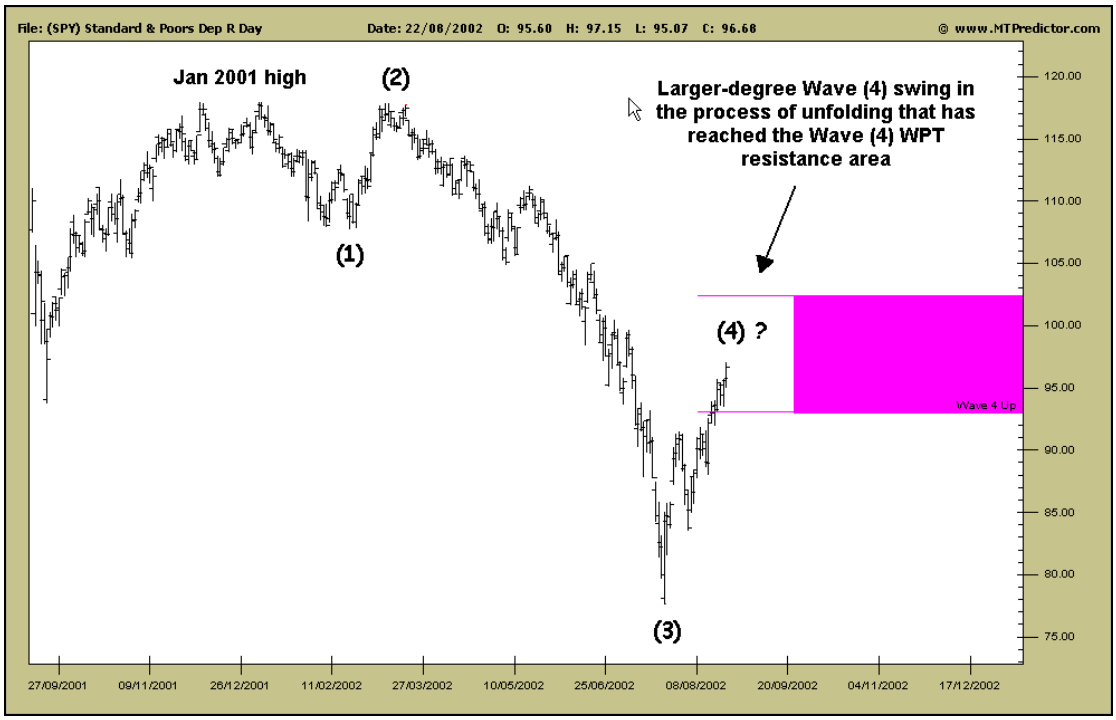
If I were to focus on just one particular trade set up, this would definitely be the one !

Just to recap, you are using the minor ABC correction within the larger-degree wave (2orB) swing to identify the area where the larger-degree wave (2orB) swing is likely to end. Because this allows you to identify the end of this swing with more accuracy, it allows you to enter a new position with a smaller initial risk. As you will all know by now, this is one of the most important aspects to any successful trading approach - keeping the losses small, and maximising profits. This is exactly what the TS1 trade set-up is designed to achieve.

Continued on the next page . . . . .

As with the last example, a simple ABC correction does not only unfold as part of a larger degree wave (2orB) correction, it also can unfold as part of a larger-degree wave (4) correction. However as the section on Elliott wave analysis points out, most of the time the simple ABC correction will be found in the larger-degree wave (2orB) swings.

Let's look at an example:



As you see from the chart above this market, the SPY, is making what appears to be a wave (4) corrective rally. As you can also see on the chart above, the wave (4) has now entered the price range of the wave (4) WPT. However, this WPT is quite wide.

So let's take a look at the minor pattern within the wave (4) correction and see if any minor swings are unfolding which you can use to narrow down the area where this larger-degree wave (4) correction may end

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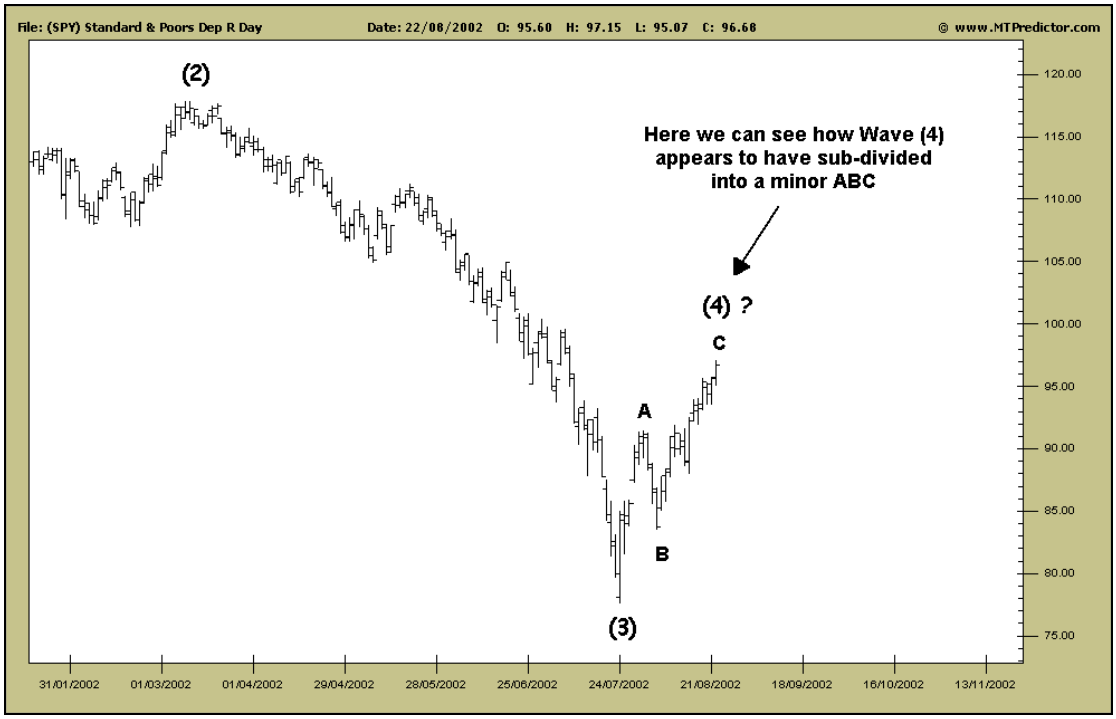
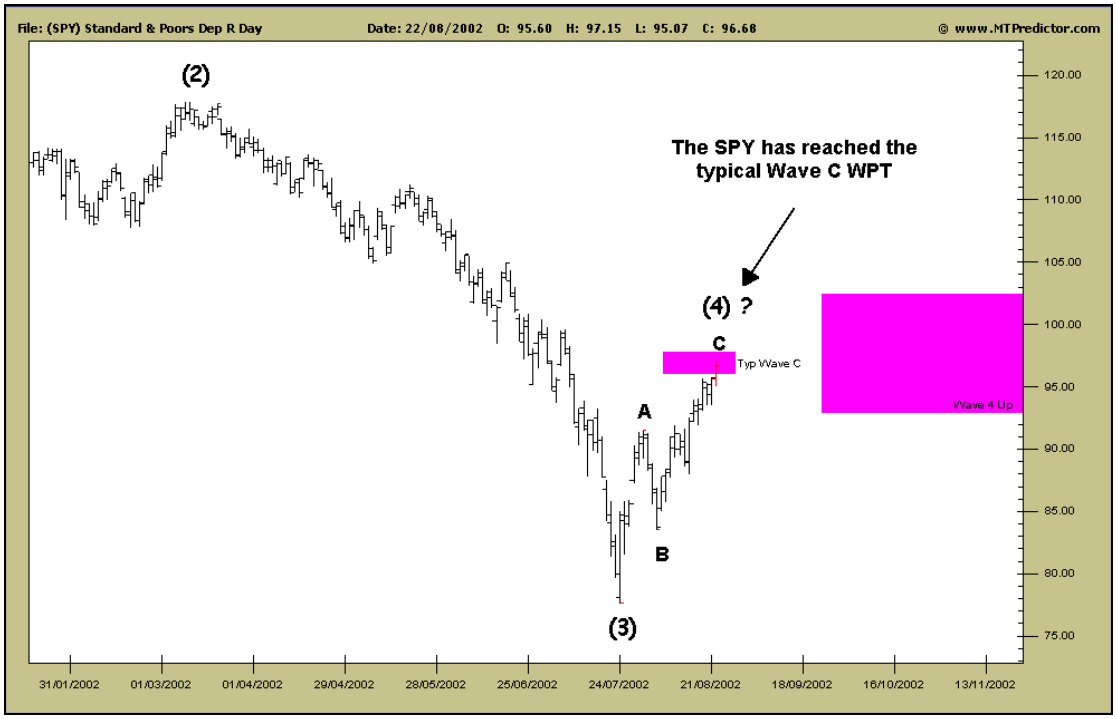
Here is the minor pattern:



As you can see, the larger-degree wave (4) appears to be sub-divided into a minor ABC. As with the previous example, you can now use the wave C WPTs to project the most likely area for this minor wave C swing to end:



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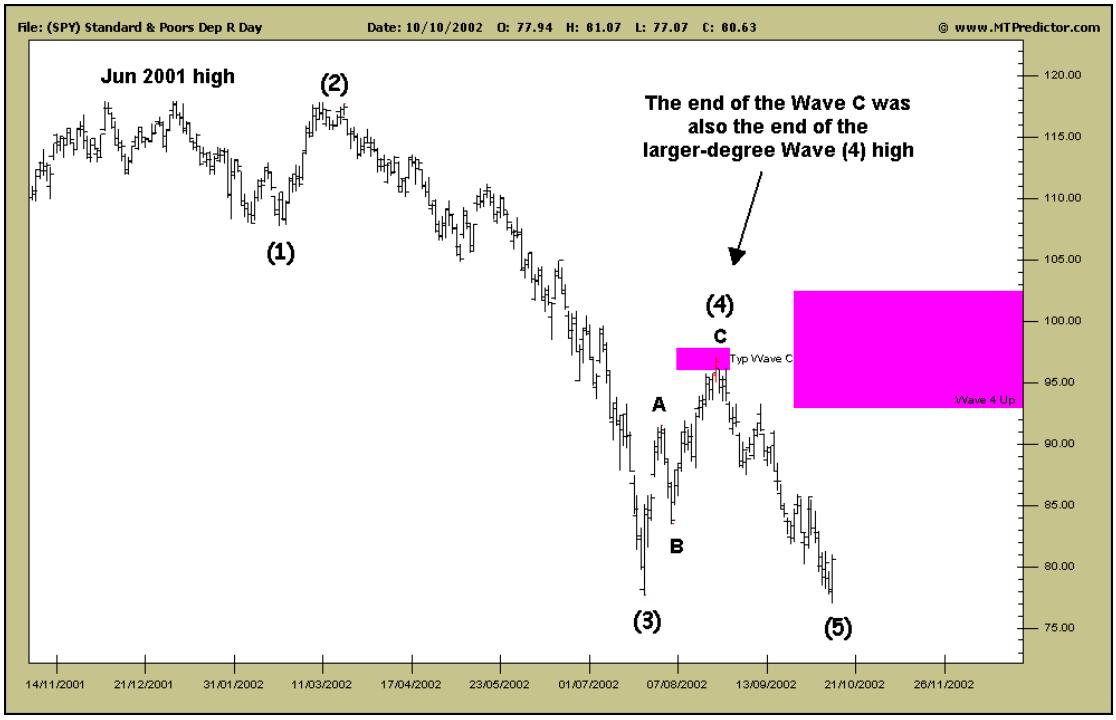
As you can see from the second chart on the previous page, the market in question has reached the typical wave C WPT, which also falls in the same price area as the larger-degree wave (4) WPT. As in the previous example, you have two WPTs from two different degrees of swing both coinciding in the same area. As such, the minor degree pattern, in this example an ABC, has helped narrow down the area where the larger-degree wave (4) correction is likely to end:



As you have already seen, August 22 in the SPY was also a red sell Reversal Bar. As you can see from the chart above, the SPY declined from the coincidence of the lesser-degree typical wave C WPT and larger-degree Wave (4) WPT nicely.

However, as with the previous example, the most important point to understand is how the minor pattern (a simple ABC correction) helped identify the area where the larger-degree wave (4) swing was most likely to end.

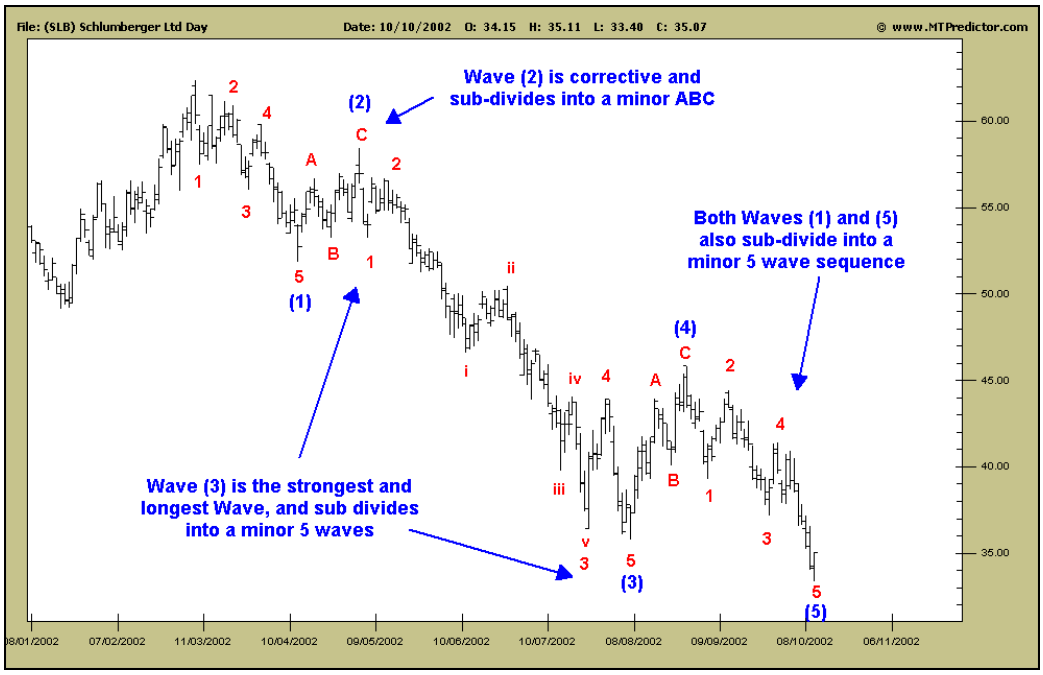
This is the basis for the automatic TS2 trade set up within MTPredictor, where a wave (4) correction unfolds as a minor ABC. The aim is to enter a trade as the minor wave C, and therefore the larger-degree wave (4) is ending, to participate in the larger-degree wave (5) swing

Although there are many other minor patterns outlined in the Elliott wave theory, as I have discussed in section I of this book, most of these more complex patterns are very difficult to work with and, more importantly, it is very difficult to anticipate their end. This is why I prefer to stick with the simple ABC correction, as I have found from my own experience that this is the most reliable and the easiest pattern to identify.

Therefore, any larger-degree correction unfolding in a minor pattern that is more complex than a simple ABC correction, I simply avoid.

I have shown you a number of examples in this section where the minor pattern unfolded perfectly within a larger-degree Elliott wave sequence, and then how you used this minor pattern to help identify when the larger-degree swing was coming to an end. Wouldn't it be nice if this happened all of the time?

When you read almost all the standard Elliott wave textbooks or Elliott wave courses or run some of the other Elliott wave programs available today, they make this assumption. As such, what should crop up is a chart like below:



All the Elliott waves clearly sub-divide into a minor pattern and everything is perfect. However, as you have seen in the first section in this book, this is far from reality, and situations like these are usually only found in textbooks, or in hindsight.

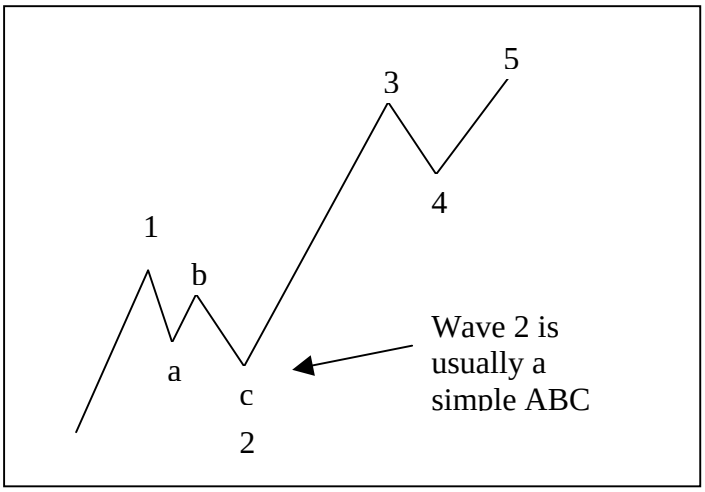
Put simply, this does not occur enough of the time in reality, for you to *assume* that it always *will* happen. The best way to use this guideline is to work with the minor pattern, when it is unfolding, and only if it is obvious. Then, and only then, use it to help identify the end of the current larger-degree swing. I do not recommend you start with the view that a minor pattern *will* unfold as in these examples, because more often than not, this will get you into trouble.

As you have seen throughout this course, my view on Elliott wave analysis is unique in that I believe that Elliott waves should be used only to identify the end of the current pattern *in isolation*. Although this goes against much of the standard Elliott wave teachings today, I have found this to be the most reliable way to use Elliott wave analysis in the real markets. As such, the same approach should be taken when using the minor waves within the larger-degree pattern. Only use them when they are there and when they are obvious, and then only use them to help identify the end of the current larger-degree swing.

Wave (2orB) correction (with no abc sub-division)

The next advanced Elliott wave technique I would like to look at is what you should anticipate will unfold after the *initial* move off an important high or low is complete. This is the Wave (2or B) correction.

General guideline number 4 suggested that in most cases a Wave (2orB) correction usually unfolds as a simple ABC correction.

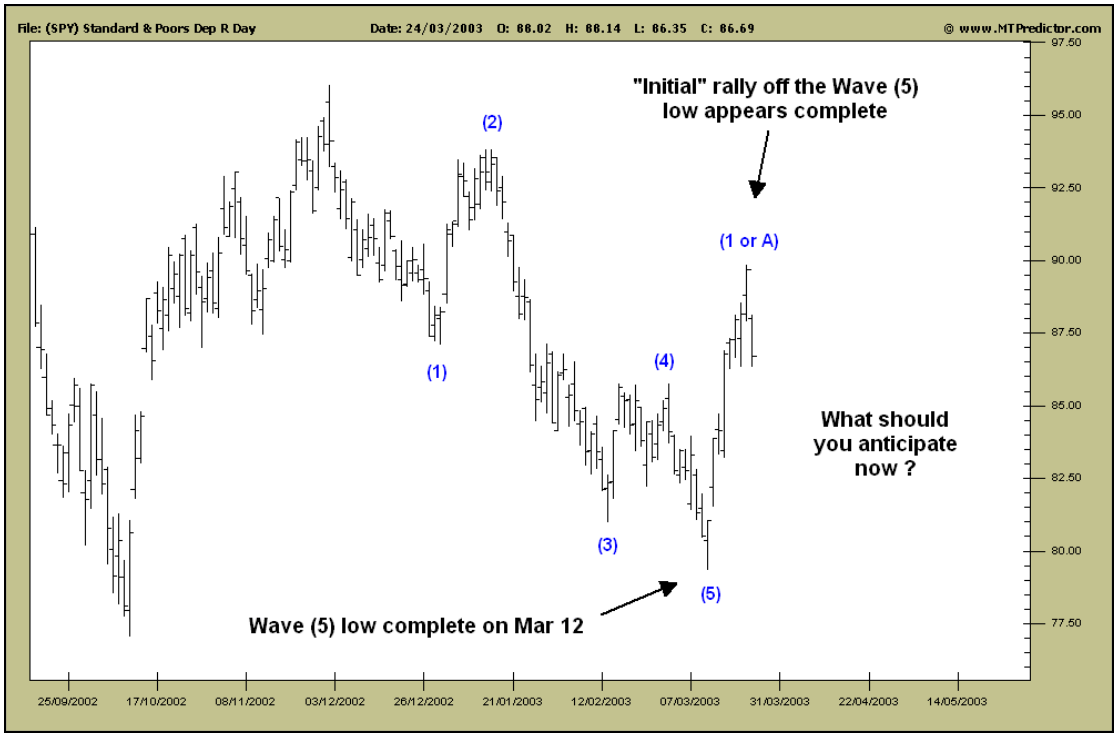


This is a very useful piece of information, because once the Wave (1orA) swing is complete, then the most likely pattern to unfold is a simple ABC correction. This is the basis of the standard MTPredictor TS1 trade set-up.

However, what happens if the anticipated Wave (2orB) correction unfolds as anticipated but it does not sub-divide into a lesser-degree ABC ?

Let me show you an example on the next page

Here is an example on the SPY, where a Wave (1orA) high appears complete:



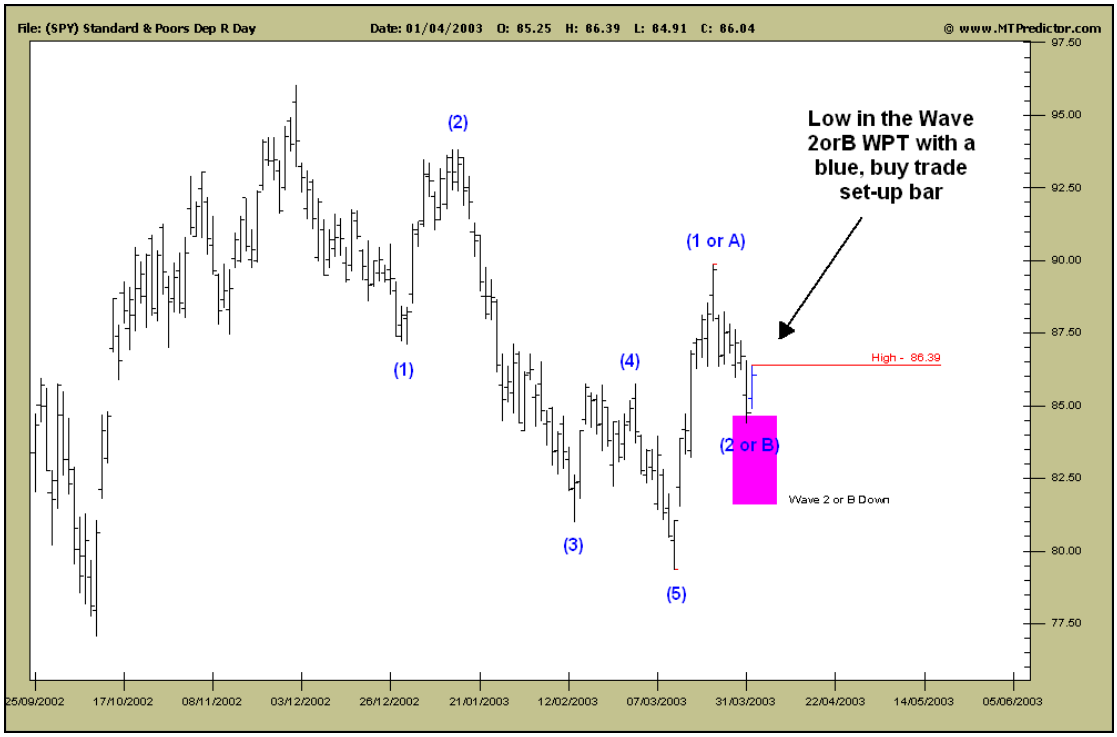
So what should happen now ?

Exactly, a Wave (2orB) corrective decline, before the SPY continues to much higher prices.

As you can see from the second chart on the prior page, once the Wave (1orA) high is complete, you should anticipate that the market in question (in this example the SPY) will make a Wave (2orB) corrective decline.

Normally this decline *should* sub-divide into a *lesser-degree* abc. If it does, then it will be a standard TS1 trade set-up.

However, this sometimes happens:



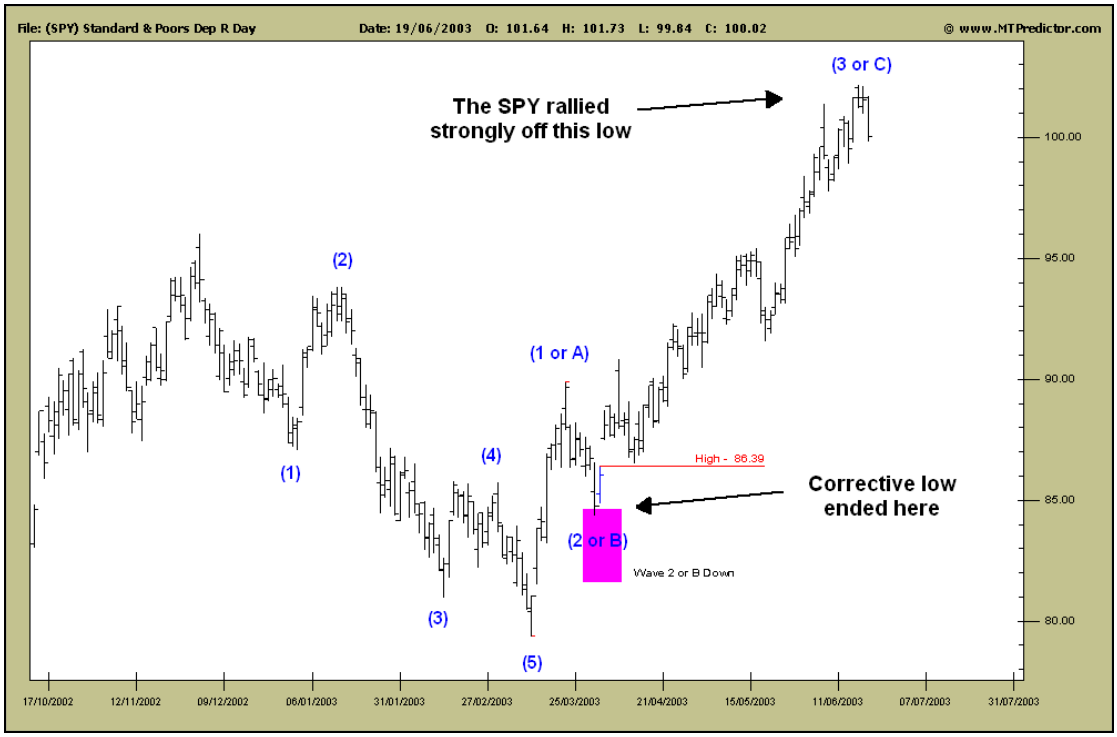
Here you can see that the SPY has indeed made a corrective decline, however no minor ABC has unfolded.

This does not matter, as you can still use the same basic guidelines for an MTPredictor trade set-up, where you should look for a coloured Reversal Bar at WPT support or resistance.

In this example, you can see that this Wave (2orB) correction has entered the Wave 2orB WPT support area and a blue, buy Reversal Bar has unfolded. So, as normal, *if* the SPY trades above the high of this blue Reversal Bar then the Wave (2orB) low should be considered to be complete.

In this way you can look to enter a trade off the end of a Wave (2orB) correction even if a standard TS1 trade set-up does not unfold.

Let's see how this worked out:



As you can see, this nailed the end of the Wave (2orB) correction perfectly, just before the SPY rallied strongly.

W.D. Gann stated, *"The safest place to enter a new trade is at the end of the first correction off the initial move off an important high or low"*. This is the Wave (2orB) correction.

This is a personal favourite of mine, and I believe (along with the standard TS1 trade set-up) is one of the best trades you can make as it allows to you enter the market just before it starts a strong Wave (3) type swing - usually the strongest and longest off all the Elliott waves, with the largest profit potential.

You can either identify this set-up yourself using a *manual* Elliott wave count, or let the software automatically find the Wave (2orB) correction for you.

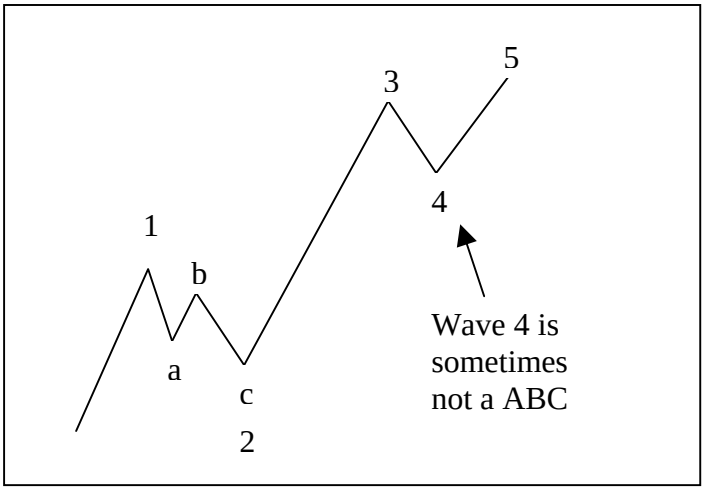
Please note, although this set-up is tradable, it should not be considered as reliable as the standard TS1, TS2 and Wave C set-ups.

A very similar situation can happen with a Wave (4) correction, please see the next page.

Wave (4) correction (with no abc sub-division)

As you saw in the last section, when a Wave (2orB) correction unfolds, but does not sub-divide into a lesser-degree abc, then it is still possible to uncover a tradable opportunity. A similar situation can unfold with a Wave (4) correction.

General guideline number 4 suggested that that in most cases a Wave (2orB) correction usually unfolds as a simple ABC correction, which then leads onto Wave (4) usually unfolding as a more *complex* correction, via the *rule of alternation*.

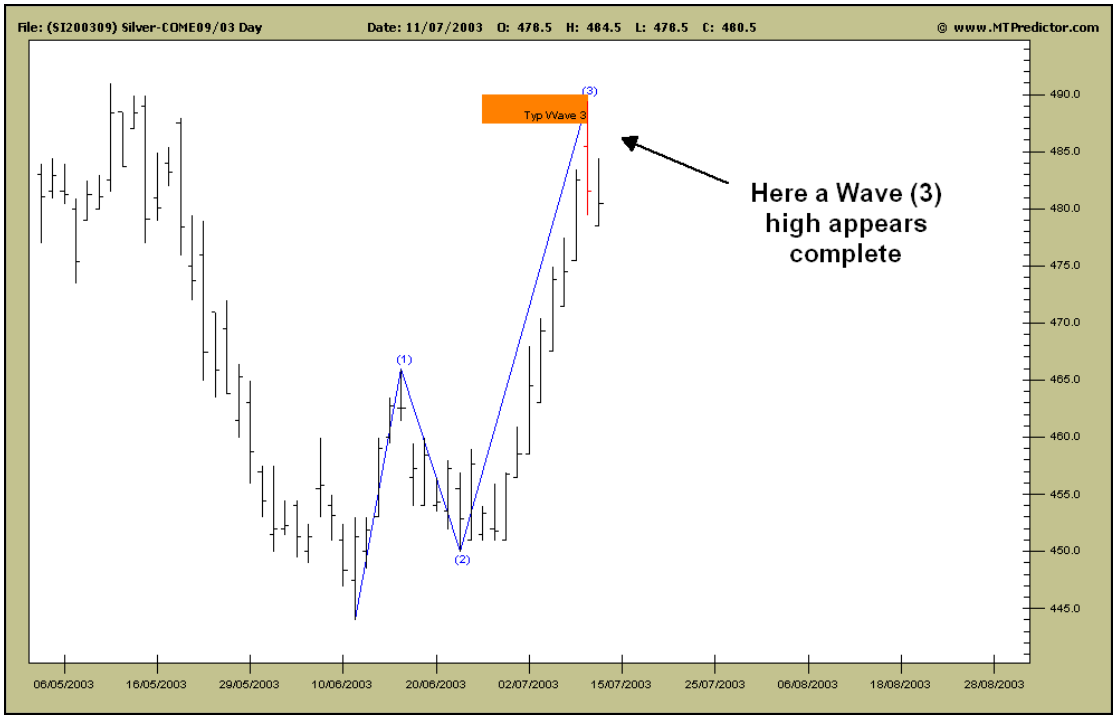


However, sometimes when the Wave (4) correction does not sub-divide into an abc, it does unfold as a simple correction, i.e. not a very long and complex correction. When this happens, it is possible to use a similar approach as described in the last section to uncover a tradable opportunity.

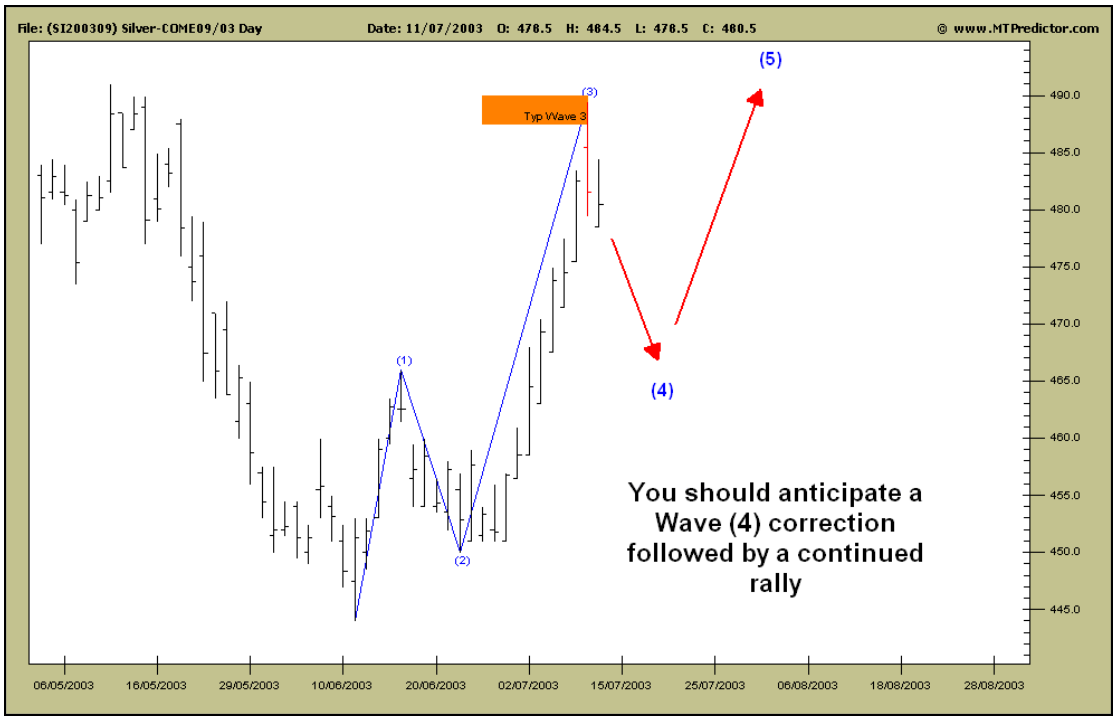
However, as always, I do recommend that you only work with an *obvious* and easily identifiable Elliott wave count, which usually means that the Wave (4) correction is a single swing correction.

Let me show you an example on the next page

Here is an example on Silver, where a Wave (3) high appears complete:



So what should happen now ?

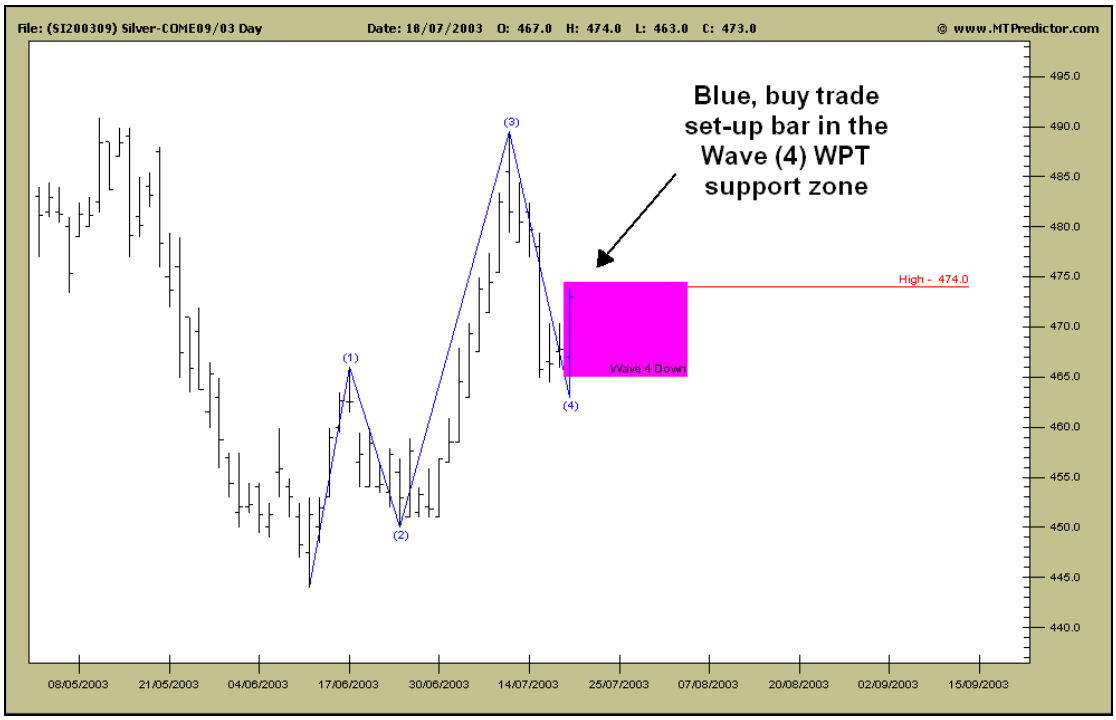


Exactly, a Wave (4) corrective decline, before Silver continues to much higher prices in a Wave (5) type swing.

As you can see from the second chart on the prior page, once the Wave (3) high is complete, you should anticipate the market in question (in this example Silver) making a Wave (4) corrective decline.

Normally this decline *should* sub-divide into a *lesser-degree* abc. If it does then it will be a standard TS2 trade set-up. Or sometimes it can unfold as a more complex correction.

However, this sometimes happens:



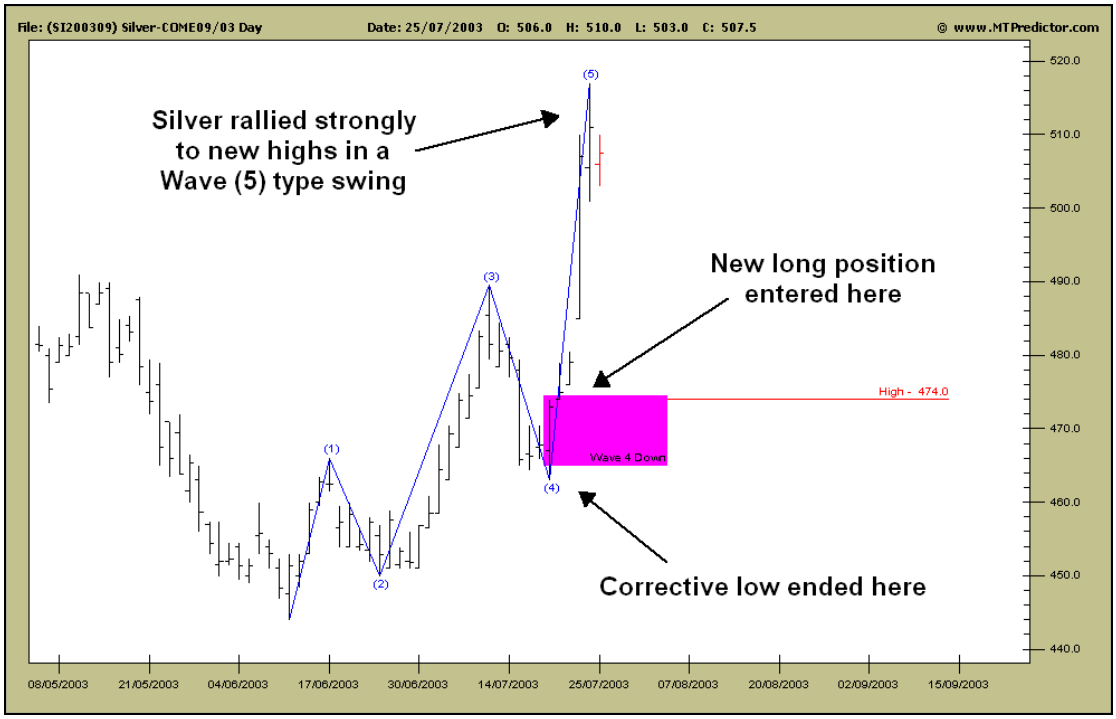
Here you can see that Silver has made a corrective decline, however no minor ABC has unfolded, nor has the correction unfolded as one of the more complex patterns. In fact, this appears to be a very obvious and easy to see 1234 sequence.

As outlined in the last section, when this happens you can use the same basic guidelines for an MTPredictor trade set-up, where you should look for a coloured Reversal Bar at WPT support or resistance.

In this example, you can see that this Wave (4) correction has entered the Wave 4 WPT support area and a blue, buy Reversal Bar has unfolded. So, as normal, *if* Silver trades above the high of this blue Reversal Bar then the Wave (4) low should be considered to be complete.

In this way you can look to enter a trade off the end of a Wave (4) correction even if a standard TS2 trade set-up has not unfold, as long as the pattern is simple and obvious, to take advantage of a potential Wave (5) swing.

Let's see how this unfolded:



As you can see, this nailed the end of the Wave (4) correction perfectly, just before Silver rallied strongly.

The main point I wish you to take away from this example is that you should only consider this type of trade *if* the Elliott pattern is simple and obvious. If the Wave (4) correction appears to be *complex* then it is best avoided.

You can either identify this set-up yourself using a manual Elliott wave count, or let the software automatically find the Wave (4) correction for you.

As with the example in the last section on trading off the end of a Wave (2) correction (without a minor ABC cub-division), this set-up, although tradable, should not be considered as reliable as the standard TS1, TS2 and Wave C set-ups.

Continued on the next page . . .

Summary

As you have seen, the aim throughout this chapter has been to keep things simple. Although I have taken Elliott wave theory a few steps beyond the simple ABC correction, by looking at the 5 wave sequence, I have kept the same basic principles all the way through. The pattern should be very simple and very obvious on any chart. The less obvious the pattern is, the less reliable the analysis is, and therefore the more likely you are to make losses. Therefore it makes perfect sense to me to only focus on the most obvious Elliott wave patterns, anything else is just throwing money away.

The next point is on the initial risk to reward: no matter what particular pattern I have looked at, the overriding aim has been to only enter a trade set-up that has a low initial risk and a high potential profit in relation to that initial risk. In this way, you should orient all your trading towards keeping your losses small and maximising your profits. As long as you stick to this basic guideline, it will put you on the right track towards a solid long-term profitable approach to markets.

Also I hope you have seen that, in my opinion, the best trade set-up still comes off the end of the simple ABC correction. Whether you get to this ABC correction by doing manual analysis or whether the software automatically finds it for you, the ABC correction will normally put you in a trade that is in the direction of the main trend, and as such will increase the probabilities of a successful and profitable trade.

I have looked at trading off the end of wave 5 which, although possible, I do not recommend. This is trying to pick the end of an impulsive swing, which I have found from my own experience, is less reliable than trading off the end of an ABC correction. However, I do realise that many of you will include this particular set up the your own trading plan. So, I have tried to give some guidelines that will help you when making these kind of trades. In particular, only focus on the absolute *perfect* and *obvious* 5 wave counts; then only consider taking a trade if the wave 5 ends in one of the wave 5 WPTs with a coloured reversal bar. The analysis does not stop there - I would also suggest that you check the potential profit at the first profit target (which is usually the wave 1orA WPT), and then only consider a trade that is greater than the 2:1 minimum. By adhering to these guidelines, it should allow you to focus on just the best trade set-ups, and therefore keep the losses to a minimum.

However, again I wish to stress that the most reliable trade set-ups are in the direction of the main trend, and this is what trading off the end of a simple ABC correction is designed to do. In particular, the TS1 trade set-up is my personal favourite, because it allows you to enter at the very start of what may well unfold as a strong wave (3), usually the strongest and longest wave. As such, the TS1 trade set-up usually carries the largest profit to initial risk potential.

I also looked at how *ideally* each Elliott wave swing should *sub-divide* into a minor Elliott pattern. I then demonstrated how, by identifying the end of this *lesser-degree* pattern, you could also identify the end of the *larger-degree* pattern. In this way it allowed you to enter a trade with a smaller initial risk.

The minor ABC correction can be used to identify the end of a larger-degree wave (2orB) or wave (4) swing. I also took a look at how the impulsive swing in a 5 wave sequence (which are waves 1, 3, and 5) also should *ideally* sub-divide into a minor 5 pattern. You can then use this minor 5 wave pattern to help identify the end of the larger-degree wave.

However, this should only be used for protecting current open profits when the minor wave 5 unfolds as part of a larger-degree wave (3). The best time to consider using the minor wave 5 to take a new position, is when it unfolds as part of a larger-degree wave (5).

Lastly, I looked at the Wave (2orB) correction, especially where the correction did not sub-divide into a lesser-degree abc, so cannot be considered a standard TS1 trade set-up. However, being able to identify the end of a Wave (2orB) correction is still one of the best trades you can make because it allows to you enter the market just before it starts a strong Wave (3) type swing which, as you already know, is usually the strongest and longest of all the Elliott waves, carrying the largest profit potential. This (along with the TS1 trade set-up) is a personal favourite of mine.

As you can see, throughout the whole of this chapter, one consistent theme has arisen - whatever Elliott wave pattern you are looking at, it should be taken in *isolation*, and therefore only used to help identify the end of the current sequence. This is why I have looked at all these advanced Elliott wave patterns in separate sections, treating them as completely independent and isolated patterns. Although Elliott wave analysis does carry some predictive properties, I hope I have shown in earlier chapters how this is less reliable than you would like. As such, again I would like to stress that the best way to use Elliott wave analysis, whether it is on the simple ABC patterns, or indeed a more complex 5 wave sequence, is to identify the end of the current wave taken in *isolation.*

This is a unique view, and one but I hope you can see makes perfect sense, particularly when you fully understand and have demonstrated to yourself that Elliott wave analysis is only accurate about 50% of the time.

Chapter 8 – Initial Risk to Reward module

Over the last few chapters, you have seen how the software can automatically generate trade set-ups for you as well as you performing your own manual analysis on any particular chart. However, as you have seen a number of times throughout the course, one of the most important questions to be asked before entering any trade is: how *good* is this potential trade set-up? In other words, what is the potential profit in relation to the initial risk.

As I have already discussed, making trades that keep the losses small relative to the profits is a vital part of any successful long-term trading plan.

This is where the "Initial risk to reward module" comes into its own, as it provides an easy way to quickly *evaluate* the current trade set-up, not in pure dollars, but in relation to the initial risk required to take the trade.

As you have seen in the section on the automatic Wave C, TS1 and TS2 trade set-ups, it is important to only to consider a new trade set-up that carries a potential profit in excess of twice the initial risk. You can perform this calculation manually, however the initial risk to reward module provides a very quick and easy way to display this on the chart itself.

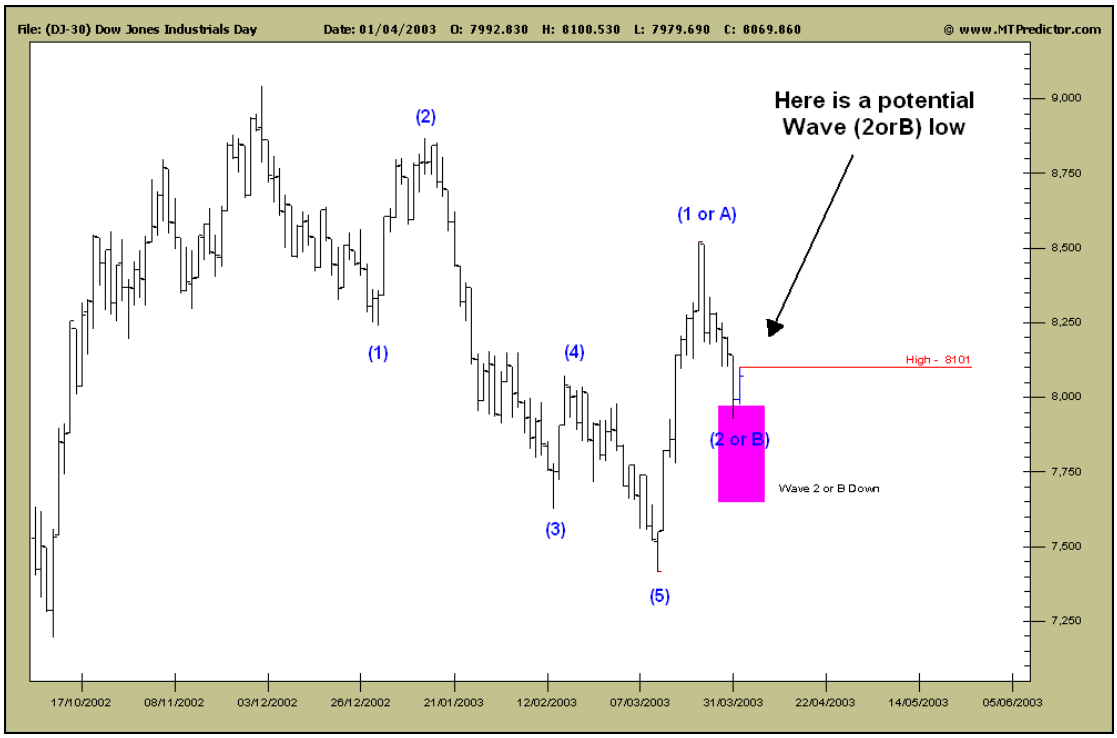
There are basically two different methods you can use: firstly, calculate the exact risk to reward ratio at the first projected profit target, and then check whether this is greater than the 2:1 minimum; secondly, simply place the "2-3 profit target" zone on the chart and then see where it falls relative to the first projected profit target. I would like to take a look at how to perform these two calculations separately, starting with the "2-3 profit target".

<u>2-3 profit target</u>

For this, all you need is three quick and easy mouse clicks once you have selected the initial risk to reward module.

Let's take a look at an example on the next page . .

Here is an example on the Dow Jones Industrials index, where it appears that a wave (2orB) correction is in the process of unfolding:

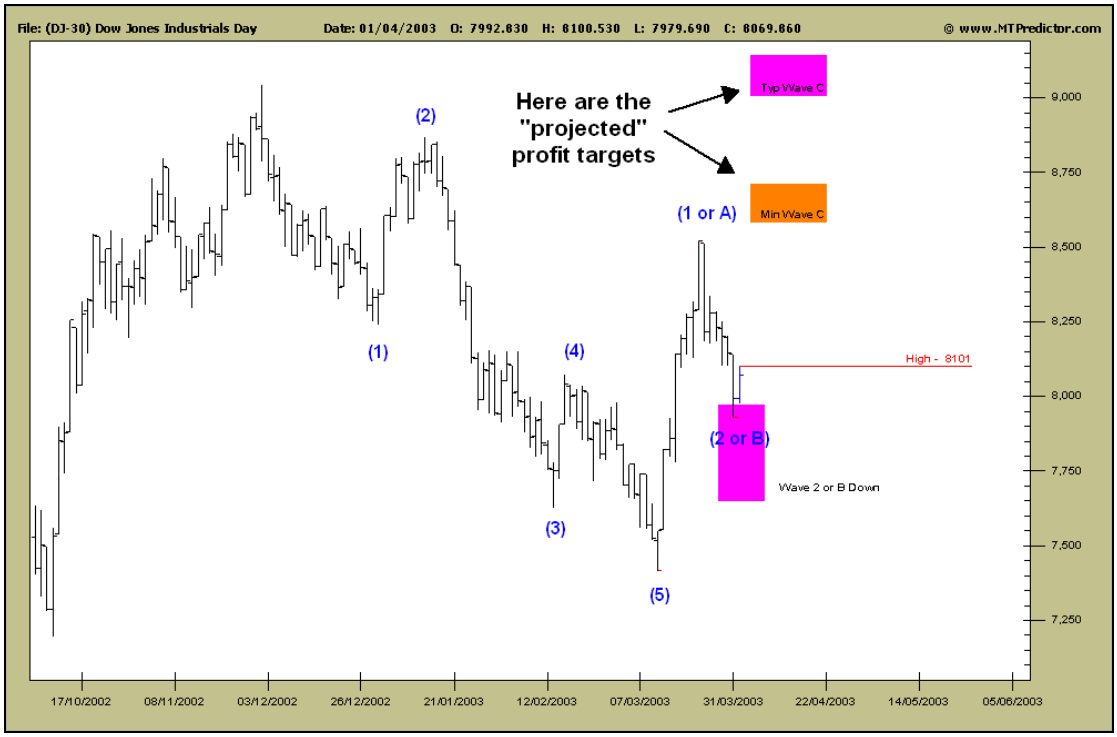


This is one of the advanced Elliott wave set-ups you saw in the last chapter, where the Dow Jones index has now made a corrective decline into what appears to be a wave (2orB) low that has unfolded at the wave 2orB WPT with a blue Reversal Bar. As such, this should be considered a potential trade set-up to enter new long trade.

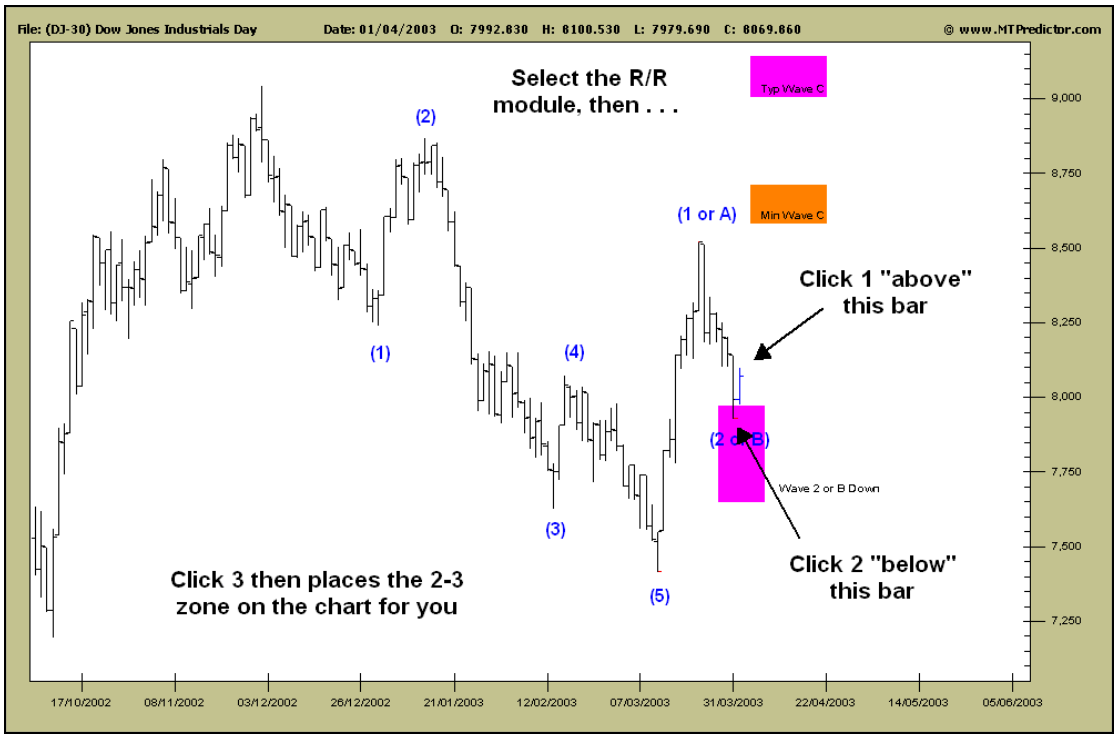
However, before you decide to enter this trade you should check that the potential profit/risk of loss is above the 2:1 minimum. To do this, you must first display the projected profit targets on the chart. Once these are on the chart, then you can use the initial risk to reward module to project where the important 2-3 profit zone falls in relation to the these projected profit targets, in particular whether the first anticipated profit target falls beyond the important 2-3 level.

Let me show you what I mean on the next page . . .

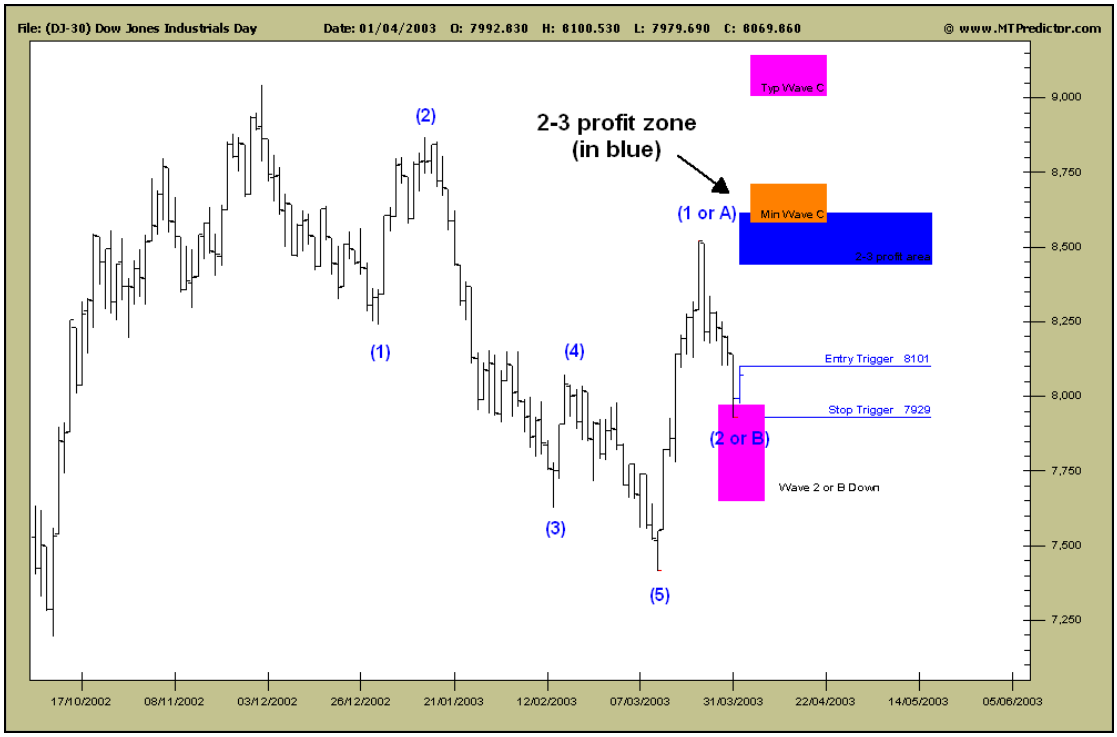
Here are the projected profit targets off this Wave (2orB) low:



You can now add the important 2-3 initial risk zone to the chart, and see where it falls in relation to these projected profit targets. To do this requires just three simple, quick mouse clicks:



The important 2-3 initial risk zone is then placed on the chart for you:



This appears as a blue rectangle on the chart.

As you can see, the first projected profit target, which is the minimum wave C WPT, falls at the upper edge of this important 2-3 initial risk zone. So, you can see very quickly that the profit at the first projected profit target would be greater than the 2:1 minimum - a good trade to consider.

In other words, displaying the important 2-3 initial risk zone (the blue rectangle) on the chart gives you a very quick and visual way to check whether the potential profit on any new trade is above the 2:1 minimum

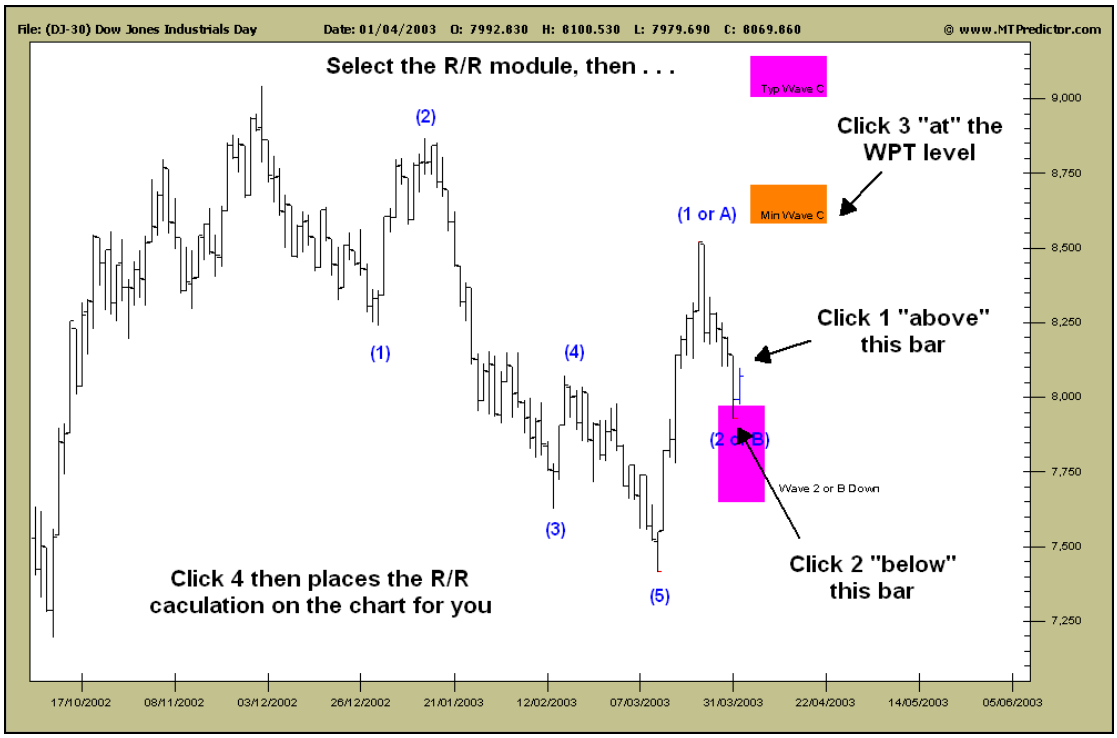
However, this is only an approximate visual guide…if you would like to work out the exact numbers at the first projected profit target you'll have to use the full initial risk to reward calculation.

Initial risk to reward calculation

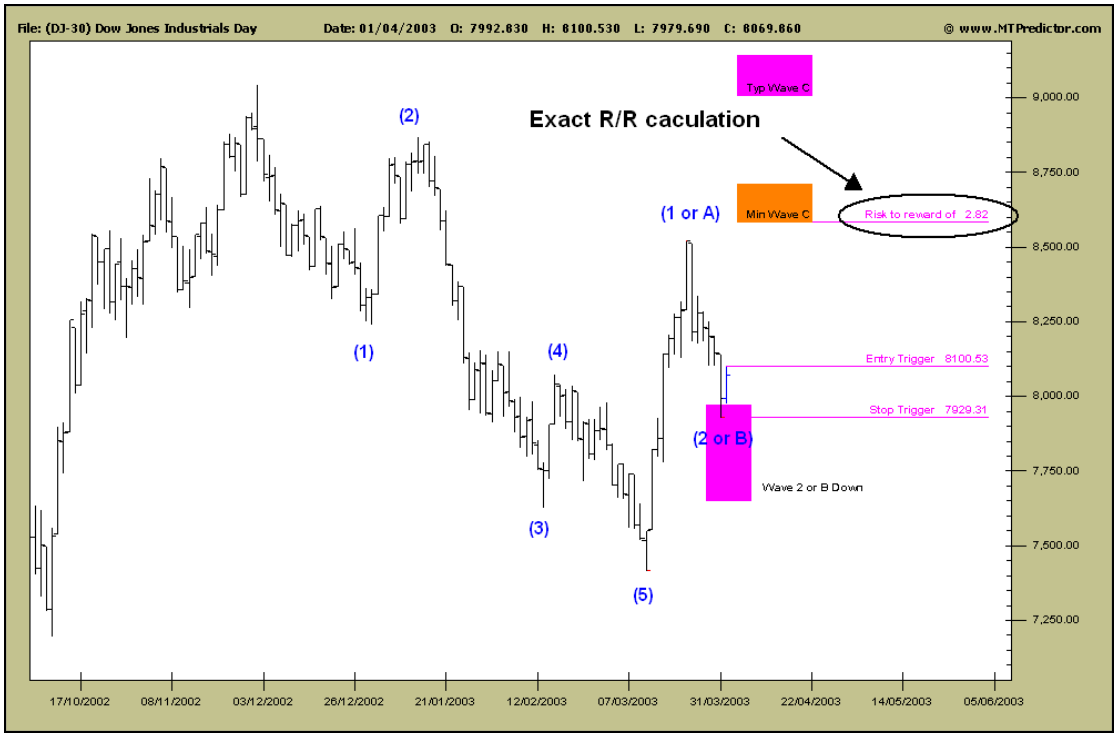
The exact initial risk to reward calculation works in a very similar way to the 2-3 profit zone as shown in the last section. Simply click on the relevant points on the chart, the exact calculation is made for you and the results displayed on the chart.

Let me show you an example.

Using the same example as before, you need first to select “Initial risk reward module”, then make four mouse clicks on the chart, as shown below:



And the exact risk to reward will be placed on the chart for you:



As you can see from the second chart on the prior page, the exact risk to reward ratio at the bottom of the first projected profit target (the minimum wave C WPT) works out at 2.8 to1 - above the 2:1 minimum required to take this trade.

This is a very easy method to check what the potential profit would be (in relation to the initial risk) at any projected profit target.

I understand that looking at profit in relation to initial risk may be a new concept for many, however, I hope you can all see that it makes far more sense to look at profits as a function of initial risk rather than simply calculate what they would be in pure dollars. The main reason is that the size of a profit is in pure dollars is irrelevant, unless it is large in relation to the initial risk required to take the trade. As such, it is far easier and quicker to think of potential profits as a function of initial risk.

Summary

The initial risk to reward module provides a very quick and easy way for you to calculate what the potential profit would be (in relation to the initial risk) at any projected profit target.

Normally you would use this to check that the potential profit at the first projected profit target on any new trade set-up is above the 2:1 minimum.

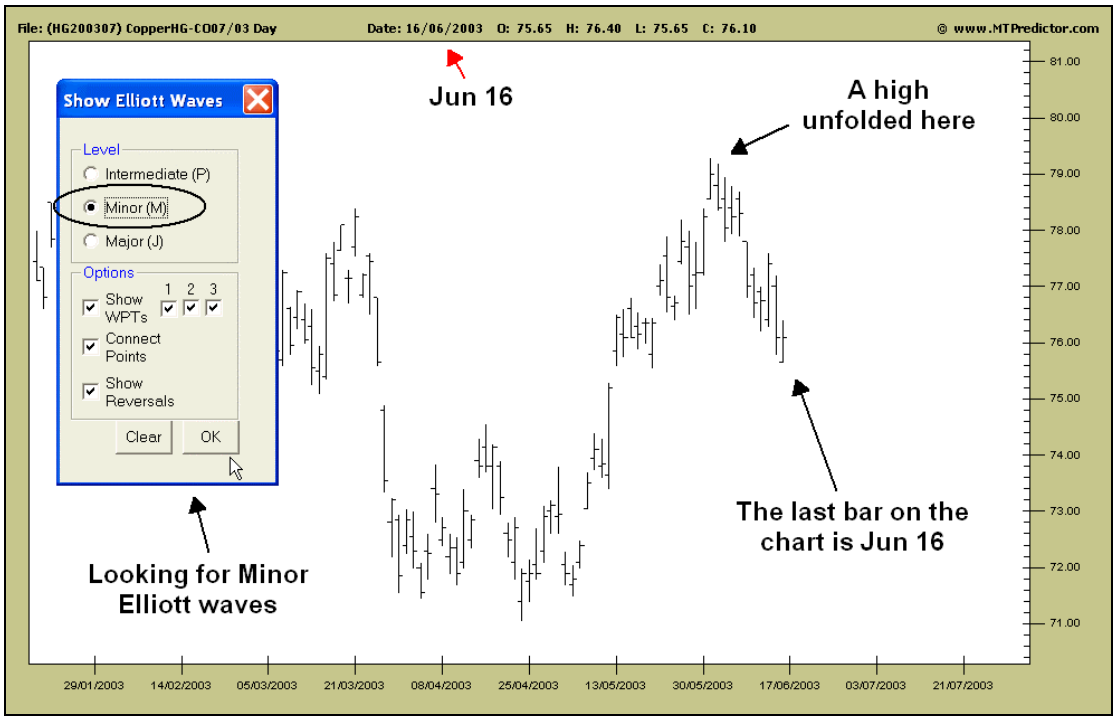
You can use this module to check your own manual analysis, or it is supplied as part of the automatic analysis in the standard Wave C and TS1 and TS2 trade set-ups.

Chapter 9 – Training Mode

Earlier in this course, I outlined how the automatic routines in MTPredictor were designed to work on just the last bar on the chart. Therefore, as you move away from a market turn, and new data appears, the trade set-up from which you entered a trade can disappear. This is obvious because, as you move forward in time, new bars are added, and as MTPredictor applies its analysis up to the last bar on the chart, after you have moved away from the swing high or swing low, that set-up no longer applies.

It is vitally important that you fully understand this point, and therefore you are familiar and comfortable with using the training mode in MTPredictor, to be able to return the chart to any prior swing high or swing low and then apply the automatic analysis before moving forward again. In this way, the analysis found at the prior swing high or low will still remain on the chart, unaffected by any new data that has been added.

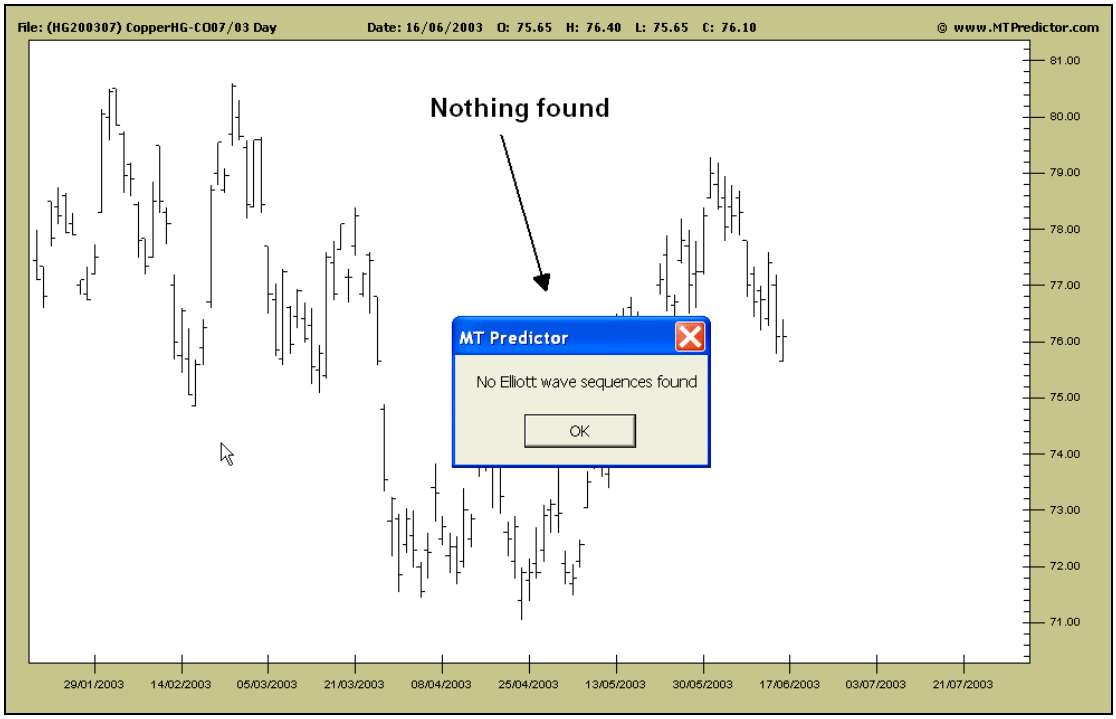
Let me show you an example:



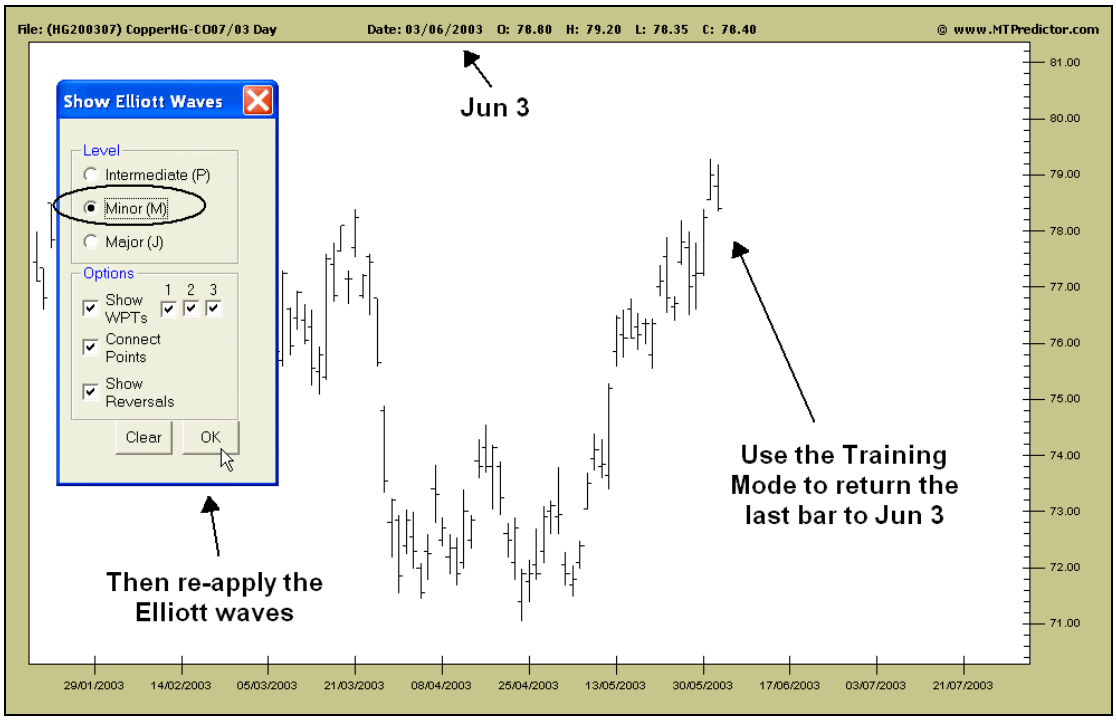
Here is a daily chart of (Jul) Copper as of June 16 (the day I am writing this chapter). I'm interested to see if there are any automatic Elliott waves counts present on the current chart. As such, I select the "Show Elliott waves" module choosing the "Minor" option in this example and click OK.

Continued on the next page . . .

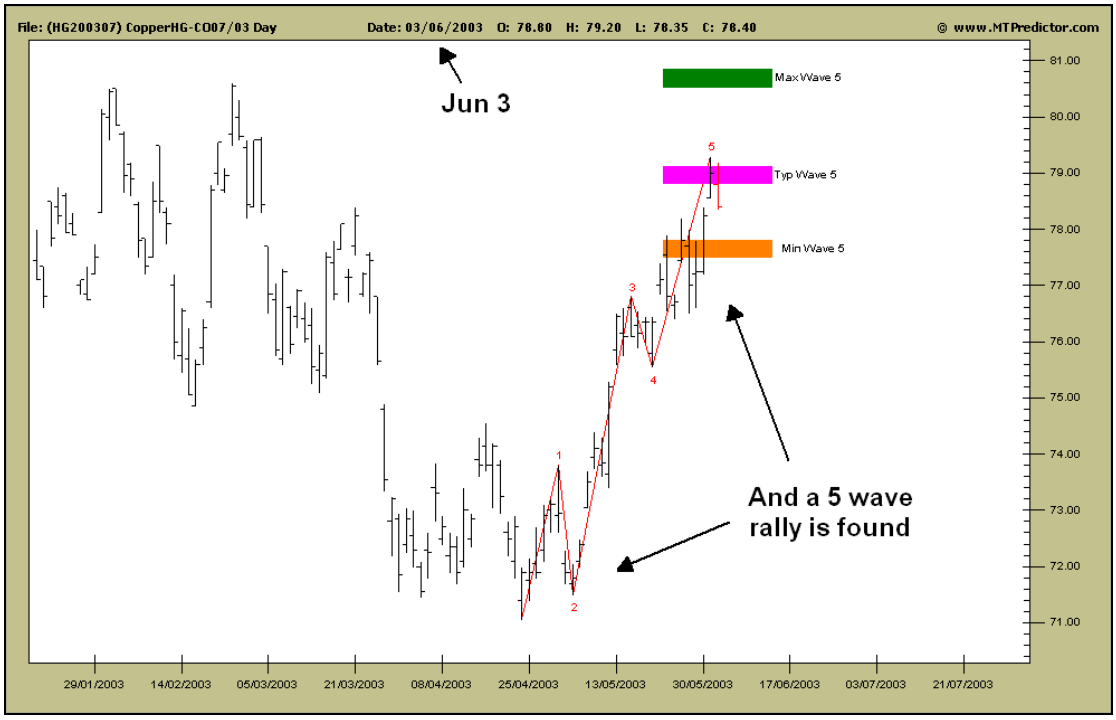
And this is what happens:



The software tells me that there are “No Elliott waves sequences found”, in other words, as of June 16 (the last bar on the current chart) the software has not found any Elliott waves patterns. However, what happens if you return to the last high, which unfolded on June 3 ?



As you can see from the second chart on the prior page, I have used the training mode to take the last bar on the chart back to the prior high, which was on June 3. I then re-apply the "Show Elliott waves" module, again selecting the "Minor" option:

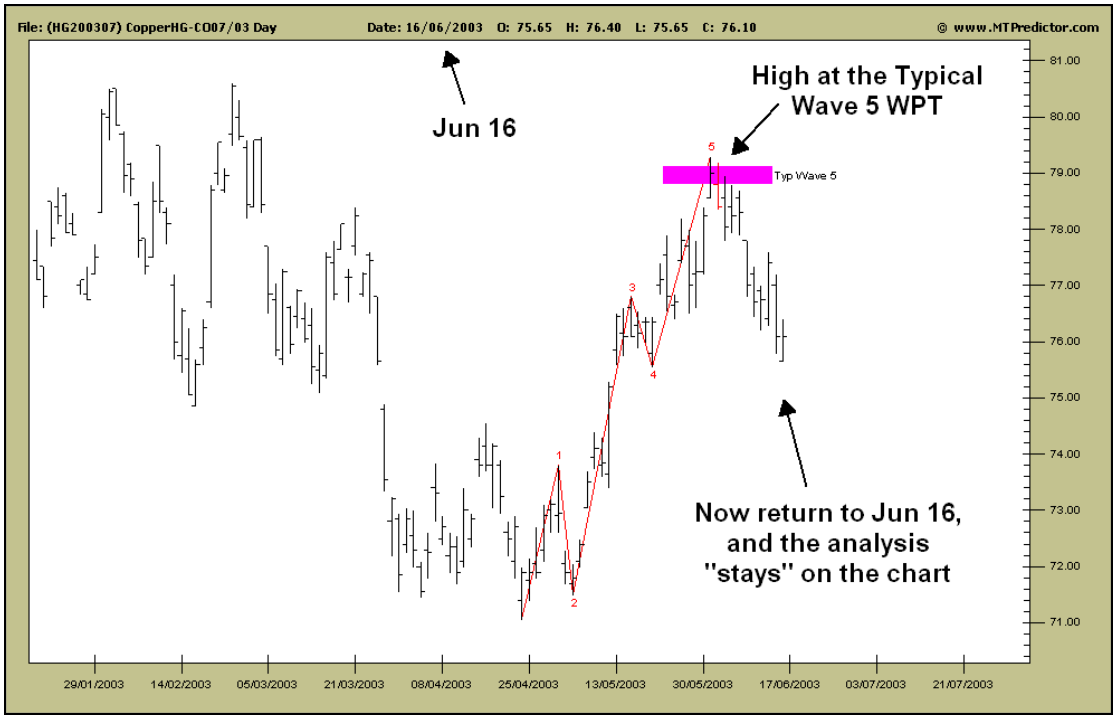


And now, the software has automatically found a 5 wave rally, that appears to be finding resistance at the typical wave 5 WPT.

This is a very important point, and I want you to understand what has happened here. Because the software only looks at the chart as of its last bar, very often it will not find an Elliott waves count. This is by design, because I believe it is misleading to place an Elliott wave count on the chart all of the time, as there is simply not a valid Elliott wave count present on all charts all the time. As such, you need to take the chart back to the last turn in a market, in this example, which was on June 3, and then re-apply the analysis.

This is a unique way of applying Elliott wave analysis, because many of the other Elliott wave software programs that are currently available try to place an Elliott wave count on the chart all the time, so, as new data arrives, their wave counts can change. Personally, I believe this is confusing, mainly because if you are already in a trade set-up off a particular pattern, the last thing you want is your software program changing its mind and re-labelling the wave count as new data arrives.

You can now return the chart to the present day, which in this example is June 16 - as you see from the chart below, the analysis you placed on the chart on June 3 remains intact:



This leaves the June 3 high reversing off the typical wave 5 WPT for a potential wave 5 high. In other words, this analysis stays the same and remains intact as you return the chart back to the current day.

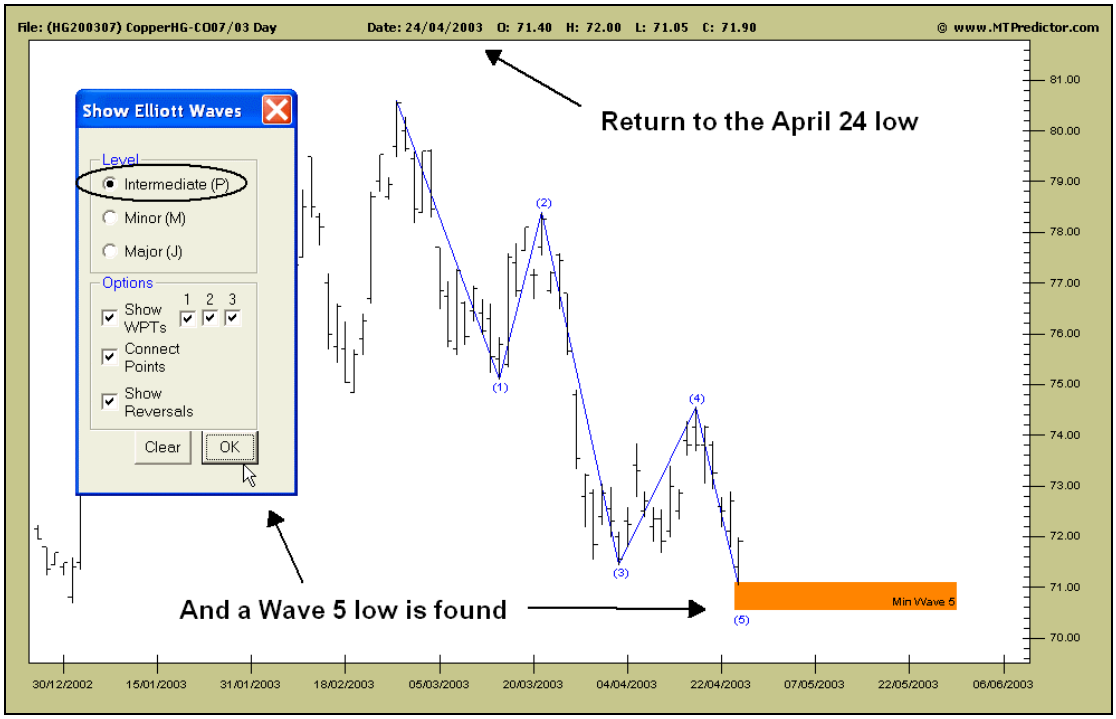
Again, I wish to remind you that I believe an Elliott wave count should only be used *in isolation*. In other words, all you can infer from the chart above is that on June 3 the current rally off the April low was probably at an end.

You can use this same technique to return to any prior swing high or low in the market and then apply the automatic routines to see what the software comes up with at that point in time. This can be a valuable aid to train you how to use the software, and it will help you gain confidence in the Elliott wave patterns as found by the software.

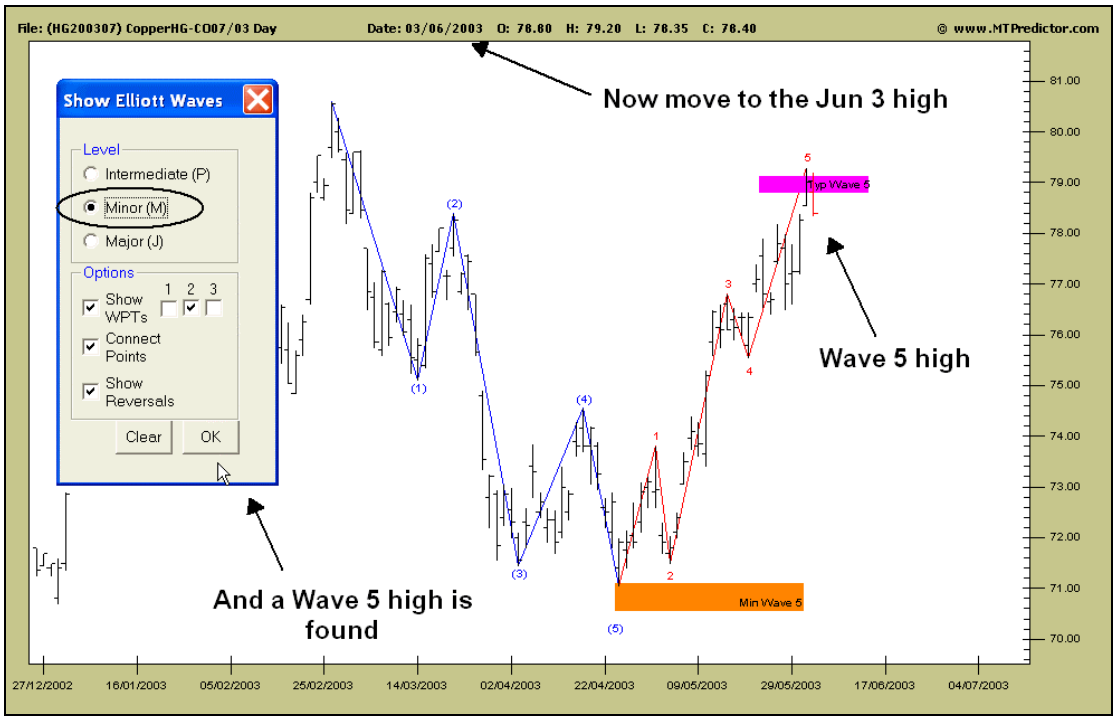
To demonstrate this I will take the current chart on (Jul) Copper and go back even further in time to the April lows and see what the software found then.

Continued on the next page . .

Here is the situation at the April low:



As you see, the software automatically found a potential wave 5 low. Then move forward in time to the next high, which as we have seen is June 3, and again re-apply the automatic analysis:



As you have already seen this was the end of a Minor 5 wave rally.

Now you can return back to the present day, which is June 16:

As you can see from the chart above, this leaves all prior analysis on the chart for you, in this example you can see how the software has automatically nailed both the April low and the June high.

The same technique can be particularly useful if you are in a current trade off the automatic wave C (TS3), TS1 or TS2 set-ups, and you wish to project where the current trade is likely to go. In other words you want to see the future profit targets on the current chart.

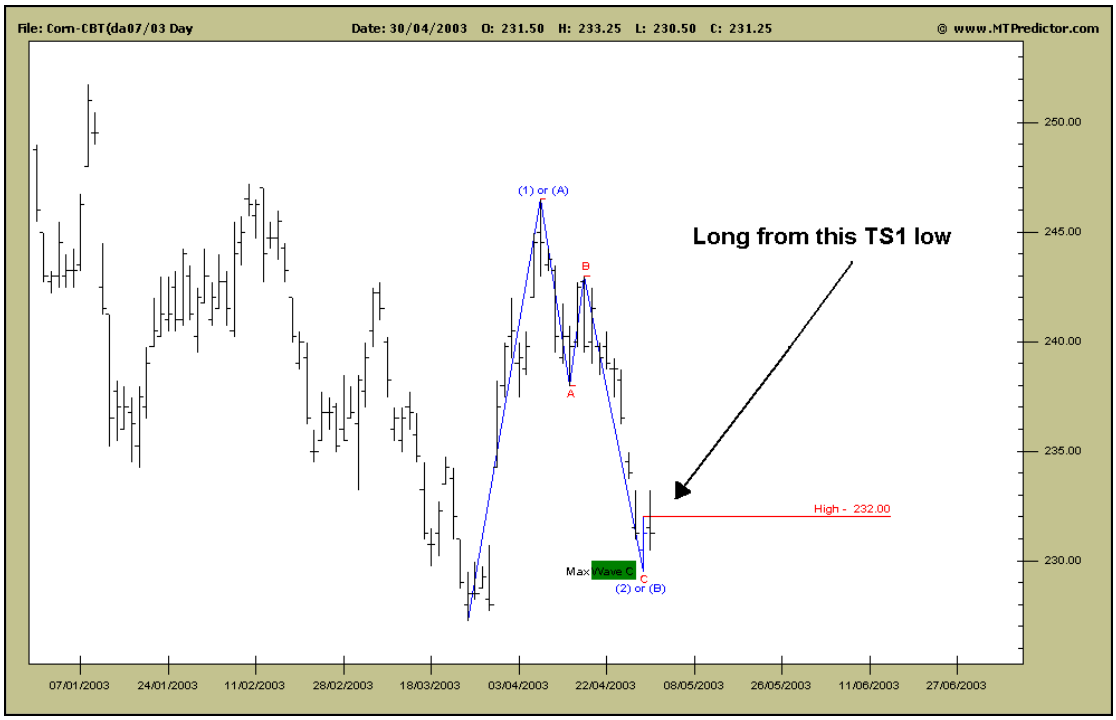
However, because you have entered the trade a few days ago, when you come back to the chart and try to re-apply the automatic analysis, none may be found.

To demonstrate, please see the example on the next few pages.

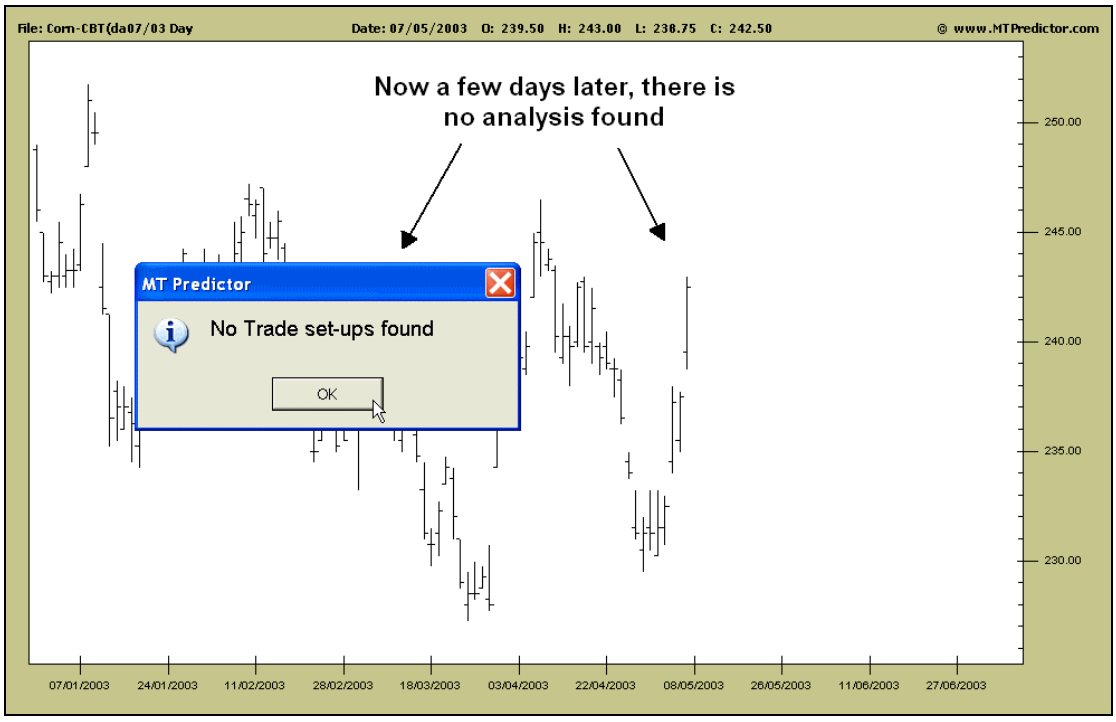
Of course, you could always *save* the current chart in MTPredictor at the time of your original analysis (or trade entry), then as new data is added, when you reload the saved chart, the original analysis will stay on the chart.

However, if you did not save your analysis, then you will need to use the training mode.

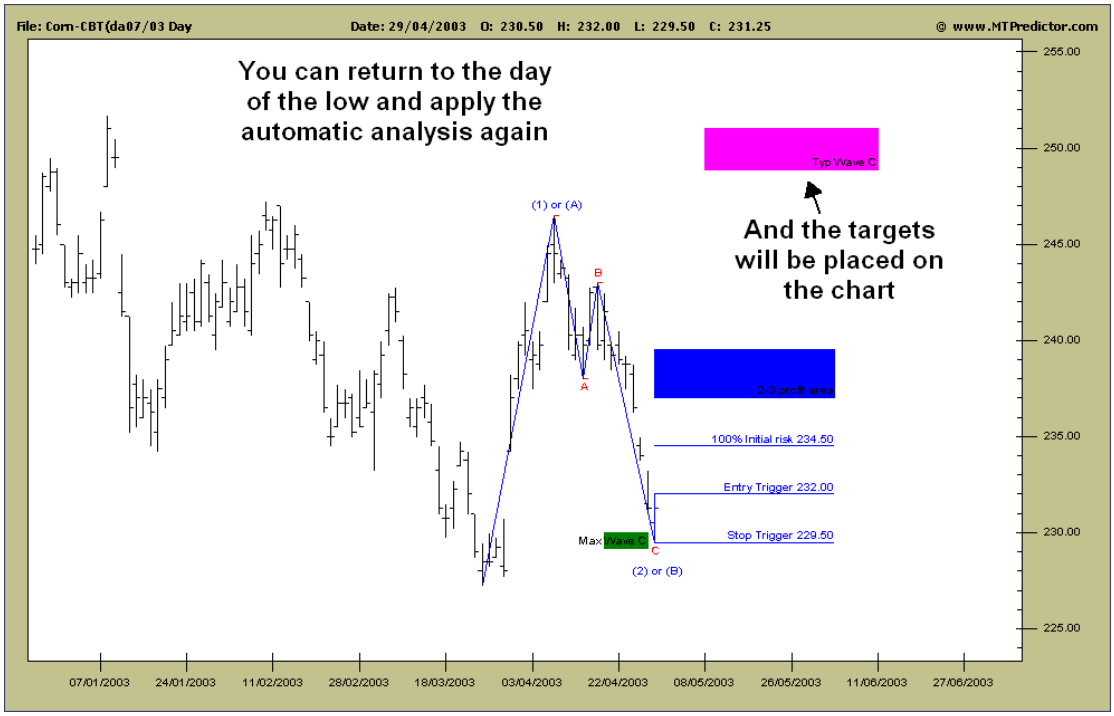
For example, a TS1 buy trade set-up was automatically found on April 29 in (Jul) Corn by the software:



However, when you return to the chart a few days later and try to re-apply the automatic analysis, none may be found:



What you need is to use the training mode to return the last bar on the chart to the date of the original trade set-up (in this example April 29), then to re-apply the automatic analysis:



Then you can return to the current day, and the analysis will stay on the chart:

Summary

As you have seen in this chapter, the training mode is an invaluable tool not only to help you test the automatic set-ups but also to help you to re-apply the automatic routines at some point in history.

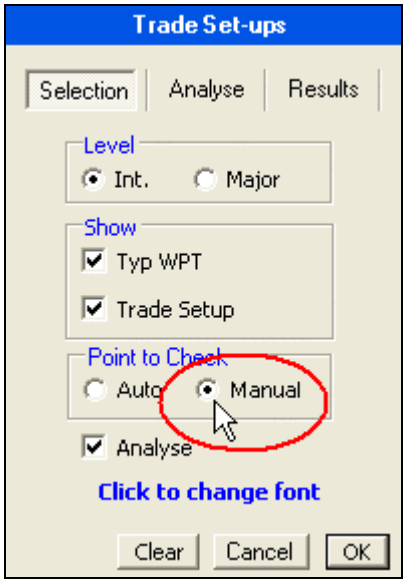
This is a very important point to understand, because MTPredictor works off the last bar on the current chart, so very often no analysis will be found. However, if you return the chart to the last pivot, and try again, an automatic Elliott wave count will usually be found.

This is different to many other Elliott wave software programs available today, however, it is perfectly logical, because it works on the data at hand on a day-by-day basis – this is how we work as traders. You cannot change your mind about a current trade you may be in as time moves forward, so why should your software be able to ?

Continued on the next page with comments on the new version 4.0 of the MTPredictor software.

Addition to software in version 4.0

This course was written using version 3.6 of the MTPredictor software. Since the first edition of the Course, version 4.0 has been released which contains many additional features and enhancements over 3.6. One of these is the ability to use a “manual” setting in the Show Elliott wave (123 button) and the Trade set-ups (T button) that allows the analysis to be applied at some point in history.



This has the same affect as using the Training mode to return the chart to some point in history, then applying the Auto analysis on the last bar on the chart. However, this method is much quicker because it only requires one click on the required bar in history to apply the analysis.

As outlined earlier in this chapter, if no valid analysis is present on the bar you have chosen then you will still get the message:

The analysis does not use any of the history after the chosen bar. This is important because it means that the analysis is displayed just as if the bar you choose was the last bar on the chart. In other words, the analysis does not update as you move forward in time or change as new market data arrives, which is the fundamental build block on which the MTPredictor trade set-ups are designed to work.

Chapter 10 – Advanced Trading Strategies

In this chapter I will take a look at some additional trade strategies that you can use within the MTPredictor software program.

These are:

- Minor pullback trade set-up
- 80/20 day
- Inside day trade set-up
- Outside day trade set-up
- Doji
- 20-period moving average

As you will see, these advanced trade strategies will allow you to enter a new trade at different times to the normal trade set-ups you have seen in MTPredictor so far. In particular, they will allow you to enter new trades in the middle of a strong trend, which will allow you to take a new position or to pyramid existing positions.

However, as with all trade entry strategies within MTPredictor, you must only ever enter a new trade where the initial risk is kept small. As you've seen in prior chapters, keeping the initial risk small is the single most important thing you can do for a successful long-term profitable trading approach.

I will take a look at each of these advanced trading strategies one-by-one throughout the rest of this chapter.

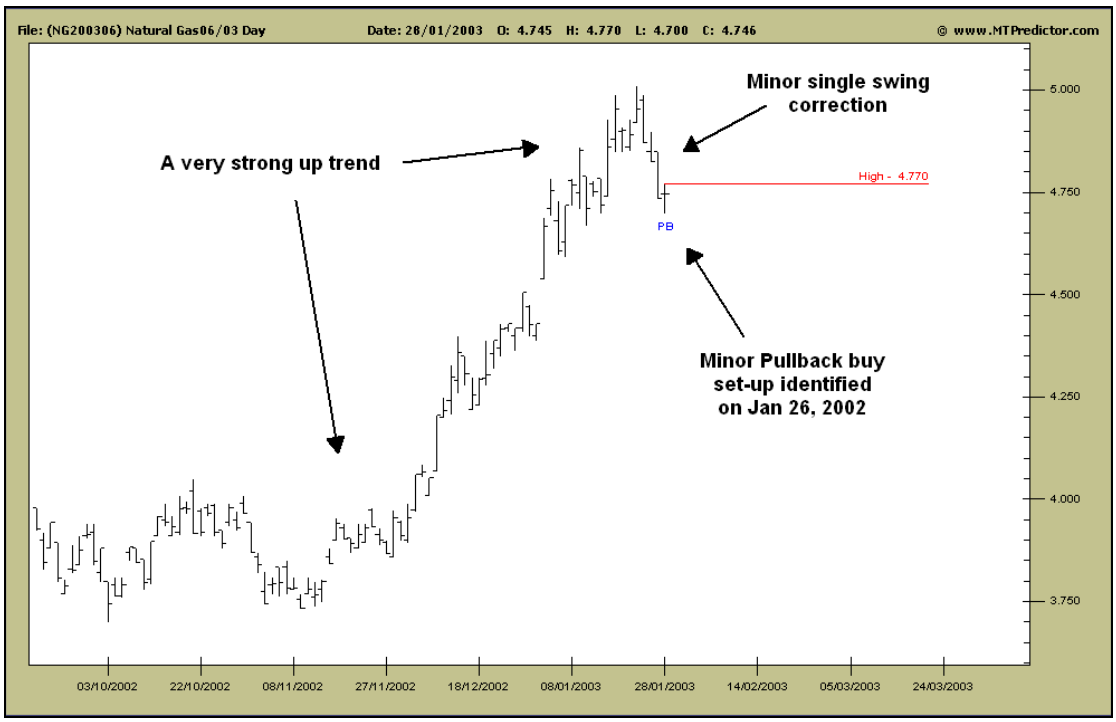
The first of these is the minor pullback

Minor pullback trade set-up

The minor pullback trade set-up is based on an observation made by W. D. Gann, that once a strong trend is in force, the market will only pullback slightly before the main trend resumes. The minor pullback trade set-up is designed to identify the end of this minor correction, to then allow you to take a position to climb aboard as the main trend resumes.

The identification of the minor pullback trade set-up is very easy indeed. Within the MTPredictor software program, all you have to do is select "minor pullback" from the "Reversal Bars" module. If there is a minor pullback is present as of the last bar on the chart, it will be displayed as the letters PB in blue and below the bar for a potential buy set-up, or in red and above the bar for a potential sell set-up.

Let's take a look at an example below:



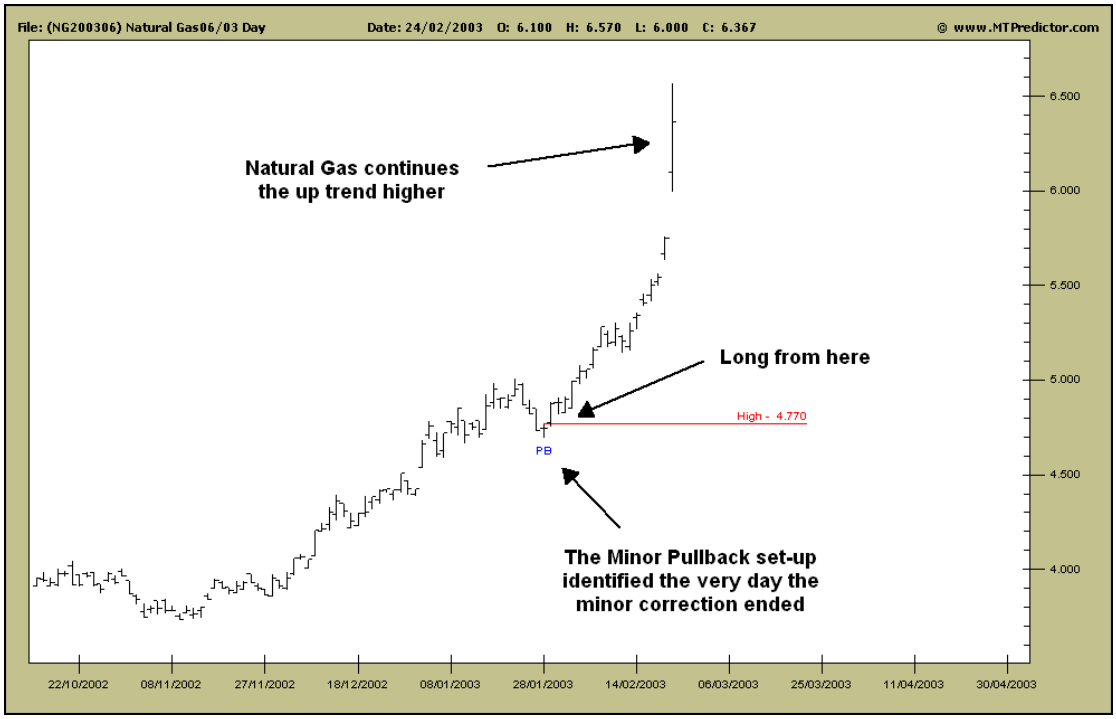
The chart above shows how Natural Gas was in a very strong up trend, which was followed by a minor correction against the main trend. On January 26, the last bar on the chart above, the software identified a potential minor pullback buy set-up. The letters PB (in blue) were displayed below the last bar identifying the potential buy set-up.

Continued on the next page . . .

The trade entry for a minor pullback set-up is as the high of the minor pullback bar (for a potential buy set-up) is exceeded:

If filled, the initial protective sell stop (because this is for a long trade) will be just below the low of the minor pullback bar.

Let's see how this turned out:



As you can see from the second chart on the prior page, Natural Gas continued significantly higher after this minor pullback. This would have resulted in a great long trade where the trade entry was signalled on the very day the minor correction ended.

Although the minor pullback trade set-up is identified on its own, the addition of a coloured Reversal Bar (red or blue) adds weight to the trade set-up.

If you look again at the current example on Natural Gas, you can see that January 26 was also a blue buy Reversal Bar:

The presence of a blue buy Reversal Bar on the same day as the minor pullback set-up strengthens the minor pullback trade set-up.

At first sight, this may seem a great trade set-up, however there are a few situations where the minor pullback set-up is not ideal, and should be ignored - the first of these is where the set-up does not as unfold as a *single swing* correction.

Continued on the next page . . .

Let's take a look at an example on the (Jun) S&P Futures on March 3:

Here I have used the minor "connected pivots" to see whether the minor pullback trade set-up has unfolded as a single swing correction. As you can see from the example above, this has not happened. As such, this would not be considered a valid minor pullback trade set-up.

Please remember, the idea of this trade set-up is to identify the end of a minor correction against the main strong trend. So, *ideally* the correction should only pull back for a few days in a single swing, before continuing the main trend.

Another situation where the minor pullback trade set-up should be ignored is where the correction (although still a single swing) is too large.

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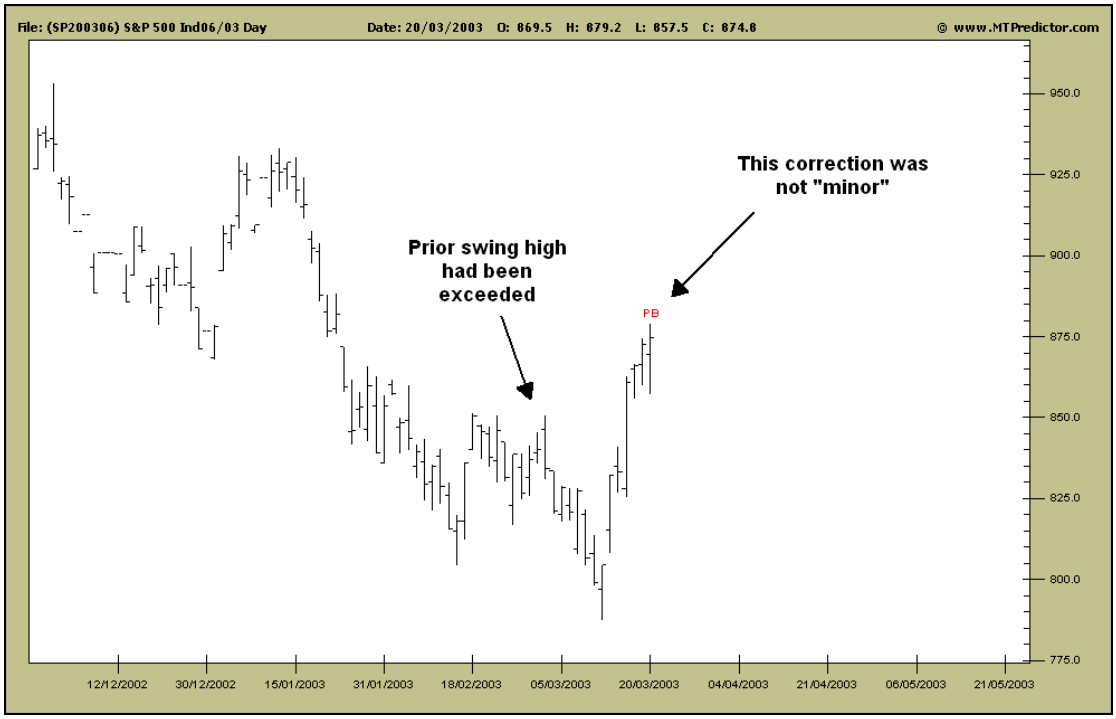
Here is another example a few weeks later on the S&P:



As you can see from the chart above, although March 20 is identified as a potential minor pullback sell set-up, the correction off the March 12 low is too large in price terms. In this example, this correction had exceeded the prior swing high, so the downtrend would be no longer be considered to be in force.

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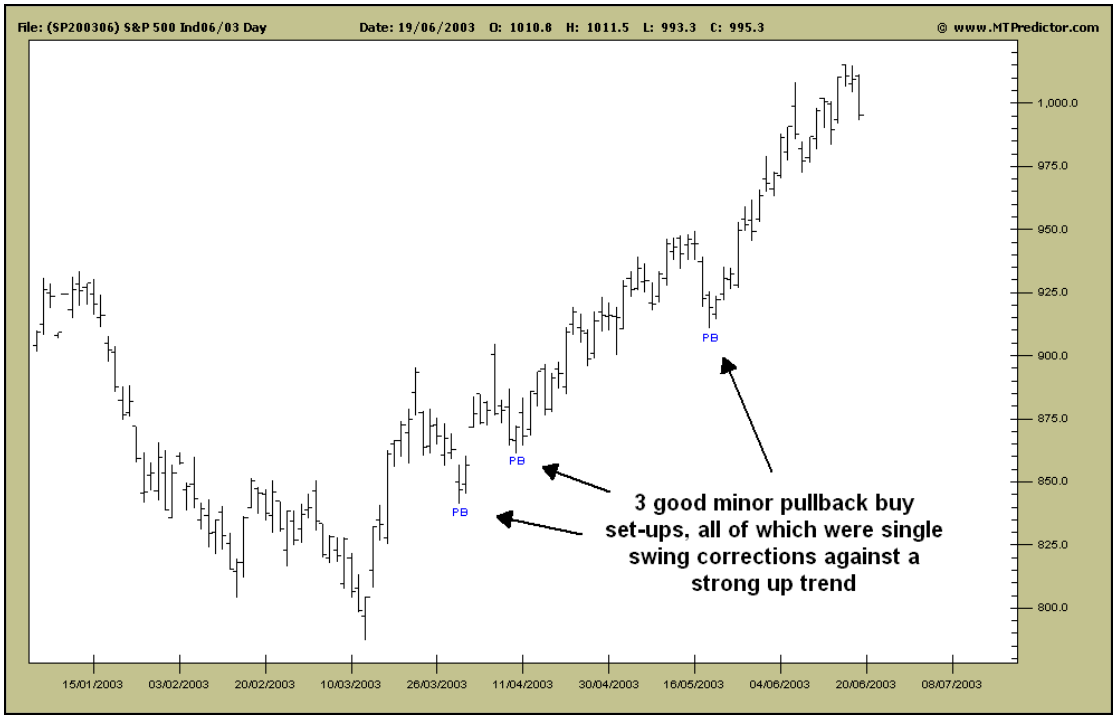
Let's take a look at three good set-ups that followed in this market over the next 3 months.



As you can see from the chart above, there were three good-looking buy set-ups that unfolded over the next three months on the S&P. In each of these examples, the correction was a single swing that followed a continued up trend. These are great examples, and ones that you should look for in your own trading.

As you can see, the minor pullback trade set-up gives you a good way to enter a trade to take advantage as the main trend continues, just as a minor correction is ending. However, there are a few exceptions, where you should filter the minor pullback set-up generated by the software.

Continued on the next page . .

To summarise the minor pullback trade set-up:

- The minor pullback trade set-up should unfold ideally as part of a single swing correction (use the minor connect pivots to verify this).
- The addition of a coloured trade set up bar (red or blue), on the same day as the minor pullback, adds weight to the trade set-up.
- The correction should only be minor, and should not exceed a prior swing high or low.
- Enter a new trade as the high (for a long position) or the low (for a short position) of the minor pullback set-up bar is exceeded
- Once filled, the initial protective stop should go just beyond the low (for a long trade) or the high (for a short trade) of the Reversal Bar.

As you have seen from the examples in this section, ideally this trade set-up should identify the very end of a minor correction against a strong trend. As such, the trade should go in your favour immediately as the main trend continues. Any hesitation or lack of immediate follow through should be viewed as a warning sign and as a reason to either exit the trade or bring your protective stop closer to the market.

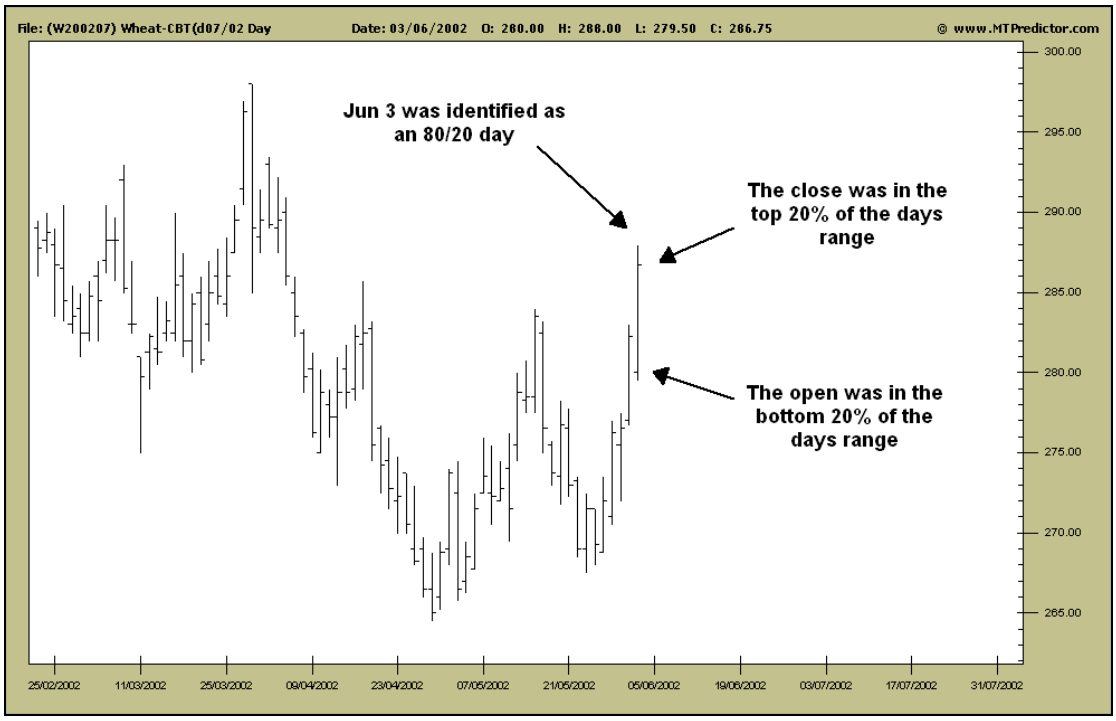
The next advanced trading strategy that I would like to look at is the “80/20 day”.

80/20 day

The 80/20 Day is a specific trade set-up as outlined in the book "Street Smarts" by Conners and Raschke. I recommend that you read this section of the book to see how the authors themselves have outlined this particular trade set-up. However, in this section, I would like to show how you can use this trade set-up in relation to the MTPredictor trading approach.

First I would like to outline the 80/20 set-up as described in the Street Smarts book.

Here is an example on (Jul) Wheat on Jun 3 2002:



Here you can see that on this chart of (Jul) Wheat, Jun 3 was identified as being an 80/20 day by the software painting the day pink.

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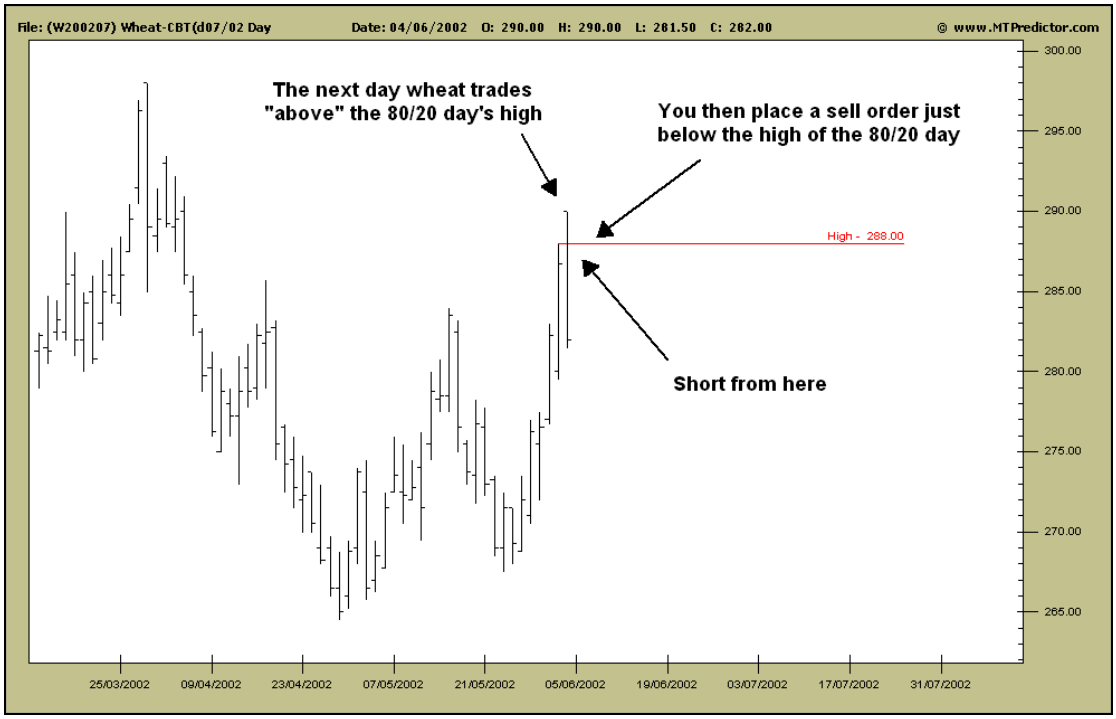
An 80/20 day is defined as a day where the open (or the close) is in the bottom (or the top) 20% of the day's trading range, AND the close (or the open) is in the opposite 20% of the day's trading range. As such, is it a strong trending day, where the market moves in one direction all day. *Ideally* the 80/20 day should have a wider range than the recent bars, this emphasises the *strong* part of the trending day.

In normal technical analysis this suggests a continued trend, however, Street Smarts suggests that this is setting up for a potential reversal, and *if* the market reveres then the f*ailure* to continue the trend will usually result in a strong move in the opposite direction.

Their trade set-up is to sell just below the high of the 80/20 day (in this example following a strong up day) *if* the market, the next day, trades a small amount a*bove* the high of the 80/20 day. This is normally considered a day-trade and only held until the close of the day of entry.

Let's look at this on the current example on Wheat:



Here you can see how, the next day (Jun 6), Wheat traded above the high of the 80/20 day of Jun 3. Once this happens you place a sell order just below the high of the 80/20 day to enter a new short trade *if* wheat declined back below the 80/20 high.

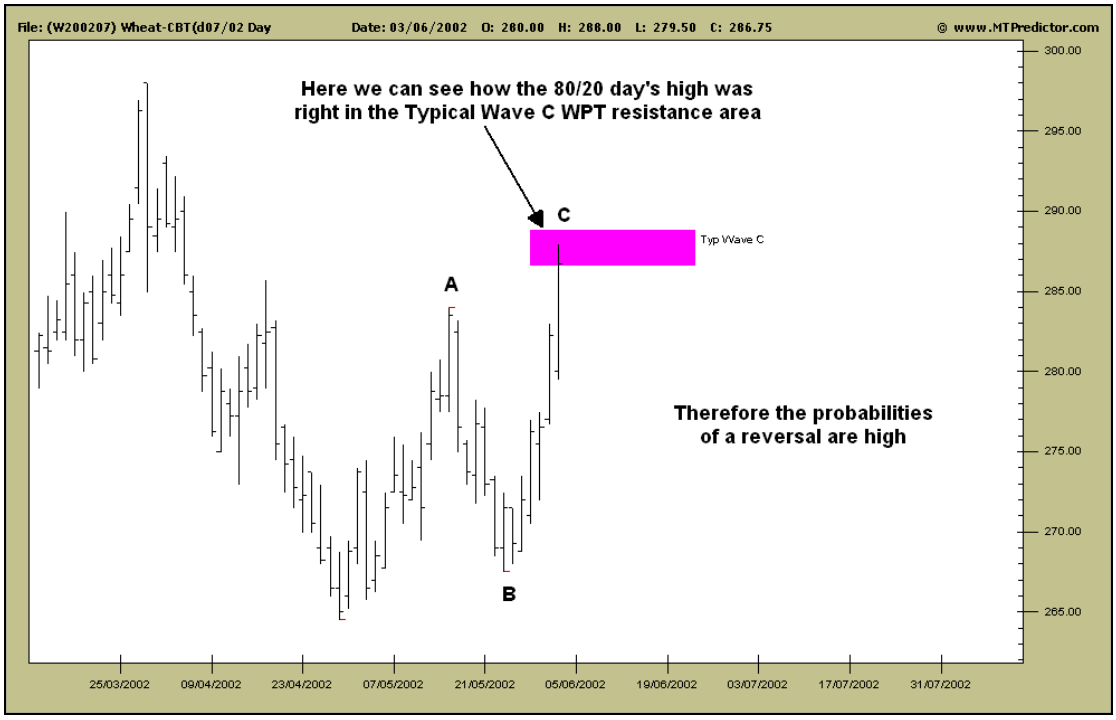
As you can see from the chart above, this would have resulted in a short trade from 287.75, which turned out to be a great day-trade, as Wheat declined sharply all day!

This does require you to monitor the market throughout the day, and to know when the market exceeds the prior day's high (in this example) so that you can then place the new sell order.

But, as you can see, this can result in some great day-trades !

However, we have some additional tools in the MTPredictor software program that can enhance the reliability of this trade set-up, the WPT support or resistance areas.

Let's now add the typical Wave C WPT resistance zone onto the current Wheat example:

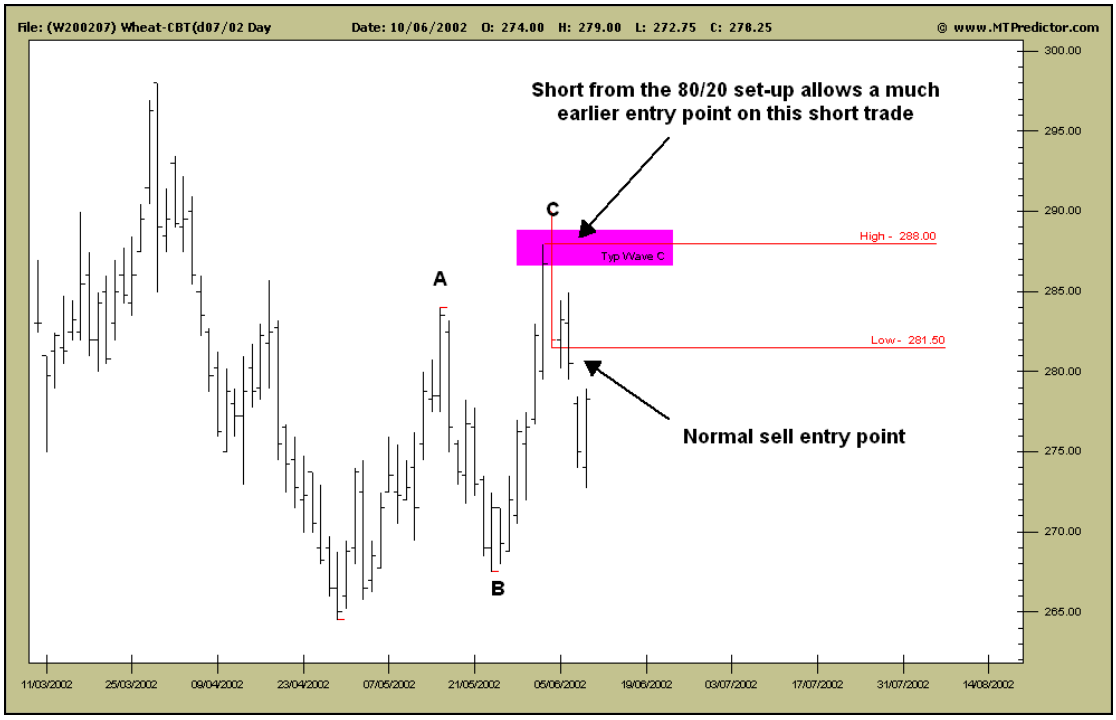


As you know by now, WPTs represent the *ideal* place where the Elliott waves are *most likely* to end. So I hope you can all see that when you get an 80/20 day that enters a WPT support or resistance zone, then the probabilities for a reversal are much higher than off a 80/20 day that appears by itself.

So, you can use the WPTs as an additional filter to the basic 80/20 day-trade as outlined in Street Smarts or you may use this as an early entry into a normal trade off this corrective ABC set-up.

Please see the chart on the next page.

Here, the 80/20 day provided the opportunity to enter a short trade much earlier than using the normal trade entry rules, as Wheat reversed off the typical Wave C WPT resistance area:



Obviously this *early entry* carries more risk as it lacks the confirmation of the market closing to give a normal coloured Reversal Bar, and also requires the market to be followed throughout the day. However, if you have access to real-time data, I hope you can see how you can use this trade set-up to get an early entry into a day that very often turns out to be one of the standard Reversal Bars.

<u>To summarise the 80/20 Day:</u>

The 80/20 day may be used as a set-up in its own right for a day trade, or it may be used as an early entry into a day that that very often turns out to be one of the standard Reversal Bars. But, the most important point is to pay most attention to the 80/20 day *when* it enters a WPT support or resistance zone, as the probabilities of a reversal are much higher.

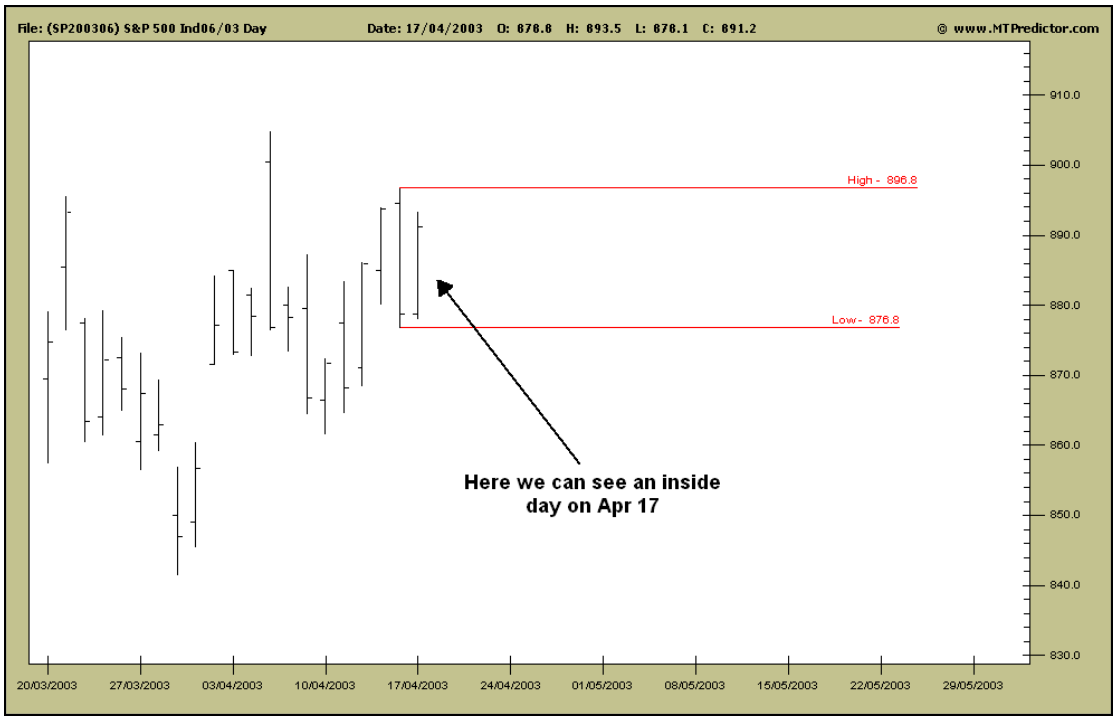
Also it is important that you only use *"day session"* data to identify this trade set-up. This is because the set-up is designed to capture the *failure* of the market to follow through from the continued move after the overnight session, after a strong move the prior day. As such this trade set-up does not work well with *"all session"* data.

The next advanced trade set-up I would like to look at is the inside day

Inside day

An inside day is what the name suggests - a day where the price range of the current day is *inside* the prior day's price range. Or, more specifically, the high is lower than the prior day's high, and the low is higher than the prior day's low.

Lets take a look at an example:



The chart above shows a daily chart of the (Jun) S&P, where on April 17 you can see that this market made an inside day - the low was higher than the low of the prior day, and the high was lower than the high of the prior day, so the price range of April 17 was within the price range of the prior day.

If you are an aggressive trader, then you can use the break from the high or low of the inside day itself to signal a new trade, however, it is far more reliable if the high or low of the day prior to the inside day is broken. This normally signals a continued trend in the direction of the break.

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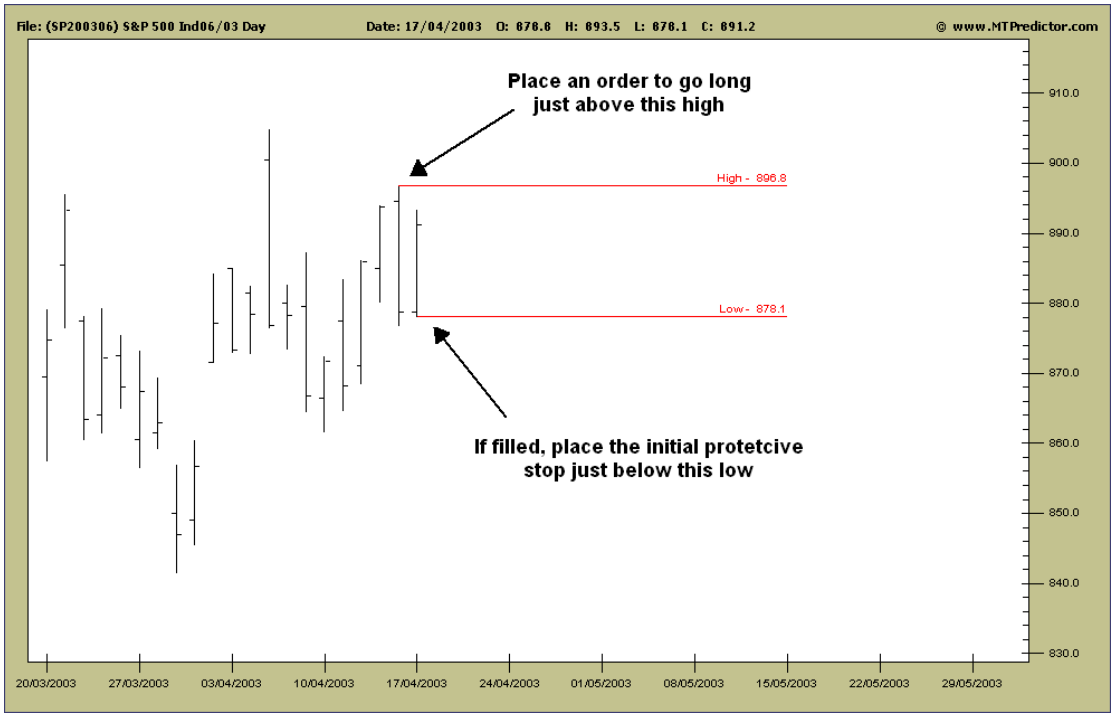
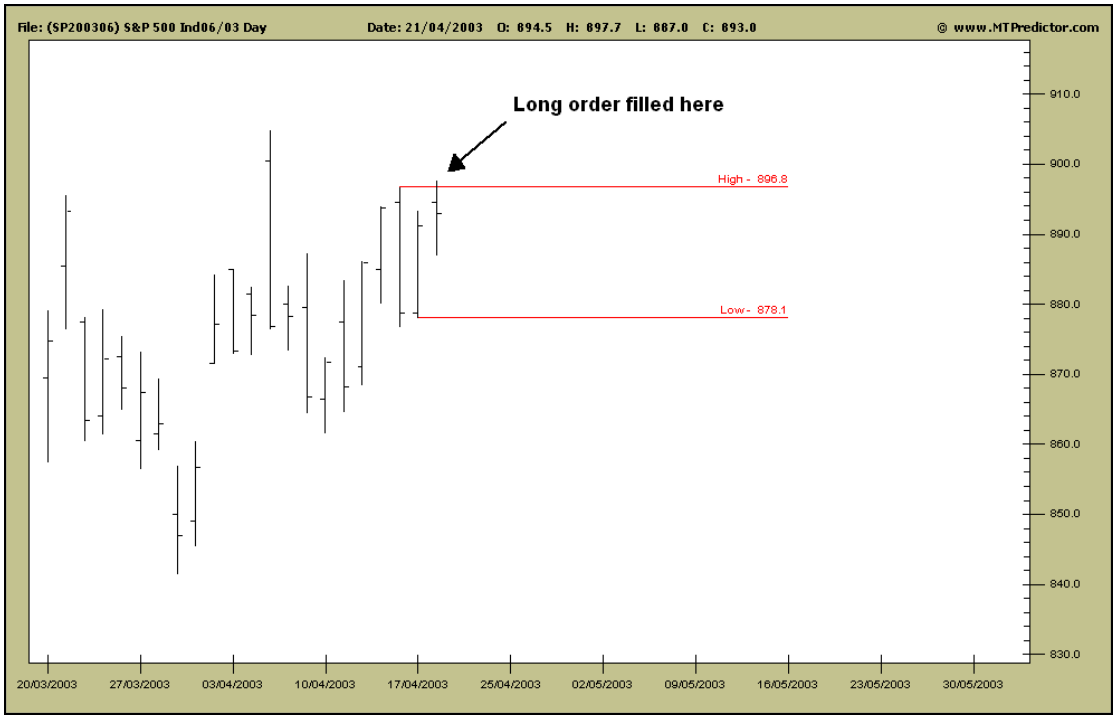
Let me show you what I mean:

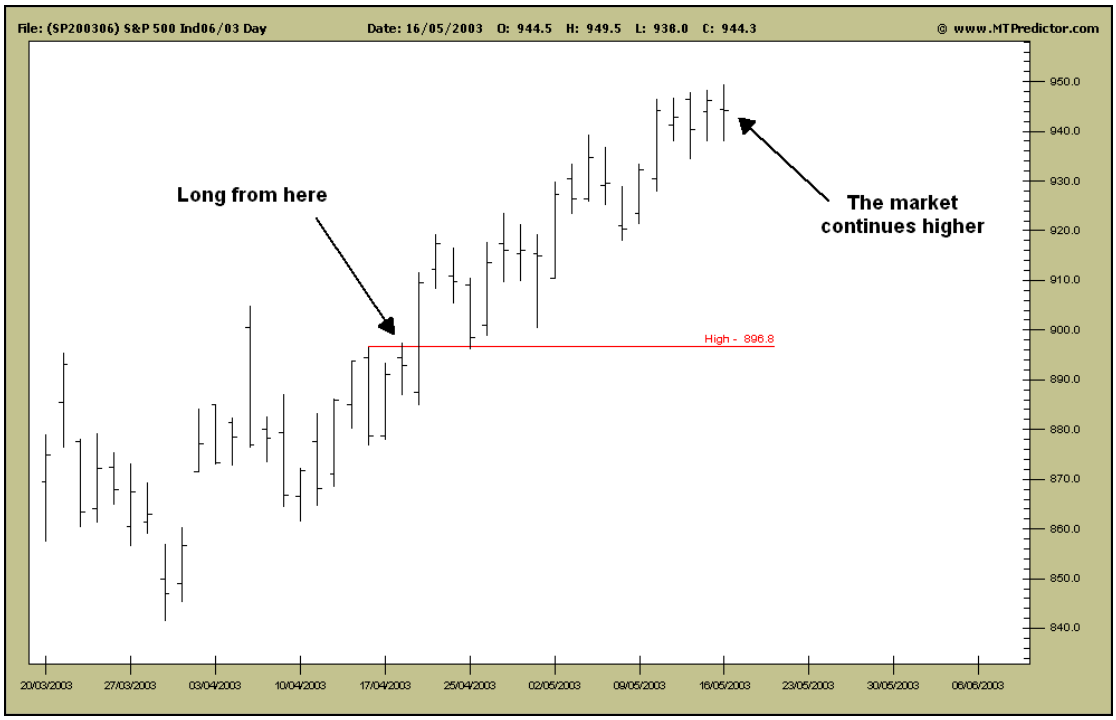


Here, if the high of the prior day (which was April 16) of 896.80 were exceeded, then a new long trade would be triggered. If filled, you should place your initial protective sell stop just below the low of the current inside day, in this example, just below the April 17 low of 878.10.



As you see from the chart above, this was triggered the very next day, April 21.

The break of the day prior to the inside day normally signals a continued trend in the direction of the break.



As you can see from this example, once the inside day set up had been triggered, the market in question continued to rally strongly.

An inside day represents a day of indecision in the market, where the market pauses for breath before it continues the main trend. As such, this can be a very good strategy that will allow you to enter trades, in the direction of the main trend, once that trend is re-established. As with all potential trade set-ups, the initial risk on the trade must be carefully considered before entering the trade. This is where this set-up can help, because normally an inside day has a small price range, which keeps the initial risk small on any new set-up.

So far I've only mentioned that the inside day can be used to enter trade in the direction of the main trend, however, the inside day set-up can also be used as a trend reversal trade entry.

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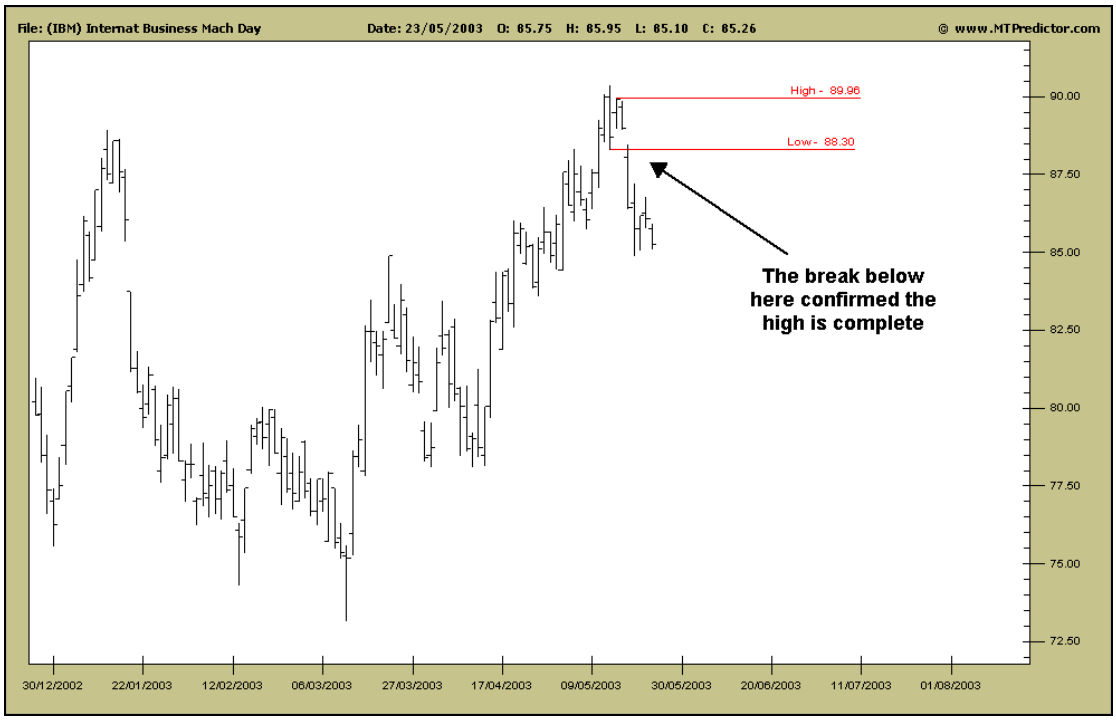
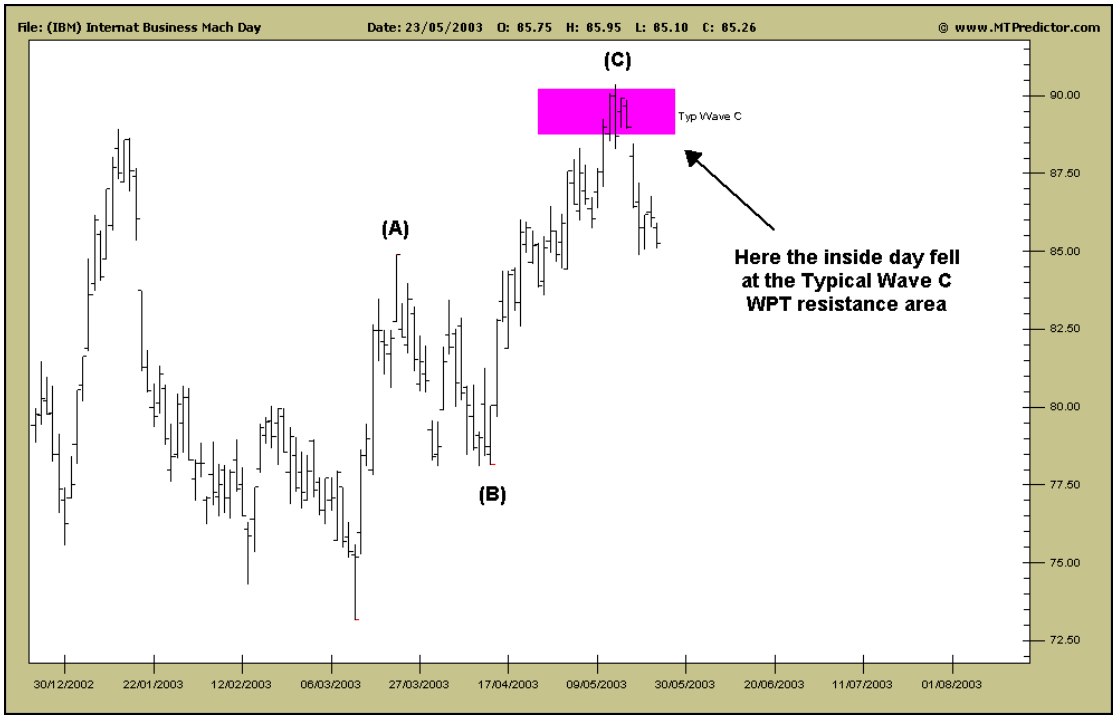
Here is an example on a daily chart of IBM:

You can see that May 15 was an inside day. As outlined above, if IBM declined below the low of the day prior to the inside day, this would indicate that the trend would now most likely continue lower. As such, a reversal at the May 14 high would be confirmed.



As you can see from the second chart on the prior page, this was indeed what happened, with IBM declining below this low two days later on May 19.

As with all reversal indicators, it must unfold at a WPT support or resistance area. If you look again at this daily chart of IBM, you can see that this inside day reversal occurred right at the typical wave C WPT resistance area:

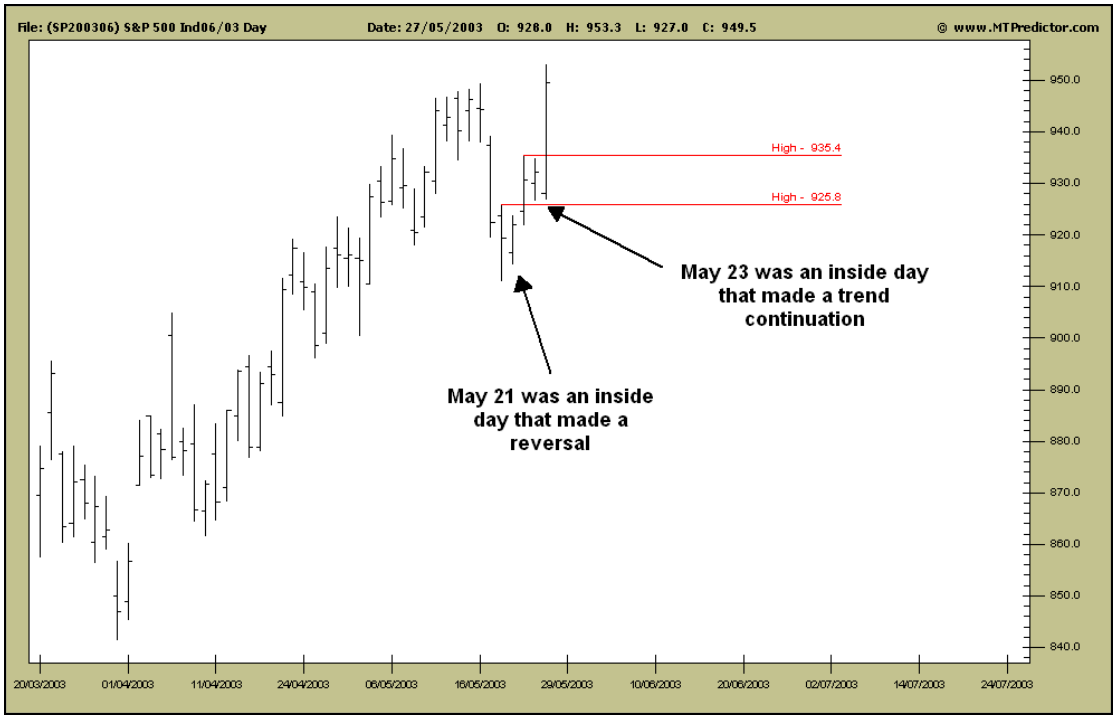


Although not one of the standard Reversal Bars, I hope you can see how the inside day can be used as both a way to enter a new trade to take advantage as the main train continues, and also a way to enter a new trade as a reversal occurs.

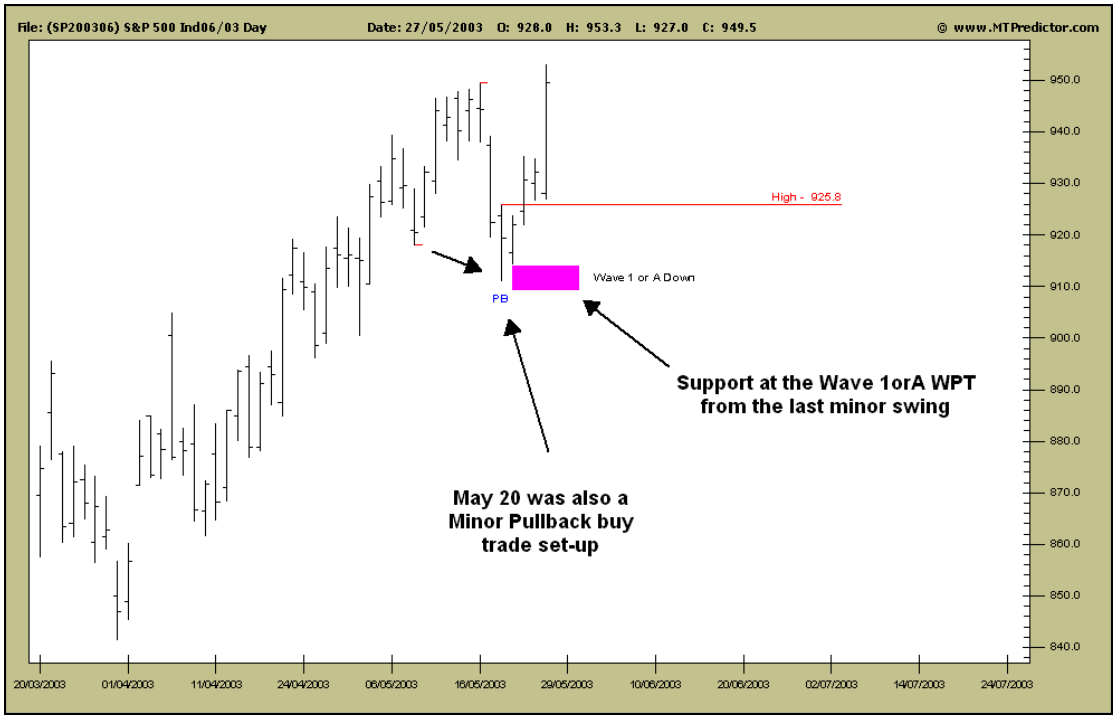
This example also poses another question: how long before the market has to break from the price range of the day prior to the first inside day? The answer is a matter of judgement, and the general guideline is that the longer the market stays within the price range of the first day, the stronger the break from this price range is likely to be. However, personally I like the break to be either on the day after the first inside day or within at least 2-3 days…any longer, and I start to feel nervous about the set-up unfolding as anticipated.

The inside day set-up is valid as long as the market remains within the price range of the first day. If it trades beyond the extreme of the original set-up before the entry trigger, then the set-up is invalidated.

Here are two good examples, again on the (Jun) S&P futures:



The first of these, on May 21, was an inside day that produced a reversal; the second of these, on May 23, was an inside day that produced a trend continuation set-up. However, as outlined on the prior pages, we do require that WPT support is present for a potential inside day reversal low, so let's look at the May 21 inside day in more detail:



As you can see from the second chart on the prior page, there was a minor wave 1orA WPT providing support at the May 20 low. Also, as you saw in the prior section, May 20 was also a minor pullback buy trade set-up, so this would provide additional weight and another reason to consider the inside day of May 21 for a potential reversal, a way to enter a new long trade. I hope you can see that sometimes, different techniques can occur on the same day. When this happens, it gives you added confidence in the trade set-up.

To summarise the inside day trade set-up:

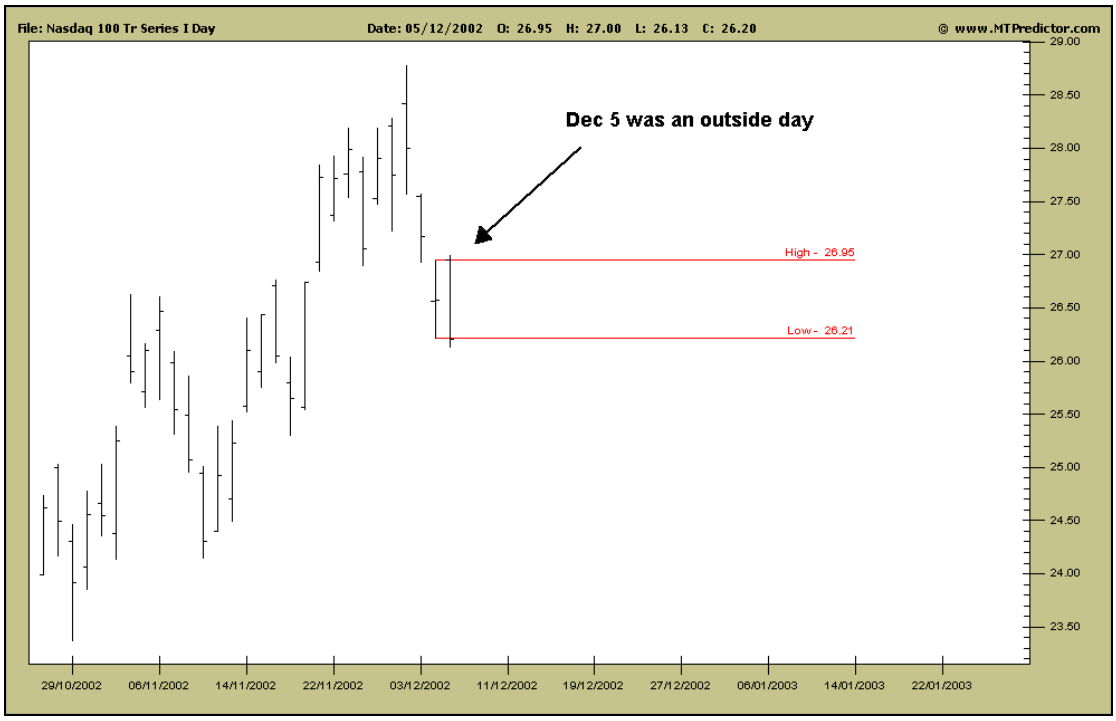
- An inside day can be used to enter a new trade to take advantage as the main trend continues. This is known as a "trend continuation" trade set-up.
- Look to enter a new trade as the high or low of the day *prior* to the inside day is exceeded.
- If filled, your initial protective stop should be placed just beyond the price extreme of the inside day itself.
- An inside day can also be used as a trend reversal trade entry strategy, however, there must be additional reasons for the trend to reverse at this level, for instance WPT support or resistance.

The next advanced pattern I would like to look at is the "outside day".

Outside day

An outside day is what the name suggests - a day where the price range of the current day is *outside* the prior day's range. Or, more specifically, the high is higher than the prior day's high, and the current day's low is lower than the prior day's low.

Let me show you an example on a daily chart of the QQQ (US stock tracking the NASDAQ index):



Here you can see how the high of December 5 was higher than the high of the prior day, and the low of December 5 was lower than the low of the prior day. As such, December 5's price range was outside the price range of the prior day. Another way to look at this is that the price range of the current day completely engulfs the prior day's price range.

So how can you use this information?

Normally, when an outside day unfolds, the market tends to continue in the direction of the break of the outside day for at least the next few days.

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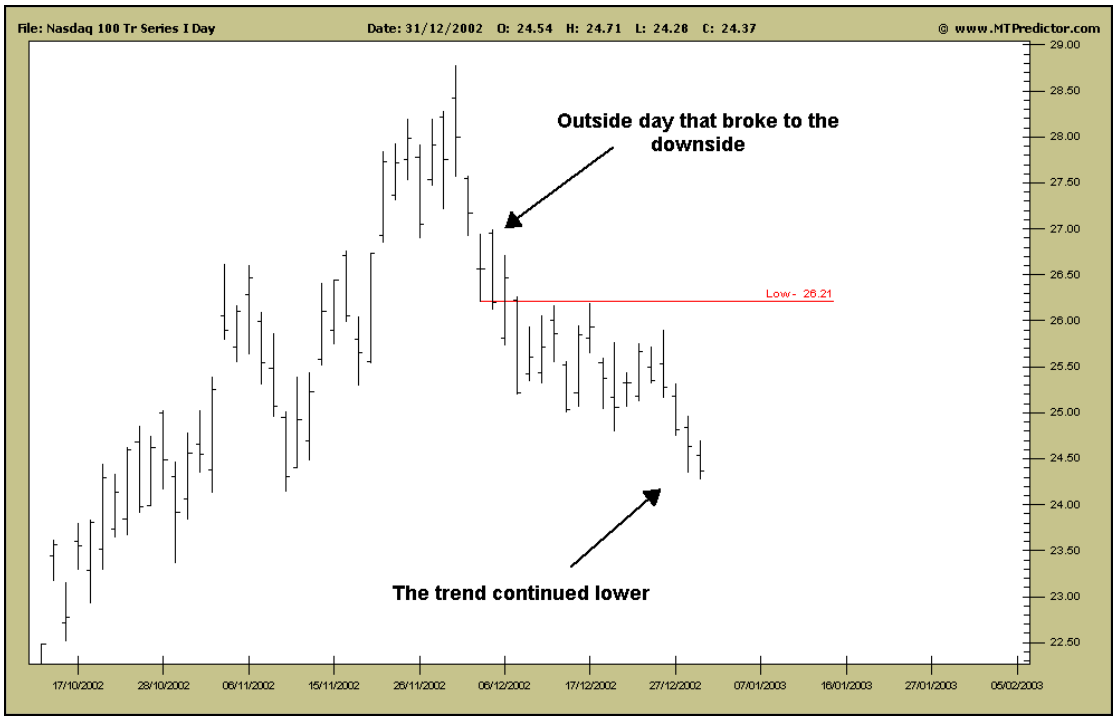
Therefore, in this example, because the break was to the downside, you should anticipate that the QQQ will continue lower over the next few days:



As you can see from the chart above, this is exactly what happened.

So, again: how can we make use of this information ?

Well, in my experience, an outside day by itself, because it is normally a day whose price range is wider than the prior day, does not give you the opportunity to enter a trade with a small, controlled risk. As you all know from prior chapters, the main requirement for any trade set-up is that it allows you to enter a new trade with a small, controlled risk. As you've seen so far, the outside day does not allow you to do this.

However, there is one situation where you can use the idea of an outside day to enter a trade in the direction of the main trend, as a trend continuation trade set-up

In the last section, you saw how the inside day could be used as a trend continuation trade set-up where the trade entry was as the market broke the high (or the low) of the day prior to the inside day itself. Once triggered, the market tended to continue in the direction of the main trend

What if the day that made the break was also an outside day?

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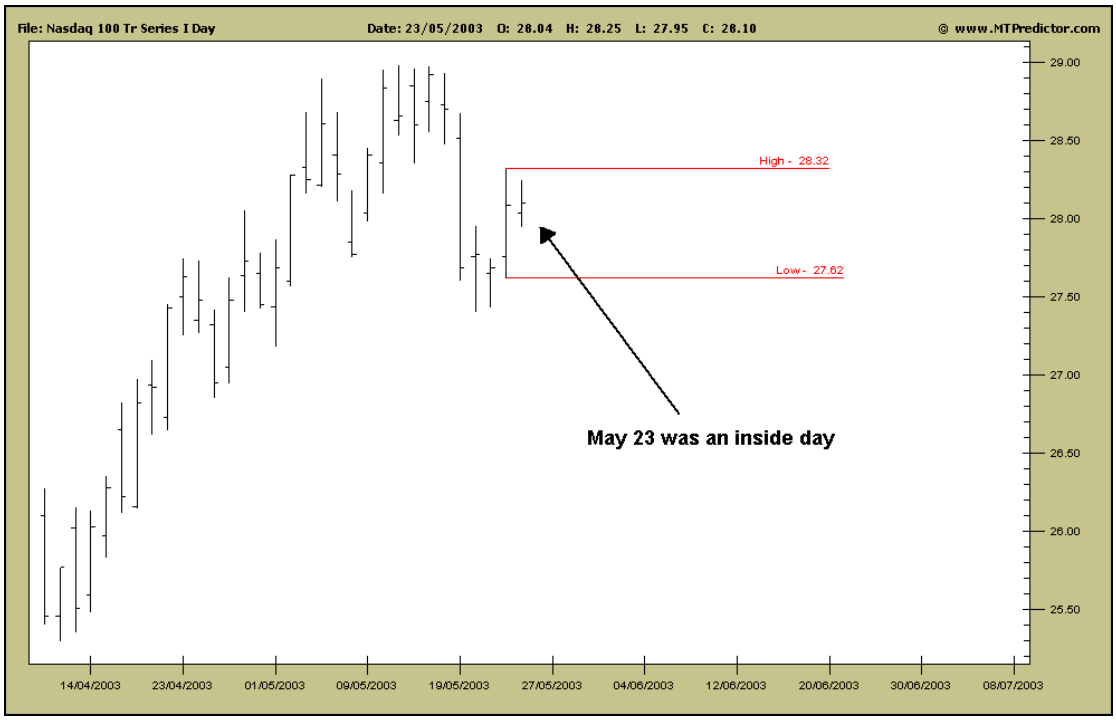
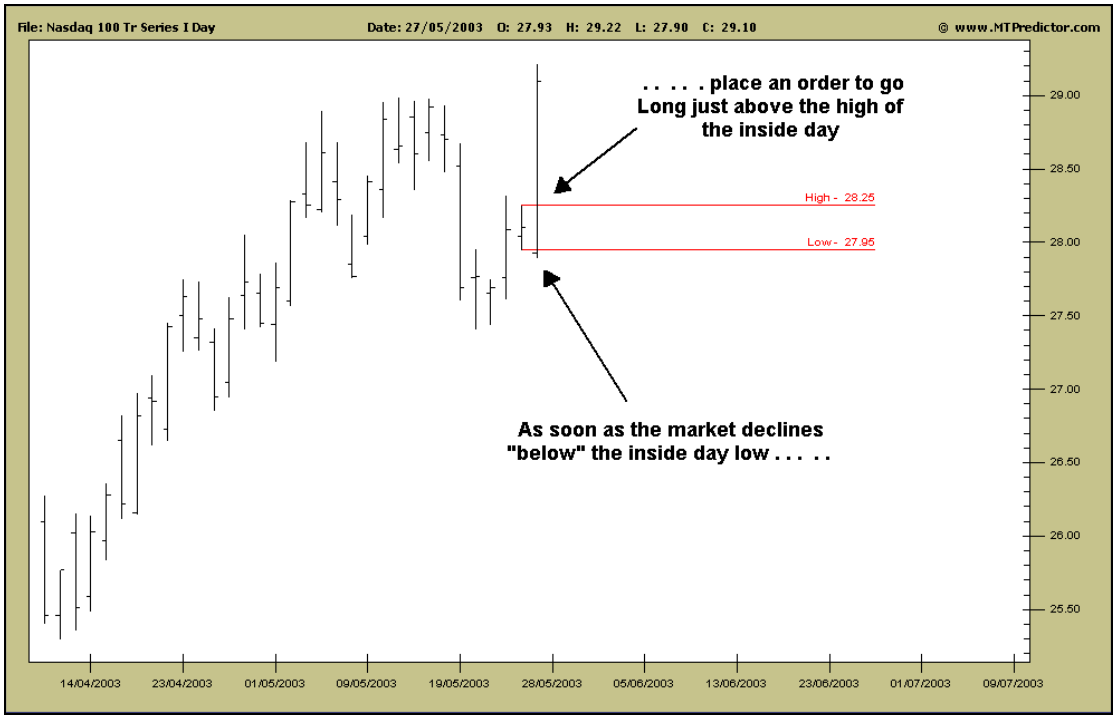
Here you have an inside day on the QQQ on May 23:



What if, you were following this market during the day as the market declined slightly below the low of May 23? If the market then rallied and broke the high of May 23 then it would be considered an outside day:



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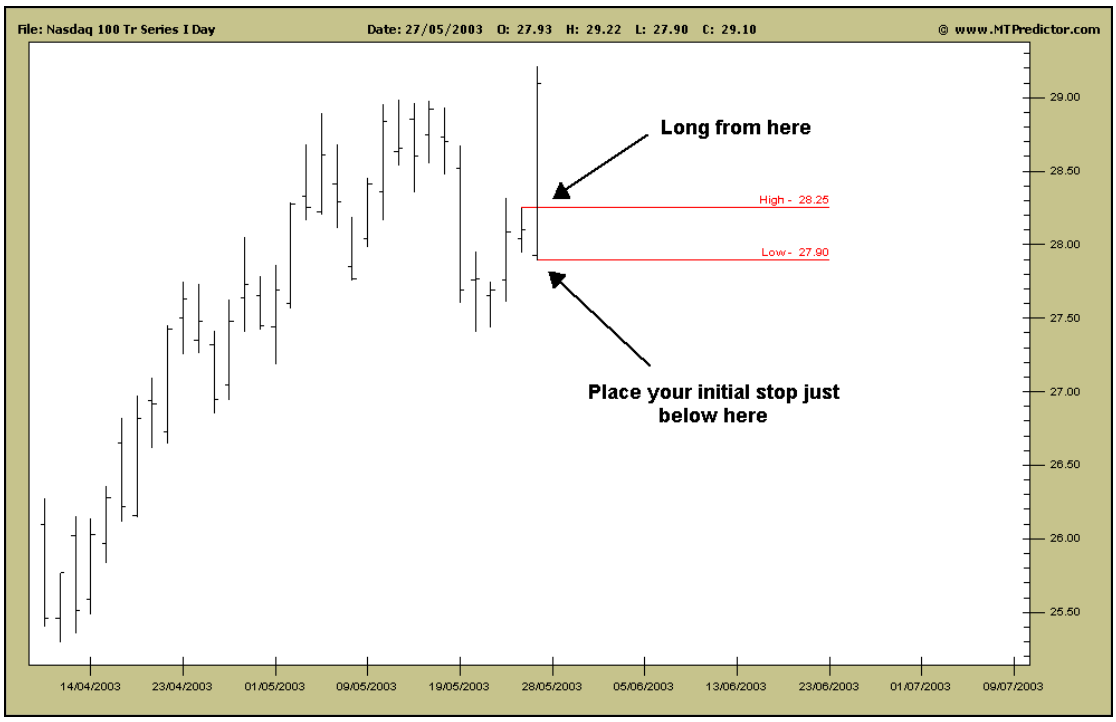
As such, there is the opportunity here to take advantage as the main trend continues.

Therefore, I would suggest the best way to use an outside day is to climb aboard as the outside day is *in the process* of unfolding, safe in the knowledge that if an outside day does indeed unfold, you are already in a position to take advantage as the trend continues.

As you saw from the second chart on the prior page what this means in practice is, if you get an inside day, for example on May 23 in the QQQ, then the market in question trades below the low of the inside day the next day, you can place an order to go long just above the high of the inside day. In practice, this allows you to enter a trade with a small, controlled risk - the main aim of any trade strategy - as the main trend continues.



As you can see on the chart above, this would have placed you in a long trade in a very good position to take full advantage as the outside day unfolded. Once filled, you should then place your initial protective sell stop (for a long position) just below the low of the current outside day

This is a particularly good strategy if the inside day is also a narrow range day, in other words the range of the inside day is narrower from the high to low than the last few days. What this means is that the market is coiling up like a spring, ready to break out sharply. Then very often, the outside day is actually a wide range expansion day that takes all the energy from the coiled spring of the prior inside narrow range day and expands the price range, which is exactly what you want when you are in a position.

To summarise the outside day:

- The best way to use an outside day is to first look for an inside day, particularly if the inside day is also a narrow range day eg the narrowest price range over the last few days.
- Then, if the market trades below the low of the inside day you can place an order to enter a new long trade just above the high of the inside day, to take advantage as the main trend resumes. This example is for an up trend, reverse for a downtrend.
- This should only be used as a trend continuation trade set-up - the trade entry should be in the direction of the main trend.
- Once filled, the initial protective stop should be placed just beyond the price extreme of the current outside day. In this example of a long trade, it would be just below the low of the current outside day. Reverse for a short trade in a downtrend

As you can see, the outside day is a very useful trade strategy that can be used *as it is unfolding* to take advantage as the main trend continues.

The next advanced pattern I would like to look at is the “Doji”.

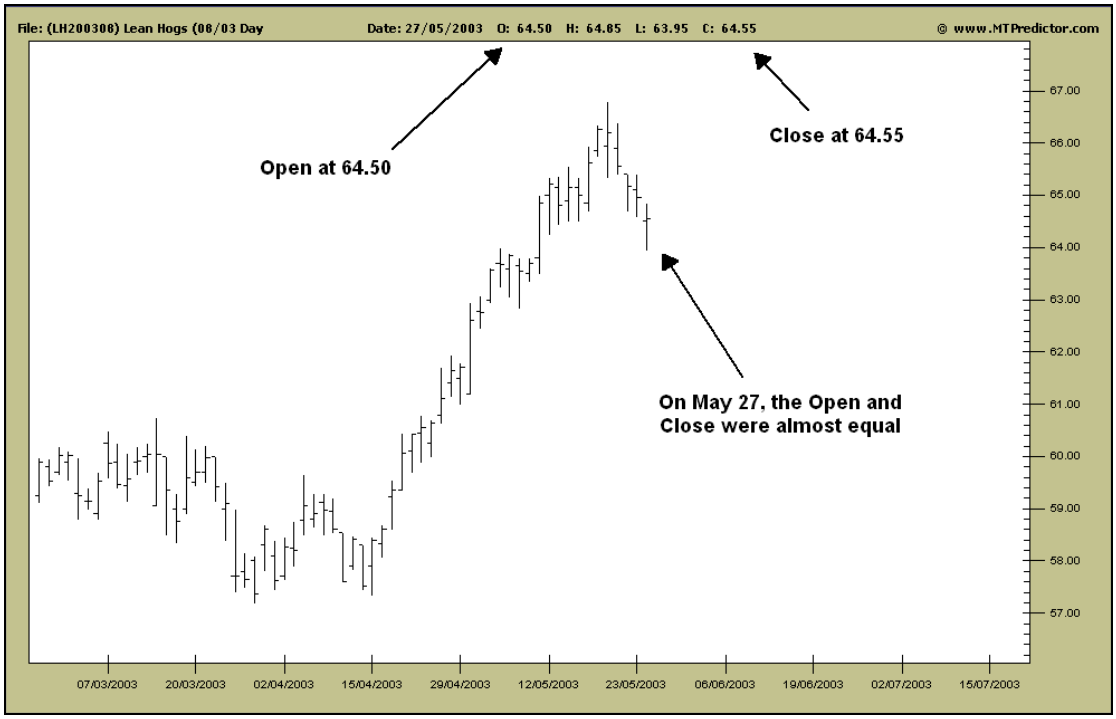
Continued on the next page . . . . .

Doji

The Doji is a Japanese candlestick reversal pattern where the Close for the day is at approximately the same price as the Open for the day - in other words, the market went sideways throughout the day's trading.

Normally this suggests a day of indecision, and very often represents a potential reversal in the market.

Let's look at an example:



As you can see from the daily chart above, on (Aug) Lean Hogs, the Open on May 27 at 64.50 was approximately the same level as the Close on May 27 at 64.55, so May 27 would be considered a Doji.

A Doji often represents a potential turn the market, especially if it happens at the end of a trend. In this example, the Doji occurred after a minor decline, as such you should be preparing for a potential reversal, especially, if the Doji coincides with additional support or resistance areas and one of the standard MTPredictor trade set-ups.

Please keep this chart in mind as you read the next section, as you will see another potential set-up unfold on May 27 as well.

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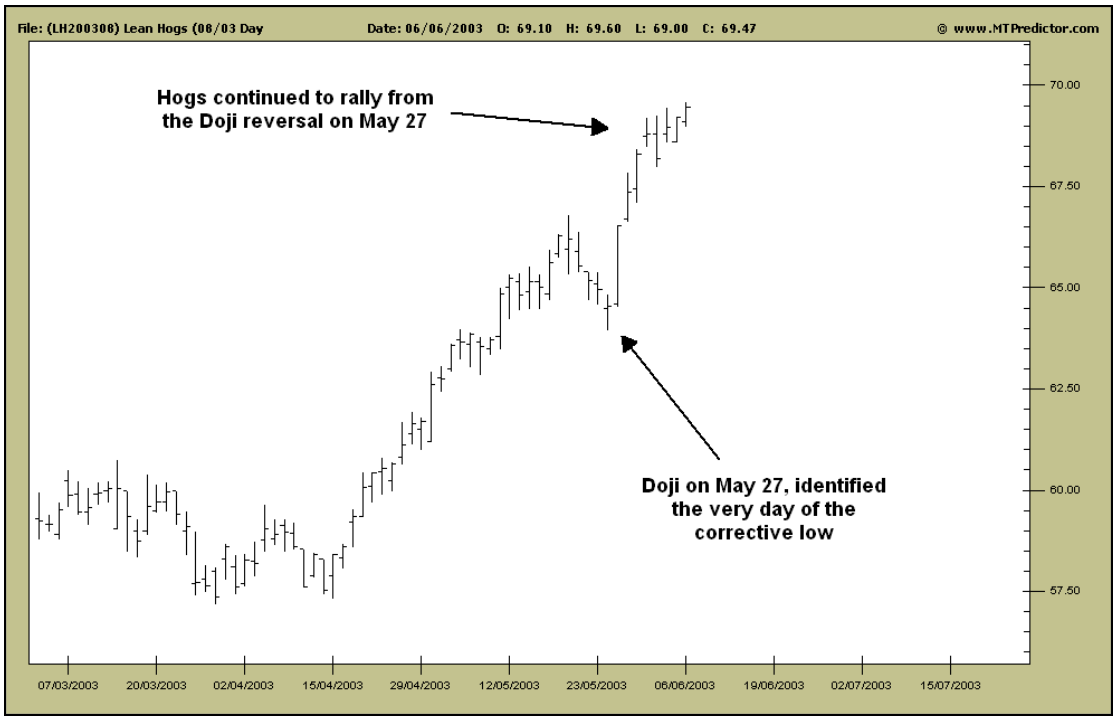
Let's see what happened from here:



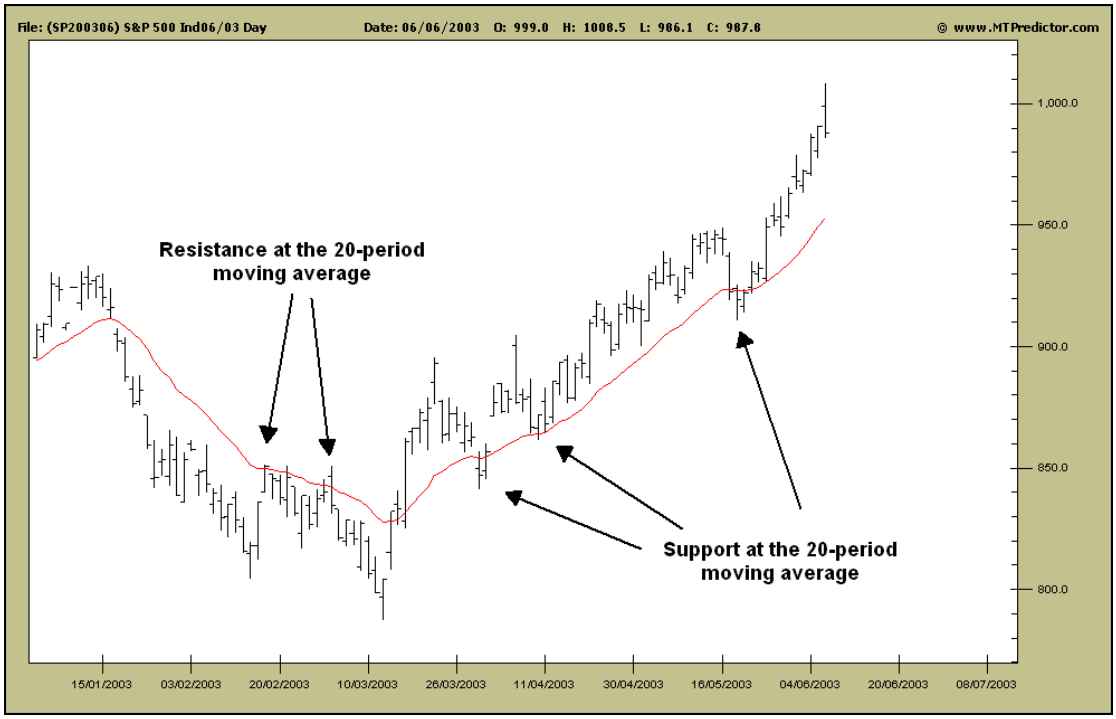
As you can see from the chart above, the Doji on May 27 identified the very day the minor corrective decline ended. Lean Hogs then continued the current trend higher.

Continued on the next page with another advanced technique – the "20-period exponential moving average".

20-period exponential moving average

The 20-period exponential moving average is a universally known technique for tracking a market's trend. However, I would like to present here a particular way to help gauge support and resistance areas.

Let me show you an example:



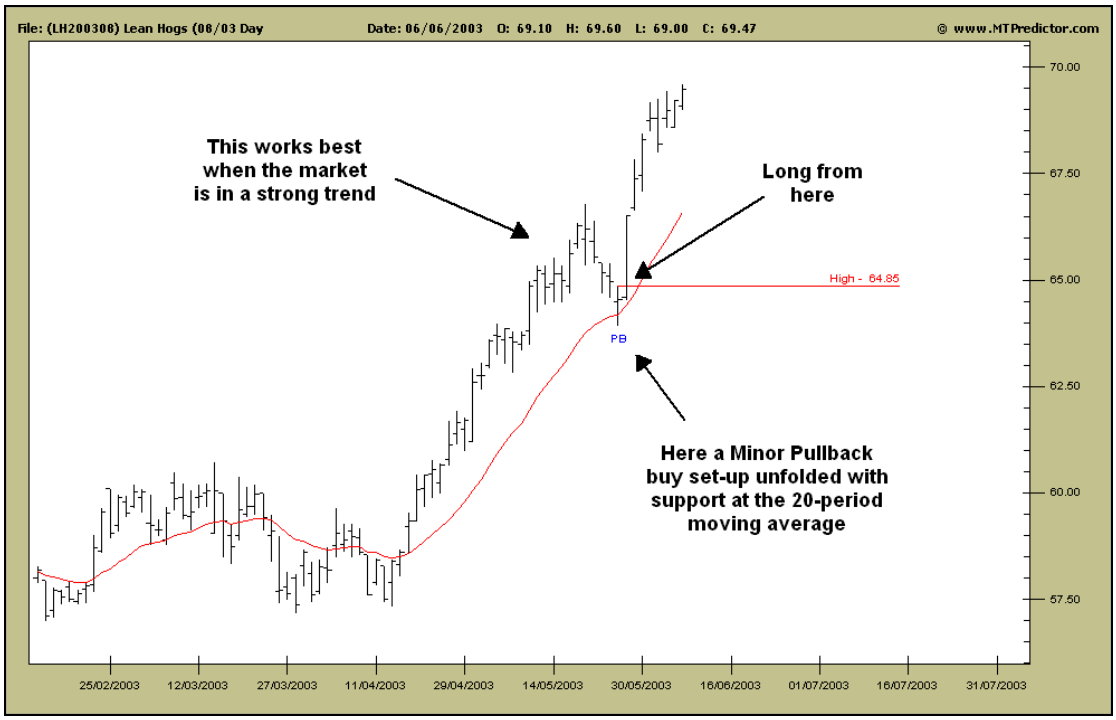
In the chart above on the (Jun) S&P Futures, you can see how the market found resistance at the 20-period exponential moving average on the way down, then, throughout the entire rally from the March 12 low, the 20-period exponential moving average provided support.

So how can you best use the 20-period exponential moving average ?

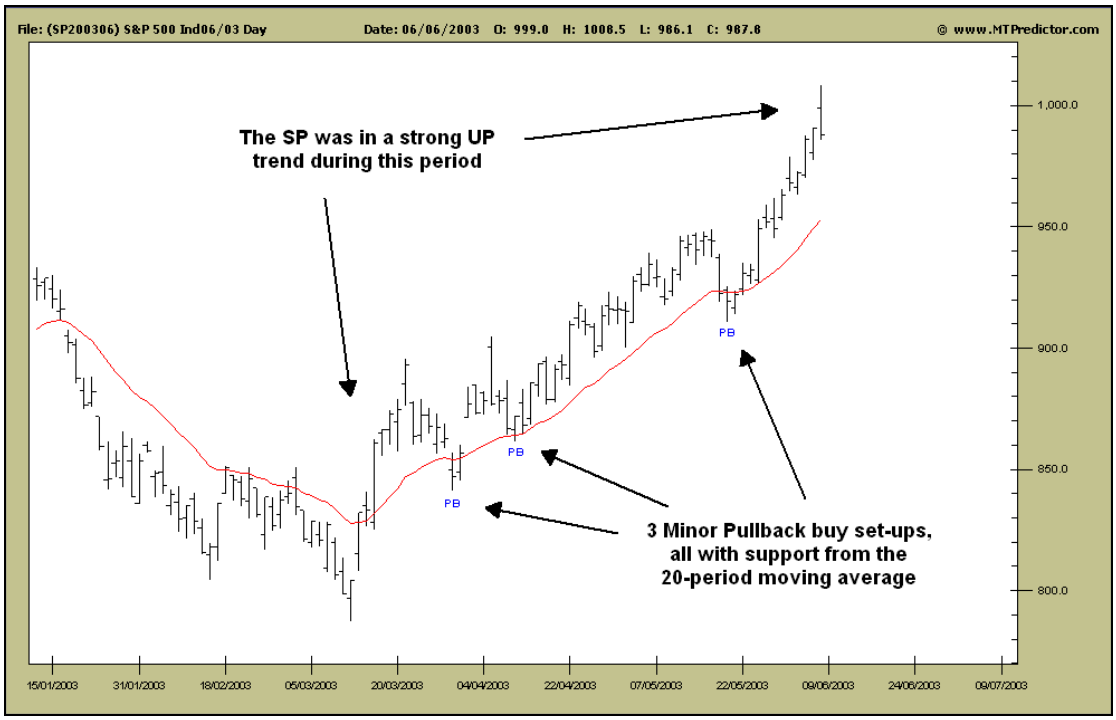
From my own experience, the best way to use it is when it adds support or resistance as additional reasons to enter a standard MTPredictor trade set-up, for example the Minor Pullback.

Continued on the next page . .

Here is a great example on a daily chart of (Aug) Lean Hogs:



You can see that the Minor Pullback buy set-up fell exactly on the 20-period exponential moving average for support. Let's take another look at the current S&P example:



As you can see from the second chart on the prior page, there were three Minor Pullback buy set-ups, each of which found support at the 20-period exponential moving average throughout the rally from the March 12 low.

Again, from my own experience, I have found that the 20-period exponential moving average works best when the market in question is in a strong trend. In both examples on the prior page, the market was rallying strongly, and the minor corrective decline bounced off the 20-period exponential moving average perfectly.

If the market in question is moving sideways and in a choppy consolidation period, then I have found that using the 20-period exponential moving average will lead to more confusion than clarity in projecting support and resistance areas. My best advice is to only look at the 20-period exponential moving average for potential support or resistance when the market is in a strong trend. Then, it can be used to supplement the standard MTPredictor trade set-ups eg the Minor pullback, which works very well with support or resistance at the 20-exponential period moving average.

This is not the only way to use the 20-period exponential moving average. I'll come back to a specific trade management technique in the next chapter.

Continued on the next page . .

Advanced trading strategies summary

I hope you can see that this chapter has covered some very useful strategies, that can be used above and beyond the normal MTPredictor trade set-ups. In particular, the minor pullback trade set-up can be an excellent way to enter a new trade in the middle of a strong trend. As you have seen in earlier chapters, the standard MTPredictor trade set-ups are designed to identify the start of a trend, so once the trend is underway, it is usually very difficult to climb aboard. This is where the minor pullback trade comes in. As stated in the section on the minor pullback, this set-up works best when there is a clear and strong trend, and when the minor pullback is only a small correction that unfolds as a single swing. If you restrict your minor pullback trade strategies to only these times, then the probability of a successful (and profitable) trade will be higher.

The inside day and outside day can also be used as trend continuation trade set-ups. As such they are also great ways to enter a new position in the middle of a strong trend. As with the minor pullback, they are best used when there is obvious and strong trend. If you try to use these trade set-ups in a sideways and choppy market, then the likelihood of a successful and profitable trade is much lower. As such, I do suggest that you restrict your trend continuation trade set-ups to only those markets that are making *strong* trends. This may seem obvious, but it is worth stating, to help you avoid entering trades where the market goes sideways and you end up frustrated as the market goes nowhere.

The inside day can also be used as an entry strategy for a trend reversal, and can complement the normal coloured Reversal Bars. However, as with all MTPredictor trade entry strategies, it is vital that you always check the *risk to reward ratio* on any new trade, and only enter the trades that keep the initial risk small, in comparison with any potential profits.

The 80/20 day is particular useful for *anticipating* a potential change in trend, particularly when the 80/20 day enters a WPT support or resistance zone. As such, it can be used to enter a new trade earlier as the reversal is in the process of unfolding.

The other trade strategies that I have mentioned in this chapter are more for confirmation, so they are less important. For me, the main trade strategies to focus on here are the minor pullback, inside day and outside day, particularly as they allow trade entries in the middle of a strong trend, which would not be found by the standard MTPredictor trade set-ups. They also provide the opportunity for pyramiding on existing trades as the main trend proceeds in your favour. I will cover pyramiding in the next chapter.

Chapter 11 – Advanced Trade Management

In this chapter, I would like to take a look at the standard MTPredictor trade set-ups and show you how to adjust the basic trade management guidelines (as outlined in chapter 9) to enable you to take full advantage as different market conditions unfold. The most obvious one is where the new swing unfolds as a strong wave 3 type move, and not as a corrective wave C. If you biased your trade management guidelines to anticipate a wave 3, you could take full advantage of the larger profit potential of the wave 3 type swing.

I will also cover some additional trade management techniques that will allow you to run trades out longer than normal. On the other side of the coin, I will also discuss the use of the "2-3 initial risk zone", as a way to do make more, but slightly smaller, consistent profits.

I will also look at the topic of pyramiding, as a way to maximise the profit potential of a major swing.

Lastly, I will look at how to cope with a market that gaps beyond your initial trade entry, increasing your carefully calculated initial risk on the trade.

Sections in this chapter are:

- The Wave 3 or C question
- When to trade as a Wave C
- When to trade as a Wave 3
- 2-3 initial risk zone
- 20-period exponential moving average
- Trading in multiple units
- Pyramiding
- Gap openings

As in the last chapter, I will cover each of these topics one-by-one, starting with the wave 3 or C question.

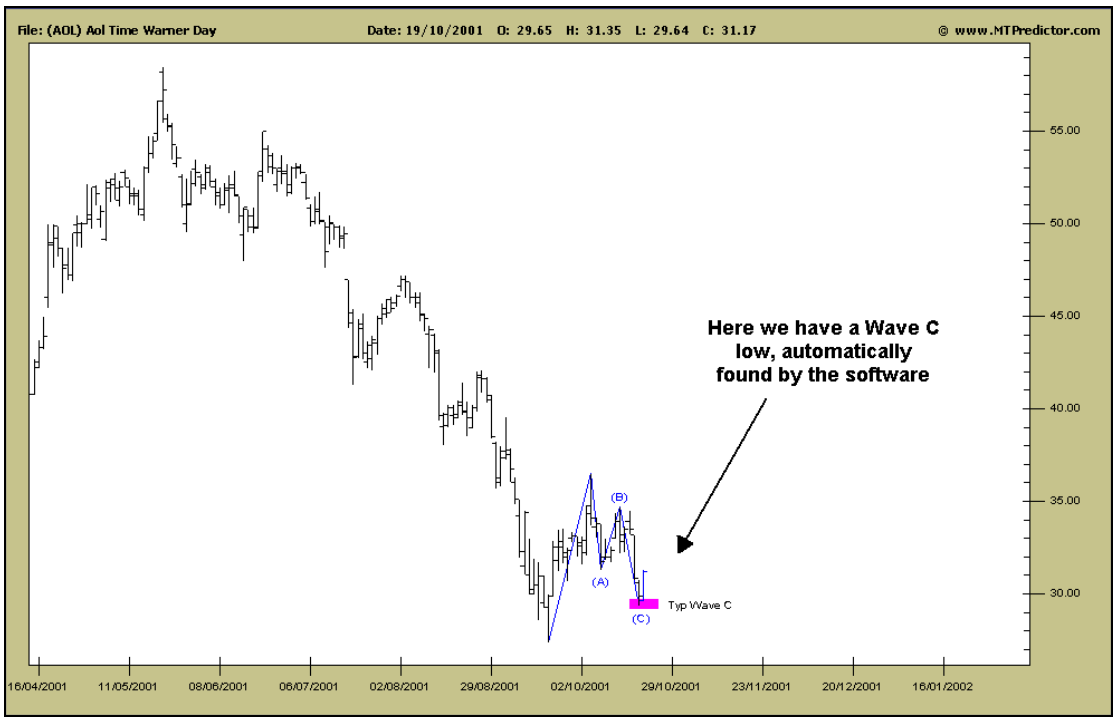
Continued on the next page . . .

The Wave 3 or C question

This is probably one of the most important questions to be asked as a new wave 3 or C swing starts to unfold, because it has huge ramifications for the profit potential of the upcoming move. If the anticipated swing only unfolds as a corrective wave C, then the profit potential is small. However, if the anticipated swing unfolds as a wave 3, as wave 3s are usually the strongest and longest of all the Elliot wave sequences, it carries the largest profit potential. So, being able to anticipate or confirm a wave 3 type swing is very important if you are to maximise profits when a wave 3 type swing actually unfolds.

Let me take a look at this in a little more detail, but first I would like to explain why I use this particular Elliot wave labelling convention.

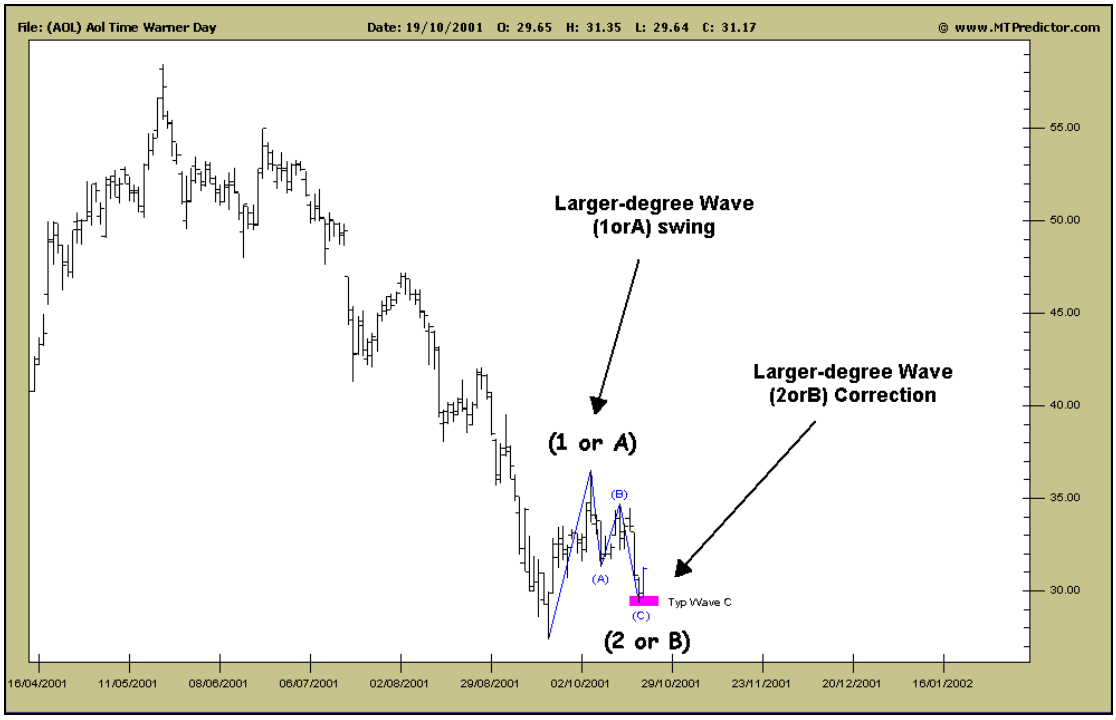
As an example, let's take a look at a daily chart of AOL on October 10 2001:



Here you can see the software has automatically identified a potential wave C low, with all the usual ingredients: an ABC correction where the wave C swing stopped at the typical wave C WPT and the last bar on the chart is a blue buy trade set up bar. The question is: how far will AOL rally from here?

As you have seen in prior sections on advanced Elliot wave analysis, this ABC correction would be considered part of a larger-degree wave (2orB) correction, which followed a larger-degree wave (1orA) rally. Whether the software automatically identifies these, as in the standard TS1 trade set-up, or as in this example you have to label them manually, the situation is the same.

Let's see what this looks like on the chart:



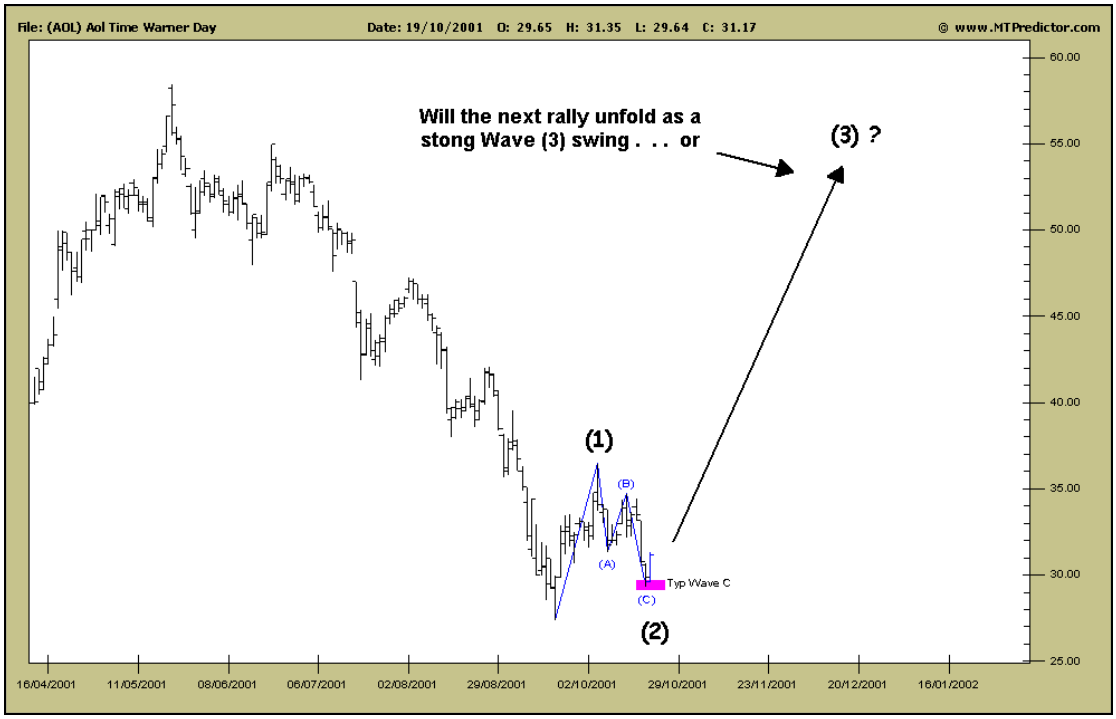
Here you can see how the initial rally off the low would be considered a larger-degree wave (1orA), and the correction that followed (which sub-divided into the lesser-degree ABC) would be considered a larger-degree wave (2orB).

The reason I label these as (1orA) and (2orB) is that at this point in time, we simply do not know for sure whether this is a (1) and (2) sequence or an (A) and (B) sequence. I know some who are new to Elliott wave analysis may find this slightly confusing, as this is different to the way *standard* Elliot analysis is taught. However, what I would like you to understand is that all you know *for sure* is that a wave (2orB) correction is ending (and has sub-divided into an ABC) - a rally is likely to unfold from here.

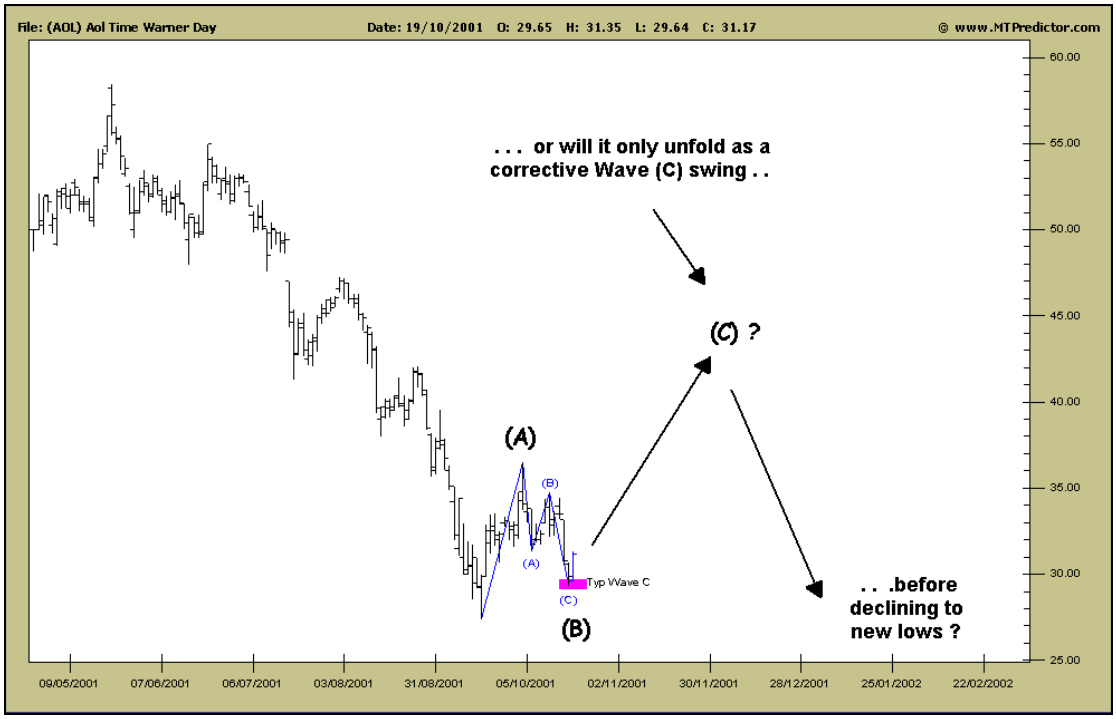
Let me show you what the possible options are now. Please see the two charts on the next page. As you see, the potential profit in any long trade taken off this low would be significantly different if the rally turned out to be a strong wave (3), or a corrective wave (C).

All you know is that a Wave (2 or B) correction has sub-divided into a minor ABC, and that the minor wave C has stopped at the typical wave C WPT, and a blue buy trade set up bar has unfolded. As such, this is a standard MTPredictor buy trade set-up. Whether it comes off the end of a wave C low, as in this example, or as part of a TS1 trade set up, they are both the same, the only difference being the degrees of swings that are unfolding.

Here is option 1, where a strong wave (3) type swing may unfold:

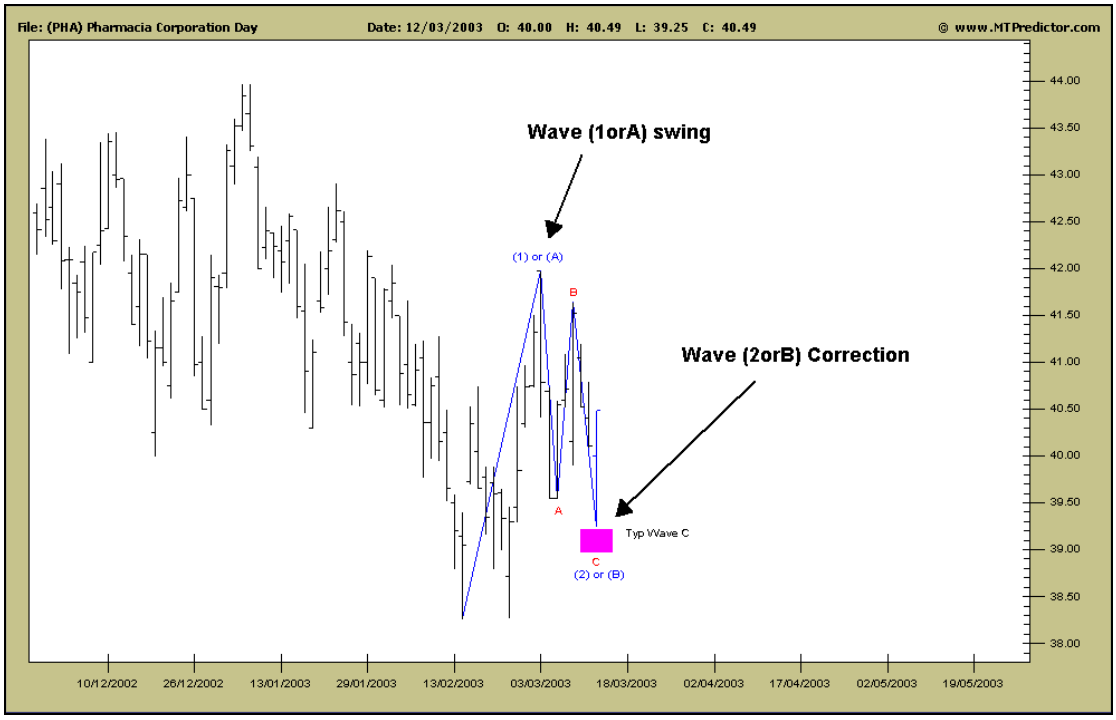


However, the other alternative is that the anticipated rally will only unfold as a corrective wave (C) type swing:

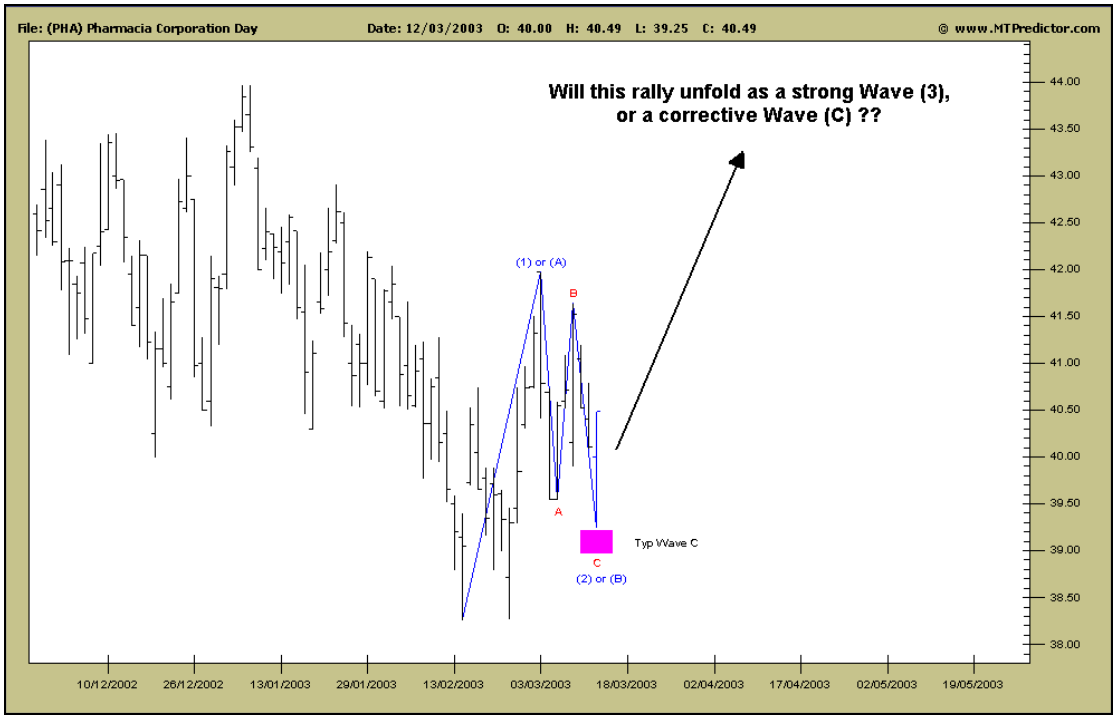


I hope you can see that the profit potential in any long trade taken off this low would be very different depending on which type of swing unfolds.

If you are slightly confused labelling the larger-degree wave (1orA) and (2orB) swings manually, then here is another example that is a standard TS1 Trade set up as automatically found by the software on a US Stock, Pharmacia Corp on Mar 12 2002:



Even with the automatic TS1 trade set-up, the question still remains the same:



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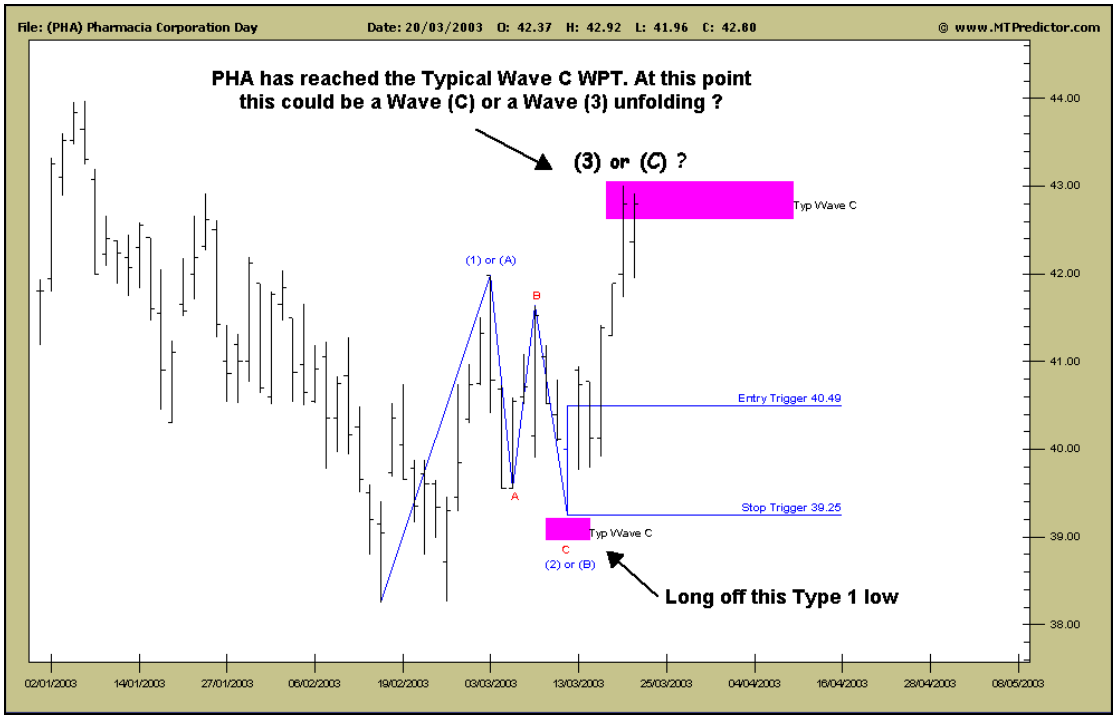
As I have already stated, at this point, there is simply no way to know for sure what to anticipate, hence I label the initial swing wave (1orA) and the initial correction (2orB), with the anticipated swing considered a wave (3orC). These examples have been for a wave (2orB) corrective low, however, the same applies for a wave (2orB) corrective high, you still do not know for sure how strong the next swing will be.

This is why I have designed the standard trade management rules as outlined earlier, to trade the next swing, as it unfolds, as if it were a wave (C). Then, when it closes beyond the typical wave C WPT, you trade it as if it were a wave (3). In this way, you are letting the market (by its own actions) confirm that it is now more *likely* to be a wave (3) type swing rather than a wave (C) swing by closing beyond the typical wave C WPT.

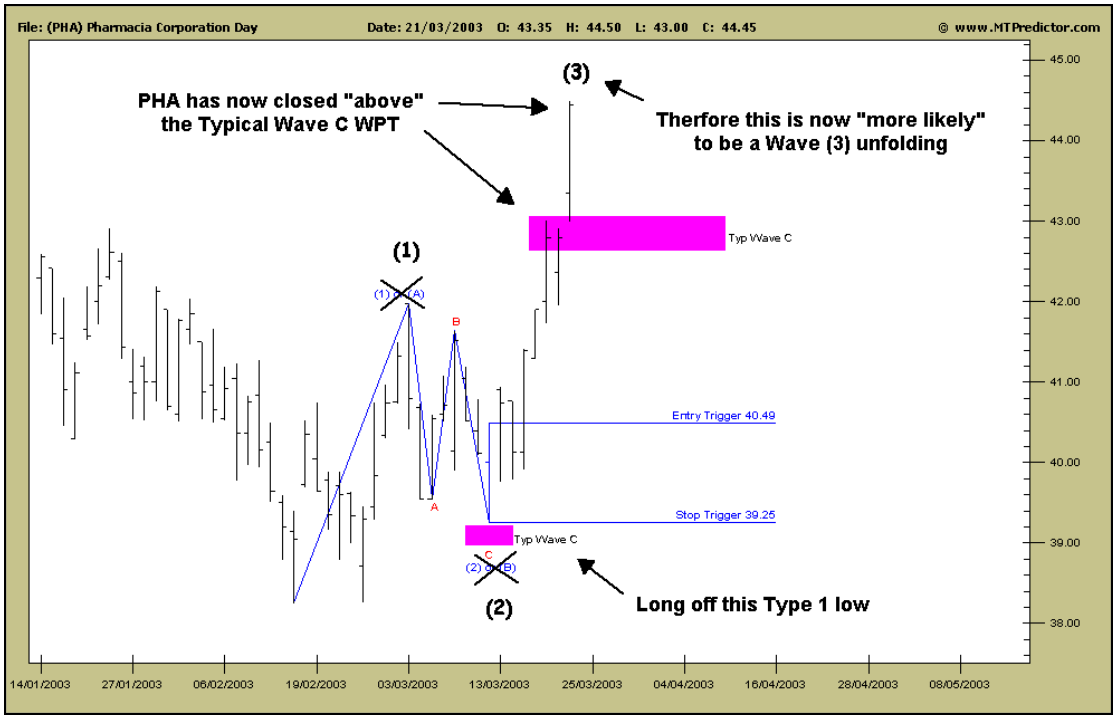
Let's see what this looks like on a chart:



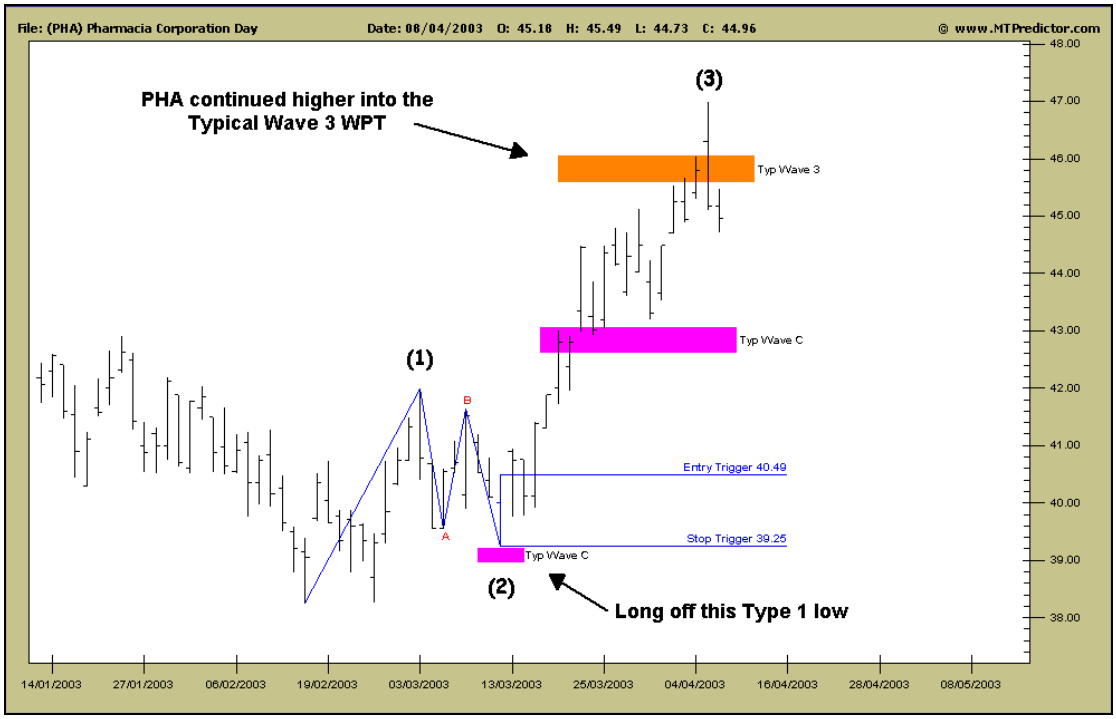
As you can see from the chart above, PHA has rallied nicely off the TS1 low, and has now reached the typical wave C WPT. At this point, the current swing could be considered either a Wave (C) or a Wave (3), it all depends on how it reacts at this typical wave C WPT resistance area.

If PHA reverses in this area, then it would be considered a wave (C) high, and therefore the rally off the type one low is probably over. However, *if* PHA closes above the typical wave C WPT then the current swing should be considered *more likely* to be a wave (3), and likely to rally further.

Let's see what this looks like on a chart:



As you see, a close above the typical wave C WPT then makes the current swing more likely to be a wave (3), therefore the TS1 low was actually off the end of a wave (2) low.



As you can see from the second chart on the previous page, PHA continued to rally; in fact, PHA reached the typical wave 3 WPT, the ideal place to look to protect profits on your long trade taken off the TS1 low.

Clearly, the profit potential at this wave 3 WPT was significantly more than was on offer at the typical wave C WPT.

However, the main point I to take away from this example is that, at the most basic level, once a market has rallied past the typical wave C WPT, then it is *more likely* to be a wave 3 swing that is in the process of unfolding.

As with all trading, future market movements are only ever a matter of probabilities, this is why I use the phrase *more likely* because you can never know exactly how the future will unfold. However, if you use this guideline then normally the market will continue higher once it has exceeded the typical wave C WPT.

If you had used the basic trade management guidelines (as outlined in chapter 9), these would have kept you in a long trade right through the typical wave C WPT, only taking profits as PHA reversed off the typical wave 3 WPT. As such, the basic trade management guidelines would have coped with this uncertainty perfectly, and maximised the profit on this trade.

But this is not always the situation, because sometimes the market in question can falter at the typical wave C WPT, stopping out your current trade, only to close afterwards beyond the typical wave C and continue the trend higher. This can be very frustrating, particularly as you would been stopped out prematurely, in an otherwise strong wave 3 type swing.

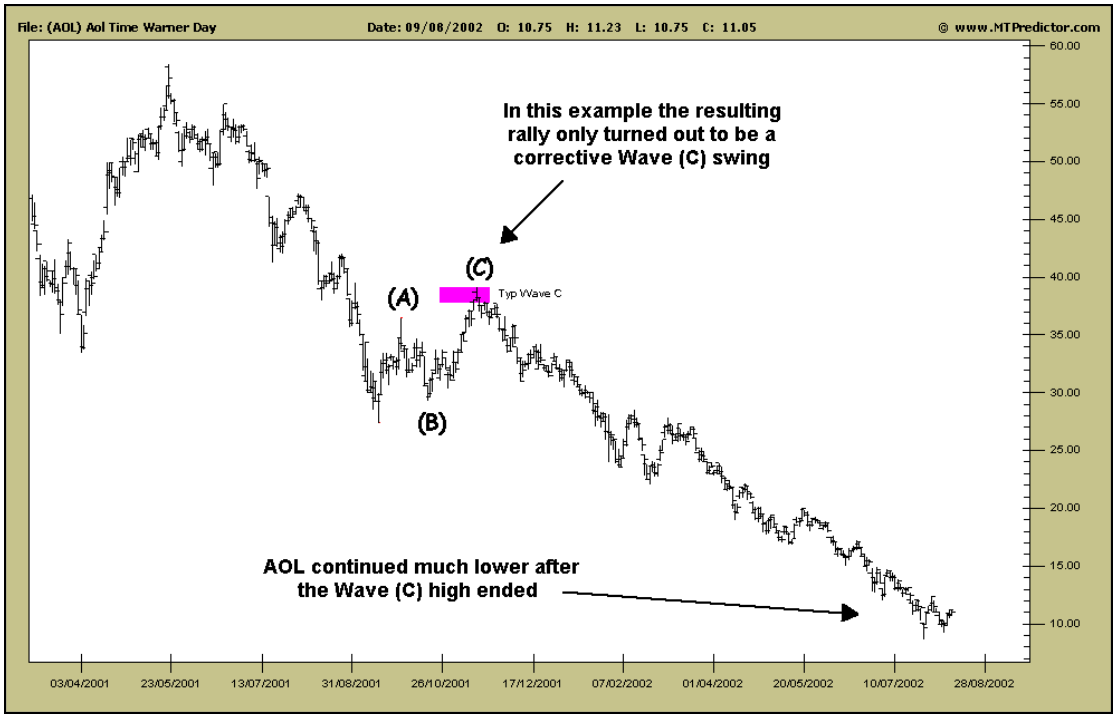
As such, the question is whether there is any way *before* the market starts to move in this wave (3 or C) swing that you can anticipate whether it is more likely to unfold as a wave (3) or as a wave (C) ?

This is what I'll cover in the next sections of this chapter.

Continued on the next page . . . .

When to trade as a wave C ?

If you go back and have a look at the example used at the beginning of this chapter on AOL, you can see that the anticipated rally only unfolded as a wave C:



As you see from the chart above, once the wave (C) high was complete, AOL continued to decline sharply over the next year.

So the question arises: how can you know whether you should anticipate that the current rally (off a minor ABC decline) will unfold as only a wave (C) and not as a strong impulsive wave (3). ? Again I stress that any future outcome is only ever a matter of probabilities, so the question I am trying to answer here is how to decide what kind of swing is more likely.

Also, the current example is for a wave (C) rally off a minor ABC decline (into a wave (B) low), exactly the same procedure should be followed if you are anticipating a wave (C) decline.

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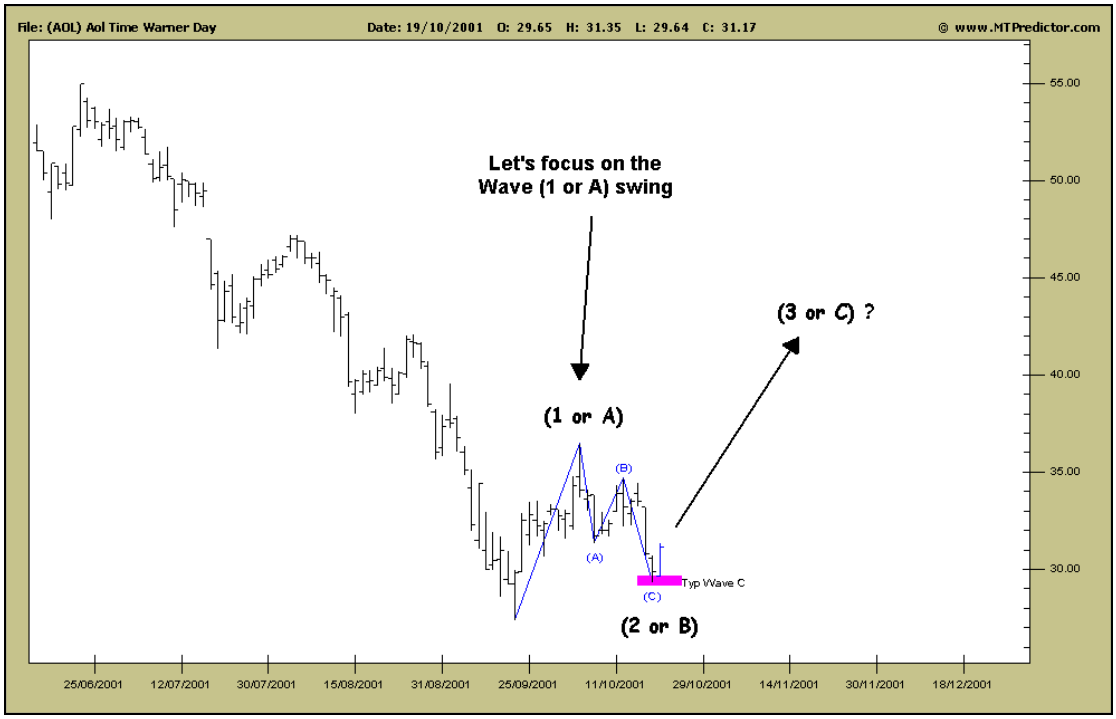
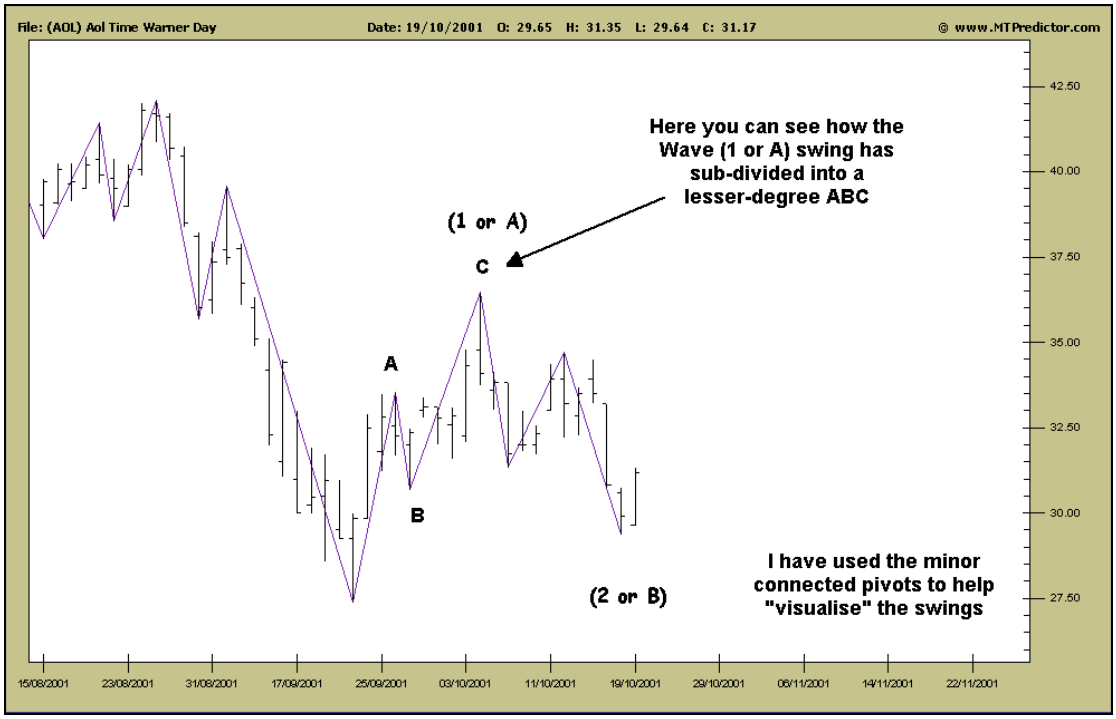
Let's go back and look at the current example on AOL:



You can see the same question on the anticipated rally. But let's turn our attention to the Wave (1orA) swing and look at the minor pattern within this swing:



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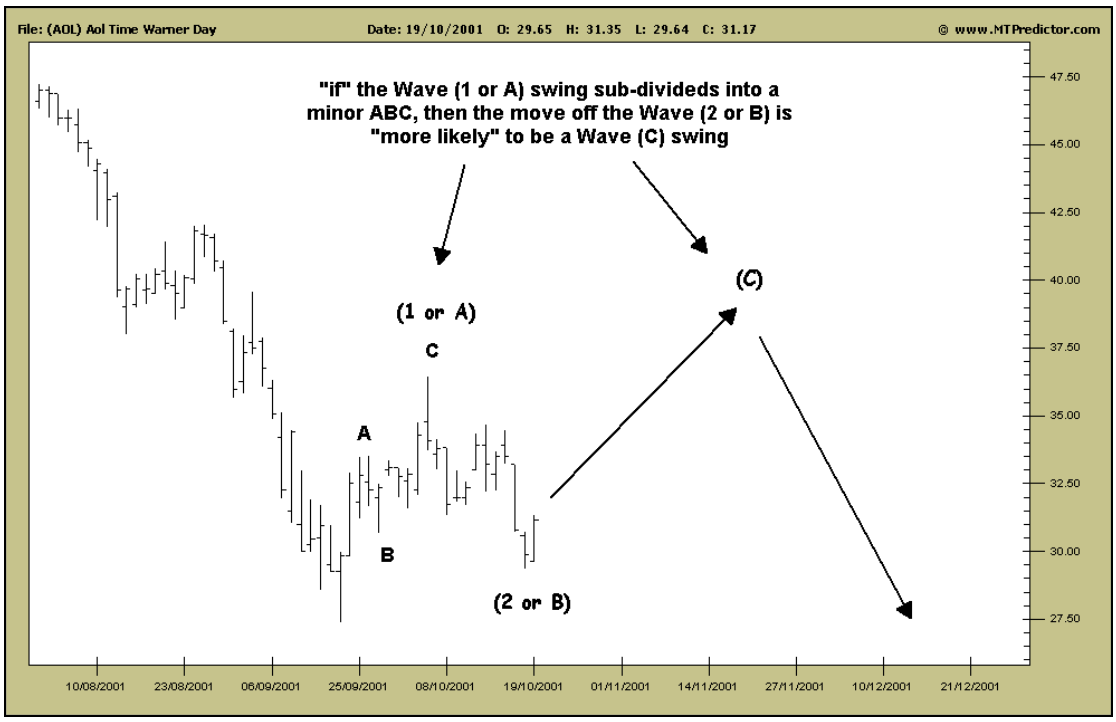
As you can see from the second chart on the last page, once you zoom in and look at the minor pattern within the wave (1orA) swing you can see that it unfolded as a lesser-degree ABC pattern. In this example, I have used the "minor connected pivots" to help identify and visualise the swings. However, I hope you can see clearly that the wave (1orA) did indeed unfold as an ABC sequence.

As you know by now, from the section on Elliot wave analysis, an ABC sequence is corrective in nature, whereas a 12345 sequence is impulsive by nature. As such, you can deduce that if the initial swing (the wave (1orA)) of a 3 swing sequence is corrective, then *more often than not* the whole larger-degree 3 swing sequence will also be corrective – it will unfold as a larger-degree (A), (B) and (C).

Let me rephrase this and demonstrate on the chart, to make it clearer:



If the wave (1orA) swing sub-divides into a lesser-degree ABC, then you should anticipate that the swing off the wave (2orB) low (in this example), will only be a wave (C) type rally.

So, the new larger-degree wave count should be adjusted as shown on the first chart on the next page.

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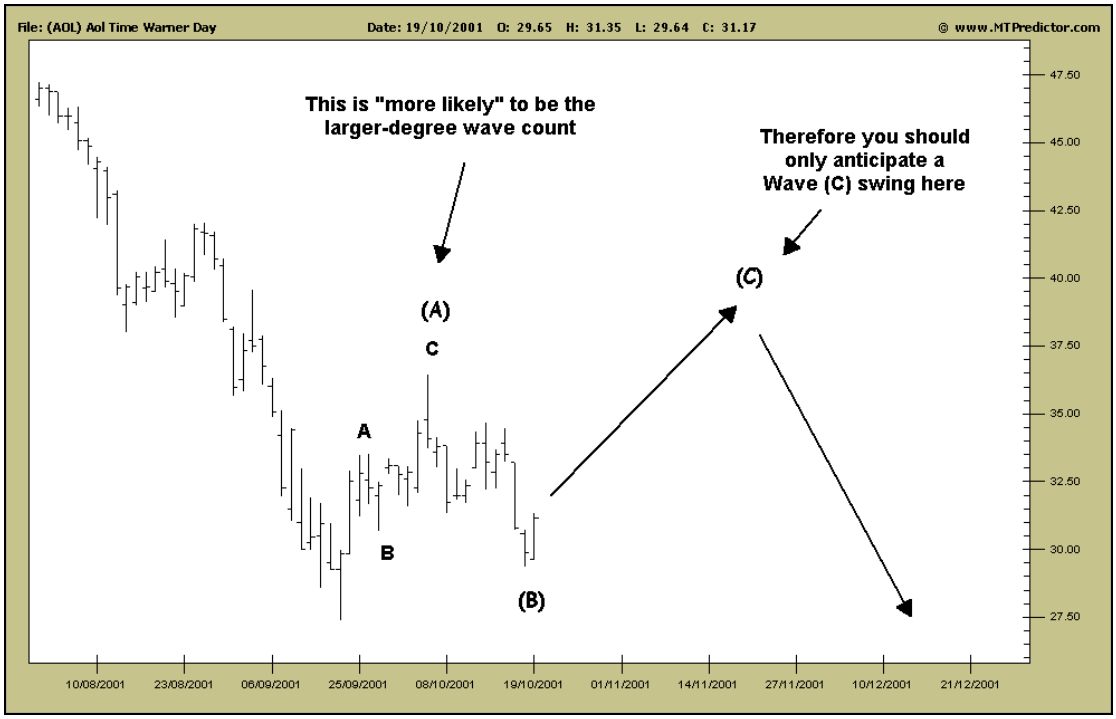
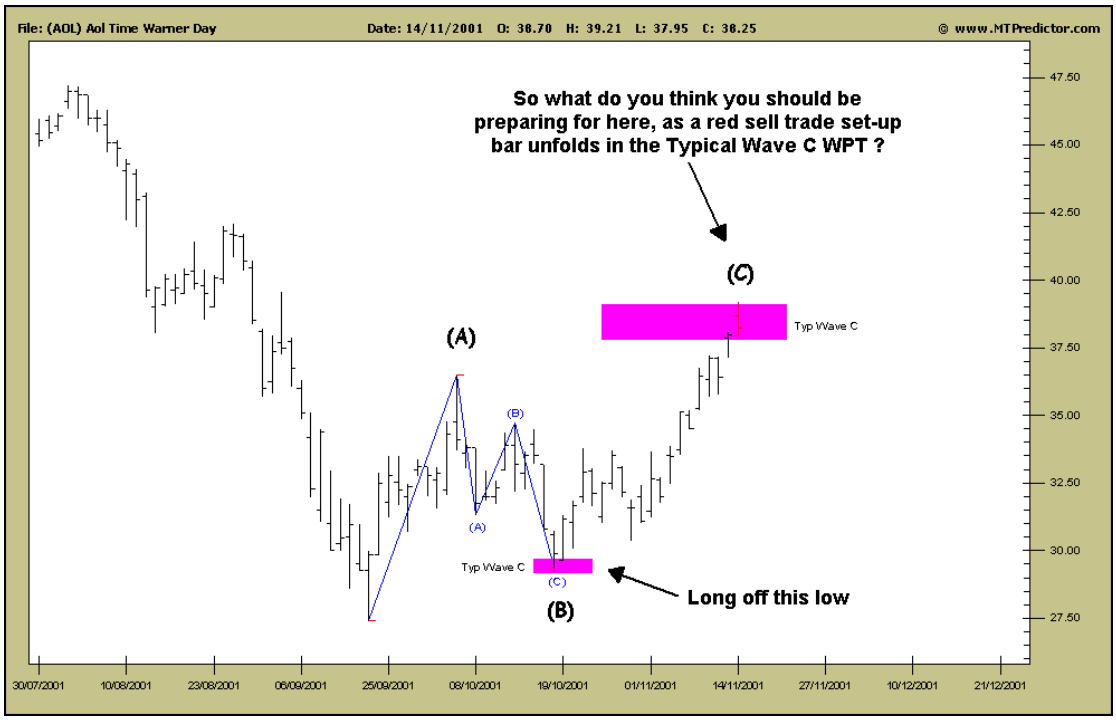
This now becomes your preferred larger-degree wave count:



As you can see in the chart above, the way the initial swing sub-divides (in this example into a minor ABC) can then give you an indication of the most likely way for the third wave of the sequence is to unfold. Let's move forward a few weeks and see what the situation was then:

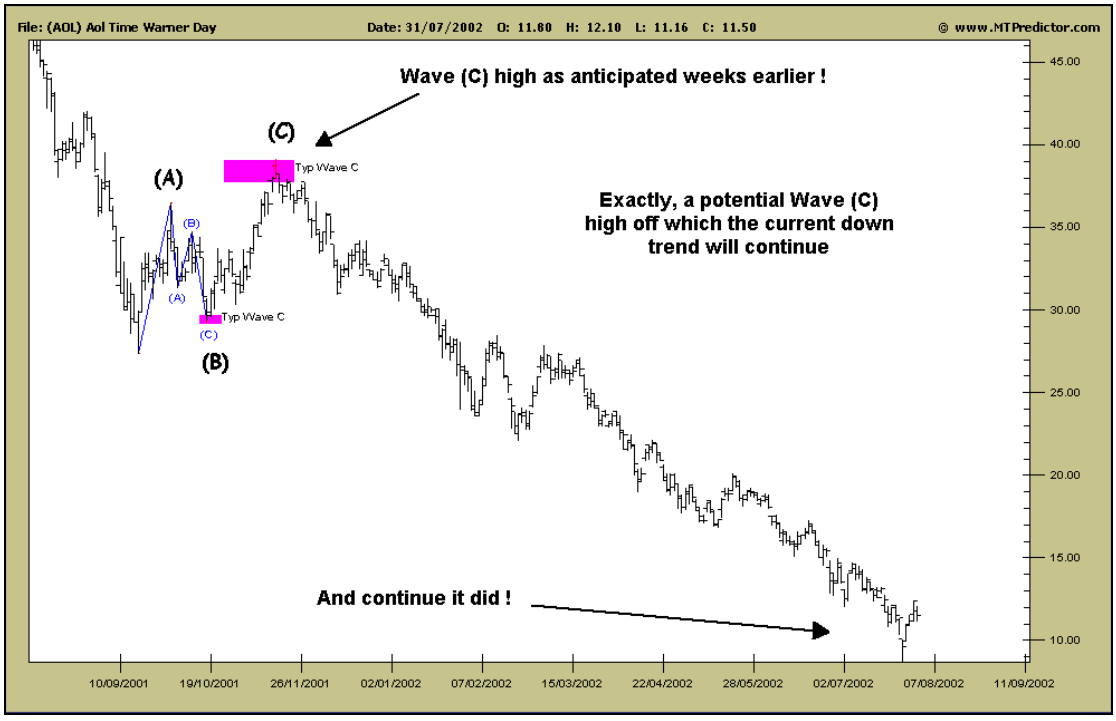


As you can see from the second chart on the prior page, AOL did indeed rally off this minor wave C low. However, AOL has now reached the larger-degree typical wave C WPT resistance area and November 14 unfolded as a red sell Reversal Bar.

So from everything outlined so far in this chapter, what do you think was the most likely position of AOL as of November 14 ? Do you think that AOL continued to rally from here, closing above this typical wave C WPT, continuing in a wave 3 type swing ? Or do you feel that the current rally is over, so you should be protecting profit on your current long trade, and potentially looking to reverse your position to a short trade ?

Exactly, as the wave (1orA) subdivided into an ABC, you should anticipate that the whole larger-degree pattern is *most likely* to unfold as an (A), (B), (C) (and not as an impulsive 123), therefore you should be anticipating that a high is likely to unfold as of November 14. You should be protecting profit on your current long positions, and looking to reverse to short if AOL declines below the low of the red sell Reversal Bar on November 14.

Let's see what happened next:



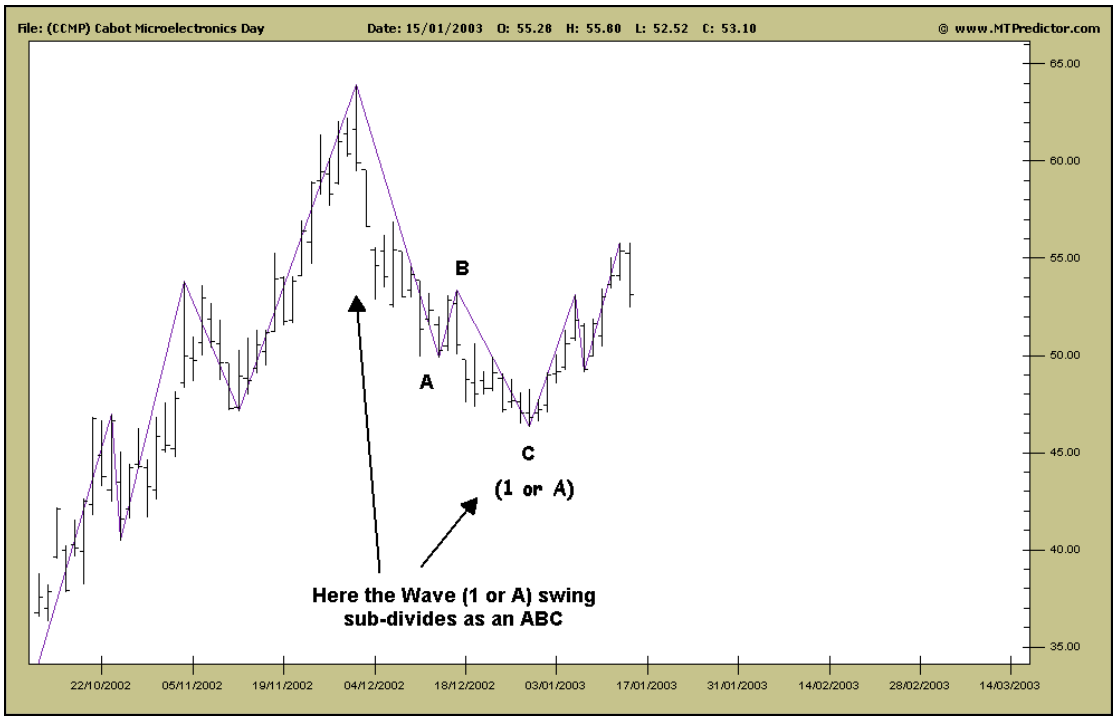
As you can see, AOL declined sharply off this high. In fact November 14 was the very day the larger-degree wave (C) ended.

I hope you can see that you should have been anticipating this as the most likely result from the minor pattern within the wave (1orA) swing.

Again, this example may confuse some because I have labelled the larger-degree Elliot wave sequences manually, so on the next page I will look at a standard TS1 trade set-up as found by the software automatically.

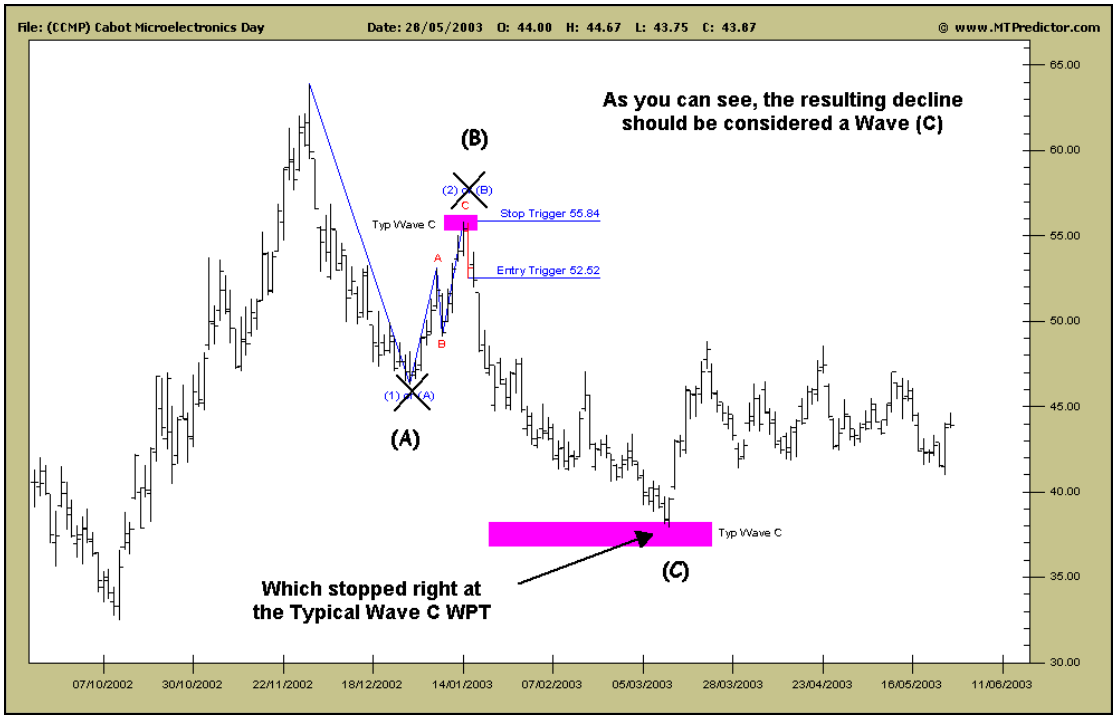
Here is an example of a standard TS1 set-up, found automatically by the software, this time a sell set-up on the US stock, Cabinet Microelectronics:

As you see on the chart above as of January 15 2001, here is a good-looking TS1 sell set-up. As before, to decide whether the anticipated decline is going to be a wave (3) or wave (C) you look at the minor pattern within the wave (1orA) swing:



And as you can see from the second chart on the prior page, in this particular example the wave (1orA) decline sub-divided into a lesser-degree ABC, just as before, this would indicate that the anticipated decline is more likely unfold as a wave (C), not as a strong impulse wave (3) type swing.

Let's see how this worked out in the next few months:



As you can see on the chart above, Cabinet Microelectronics did indeed continue to decline, finally finding support at the typical wave C WPT. In other words, the anticipated decline off the TS1 sell set-up only unfolded as a wave (C).

At first sight this may seem easy, however, as with all trading the future is only ever a matter of probabilities, but this gives you an idea of what it is most likely to unfold. Not all examples are as clear-cut as those here, with the minor pattern in the wave (1orA) swing not as obvious as in these examples. Nevertheless, the same basic guideline still applies, the question you should ask yourself is whether the wave (1orA) swing looks more impulse or more corrective. This will then give you an indication of what to anticipate from the move off the wave (2orB) high or low.

It goes without saying that the minor pattern within the wave (2orB) is irrelevant, because it will always be an ABC - no matter how the larger-degree 3 swing pattern unfolds, the wave (2orB) swing will always be corrective, most likely unfolding as a minor ABC. This is the basis of the TS1 trade set-up, where the end of the minor wave C (of the ABC correction) then indicates that the whole wave (2orB) correction is over and a new trade should be taken. The only question is, as you have seen in this chapter, how strong the anticipated move off this wave (2orB) swing is likely to be.

When to trade as a wave (C) summary:

- The best way to anticipate whether a move off a wave (2orB) high or low is going to turn out to be a strong wave (3) or just a corrective wave (C) is to look at the minor pattern *within* the wave (1orA) swing
- If this unfolds as a lesser-degree ABC, or indeed appears corrective in nature, then you should anticipate that it is *more unlikely* a wave (C) swing will unfold off your wave (2orB) high or low.

Okay, now you have an idea of how to anticipate whether the move off a TS1 trade set-up is more likely to be a wave (C), the question is: when should you anticipate that this is going to be a strong wave (3) type swing? This is by far the more important question, because the profit potential in a wave (3) type swing is far greater than within a wave (C) swing.

As such, in the next section I'll look at when you can anticipate whether the move off a wave (2orB) high or low is more likely to turn out as a strong wave (3) type swing.

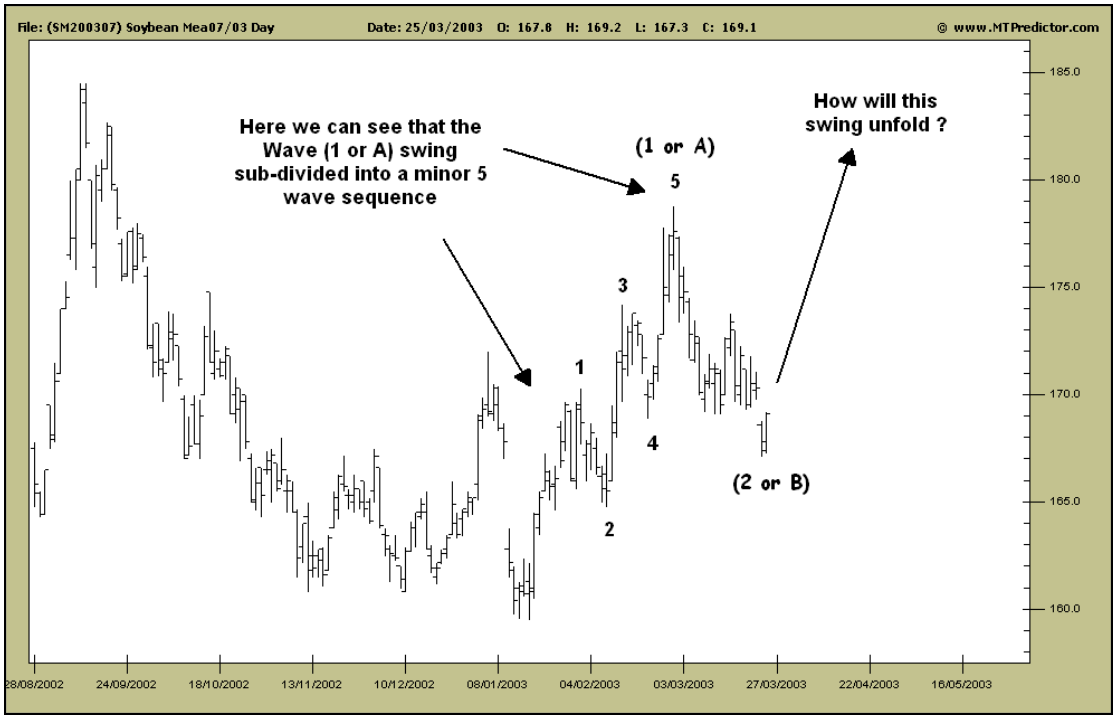
Continued on the next page . . . .

When to trade as a wave (3)

In the last section, you saw how you could use the minor pattern within the wave (1orA) swing to decide whether the move off a wave (2orB) high or low was *more likely* to turn out as a corrective wave (C). You then saw how that *if* the wave (1orA) swing sub-divided into a minor ABC, which is a corrective pattern, then the whole larger-degree 3 wave sequence was more likely to unfold as an (A), (B), (C).

But what if this wave (1orA) swing sub-divided into a minor 12345 pattern, an impulsive Elliot wave sequence?

Let's look at an example that you should be familiar with from a prior chapter:



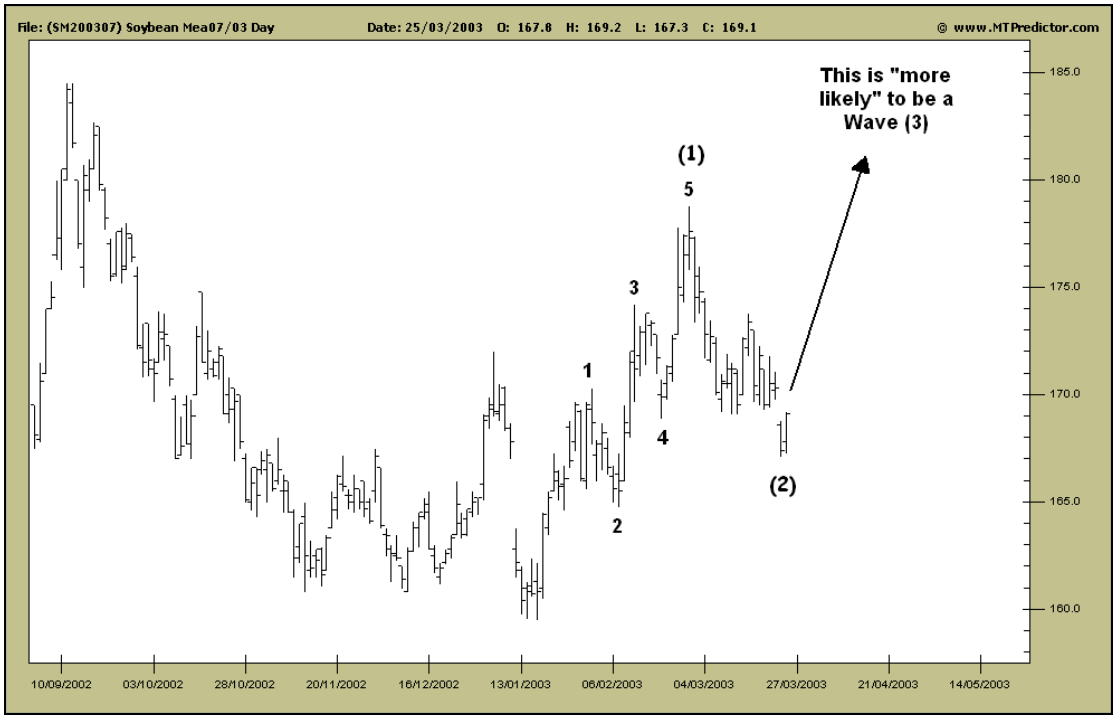
This is the example on (Jul) Soybean Meal.

The main point in this chapter is how the larger-degree wave (1orA) rally sub-divided clearly into a minor 5 wave sequence. As you know from prior chapters, a 5 wave sequence is impulsive in nature. So, you can deduce that the move off the wave (2orB) low (in this example), should also be impulsive, which in Elliot wave terms means it is *more likely* to be a strong wave (3) type rally rather than a corrective wave (C) rally.

This is not a hard and fast rule, because *strictly* in Elliot wave terms the first swing of a larger degree (A), (B), (C) correction can also sub-divide into a minor 5 wave sequence. However, in my own experience over the last 17 years, I have found that if the wave (1orA) sub-divides into a minor 5 waves, then it *is* more likely that the move off a wave (2orB) will turn into a wave (3) type swing.

As with all trading, the outcome of any set-up or analysis is only a matter of probabilities. What I am trying to do in this section is to give you an idea of where the probabilities favour one outcome slightly more than another, as such you can then bias your trade management rules accordingly.

Therefore, this is what you would consider the most likely outcome now:



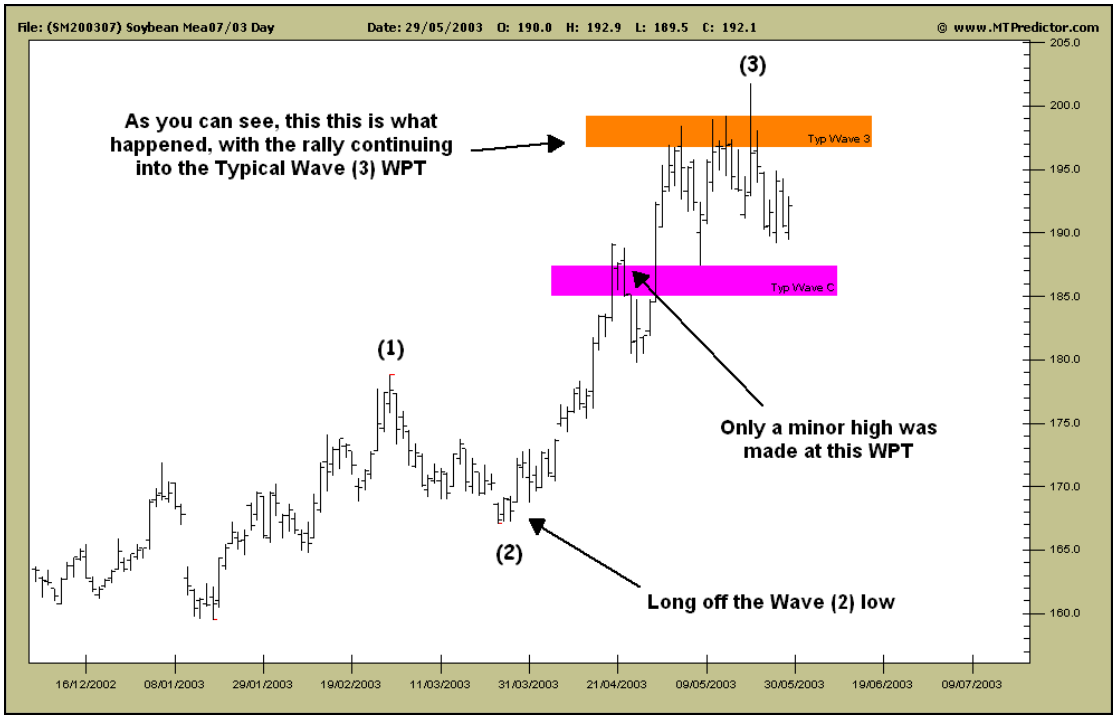
You can see how the rally of the current correction would be considered more likely to unfold as a strong wave (3).

Okay, now you have decided that you are anticipating a Wave (3) type rally rather than a corrective wave (C), how will that affect the basic trade management guidelines outlined in detail earlier.

Continued on the next page . . .

Here you can see how using the basic trade management guidelines would have resulted in being stopped out at the typical wave C WPT projected target:

However, as you have seen in prior chapters, Soybean Meal rallied much further:



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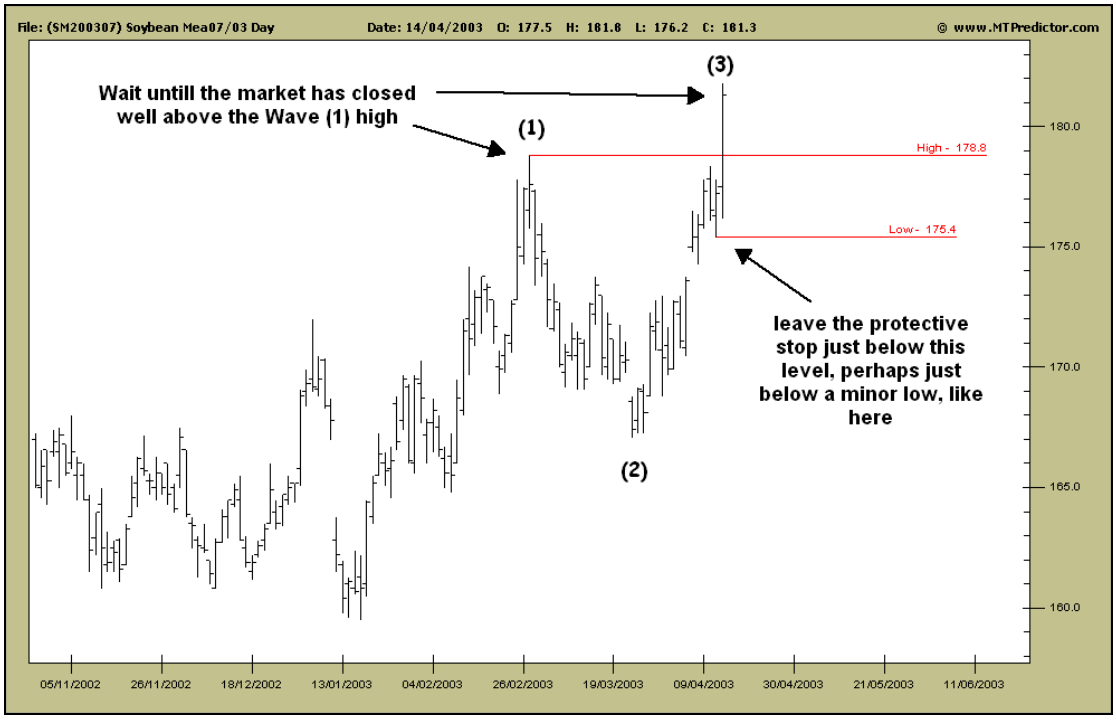
So how could you have amended the basic trade management guidelines, to prevent being stopped out at the wave C WPT target, therefore enabling you to stay in the current long trade right up into the typical wave three WPT ?



As covered in a prior chapter on practical Elliot wave analysis, *ideally* in a strong impulsive Elliot wave sequence, once the wave (3) has closed well beyond the price extreme of the wave (1) it should not then correct back into this level. You can use this Elliot wave guideline to help keep your stop *out of the way* and allow the market some room to wiggle and make a minor high or low at the typical wave C WPT, before continuing the main trend - ideally into the typical wave (3) WPT.

Exactly where you place the protective stop is dependent on the market activity at the time: if there is a minor swing low, just below the wave (1) high, as in this example of a long trade, then you could use this minor low as a place to keep your protective stop out of trouble.

However, the general idea is to keep it just below (for long trade), or just above (for a short trade), the price extreme of the prior wave (1) high or low.

Then, once the market in question reaches the typical wave 3 WPT you can start to bring it closer to the market. The main reason for keeping this stop out of the way is to prevent being stopped out prematurely at any minor high or low that is made at the typical wave C WPT.

As you see, being able to adjust the basic stop loss guidelines, in favour of a strong wave (3) when it is more likely to unfold, can help you maximise the profits and take full advantage of any strong wave (3) as it happens. One way to do this is too look at the minor pattern within the wave (1orA) swing, to see whether it is more impulsive rather than corrective, where the best impulsive sequence is a clear and obvious minor 5 waves.

The second area where you would consider it more likely a strong wave (3) type rally is going to unfold, is in the use of seasonality - by looking at what a particular market has done at the same time in the past, you can gauge the likelihood of a strong move.

The most obvious of these is when trading the Grains during the May-July period, which is well known for weather scares, it can very often produce a very strong rally in the Grain complex.

As such, this was another good reason for biasing your trading towards a strong wave (3) type swing in Soybean Meal - it was in the broad period for a seasonal rally.

Other markets are prone to strong swings, particularly Orange Juice in November, when weather scares can produce very large moves, particularly to the upside.

I suggest that you look at any market you are trading for seasonality, and see whether there have been any particular bias towards large moves at any common point in the year. You can then use this to help the bias your basic trade management guidelines.

Please remember, I only suggest using seasonality to help decide where to place a protective stop on a current position. I do not recommend using seasonality alone for a new trade entry. This should always be off one of the standard MTPredictor trade set-ups.

Continued on the next page . . . . . .

When to trade as a wave (3) summary

As you have seen in this section, there are two circumstances when you should consider amending the basic trade management guidelines in favour of a strong wave (3) type swing:

- When the wave (1orA) swing sub-divides into a clear and obvious minor 5 wave sequence, then the move off the wave (2orB) high or low is *more likely* to unfold as a strong wave (3) rather than a corrective wave (C).
- The second is by using seasonality eg the grain markets in the May - July area, when the likelihood of a strong move generated by weather scares should bias your trading towards a strong wave (3) type upside move.

But please remember, how any market unfolds in the future is only ever a matter of probabilities, so anything can, and sometimes does, happen !

Continued on the next page . . . .

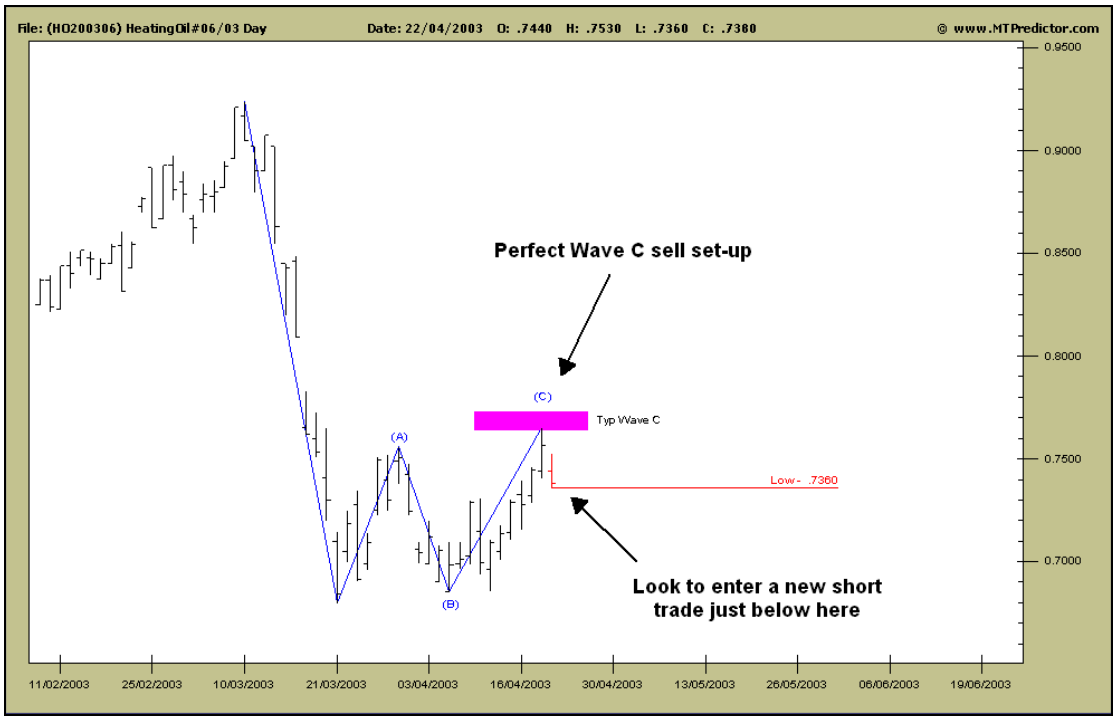
2-3 initial risk zone

During the last few chapters, I have been looking at different ways and methods to help run your trades longer, particularly during a strong wave 3 type move, to help maximise profits when a strong trend unfolds. So, what happens if a strong trend does not materialise, and the market only moves in the anticipated direction a short way?

If, on average, you make trades where the average profit is 2-3 times the average loss, then you have a good foundation for a long-term profitable trading approach to the markets. This is why the MTPredictor software has the "2-3 profit zone", or 2-3 initial risk zone in the software. This projects the area, in advance, where the potential profit would be 2-3 times the initial risk required to take the trade.

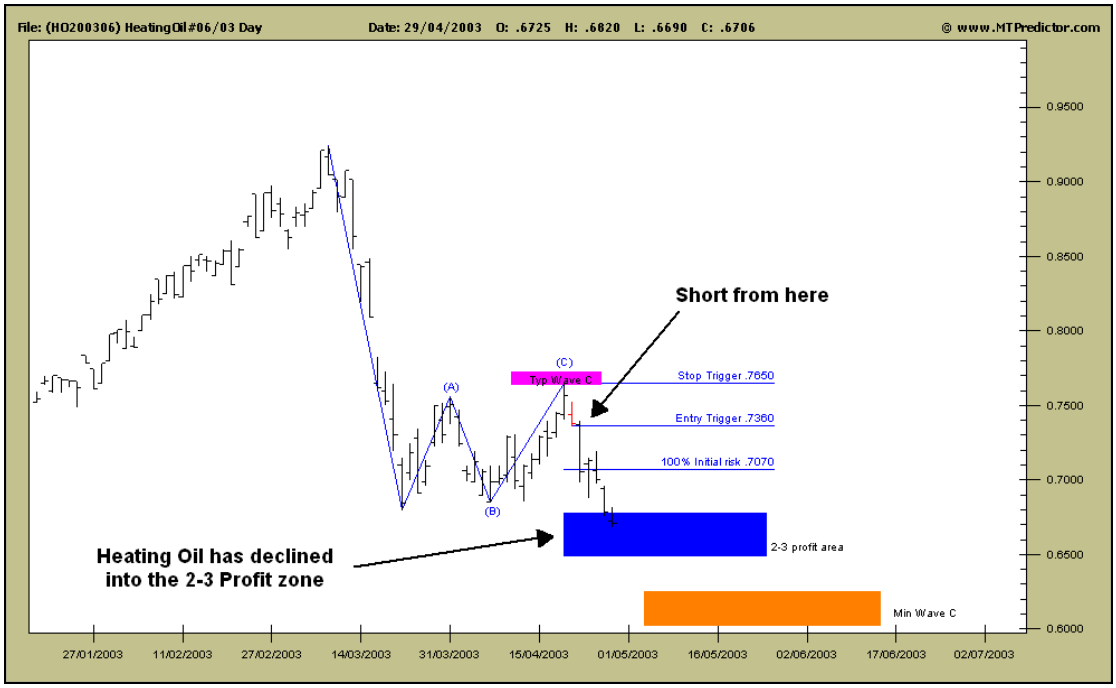
As such, this gives you an area to consider taking a profit which is related to the initial risk required to take the trade, and not the swings in the markets, or indeed a dollar profit.

Let's take a look at an example:

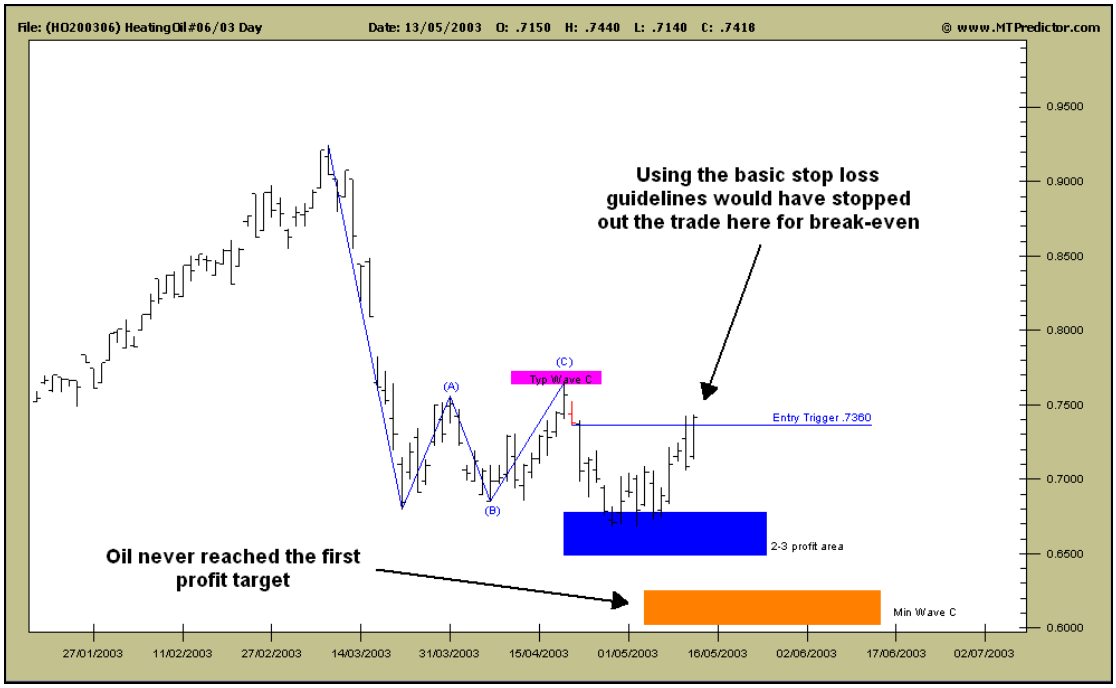


Here is a classic wave C sell set-up on (Jun) Heating Oil, where all the ingredients are in place for a perfect set-up - the wave C is reversing off the typical wave C WPT with a red sell Reversal Bar. As per normal, a new trade would be entered if the low of the red Reversal Bar were exceeded.

Let's see what unfolded over the next month:



A week later Heating Oil had declined into this 2-3 profit area, but was still some way short of the first projected profit target. However, a few weeks later:



As you can see on the chart above, Heating Oil never reached this first profit target, rallying over the next two weeks, stopping out the trade for break-even.

As you can see from the two charts on the prior page, *if* you had managed to take your profit once Heating Oil had declined into this 2-3 profit zone, this would have produced a profit of approximately 2-3 times the initial risk (ignoring slippage and commission). Using the basic trade management guidelines would have resulted in the trade being stopped out for break-even.

So the question is: would you have preferred to make a profit of approximately 2-3 times the initial risk (ignoring slippage and commission) or would you have preferred to be stopped out for break-even ?

As some of you have already realised, if you take your profit in this 2-3 area, then your trade will never have a chance to go beyond this area and therefore make a larger profit. However, in circumstances such as this, you will have banked a profit, as opposed to only making a break-even trade.

As I said at the beginning of this section, if on average, you make trades that bank profits of between 2-3 times your losses, then you are on a strong footing for a long-term profitable trading approach. As such, this technique projects *in advance* this important area for you.

However, there is an important decision to make at this point - do you prefer to maximise your trades and try to run your profit as much as possible, as outlined in the last few chapters? There will be trades like this Heating Oil trade that get away from you and end up being stopped out at break-even. Or would you prefer to make more but smaller trades by taking profit, or bringing your protective stop closer to the market, once the trade has entered this important 2-3 profit zone?

This is a decision that only you can make, because you are the person trading your account, and only you know which approach you are more comfortable with.

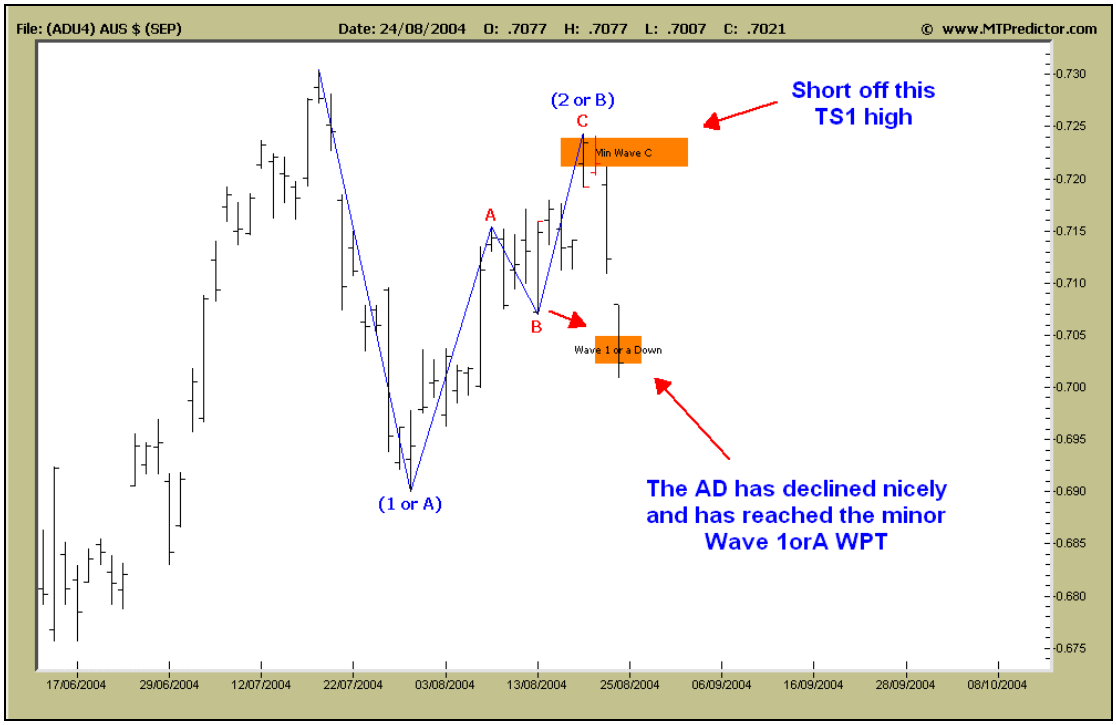
This can produce a very simple policy for managing your trades, where you simply look to take profit at a level that equates to a profit of approximately 2-3 times your initial risk. The exact level is up to you, but as long as you make more profitable trades than losing trades, then because the profit on the winning trades is approximately 2-3 times the loss on the losing trades, overall and over time, your trading account should grow.

In essence, what this approach does is allow you to make more, but smaller, regular profits in relation to your losses. Some traders are happier with this approach, and prefer this to trying to go for the big winners, which will happen less often but will produce larger profits when they do.

The choice is up to you.

I know that some of you will be uncomfortable managing trades on a *purely money* basis, so you can also use the minor Wave 1orA WPT to help gauge a market based reason to protect profits in this area.

Let me show you an example:



In this example, on the Australian Dollar, the current trade has reached the minor Wave 1orA WPT support zone, taken from the prior minor Wave B swing. This technique is outlined in a prior chapter.

Therefore, the Australian Dollar is now at an area where a minor low *could* unfold.

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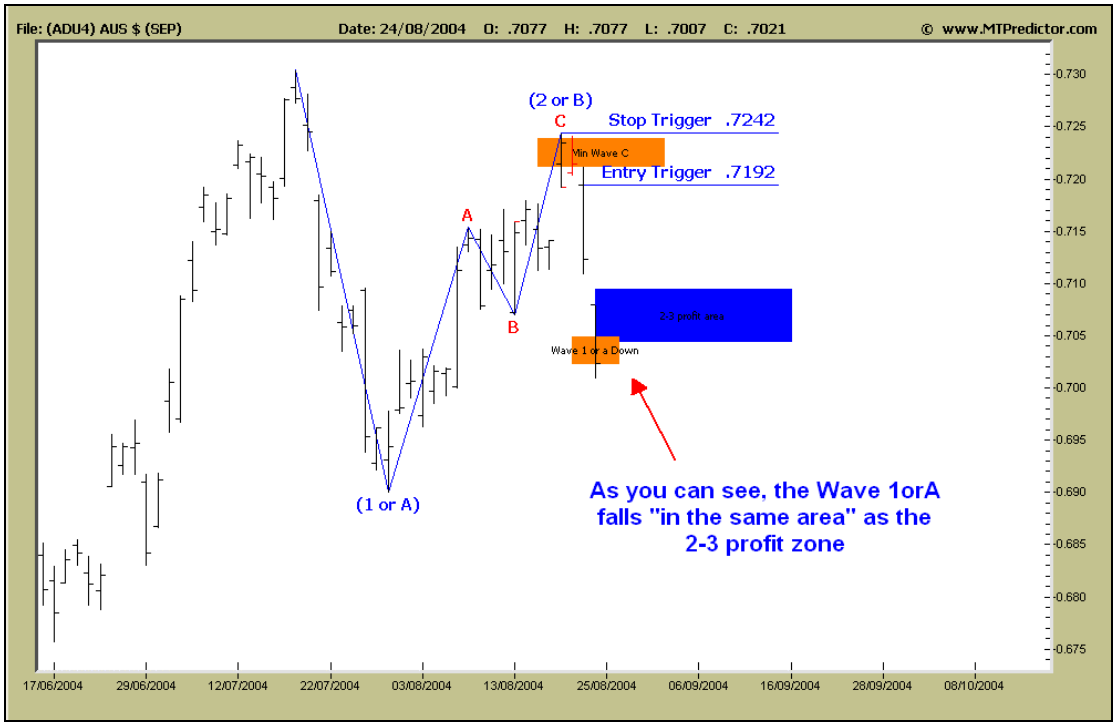
Now lets add in the 2-3 profit zone on the current short trade:



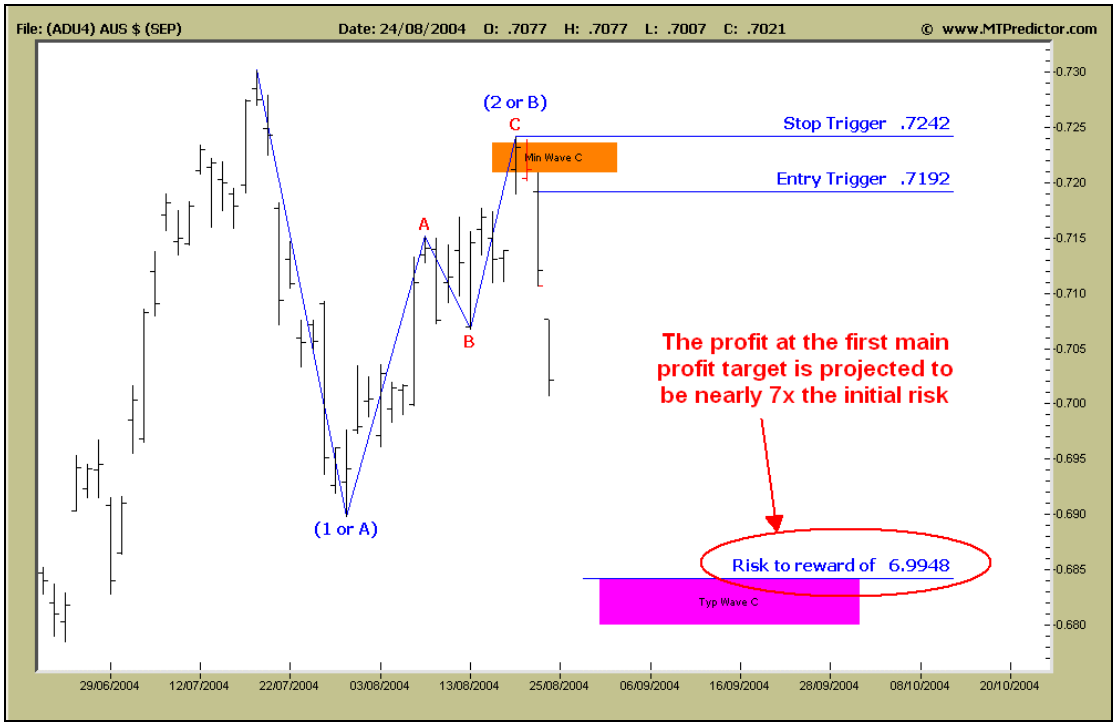
As you can see, the minor Wave 1orA WPT falls *in the same area* as the 2-3 profit zone.

Although the main profit targets for this trade are still some way below current markets levels, a minor low could unfold at this level that may well turn out to be larger than anticipated. Therefore you could use the combination of these levels to bank at least partial profits, safe in the knowledge that you are banking a profit of approximately 2-3 times the initial risk. As you should all know by know, I consider a profit of 2-3 times the initial risk as a good profit.

Please remember, the future is unknown and you are only ever dealing with probabilities. So this technique is designed to give you a choice when the first main profit targets are a long way away and you are currently sitting on a good profit.

A good rule of thumb would be to take partial profits at the Wave 1orA WPT and 2-3 profit target combination, when the profit at the first main profit target is greater than 3-4 times the initial risk.

Let me show what this looks like on a chart:



Here you can see that the projected profit at the first main profit target would be nearly 7x the initial risk (ignoring slippage and commission).

This is a very large profit, so looking to bank a small part of this in the 2-3 zone would be a good idea.

Again, I wish to stress that the future is unknown and we are only ever dealing with probabilities. This technique is designed to put some money in the bank rather than risking waiting for a very large profit at some point in the future.

Again, whether you wish to stick to the standard trade management guidelines or whether you are more conservative and like banking smaller profits is up to you. This technique is designed to give you an informed choice at a logical place in the current trade.

As you have seen in prior chapters, this important 2-3 profit area can also be used to *screen* your normal MTPredictor trade set-ups.

2-3 initial risk zone summary:

- The 2-3 initial risk zone (or 2-3 profit zone) can be used to project, in advance, the area where the current profit on your trade would equal approximately 2-3 times the initial risk required to take the trade (ignoring slippage and commission).
- This can be used to adjust your protective stop, if the market in question enters the zone.
- Or this zone can be used to screen out potential trades that do not meet the 2-3 initial risk minimum at the first projected profit target.

However you use this 2-3 initial risk zone, I hope you can see that it is vitally important to concentrate on only taking trades that are *more likely* to bank profits that are on average at least 2-3 times the initial risk.

This is what this module in MTPredictor is designed to do, enabling you to quickly and easily project this 2-3 profit zone on your charts. The TS1, TS2 and wave C trade set-ups in MTPredictor also display this important 2-3 zone automatically for you.

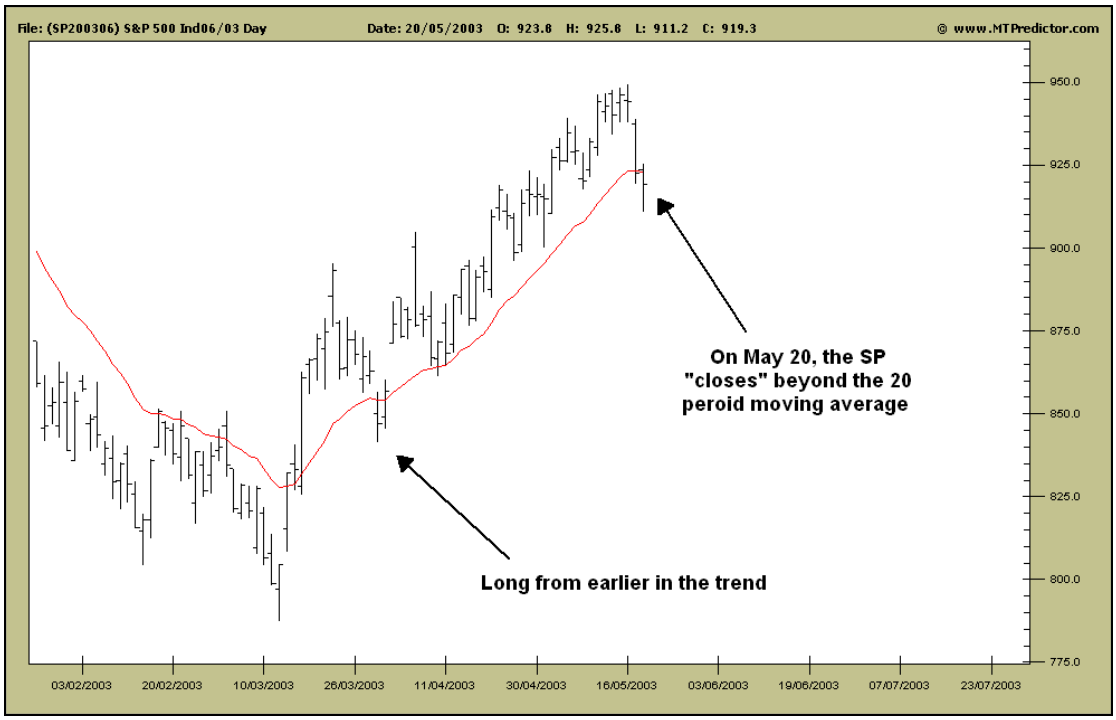
The next section will focus on using the 20-peroid moving average.

20-period exponential moving average

In the last section, you saw how to use the 2-3 profit (or initial risk) zone to project an area for taking small profits. In this section, I will take a look at another technique that will allow you to run a-current trade further.

In the last chapter I looked at the 20-period exponential moving average, as an advanced technique that provided an area of support or resistance, particularly when a market made a minor correction in a strong trend. You saw how very often a market would retrace back to the 20-period exponential moving average and find support or resistance then continue on in the direction of the main trend. If you stop and think about this for a minute, you will see how this is exactly what you require of a stop loss strategy that is designed to keep you in a trade as long as the main trend is still in force.

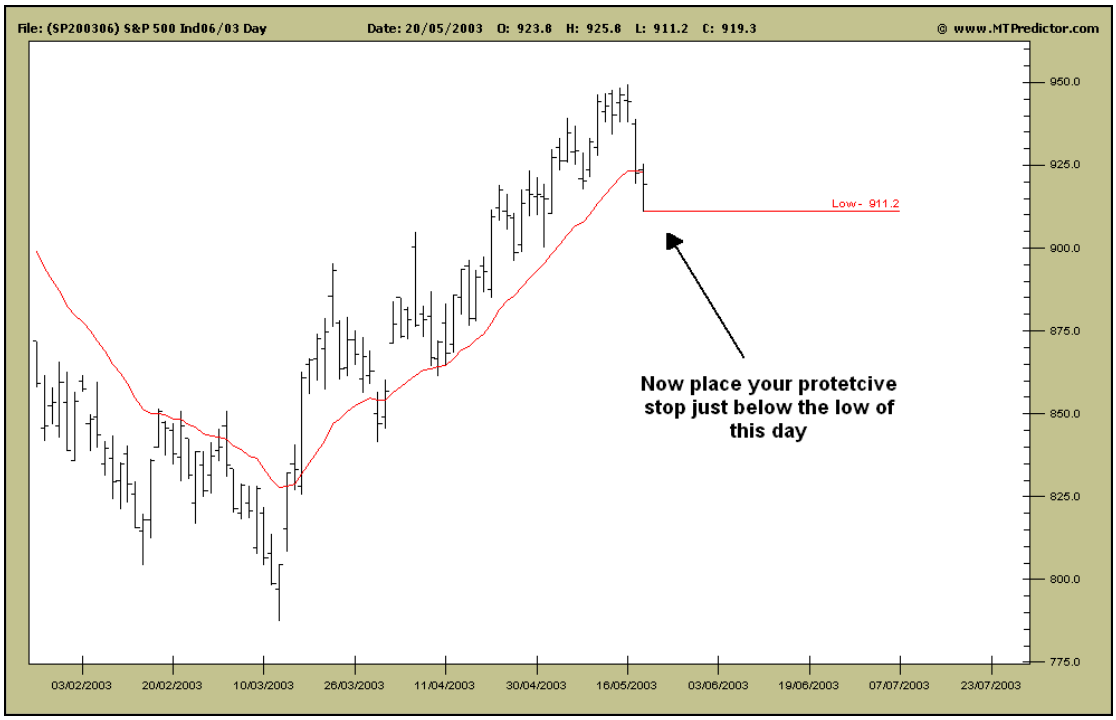
Let me show you an example:



On May 20 the S&P, retraced back after a strong uptrend, and started to find support at the 20-period exponential moving average. Let us assume that you entered a new long trade in the early stages of this rally, and you are now long. As such, you are looking for a strategy that would allow you to advance your stop loss to protect your current open profits, however will still allow the market enough room to breathe and make minor corrections before continuing higher. The main point here is that you require a stop loss strategy to keep you in this strong trend as long as it is in force.

So you can take the basic 20-period exponential moving average support or resistance area one step further by requiring the market in question to *close* below the 20-period moving average (for a long trade), before you consider that the 20-period moving average is breached.

Then, you place a protective sell stop just below the low of the bar that first closes below the 20-period exponential moving average:



The idea is that if this current trend is still in force, then the market in question should not exceed the low of the bar that first closes below the 20-period exponential moving average. This example assumes that you are long in an uptrend, please reverse the strategy for a short trade in a downtrend

If the main up trend is still in force, then this level should not be exceeded.

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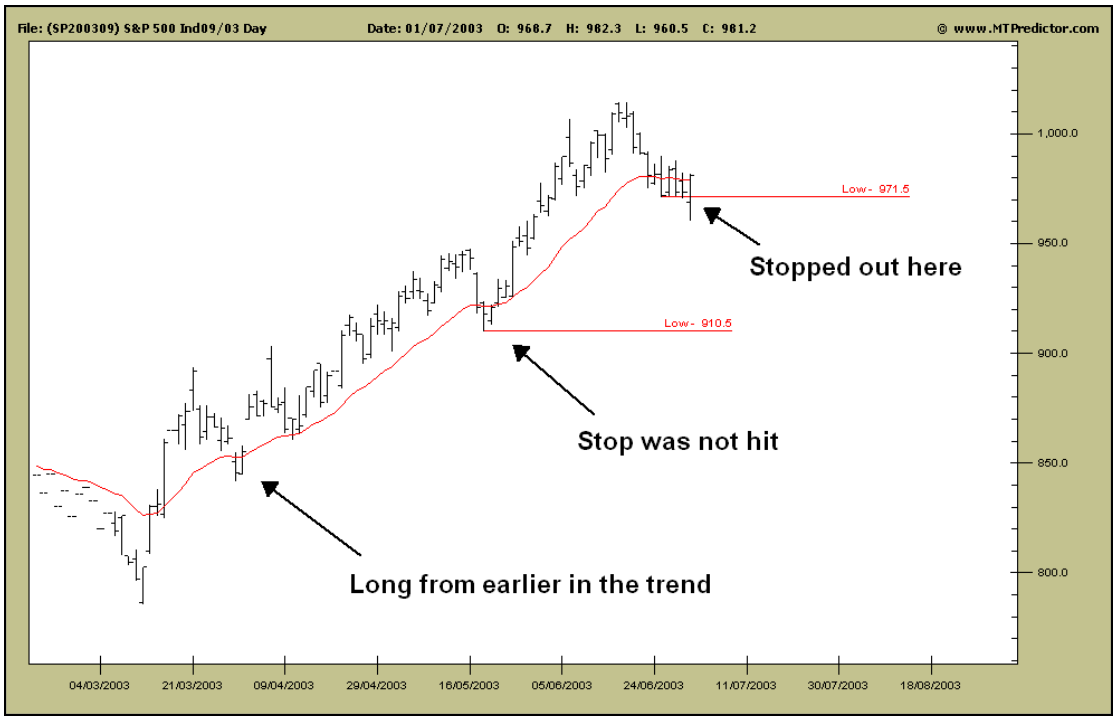
As you see, from the chart below, this is exactly what happened, with the S&P continuing higher without exceeding this stop loss level:



This long trade was only stopped out at a much higher level later in the trend:

This is a very simple technique that allows you to adjust your stop loss as a market moves in your favour, while still keeping you in the current trade as a strong trend unfolds.

As with the standard support or resistance off a 20-period exponential moving average, this technique works best when the market in question is making a strong move.

Also, it works best when the market in question makes a close *clearly* beyond the 20-period exponential moving average. If the day closes on or very slightly above or below the average, then I would not consider this a valid breach.

Just to clarify, the stop should only be adjusted to just below the low, for a long trade (or just above the high - for a short trade), of the first day that closes below (above for a short trade), the 20-period exponential moving average.

Trading in multiple units

After reading the last two sections you may be slightly confused about the best way to manage your trades. Or more specifically, although the trade entry can be the same, different traders could decide to manage their trades differently. One trader could use the 2-3 profit zone, while another trader could use the standard trade management guidelines, while a third could use the 20-period moving average.

So the questions arises: which approach is best ?

As I mentioned in the relevant sections, each method has its strengths and weaknesses, so the main choice is a personal one. In other words, you should choose a strategy that you are comfortable with and suits your trading personality.

I know MTPredictor customers who just take profits once their trade has reached a profit of 3 times the initial risk. While this is a very simple and easy strategy to use, it can miss out on some large profitable trades. But it does have the advantage of making more (but smaller) profits. I also know of other customers who prefer to trade everything as if it were a Wave 3, so they have amended the standard trade management guidelines accordingly. While they make fewer profitable trades, they are normally a lot larger.

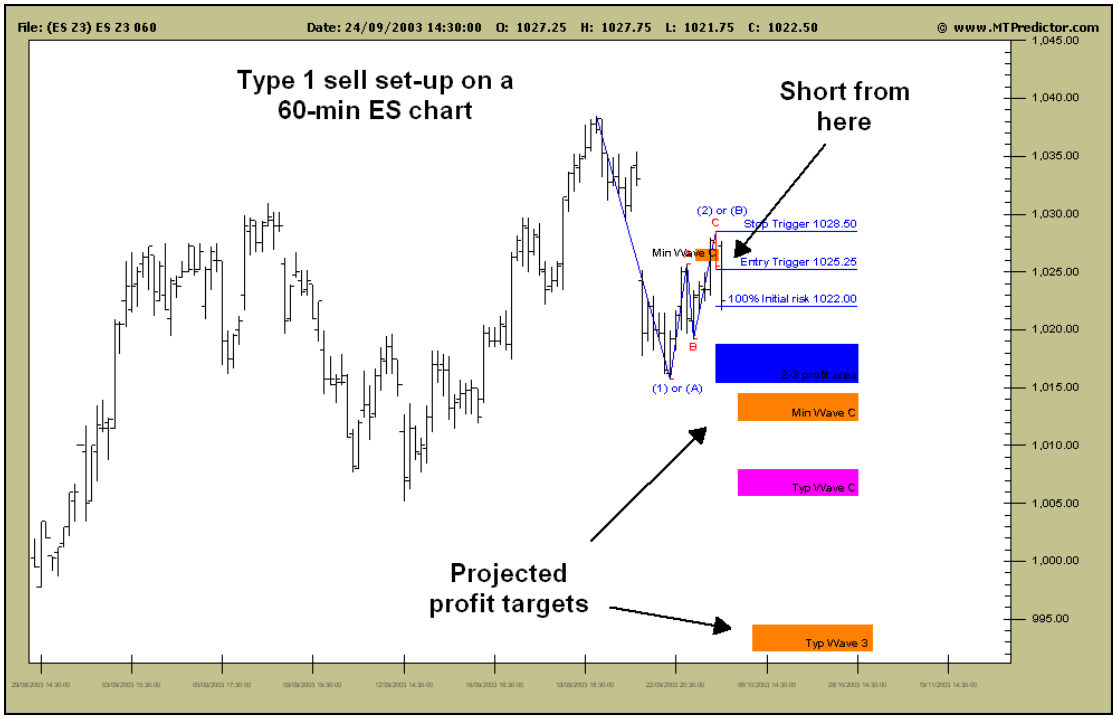
So the question is: whether there is a way to combine these strategies and get a little of what they all offer ?

The answer to this is ’yes’. Trading multiple units and managing each unit differently can allow you to both take a small profit at the 2-3 profit target while allowing a part of your initial position to run further, therefore taking advantage of a strong trend.

Let me show you an example.

Continued on the next page . .

Here is an example on a 60-minuite chart of the E-mini SP500 future (ES):



As you can see from the chart above, this is a standard TS1 sell set-up. I have also included the automatic analysis showing the 2-3 profit zone and the projected WPT profit targets.

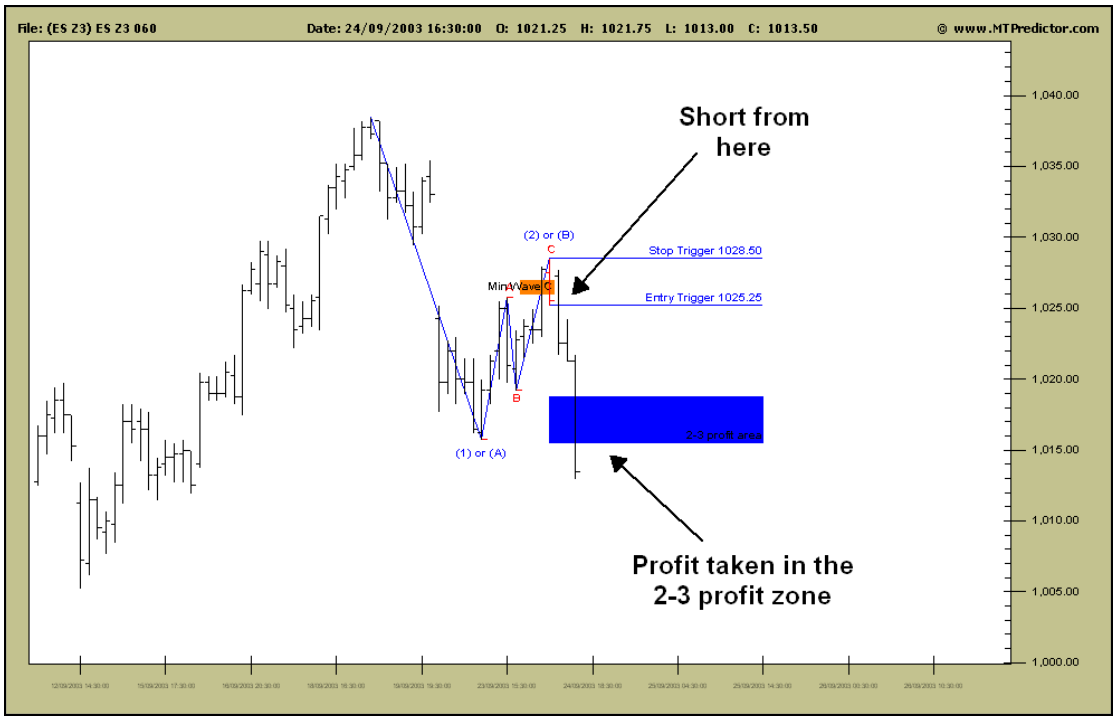
So what if this trader took 4 units off this initial sell set-up and manages each with 4 different strategies:

- The first, take a profit MIT (market if touched) at a multiple of 3 times the initial risk,
- The second, manage as if a Wave C – in other words, start to trail the protective stop once the market reaches the Wave C WPTs,
- The third, manage as if a Wave 3 – in other words, start to trail the protective stop once the market reaches the Wave 3 WPTs,
- Finally, use the 20-period moving average for the last unit.

Initial risk on 4 lots on this particular set-up was $750 or (1025.00 – 1028.75) x $50 x 4.

Let’s follow this trade over the next few days and see what happens.

Very quickly profit is taken on the first unit as the ES declined into the 2-3 times initial risk area:



To do this you need to first calculate a level at which the current profit would equal 3 times the initial risk. I have chose 3x in this example, but you can use a level anywhere between 2x and 3x the initial risk.

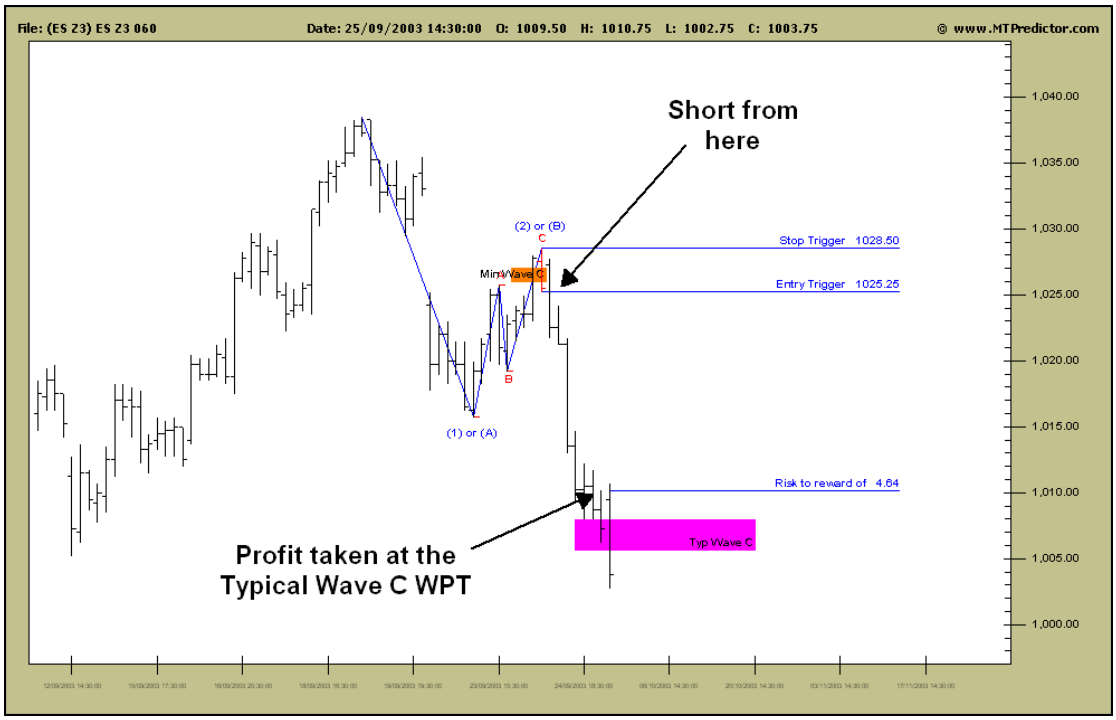
As you can see from the chart above, MTPredictor automatically calculates this level and displays it on the chart for you.

You can then place a MIT (market if touched) order to close this first lot, when the market reaches this level. This would then result in a profit of 3 times your initial risk (ignoring slippage and commission).

Profit on unit 1 = $562.50 or (1028.75 – 1025.00) x $50 x 3 (ignoring slippage and commission).

Still short 3 units as the ES continued to decline.

The ES continued to decline, reaching the typical Wave C WPT. As such, this trader started to trail the protective stop on the second unit just above the bar highs:



As you can see form the chart above the second unit was stopped out at 1010.50

Profit on unit 2 = $725 or (1025.00 – 1010.50) x $50, (ignoring slippage and commission)

Still short 2 units as the ES continued to decline.

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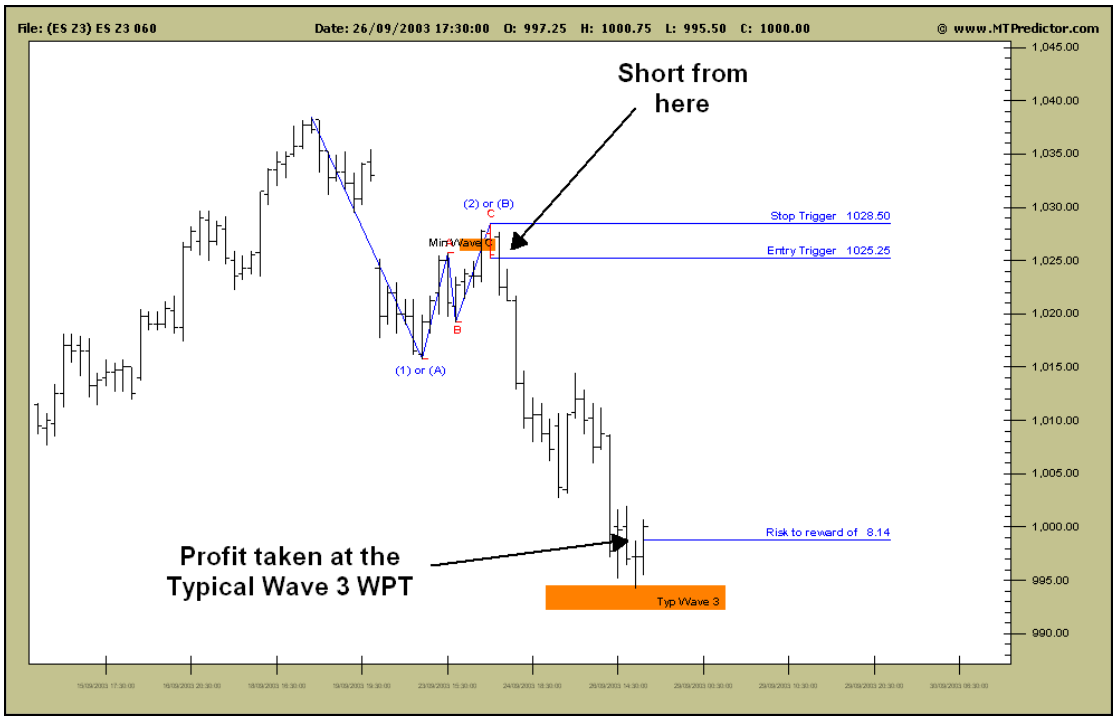
The ES continued to decline, reaching the typical Wave 3 WPT. So, this trader started to trail the protective stop on the third unit just above the bar highs:



As you can see form the chart above the second unit was stopped out at 999.00

Profit on unit 3 = $1,300 or (1025.00 – 999.00) x $50, (ignoring slippage and commission)

Still short 1 unit as the ES continued to decline.

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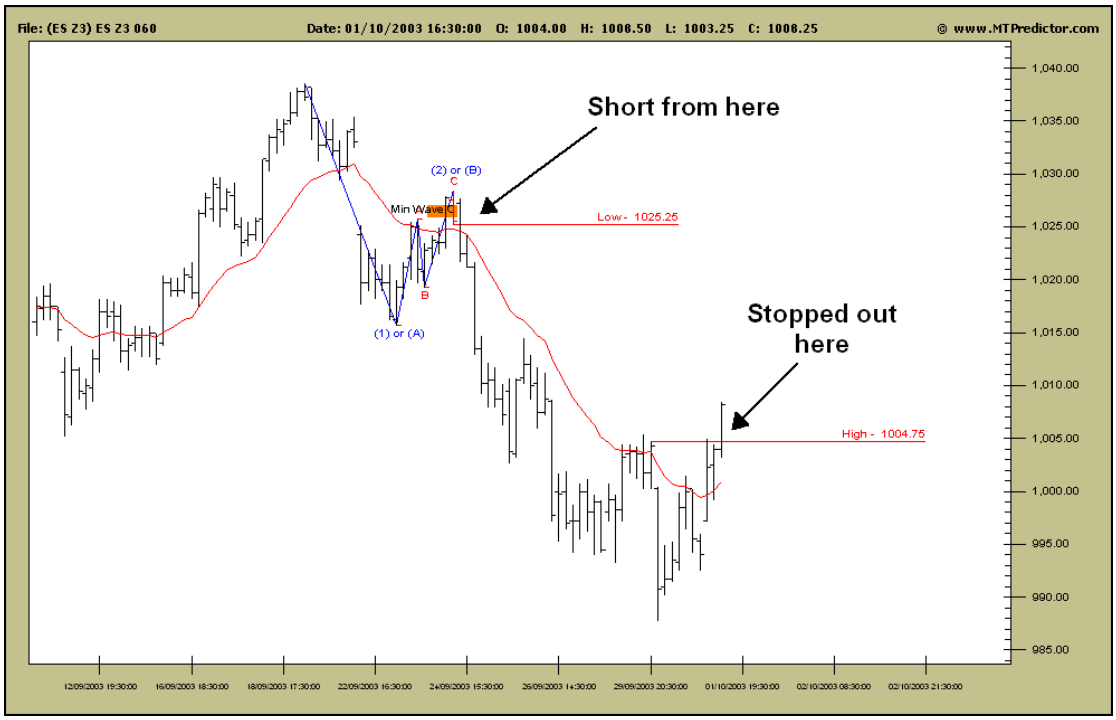
The ES continued to decline a little bit further before a bottom came in and a rally unfolded:



As you can see from the chart above the last unit was stopped out at 1005.00, as the ES rallied above the high of the last bar that closed above the 20-period moving average.

Profit on last unit = $1,000 or (1025.00 – 1005.00) x $50, (ignoring slippage and commission)

Although this unit did not make as much profit as the last unit, I hope you can see how this would have kept you in a short trade (with 1 unit) *if* the ES continued lower. However, I have chosen this example specifically to show that when you use the 20-period moving average trade management strategy, very often your trade can *give back* some open profits before eventually being stopped out. This is a good example, because the last unit (in this example) actually banked a smaller profit than the prior unit. This sometimes happens.

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Total for the whole "campaign" = $3,587.50, (ignoring slippage and commission):

- Profit on unit 1 = $562.50 or (1025.00 – 1028.75) x $50 x 3, (ignoring slippage and commission)
- Profit on unit 2 = $725 or (1025.00 – 1010.50) x $50, (ignoring slippage and commission)
- Profit on unit 3 = $1,300 or (1025.00 – 999.00) x $50, (ignoring slippage and commission)
- Profit on last unit = $1,000 or (1025.00 – 1005.00) x $50, (ignoring slippage and commission)

As you can see, this enabled you to take a little slice of profit at each stage, and therefore made the best of however the trade unfolded.

At first sight this does seem the answer, but as with all trade management strategies it does have a downside. This is because you will always take a full loss on all your units if the trade moves against you immediately, but you will only ever be able to maximise part of your profits if a strong trend unfolds.

However, some traders do prefer the flexibility of this strategy and use it regularly. You can choose which parts (and how many units) to trade. As such, I suggest you experiment with this (and the other) trade management techniques, and find which one suits best. It may sound like a cliché, but the best strategy is one that you are most comfortable with, and therefore can use on a daily basis. I believe that most books miss this point (because many of them are written by non-traders), but trading is a very personal occupation and as such you have to *personalise* your own trading rules. It is only when they are right for you, and you are totally comfortable with them, that you can use them consistently. Only then will you become a successful trader.

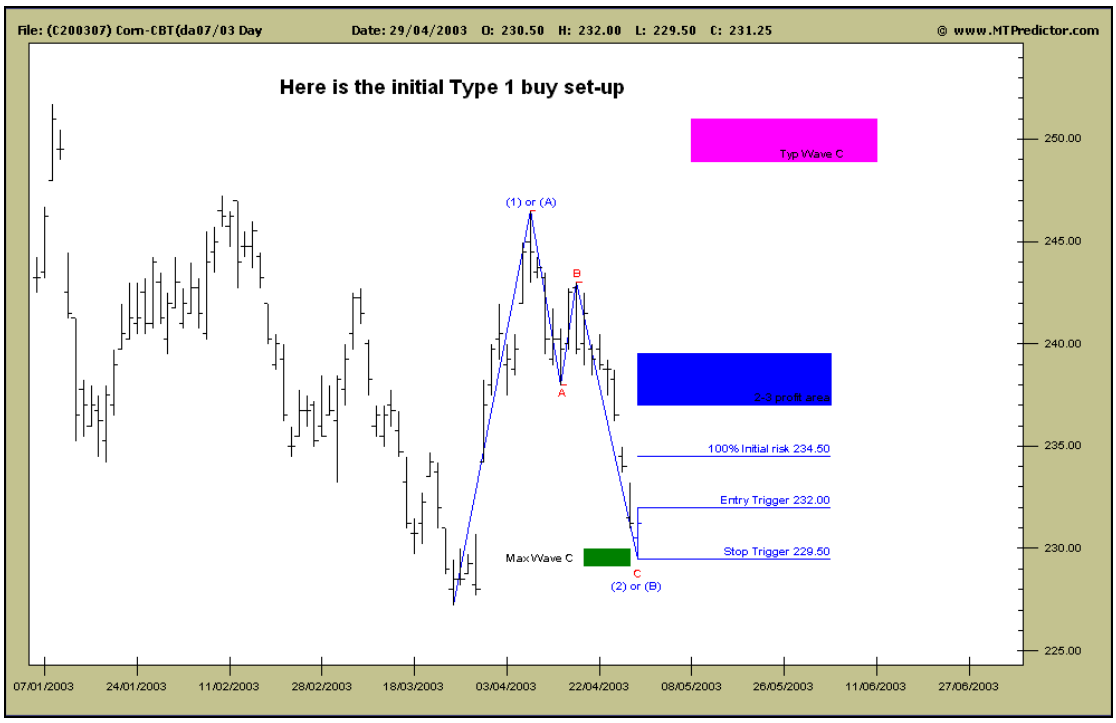
In the next section I will take a look at the topic of pyramiding, or a*dding* positions as a trade moves in your favour, rather than looking to take profits as detailed in this section. As you will see, pyramiding is not as versatile as this method, mainly because you have to catch a strong trend, which does not happen as often as we would like. Therefore, unlike this strategy, I suggest that pyramiding should only be used in certain circumstances.

Pyramiding

In this section, I will show how you can add additional positions to your current trade, in order to maximise profit as your trade unfolds in the anticipated direction.

So far in this course all I have talked about is taking a position off the initial trade set-up, and then managing it accordingly to finally bank profits as the market reverses off one of the projected WPT support or resistance zones. However, there may be opportunities along the way to add additional positions, so rather than being long or short just one position, you may eventually add two, three or even more positions as the trade progresses in your favour. This will maximise your eventual profit on the trade as a whole. This can be thought of more as a *trading campaign* rather than managing a single trade.

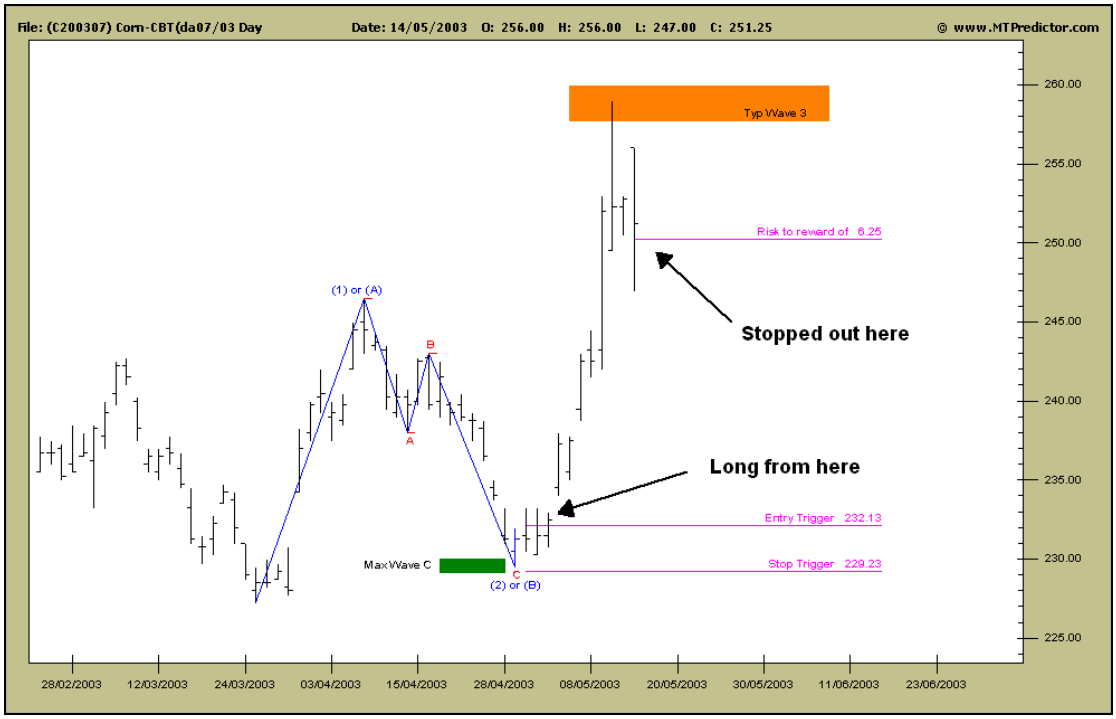
Let me show you an example on (Jul) Corn:



As you can see from the chart above, on April 29 2003, (Jul) Corn made a perfect TS1 buy set-up. Please note, this is not some idealised example taken with the benefit of hindsight, this was reported *at the time* in the MTPredictor daily report.

With a $25,000 trading account and only risking a maximum 3% of your trading capital on any one trade, you would have placed an order to buy 5 lots of (Jul) Corn at 232 ¼ on April 30.

Let's see what happened over the next few weeks:



As you can see, Corn rallied sharply off this TS1 low and, using the basic stop loss guidelines, was eventually stopped out on May 14 at 250 ¼ for a profit of approximately $4,500 (on 5 lots), or just over 6 times the initial risk required to take the trade (ignoring slippage and commission).

In anyone's book, this was a great trade and a very nice profit in only a matter of weeks. However, this was only taking one position at the initial trade entry, off the TS1 low of April 30, and then holding that position and managing it as per the basic trade guidelines until stopped out on May 14. However, could you have done better?

As you have seen in the last chapter, there are additional trade set-ups that you can use to take positions in the middle of a current trend. So could these be used to *add* contracts as the current trade moves in your favour?

Let's take a look day by day and see how this trade *could have* unfolded.

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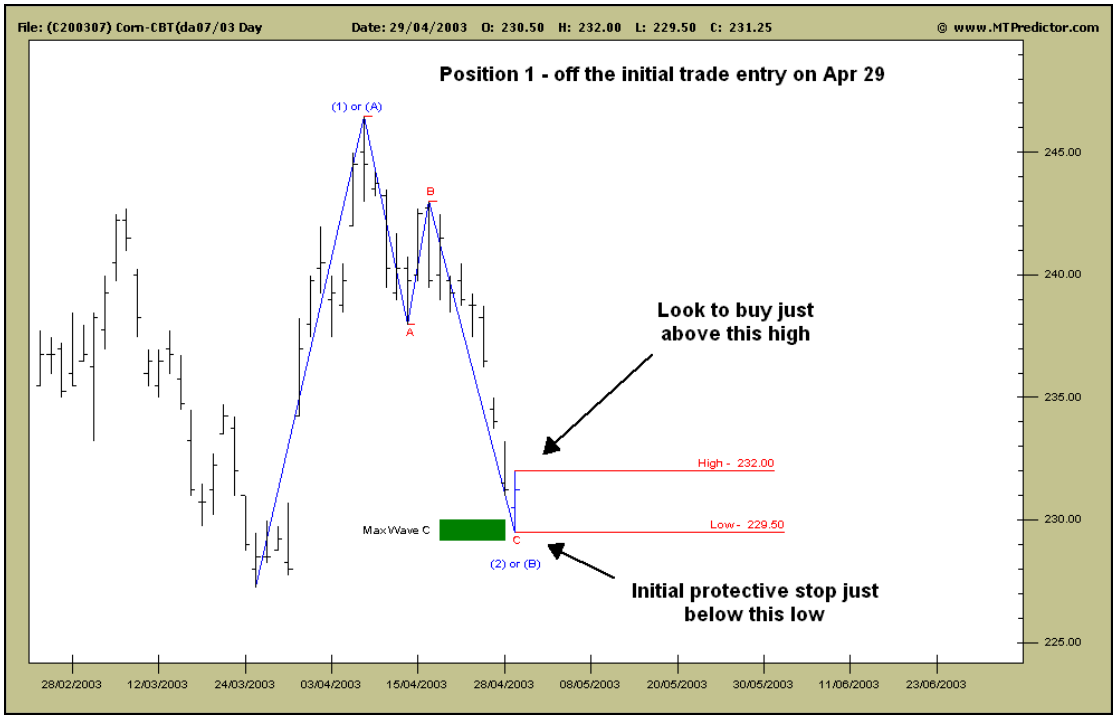
Position 1 – off the initial TS1 trade set-up on Apr 29:



As you have already seen, the initial trade was off a perfect TS1 set-up on April 29.

With a $25,000 trading account and only risking a maximum 3% of your trading capital on any one trade, you would have placed an order to buy 5 lots of (Jul) Corn at 232 ¼ on April 30, one tick above the 232 high.

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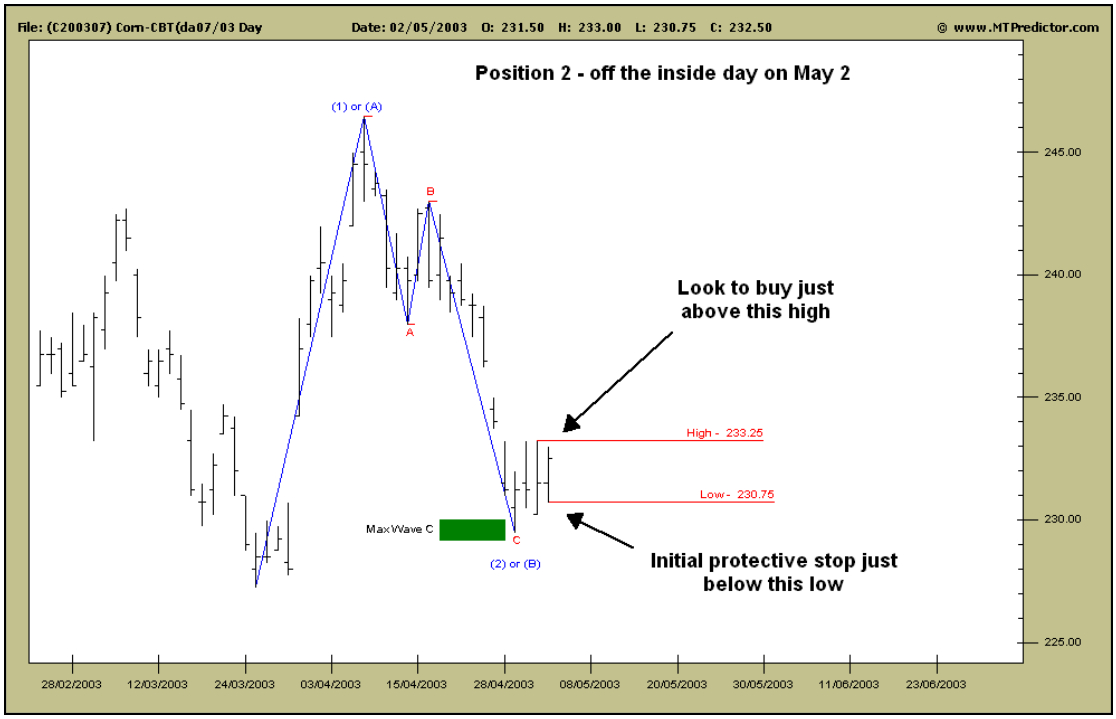
Position 2 – off the inside day on May 2:



As you can see from the chart a few days later, on May 2 Corn made an inside day. This was an opportunity to enter a second position if Corn broke above the high of the day prior to the inside day, for an inside day trend continuation trade set-up. This trade set-up was outlined in detail earlier.

With a $25,000 trading account and only risking a maximum 3% of your trading capital on any new trade, you would have placed an order to buy 5 lots of (Jul) Corn at 233 ½ on May 3. I'll leave you to do the maths here, using the initial protective stop as shown in the chart above at 230.50.

Current Position 1: Long 5 lots from 232 ¼ on Apr 30

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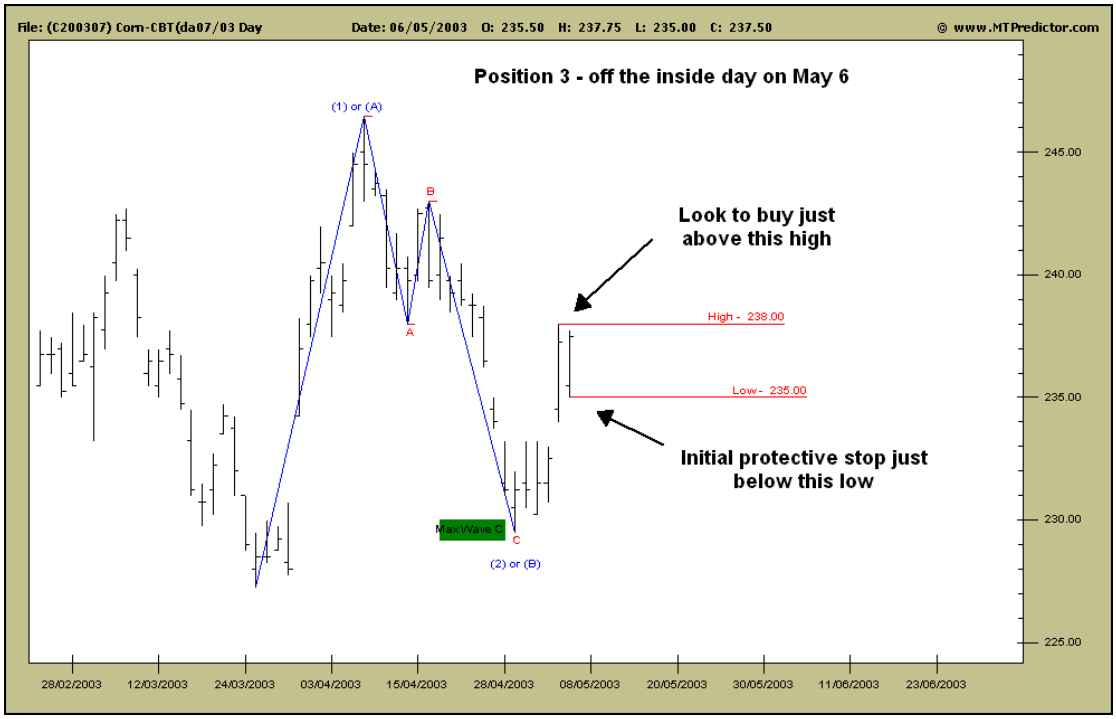
Position 3 – off the inside day on May 6:



As you can see from the chart above a few days later, on May 6 Corn made another inside day - another opportunity to enter a third position if Corn broke above the high of the day prior to the inside day, for an inside day trend continuation trade set-up. This is exactly the same as the last set-up

With a $25,000 trading account and only risking a maximum 3% of your trading capital on any new trade, you would have placed an order to buy 4 lots of (Jul) Corn at 238 ¾ on May 7. I'll leave you to do the maths here as well, using the initial protective stop shown in the chart above at 234.75.

Current Position 1: Long 5 lots from 232 ¼ on Apr 30
Current Position 2: Long 5 lots from 234 ½ on May 5

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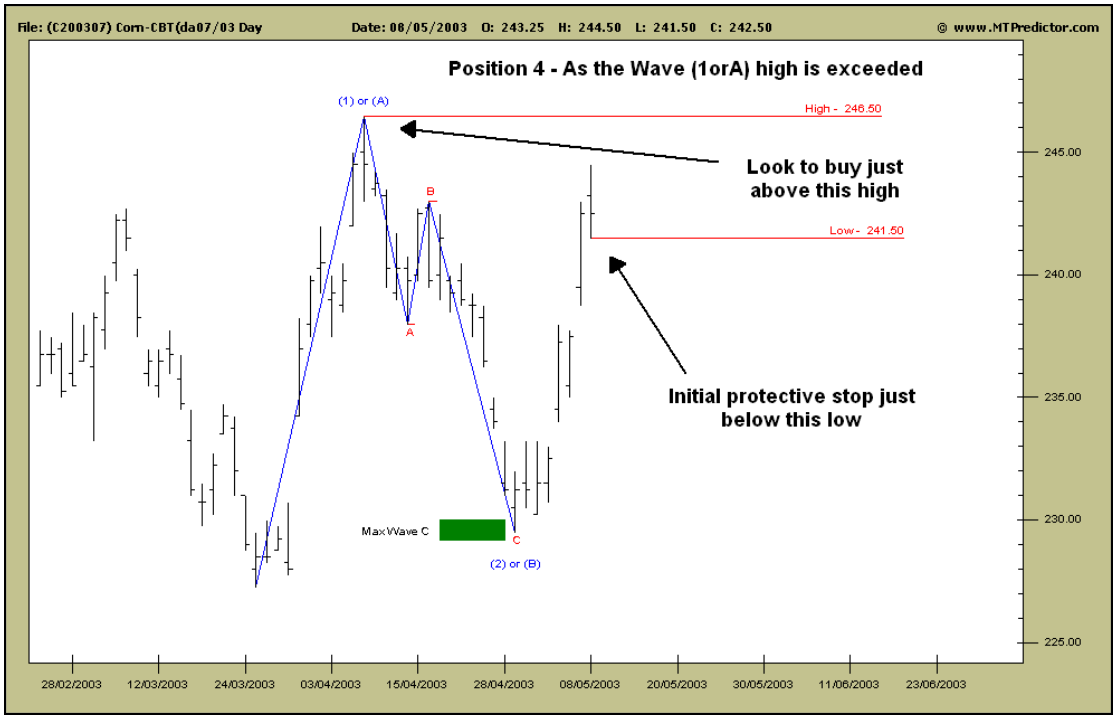
Position 4 – off the break of the Wave (1orA) high:



As you can see from the chart above, Corn was fast approaching the wave (1orA) high of April 8 at 246.50. As I have discussed earlier in this chapter, because Corn was in the time of year when a strong seasonal trend could unfold, you could deduce that the rally off the wave (2orB) low of April 29, was *more likely* to unfold as a strong wave (3) type swing. In a situation such as this, you can look to add an additional trade as the wave (1) high is exceeded. The reason is that you anticipate the current rally will turn out to be a strong wave (3), probably continuing significantly higher than the prior wave (1orA) extreme.

With a $25,000 trading account and only risking a maximum 3% of your trading capital on any new trade, you would have placed an order to buy 2 lots of (Jul) Corn at 246 ¾ on May 9. I'll leave you to perform the maths here again, using the initial protective stop as shown in the chart above at 241.25

Current Position 1: Long 5 lots from 232 ¼ on Apr 30
Current Position 2: Long 5 lots from 234 ½ on May 5
Current Position 2: Long 4 lots from 239 ½ on May 7

Continued on the next page . . .

Position 5 – off the break beyond the typical Wave C WPT:

As you can see from the chart above, Corn has continued to rally sharply, and has now closed *above* the typical wave C WPT. As you have seen in prior chapters, this now confirms that a wave (3) type rally is underway. As such, you could add an additional trade as this high is exceeded, on the assumption that the current trend will continue into the typical wave 3 WPT

With a $25,000 trading account and only risking a maximum 3% of your trading capital on any new trade, you would have placed an order to buy 1 lot of (Jul) Corn at 253 ¼ on May 12. I'll leave you to perform the maths here, using the initial protective stop shown in the chart above at 241.75

Current Position 1: Long 5 lots from 232 ¼ on Apr 30
Current Position 2: Long 5 lots from 234 ½ on May 5
Current Position 3: Long 4 lots from 239 ½ on May 7
Current Position 4: Long 2 lots from 246 ¾ on May 9

Continued on the next page . ..

Before I go any further, let's take minute and review what the current profit *would be* at the typical wave 3 WPT target:

The bottom of the typical wave 3 WPT target fell at 257 ½. You would have had five different positions all added at different times as the uptrend progressed. So let's now work out what the total profit would be *if* Corn reached this wave 3 WPT at 257 ½.

Profit on Position 1 at 257 ½:	Long 5 lots from 232 ¼ on Apr 30 =	$6,312.50
Profit on Position 2 at 257 ½:	Long 5 lots from 234 ½ on May 5 =	$5,750.00
Profit on Position 3 at 257 ½:	Long 4 lots from 239 ½ on May 7 =	$3,600.00
Profit on Position 4 at 257 ½:	Long 2 lots from 246 ¾ on May 9 =	$1,075
Profit on Position 5 at 257 ½:	Long 1 lots from 253 ¼ on May 12 =	$212.50

Total: $16,950.50
(Ignoring slippage and commission)

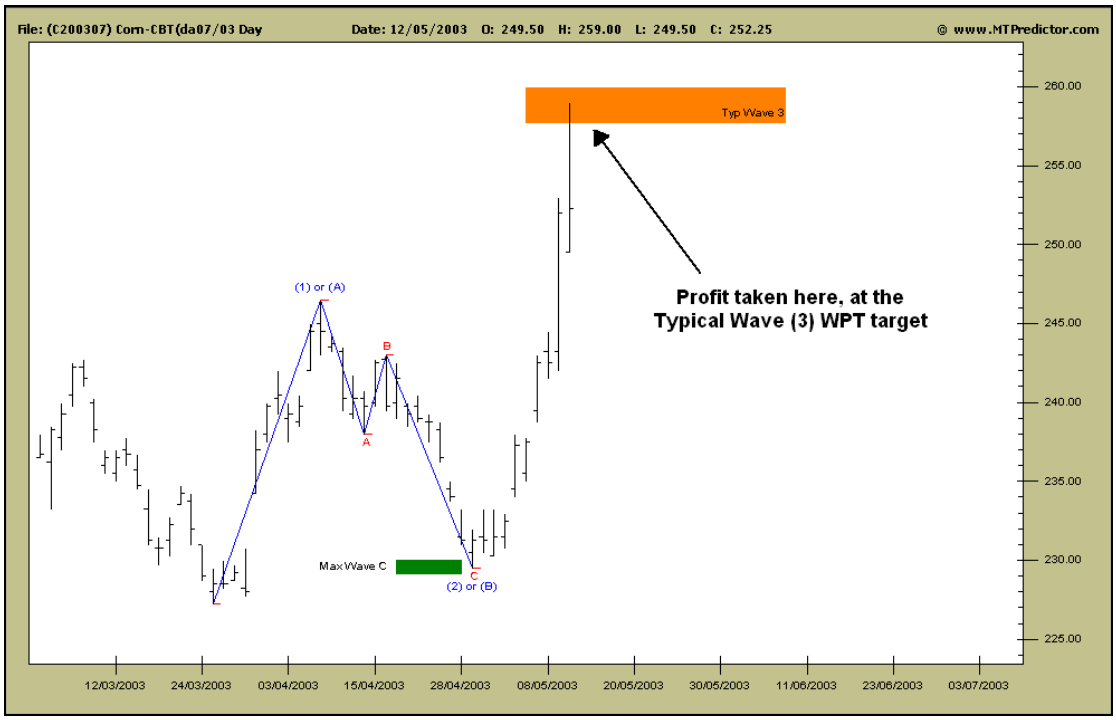
As you can see, this is significantly larger than the $6,500 profit that was generated using the standard trade management techniques and only one position off the initial trade set-up. In fact, a profit of $16,950.50 equates to approximately 22 times the initial risk of $750 required to take the first trade off the April 28 low.

This calculation so far has ignored slippage and commission, which would reduce this final profit figure. If I now assume the standard figure for slippage and commission of $50 per lot, we should be able to get a more realistic value of this final *potential* profit figure.

At this point you would have been long 17 contracts, which would reduce this figure by approximately $850 (17 x $50), bringing the figure of $16,950.50 calculated earlier to nearer $16,100. As you can see this profit would still be significantly larger than would have been generated just trading one position off the initial set-up.

Or put another way, a profit of approximately $16,100, on your $25,000 trading account would represent a return of approximately 64%. And all generated from just this one *campaign*.

Lets' see what happened:



As you can see from the chart above, Corn did indeed continue to rally and hit the typical wave 3 WPT as anticipated. As such, as outlined on the prior page this would have been the ideal place to take profit on all these positions with an "MIT" (market if touched) order, banking approximately $16,100

At first sight, this seems too good to be true and is a reason for you to pyramid every trade. I know some trading systems suggest that, so you should maximise your profits as the current trend goes in your favour. However, from my own experience, I know that these types of strong moves do not unfold as often as we would like. So, you need to be very careful about how, and when, you add trades and pyramid additional positions as a trade moves in your favour.

This was a good example of a trade set-up that was ideal for pyramiding. In other words, you were anticipating a strong wave 3 type move, mainly because of the seasonal position of Corn in this period. This would be my first piece of advice - only look to pyramid a position if you are reasonably certain that a strong move is likely to unfold. If you pyramid positions where only a corrective swing is likely to unfold, then it is more likely that you will come unstuck, and positions added later in the move, may well result in large losses.

The second piece of advice is that you should never add more contracts than off the initial set-up. In other words, you should never increase your 3% maximum initial risk on any additional position. If anything, I would suggest that you reduce the number of lots that you add as a position moves in your favour. The reason for this, is that the longer a trend moves in your favour, and the closer it gets to a projected profit target, the higher is the likelihood of a reversal. As such, it makes no sense at all to add the most positions when the likelihood of a reversal is approaching, as this just increases the likelihood of making a loss with a larger number of contracts. This makes no sense at all to me.

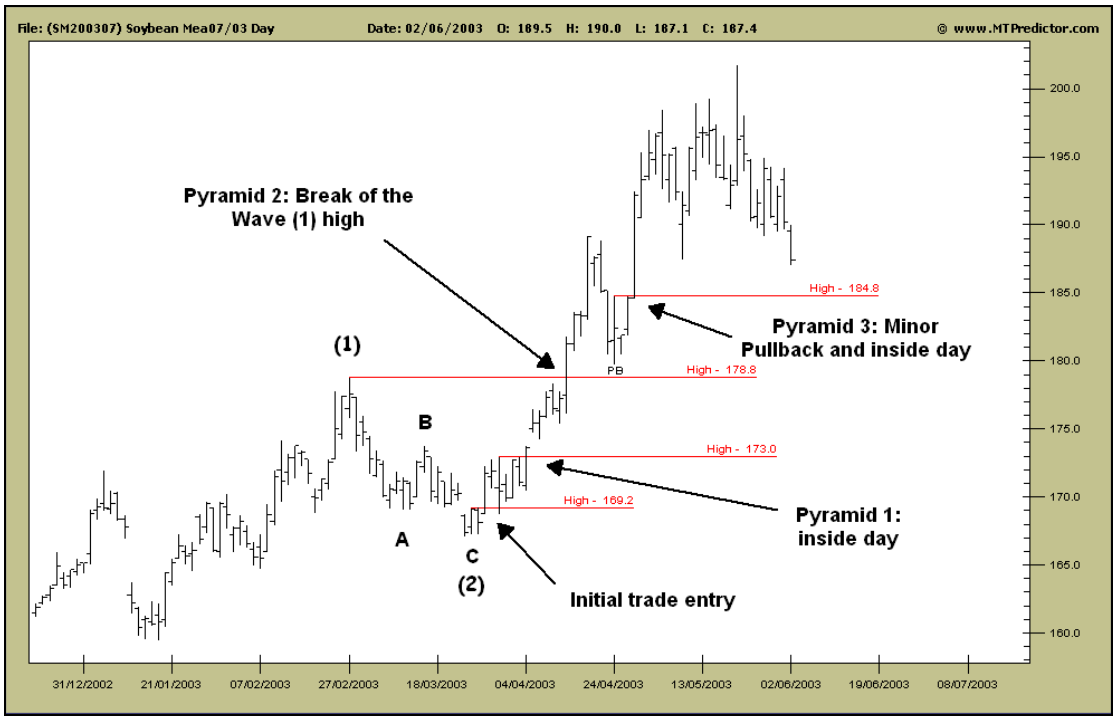
What you need to do as a trend progresses in your favour, and you approach particular profit targets, is to decrease the number of lots you are adding, reducing the overall impact on your trading campaign if a reversal should unfold. I hope this makes sense?

In this example, I chose to *take profit* at the projected wave 3 WPT resistance area. You can either choose to do this, or choose to trail your stop just below the daily lows, but you must start to look to protect your profit somehow as the likelihood of a reversal increases. It is all too easy, seeing your positions increasing significantly, to get too greedy and feel that the current trend will continue forever. Very strong and large moves happen rarely; as such, trying to capture all of them all of the time is just pure gambling. It is far better to look to trade with probabilities on your side, and look to come out of a position slightly early, at a projected profit target.

As with all the trades performed with MTPredictor, the overriding concern should be on how the current profit relates to the initial risk required to take the trade. As you have seen on the last page, at this typical wave 3 WPT the current profit would have been approximately 22 times the initial risk required to take the trade. In anybody's book, this would have been a huge profit, and the most sensible choice of action would be to protect the profit, rather than try to let it run further.

Please remember, if you consider pyramiding additional positions, always take account of how the total profit of your whole campaign relates to the initial risk required to take the first position. Once you start to get a risk to reward of over 10 or 20 times then this should be considered a superb trade, so you should start to look for reasons to bank the profit and not, I repeat not, for the current trend to continue.

You can also use the Minor Pullback as a trade entry tool to add additional positions. A good example is on (Jul) Soybean Meal, which you should be very familiar with by now:



Here a Minor Pullback buy set-up on April 24 gave you the opportunity to add a 4th position in this campaign on Soybean Oil. This Minor Pullback was also an inside day, however, the Minor pullback trade set-up can also be used alongside the inside day as an additional technique to pyramid additional positions as a strong trend moves in your favour.

The choice of which technique to use (inside day, outside day, Minor pullback, break of the Wave 1orA high or break of the typical Wave C WPT) is up to you. Indeed, the choice of how many times you pyramid is again up to you. My best advice would be to work with whatever techniques you are comfortable with. The overriding aim is to *decrease* the overall risk on your campaign as it progresses in your favour, especially looking for reasons to bank your profit at projected WPT targets. Getting greedy as your profits increase is just gambling mentality and should be avoided.

Continued on the next page . . .

Pyramiding summary:

- As you have seen in this chapter, the best time to look to pyramid (add more positions), is only when you anticipate that the upcoming swing is likely to be a strong wave 3 type swing.
- You can use whatever trend continuation trade set-ups you wish to make additional trades, for example the inside day and Minor Pullback trade set-ups.
- However, at all times you must consider the initial risk on each new position, and never exceed the initial risk required to take your first trade set-up (which is normally a maximum of 2% - 3% of your trading fund).
- If anything, you should look to scale down the number of lots you add on additional trades, as the trend progresses further in your favour.
- As the trend starts to approach the typical wave 3 WPT, or additional support and resistance areas where the current trend is like to end, you should start to consider how to protect your current profit and not that the current trend will continue.
- Any trading campaign in which the total profit is 10 to 20 times the initial risk required to take the first trade should be considered a superb campaign and, as such, again you should start to bank this profit rather than let it run further.

As you can see, pyramiding is an excellent tool for adding extra positions to maximise your profit as a strong trend unfolds. However, because strong trends do not unfold in every move, you should not look to pyramid every trade. In fact, I would suggest pyramiding positions only rarely, and only at times when you anticipate a strong wave 3 type move is likely to unfold, as outlined in earlier sections in this chapter.

Next I would like to look at the topic of Gap openings.

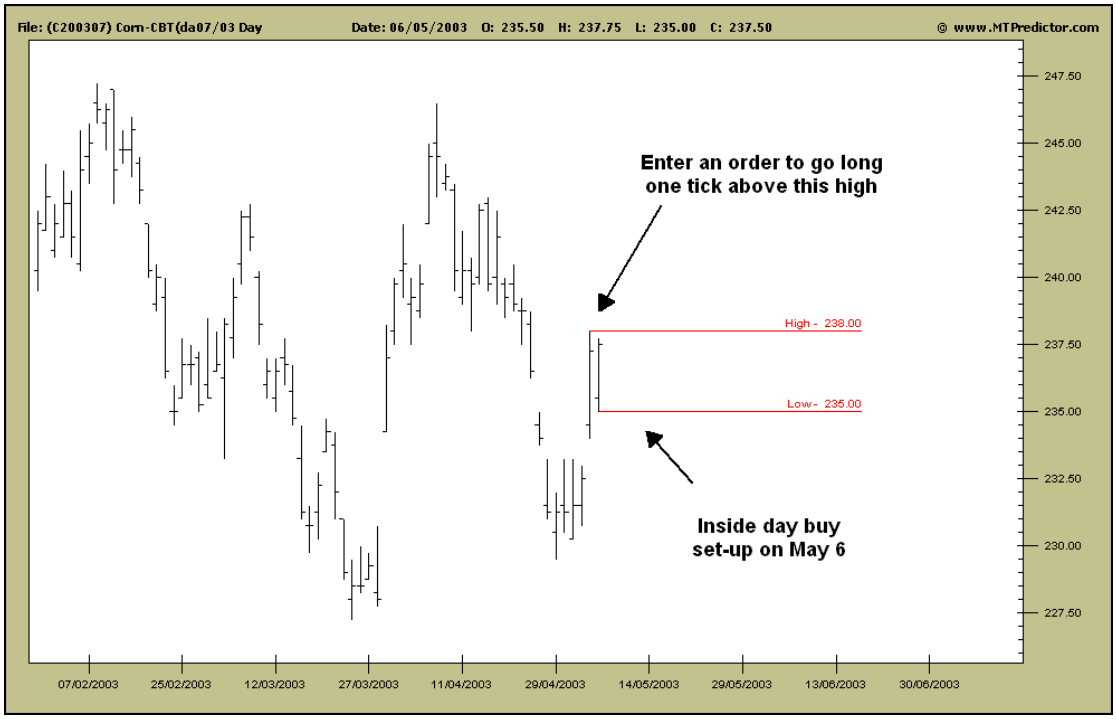
Gap openings

Firstly, what do I mean by a "Gap opening" ?

Basically, this is where the market opens the next trading day with a gap, in other words it moves overnight, and the opening price leaves a gap on the chart from the prior day's high or low.

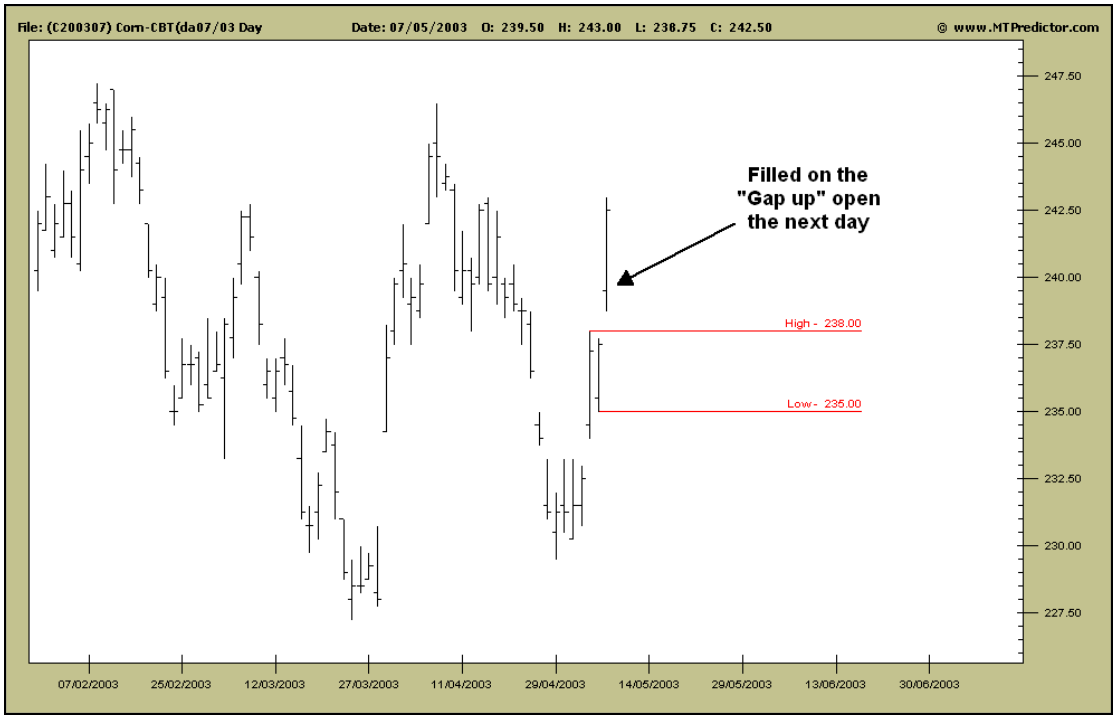
Initially, you may think that this is a good thing, because the market in question is normally moving in the anticipated direction, which you could view as a sign of strength, and a validation that your current trade is correct. However, as you know by now, the overriding concern with any new trade set-up is keeping the initial risk small. Therefore, if a market gaps up (or down for a short trade) on the open, it would fill your long trade at a price beyond your theoretical entry price. In other words, it would increase the initial risk on the trade.

Let me show you on a chart:



This was one of the inside days that I used to pyramid the long positions on Corn from the last section. As you will already have read in the prior chapter, for an inside day the initial trade entry is one tick beyond the price extreme (the high in this example, as you were looking for a new long position) of the day prior to the inside day. This would mean placing an order to go long at 238 ¼ on May 7, one tick above the 238 May 5 high.

Let's see what happened on May 7:



As you can see from the chart above, May 7 opened higher with a gap, and then carried on up the rest of the day. This would have filled your long position at 239 ½ on the open of May 7 rather than at your anticipated price of 238 ¼. Leaving your initial protective stop at the same place (at 234 ¾) would have then increased your initial risk on this trade. Let me show you.

In the prior chapter, you had placed an order to buy 4 lots at 238 ¼, for an anticipated initial risk of $700 (238 ¼ - 234 ¾ x 4 x $50). This is below the 3% maximum on your theoretical $25,000 trading account. However, what is the position now with the Gap open on May 7?

New initial risk = $950 (239 ½ - 234 ¾ x 4 x $50). This is now above the 3% maximum on your $25,000 example trading account.

Keeping the losses small is the single most important aspect of any profitable trading approach in the market, so I hope you can see that increasing the initial risk on any single trade, as this Gap open has done, is not good and a reason for concern.

However, a Gap open and a strong move off that Gap open in the anticipated direction is usually a good sign, and an indication that the market will continue in the anticipated direction. So how can you adjust your initial stop position to keep the initial risk small, while still taking advantage of the Gap open ?

You have two options.

The first of these is to reduce the number of lots as soon as you have your fill back, and have realised that a Gap open has increased your initial risk beyond your 3% maximum. In practice, this means that you would have to sell (close the position on 1 lot) one of your 4 lots (in this example) to then only be long 3 lots, reducing your initial risk to the required level. However, as I have already stated, a Gap open that continues in the anticipated direction is usually a good sign.

Another way to keep your initial risk under control is, rather than keeping your initial protective stop at the *appropriate* level on the chart, to adjust the stop to a position that equates to your initial anticipated risk. What this means in this example, is rather than leaving your initial protective stop at 234 ¾, you would have to raise it to a level that equates to a 3% risk on your $25,000 count:

- Maximum 3% initial risk on a $25,000 account = $750
- You are currently long 4 lots from 239 ½ on May 7

So the question is: what stop level would you require for your initial risk to be less than $750 when you are long 4 lots from 239 ½ ?

- Initial risk per lot = $187.50 ($750 / 4)
- Therefore initial stop price = 239 ½ - ($187.50/50) = 235 ¾. Where $50 is the "tick value" for Corn.

Therefore you need to raise your initial protective stop price on the 4 lots to 235 ¾, rather leaving it at the old price of 234 ¾.

I hope you can see that this keeps your initial risk under control, so if the market did reverse, you are protected and would not take a larger-than-anticipated loss (ignoring slippage and commission). Again I stress that the single most important aspect of any profitable trading approach is to keep the initial risk small, therefore when a Gap open occurs, which happens quite often, you must take the appropriate action, to ensure that your loss, if it unfolds, is not larger than can be helped.

Continued on the next page . . .

Gap opening summary:

As you have seen, sometimes markets gap beyond your theoretical entry price. When this happens, it will increase your initial risk on the trade, which is to be avoided at all costs. As such, when a Gap open occurs, you should take one of two actions:

- Either decrease the number of lots (or shares) on your current trade to bring back your initial risk to within the 3% maximum, or
- Adjust your initial protective stop accordingly, again to bring your initial risk to within the 3% maximum.

Either way, you need to make sure that you do not increase the initial risk on the trade, as this may produce a larger-than-anticipated loss if the market in question reverses.

However, as you have also seen, a Gap open that continues in the anticipated direction is usually a good sign that the market in question will keep moving in the anticipated direction.

Chapter 12 – Time analysis

Although I am including a chapter on time analysis in this course, from my own experience I have not found time analysis to be reliable enough to be one of the primary techniques in the MTPredictor software program. My best advice would be to only use Time analysis to *add confidence* or additional weight to the standard MTPredictor trade set-ups.

Having said that, time analysis can give you a good idea of *when* to anticipate a change in trend. However, what I would like you to understand clearly is that I feel time analysis is not as reliable as some gurus would have you believe. Again, this is my personal opinion based on many years as a private trader.

Time analysis can be split into two broad categories, the first of which is *Dynamic Time analysis*, where ratios of prior swings are projected into the future. This is very similar to price analysis and the WPTs, projections from prior swings in the market using certain ratios. The second category is *Static Time analysis*, where specific ratios are used to *count* forward a number of days from prior swings, to anticipate a potential change in trend.

I would like to take these two categories one-by-one, starting with Dynamic Time analysis.

Dynamic Time analysis

As with the price analysis and WPTs, Dynamic Time analysis works by taking the difference in time between prior points on a chart, multiplying this difference by certain ratios, and then projecting the result into the future. In essence, this is projecting potential dates where a future swing will be in direct proportion to a prior swing.

As with price analysis, the numbers used are based on the Fibonacci ratio of 1.618. If you look back to the chapter on important numbers, you can see that I used a series of numbers - 0.382, 0.50, 0.618, 0.786, 1.00, 1.272, 1.618, 2.618 and 4.236 - for price analysis and the WPTs.

However, the series to use for Dynamic Time analysis is slightly different from the numbers used for price analysis. In particular, the 0.786 and 1.272 ratios are not considered important, so we have a list of ratios consisting of 0.382, 0.618, 0.50, 1.00, 1.618 and 2.618.

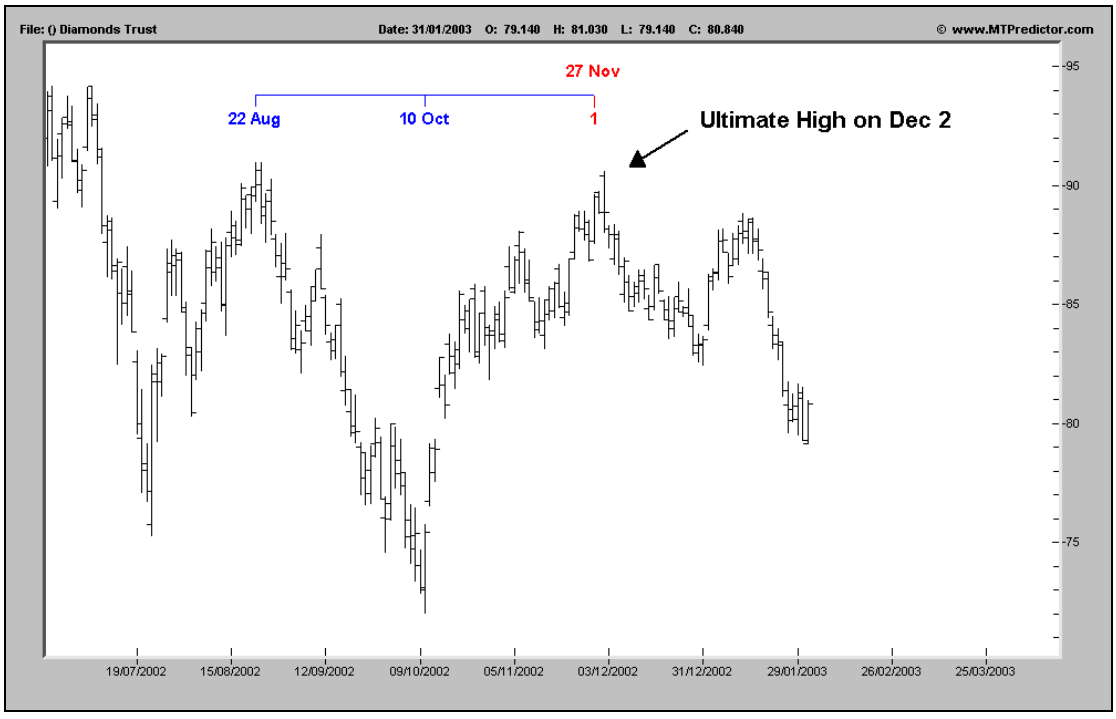
Continued on the next page . .

In a similar way to price analysis, you will either look at *Time retracements* of a prior swing, multiplying the length of a prior swing by these ratios, or *Time projections*, taking the length of a prior swing then projecting the results forward from a third point. I would like to look at both of these methods separately, starting with Time retracements

Time Retracements

In Time retracements, take the length of the prior swing, and then multiply this by the following ratios - 0.382, 0.618, 0.50, 1.00, 1.618 and 2.618 - to project future points in time where the prior swing would be in proportion. The most obvious of these is 1.00, where the future point in time would be exactly equal to (or 100% of) the prior swing.

Let me show you an example on DIA (Diamonds).



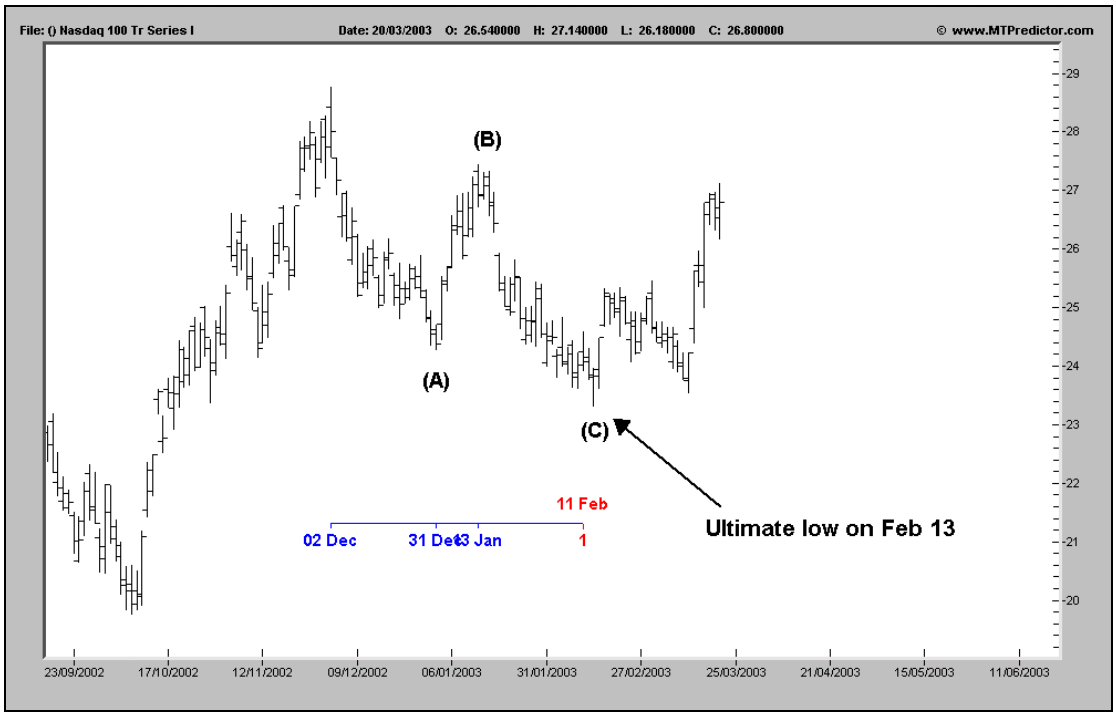
Here the high on Dec 2 2002 was only 2 trading days after the 100% time retracement of the Aug 22 to Oct 10 decline.

Normally, a leeway of +/- 2 days is acceptable for any time calculation.

Time Projections

In a similar manner to Time retracements, you take the length of a prior swing, and then multiply this by the following ratios - 0.382, 0.618, 0.50, 1.00, 1.618 and 2.618 - and project the results from a third point. This projects future points in time where the prior swing would be in proportion to the first swing in this calculation. Again, the most obvious of these is 1.00, where the future point in time would be exactly equal to (or 100% of) the first swing.

Let me show you an example on the SPY.



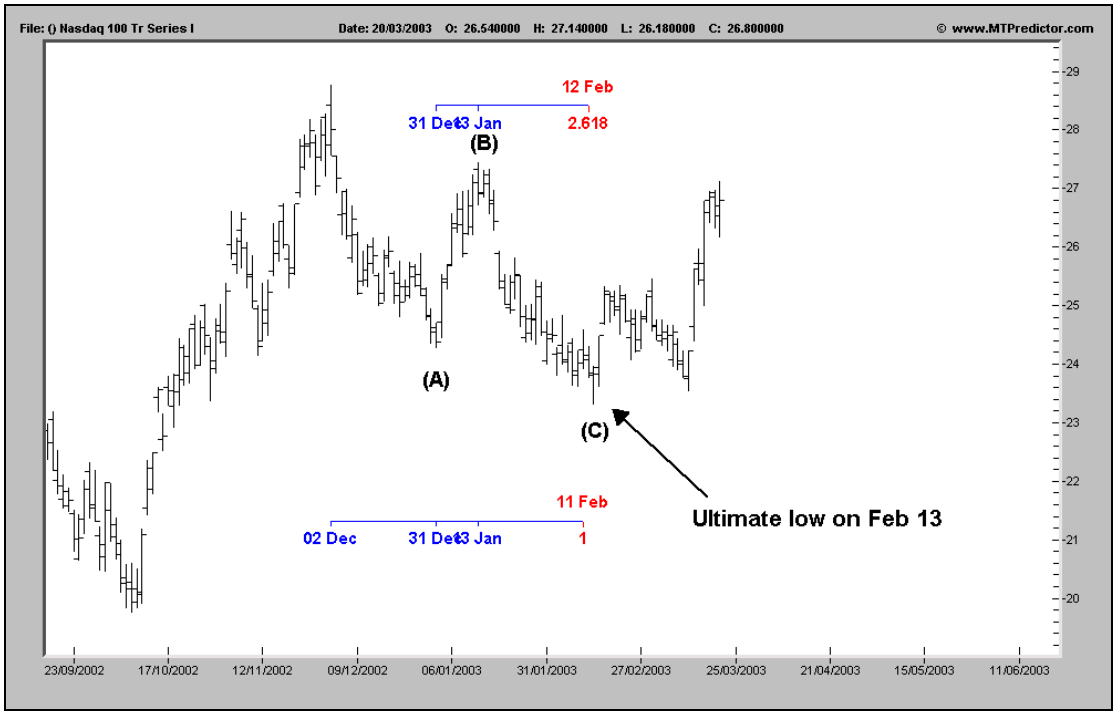
Here we have a simple ABC correction with a time projection of 100% (1.0) the length of Wave A (from Dec 2 to Dec 31) projected from the Wave B high (on Jan3). This 100% projection fell on Feb 11.

This is normally written as: Wave C = 1.0 (or 100%) Wave A on Feb 11

As you can see from the chart above, the actual low fell only 2 days later, on Feb 13.

Time clusters

As with price analysis and the WPTs, the most important areas are when time projections from different points *cluster* together around the same date.



Here is another look at the ABC correction on the SPY where:

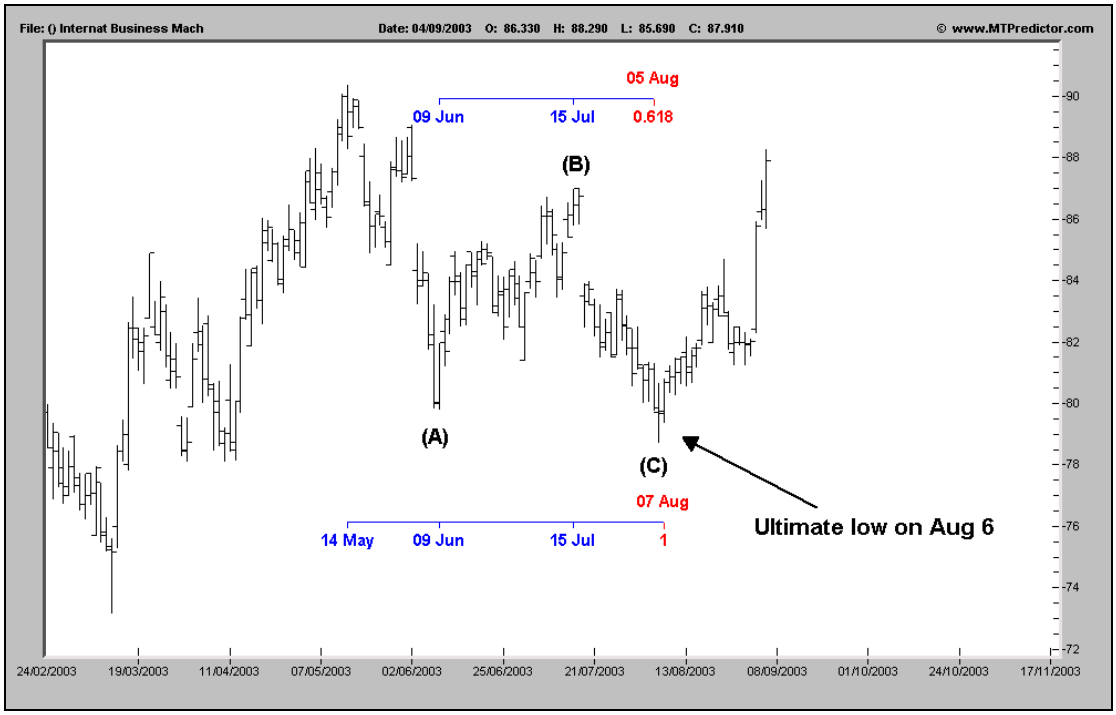
- Wave C = 1.0 Wave A on Feb 11, *and*
- Wave C = 2.618 Wave B on Feb 12

Therefore, two time calculations are falling on almost the same day, producing a *time cluster* of Feb 11–12, which would be considered important for a potential change in trend.

As you can see from the chart, the ultimate low fell on Feb 13, which was only 1 day outside this *time cluster*.

Let's take a look at another example on the next page.

Here is a daily chart of IBM:



Again, a simple ABC correction has unfolded where:

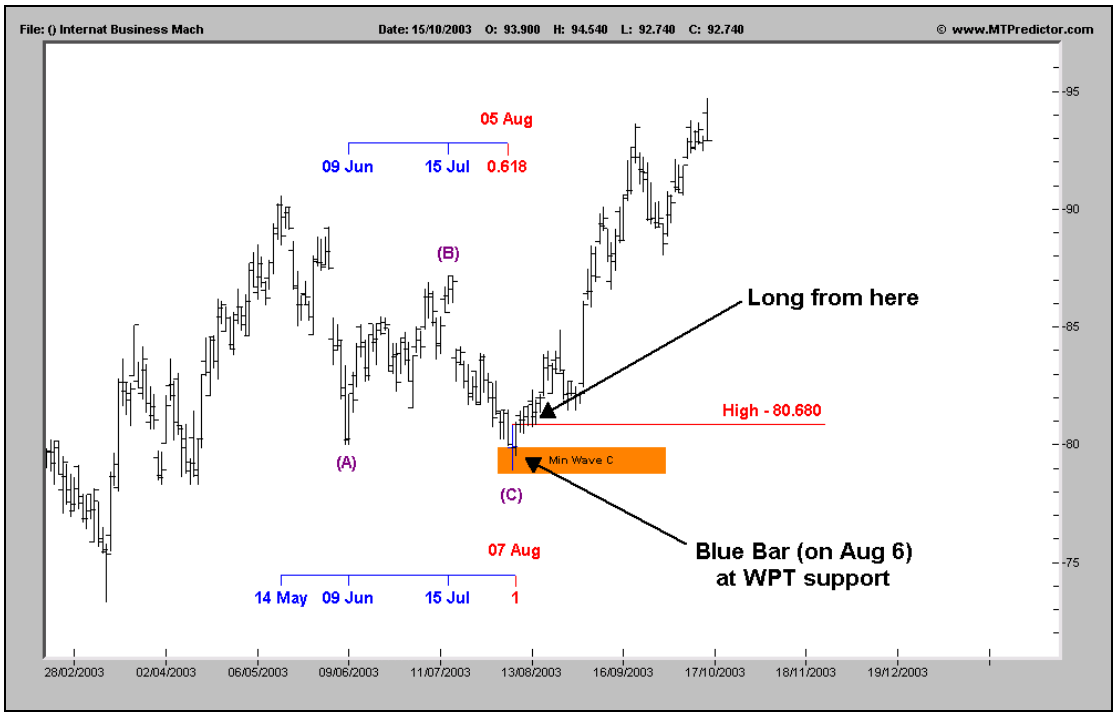
- Wave C = 1.0 Wave A on Aug 7
- Wave C = 0.618 Wave B on Feb 5

Therefore, two time calculations are again falling on almost the same day, producing a *time cluster* of Aug 5-7, which would be considered important for a potential change in trend.

As you can see from the chart above, the ultimate low fell on Aug 6, which was right in the middle of this *time cluster*.

Continued on the next page . . .

Now add in the minimum Wave C WPT and coloured reversal bars, using this manual ABC correction, and a standard Wave C buy set-up appears:



In particular, there is:

- A manual ABC correction,
- Reversing off the minimum Wave C WPT, with
- A Blue, buy, reversal bar on Aug 6.

As normal, a trade above the high of the blue reversal bar would signal a new long trade entry.

However, I hope you can all see that although this trade set-up stands on it own as a standard manual Wave C trade set-up, the addition of the Aug 5-7 time cluster for a potential change in trend added weight to the analysis.

As you can see, this helped nail the exact day (Aug 6) this corrective Wave C low ended. IBM rallied strongly from there.

Static Time Analysis

As with dynamic time analysis, you should use a set of numbers that are based on the Fibonacci number series - 1, 1, 2, 3, 5, 8, 13, 21, 34, 55, 89, 144, 233, 377 etc. - with a few additions. These additions mainly originate in work by W. D. Gann, and are based on ratios he used from the square of 90. If you would like to do more research, then I recommend reading any of the books by W.D. Gann, however, an in-depth study of this topic is beyond this course - all I wish to do is give the important numbers that I have found to work well from my own experience.

As such, the series of numbers that is I have found to work best is 5, 8, 13, 21, 30-34, 49-55, 89-90, 144, 180, 233, 360-365, 377.

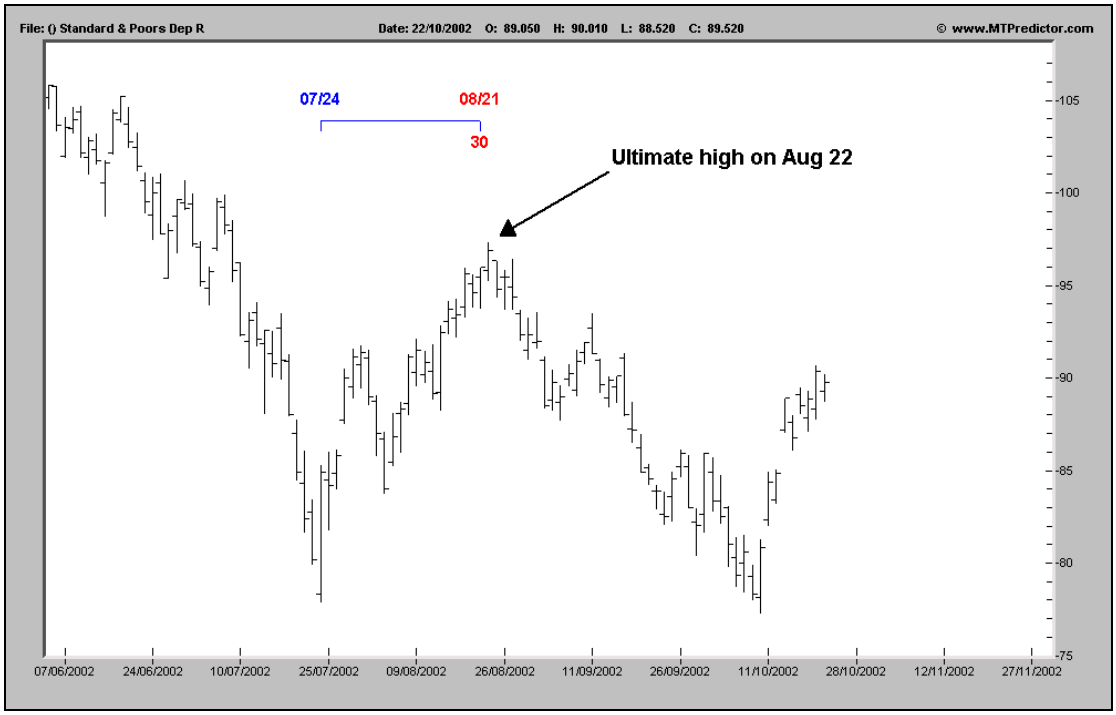
One import addition to this series is the static time count of 49 calendar days. This is 7x7, which W. D. Gann referred to as the *death zone*. I will focus on this particular Time count later in this chapter.

Static time counts should mostly be used in calendar days, however you can use trading days for additional confirmation. In other words, a swing of 21 calendar days is three weeks.

Static time counts work by taking a prior point in time, then adding on 5, 8, 13, 21, 30-34, 49-55, 89-90, 144, 180, 233, 360-365, 377 calendar days from that high or low. In other words you are *projecting in advance* the date where a trend would have been in force for a certain number of days. In other words, use a low to project a potential future high, and a high to project a future low. Some gurus suggest that you can use high-to-high and low-to-low counts, and other more in-depth variations, but because I don't believe time analysis is as reliable as the main MTPredictor trade set-ups, I do not believe it is worth over-complicating things. As with all the topics in this trading course, simplicity is always best! So, stick with the idea that you should use a low to project a potential future high, and use a high to project a future low.

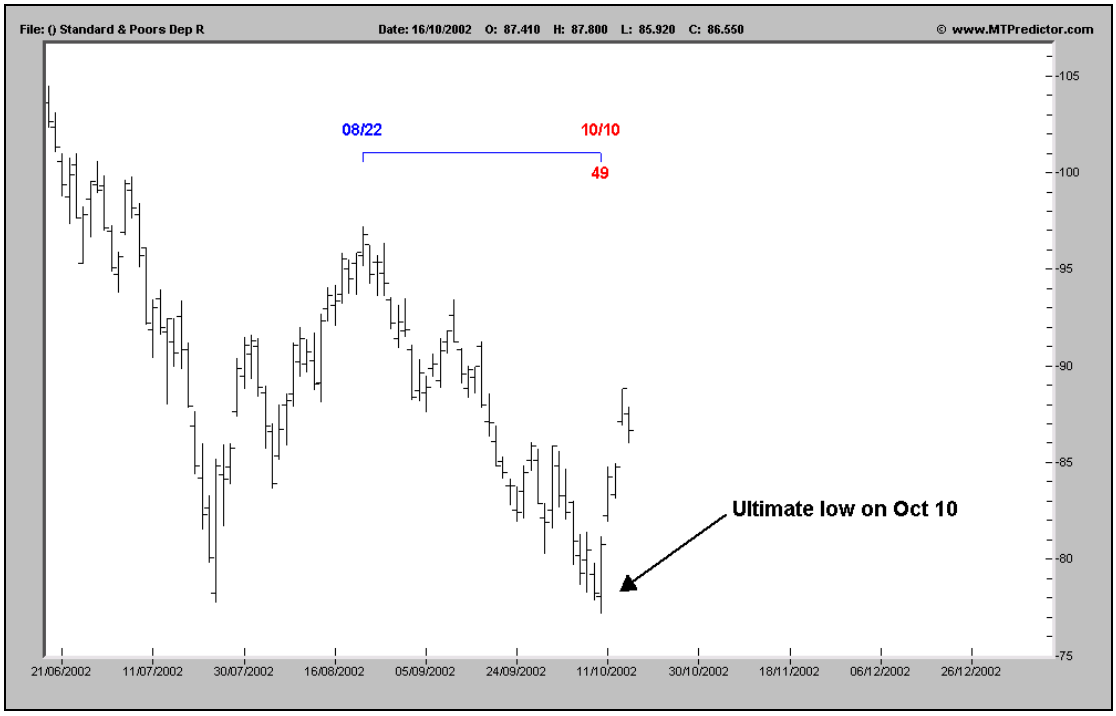
Let me show you a few examples:

Here is a daily chart of the SPY:



The Aug 22 high fell only 1 day after a static time count of 30 calendar days (CD's) from the Jul 24 low.

Or, again, on a daily chart of the SPY:

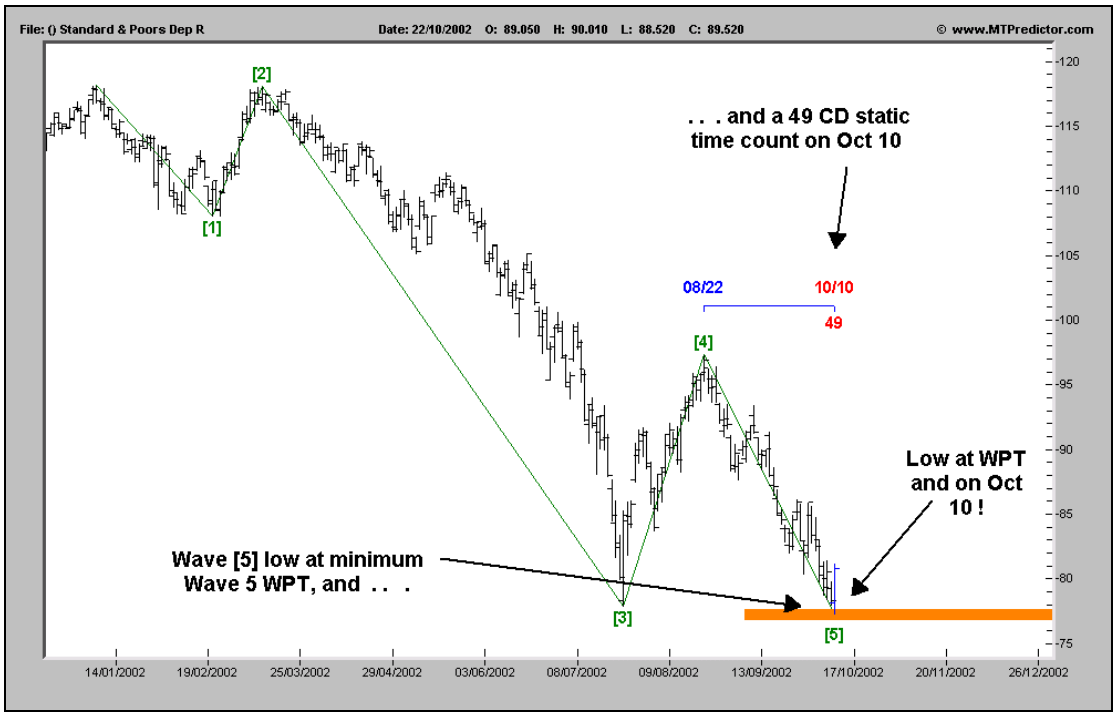


The Oct 10 low fell exactly on a static time count of 49 CDs from the Aug 22 high.

The static time count of 49 CDs is a very important one and is unique to the work of W. D. Gann. Gann called this the *death zone*, an area where the current impulsive trend was very likely to end.

As I have already said, I do not consider any time analysis (including static time counts) to be reliable enough to be incorporated into the main MTPredictor trade set-up routines.

However, if a static time count, particularly the a 49 CD count, falls at the same time as a market is making one of the standard MTPredictor set-ups then this adds weight to the set-up. Let's take another look at the position of the SPY as it entered the 49 CD count on Oct 10 2002:



As you have already seen from earlier in this course, on Oct 10 the SPY was making a Wave 5 decline, and had reached the minimum Wave 5 WPT. Oct 10 was also a blue, buy reversal bar. These were automatically found and displayed (at the time) on the chart by the software.

Now combine this with Oct 10 being an important static time count, and I hope you can all see how you should have been confident that *if* the SPY traded above the Oct 10 high then this would end the current down trend and possibly complete a Major low.

As you know, Oct 10 2002 turned out to be the very day this Major low completed!

Summary of Time analysis

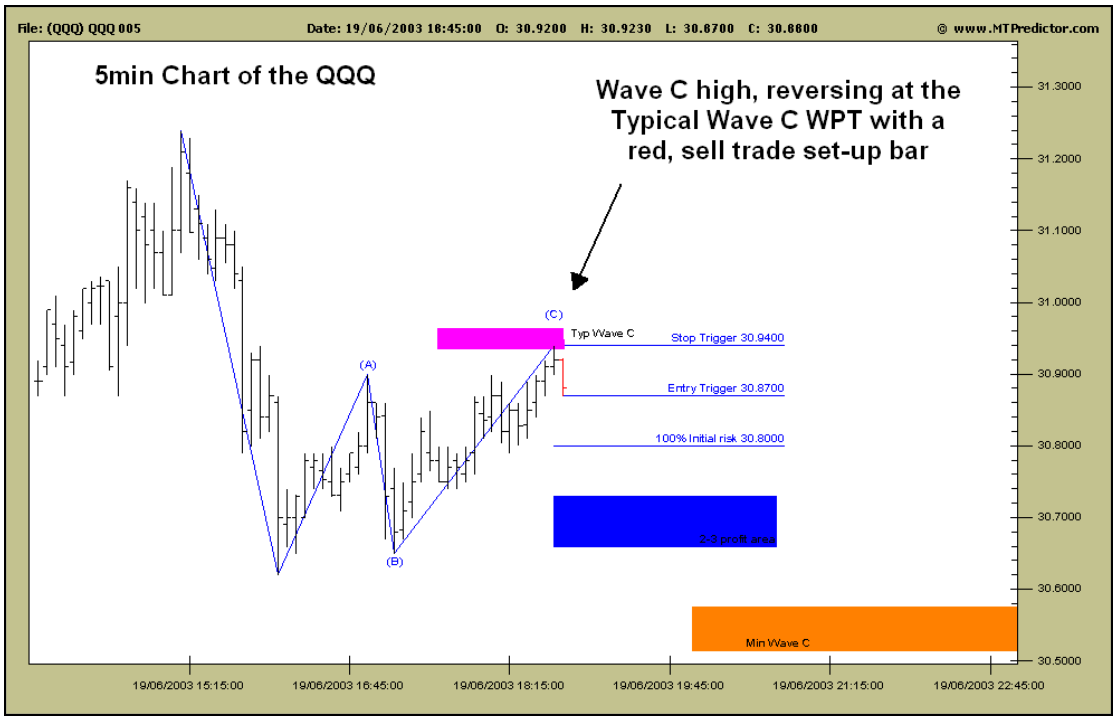
Again, I wish to stress that this chapter is by no means a full and in-depth study of time analysis - if this subject interests you, I recommend that you do your own analysis and reading.

As you have seen, I have not included many examples in this section - this was not by design, but simply that I found it hard to find many good examples, even with the benefit of hindsight. This confirms why I suggest that Time analysis is not that reliable, and therefore should only be used as a secondary indicator to help add weight to the standard MTPredictor analysis methods and trade set-ups.

Chapter 13 – Day (and short-term) Trading

So far in this course I have only been looking at daily bar charts, however the standard MTPredictor trade set-ups and analysis techniques that I have discussed so far all apply equally well to short-term charts. It does not matter whether you are trading a 5-minute chart, 15-minute chart, 60-minute chart or a daily chart - your analysis and trade set-ups should be approached in exactly the same way.

Let me show you an example:

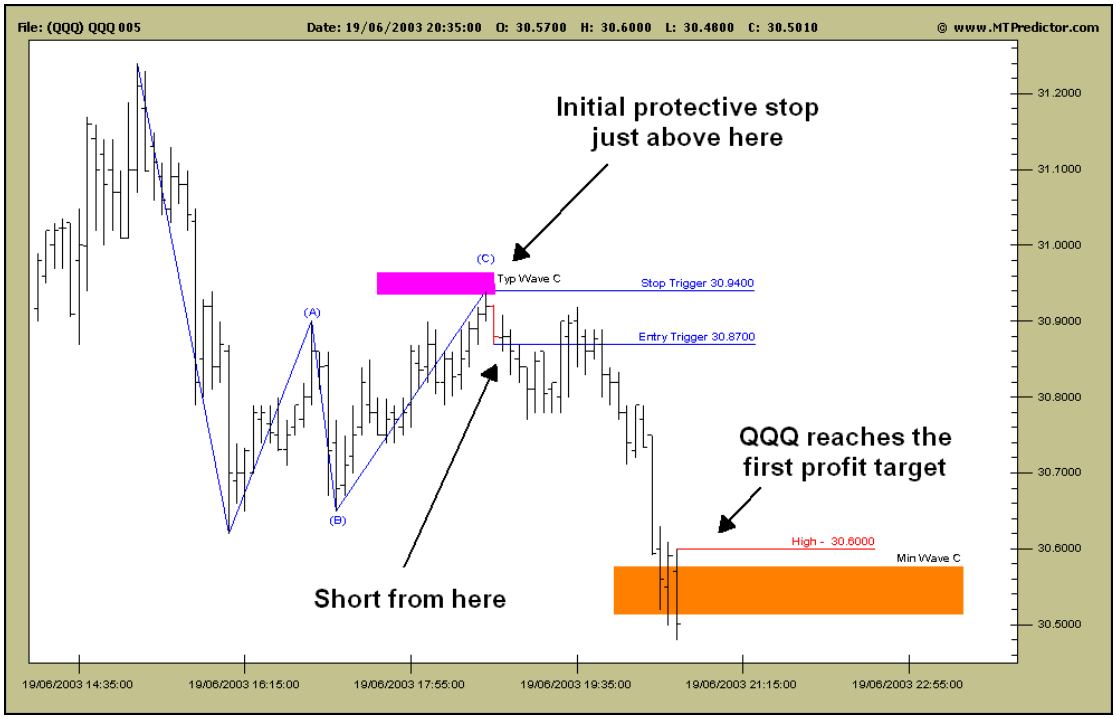


Here is a 5-minute chart of the QQQ (US stock tracking the NASDAQ index). As you can see, a perfect Wave C sell set-up has unfolded, with the wave C high reversing right off the typical wave C WPT, with a red sell Reversal Bar. This is a perfect trade set-up and is no different from the examples you have seen throughout this course using daily bar charts.

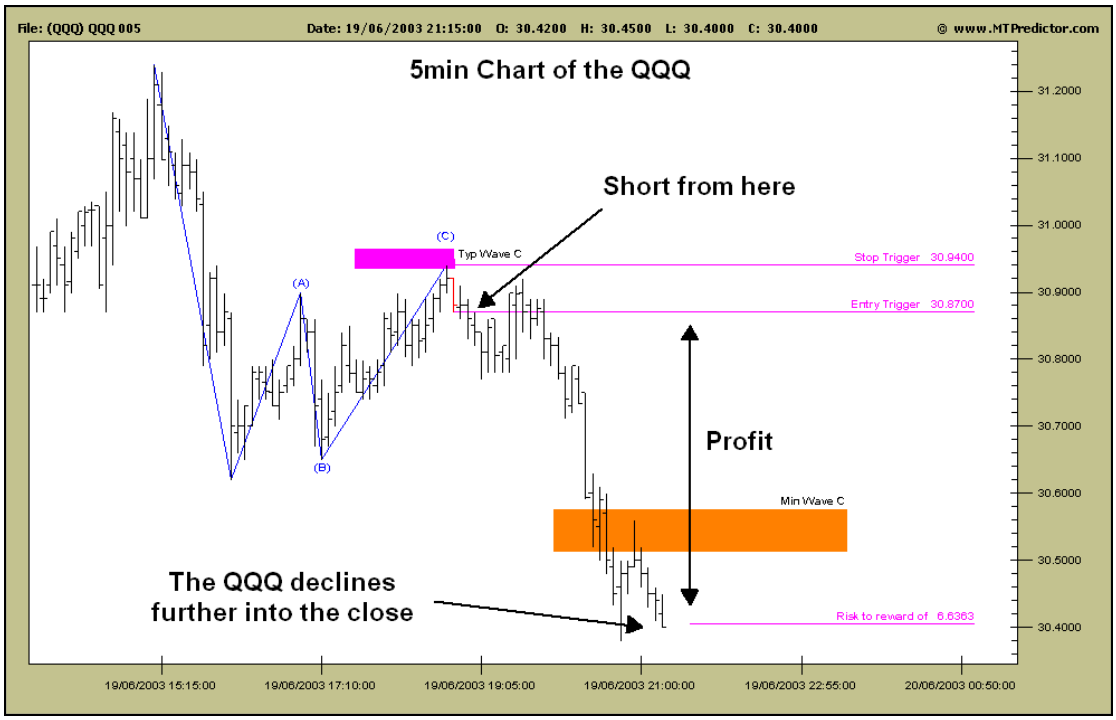
As such, you should trade and manage it in exactly the same way as you have already seen. In this example, you will be looking to enter a new short position in the QQQ if it trades just below the low of the red sell Reversal Bar.

Let's see how this unfolded.

As you can see, the QQQ did indeed decline off this wave C high:



As you can see in the chart above, the QQQ has now closed below the first projected profit target. As outlined in the section on *standard trade management techniques*, the protective stop is now kept just above this 5-minute bar's high.



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As you can see from the second chart on the previous page, the QQQ actually continued slightly lower, closing the day the near its lows. As this was on a 5-minute chart, and therefore considered a *Day trade*, you would have closed this short position as the regular trading session came to an end. This would have resulted in a very good profit of approximately 6 times the initial risk required to take the trade (ignoring slippage and commission).

However, the point I wish to make is that the initial trade set-up and the management of the trade as it progressed in your favour is exactly the same as if you were dealing with a daily bar chart. The only difference is that this all happened within two hours rather than over several weeks.

It does not matter whether you are trading Stocks, Indices or any Futures contract, you should approach the trade set-up and, therefore, its management in exactly the same way as if dealing with a daily bar chart. However, there are some minor differences when looking at very short-term intra-day charts.

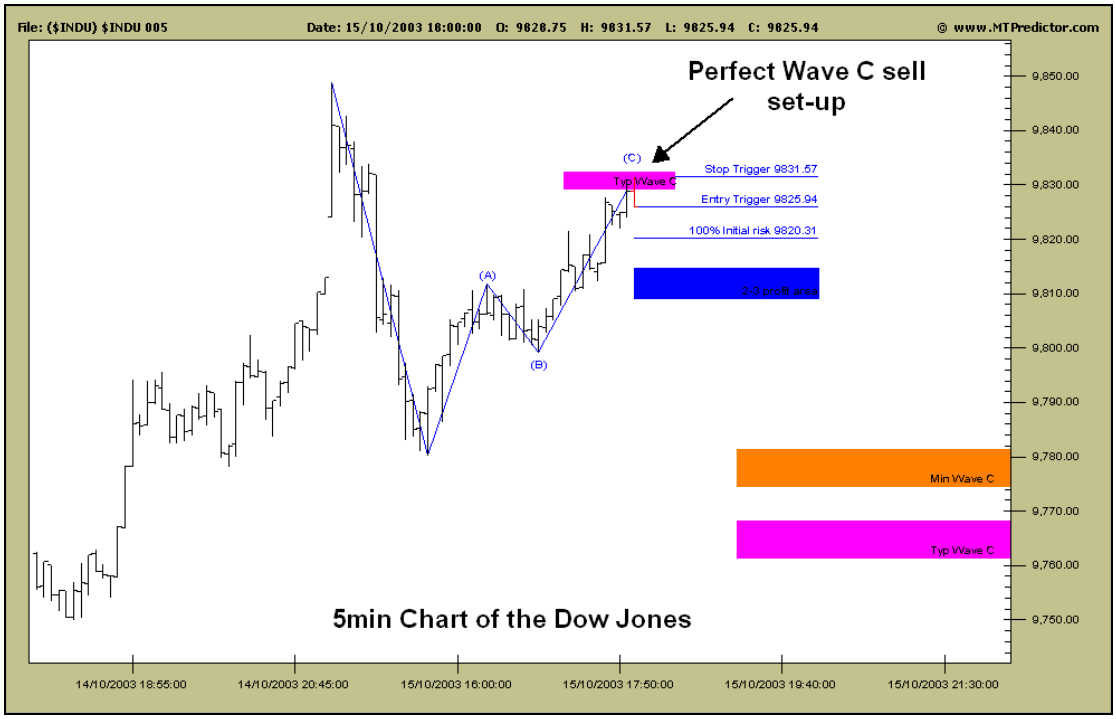
The first of these is to do with market liquidity. As you can imagine, if you are dealing with a market that is illiquid and does not trade very often, then you are more susceptible to bad fills and slippage if you look to trade a large number of shares, contracts or lots on a short timeframe. So, my first advice is to focus only on the most active and liquid markets when you are trading on short-term charts. This is particularly true if you are working off a timeframe as short as a 5-minute chart.

If you are following 5-minute charts, I would suggest restricting the markets you follow to very active and liquid markets - two good examples are the E-mini SP500 (ES) and E-mini Nasdaq (NQ). You can follow individual stocks on such a short timeframe, but please make sure they are active and have very high volume, to make sure you are able to get a fill quickly, and the likelihood of slippage is reduced.

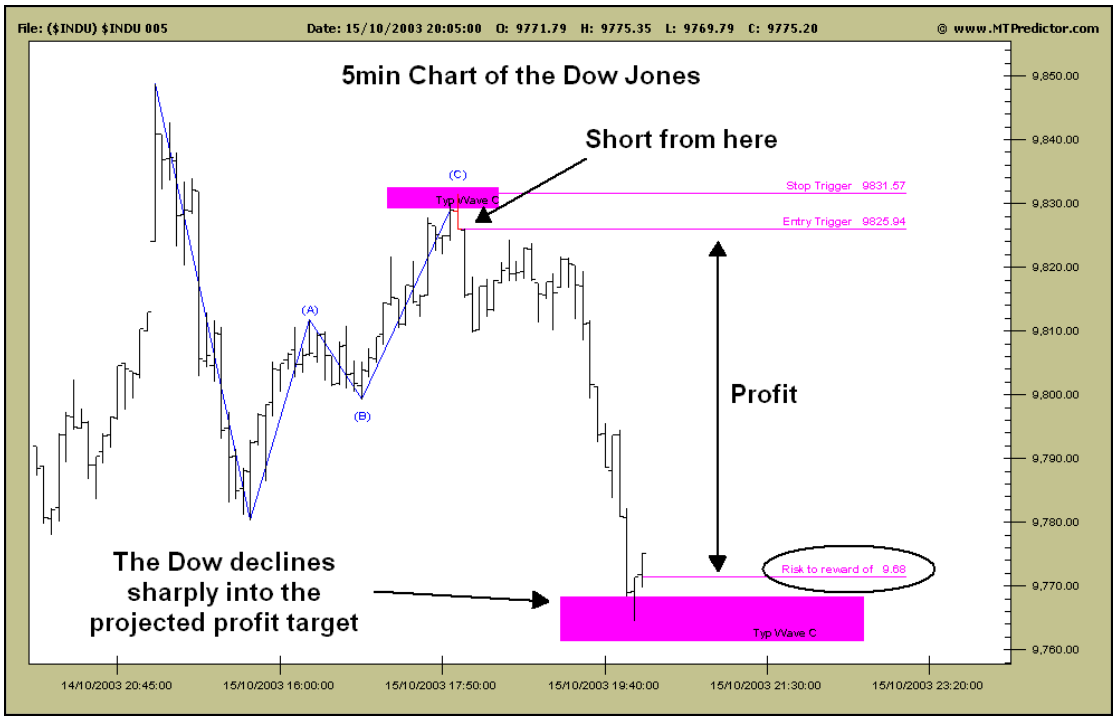
Over the next few pages I will show some examples of trade set-ups on short-term charts, showing how the set-ups are the same, whether they unfold on a 5-min chart, 15-min chart, or indeed a 60min chart.

Continued on the next few pages . . .

Here is an example on a 5-min chart of the Dow Jones Futures:

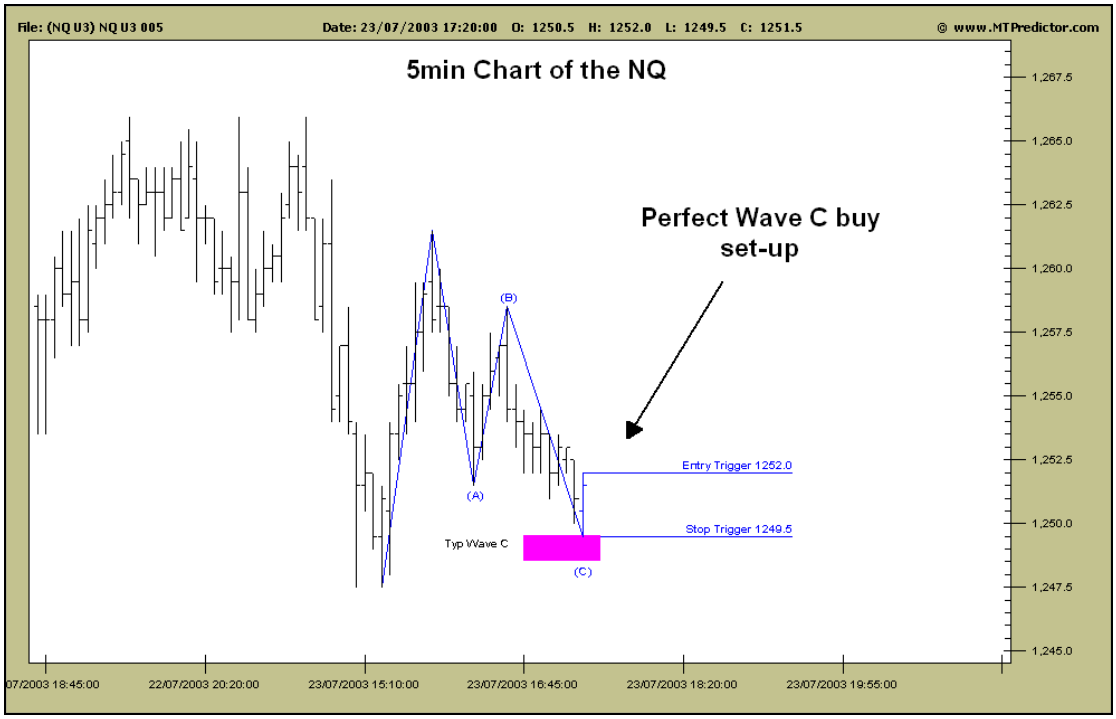


As you can see from the chart above, this was a perfect Wave C sell set-up.

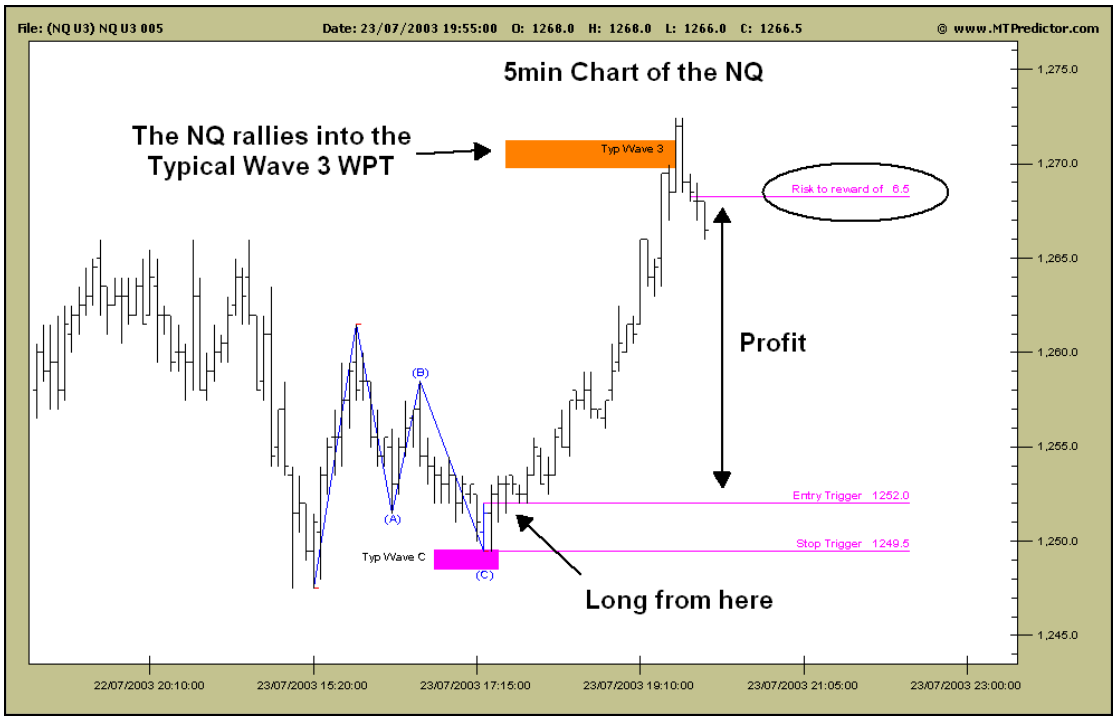


As you can see above, the Dow declined sharply off this Wave C high, only stopping in the projected typical Wave C WPT. As such, this would have resulted in a profit of nearly 10 times the initial risk (ignoring slippage and commissions).

Here is another example this time on a 5-minute chart of the Nasdaq (NQ).

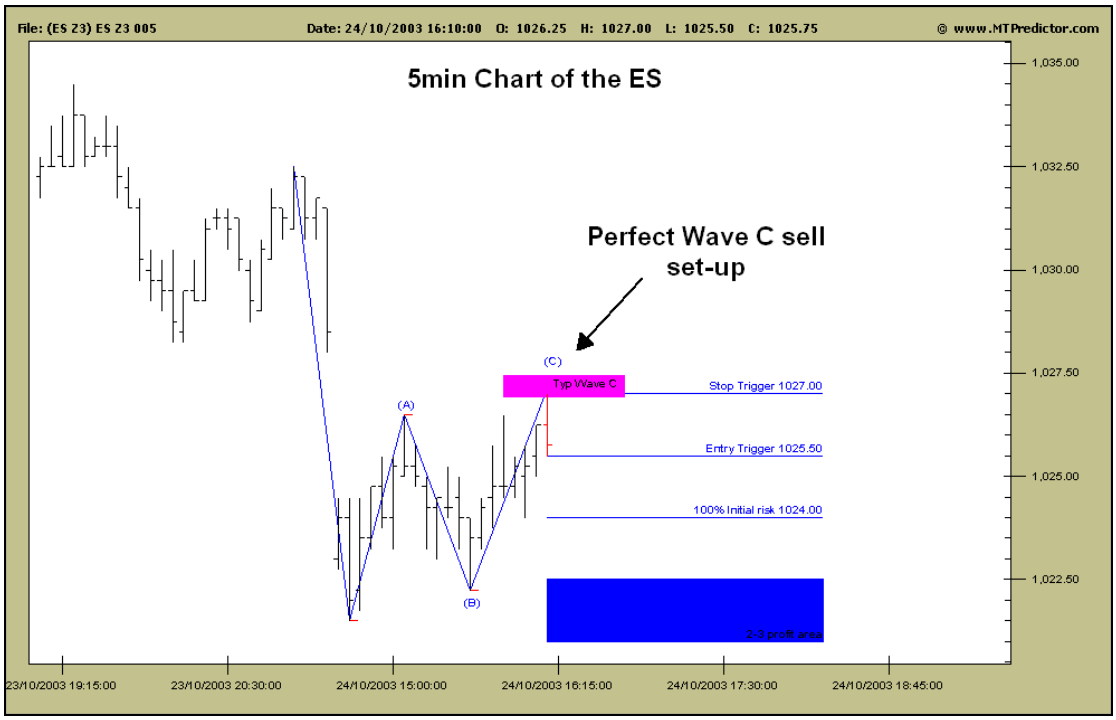


As you can see from the chart above, this was a perfect Wave C buy set-up.

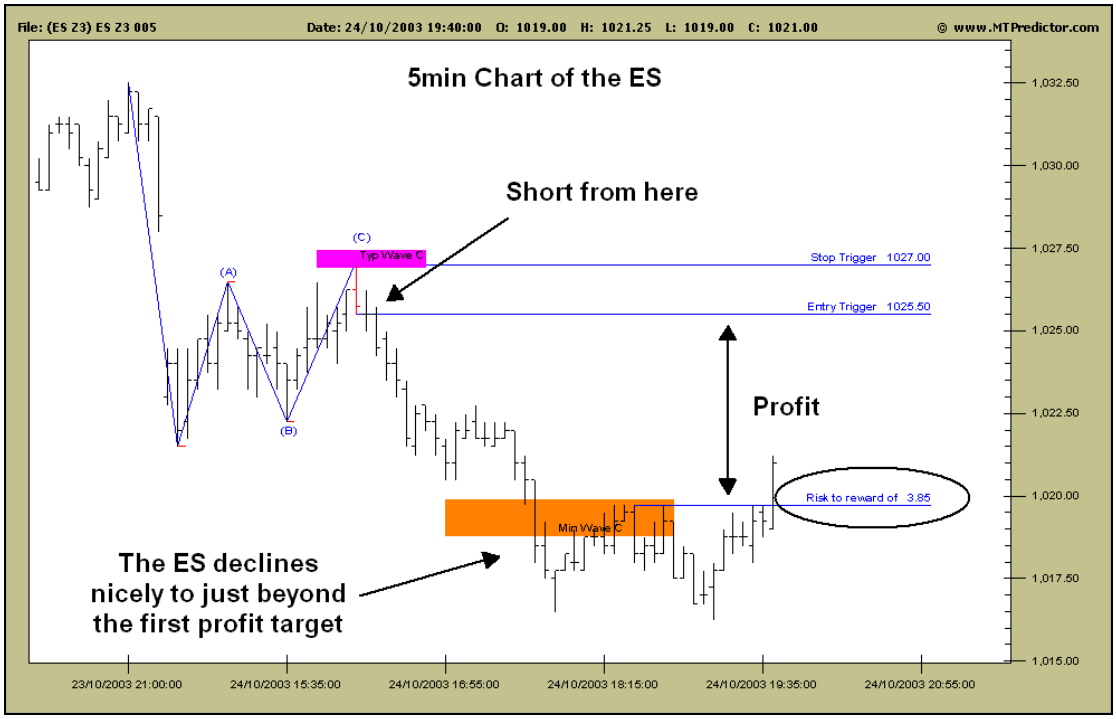


As you can see above, the NQ rallied strongly off this Wave C low, only stopping in the projected typical Wave 3 WPT. As such, this would have produced, a profit of approximately 6 times the initial risk (ignoring slippage and commissions).

Here is another example, this time on a 5-minute chart of the E-mini SP500 (ES).

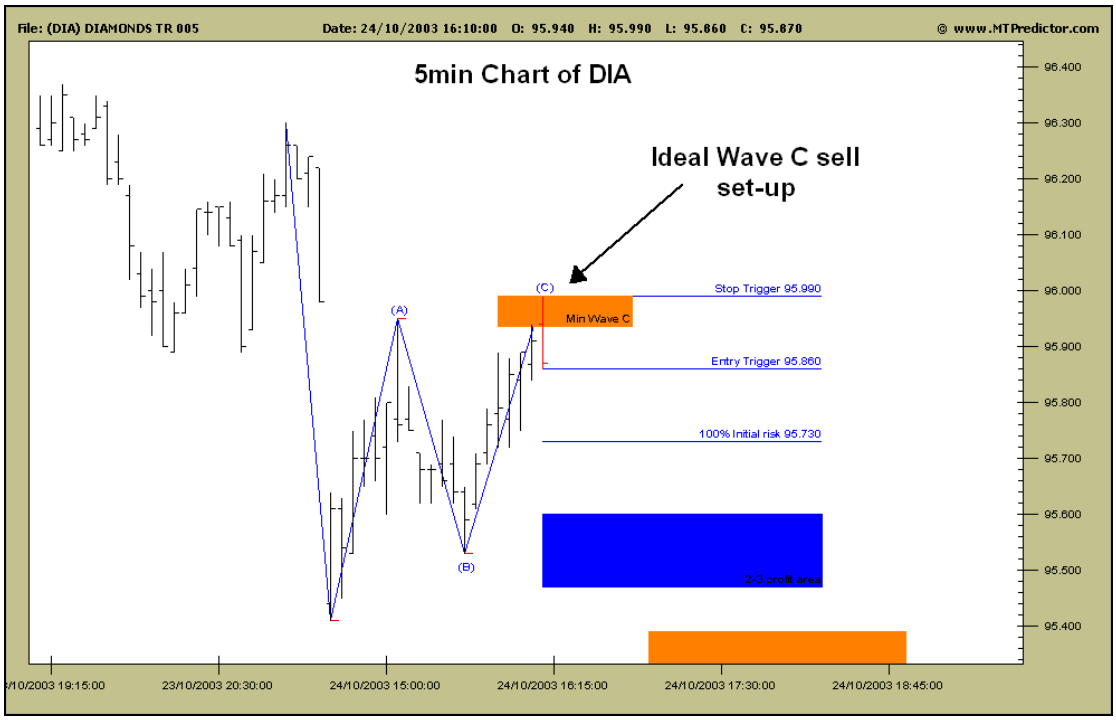


As you can see from the chart above, this was a perfect Wave C Sell set-up.

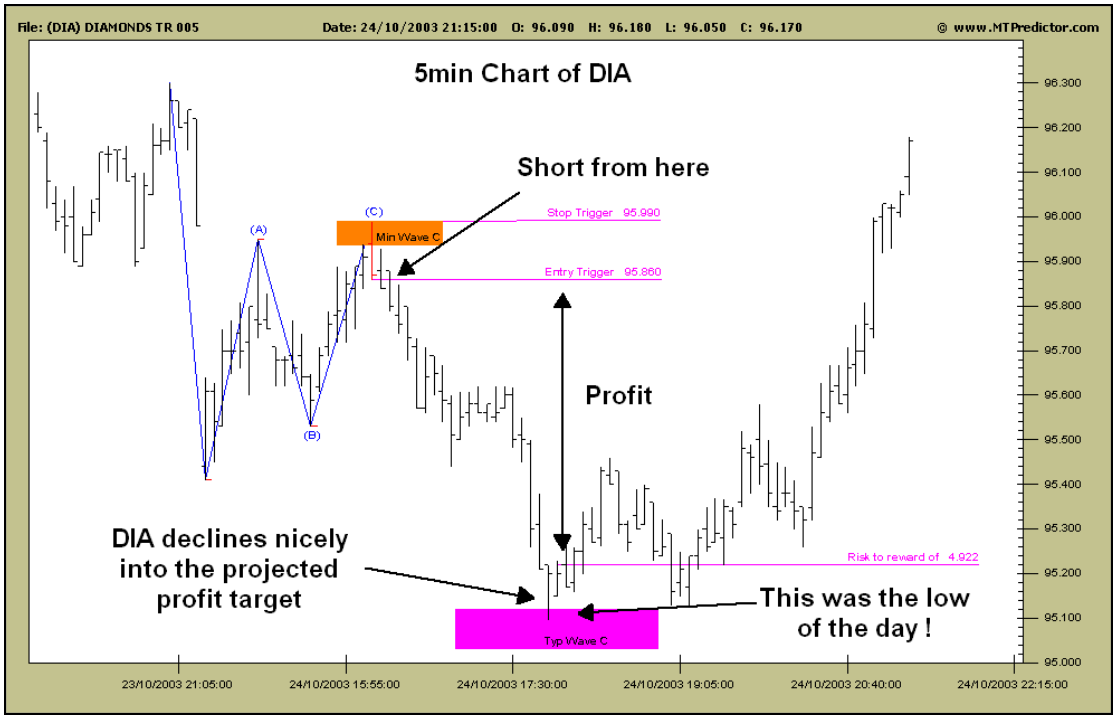


As above, the ES declined nicely off this Wave C high, reaching the projected minimum Wave C WPT. This would have yielded a profit of nearly 3 ½ times the initial risk (ignoring slippage and commissions).

Here is another example, this time on a 5-minute chart of DIA (Diamonds).

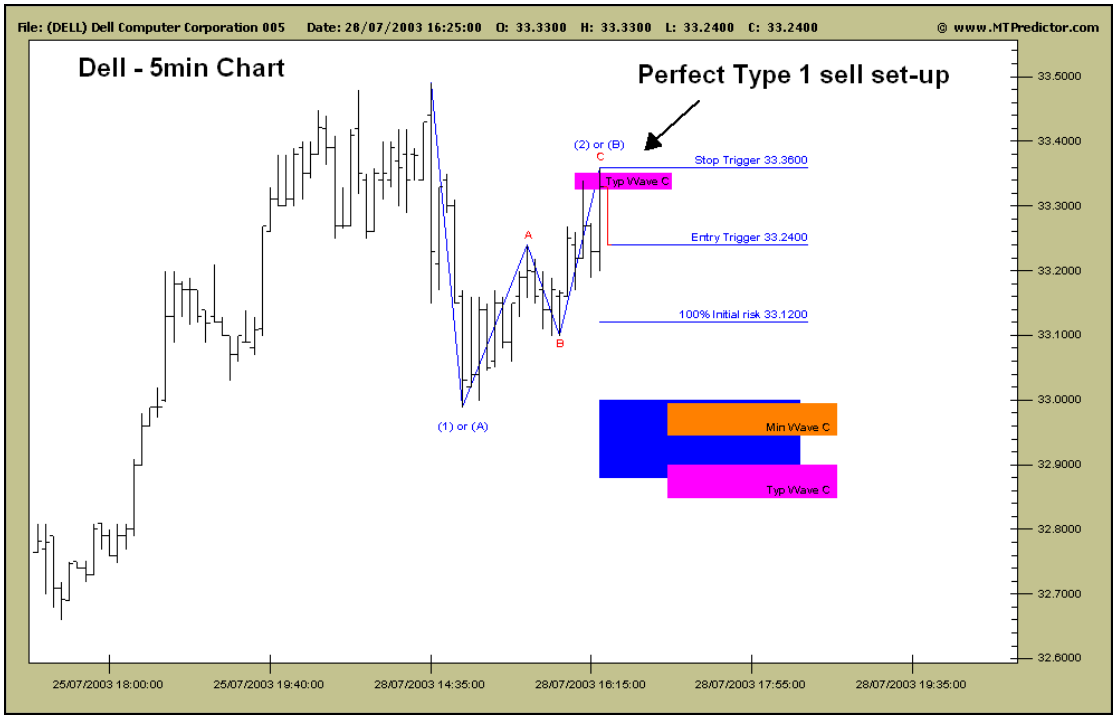


As the chart above shows, this was a perfect Wave C Sell set-up.

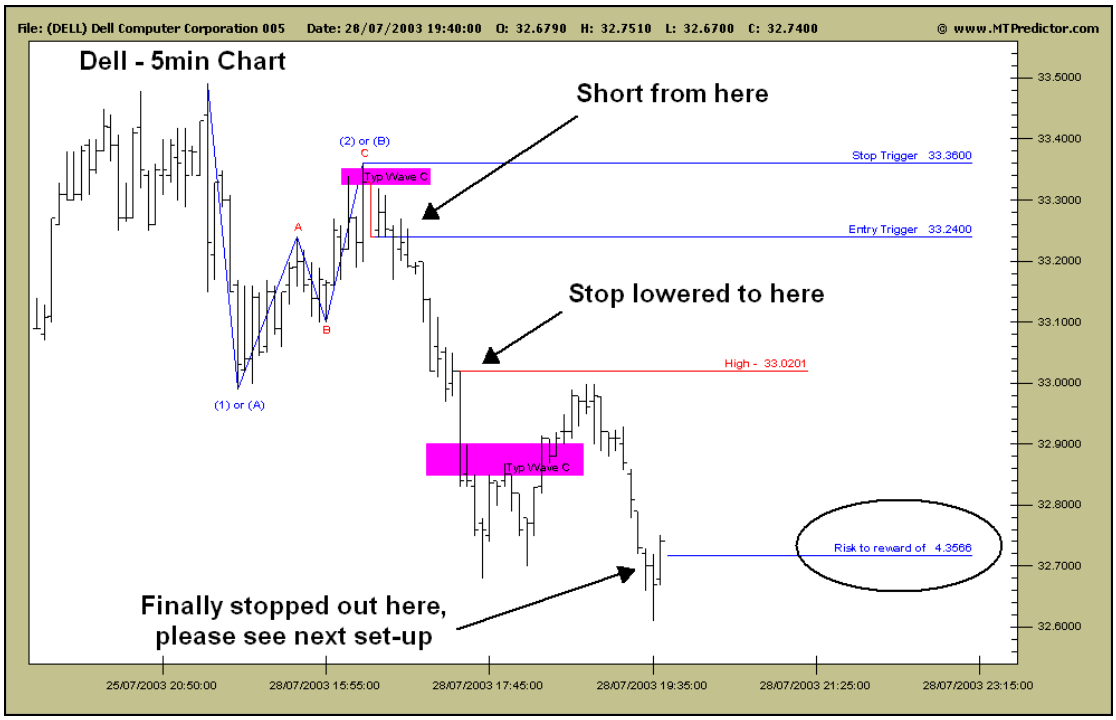


As you can see from the chart above, Diamonds declined sharply into the projected typical Wave C WPT, resulting in a profit of nearly 5 times the initial risk (ignoring slippage and commissions). In fact, this profit target nailed the exact low of the day !

Here is another example, on a 5-minute chart of DELL:

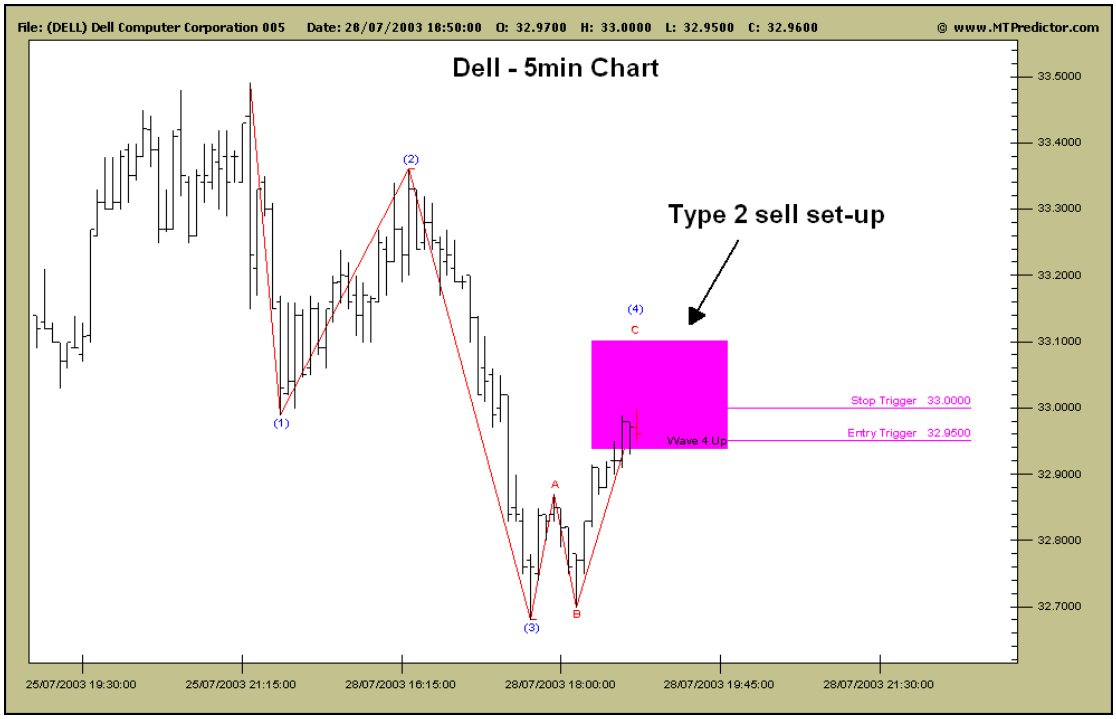


A perfect TS1 high appears to be unfolding.

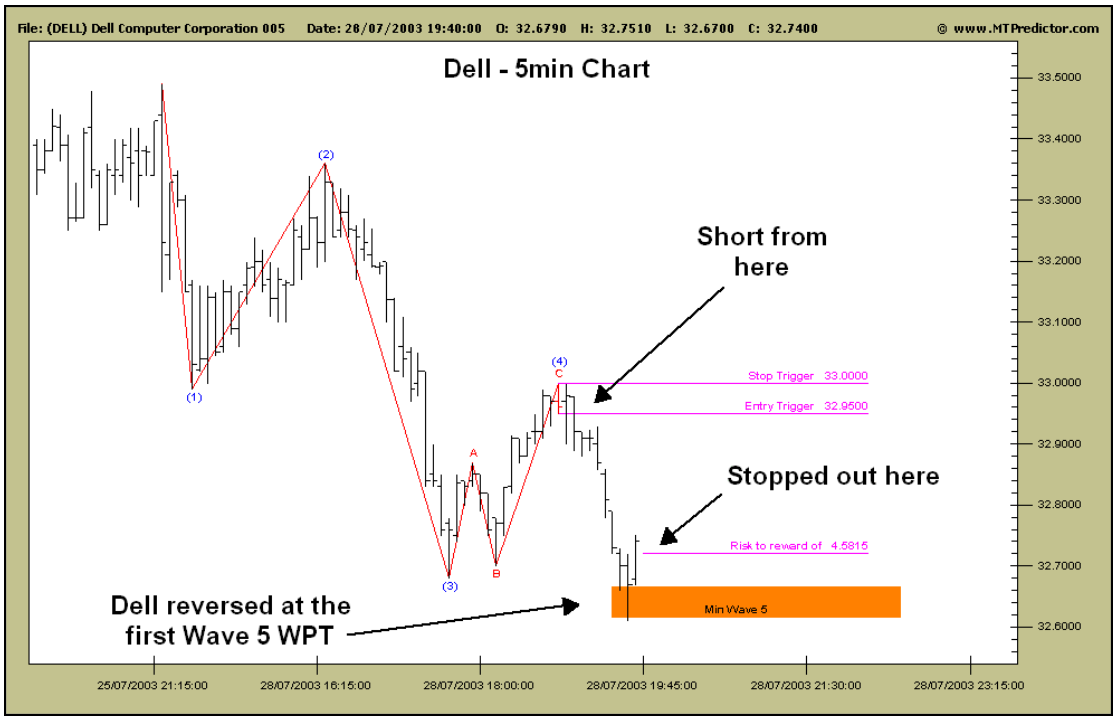


DELL (on this 5-min time frame) declined nicely from this high.

Here is what happened later the same day:

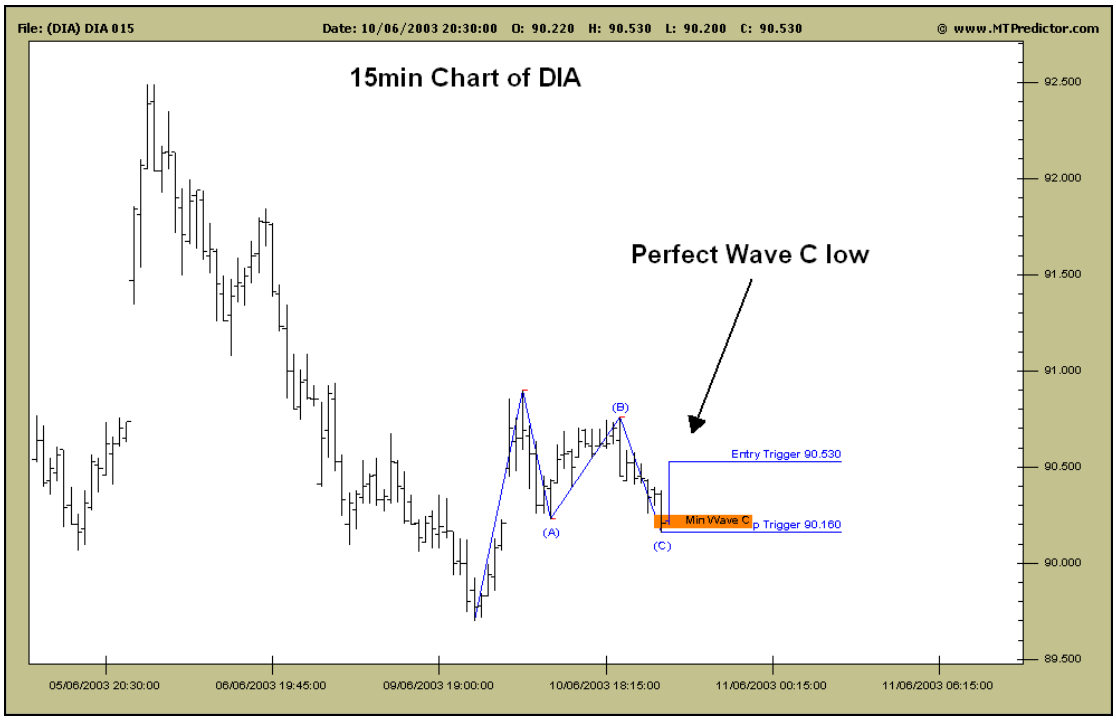


A TS2 high unfolded.



It declined into the first projected profit target (the minimum Wave 5 WPT) to stop out this and the prior TS1 trade) for a very good profit.

Here is another example, on a 15-minute chart of a US stock DIA (which tracks the Dow Jones Industrials index):



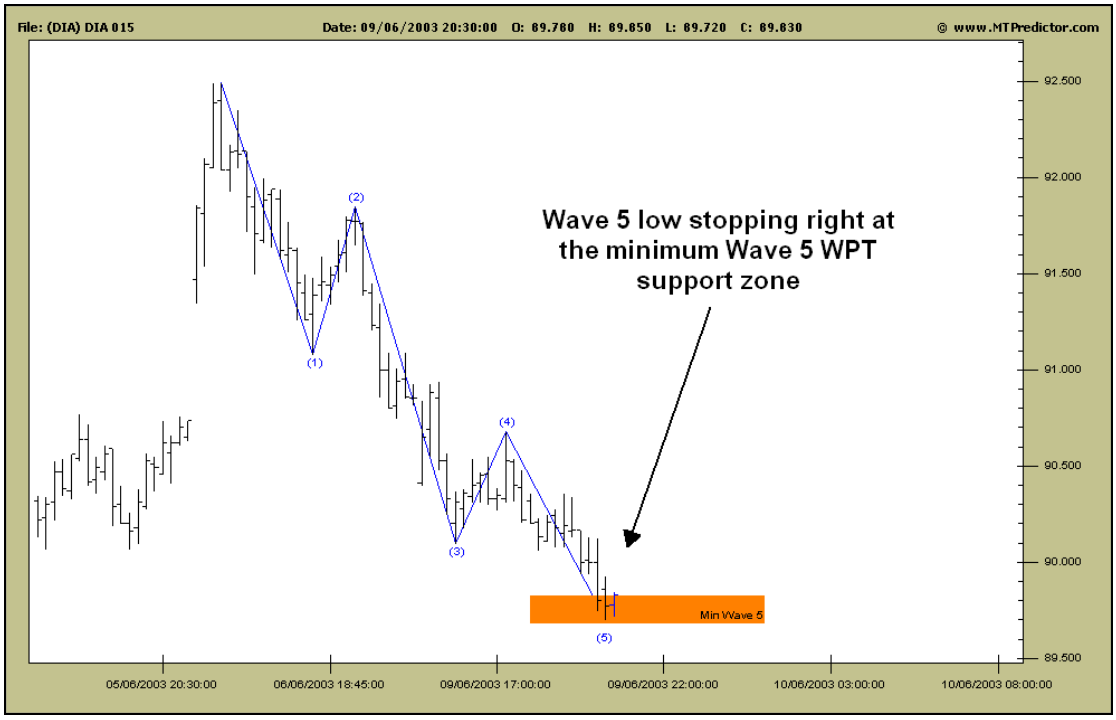
Here is a perfect wave C low that reversed at the minimum wave C WPT with a blue buy Reversal Bar:

It went on to rally into the projected typical Wave 3 WPT.

As you can see from the second chart on the prior page, DIA on this 15-minute time frame rallied nicely and resulted in a trade of approximately 3 times the initial risk (ignoring slippage and commission).

The standard MTPredictor trade set-ups work equally well on 15-minuite charts as on the 5min charts from a few pages ago and on daily charts - the same can be said for all of the automatic MTPredictor analysis and manual analysis that has been demonstrated so far in this course.

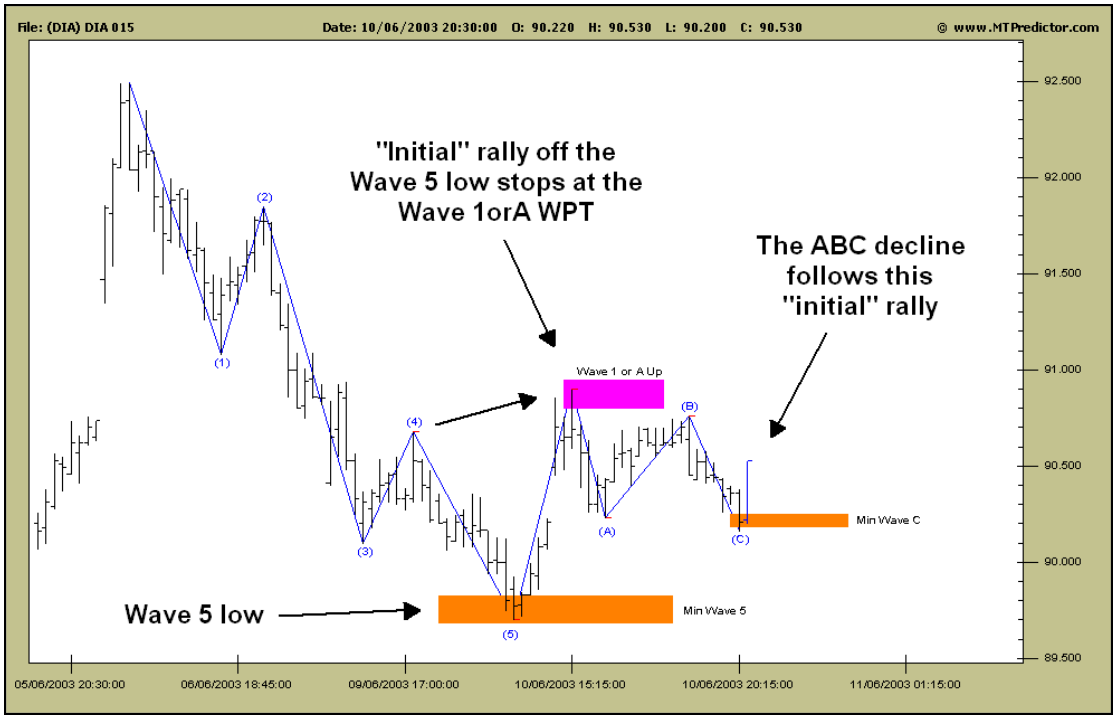
As an example of this, let's move back in time just before the last example on a 15-minute chart of DIA, to see how it unfolded:



Here you can see that MTPredictor has automatically identified a 5 wave decline that has reached the minimum wave 5 WPT, and the last bar on the chart is a blue buy Reversal Bar. As you have already seen earlier in this course, *if* DIA trades above this blue bar, then the current decline on this 15-minute timeframe would be considered over, and you should anticipate a rally in DIA.

Continued on the next page . . .

As seen in the chart below, this is exactly what happened, with DIA rallying fast off this low, only to find resistance right at the Wave 1orA WPT taken from the last minor wave 5 decline:



This is exactly the same as you have seen in prior chapters, except this move has unfolded on a 15-minute chart rather than on a daily chart.

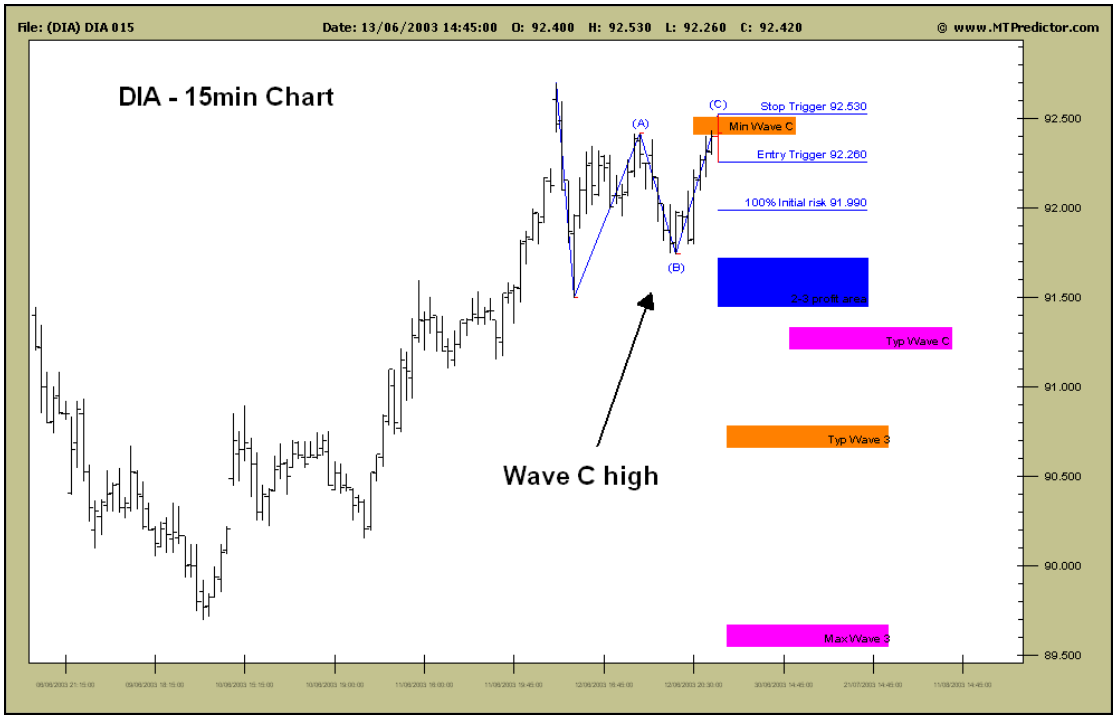
Exactly the same analysis and procedure can be used on a 15-minute chart as a daily chart. It does not matter what time frame you trade on, you can find all the standard MTPredictor trade set-ups, run MTPredictor automatic analysis, or manage manual analysis using the WPT module…it is all the same.

However, as with daily charts, you should only work with short-term and intra-day charts where the Elliott wave count is *obvious*. Just like daily charts, short-term and intra-day charts go through periods where the wave count cannot be reliably placed on a chart. As such, the same advice applies in that you should only ever work with an Elliott wave count (either automatically or manually found) that is obvious and easy to recognise.

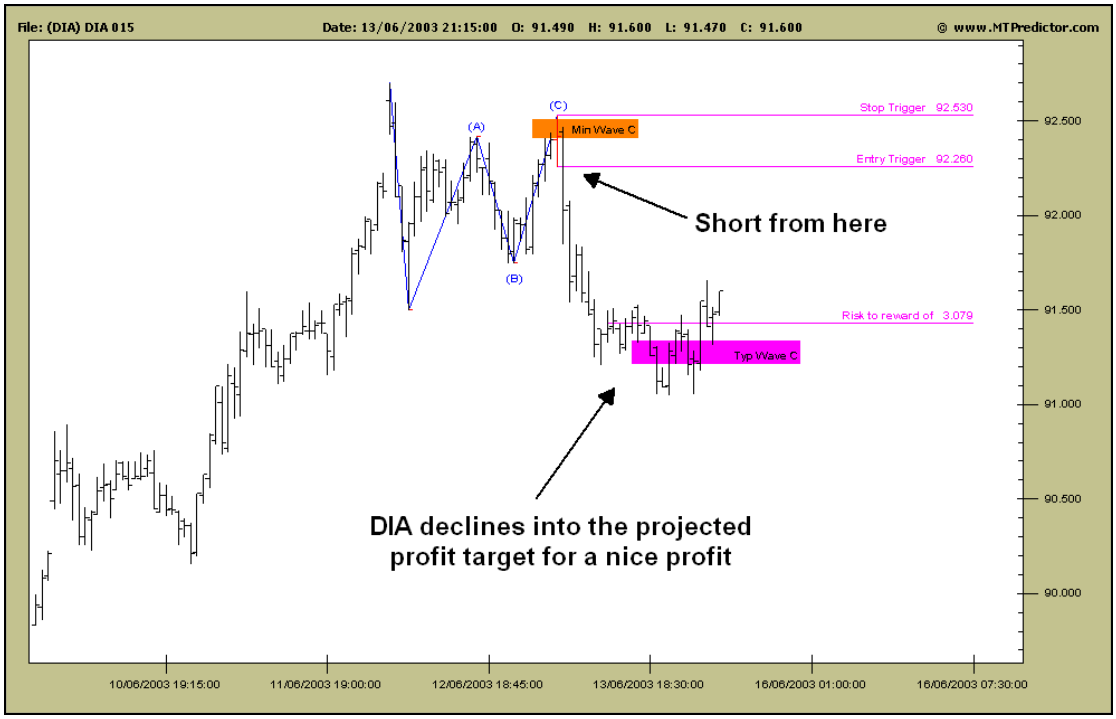
When the count can be described as a *good* wave count, then you can approach it in exactly the same way as with daily charts.

Let's take a look at another example . .

Again, on a 15-minute chart of the DIA:



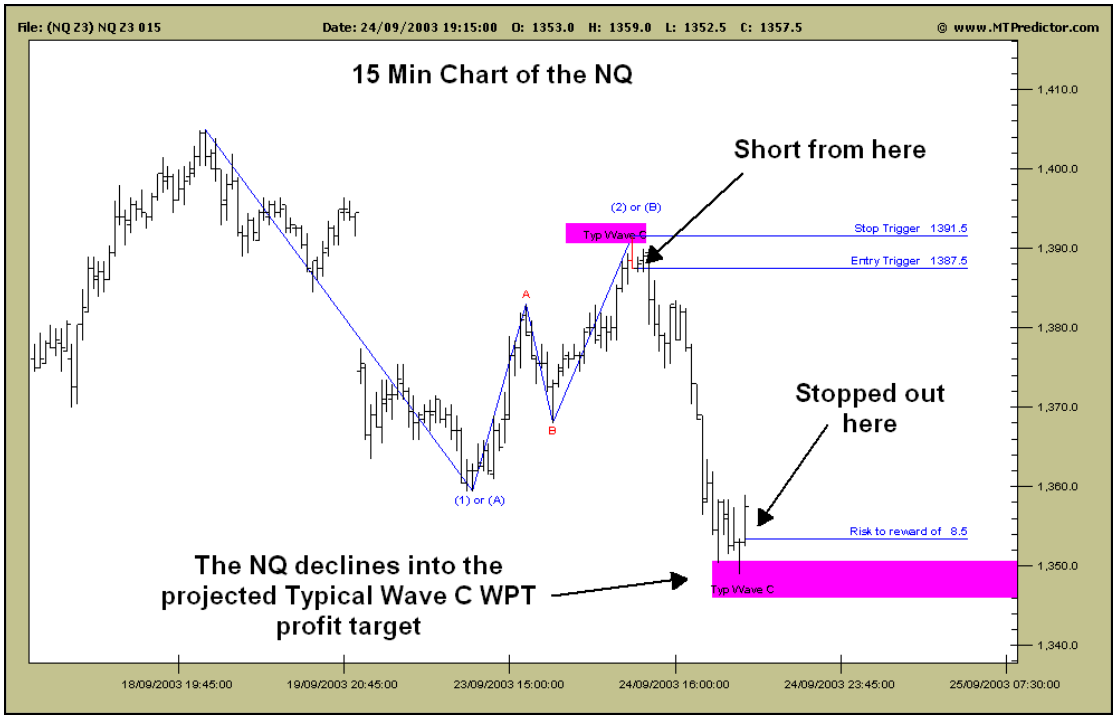
Here is another perfect wave C sell set-up that unfolded only a few days after the wave C buy example a few pages ago.



As you see, this resulted in a very nice profit of approximately three times the initial risk (ignoring slippage and commission).

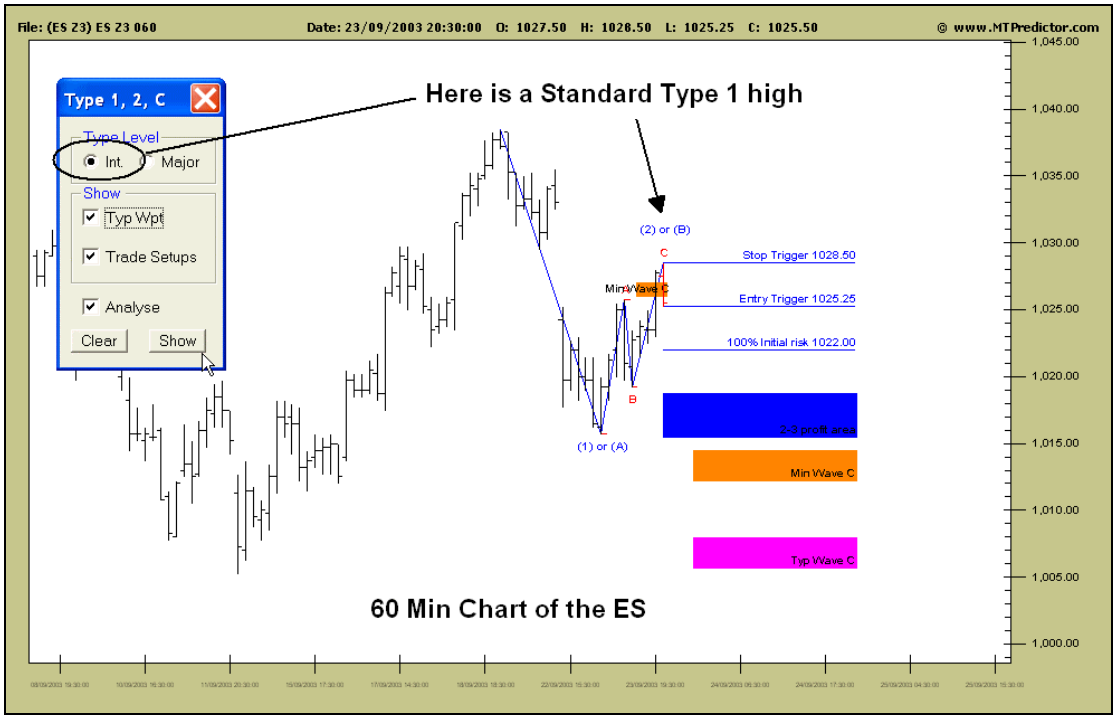
Here is another example, this time on a 15-min chart of the NQ, but using the Major waves:

The NQ declines swiftly into the second projected profit target:

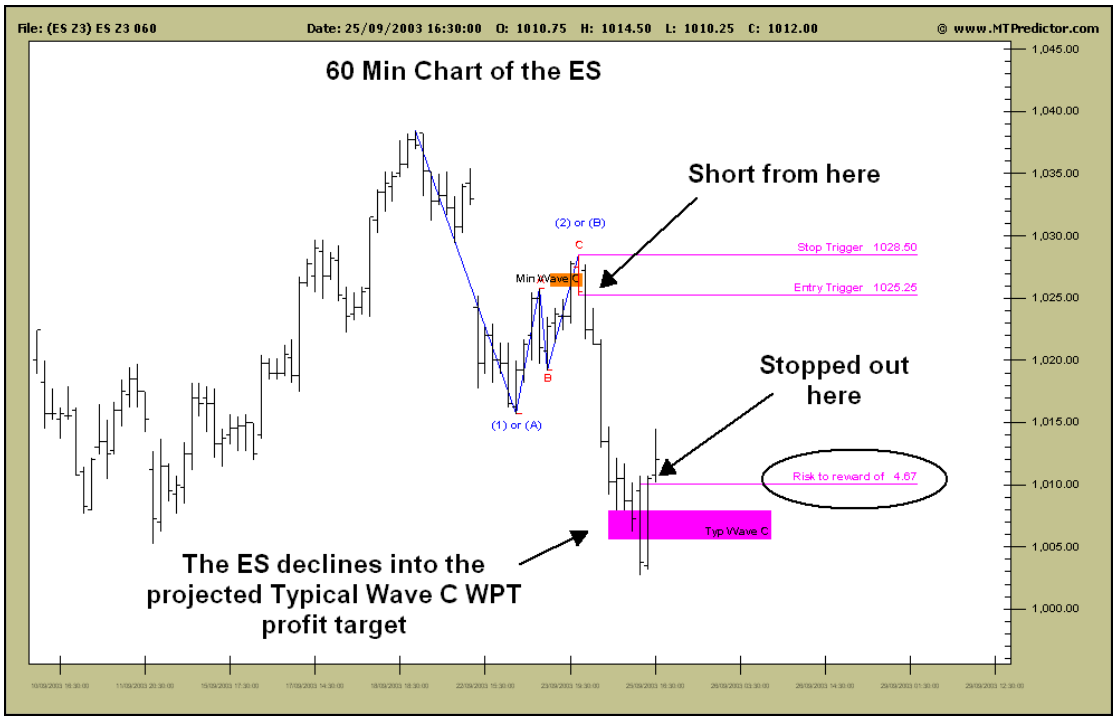


It produces a profit of approximately 8 times the initial risk (ignoring slippage and commission).

Or, on a 60-min chart of the ES:

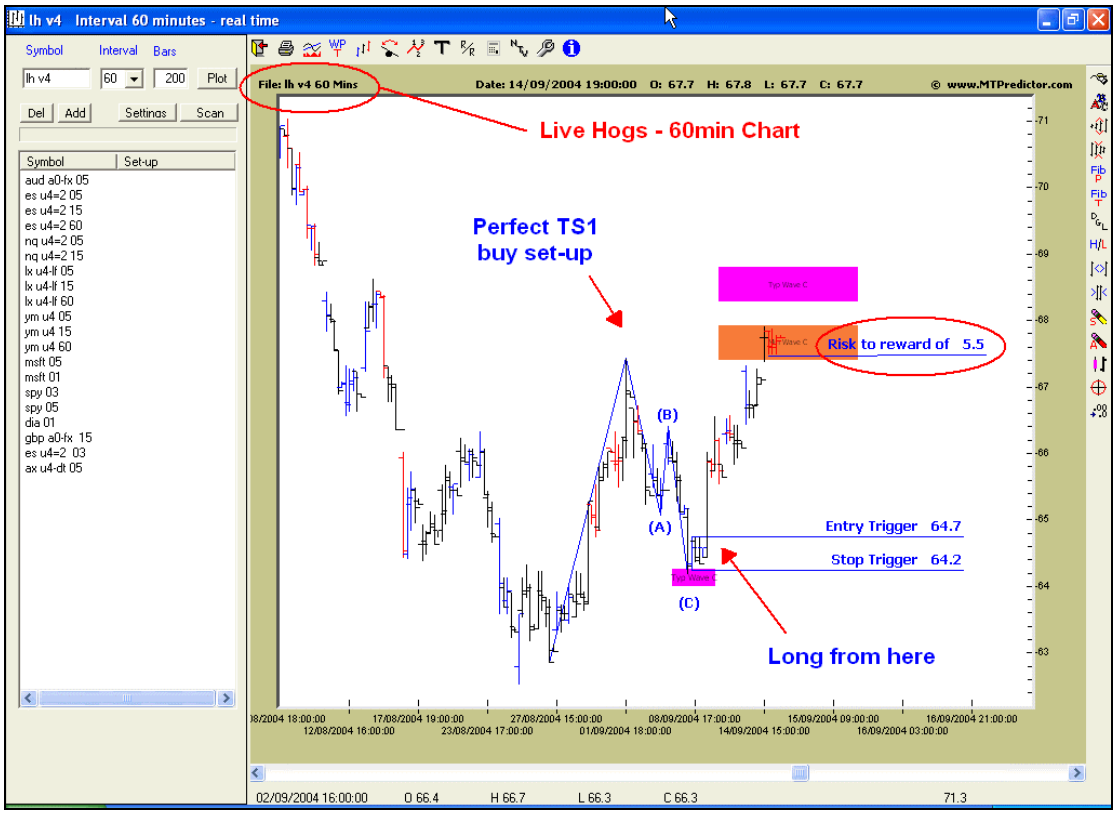


Here the ES declines sharply into the second projected profit target:



A profit of approximately 4 ½ times the initial risk (ignoring slippage and commission) is the result.

Or on a 60-min Chart of (Oct) Lean Hogs:



Where a profit of approximately 5.5x the initial risk (ignoring slippage and commission) unfolded. Or on a 15min Chart of (Dec) T. Notes:

Here a profit of approximately 4.3x the initial risk (ignoring slippage and commission) unfolded.

As you can see, it does not matter what market, or what time frame you look at, the same set-ups unfold. In other words, approach short-term and intra-day analysis and trade identification in exactly the same way as if you were looking at a daily chart.

The standard trade management guidelines can also be applied in exactly the same way on intra-day charts.

It is not only the standard trade set-ups that unfold on short-term charts. In this example, again on a 60-min Lean Hogs Chart, you can see how all the recent turns unfolded right at the appropriate WPT support/resistance areas:

(The last 3 screen captures have been taken from the new MTPredictor Real-Time program, which was launched in Summer 2004)

Continued on the next page . . .

However, there are some differences when working with short-term charts that you should be aware of...

The first of these is related to the number of lots (or shares) you can trade. Because the initial risk on short-term charts is usually a lot less that on daily charts, you normally trade more Lots (or shares) per set-up. However, sometimes this can lead to Margin problems, meaning you cannot trade a large a position as you would normally do on a daily chart. Earlier in the course I suggested that you should risk no more than 3% of your trading account on any single trade. But, sometimes, because the initial risk on a 5-min set-up on the ES (for example) may be only 2-3 points, this would mean you could *in theory* trade 6 lots for a 3% risk on a $20,000 account (with 2 points initial risk). However, this is too many for this size of account.

As such, for Day and short-term Trading I would suggest dropping this % to nearer 1% for Day Trades (rather than 2-3% for daily positions).

The next difference is to do with slippage and commission: because the initial risks are smaller off short-term charts, slippage and commissions now become a significant part of the overall initial risk. A good (and cheap) Broker becomes essential when you enter the Day Trading arena.

Another important difference is in trade management and, in particular, the standard guideline to advance your initial protective stop to Break-even once the trade in question has exceeded 100% of the initial risk.

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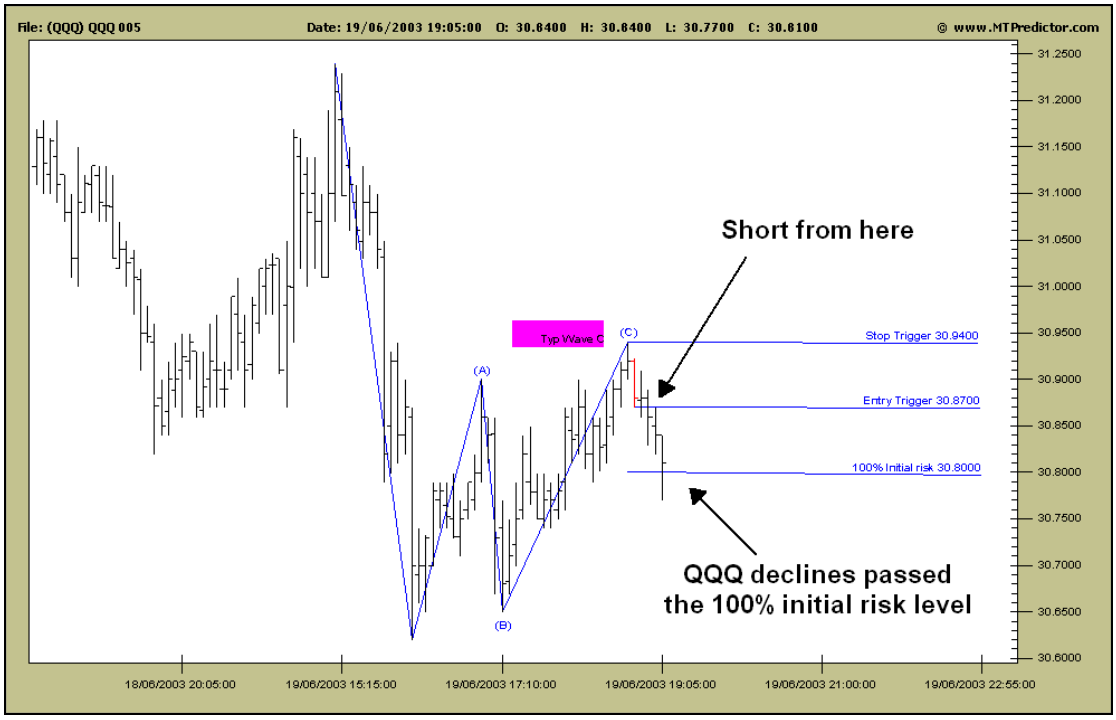
If you look at the chart below, on the example that started this chapter, a 5-minute chart of the QQQ, the initial decline off the wave C sell set-up has passed the 100% initial risk level:



The standard trade management guidelines would suggest that you now lower the protective stop to break-even:

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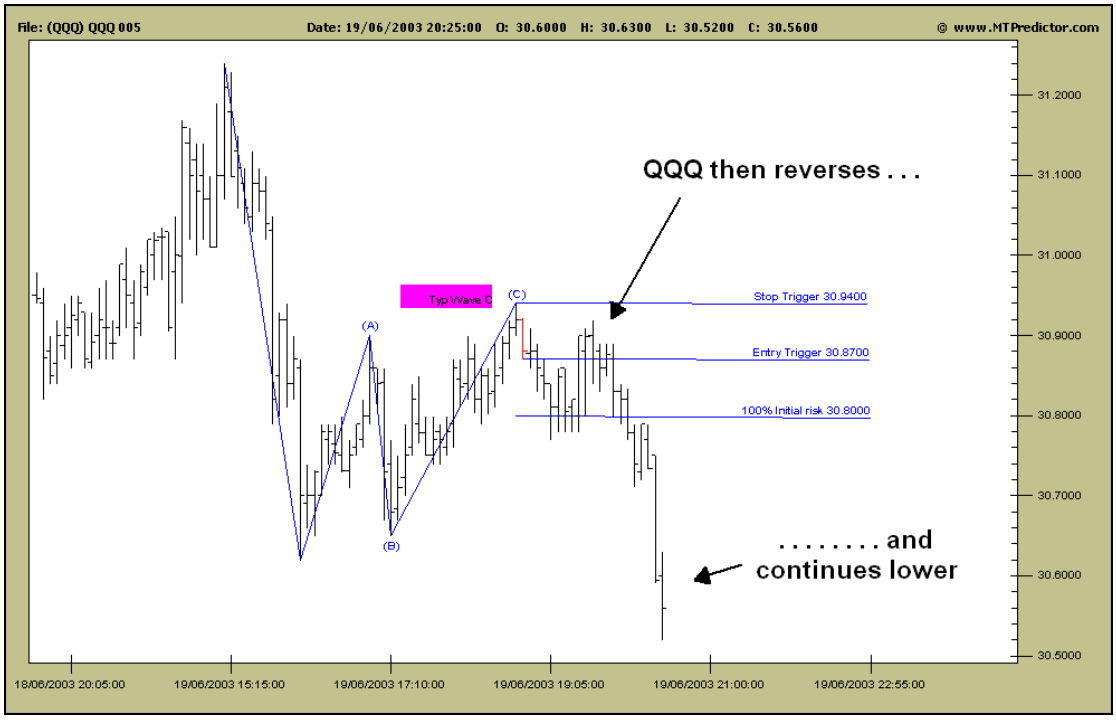
However, as you can see on the chart below, this would have resulted in this short trade being stopped out at break-even, before the QQQ reversed and continued lower in the anticipated direction:



This would have stopped you out of what would otherwise be a very profitable trade

This does happen quite a lot on short-term charts, particularly 5-minute charts, where the market tends to wiggle around and mess about for a short period of time before continuing in the anticipated direction. By moving your protective stop to break-even too quickly, you are very often stopped out prematurely, in an otherwise good trade. From my experience, I have found that this tends to happen more on short-term charts, and less on daily charts.

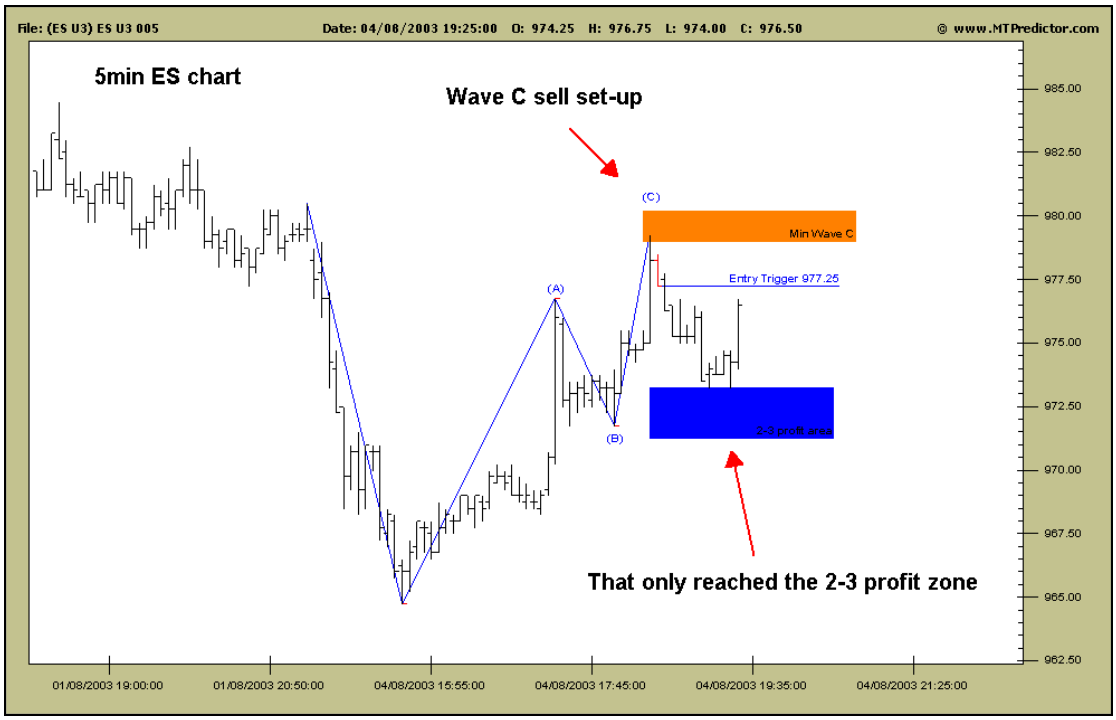
All I suggest is amending the basic trade management guidelines when using short-term charts, moving your protective stop to break-even a little bit later than the standard guidelines would suggest. Exactly when you move your protective stop to break-even is a matter of personal preference, and one that you will learn as you become more experienced with short-term charts.

The next area where short-term charts differ from daily charts is, again, to do with trade management, and the way that a market will very often enter the 2-3 initial risk zone and make a reversal, without reaching the first projected profit target.

Let me show you an example on the next page . .

Here is an example of a long trade on a 5-min ES chart:

And here is an example of a sell set-up, again on a 5-min ES chart:



What they have in common is that the market (the ES) on this time frame (5-min) only managed to reach the 2-3 profit zone.

As you can see from the charts on the prior page, although the ES (on this 5-min time frame) moved in the anticipated direction off the initial trade set-up, it did not manage to reach the first projected profit target. So the question is: how can you best manage these types of trades ?

As I outlined in chapter 19, one trade management strategy is to look to protect your profit once the trade in question has reached the important 2-3 profit zone. The idea behind this is that if, *on average*, you make more winning trades than losing ones, and your average profit is 2-3 times the losses, then you will make money over time.

I have found that when a trade (particularly on short-term 5-min charts) does not reach the projected profit target, it will very often reach this important 2-3 zone. Quite often, even when a trade does not unfold as anticipated, you do have the opportunity to take a small profit.

Before I suggest a possible trade management strategy, I would like to look at the other side of the coin – where a trade runs much *further* than anticipated…

Short-term charts can unfold differently from daily charts, particularly on a 5-minute Day-trade, when, once or twice a month there is a very strong move. This is where the market opens and trends strongly in one direction all day. In a move like this, you can be stopped out prematurely by using the standard trade management techniques… this is where using the 20-period exponential moving average very often will keep you in a trade throughout the whole day. This can be one of the most spectacular Day trades to make.

For more information on using the 20-period exponential moving average as a stop loss technique please see chapter 19.

Let me show you an example on the next page.

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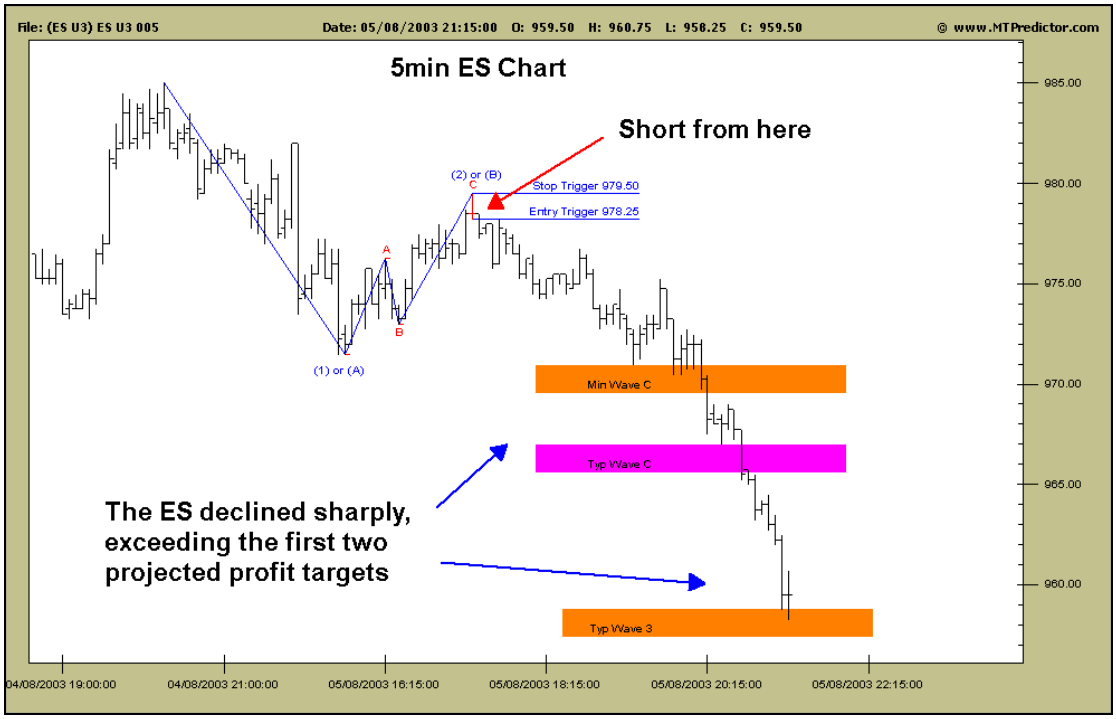
Here is an example on a 5-min ES chart:



As you can see from the chart above, on this 5-min chart of the E-mini (ES) a perfect TS1 sell set-up unfolded off which the ES declined sharply, exceeding the first two projected profit targets, only stopping at the typical Wave 3 WPT.

Using the standard stop loss guidelines would have meant being stopped out as the ES bounced off the first projected profit target (the minimum Wave C WPT). However, this was only a minor bounce, and the ES declined much further later in the day.

So, ideally, you needed a stop loss strategy that would have kept you in this short trade all day, maximising profits from the move.

This is where the 20-period exponential moving average can help.

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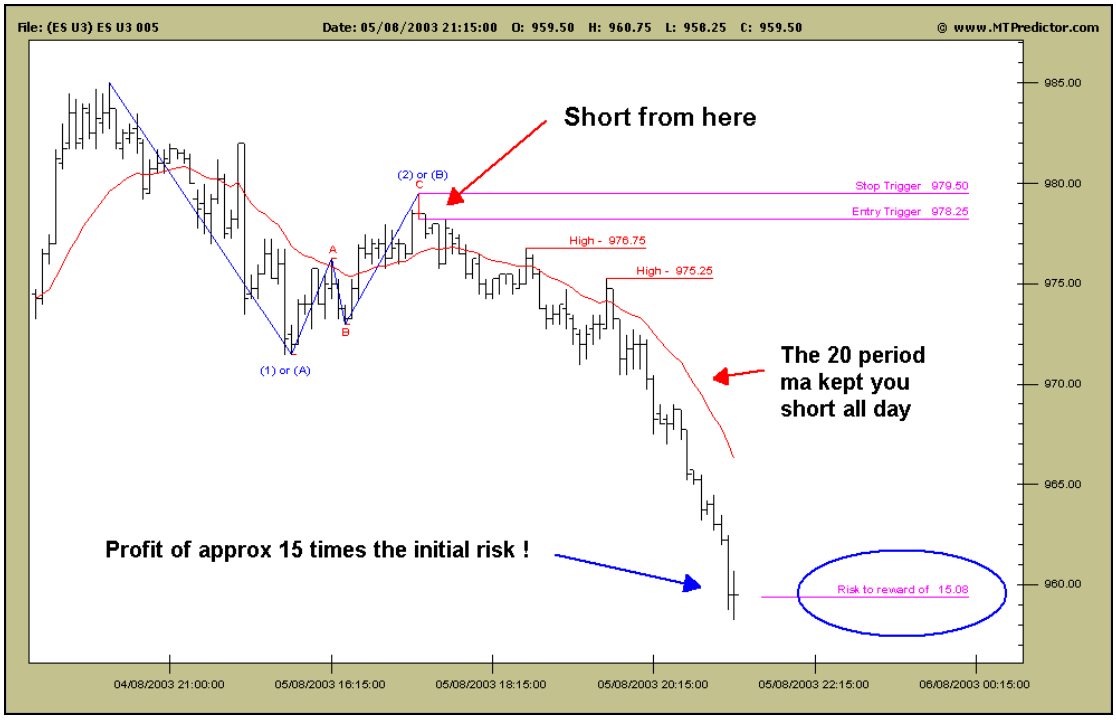
If you look at the chart below, you can see how this strategy would have kept you in this short trade all day:



Again, please refer to chapter 19 for more details on this particular stop loss technique, but I hope you can see how this will help maximise profits on those one or two days a month when the short-term (5-min) charts make a really strong move and trend in the same direction all day.

In this example, it would have resulted in a profit of approximately 15 times the initial risk (ignoring slippage and commission)!

As you have seen, this situation is very different from where the market in question only reaches the 2-3 profit zone. At first sight these two different trade management strategies appear to be in opposition, one suggesting taking a small profit (that will happen more often), the other trying to run a very large profit (that will happen less often), so is there a way you can do both ?

One answer is to trade multiple units, in which, for example, you trade in units of three and protect the first unit when it reaches the 2-3 profit zone, use the standard trade management guidelines on the second unit, then look to the 20-period moving average to run the third unit for as long as possible.

There are many possibilities, and I suggest experimenting to see which strategy (or combination of strategies) you are most comfortable with.

There are additional differences between trading on short-term charts that will depend on how aggressive you are or indeed how experienced you are and how far you are willing to amend the standard trade management guidelines. I will cover some of these in the chapter called “Where in the trend are you”.

Next I would like to look at how *standard* Elliott wave analysis has a major drawback when trying to trade off short-term charts. Talking to traders, many will say that Elliott wave analysis is useless on short-term charts, and cannot be applied accurately. However, this is because most are trying to apply Elliott wave analysis as taught in the standard way.

In particular, I feel that Elliott wave analysis falls down on short-term charts when trying to *fit* multiple timeframes in either larger-degree, or minor degree waves. Earlier in this course, I suggested that the best way to use Elliott wave analysis and, therefore, the standard trade set-ups was *in isolation*. This means, when dealing with short-term charts, freeing you up from trying to fit your trade set-ups into either a larger-degree, or a minor degree wave sequence. In my experience, this tends to lead to more confusion and inaccurate forecasting, usually ending up with too many losing trades.

However, when you trade each time frame as a separate identity in its own right, and look at the current trade set-up in isolation then the identification and, more importantly, the trade management becomes a lot easier. In other words, if there is a trade set-up on a 5-minute chart, then you should identify it on that 5-minute chart and manage it on the same 5-minute chart. The same applies if the trade set-up unfolds on a 15-minute or, indeed, a 60-minute chart - each time frame should be in a vacuum as far as the trade set-up and management is concerned.

I have heard too many traders struggle to fit in multiple degree time frames over the years, ending in confusion. This is where the MTPredictor approach, I believe, is far easier to apply.

Having said that, because the larger-degree trend is normally the stronger trend, the best trade set-ups usually do unfold in the direction of the main larger-degree trend. Therefore, although the trade identification and trade management should be treated in isolation I do suggest that you *filter* your trades so they do fall in the direction of the main trend. Although this is not a necessity, it does generally produce better results as the trades in the direction of the main trend normally run further and some losing trades are avoided.

I do not mean that you try to *fit in* the current trade set-up, or the Elliott wave analysis with the large degree wave sequence, but that the trade set-ups are picked in the direction of the larger-degree main trend. For example, if, on the daily chart, the main market is going up, then the best short-term trades will come from buy set-ups. As such, by taking only the buy set-ups, and ignoring the sell set-ups (in this example), your overall results should be better than simply taking all the trade set-ups, more on this in a later chapter.

Next I would like to demonstrate how things can happen very quickly when following real-time data. With EOD daily charts you can take your time looking at, and considering a new potential set-up, but with real-time data your decision making has to be a lot lot quicker.

Here is an example on a 5min NQ (Nasdaq mini) chart:

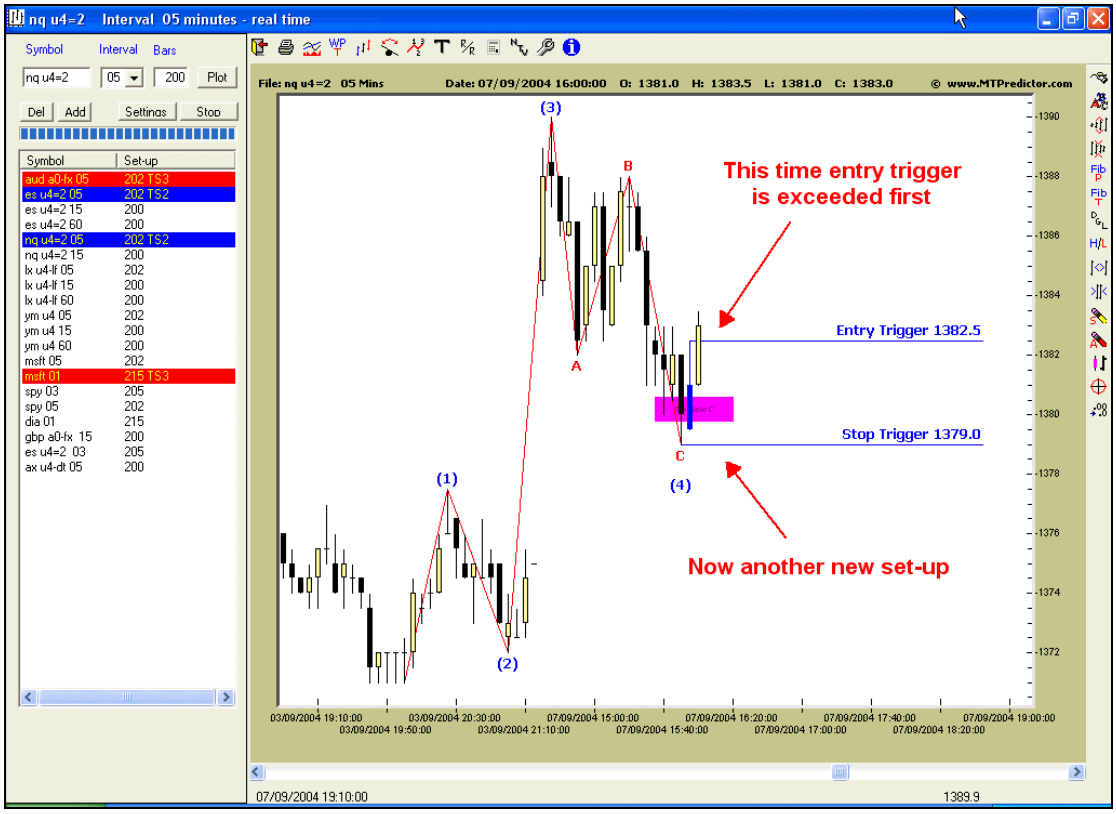
(This screen capture is taken from the new MTPredictor RT program launched in Summer 2004. As you can see it contains many new and unique features such as the new real-time trade scanner)

Here a set-up has been invalidated by the market trading beyond the initial stop trigger level before trading beyond the entry trigger level. If you remember from earlier in the curse, this now invalidates this set-up, therefore any buy orders that you have already placed in the market (to enter off the original long set-up) should now be cancelled.

This decision and order cancellation has to happen immediately, as soon the trade set-up is invalidated.

However, just a few bars later (under 10 minutes) another valid set-up unfolds. Please see the chart on the next page.

Just a few minutes later another valid buy set-up unfolds:



Therefore you must immediately enter a new buy order for this new trade.

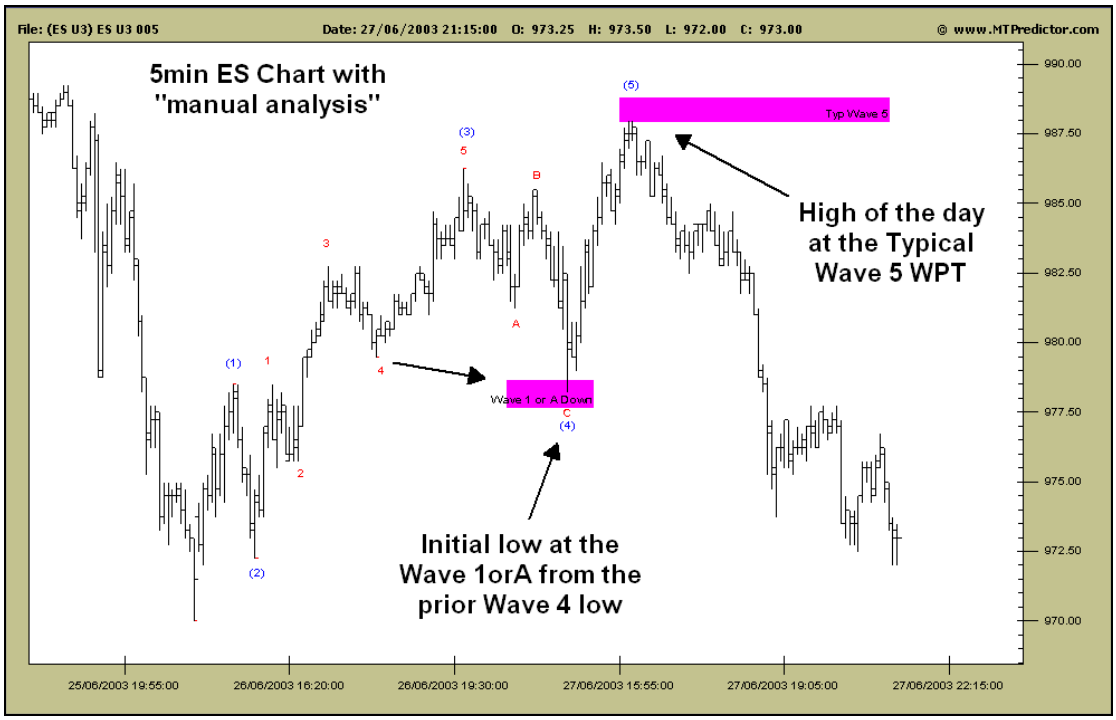
As you can see, this one was triggered, as the entry level was exceeded, and you are now long the NQ. Now you have to place your protective stop in the market.

As you can see, just in this short 10 minute period you had to enter a buy stop in the market, then cancel it, then re-enter a new buy stop, then once filled enter a new protective sell stop, and all in less than 10 minutes.

With practice, this becomes easier; particularly as MTPredictor makes the trade identification easy by automatically displaying all the relevant information on the screen immediately for you. However, I just wanted to make the point that things can happen a lot quicker once you are trading with real-time data.

So far all the examples in this chapter have been using the automatic routines within MTPredictor. However, as seen earlier in this course, analysis on charts is not restricted to the automatic routines found by the software - you can also apply your own *manual* Elliott wave count and then apply the WPTs using this manual wave count.

If you look at the chart below, you can see how, on a 5-minute chart of the ES (S&P500 e-Mini), applying the WPTs manually based on your own Elliott wave count managed to nail the initial low of the day on Jun 27, then also went on to nail the exact high of the day on Jun 27.

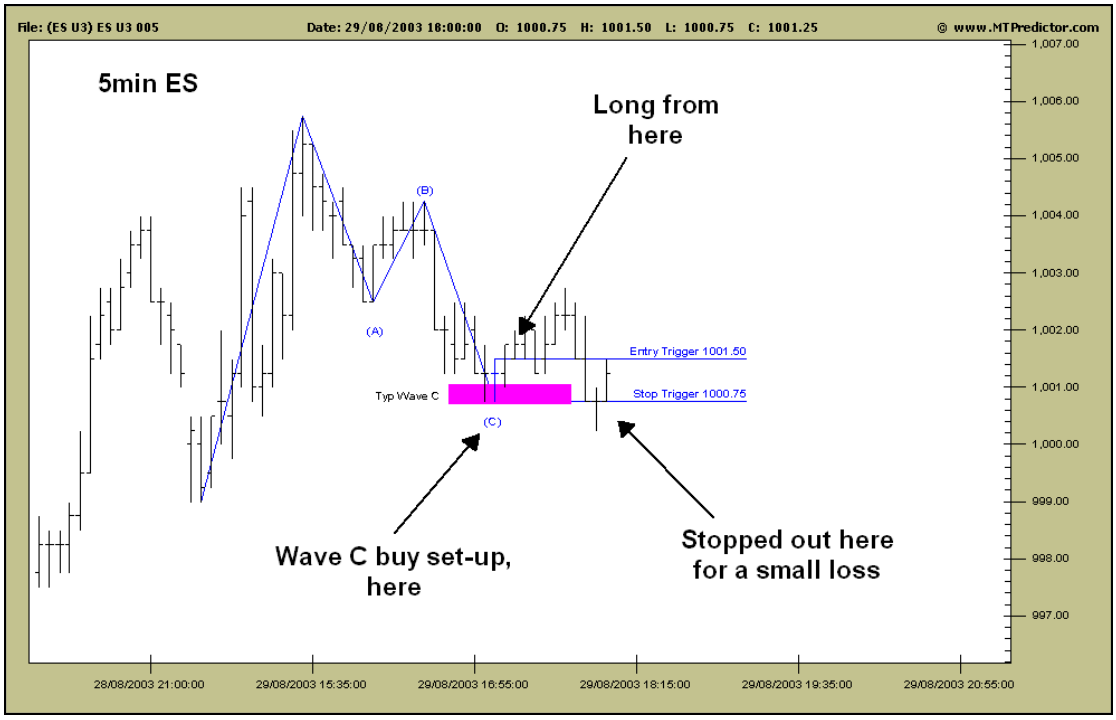


Although manual analysis on short-term charts is not recommended for new traders, once you become more experienced with Elliott wave analysis and are able to confidently and quickly place a valid wave count on the chart, this opens up additional possibilities beyond the automatic routines. In particular, you can use the WPTs to help project future support and resistance levels for use in your own trading.

However, the same advice applies as if working with daily charts – the best results come from only working with *ideal* and *obvious* Elliott wave counts. These do not unfold all of the time, so you should be prepared to accept that “no valid wave counts” exists on short-term charts for at least 50% of the time. This is exactly the same for Daily or Intra-day charts.

As you know by now, with all the trade set-ups (daily, weekly and short-term) the idea is not to *avoid* losing trades - this is impossible - but to keep the losses small (compared with the profits) when then do happen. This applies to short-term and intra-day trade set-ups as well.

Let me show you an example:



Here is a Wave C buy set-up on a 5-min chart of the ES that resulted in a loss; however, the loss was only small, at 1.25 points (1001.75 – 1000.50) or $62.50 per contract (ignoring slippage and commission).

Let's now see what unfolded during the rest of the day.

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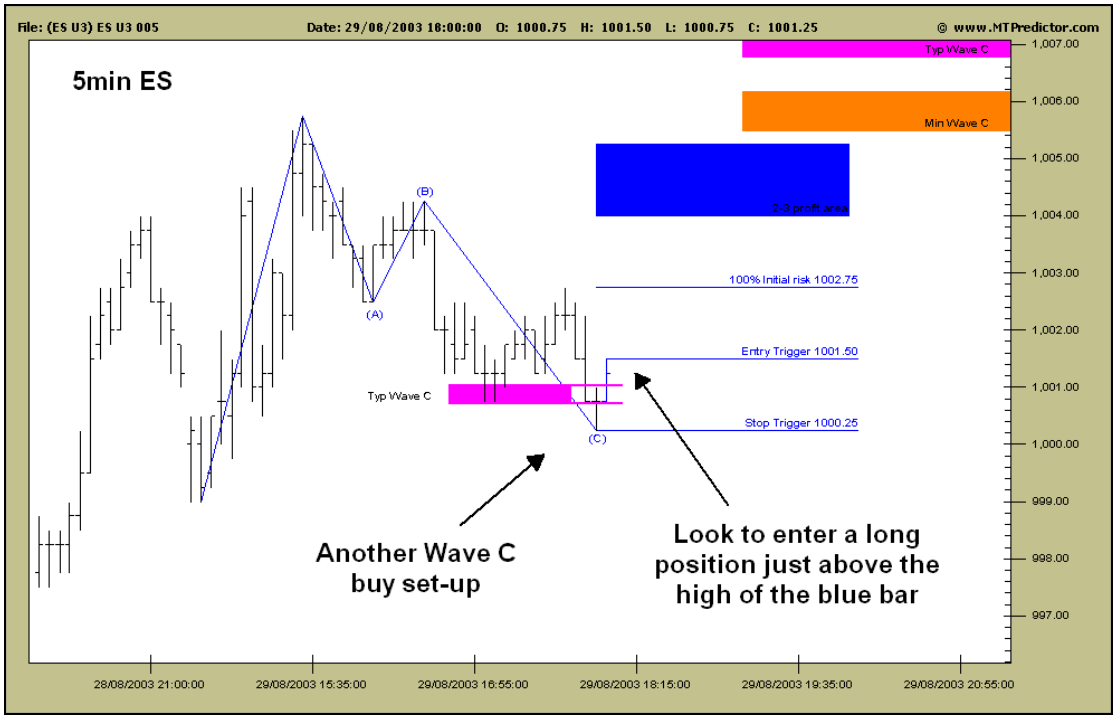
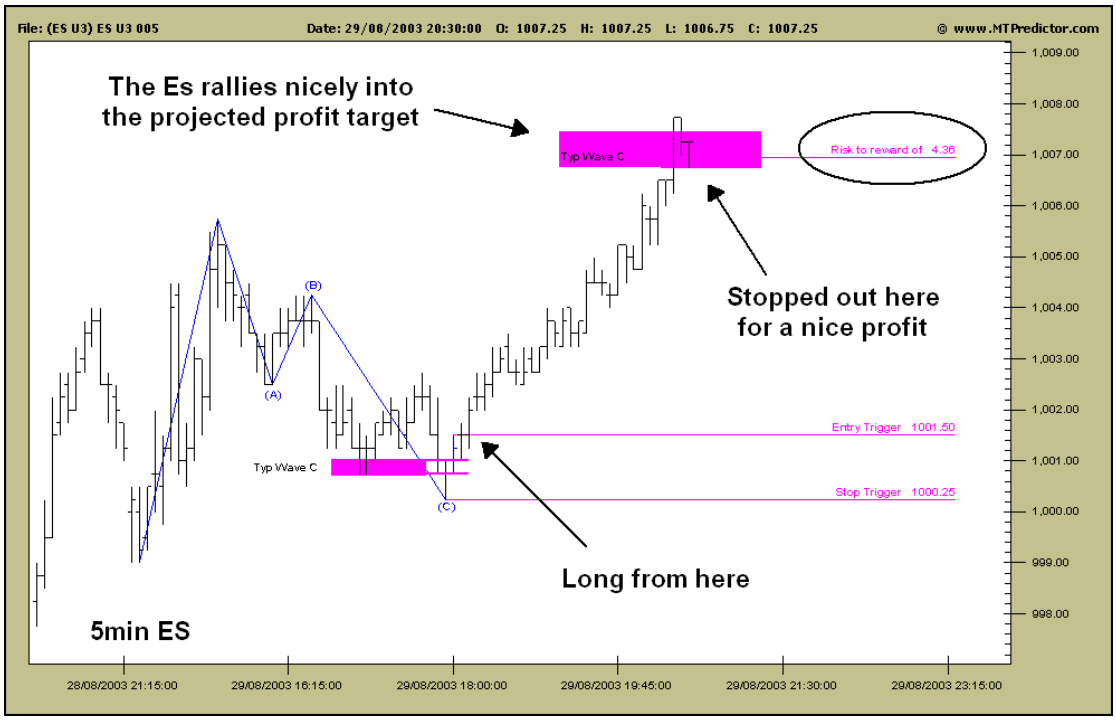
Another Wave C buy set-up unfolded:



This worked out perfectly:



As you can see from the charts on the prior page, just as the first Wave C trade was getting stopped out for a small loss another Wave C buying opportunity was automatically identified by the software.

This second trade turned out perfectly, with the ES rallying into the larger-degree typical Wave C WPT profit target for a profit of 5 points (1006.75 – 1001.75) or $250 per contract (ignoring slippage and commission).

This profit of $250 per contract is far larger than the small loss taken earlier in the day of only $62.50. This is one of the main criteria for a profitable approach to trading the markets, keeping your losses small (when they happen) in comparison with your profits.

Lastly, intra-day trades normally perform better if they are *in the direction of the main trend*. As such, there is a whole chapter later in the course dedicated to this topic.

Continued on the next page . . .

Summary

As you have seen in this chapter, it does not matter whether you apply the automatic routines or your own manual analysis to short-term charts, because exactly the same procedure and methods apply equally well to short-term charts as to daily charts. This is very important because if any analysis method, or approach to the markets, is to be valid, then it should apply equally to all markets and all timeframes. This is exactly what you have seen in this chapter.

So, once you become familiar with using MTPredictor on daily charts, then the step to real-time trading and looking at short-term charts is only a small one. The main difference is the speed at which everything unfolds. As you have seen, a trade could unfold in only a matter of hours, whereas on a daily chart it could unfold over two or three weeks. Also, the initial set-up itself normally unfolds very quickly, so you have to make the decision whether to enter the market in only a few seconds. On a daily chart you may have hours to have a cup of coffee and come back to the analysis again and again, to double-check it before the market opens.

As such, I do recommend that before anybody does make the step (although it is a small one) to real-time trading, they are familiar with all the MTPredictor analysis and approach to trading the markets.

Also, there are very often periods where no trades unfold. This can be particularly hard to deal with, because following intra-day charts is a lot more intense than daily charts - you think that you should be busy all day. As you have seen on daily charts, it is far better to have the patience and discipline to wait and *only* trade the ideal set-ups. Sometimes this means doing nothing all day.

Having said that, there can be some spectacular and very rewarding day-trades, where large multiples of your initial risk can be made in a very short period of time.

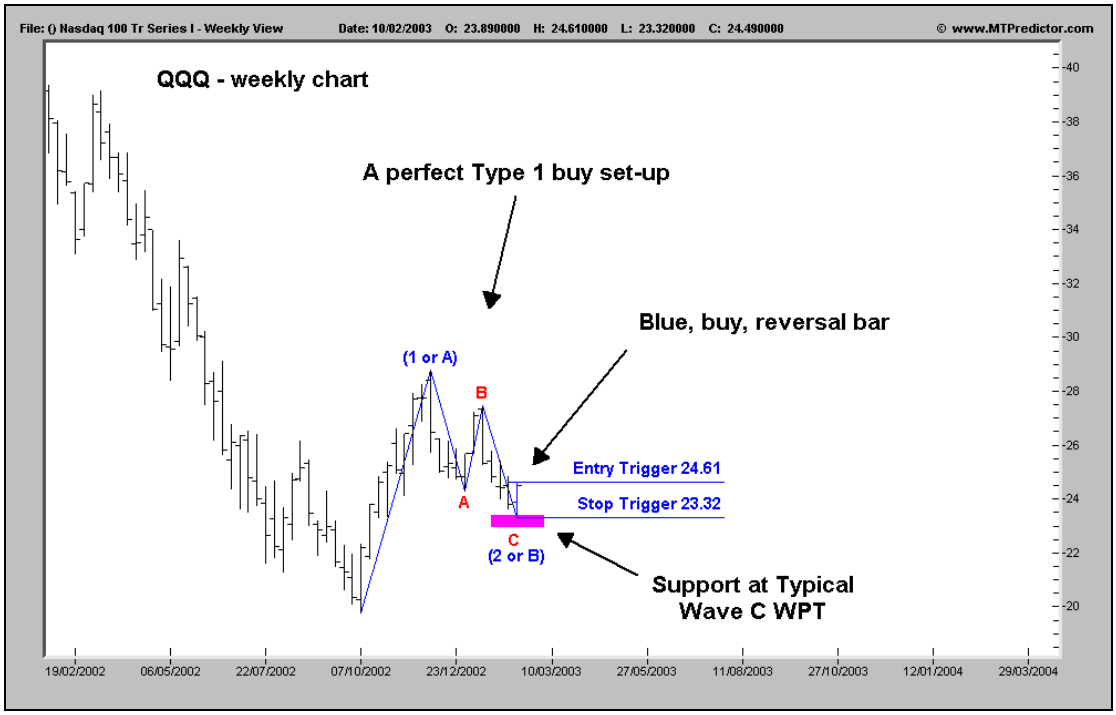
Lastly, intra-day trades normally perform better if they are *in the direction of the main trend*. As such, there is a whole chapter later in the course dedicated to this topic.

As you will see in the next chapter, the same rationale can be applied to weekly charts, where exactly the same approach is applied whether looking at a weekly chart, a short-term chart or, indeed, a daily chart.

Chapter 14 – Weekly Charts

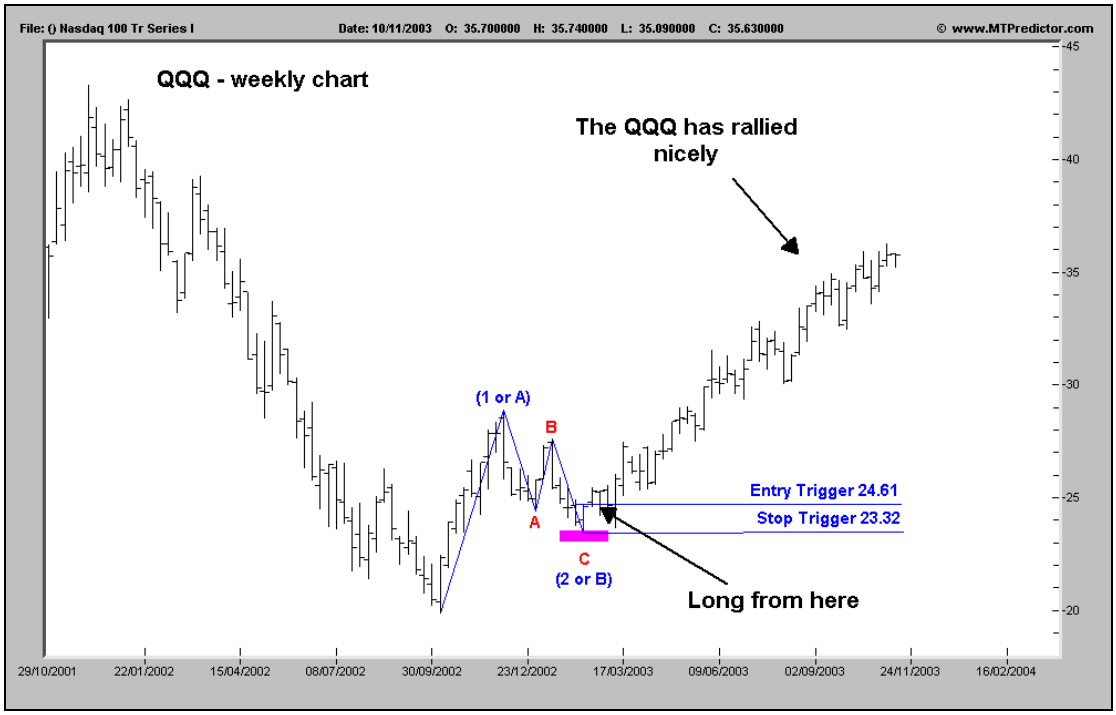
As you saw in the last chapter on short-term and intra-day charts, analysis and the identification of trade set-ups is applied in exactly the same way as detailed throughout the rest of this course using daily charts. Exactly the same rationale is used when you look at longer-term weekly charts. In particular, your aim should be to identify high probability, low risk ideal trade set-ups. Whether the software uncovers these automatically, or you perform manual analysis, exactly the same approach should be used on a weekly chart as if it were a daily or even a short-term intra-day chart.

Let me show you an example:



As you can see on the weekly chart of the QQQ in February 2003, a perfect TS1 low appears to be in the process of unfolding. In particular, the low is reversing right off the typical wave C WPT support zone with a blue, buy reversal bar. This is a standard TS1 trade set-up that you have seen many times throughout this course.

Let's now move forward to the present day (I'm writing this chapter in November 2003) to see how this by set-up has progressed.



As you see, the QQQ has rallied beautifully off this TS1 low, resulting in a very profitable trade. However, the point to stress here is that the trade identification was exactly the same as if this were a daily chart.

Let's take a look at another example, this time on a weekly chart of the SPY.

Continued on the next page . . .

First I would like to return to the last major low, which unfolded in October 2002, and see what the automatic routines in MTPredictor came up with

As you can see from the chart above, the software has automatically identified a 5-wave decline off the highs back in December 2001. But more importantly, the low of October 2002 unfolded right at the minimum wave 5 WPT with a blue reversal bar. This indicates both that the current 5-wave decline was at a price support level (the minimum wave 5 WPT as automatically projected by the software) and also that the market had given an indication of support occurring (by the blue reversal bar). So, a trade above the high of the blue reversal bar would confirm that this wave 5 low was indeed complete.

Continued on the next page . .

Here is the result as of November 2003:

As you can see from this second chart, this nailed the exact low in October 2002.

Okay, although the software managed to nailed this major low perfectly, this was not one of the standard trade set-ups within the software, so let's move forward in time and see what we can find.

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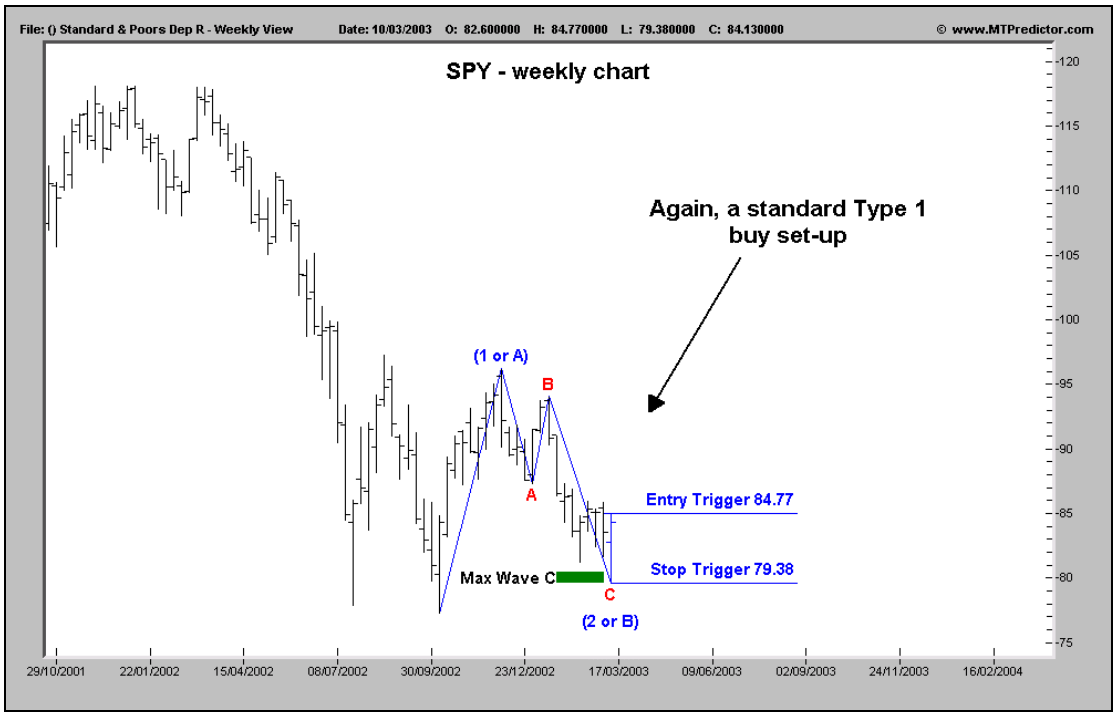
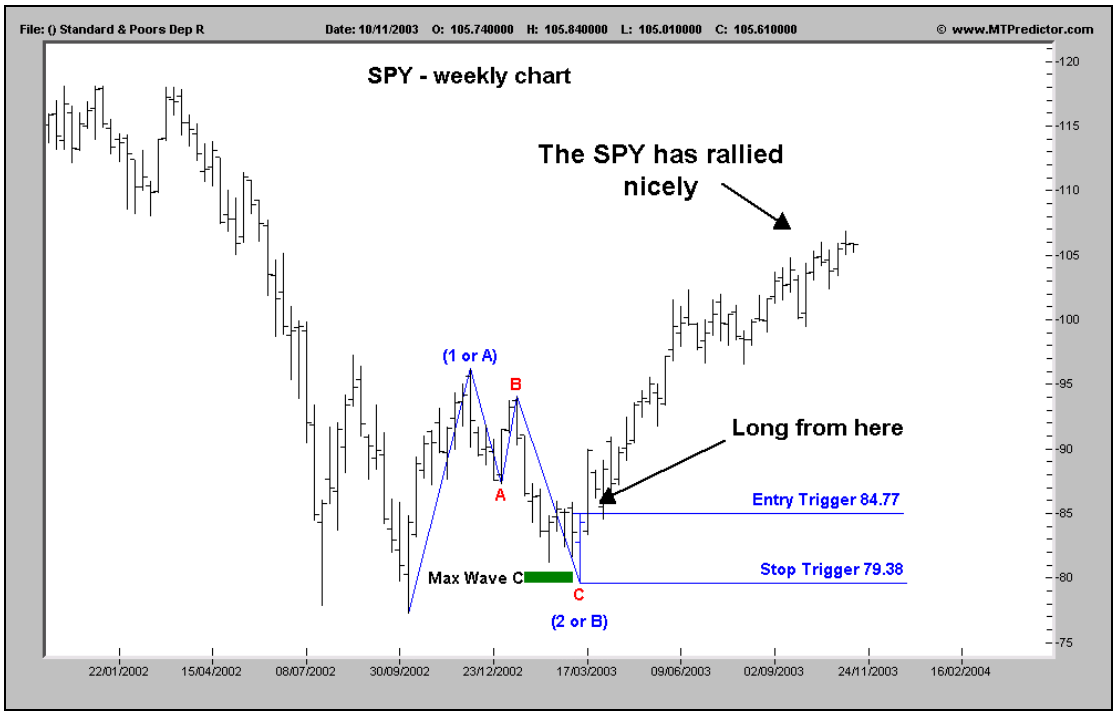


As you see from this third weekly chart on the SPY, a potential TS1 low was in the process of unfolding as of March 2003. Again, all the ingredients are there for a good-looking TS1 low - the blue reversal bar was reversing right off the maximum wave C WPT support area. Again, if the SPY trades above the high of the blue reversal week, then a new long trade on this weekly timeframe would be signalled.

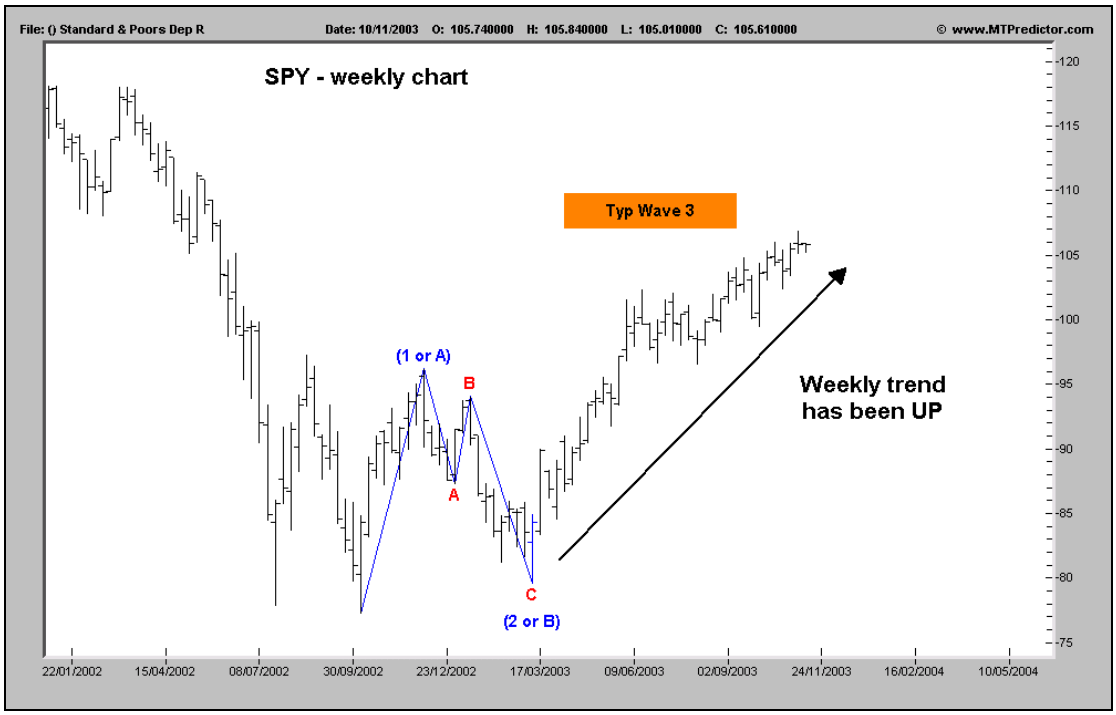


As you can see form the chart above, this is indeed what happened with the SPY rallying strongly from this low.

I hope you see that the way the analysis has been approached and the automatic trade identification has been exactly the same as if this were a daily chart or indeed a short-term intra-day chart.

Throughout earlier sections of this course, I suggested that the best way to use Elliott wave analysis and, therefore, trade identification was to look at the set-ups in isolation. In other words, any individual set-up bears no relationship to the market behaviour before, nor indeed forecasts any future outcome, other than using the standard trade management techniques to manage the trade. However, I did suggest in the last chapter (on short-term and intra-day charts) that you can use larger-degree charts to help *filter* trade set-ups on shorter-term charts. As such, the best trade set-ups that unfold on a daily chart should *ideally* be in the direction of the larger-degree weekly trend. Therefore, this is one way you can use the weekly charts to help in your trade identification on a daily timeframe.

Let me show you an example.



As you see on the chart above, and saw in the last example, since the TS1 low of March 2003, the main weekly trend on the SPY has been up. So, if taking trades on a daily timeframe on individual stocks, what direction do you think would produce the best trades ?

Exactly, the buy set-ups on daily charts of individual stocks would most likely have unfolded better than any sell set-ups during this period. I would like you all to bear this in mind when you read the next chapter on *Trading stocks with MTPredictor*.

Summary

As you have seen in this chapter, approach analysis and trade identification on a weekly chart in exactly the same way as if it were a daily, or even intra-day short-term, chart.

This is one of the main advantages of MTPredictor, especially the automatic trade set-ups, as they can be applied in exactly the same way on any chart no matter what market or timeframe. Also, the identification is taken *in isolation*, therefore the trade management is not confused by multiple timeframes, making the MTPredictor approach to trading the markets very simple indeed.

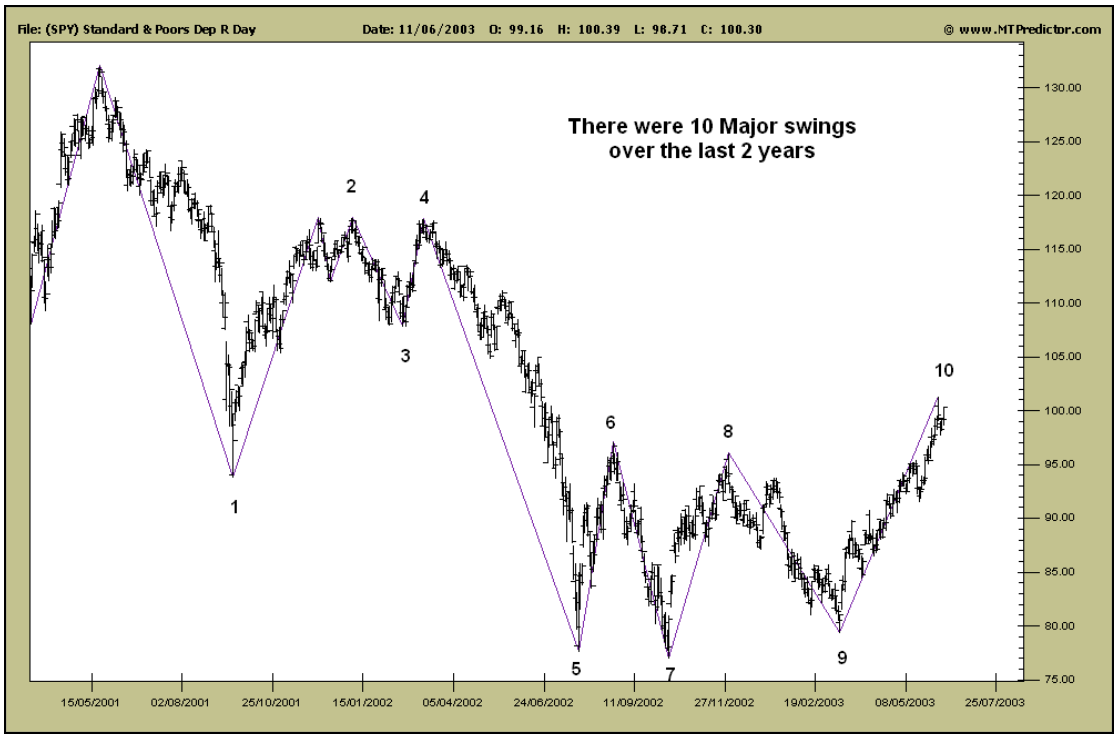
The only time I suggest you use different timeframes is to help *filter* trades by using weekly charts to help gauge whether you should be primarily looking for daily trades on individual stocks on the buy or sell side of the market. Although this is not strictly necessary for trade identification, it can help limit the number of losing trades by keeping you in the direction of the main and larger-degree trend.

Chapter 15 – Trading Stocks with MTPredictor

When you are trading commodities, each different commodity tends to move in its own way. As long as the commodities are not related (for example T. Bonds and T. Notes will tend to move similarly), you can generally look at each market for trade set-ups in its own right. For example, a trade set-up on Wheat is not related to a trade set-up on Copper.

However, when you move to the stock market, and in particular individual stocks, then you will find that individual stocks en masse will move in the same direction as the overall market. I do appreciate that this is a generalisation, and individual stocks can, and often do, move against the main market but generally, most stocks will move with the main market. As such, I hope you can all see that it makes sense to orientate your trading on individual stocks to be in tune with the main market.

So let's take a look at what this means when you are performing scans on a daily basis for potential stock trades.



In the chart above, you can see that over the last two years (from May 2001 to July 2003) there have only been 10 major swings in the US markets. As such, the best trades would have been to orient your individual stock trades in the direction of these main swings.

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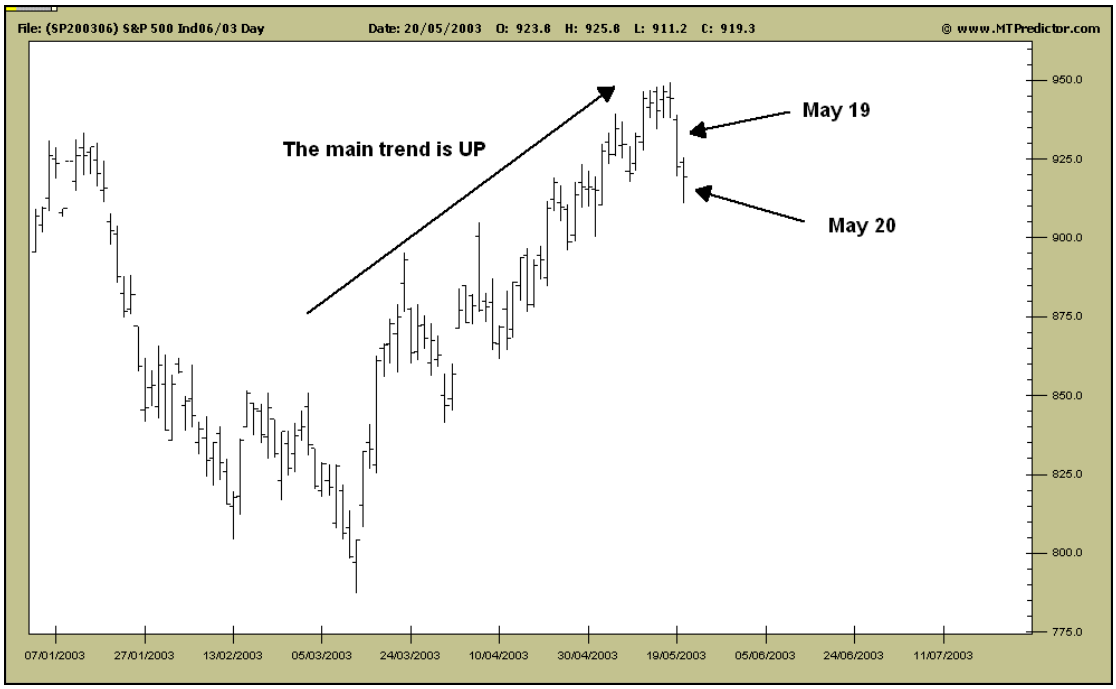
Let's see what this means in practice, by taking a closer look at the last upswing from the March 12 2003 low:



Here you can see that since the major low on March 12 2003, the main trend has been up. This is also confirmed by the weekly trend as discussed in the last chapter.

The question I would like to ask here is: how would this have affected your scans of US stocks on any individual day ?

Let me show you what I mean in little more detail by looking at two specific dates during this trend. The first of these is on May 19, the second is May 20 2003.

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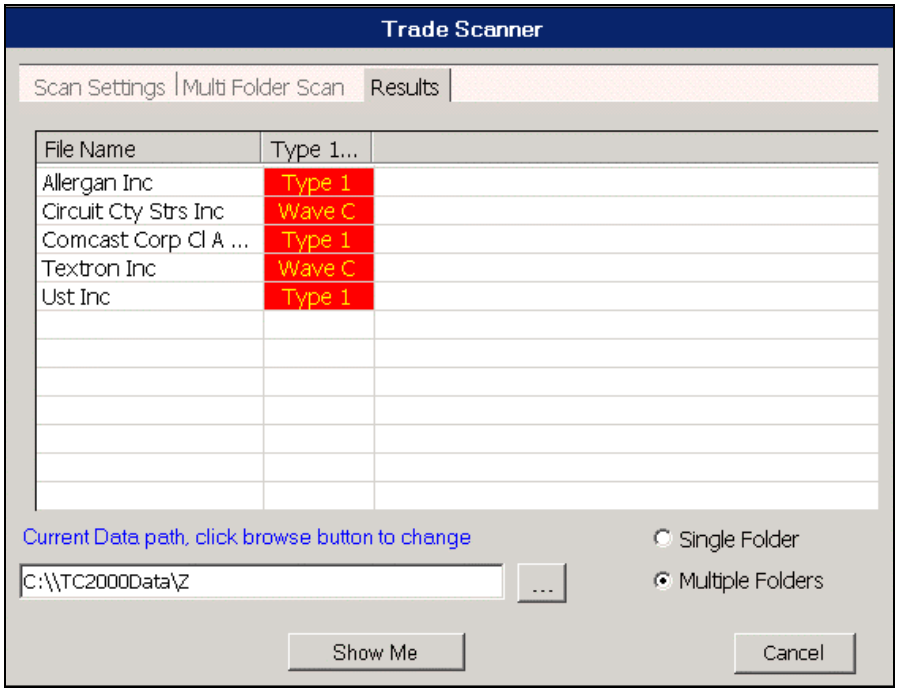
Here is the result of my daily scan on May 19:



As you can see, from a scan of approximately 1,000 US stocks, only five potential candidates were uncovered on May 19. For more information on the Trade Scanner, please see the MTPredictor user manual. As such, you have five potential set-ups to consider, all of which were sells.

The first question to ask is: what is the direction of the main trend as of May 19?

The answer, as you can see from the chart on the prior page was UP, therefore it will be interesting to see how these sell set-ups unfold.

Over the next few pages I will look at the outcome of each of these potential set-ups to see what happened.

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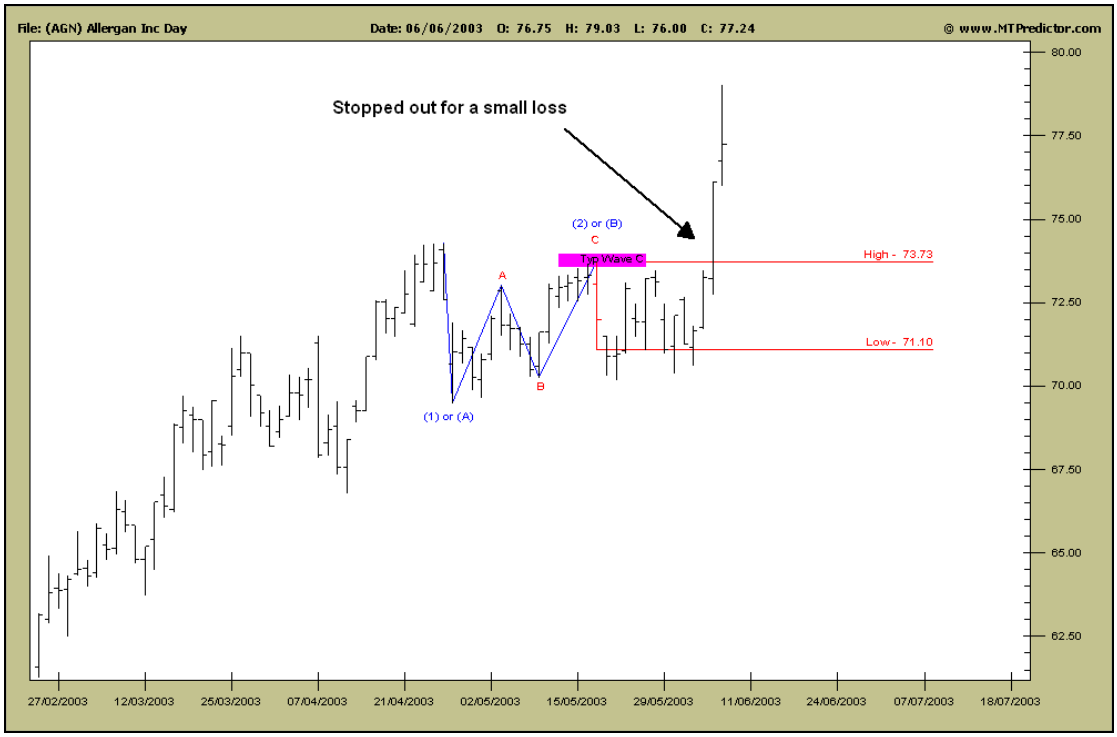
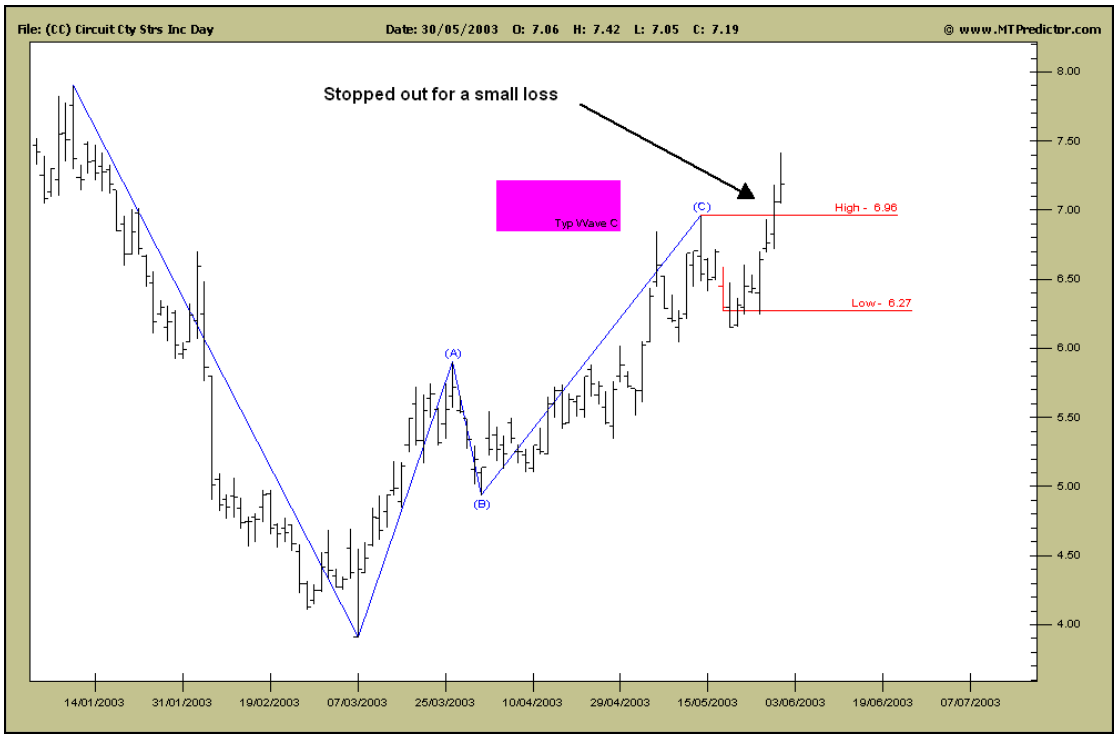
Allergen Inc (AGN):



Circuit City Stores (CC):



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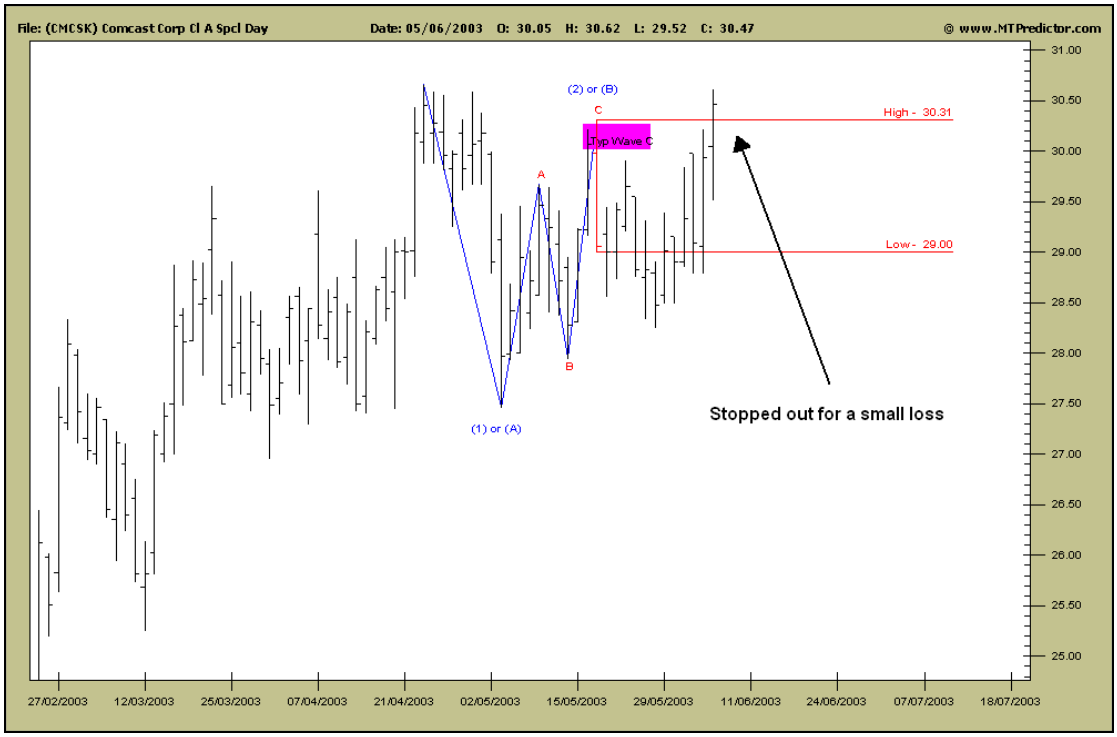
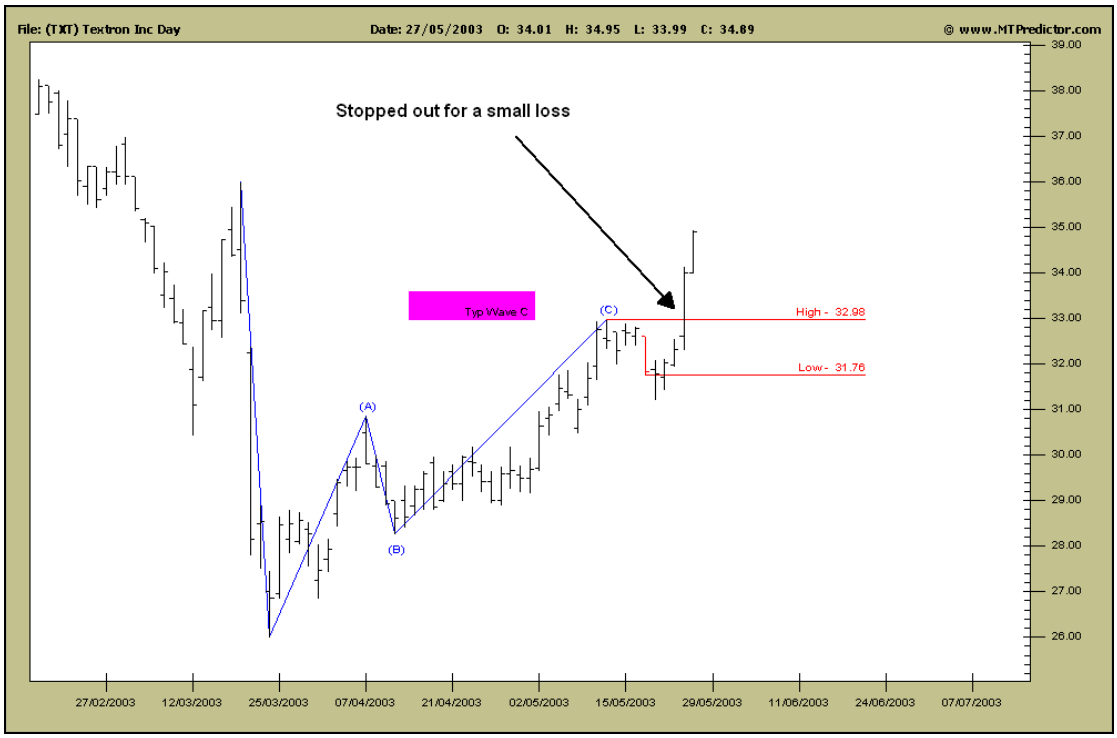
Comcast Corp (CMCSK):



Textron Inc (TXT):



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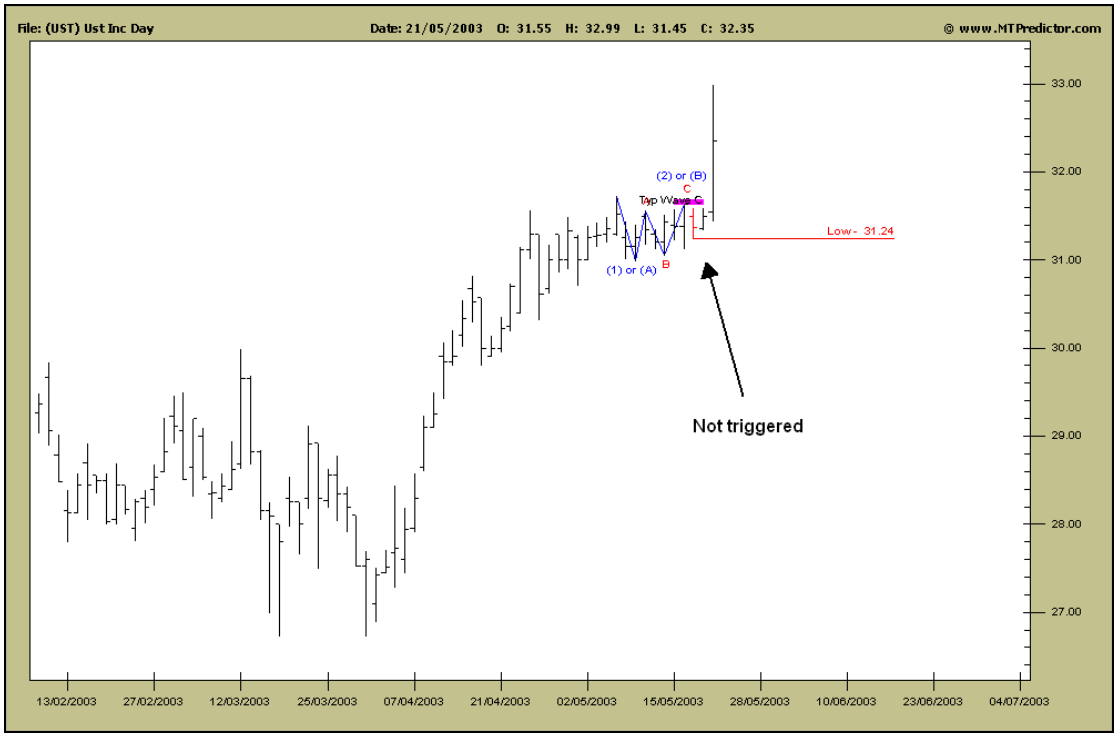
UST Inc (UST):



In detail:

- Allergen Inc (AGN): – Loss of 1.00 times the initial risk
- Circuit City Stores (CC): – Loss of 1.00 times the initial risk
- Comcast Corp (CMCSK): – Loss of 1.00 times the initial risk
- Textron Inc (TXT): – Loss of 1.00 times the initial risk
- UST Inc (UST): – Not triggered

(None of these positions takes account of either slippage or commission).

As you can see, all the short trades that were triggered would have resulted in losses.

Now let's move on one day later to May 20.

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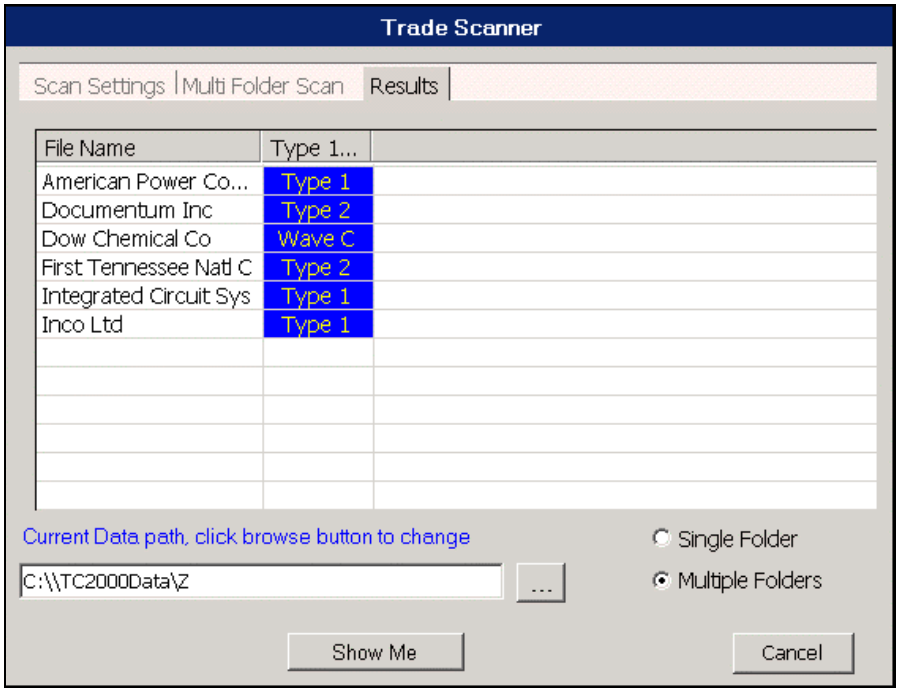
Here is the result of my daily scan on May 20:



As you can see, from a scan of approximately 1000 US stocks, only six potential candidates were uncovered on May 20. So, you have six potential set-ups to consider, all of which were buys.

You should now ask the same question as before - what is the direction of the main trend as of May 20?

The answer, as you can see from the chart at the start of this section, was UP. As such, you should only be considering buys set-ups - which is good, because the scanner has only given us potential buys set-ups to look at today (May 20).

Over the next few pages I will look at the outcome of each of these potential set-ups to see how they worked out.

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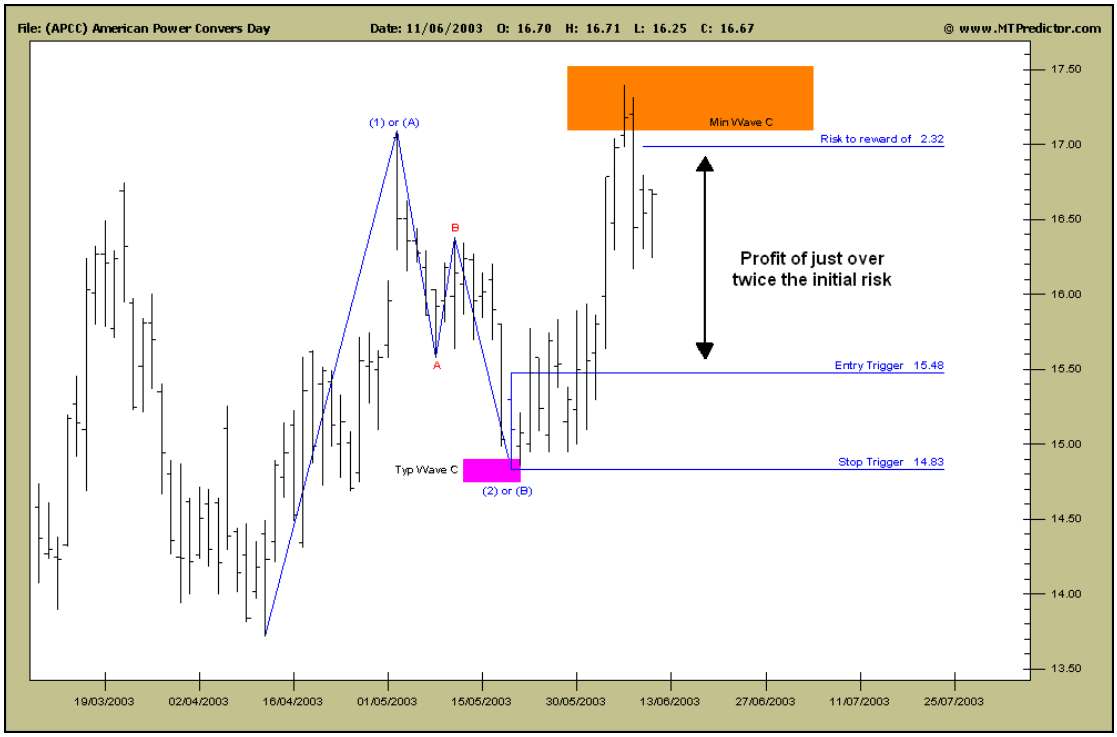
American power (APCC):



Documentum Inc (DCTM):

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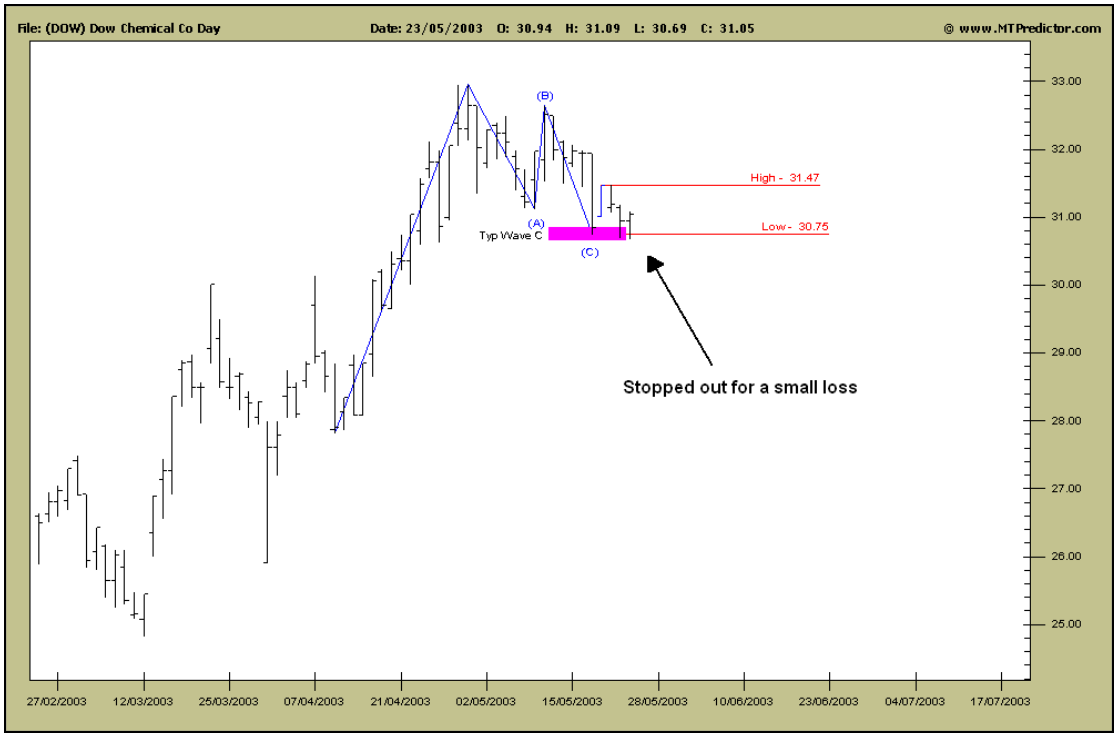
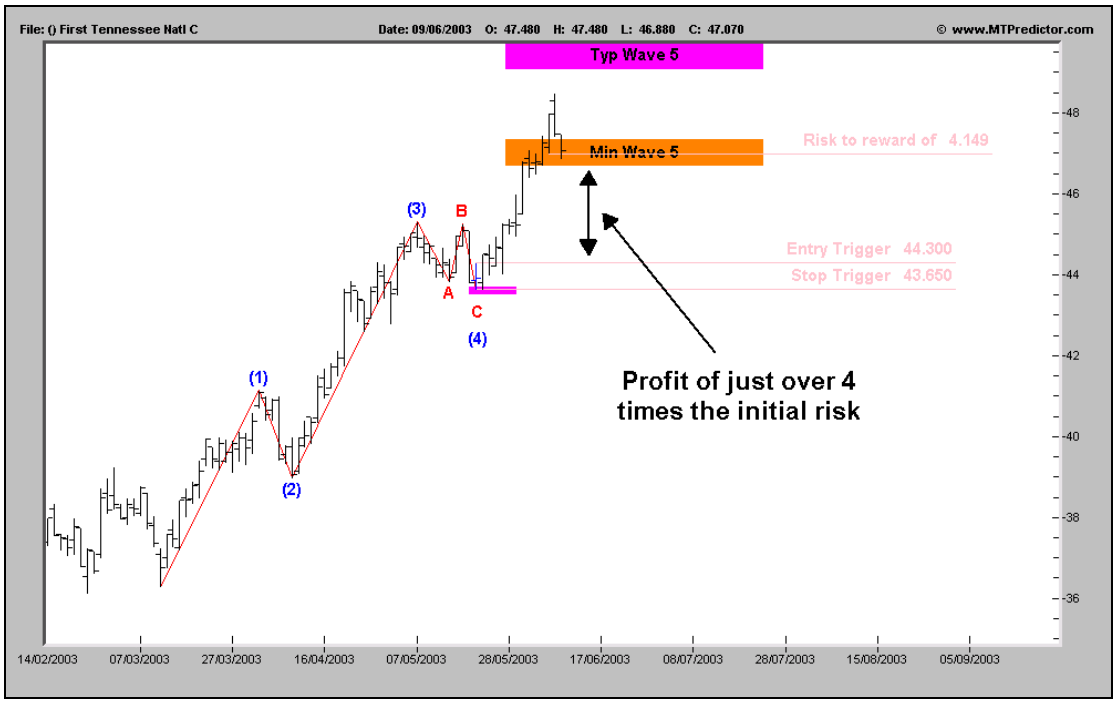
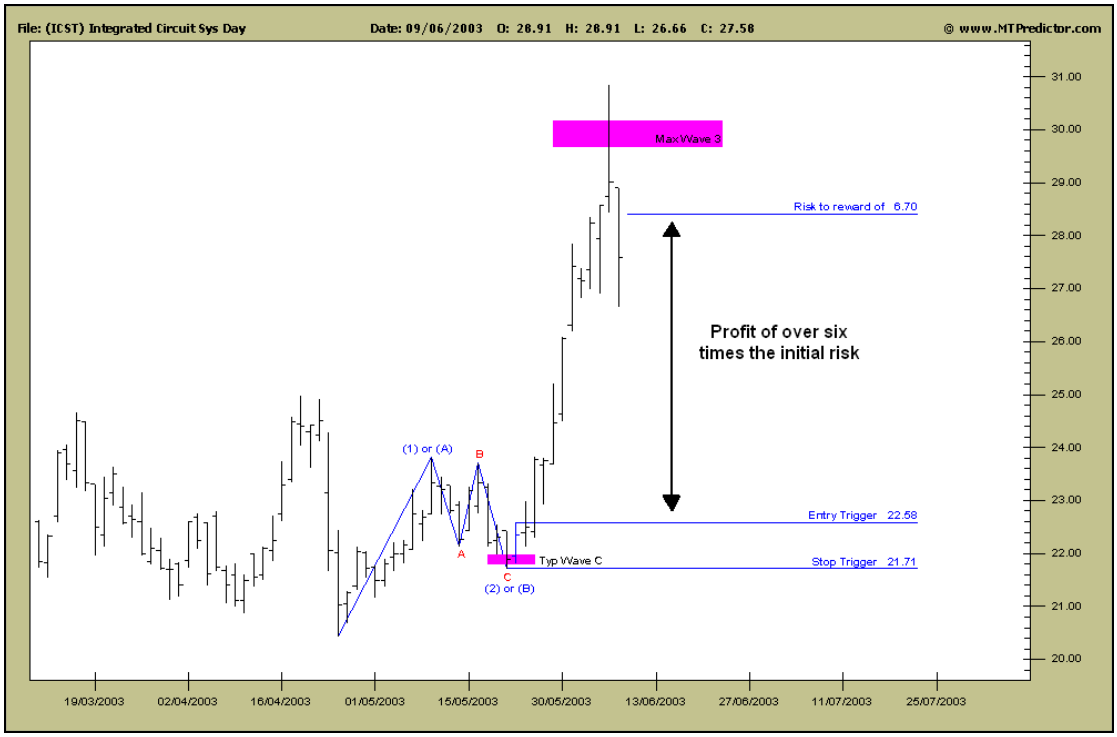
Dow Chemicals Inc (DOW):



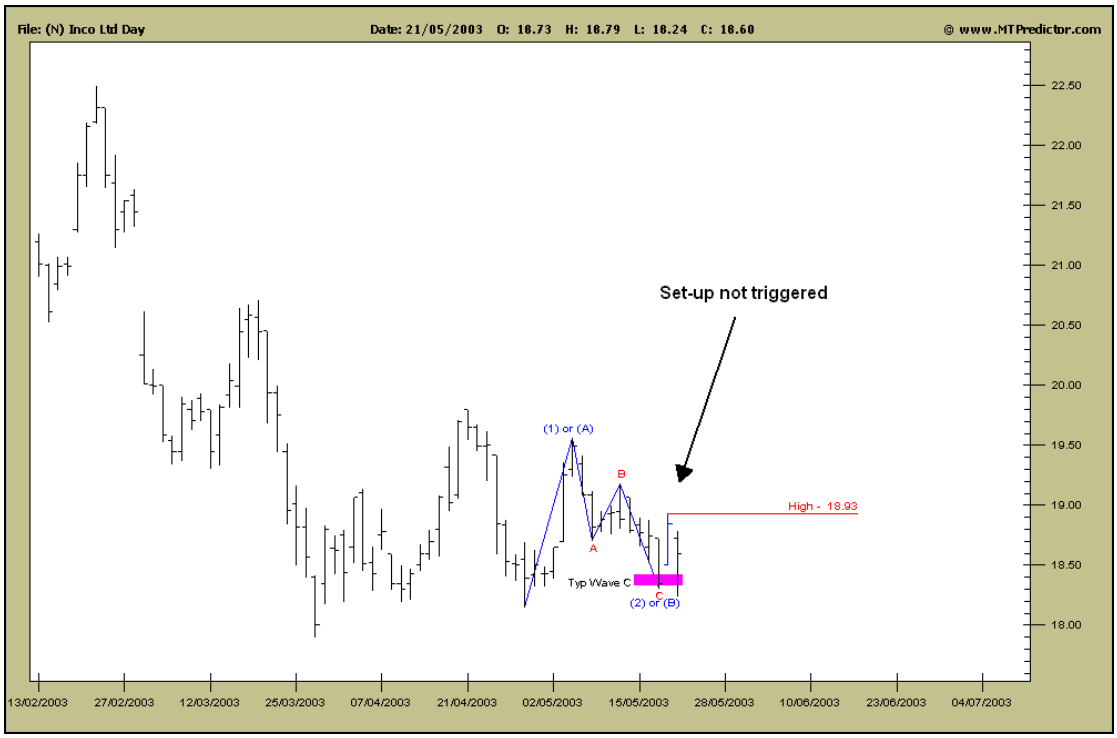
First Tennessee Nat C



Integrated circuits (ICTS):



Inco Ltd (N):



In detail:

- American Power (APCC): – Profit of 2.3 times the initial risk
- Documentum Inc (DCTM): – Profit of 3.2 times the initial risk
- Dow Chemicals Inc (DOW): – Loss of 1.00 times the initial risk
- First Tennessee Nat C – Profit of 4.1 times the initial risk
- Integrated Circuits (ICTS): – Profit of 6.7 times the initial risk
- Inco Ltd (N): – Trade not triggered

(None of these positions takes account of either slippage or commission).

As you can see there was one losing trade here, the rest were very nice profits.

You would have made a profit by trading *all* the signals generated on these two days (May 19 and May 20), because the profits generated from the May 20 set-ups far outweighed the losses generated on May 19. However, you would have done much better by only taking buys set-ups, and therefore ignoring all the sell set-ups that were generated on May 19. In other words, you would have done better by only choosing the set-ups that fell *in the direction of* the main trend.

If you think about it, this makes perfect sense and is obvious…however, I do feel that it is worth stating, mainly because the trade scanner within MTPredictor can generate both buys and sells on virtually any single trading day, therefore you will need to use some discretion in choosing which set-ups to take, and which set-ups to ignore.

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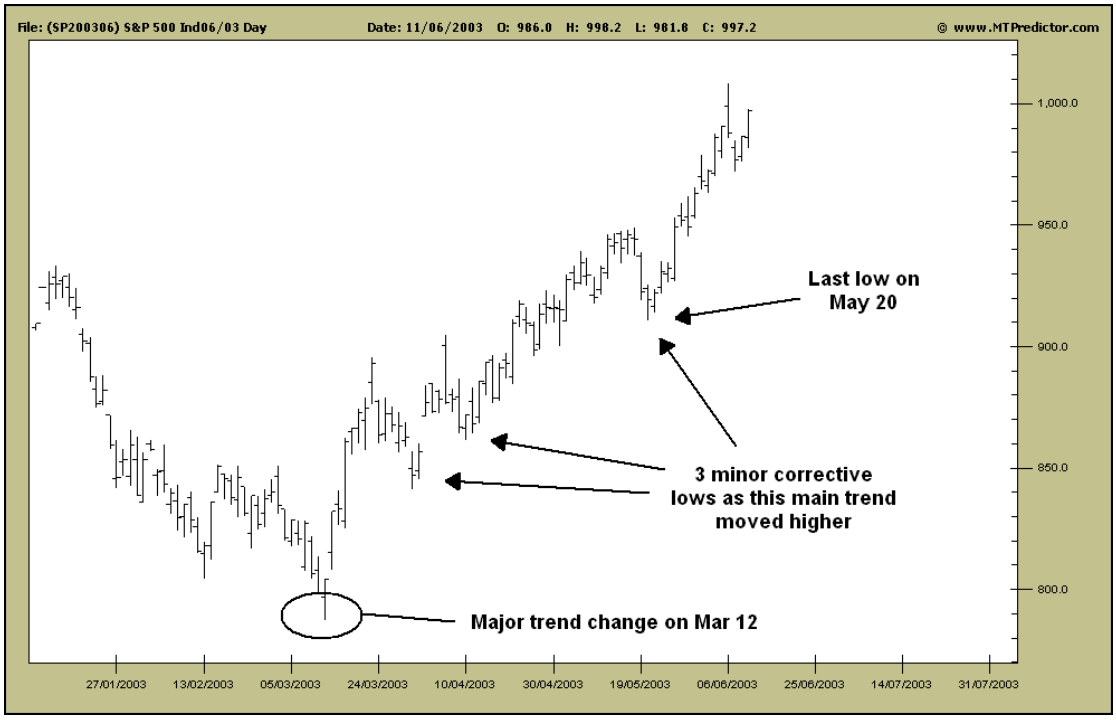
Okay, now you understand that the best set-ups come from taking trades that fall in the direction of the main trend, another point I'd like to address here is how often you should expect to make a trade.



Here you can see that since the major low on March 12 2003, there have been three minor corrective lows up to the date of writing which was on June 11 2003, approximately a three month period. During this three month period, there have been four areas (one at the major trend change on May 12, then three more at each of the corrective lows), where you should have *ideally* been looking for stocks to buy. And at no time, throughout this period should you have been looking to sell stocks.

Out of these four areas, the highest risk was at the actual trend change on Mar 12 (because the prior down trend was reversing), with lower risk areas at each of the corrective lows as indicated on the chart above. If you prefer to stick to trading just the lowest risk set-ups, then I would suggest waiting until a major turn has been confirmed in the main market, then waiting for the *first correction* against the new trend for individual stock positions. W. D. Gann referred to the end of the first correction against a new trend as the safest place to enter new positions.

However, this does mean that you will miss catching the actual low or high, and trade less often.

Although a scan each day of approximately 1,000 US stocks would have uncovered potential sells and buys everyday throughout this three-month period, I hope you can see that the *best* trade opportunities would have come only at these three corrective lows, and only for potential buy set-ups.

There is a common misconception among amateur traders, believing they should make trades every day when, in reality, this is far from the truth. In this example, the best trades have arisen from set-ups taken in and around these three points. In other words, throughout the rest of the time during this period you would have been better off not entering any new trades. Most of your time during this three-month period would have been spent either doing nothing, or just adjusting your protective stops on current open positions.

As a result, I would like you to understand that to be a successful stock trader does not mean taking new stock trades every day. In fact, the best course of action is to spend most of your time preparing and waiting for the *ideal* trade opportunities, where the probabilities of success are stacked in your favour.

This is a very hard concept to understand fully, because most traders assume that to be successful they *must* make trades every day…exactly the opposite is true, as most professional traders will spend most of their time watching and waiting for the ideal opportunities. You can think of this either as a professional gambler only willing to place his largest bets on his best hands, and therefore passing on his weaker positions, or a wild animal stalking its prey, spending most of its time watching and waiting in preparation for the final kill. As a professional and successful trader, you must adopt the same strategy.

The next chapter takes this one stage further and outlines a simple method that utilises the **Show Elliott Waves** module to help generate a *trend bias* for the following week. This can be used to help build discipline to only trade when the probabilities of a move are in your favour as well as bias your individual daily stock trades in the direction of the main larger-degree (weekly) trend direction.

The same can be said when you are trading the Commodity markets. Most of the time should be spent preparing for, and then waiting for, the *ideal* trade set-ups. In reality, you should not be looking to trade everyday, only when the probabilities of success are on your side.

Chapter 16 – Trend

As you saw in the last chapter on Trading Stocks with MTPredictor, it is always a good idea to try to orient your individual stock trades to fall in the direction of the main market trend. The reason for this is that the best trades (and largest profits) normally result from trading *in the direction of the main trend.*

However, there has been much written on this subject and views on how best to define the trend differ enormously. This question will never be answered completely and, as such, there are numerous different ways to help define the main trend. So which should you choose?

Rather than looking at the pros and cons of these different methods, I would like to outline a very simple and effective way to use the automatic routines in the MTPredictor software to help answer this question. But it should be stressed that, as with any other piece of technical analysis, the law of probabilities governs this method. What do I mean by this ? Well, the outcome will not be correct all of the time, no technical analysis method can achieve this. However, the aim is to put *the probabilities of success* on your side. In other words, it should give you a good idea of the larger-degree (main) trend more often than not - allowing you to filer your trades to fall in the direction of this main trend. Over time this is designed to give you an *edge* over simply taking individual stock trades without any market trend consideration.

Okay, having introduced the importance of defining the main trend direction and suggested that the results can only ever be a matter of probabilities let's outline the method.

As you have seen throughout the trading course, my techniques are based on a very simple view of Elliott wave analysis and, more importantly, a personal and unique view of Elliott wave analysis taken *in isolation*. This form of analysis has no *forecasting* power (as nobody can know the future). So, how can these techniques help define the main trend? Because to define the main trend, surely you must be predicting that this trend will continue?

The answer to this is difficult to grasp immediately, however once you understand that the outcome of any analysis is always based on probabilities and that all we aim to achieve is a trading edge (not perfection), then you will see how this method can be applied.

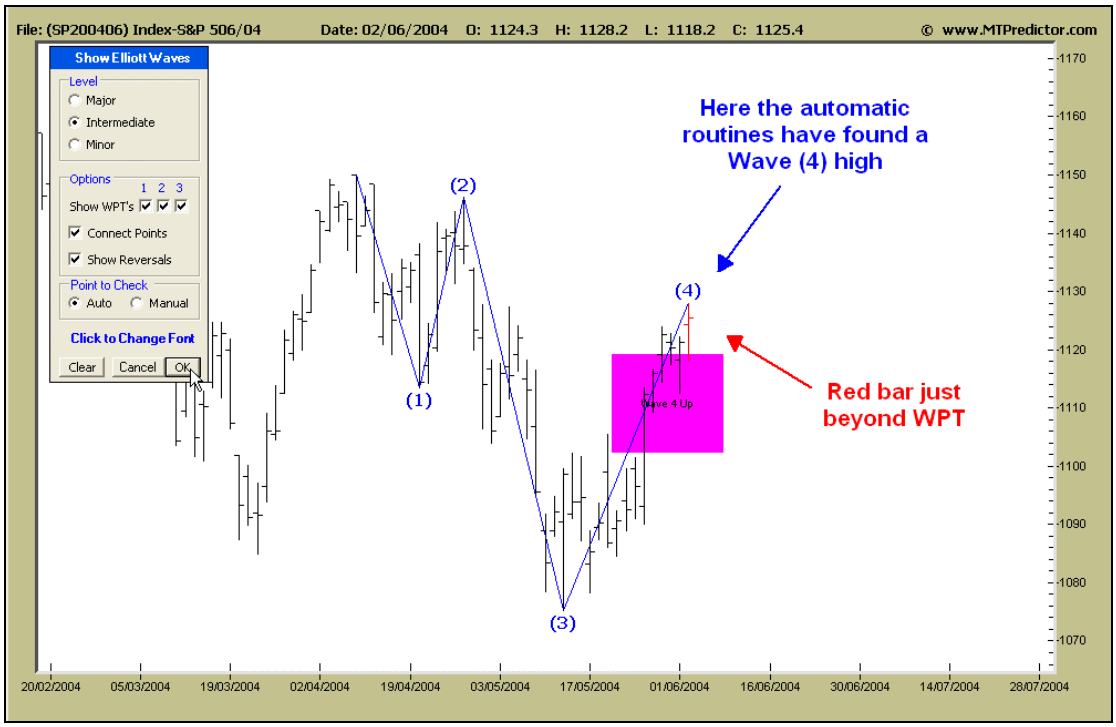
This method is simple in that it requires you to look at a chart of the higher timeframe and apply the Intermediate and Minor automatic **Show Elliott Waves** routines to gauge an automatic wave count. You then use the automatic wave count to judge where you are in the main trend.

Allow me to elaborate on "a chart of the higher timeframe". When looking at daily charts the higher time frame would be considered a weekly chart, and when looking at intra-day data, the higher time frame would be a daily chart. Therefore, to keep things simple, when you are filtering your daily stock trades, you should perform this analysis on weekly charts, and when filtering your day-trades (intra-day trading) you should perform your analysis on a daily chart.

This second part is not strictly true because there can be a number of different higher timeframes when looking at intra-day charts. For example, a 15min is a higher timeframe than a 5min, and a 60min is a higher timeframe than a 15min chart. However, keep the analysis simple, clean and easy-to-apply. When filtering intra-day charts (for example a 5min day trade), you can use a daily chart.

Now we know we are only looking at weekly charts to filter daily trades (particularly stock trades), and daily charts to filer intra-day trades, we can continue.

Let's start with daily charts filtering intra-day short-term and day trades.



As you can see from the chart on the prior page, the Intermediate degree **Show Elliott Waves** has found a potential Wave (4) high. The last bar on the chart (Jun 2 2004) is painted red, and falls just beyond WPT resistance.

As you all know by now, this would not be considered a reason to sell of itself - firstly because the reversal is beyond the WPT and secondly because the market has not exceeded the low of the red bar. However, we are not performing this analysis to uncover trades on this daily timeframe, but to help *filter* short-term term trades for the following day. As such, the assumption here is that *more likely than not* a down day should follow this potential sell set-up.

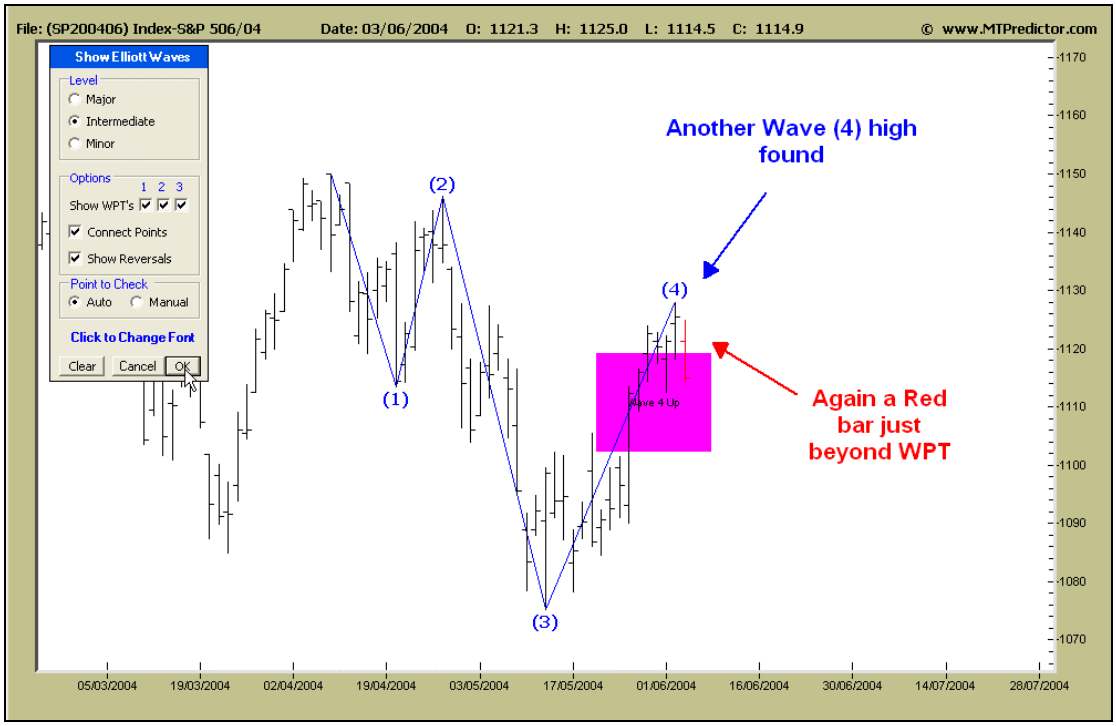
So let's see how the next day, Jun 3 unfolded:

As you can see from the chart above, this is exactly what happened. Clearly, the best day trades during this day (Jun 3) would have come from trading the short side of the market.

I am allowing a slightly more relaxed trade set-up on a daily chart to indicate the most probable trend direction on the shorter timeframe. But not after the trade has been triggered (as in the normal trade set-ups), just *anticipating* how the next day *may* unfold.

Again, the outcome of this analysis is only ever a matter of probabilities and is only designed to help give you a trading edge.

Here is the analysis for Jun 3, another potential sell day:

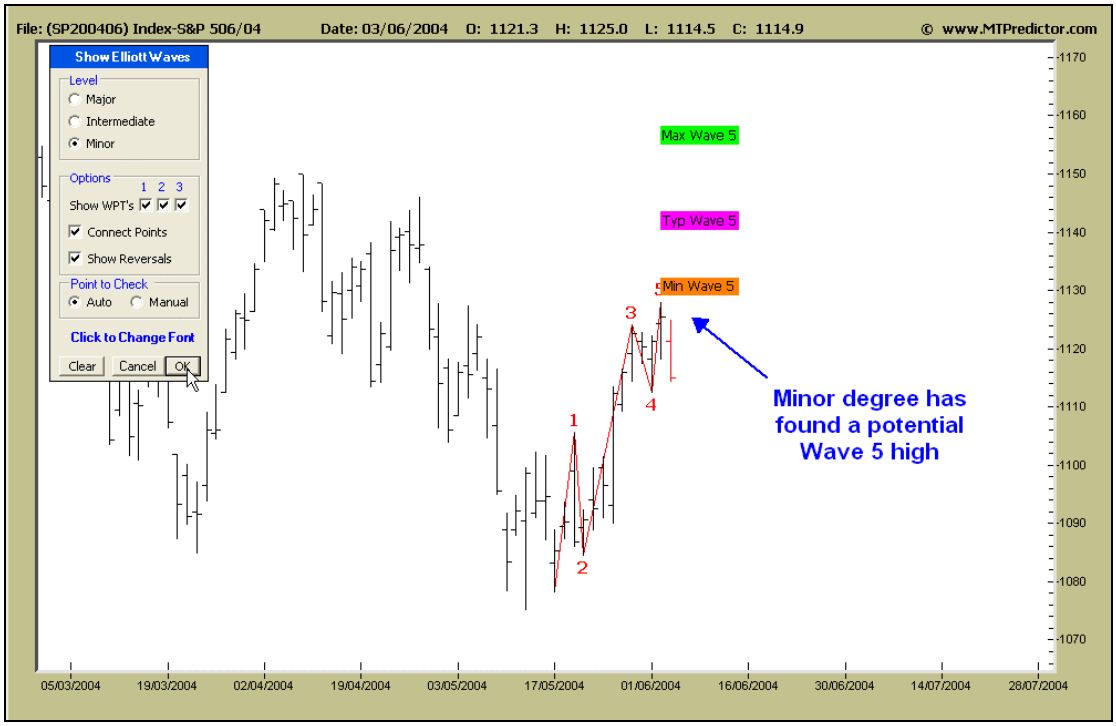


And the result for Jun 4, as you can see - the market only moved sideways.

So again, this is designed to give you an edge and will not be correct all of the time.

So far I have only used the Intermediate degree **Show Elliott Waves** to uncover a potential wave count. To expand the number of possibilities I suggest that you apply the **Show Elliott Waves** routine on both the Intermediate and minor degree.

Now let's take another look at the last example where the analysis was performed on Jun 3:

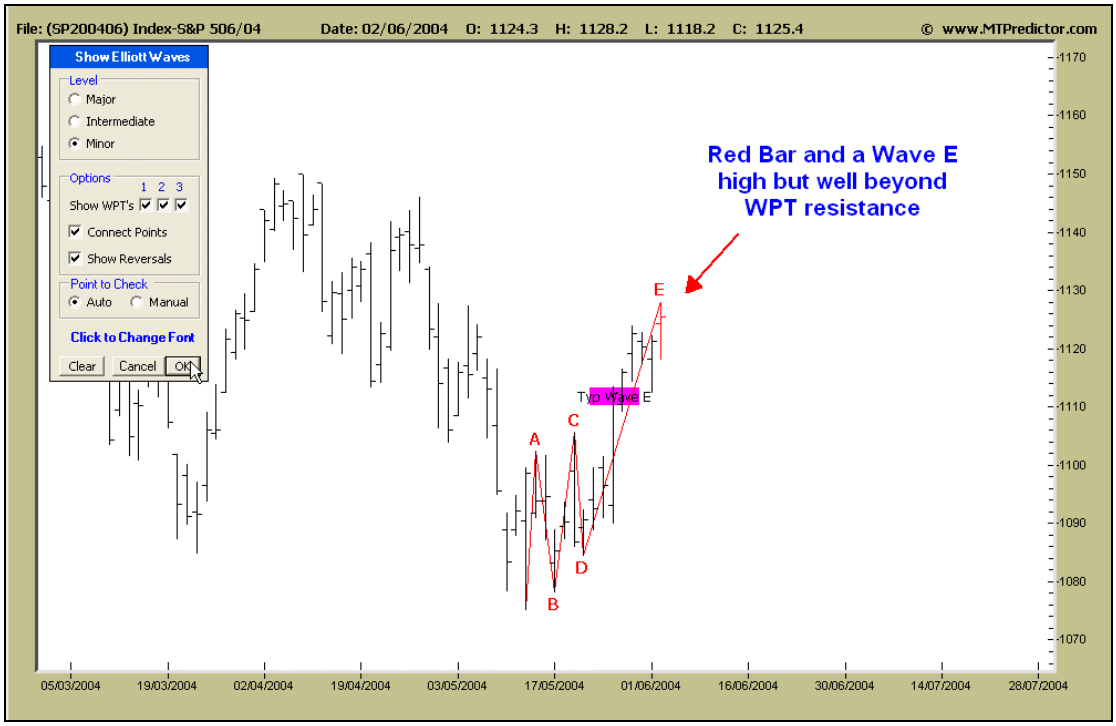


Here the minor-degree **Show Elliott Waves** has found a potential Wave 5 high, again with a red bar and with the Wave 5 high falling just short of the minimum Wave 5 WPT resistance area. More leniency on the position of the reversal with respect to WPT support and resistance is permitted compared with a standard trade set-up.

As such, the minor **Show Elliott Waves** on Jun 3 was pointing to a decline along with the Intermediate degree. Both degrees were confirming the same position.

Let's now go back to the first example in this chapter, where the analysis was run on Jun 2.

Here is the minor **Show Elliott Waves** on Jun 2:



As you can see from the chart above, the minor **Show Elliott Waves** found a Wave E high and the last bar was painted red, but the high was well beyond WPT resistance. Therefore this should not be considered close enough to carry any forecasting weight for the next day.

So we have these two days:

June 2

- Intermediate **Show Elliott Waves** – potential sell day for Jun 3
- Minor **Show Elliott Waves** - no definite result

Jun 3

- Intermediate **Show Elliott Waves** – potential sell day for Jun 4
- Minor **Show Elliott Waves** – potential sell day for Jun 4

So the question is, how much confirmation is required to be able to produce a forecast for the next day. Please note I use the word *forecast* very carefully, because as I have already stated that all we are trying to do here is give you an edge for your day trades for the next session after this analysis has been performed.

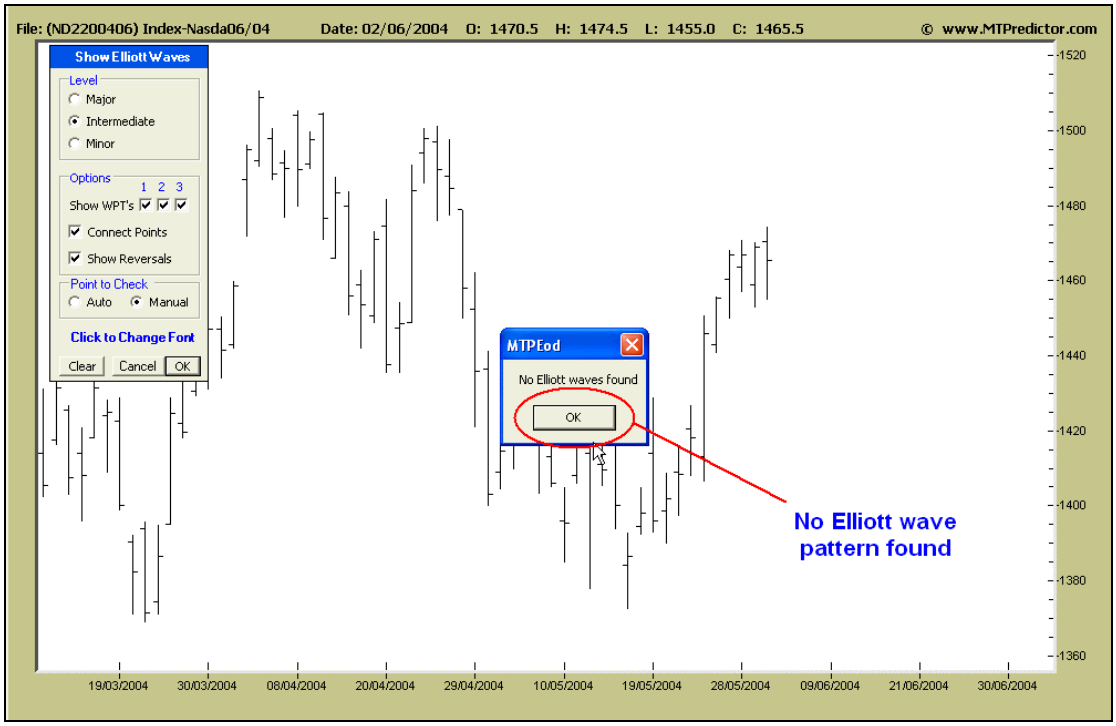
Because this method cannot be expected to predict the trend for the next day with 100% reliability, a better phrase would be *trend bias*. This method helps you *bias* your day trades to either the Long or Short side of the market, giving you an edge over simply taking all generated signals.

In our research we have found that all that is needed is at least one clear signal to give you a trend bias for the next day. As such both these examples would have produced a down trend basis for the next day. We have also found that the *day session only* charts produce better results than using *all session* charts.

So far I have used just a daily chart of the S&P, to help filter short-term and day trades on the E-mini S&P500® (ES). However, the Nasdaq also can be used to help calculate the trend bias for the next day for the E-mini Nasdaq-100® (NQ).

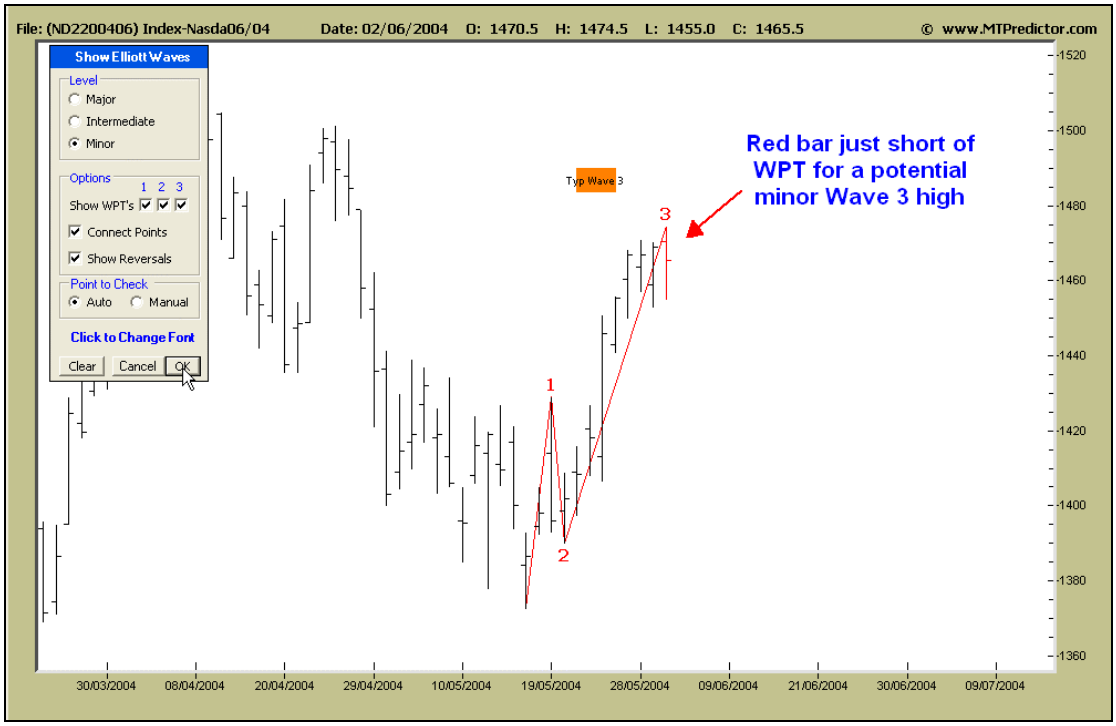
You can start to build up a table to complete each day, in which if one of the four items produces a clear bias, that would be the overall bias for both the ES and NQ for the following day.

To complete this analysis, let's look at the Intermediate and Minor **Show Elliott Waves** for the Nasdaq (day session) on Jun 3:



First, the Intermediate degree **Show Elliott Waves** found no valid wave count as of the last bar (Jun 2).

Moving onto the minor **Show Elliott Waves** on Jun 2:



A red bar was found, falling just short of WPT resistance, so at first sight, this would appear to be a valid sell bias? The minor pattern was for a potential Wave 3 high…

In this exercise we are trying to locate a larger-degree trend basis by using the larger-degree Elliott wave pattern. It makes sense to bias our trades in the direction of the strongest Elliott waves, and therefore avoid any potential corrective swings. This would mean avoiding this count, because a Wave 4 usually follows a Wave 3 and a Wave 4 is a corrective swing.

Therefore the automatic wave counts we should use to consider a valid trend bias are:

1. Wave 2orB
2. Wave 4
3. Wave 5
4. And Wave E

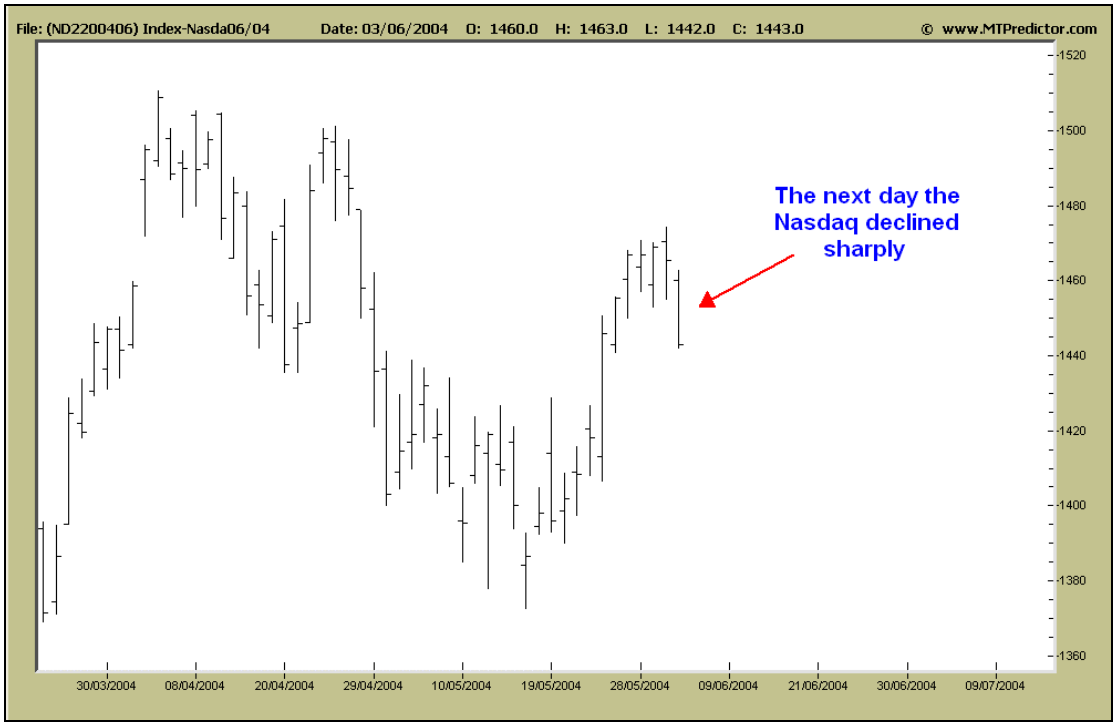
Avoid Wave 3s, or simply judge the pattern to be invalid for this exercise.

We can now build our bias matrix using the day session only charts for the S&P and Naadaq for Jun 2 using both the Intermediate and Minor **Show Elliott Waves** module.

ES and NQ trend bias matrix for Jun 3 (using Daily data up to Jun 2):

	S&P	Nasdaq
Intermediate	Sell bias	No clear bias
Minor	No clear bias	No clear bias

As you can see, we have one of the 4 indicating a sell bias for the next day, Jun3. This is how the Nasdaq unfolded on Jun 3:



As you can see, the Nasdaq declined sharply on Jun 3; therefore the best short-term trades came from the short side.

But the main point is that you started the day with a clear idea (trend bias) of the main trend direction through the day. As such, you could have biased your trades to the short side. In practice, this could mean avoiding Long trades and/or accepting short trades with a less than ideal set-up. Exactly how you use this information is up to you individually as a trader, but I hope you can see the value in knowing which way to bias your trades before the trading day begins.

From our research we have found that during our testing period using daily charts to anticipate the trend bias for next day's intra-day trading session, approximately 25% of the time there was a clear trend basis. And from that 25%, approximately 70% of the days moved in the anticipated direction.

In practice this does mean that 75% of the time there will be no clear trend bias - that is very true of general market behaviour, where most of the time the markets chop sideways with no clear trend direction.

Here you have a choice. If your are an aggressive trader, you could decide to trade both sides of the market, deciding that although the markes is not making a clear trend direction on a larger-time frame, there will be tradable swings (both long and short) during the day. Or you could decide to avoid such days, preferring to trade only on days with a clear trend bias. In this way you could trade with confidence on the days with a 70% probability of moving in the anticipated direction.

Trading only on the days with a clear trend bias could also allow you to be more aggressive, taking additional manual trades as well as automatic trades. You might also start to let your trades run further, on the premise that you are in the direction of the main trend. There are many ways to use this information, depending on how aggressive you are and where you are in the learning curve. More on this in the next chapter.

A similar logic can be applied to using weekly charts to *anticipate* a trend bias for use when *filtering* daily stock trades.

Lets' take a look at an example using the week of May 17.

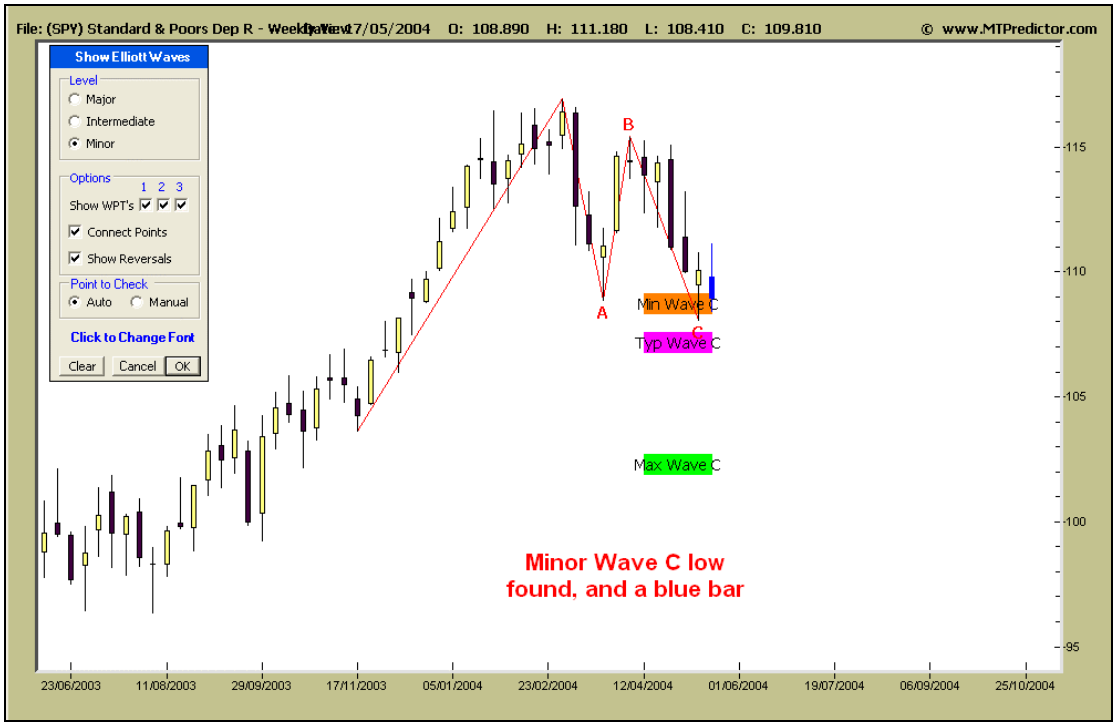
When looking at weekly charts I would suggest using charts that accurately reflect the same trading session as the stocks you intend to trade. For example, do not use the all session S&P or the cash Dow Jones Industrials, because they trade for longer hours than the regular stock trading session in the US.

As such, I would suggest using the three US exchange-traded funds (stocks) that track the main US indices: SPY, DIA and QQQ on the American Stock Exchange. As they are stocks themselves, they will have the same trading session as other US stocks you will be trading. This is why we did not use the Dow Jones Industrials in the prior section for intra-day trading.

So, back to this example. We need to look at three weekly charts on the SPY, DIA and QQQ, running the **Show Elliott Waves** module both on Intermediate and Minor degree. Then tabulate the results to build our bias matrix.

Here is the weekly SPY and **Elliott Waves** on Intermediate degree – no pattern found:

Now the same chart, but using the Minor degree – this time a minor Wave C low was found and the last bar is blue. Therefore a clear buy bias:



Now for the other charts…

Here is the weekly DIA and **Elliott Waves** on Intermediate degree – no pattern found:

Now the same chart but using the Minor degree – this time a minor Wave C low was found, however no blue bar. Therefore, a weak buy bias:

And for the QQQ…

Here is the weekly QQQ and **Elliott Waves** on Intermediate degree – again, no pattern found:

Now the same chart but using the Minor degree – this time a minor Wave 2orB low was found and the last bar is blue. Therefore, a clear buy bias:

Now we can construct our trend bias for the following week.

	SPY	DIA	QQQ
Intermediate	No clear bias	No clear bias	No clear bias
Minor	Clear buy bias	Weak buy bias	Clear buy bias

As you can see, we have two results showing a clear buy bias, and one showing a weak buy bias therefore the you should tilt your individual Daily stock trades to the long side for the following week.

Let's see what unfolded.

As you can see from the chart above, the following week the markets rallied strongly.

This would have helped all your individual stock long trades while the shorts (if they were triggered) would have had a harder time. Biasing your daily stock trades to the long side would have helped.

One question is, how long after the initial signal does the bias remain in force? This is a difficult question, and I would say that for the purpose of this exercise and to keep things simple that this bias is only for the next week. Therefore each weekend you should re-calculate the bias for the following week.

As with the Intra-day system, there will be many weeks when no clear bias can be seen. Again, you must decide whether you prefer not to trade without a clear bias, or if you prefer to trade on both sides.

This information will be used differently by different people, depending on their individual level of aggression (in trading!). As I am very conservative and (as in the chapter on Trading Stocks) I only like to consider individual stock trades when there is a minor corrective swing against the main trend, I would only consider trades that fall in the direction of the main weekly bias, and then only on weeks when a clear tend bias appears. But this is only a personal choice, and many of you will be more aggressive and seek more trades.

However, as with the intra-day system, this does give you an informed choice on how active or indeed how aggressive you wish to be. More importantly, on the weeks when a tend bias is indicated it will usually place you in the direction of the main trend and will, at the very least, get your individual stock trades off to a strong start in the right direction.

As with all trading, this will not be correct all the time, however its main function is to give you an *edge*, and as long as more weeks than not move in the anticipated direction when a trend bias is indicated then it is doing its job.

I have also noticed that because this approach often catches the week after an important trend change, this week moves strongly in the anticipated direction. It is almost a springboard effect as the market moves away from the turn on new buying or selling quickly entering the market. Again this helps accelerate your trades in the anticipated direction right from the start.

On the flip side, when no clear trend bias is indicated, very often a weak and trendless week follows. These are nightmare weeks and are always good to avoid…

Lastly, let me add that if you are an advanced trader you can apply your own advanced manual Elliott wave analysis to help determine the larger-degree trend. As such, this system is not the only solution. It provides a logical, mechanical approach that is easy to apply. Once you become familiar with its use, you can tailor it to meet to your own needs or even expand it based on your own trading experience.

Summary

This chapter has outlined two very simple methods to allow intra-day traders to determine a trend bias for their day-trades, and allow daily stock traders to filter their trades so they fall in the direction of the main trend.

To summarise, first for the Intra-Day trades:

1. Use day-session only charts for the S&P and NASDAQ
2. Apply the **Show Elliott Waves** module on Intermediate and Minor degree
3. Note if an Elliott pattern is found and if the last bar is a coloured reversal bar
4. Wave 2orB, 4, 5, E and Wave C are used - Wave 3 counts are avoided
5. Allow slightly more leniency than for a normal trade set-up

If one of the four possibilities shows a clear buy or sell, this is the trend bias for the following day only.

To summarise, for the individual stock trades:

1. Use weekly charts for the SPY, DIA and QQQ
2. Apply the **Show Elliott Waves** module on Intermediate and Minor degree
3. Note if an Elliott pattern is found and if the last bar is a coloured reversal bar
4. Wave 2orB, 4, 5, E and Wave C are used - Wave 3 counts are avoided
5. Allow slightly more leniency than for a normal trade set-up

If one of the six possibilities shows a clear buy or sell, then this is the trend bias for the following week only.

As you can see, this gives you an easy-to-apply and mechanical method of determining a trend bias for the next session. During our testing, approximately 25% of the time a clear trend bias was observed, and of those times approximately 70% of the time the market moved in the anticipated direction.

You could use this information to either only trade when a clear bias was found or to use the days when no trend bias is found to trade on both sides of the market, while being more aggressive in the trend direction on the trend bias days.

Chapter 17 – Where are you on the Curve ?

A lot has been written on trading psychology and how traders must learn to become better traders. While much of this is true, and it is clear that the hardest part of trading is the psychological aspect, I would like to add my own interpretation.

First, all traders are different. We are all human beings and are all different. Some of us will be office clerks while some will be brain surgeons. And I am sure you will agree that the office clerk will not have the ability or indeed the desire to become a brain surgeon. You should treat trading in the same way. Or, to be more specific, some will be more comfortable with and prefer trading the standard set-ups, while some will thrive on performing your own manual analysis. So forcing some of you to perform manual analysis will make you uncomfortable, while forcing some of you to stay with the standard set-ups will not work either. As individuals, you will be happier staying within your own *trading comfort zone*.

So the question I ask – is one type of trader better than the other ?

Statistically, numbers have been published on the success rate of speculators, especially private and novice traders. Some sources quote that as high as 97% - 99% of these will fail to make money. Therefore my answer is that if both types of trader make money, then both should be considered successful.

Success comes from each individual finding and becoming an expert at the particular technique that suites them best. In this way they can stay within their own *trading comfort zone*, which is unique to them.

For example, some MTPredictor customers trade all of the automatic Standard set-ups and take profits as soon as the trade reaches the 2-3x profit zone. Others take TS1 trades and try to run the position in anticipation of a strong Wave 3-type swing. Others take positions off as a trade moves in their favour, while others add positions. Still others have hybrid techniques and combinations of the above. There is no single (and correct) answer to how to trade.

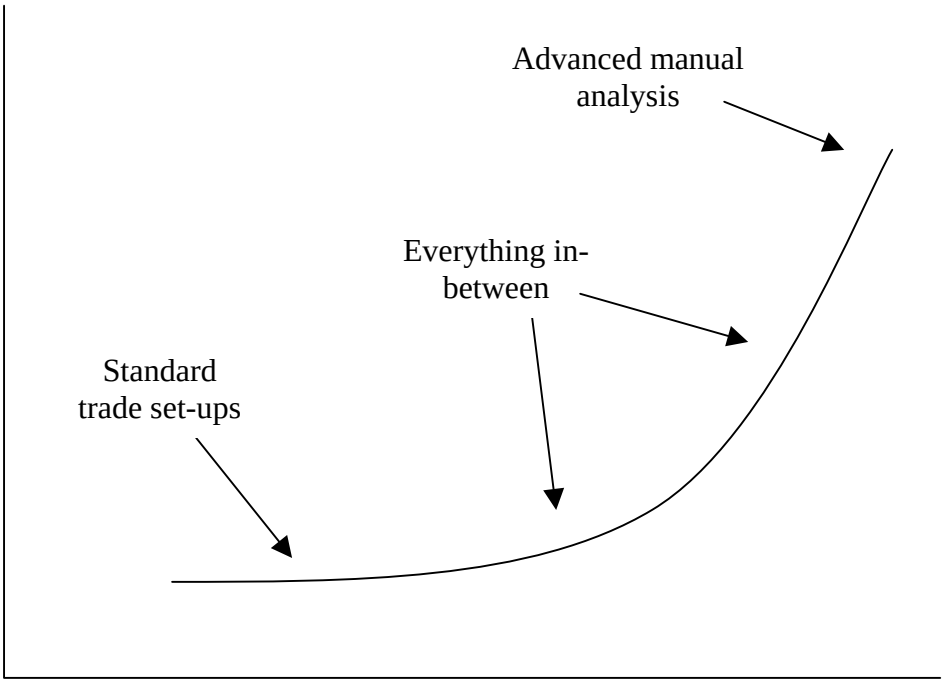
I believe that the single, most important aspect to master in becoming a successful trader is finding a technique with which you are comfortable and then applying it time and time again. Only then can you truly be a successful trader.

This is why the vast majority of traders fail - they skip between techniques, always searching for the one ‘Holy Grail’. They may hide in chat rooms trying to pick up morsels of information from other traders. In reality, the really successful traders will neither give nor seek advice.

Ask a successful trader if a market is going up or down, and they will invariably answer – "I don't know and don't care". They have their positions and stops in the market, safe in the knowledge that they are carefully managing their initial risk and that over time their profits will outweigh their losses. More importantly, they are happy and comfortable trading in their own personal way. It works for them, however it may not work for you. So you need to find, and then settle on, your own unique and personal method or approach rather then trying to blindly imitate or follow another trader's methods.

I could continue, but I am sure you get the idea that once successful you no longer need to seek or give advice, because trading is a unique and personal approach to the markets. The critical point is that to become successful does not mean that you have to learn, or indeed apply *all* the techniques that I, or any other educators apply. You can think of this as a 'techniques curve' where different people are happy and comfortable at different positions on the curve. Let me expand on this idea.

Let's take a look at a potential MTPredictor Techniques Curve™:



Here we have a fictional curve, with the standard trade set-ups at the bottom, leading up to advanced manual analysis at the top and every combination and variation in-between.

Please note: This does not mean that the standard trade set-ups are the least profitable or that you have to master advanced manual analysis to make more money. It is simply that the higher up the curve you go, the more techniques you will have to learn and master.

Some of you will relish the challenge of learning and mastering new and more advanced techniques. Some of you will be perfectly happy sticking with the standard trade set-ups. Both are correct, if they are right for you. I cannot stress this enough - the best way to trade is to trade a system or approach that is right for *you*. This will be different from person to person.

This is why this course contains many advanced and additional techniques that I know some of you will learn and master, while some of you will ignore. However, one theme runs throughout the course and should be the one constant in all of your techniques, advanced or standard: Risk/Reward. Keep the Risk/Reward equation on your side and over time, whichever technique you apply, you should be on a sound footing for long-term trading success.

As you can see, the further you move up this Techniques Curve the more analysis you take on yourself and the further you shift away from the automatic set-ups and the standard trade management guidelines. The more confident you become in the MTPredictor techniques and your understanding of them, the more often you can break the rules, or know when and where you can break or tweak them…

For the rest of this chapter I would like to show some examples of where and when you can bend these standard guidelines as you become more experienced. This step is not necessary or compulsory, but if you are that way inclined these examples will help demonstrate areas where additional experience can help take you further up the curve.

Continued on the next page . . .

In no particular order:

The first and most obvious way to move up the curve is to start performing you own *manual analysis*. This is bulk of Section III of the course and is covered in great detail so it only needs a mention here.

As you have seen, although much manual analysis is possible I suggest that you keep to trading off a simple, obvious and easy-to-spot ABC correction. The only manual part for you after spotting the ABC is the WPT profit target projection and R/R calculations. I suggest doing this only on just the very best and most obvious trade set-ups.

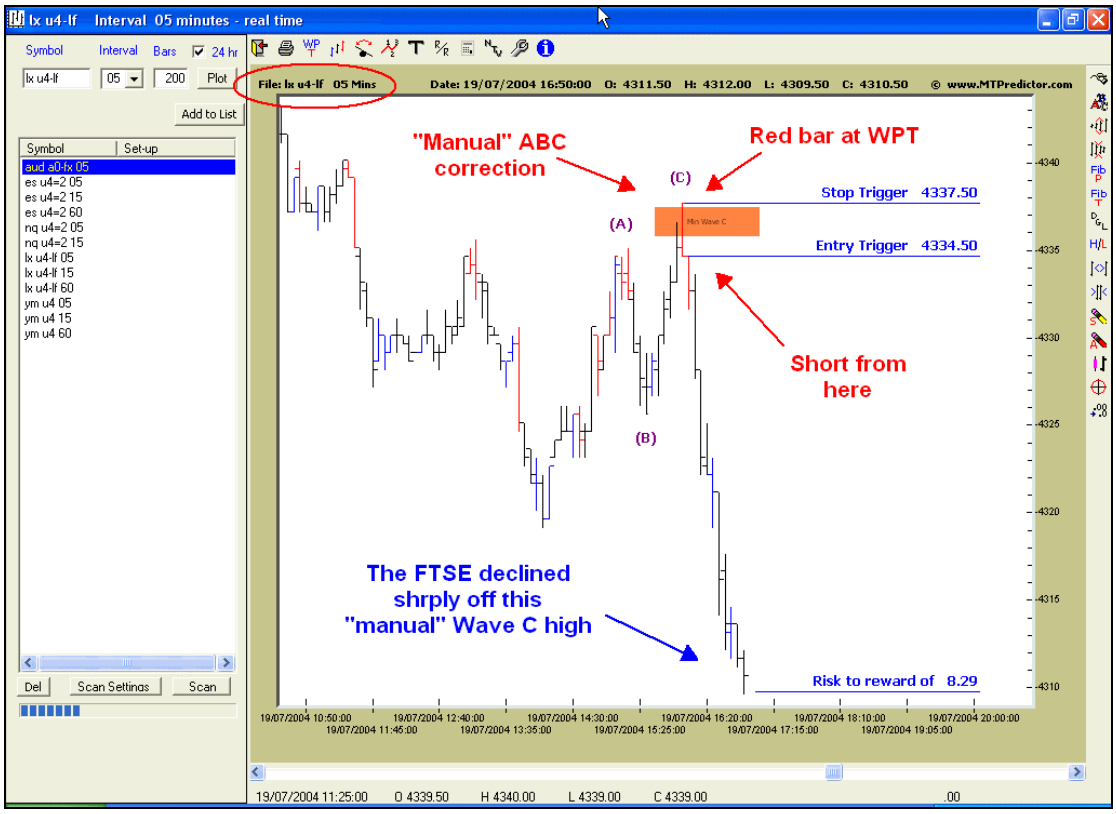
Here is a good example on a 60min chart of U.S. T. Notes:

Here the manual ABC correction was three simple and obvious swings. The Wave C reversed right at the typical Wave C WPT (Wave Price Target), with a blue (buy) reversal bar. As such, this was a perfect, textbook example.

The trade moved to the first profit target at the minor Wave 1orA WPT where it was stopped out for a profit of nearly 4x the initial risk (ignoring slippage and commission).

The point here is that the manual ABC was very obvious and clear. The set-up was then perfect with a clean reversal from the WPT. Therefore, the best manual trades to consider are those that are *absolutely perfect* - if it is not perfect, pass on the trade.

Here is another example, this time on a 5min chart of the FTSE-100® (U.K. stock market) index:



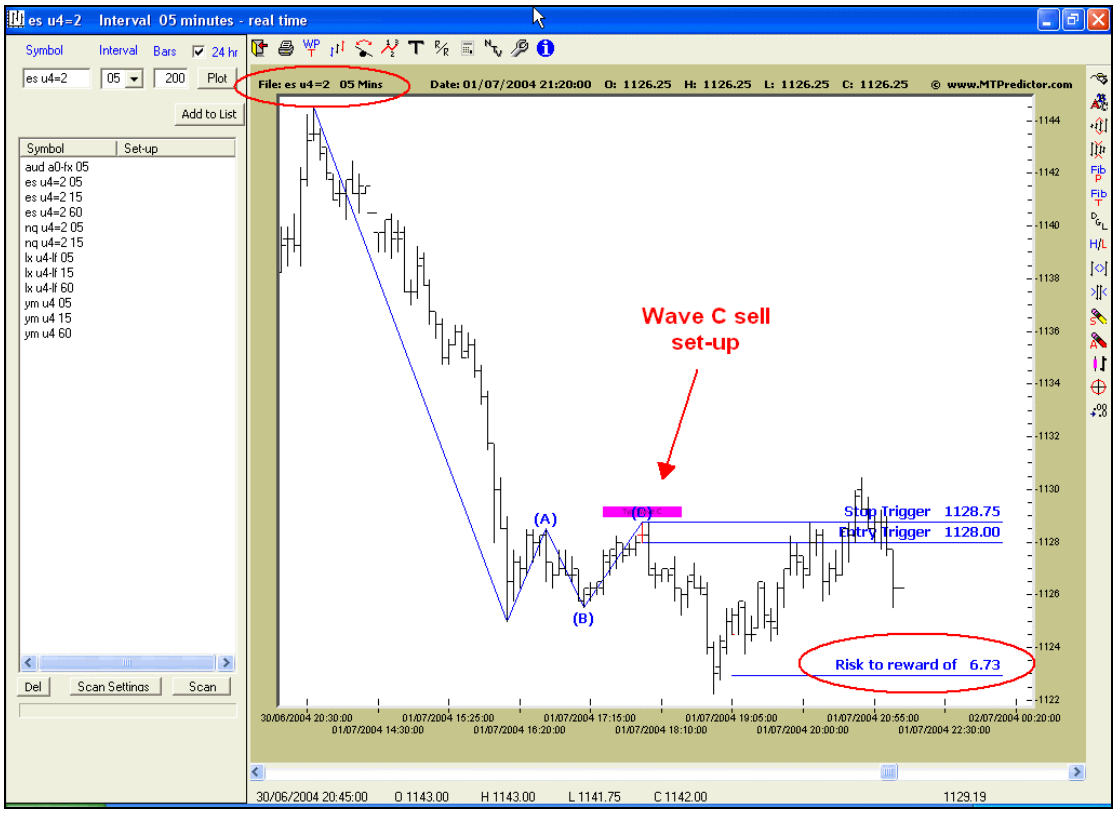
Again the ABC was very obvious and easy-to-spot. The reversal was right at the WPT with a red (sell) reversal bar. All in all, a perfect trade set-up.

Please note: These are not simply textbook examples carefully chosen for inclusion in this course. I am suggesting that you *only* consider trades that are absolutely ideal. If it is not perfect, then it is best avoided !

The next few examples fall below full blown *manual analysis* but above the standard trade management guidelines. They show where the standard set-ups and basic trade management guidelines can be tweaked slightly as you gain experience and can react to unique situations that arise when trading.

The first of these is common sense when sitting on a large profit.

Here you have a situation where you are currently short the E-mini S&P500® from an automatic TS3 sell set-up, and the market has not yet reached the first profit target:



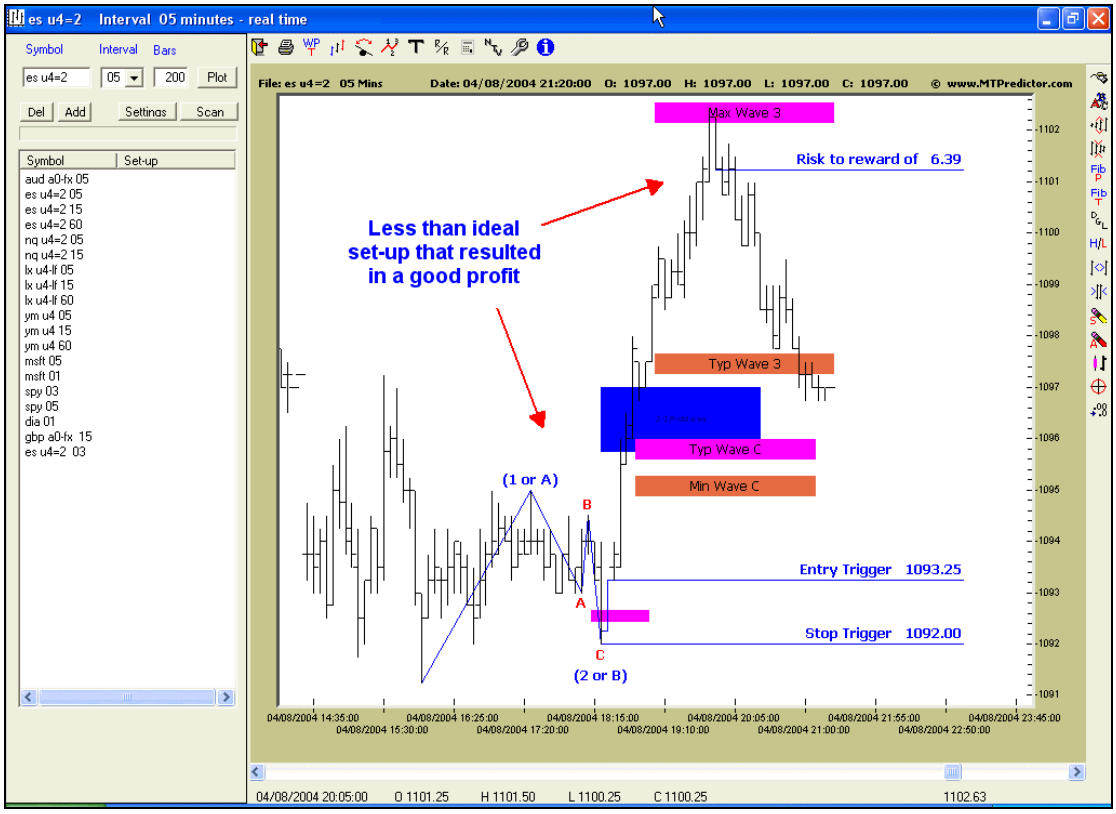
However, your current profit is nearly 7x the initial risk (ignoring slippage and commission) and the profit targets are still well beyond current market levels. So do you follow the standard trade management guidelines and wait?

Any profit over 2-3x the initial risk is a *good trade*. Therefore, 7x is a *very* good trade. So, to me, the sensible course of action would be to bank at least some of this profit safe in the knowledge that it is already a good trade.

Although this does break the standard trade management guidelines, it is clear how experience and common sense can help you decide that, here, a minor teak of the rules is useful.

The next is the initial Risk/Reward ratio.

Here is an example that resulted in a great trade although the initial risk/reward was below the normal 2:1 minimum:



On this 5min E-mini S&P500® chart the blue 2-3x profit zone fell above the first WPT (projected profit target), meaning that the potential profit at the first profit target would be below the 2:1 ideal minimum.

However, the larger-degree trend was up at this time on this day, therefore experienced traders could have decided to bend this guideline slightly, knowing that the probabilities were for a strong upmove. Because this was a buy set-up, with careful trade management, they could *bend the rules slightly* and take a less-than-ideal set-up.

Here is another example.

The use of the maximum Wave C WPT in a TS2 set-up.

This should not be considered an ideal set-up using the standard trade set-up guideless, as the maximum Wave C WPT is most reliable when found in a TS1 set-up.

However:

The maximum Wave C WPT on this mini-Dow® short nailed the TS2 high beautifully and resulted in a profitable trade. So the question is, when can you decide to bend this rule and accept such trades ?

The answer is the same as in the last example – when you are anticipating a strong move in the current direction. Then and only then would I suggest tweaking the standard set-ups to accept a less-than-ideal initial set-up.

Chapter 17 – Where are you on the Curve ?

Summary

I have included several examples in this chapter in which you *could* bend the rules slightly once you become more experienced. Please understand that I am not suggesting ignoring the standard trade set-ups or, indeed, throwing away the standard trade management guidelines. But as you become more experienced and move up the Techniques Curve you can use your own skill and judgement to know when you can bend the rules slightly. I do not suggest doing this all the time - only when you feel the probabilities are on your side for a strong move in the anticipated direction.

The standard trade set-ups and standard trade management guidelines are designed to do the best job over the widest variety of market conditions.

Many of you will feel most comfortable trading and then managing your trades using the standard guidelines. This is fine. However, I know that some of you will prefer to move up the Curve by performing additional manual analysis and also tweaking the standard rules as and when your experience and knowledge allows.

Everybody's *trading comfort zone* will be different, there is no right or wrong way to trade and no requirement for you to trade in a particular way to be successful. The challenge is find the techniques that you yourself are comfortable with and then become an expert in those techniques, no matter where on the curve you decide to settle.

Chapter 18 – Daily Routine

In this chapter, I would like to look at the daily routine that I have when writing the MTPredictor daily report. The main reason is to show you what modules I use within the software, and the order in which I use them. In this way, you should get a good idea of how best to use the software on a daily basis.

In the MTPredictor daily report, I normally follow the main US markets on both Futures and Stocks; however, I keep an eye on the main European markets as well. Again, I stress that the MTPredictor daily report is not a tip sheet, nor should it be used for specific trade recommendations. Its main aim is to show users how to use the software more efficiently and, therefore, be able to uncover better trade set-ups.

The first thing I do is to perform a scan, usually starting with my database of US futures, which consists of the US futures markets traded on the main US exchanges.

I normally use *just* the current contract months for analysis, and not any form of continuous or back adjusted or perpetual contract. I have found from experience that this is the easiest method and normally produces the best results. I also focus on just the most active *day-session* data and ignore the thinly traded overnight sessions (on the contracts that have them), again, I have found that this produces the best results.

The first run-through is performed with all the restrictions on - I am looking for only the very *best* potential trade set-ups.

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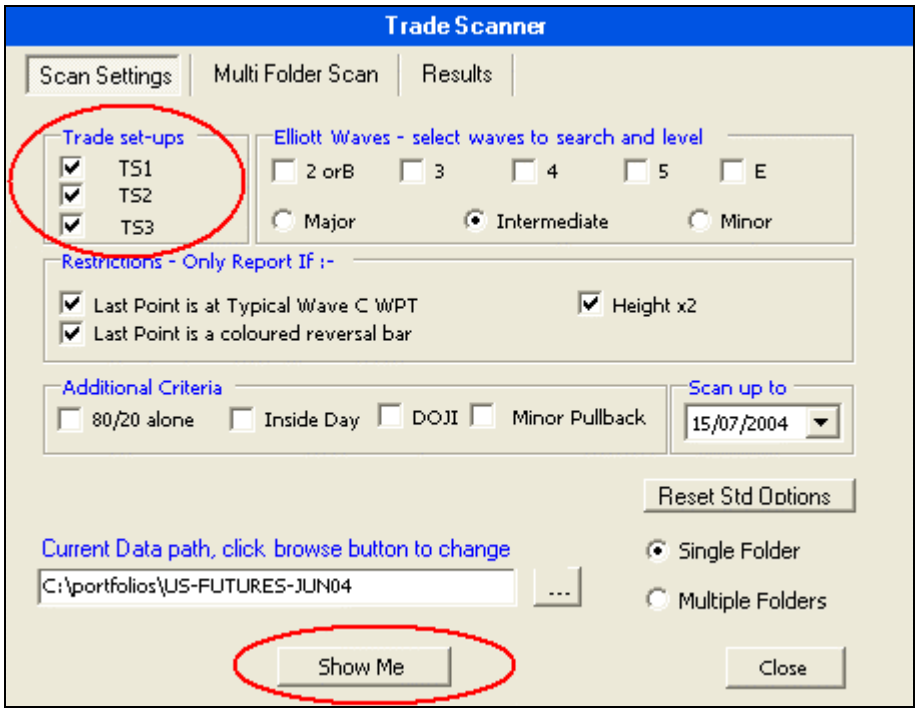
Please see below for the settings I use.



As you can see, I am focusing on just the TS1, TS2 and TS3 trade set-ups. These are the default settings for the software, and if you are either new to the software or only looking for the best potential set-ups, then I recommend sticking to these settings. However, because *ideal* and perfect trade set-ups do not unfold every day, I also perform a scan with the restrictions off, to get an idea of any set-ups that are *in the process of* unfolding, or are near to being ideal.

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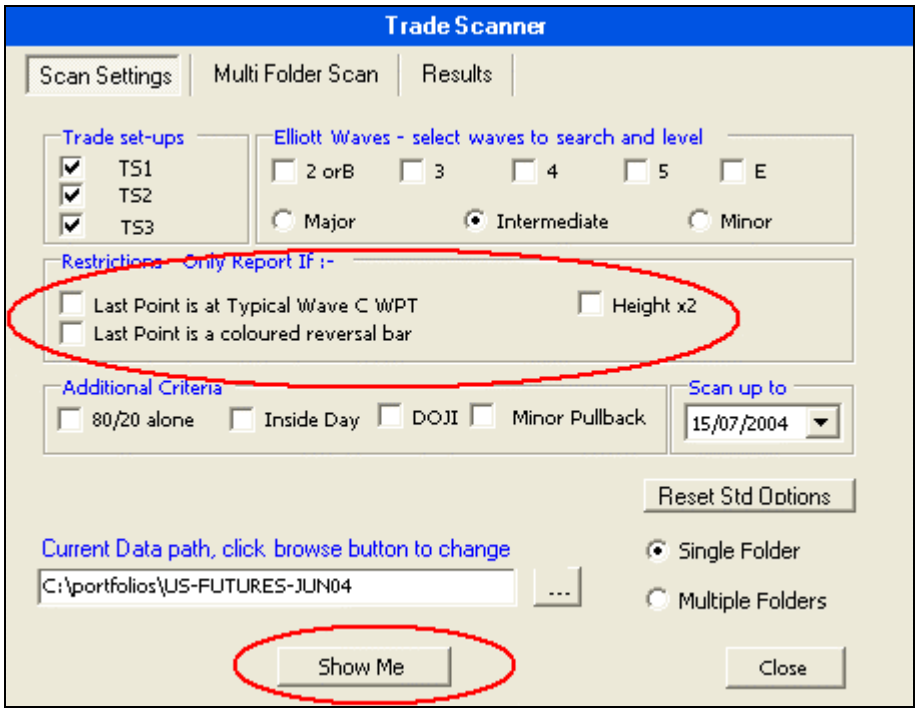
For this, I uncheck the restrictions in the scanner as shown below. I then rescan the current portfolio on US futures.



This will then find either a larger list of potential candidates, or additional items that were not included in the first scan with all the restrictions on.

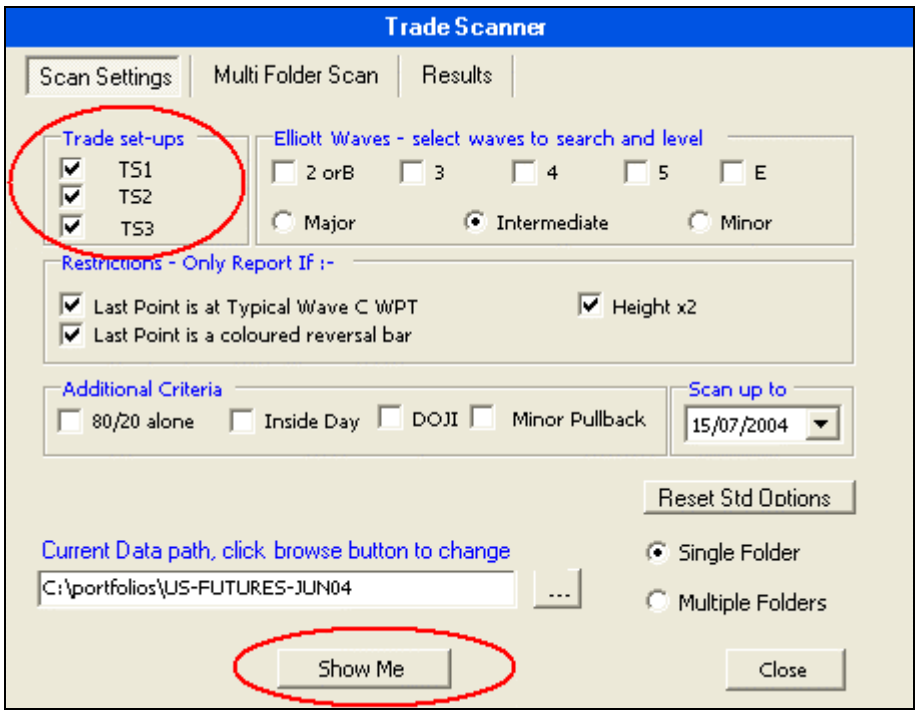
However, please remember that for a trade set-up to be valid it must meet all of the criteria already covered in earlier sections of this course. In particular, the minor wave C (of the TS1, 2 and 3) trade set-up must reverse at WPT support or resistance with the appropriate coloured reversal bar. Then the high (for a buy) or low (for a sell) of that reversal bar must then be exceeded to trigger the trade.

When you perform a scan with the restrictions off, you can find trades that are *in the process of* unfolding. Therefore you must check the set-up on the chart yourself to see if it is valid before proceeding.

I also have a number of favourite markets (for example the S&P, Bonds and some Currencies and some Grains) that I look at each day and perform automatic analysis on the chart itself or additional manual analysis where necessary, just in case there are any advanced trade set-ups that can be uncovered.

Then, I check US Stocks…

For this I normally only scan with the restrictions on. This is because, where the list of US futures covers nearly 30 markets, my scans on US stocks covers nearly 1,000 individual stocks, as such this normally produces enough candidates to look at each day:



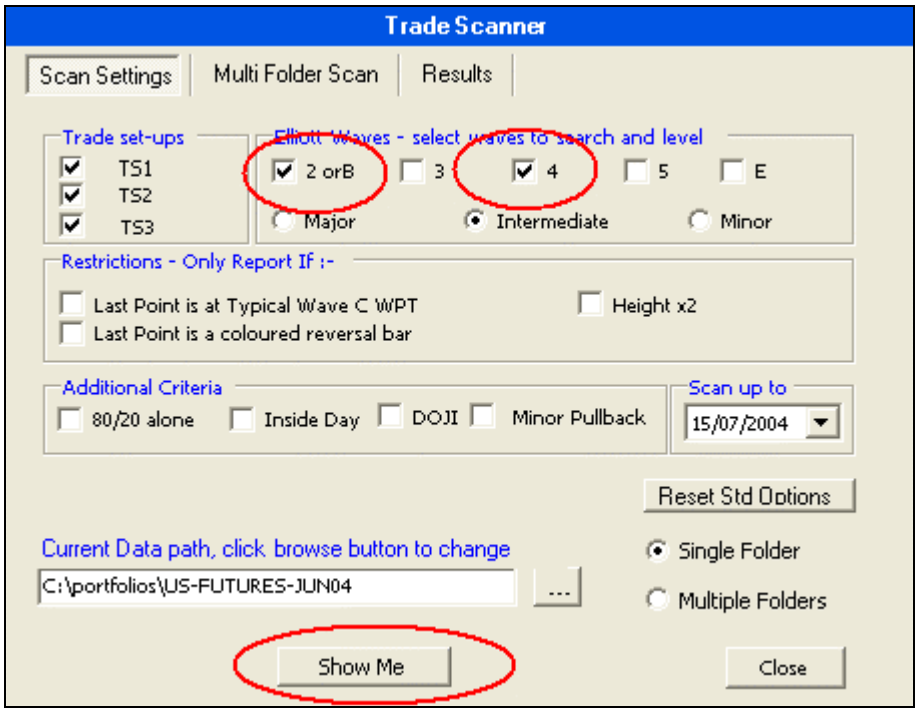
Please remember that just because a trade set-up is found on an individual stock from this scan, it does not mean that you should take the trade without further qualification. In particular, I suggest you re-read the chapter on "Trading Stocks with MTPredictor", as this will help you *screen* this initial list. The main reason for doing this is to make sure that you focus on just considering individual Stock trade that are *in the direction of* the main market.

Personally I only like to consider individual stock trades when the main markets are completing minor corrections to the main trend. However, this restricts the number of stock candidates in any one month significantly. It all depends on how cautious or risk adverse you wish to be with your stock trade selection.

This daily routine will normally produce 2-3 trades on US Futures (on average) per month as well as 2-3 US Stocks two or three times a month. For some people this may not been enough, however, I firmly believe that the secret to long-term trading success is to *only* take *ideal* trade set-ups. One of the main reasons (I believe) that private traders fail is because of over-trading. Restricting your trades to those few that are ideal will help avoid this failure and therefore put the probabilities of long-term trading success on your side.

However, there are many more options available in the Trade scanner. For example, you could look for markets that are making Wave 2orB or Wave 4 corrections for trade opportunities. Or maybe you could introduce the Minor Pullback trade into your personal trading plan. All of these will provide more trade set-ups each month. However, their probability of success will be slightly lower than sticking to just the TS1, TS2 and TS3 set-ups. It all depends on you as a trader, and your personal make up and how much activity or level of risk you are comfortable with.

On word of advice is to only scan for one thing at a time. For example, if you are looking for additional Elliott wave patterns, then un-tick all the other options:



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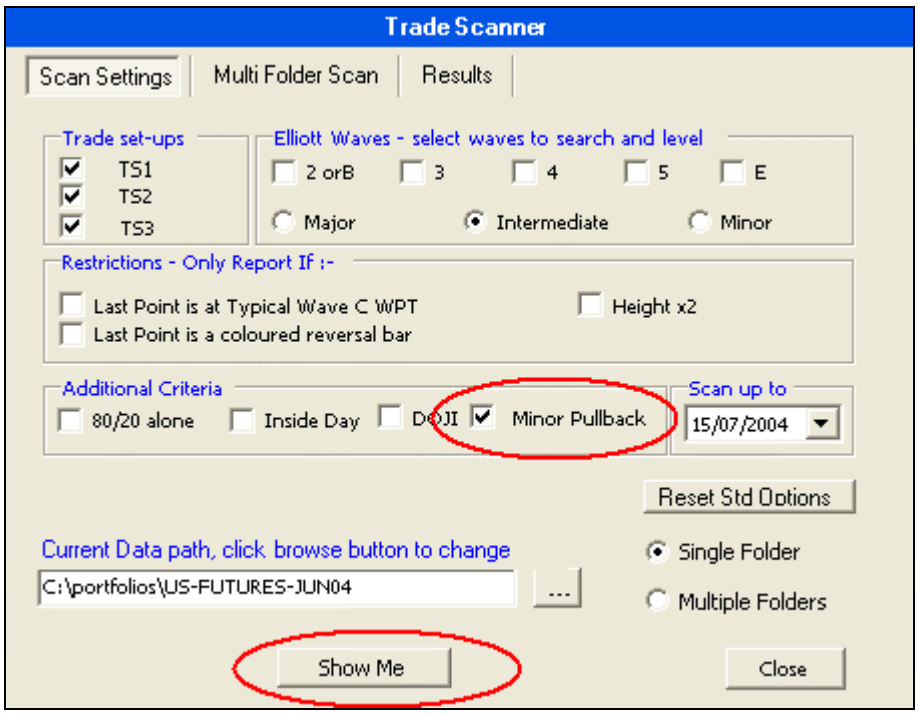
Or if you are looking for Minor Pullback trade set-ups, *just* tick that option:



This will help the results list remain simple, focused and easy to understand. By looking for multiple set-ups all in one go, you will more than likely just get a jumbled mess of results. The best way to think of the Trade Scanner is like a very powerful toolbox that will allow you to find many different types of trade set-ups. BUT like most tools, they are best used individually. After all you do not try to use a hammer and a soldering iron at the same time, as they are designed to perform different tasks. The same can be said for the Trade Scanner. Used sensibly, the Trade Scanner will be the backbone of your day trade selection routine.

In this way you can tailor MTPredictor to suite you own (and personal) trading needs. Whether you are very risk adverse, and prefer to stick to just the standard TS1, TS2 and TS3 set-ups, or whether you prefer more trades each month using additional trade set-ups, right to those of you who are experienced and can perform advanced manual analysis on individual charts.

Summary

As you have seen, I use the Trade Scanner as my primary tool for uncovering trade set-ups, on both Stocks and Futures. However, sometimes, particularly with the Futures markets, *ideal* trades are not found every day, therefore, I also perform scans with the restrictions off. This will normally produce more candidates for further study, but because these can be *in the process of* unfolding, I always qualify the trade on the chart itself before considering any trade set-up, please see the next paragraph.

I also perform analysis on individual charts using the automatic routines and *manual* analysis where appropriate. However, please remember that for a trade set-up to be valid 3 things have to combine at the same time:

- Firstly, the market in question is at a level where a high or low is anticipated to unfold - normally a WPT support or resistance area.

- Secondly, the market in question makes the appropriate coloured (red or blue) Reversal Bar, and that bar unfolds at the WPT support or resistance area.

- Thirdly, the market in question then *exceeds* the high (for a buy set-up) or *exceeds* the low (for a sell set-up) of the coloured Reversal Bar.

The order in which I look for trade set-ups are as follows, first:

1. TS1 – abc correction as part of a Wave (2orB) correction
2. TS3 – simple ABC corrrection
3. TS2 - abc correction as part of a Wave (4) correction

These are the three standard trade set-ups and are the most reliable, consistent and easiest to work with. In particular, my personal favourite is the TS1, mainly because it can very often position you in a trade right at the start of a strong Wave (3) swing, which as you know is usually the strongest and longest (and therefore the most profitable) of all the Elliott wave swings.

Next

4. Wave 2orB (with no minor abc sub-division)
5. Wave 4 (with no minor abc sub-division)

Although theses two trade set-ups are slightly less reliable than the standard TS1, TS2 and TS3 set-ups, because there are still *in the direction of* the main trend, they can produce some very nice trades

Next:

6. Minor Pullback

Although not one of the main Elliott wave sequences, this set-up can produce some very nice trades, particularly if there is no obvious Elliott wave pattern, and the market only makes a minor correction in an otherwise strong trend.

And Lastly:

7. Wave 5

As you know by now, I do not recommend trying to trade off the end of a Wave 5 swing, mainly because, from my own personal experience, I know how unreliable they are. However, **if**, *and only if*, the set-up is absolutely perfect and carries a good Risk/Reward profile, then you *may* consider this type of trade. But as you can see, I have placed it at the bottom of the list of preferred trades; therefore it should be the exception rather than one of your primary trade set-ups.

I hope this has helped demonstrate how I use the software myself, and therefore can be used a guide for you, particularly in the early days with the software, until you become familiar with all the routines. The main point form this, is how the software is designed to make fining *ideal trade set-ups* as easy and quick as possible. This then allows you spend more time evaluating and qualifying the trade set-ups; in particular making sure that any new set-ups carries a good Risk/Reward profile.

Chapter 19 – Studies

As you are seen so far in this trading course, the main analysis techniques used in the MTPredictor software program are focus on forecasting potential price support and resistance areas based on Elliott wave analysis. However, MTPredictor does include some simple technical studies that are more commonly found in standard technical analysis software packages.

These include:

- Moving Averages (including exponential)
- Moving Average Oscillator
- Stochastic
- Stochastic RSI
- Strong Trend Filter (STF)

As you may already have guessed, these studies do not form the main part of the MTPredictor approach to trading the markets, they should only be used as secondary indicators to any of the normal MTPredictor trade set-ups.

If you would like more information on any of these analysis techniques, because they are commonly available in virtually every standard technical analysis package, you can find additional information in any trading analysis book or software literature. However, I would like to show in this chapter some very simple uses for these indicators.

As you may have gathered, I'm not a big fan of technical analysis indicators, mainly because they all do the same thing. It seems pointless to me that a technical analysis software package can allow you to plot hundreds of different indicators, which basically all tell you the same thing. Most of the standard technical analysis indicators should be considered *lagging indicators* - all they do is tell you what has happened already. The standard MTPredictor analysis techniques allow you to *project in advance* potential support and resistance areas, which is a far better way to trade. This is why I prefer the MTPredictor approach to trading the markets.

However, there are some indicators that may help in giving added confirmation when using the standard MTPredictor analysis techniques, so in this chapter I would like to look at some of the indicators that I have found useful over the last 17 years. The first of these is the exponential moving average.

Moving averages

The first standard technical analysis indicator I would like to look is the 20-peroid exponential moving average.

To me, there are many approaches that use both simple and exponential moving averages. However, the single best approach that I have seen myself is based on a trade set-up outlined in the "Street Smarts" book by Connors and Raschke, called the "The Holy Grail". This is the technique that I outlined in chapter 18 on advanced trading strategies.

I suggest that you return to chapter 18 to take a look at this particular technique. I also suggest that you read the relevant section in the Street Smarts book to see how the original authors describe this particular trade set-up.

There are many additional uses for moving averages described in other technical analysis literature, which I do not wish to repeat here. The main reason is that I do not believe they add anything to the standard MTPredictor analysis techniques described earlier in this trading course.

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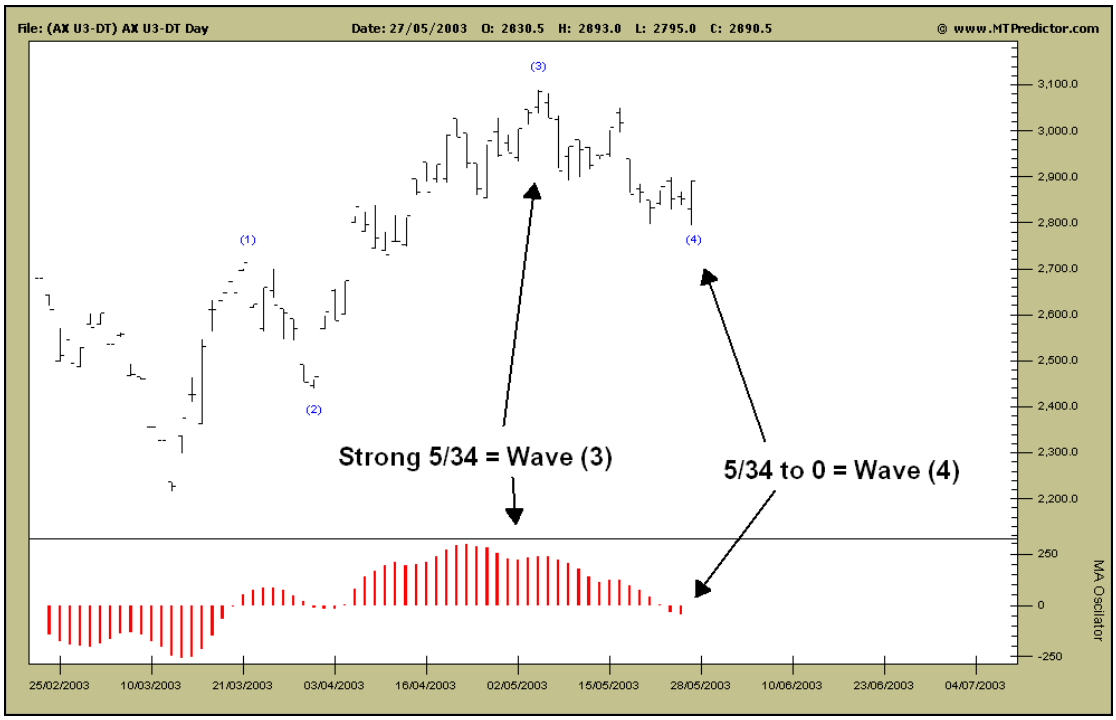
Moving average oscillator

The moving average oscillator is an oscillator that is calculated from the difference between two different moving averages. For example the 5/34 moving average oscillator is the difference between a 34-period moving average and a 5-period moving average. This is normally plotted as a histogram.

The main use of this oscillator is to allow you to *manually* place an Elliott Wave count on a chart. The two main proponents of this approach in the past are Bill Williams and Tom Joseph. Bill Williams focused on a 5/34 moving average oscillator to help him perform his Elliott wave analysis and Tom Joseph focused on a 5/35 moving average as the basis of his Elliott Wave counts in the Advanced GET software program. For more information on these different approaches, I recommended that you go to the original source material.

However, what I would like to look at here is a basic view of how to can use a 5/34 moving average oscillator to help perform your own manual Elliott wave analysis.

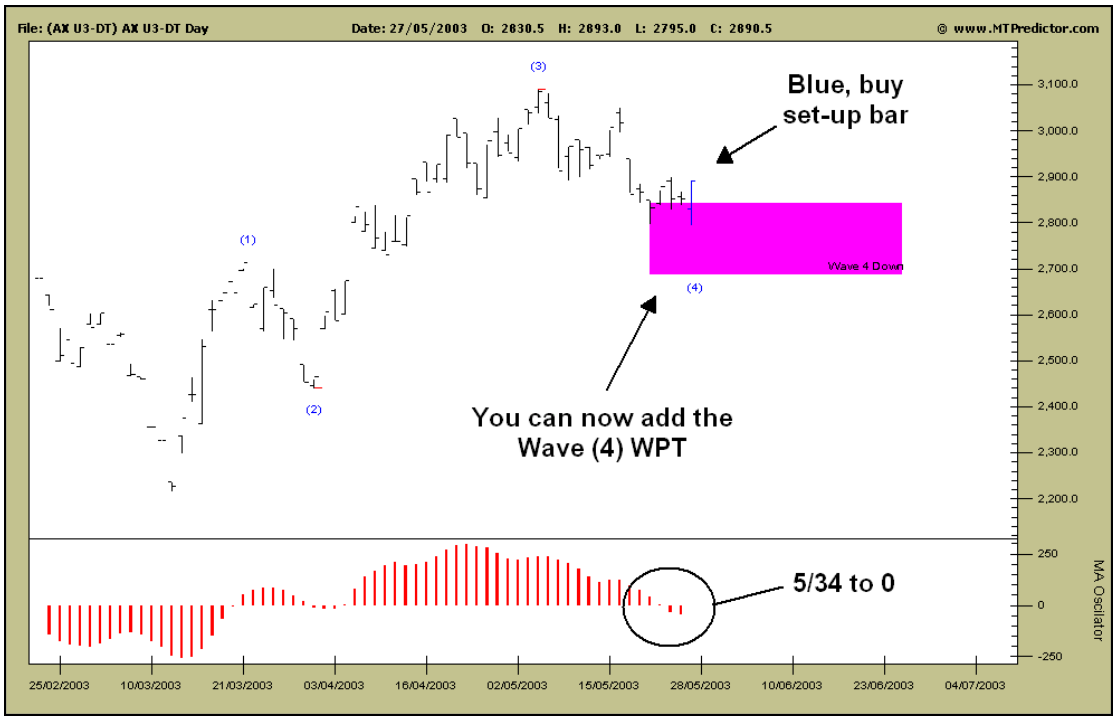
The underlying premise is that a strong value in the 5/34 moving average oscillator is normally considered a Wave 3 type swing, and when the 5/34 moving average oscillator retraces back to zero it should be considered a wave 4 correction



This is how this looks on a chart.

As you can see, I have taken the strong value of the 5/34 and labelled it as a wave 3 on the chart, and then taken the point where the 5/34 has retraced back to zero, and labelled that as a potential wave 4 on the chart.

Once you have an idea of this manual Elliott wave count, you can then use the WPTs in MTPredictor to get an idea of the price zone where the wave 4 correction is most likely to end:



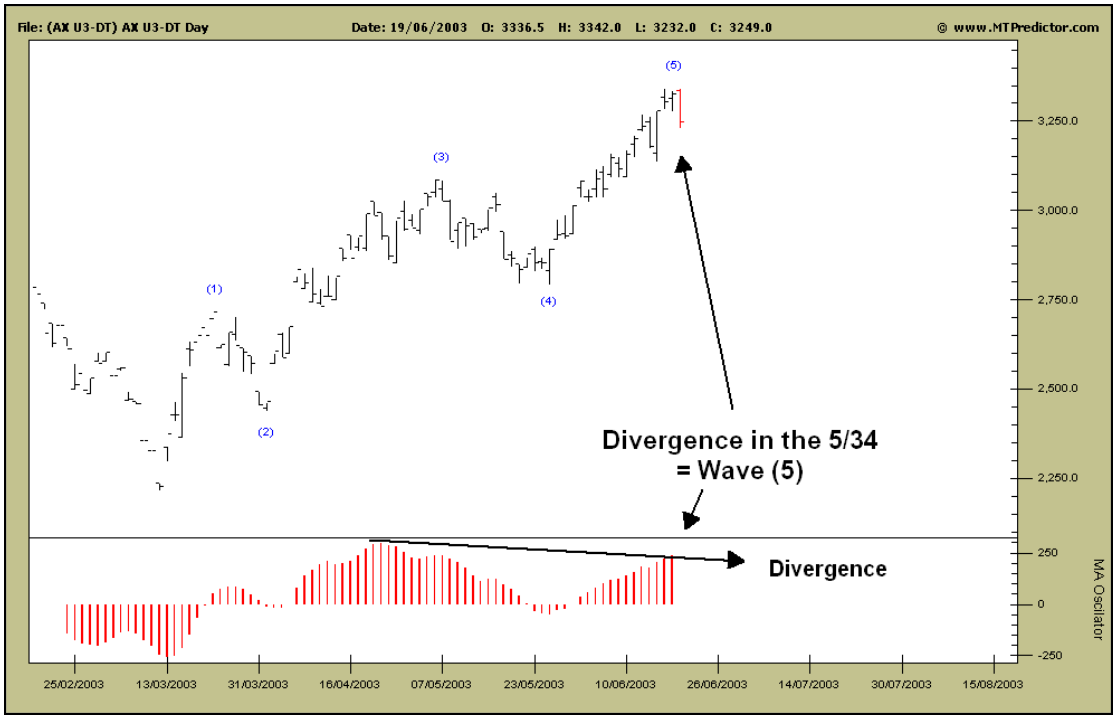
As you can see in this example of a daily chart on the Dax (German stock market), the point at which the 5/34 moving average oscillator had retraced back to zero coincided with the market falling into the wave 4 WPT.

With the last bar on the chart a blue buy Reversal Bar, I hope you can see that this would be the perfect place for the current wave 4 correction to end. As usual, a trade above the high of the blue buy Reversal Bar (which fell in the wave 4 WPT), would be an indication that the wave 4 correction was over, and the DAX was likely to rally from here.

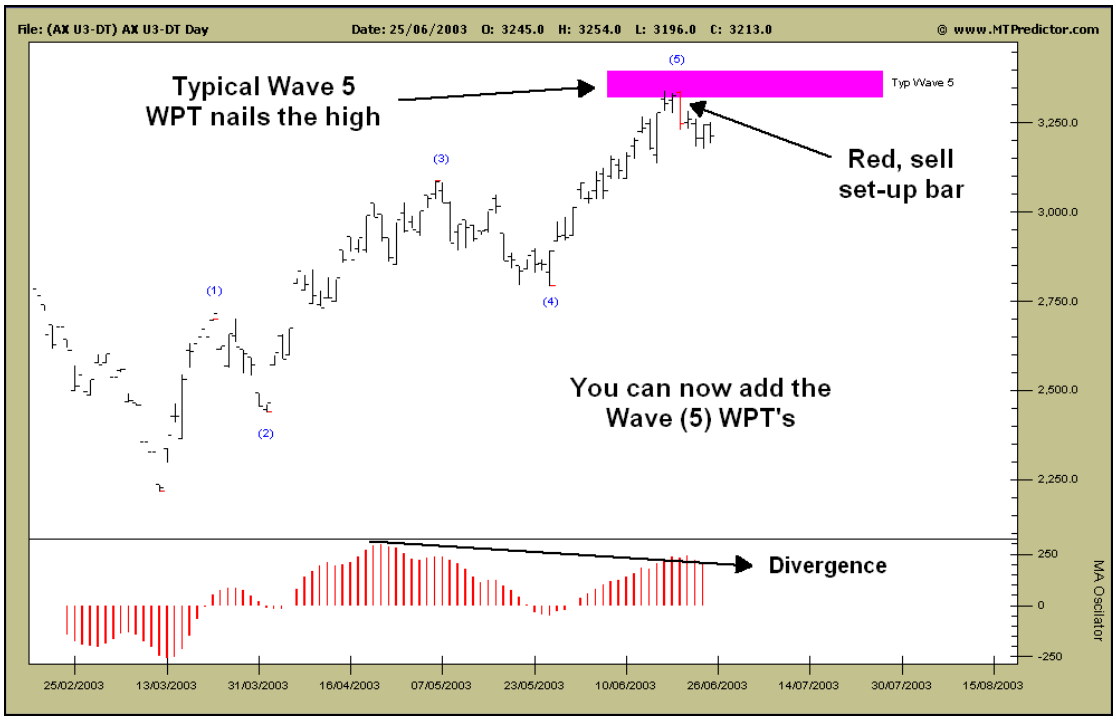
However, the point to stress here is how the 5/34 moving average oscillator allowed you to anticipate the manual Elliott wave count on the chart itself.

The next area where the 5/34 moving average oscillator can be helpful, is anticipating when a wave (5) swing is underway. This is normally represented by divergences in the peaks of the 5/34 moving average oscillator when compared with the price action itself.

If you look at the chart below, you can see how, although the DAX rallied to new highs off the current wave 4 low very swiftly, the strength of the 5/34 moving average oscillator did not exceed the oscillator peak at the prior wave 3 high:



As before, you can then use this manual Elliott wave count to place the appropriate MTPredictor WPTs on the chart. In this example, it would be the wave 5 WPTs:



As you can see from the second chart on the prior page, this allowed you to anticipate the most likely area for this wave 5 rally to end.

At the time of writing, this managed to nail the exact wave 5 high on the Dax.

Although this has been a very good example, as you may guess, this technique (like much standard technical analysis) does not work this well all the time. I suggest that you only use this technique when there is an obvious example, and you can see the appropriate Elliott wave count on the chart easily.

Having said that, when this technique works, it does allow you to use this manual Elliott wave count to add the MTPredictor WPTs onto the chart. As you have seen, this very often allows you to anticipate the exact areas where the wave 4 and then wave 5 swings are most likely to end.

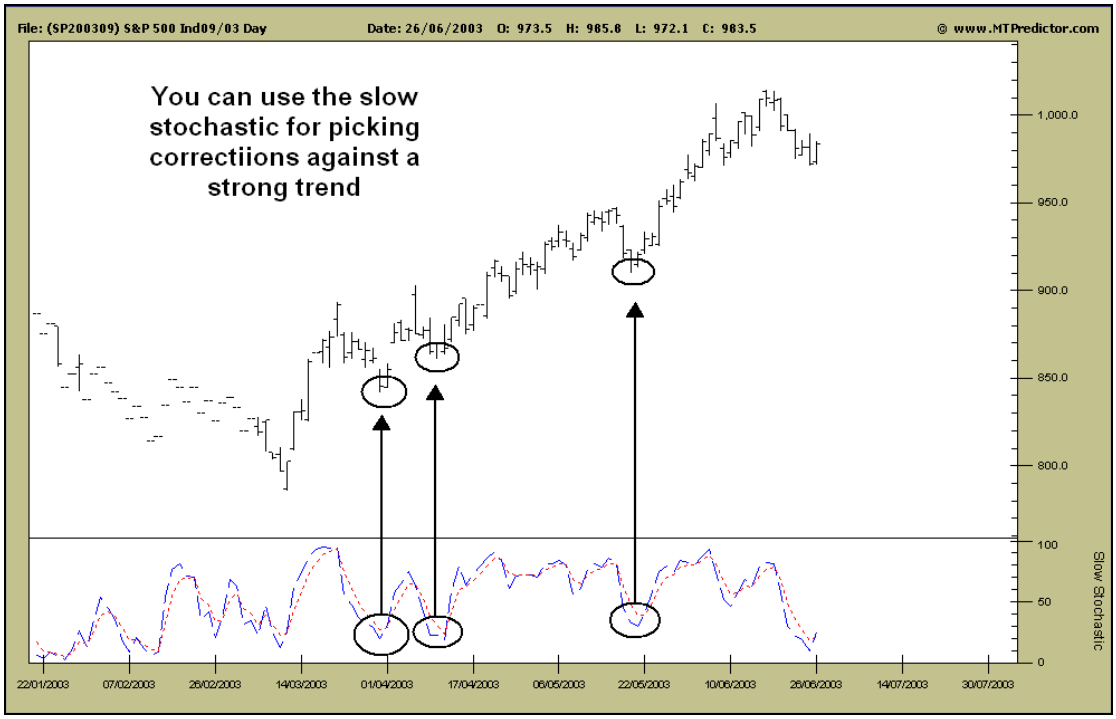
Nevertheless, as with all the techniques in this chapter, they should only be considered by advanced users who know when (and, more importantly, when not), to use them. So, I would normally recommend that most traders stick to the automatic Elliott wave routines that are found via the "Show Elliott waves" module in MTPredictor. This is usually a more reliable way of anticipating an Elliott wave sequence.

Continued on the next page . .

Stochastic

A Stochastic calculation is a standard technique that can be found in many trading books and courses. As such, I do not intend to go into detail on how the calculation is performed, or the detailed application. All I would like to show here is a couple of simple methods that you can use yourself, and that I have found helpful in my own trading.

The first of these is to use the Stochastic (I normally use a 8, 5 Stochastic) to help identify minor corrections against a strong established trend.

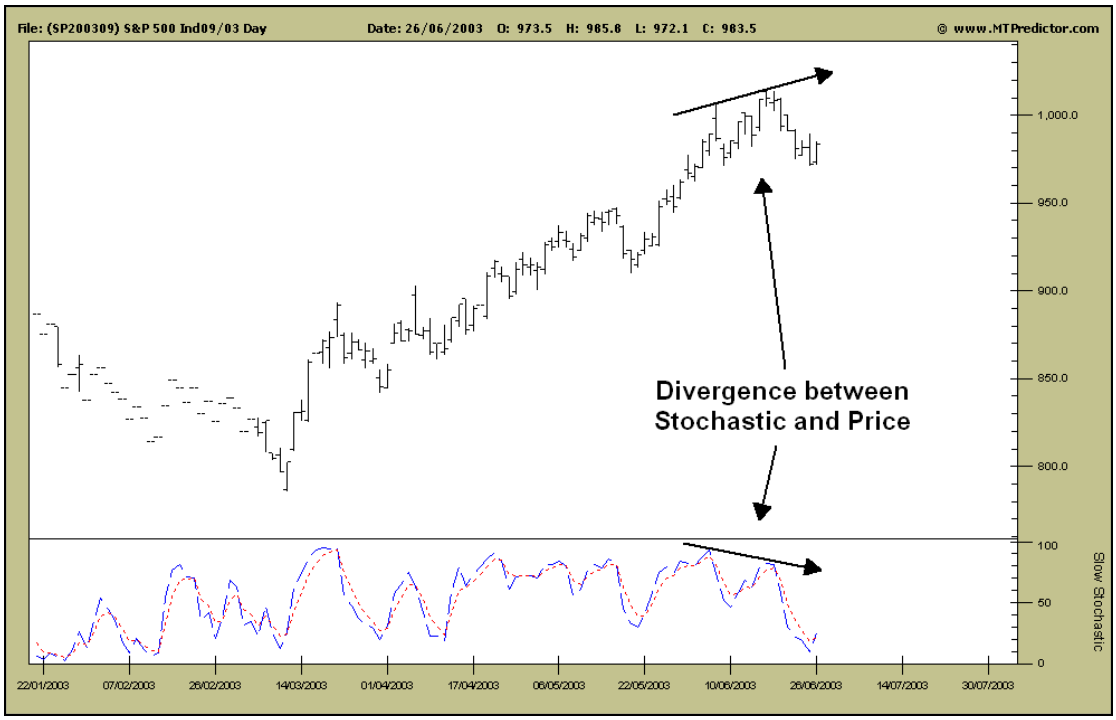


If you look at the chart above, you can see that each time the S&P 500 (on this daily chart) made a minor corrective decline, the Stochastic also made a minor low. You can use a low value of the Stochastic to help anticipate when and where a minor correction may end.

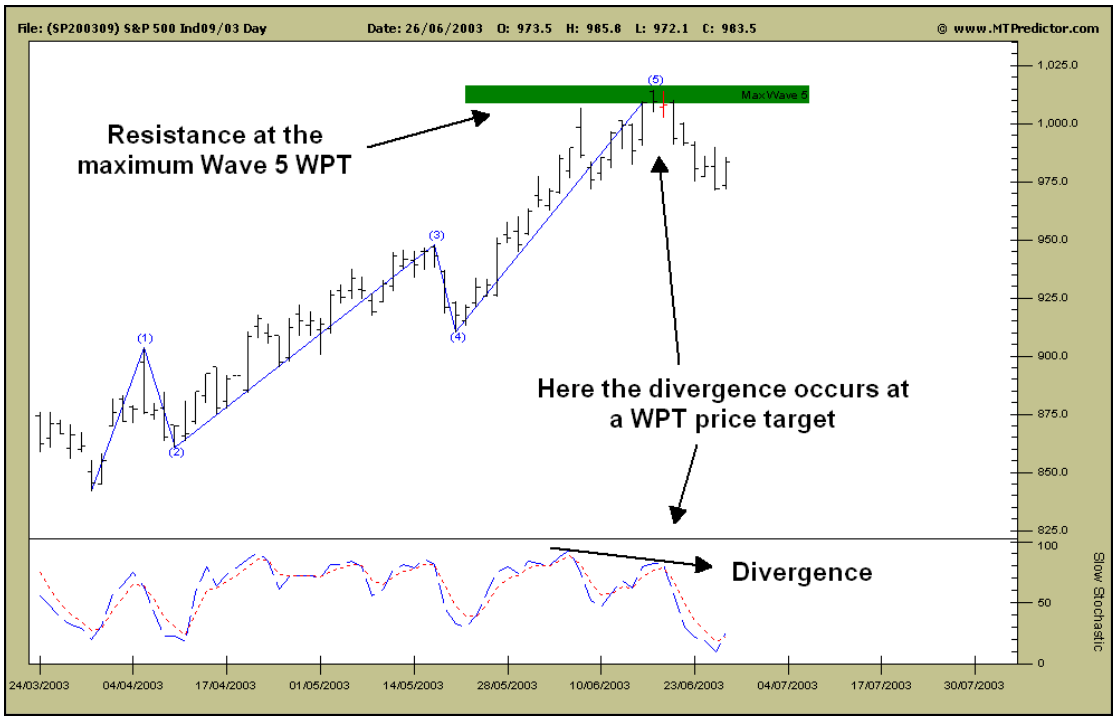
The second application of the Stochastic, and the one I prefer, is to help identify the end of the current trend, in other words, to help identify a wave 5 high or low.

At this point, I feel I must stress that, as I have outlined already in this trading course, trying to pick the end of an impulsive trend is not easy to do, and should not be considered a reliable technique. However, when there are additional reasons for a high or low unfolding (the wave 5 WPTs, and the Elliott wave pattern is *ideal*) the use of this particular Stochastic technique can also add confidence to the current trade set-up.

The general idea is that when the current trend is nearing an end, the value of the Stochastic will *diverge* from the current price action

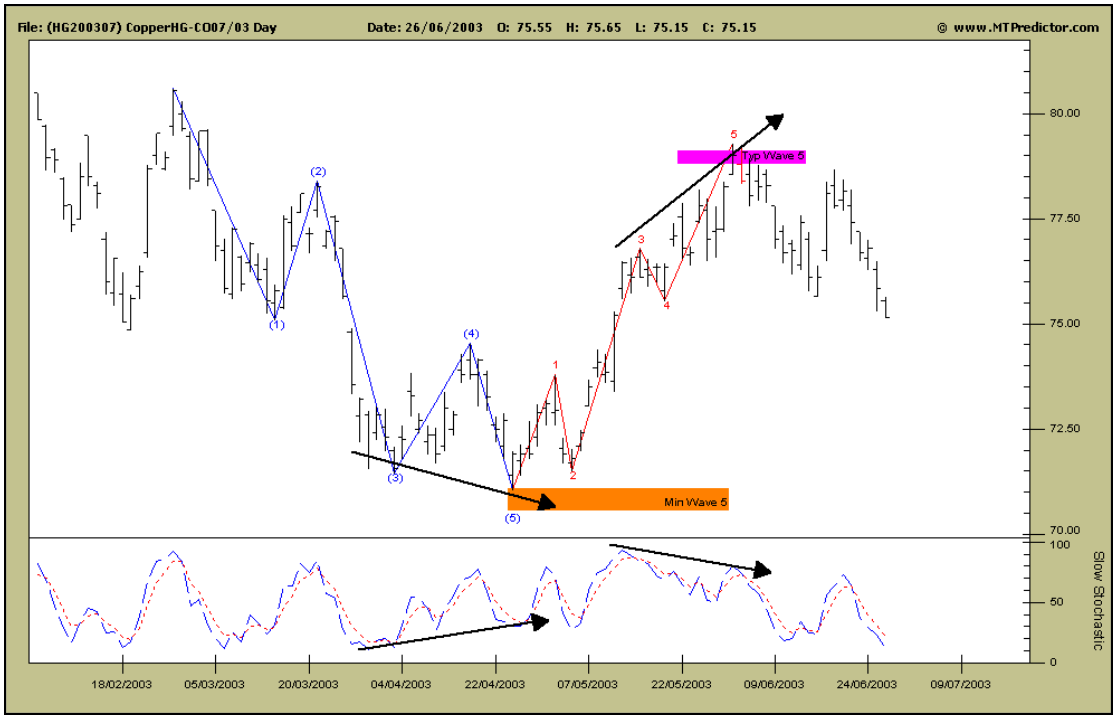


As you see from the chart above, at the last swing high, the value of the Stochastic showed divergence with the price action, indicating that this current rally may well be nearing an end. However, to add confidence in this divergences, I would suggest that you only consider them if you have additional reasons for a high or low unfolding, for example the standard MTPredictor WPTs.



As you can see from the second chart on the prior page, at the point the Stochastic divergences were unfolding, the automatic "Show Elliott waves" routine in MTPredictor had identified a potential wave 5 high. Not only that, but the high of June 17 (in this example) was also right at the maximum wave 5 WPT. As such, not only was divergence in the Stochastic indicating that the current trend was probably nearing an end, but also the MTPredictor routines were suggesting that the current trend was nearing an end.

For me, this is the best use of the Stochastic, it can add confidence to your standard MTPredictor analysis, in particular when you're trying to identify the end of a wave 5 swing.



Here you can see on this example of a daily chart of Copper (which you saw earlier in this course), the Stochastic indicator showed divergences both at the wave 5 low, then again at the wave 5 high.

As such, this could give you added confidence in your MTPredictor analysis, that a wave 5 high or low was in the process of unfolding

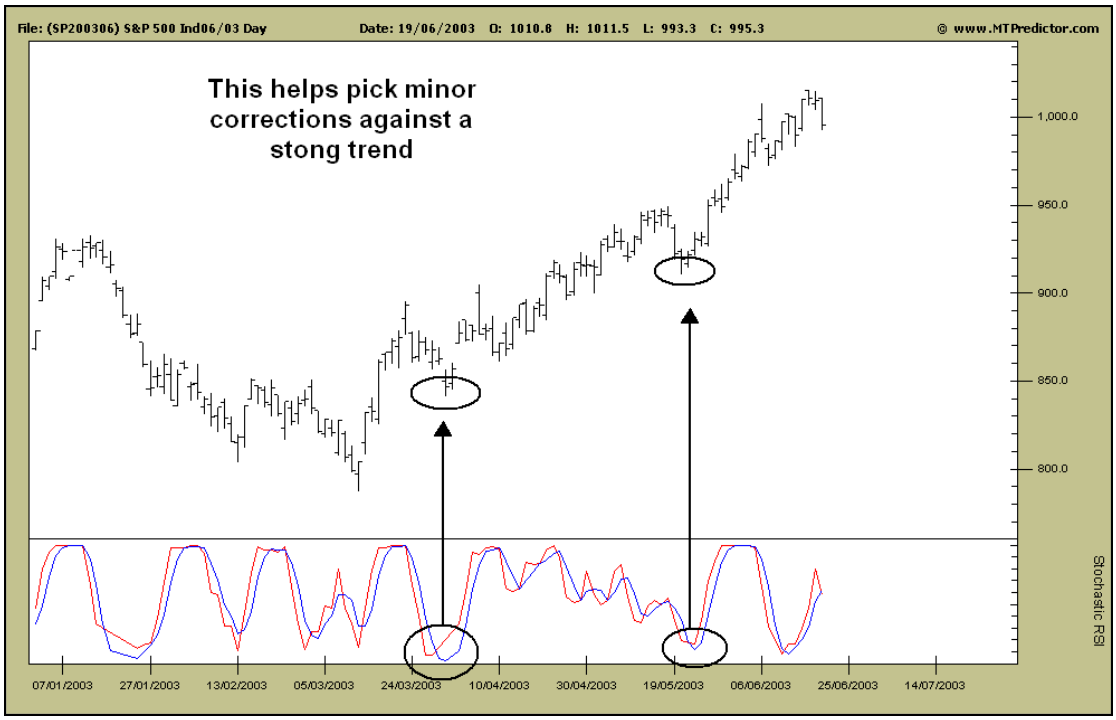
Continued on the next page . . .

Stochastic RSI

The Stochastic RSI is a special form of the Stochastic indicator in which the Stochastic calculation is run through an RSI calculation before plotting the result. Again, I do not wish to go into the detailed calculation or application of this particular indicator here, as there has been plenty written about it in other technical analysis books and courses. As such, I do recommend that you do your own additional research into this indicator as well.

However, I would like to show one use of this particular indicator that I have found has helped in my own trading.

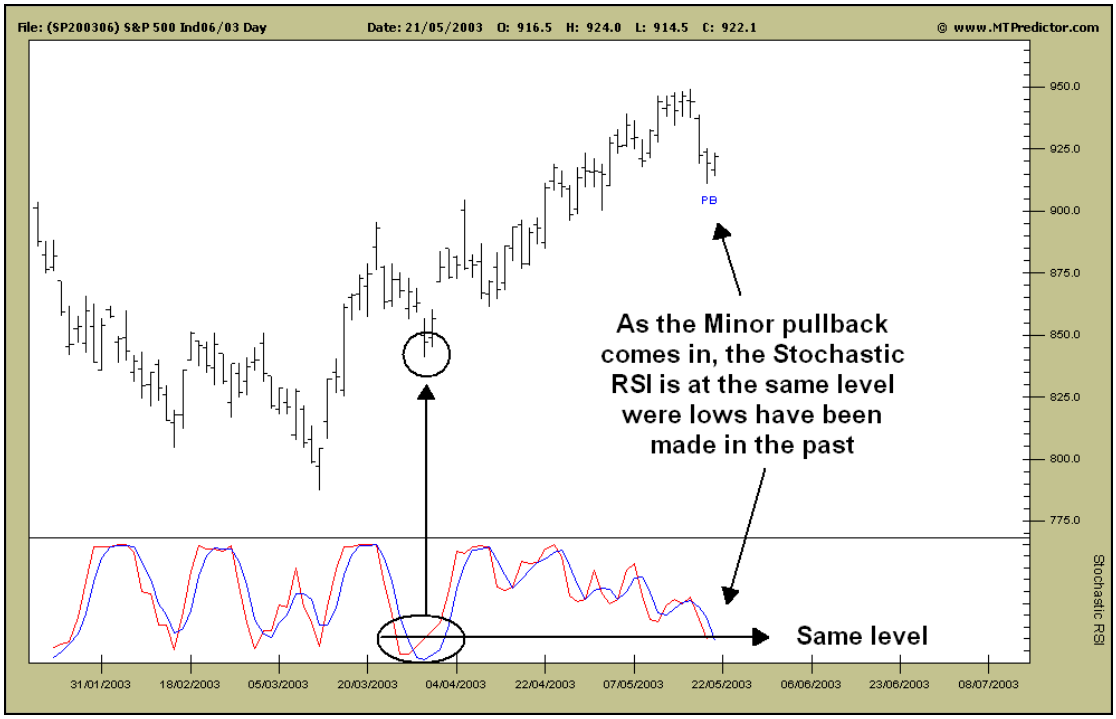
This is very similar to the first approach outlined in the prior chapter on the Stochastic, where a minor correction against a strong trend was identified by a dip in the Stochastic indicator. The same approach can be used when using the Stochastic RSI.



As you can see from the chart above, each of the two corrective declines on this daily chart of the S&P were also low points in the Stochastic RSI indicator.

So, the best way to use this is to look at the value of the Stochastic RSI indicator first and then see whether it is currently in the area where either minor corrective lows (or minor corrective highs) have been made in the past.

Let me show you what I mean on the current chart:



Here I have rolled the chart back in time to where the last minor low unfolded. As you can see, the Stochastic RSI was at a similar value to where it had been at the last minor corrective low - you can use this as a guide to then start looking for additional reasons for the current minor correction on the chart itself to be nearing an end.

In this example, the current low was also identified as a minor pullback trade set-up. So, a low Stochastic RSI value at this same point can give you added confidence in taking the minor pullback trade set-up.

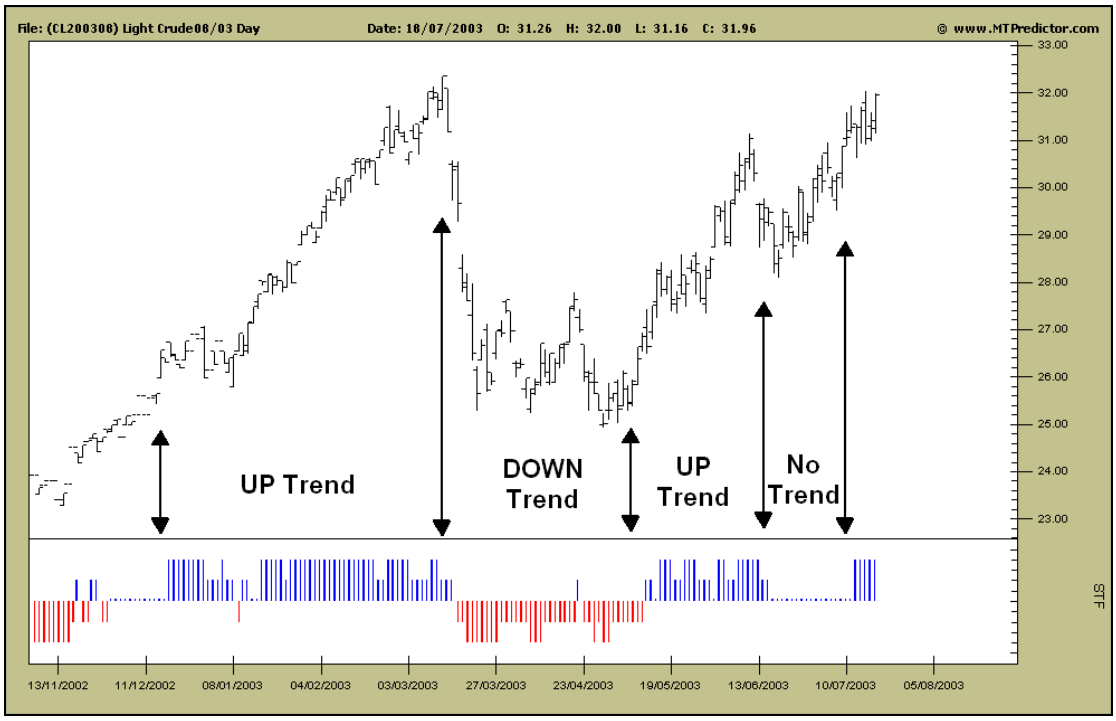
Continued on the next page . .

Strong Trend Filter (STF)

The Strong Trend Filter (STF) is a proprietary indicator that is included with the MTPredictor software program.

This is a very simple indicator to use, in that blue bars above the zero line indicate a strong uptrend, and red bars below the zero line indicate a strong downtrend. Where there are no bars, or the indicator is at zero, there is no strong trend in force and the market is moving sideways.

Let's see what this looks like on a chart:



On this daily Chart of Crude Oil the STF was blue and in positive territory throughout the whole of the strong rally during the early part of 2002. The next decline was then caught by the STF turning red and declining below the zero line.

As such, you can use the STF to help indicate whether a market is in either a strong uptrend or strong downtrend.

Chapter 20 – Case study

In this chapter, I would like to look at a Case Study I wrote some time ago on the QQQ. This is a very good example of how to use the standard analysis techniques in MTPredictor, combined with the training mode to look at each major turn in the market, building up a picture of where the next intermediate degree move may occur.

As you will see over the next fourteen pages, I have used the training mode to return to each major high and low in the QQQ to see what the position was at that point in time. I have then anticipated how the next swing was *most likely* to unfold, with a view to managing any particular trade taken off the prior swing high or low. As you will see, this technique has managed to nail every major turn in the QQQ over the last year.

Because this was written back in April 2003, at the end of this chapter I will move forward to the present, which is Jul 2003, to see how the projections I made back in April turned out.

Continued over the next 14 pages . . . .

E-mail: Sales@MTPredictor.com
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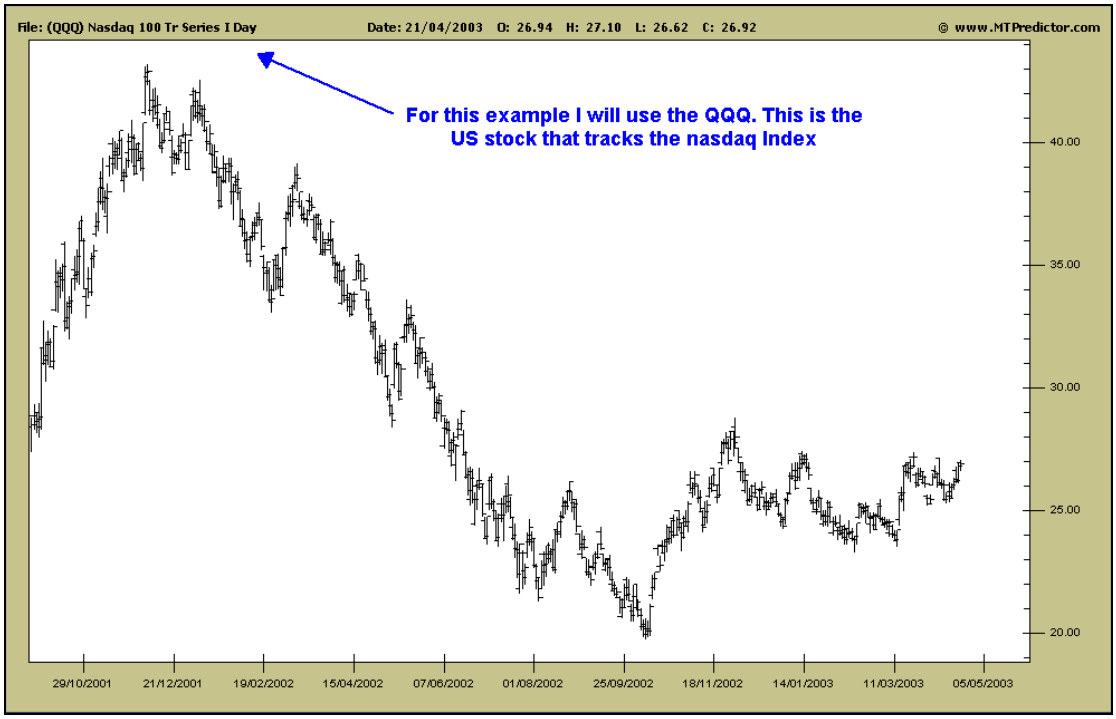
Special Tips & Tricks for users of the MTPredictor software program

Tuesday, April 22, 2003

A study on the QQQ (NASDAQ tracking stock)

In this issue of Tips & Tricks for MTPredictor users, I would like to take a detailed look at how you can you use the MTPredictor software programme to perform a detailed and comprehensive analysis of just one market. In this example, I would like to look at the QQQ (the US stock that tracks the NASDAQ index).

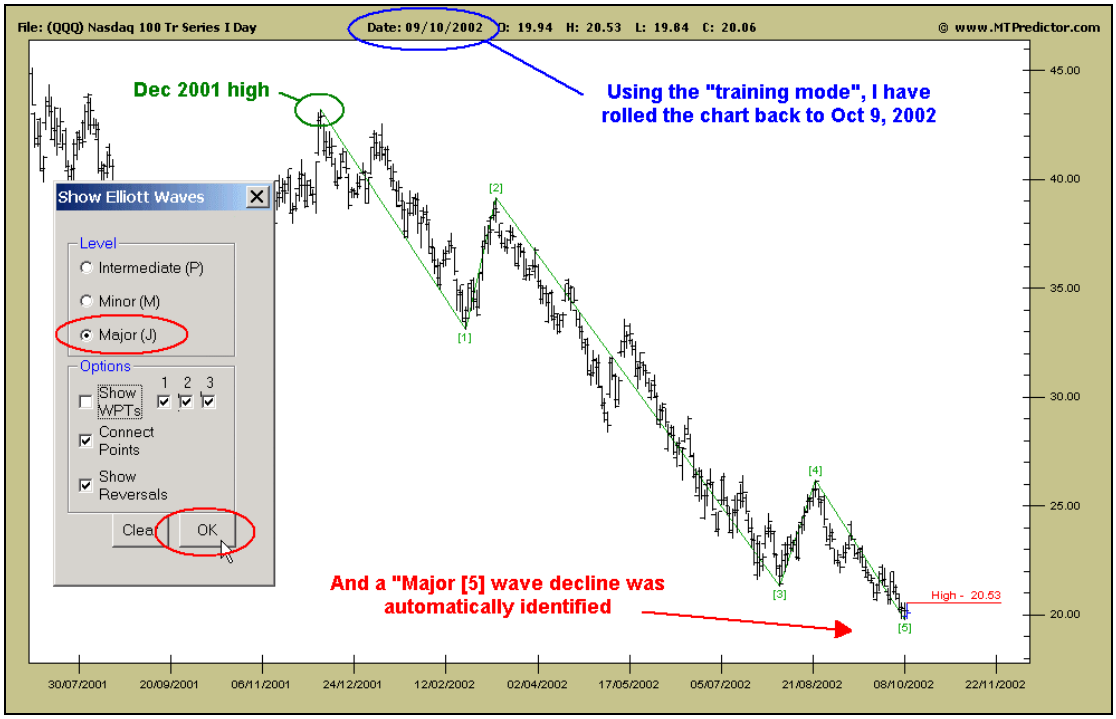


Here we can see the daily chart of the QQQ stretching back to the end of 2001. The question I would like to answer today is: what is the longer-term position of the QQQ, and how can we use this to get some idea of where the market might go from here ?

As a first step, I would like to go back to the most obvious recent low on the chart above, the low that unfolded in October last year (2002).

Continued on the next page . . .

I have used the training mode in MTPredictor to roll back the chart to the October 2002 low. Once we have this low as the last point on our chart, we can start to use the routines and modules within MTPredictor to try to find out the Elliott wave position at this low.



As you can see from the chart above, a potential five-wave decline was in the process of unfolding off the last major high, which occurred in December 2001. This was performed using the "Major" option in the "Show Elliott Waves" module.

From standard Elliott wave theory, an impulsive trend tends to unfold in five waves. Therefore, the decline off the December 2001 high appears to be in its last stage (wave 5). So the task now is to try to find an area where this wave five decline is most likely to end. Normally we just select "Show WPTs" in the "Show Elliott Waves" module, and this will project the areas where the wave(5) is most likely to end - however, in this example these fell well below current levels.

Again, from standard Elliot wave theory, we know that all the impulsive waves (waves 1, 3, and 5), should ideally unfold as a lesser-degree five wave sequence. Therefore we can focus our attention on just the last section of this chart, in other words the wave (5), and see if any minor swings are apparent.

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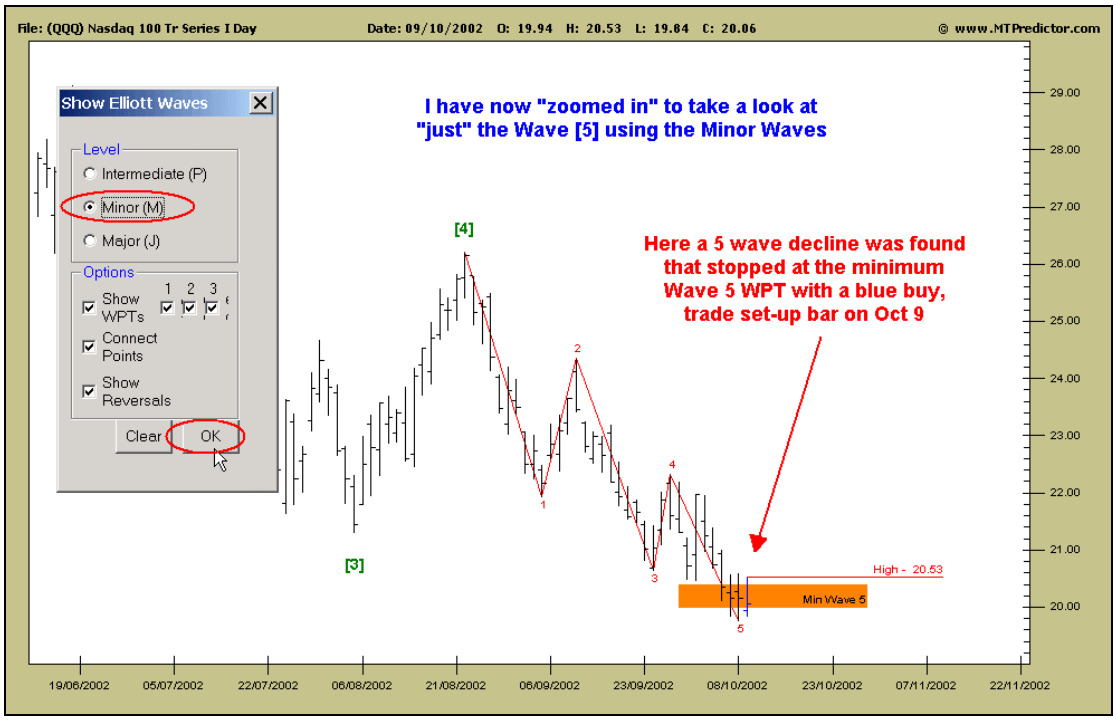
The chart below shows a more detailed look at the last section (wave 5) in the major five wave decline off the December 2001 high.



Here I've used the Show Elliott Waves module again, but this time choosing to display the minor waves. As you can see from the chart above, as of October 9, this module has found a minor 5 wave sequence off the August 2002 high.

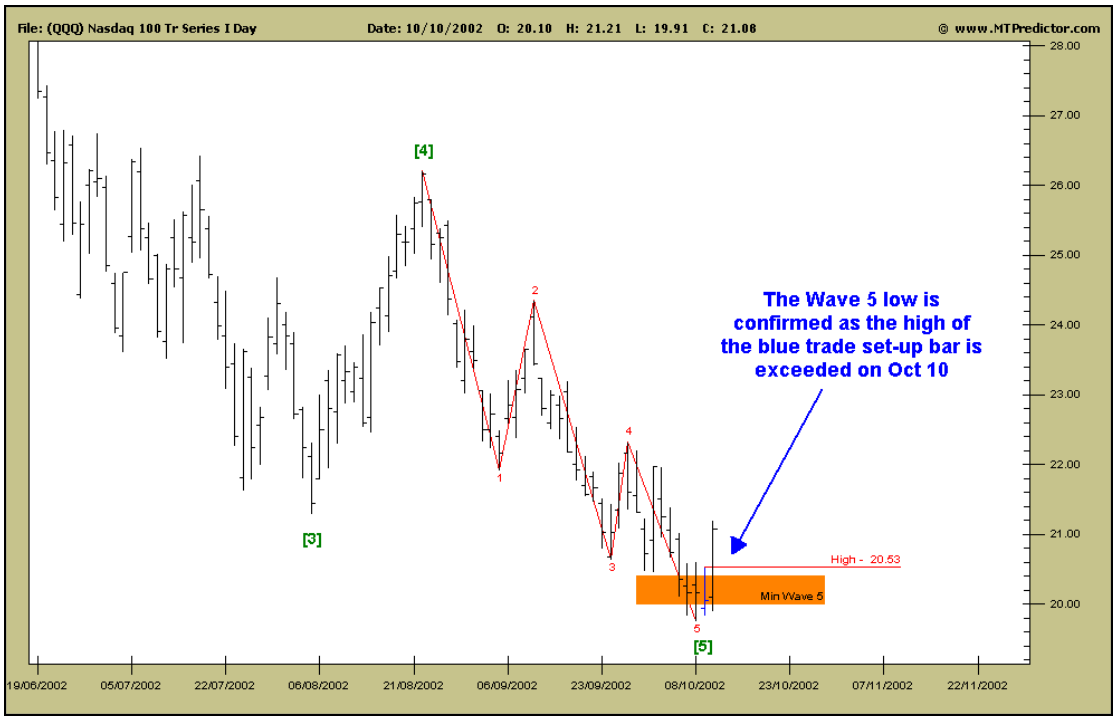
This fits in perfectly with standard Elliott wave analysis; in that the Major wave (5) has sub-divided into a lesser-degree 5 waves perfectly.

As you can also see from the chart above, October 9 was a blue buy Reversal Bar, which unfolded right at the minimum wave 5 WPT, as projected by the Show Elliott Waves module. So, you should have anticipated this as the first area where this minor 5 wave decline was likely to end.

Again, using standard Elliott wave theory, once the minor 5 wave sequence is complete, this would infer that the large degree (Major) wave (5) decline off the December 2001 high was also complete.

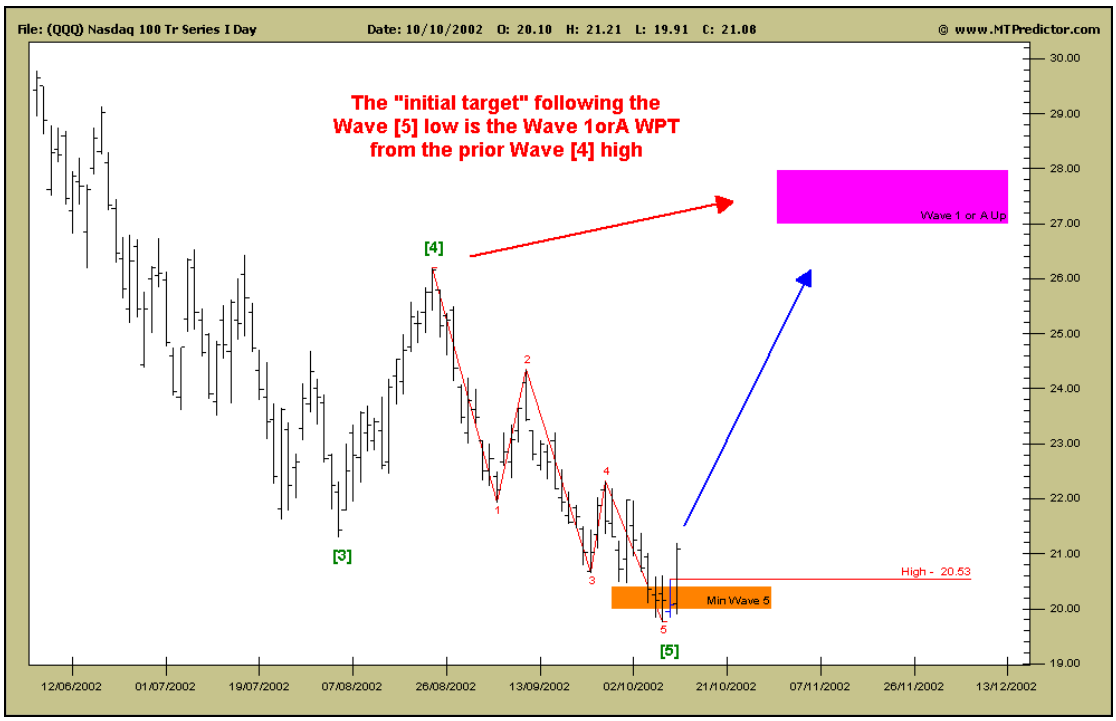
I hope you can see how easy this analysis has been ? All you had to do was, firstly, apply the Major Elliott waves, then secondly, the minor Elliott waves - and a potential low has unfolded. As in the normal way, if the QQQ rallied off this low and exceeded the high of the blue buy Reversal Bar on October 9, then this would confirm that both the short term 5 wave decline and, therefore, also the large degree (5) wave decline off the December 2001 high were complete.

This is exactly what happened the very next day, October 10:



Okay, now all the pieces have come together to signal that a major wave (5) low is complete. So where is the market likely to go from here?

For this, we use the wave 1orA WPT, taken from the prior wave (4) high:



As you can see from the second chart on the previous page, this projected a potential target in the 27.0 to 28.0 price range. Please bear in mind that this projection was made when the QQQ was only a few days off the October 2001 low of below 20.0.

To summarise the position so far: a major wave (5) low appears complete at the October 8 2001 low, and now a rally is likely to unfold which is likely to be the largest since the December 2001 high.

You can see that all this analysis was achieved by using the standard modules and techniques in MTPredictor. We are doing nothing complicated or involved at this point.

Okay, let's now take a look at how the rally off the October 2002 low unfolded:

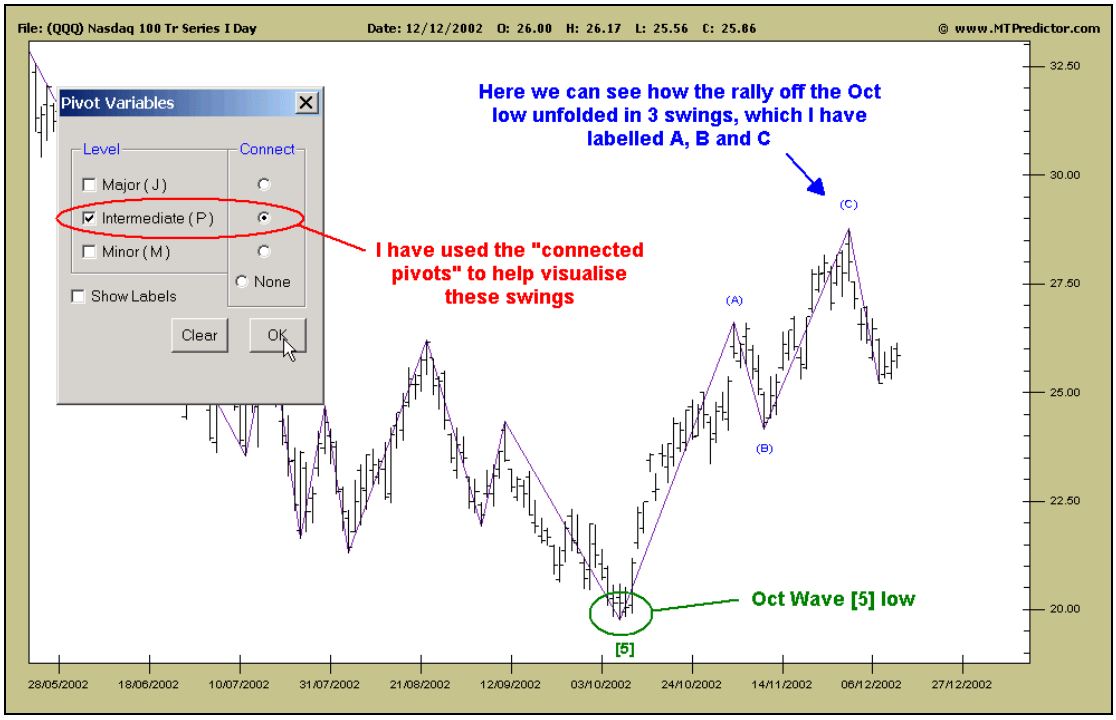
As you can see in the chart above, the QQQ did indeed rally off the October 2002 low. In fact, it was a very strong rally that reached the wave 1orA WPT in November 2002, projected over a month earlier.

Now I would like to take a more detailed look at this rally.

Continued on the next page . . .

This next piece of analysis is probably the most complicated and involved in this whole report.

I know some of you find it difficult to try to manually place Elliott wave labels on a chart when the automatic Show Elliott Waves module does not find an obvious wave count. Normally, the most difficult thing to try to visualise is where the swings unfold in any trend. To help me, I place the connected pivots on the chart. I then use these connected pivots to decide where to label the separate waves.



As you can see from the chart above, the connected pivots show that the rally off the October wave (5) low has unfolded in three swings. I have labelled these A, B and C on the chart above.

This was not difficult - in fact once you place the connected pivots on a chart, a wave structure usually becomes obvious. As I normally suggest, if no wave structure is immediately obvious, then don't try to force it, just accept that no Elliott wave count is present on the current chart. However, most of the time, the swings become more obvious and easy to see once the connected pivots have been placed on a chart. Again, this demonstrates that the tools and modules in MTPredictor are all there to help you and make analysis of any chart as easy as possible.

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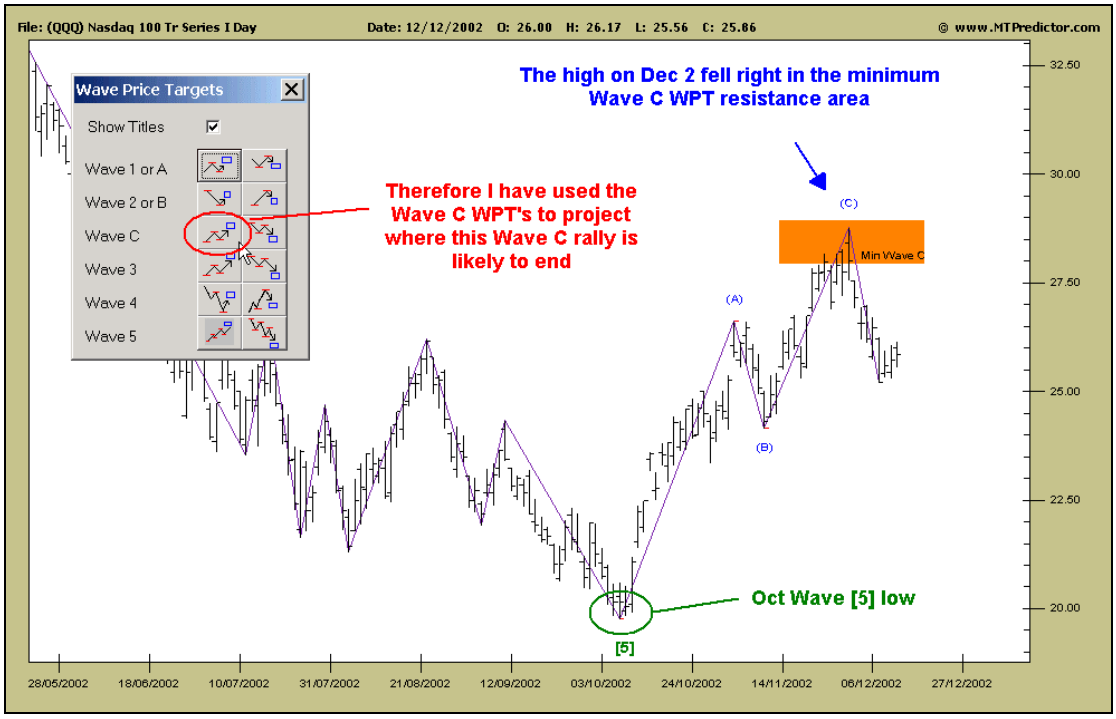
Okay, now we have the connected pivots showing us that the rally off the October 2002 low has only unfolded as three swings, and therefore should be considered an ABC. We can now use the WPT module to try to narrow down the area where the wave C is likely to end. Because we are dealing with an ABC correction, we select the wave C WPTs. To place the wave C WPTs on the chart requires three mouse clicks, the first on the October 2002 low, the second where the wave A ends, and the third where the wave B ends. This will then place the wave C WPTs on the chart for you.

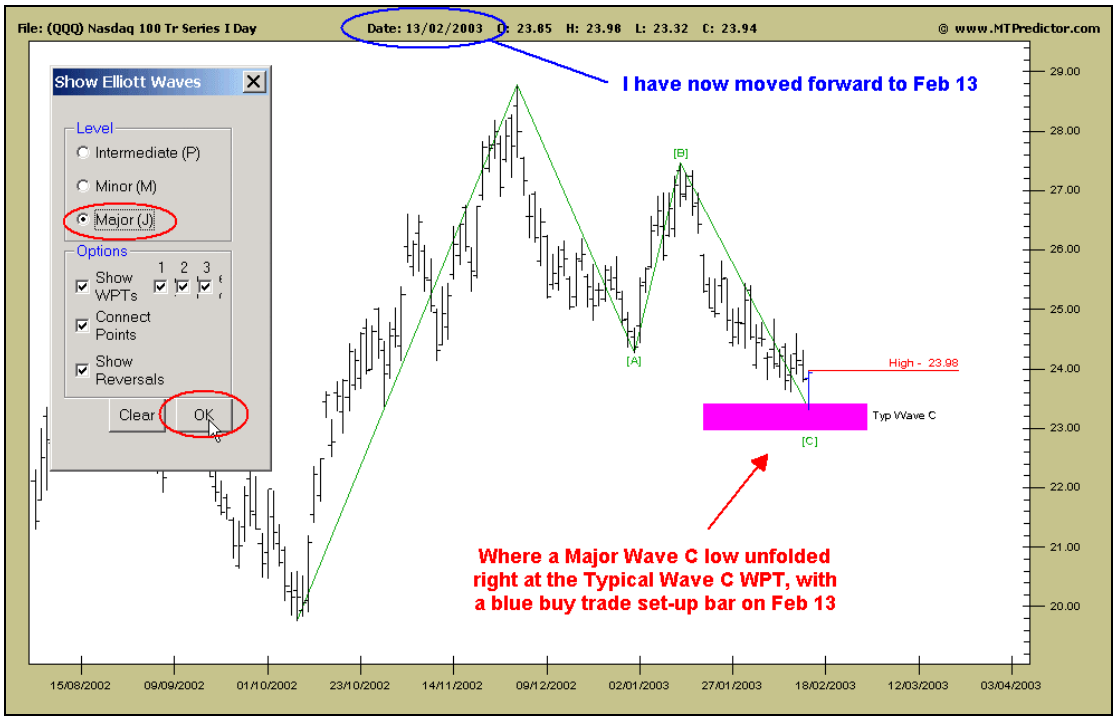


As you can see from the chart above the high on December 2 fell right in the minimum wave C WPT. The QQQ started to decline from this area, an indication that the initial rally off the October 2002 wave (5) low was complete.

Okay, where to from here?

The most likely scenario is that we should get a corrective decline from the December 2 high. From standard Elliott wave theory, a correction is most likely to unfold as a simple ABC. The easiest corrective form to deal with is the simple ABC. Therefore, at the very least and as a starting point, we should assume that this is what will unfold. If anything more complicated does unfold, we will have to deal with that at the time, but for now the easiest thing to do is always assume that a correction will unfold as a simple ABC until proven otherwise.

Okay, let's now move forward in time, to February 13:



As we can see from the chart above, this is actually what did unfold. Using the Show Elliott Waves module and selecting the major pivots, MTPredictor found a simple ABC correction that stopped right at the typical wave C WPT, with a blue buy Reversal Bar on February 13. In the normal way, if the QQQ traded above the high of the blue Reversal Bar of February 13 then this would be confirmation that the wave C low was indeed complete.

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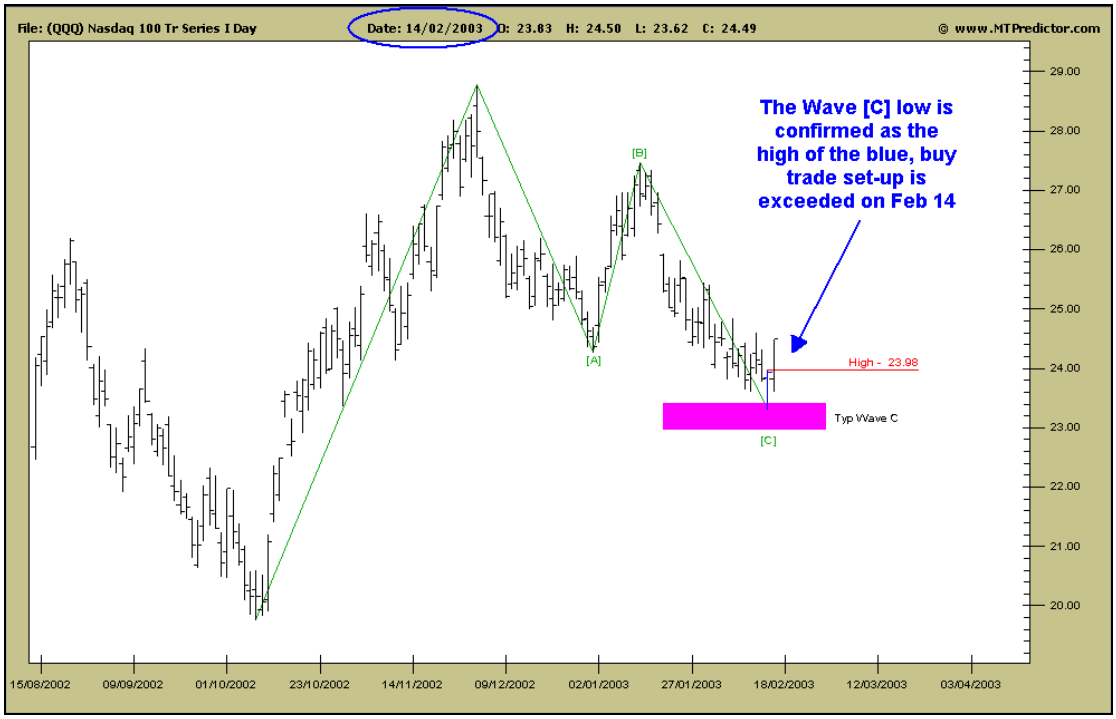
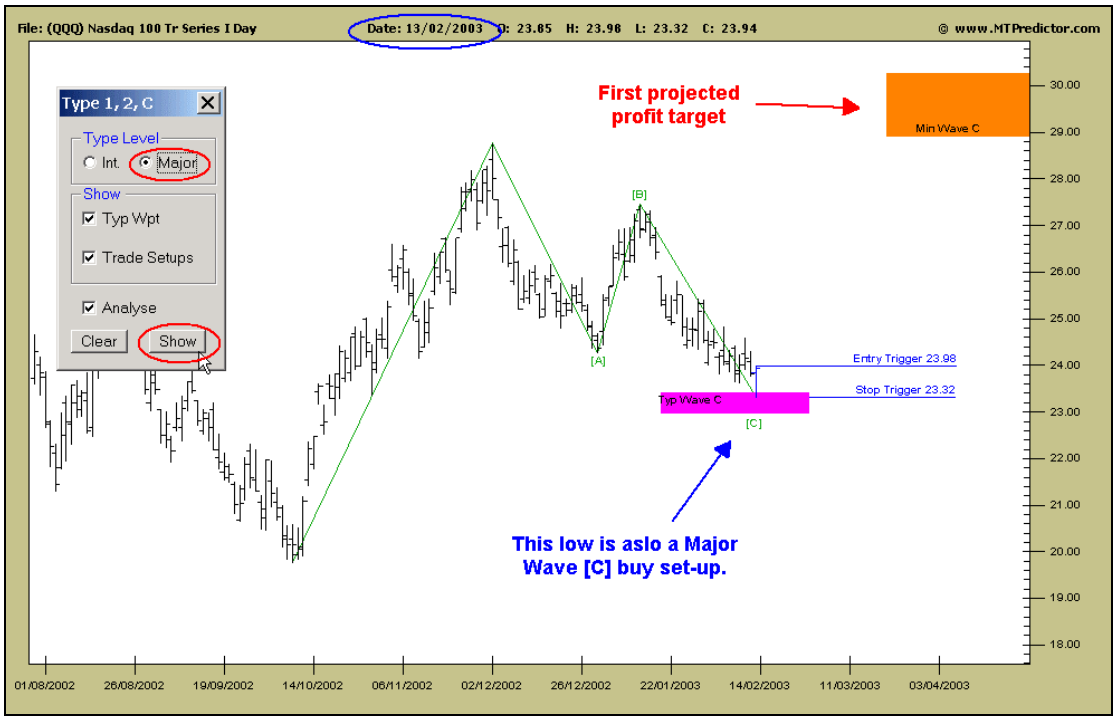
This is what happened on the very next day, February 14:



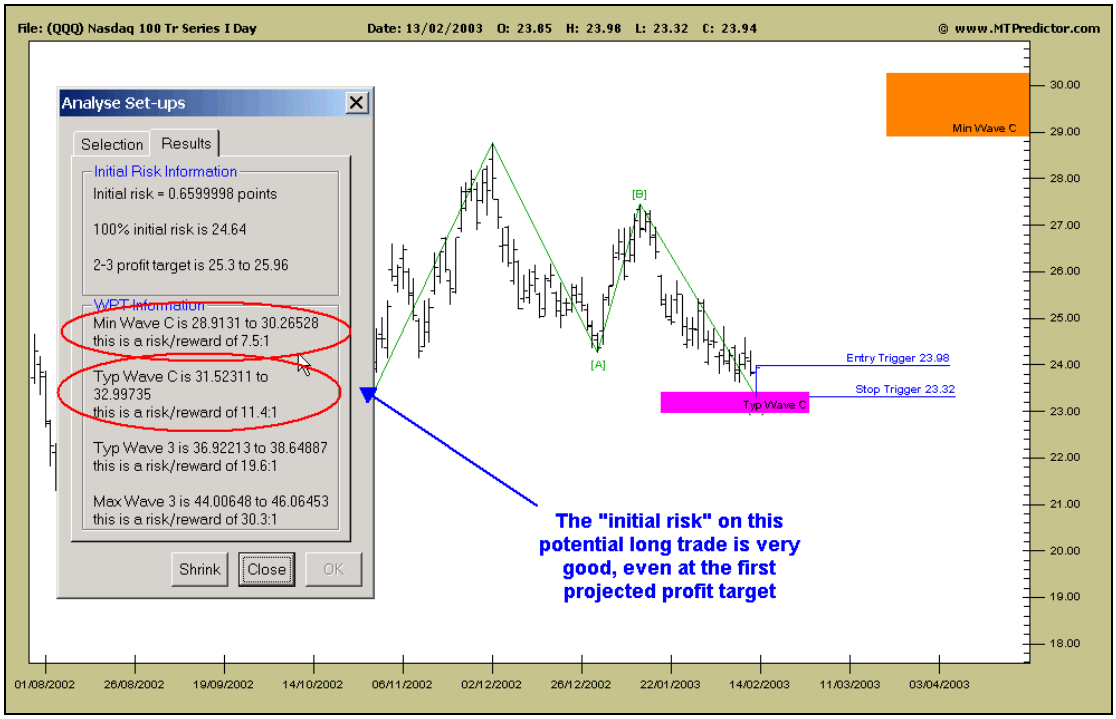
Okay, where is the market likely to go from here?

For this we can use the major trade set-ups module to analyse this set-up, and therefore project future profit targets:



The second chart on the previous page shows how the trade set-up module projected the first potential profit target in the 29 to 30 area. As you can see, this is well above the current market level of approximately 24.

At this stage, if you wanted to take a long trade, the trade set-up module could also be used to analyse this set-up to give you an idea of the potential risk to reward if the QQQ reached this profit target. I do not want to go into detail on analysing trade set-ups, mainly because this report is intended to show how MTPredictor can be used to look at one market in detail, and therefore give us an idea of where the market may go.



Okay, let's assume that this would be a good trade to take, and move on from there. What I would like to do is use the projection part of this module to help gauge where the QQQ may move next.

As you can see from the chart above, MTPredictor has found an ABC correction going into the February 13 low, so we would now anticipate that the QQQ would rally from here into at least the minimum wave C WPT, at 29 to 30.

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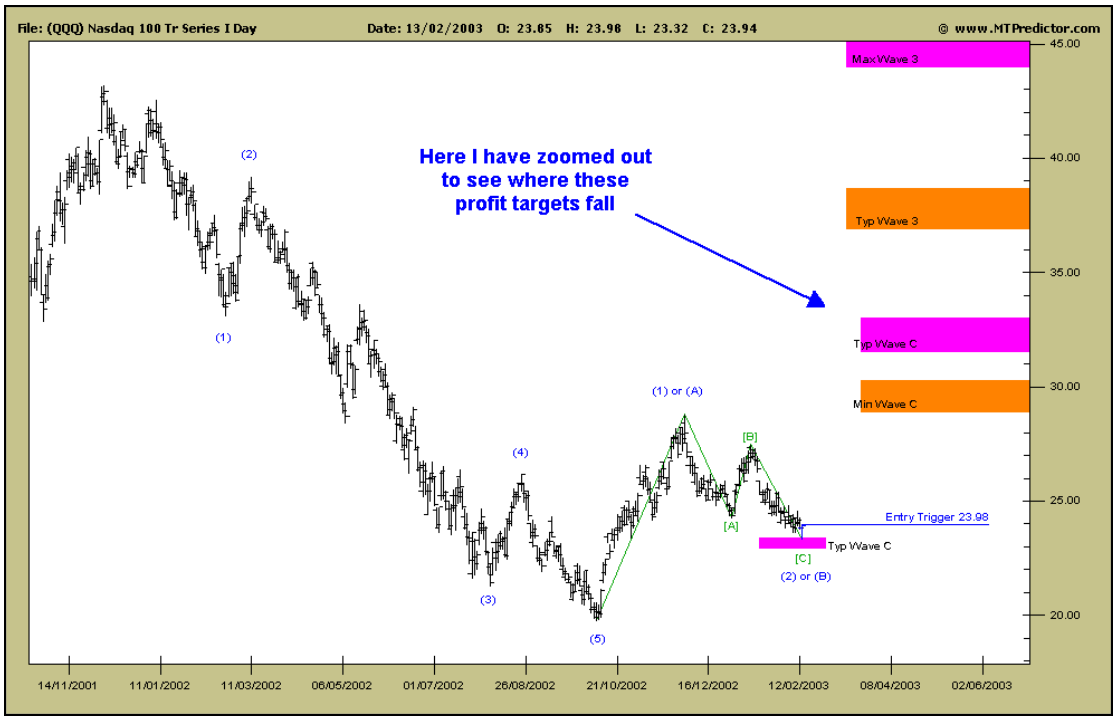
Let's now zoom the chart out again and take a look at the larger-degree picture.



If MTPredictor is correct, and February 13 has indeed completed a wave C low, how would this fit in with the larger-degree picture?

As we have seen earlier in this report, the initial rally off the October 2002 low ended on December 2; in Elliott wave terms, this will be considered a larger-degree ave (1orA). The ABC decline off this high would then be considered a larger-degree ave (2orB). From standard Elliott wave theory, we should now assume that a rally would unfold off the February 13 low, which will turn out to be either a larger-degree wave (C) or a larger-degree wave (3). As we have already discussed, the first target for this rally would be the larger-degree minimum ave C WPT at 29 to 30.

At this stage, are there any clues or indications on the chart that may help us to decide whether this rally is *more likely* to be a wave (C) or a wave (3)?

Continued on the next page . . . . .

The only real clue we have is to take a closer look at the initial rally off the October 2002 low, the larger-degree wave (1orA). As we know from standard Elliott wave theory, impulsive trends tend to unfold as five wave sequences whereas corrections tend to unfold as either ABCs or something more complex. However, the most important point is that an impulsive trend is five waves, anything else would be considered corrective.

So, now let's now take a detailed look at this larger-degree wave (1orA) swing,

As you can see from the chart above, and as we have already discussed, the rally off the October 2002 low into the December 2 2002 high unfolded as an ABC correction. So what can this tell us about the larger degree-picture?

Most larger-degree wave (1)s are impulsive and therefore sub-divide into a minor five wave sequence. Because this rally unfolded as an ABC and not an impulsive five wave sequence, we can therefore deduce that this rally is *more likely* to be a larger-degree wave (A) rather than a larger-degree Wave (1).

This means that the ABC correction into the February 13 low was more likely to be a larger-degree wave (B) and not a larger-degree wave (2). This logically leads us on to anticipating that the rally off the February 13 low is more likely to unfold only as a larger-degree wave (C).

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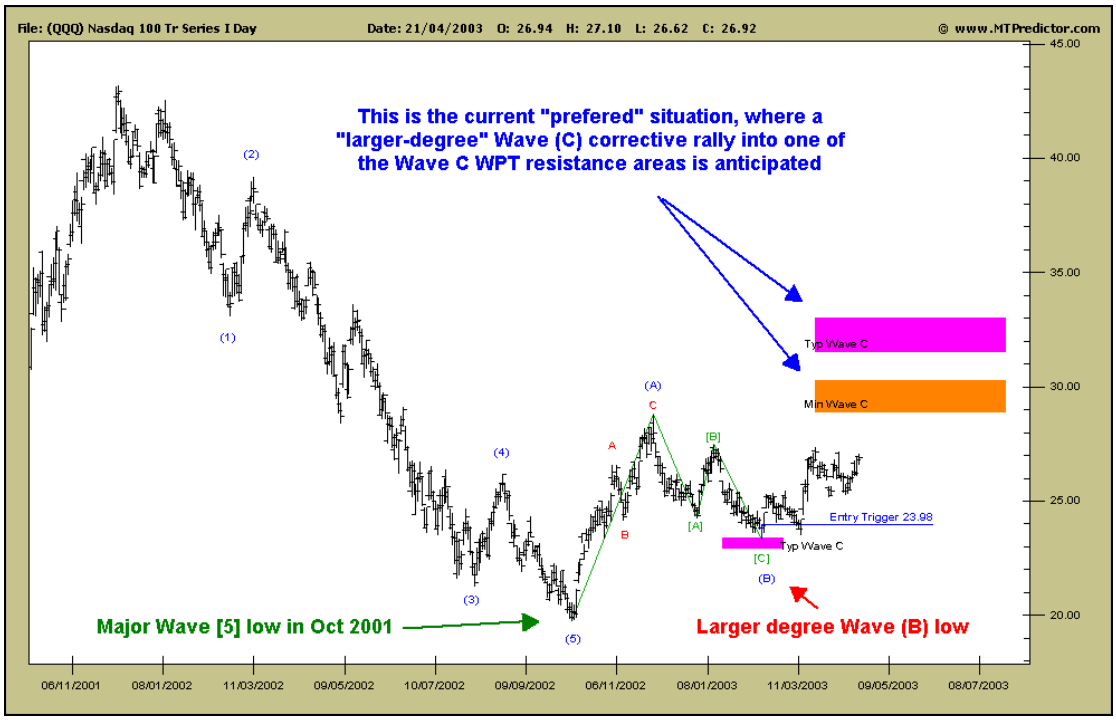
Let's take another look at the larger-degree picture now:



So this is the situation we have now, where we anticipate that we are in the middle of a larger-degree wave (C) rally that will take us to above the December 2 high. This is most likely to end in either the minimum wave C WPT or the typical wave C WPT, after which another declining section is likely to unfold.

I would like to see how the rally off the February 13 low unfolds in the coming months before I finalise this outlook.

But at this stage, the most likely scenario is that the QQQ will continue higher into at least the minimum wave C WPT at 29 – 30.

I hope you can see how MTPredictor has made performing a complete analysis on the QQQ very easy and straightforward. The best way to approach this type of analysis is to use the training mode and take each major turn, one turn at a time, using the modules and tools in MTPredictor to see what type of swings unfolded into that turn. You can then start to build up a picture of where the market is most likely to go into the future.

I hope this is also been a good training exercise, to demonstrate how you can perform analysis, above and beyond the simple trade set-ups within MTPredictor. As you can see, everything in this report has been simple, and easy to apply, and the general guideline of *keeping things simple* has been adhered to at all times. Each and every Elliott wave pattern that I have covered has been obvious. This is the best way to treat practical Elliott wave analysis - if it is obvious then work with it, if it is not then move on to another chart !

I hope this has also demonstrated that by using this simple approach, MTPredictor has managed to nail every major turn in the QQQ during this period.

So let's see where the QQQ goes from here . . . . . .

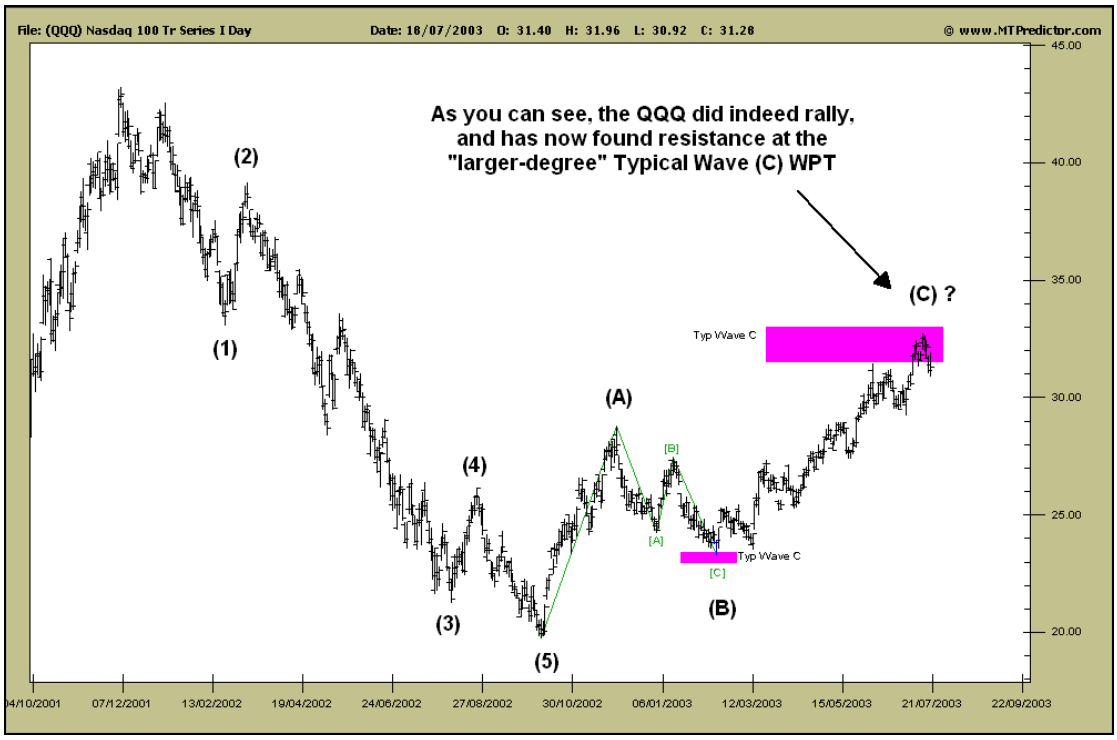
Thanks, and good trading . . . . . .

Steve
www.MTPredictor.com

Continued on the next page . . . .

Just to review: when this case study was written on April 22 2003, I suggested that the QQQ was in the middle of a *larger-degree* wave (C) rally. As such, *ideally* the QQQ would continue to rally until it reached one of the two wave C WPT projected profit targets. Please remember that these targets were automatically projected off the October 2002 low using the "Major" option in the trade set-ups module. At this point in time (July 2003), this projection was made nearly 9 months earlier (in October 2002).

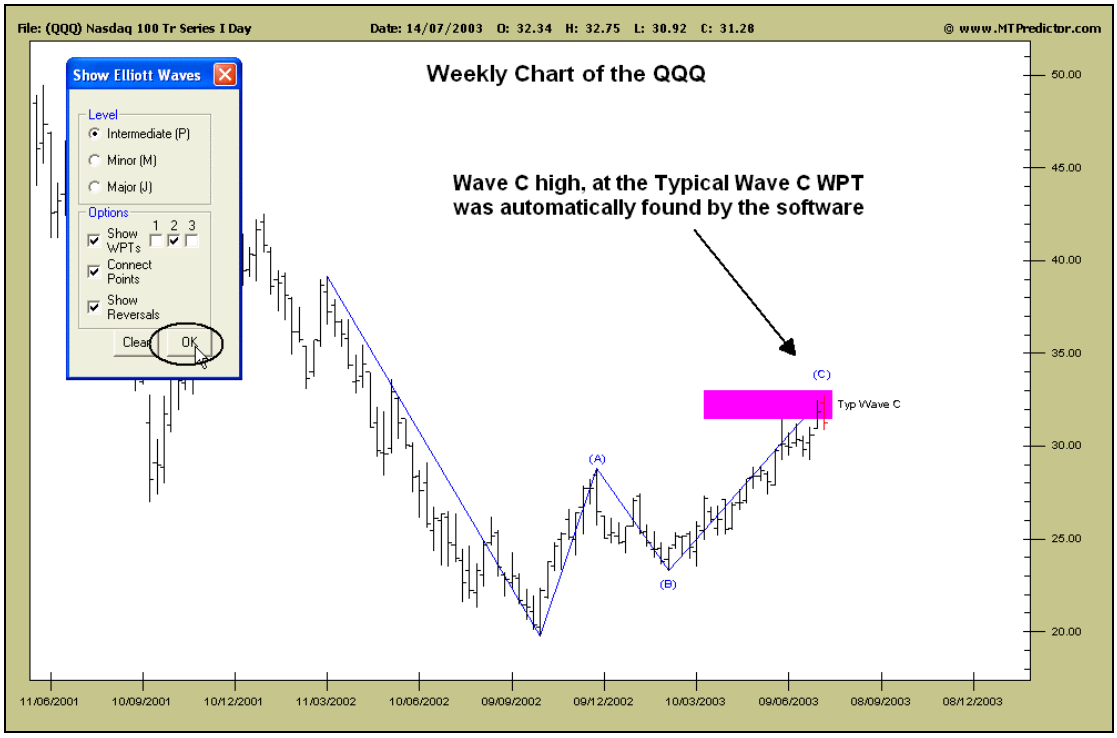
If you now look at the chart below, you can see how the QQQ has unfolded since this April 22 case study was published:



The QQQ did indeed continue to rally, in fact, it went on to reach the *larger-degree* typical wave C WPT projected profit target in July 2003.

I hope you can all see how this analysis was a major benefit to you as a trader - during this rally there were many trade advisers, software programs & tip sheets calling for a major crash. However, as you can see from this case study, MTPredictor users were not falling into this trap, as they had confidence that the QQQ was *more likely than not* to continue to rally until it reached these projected profit targets. In this way, it enabled you on the short-term, intermediate degree swings, to add to long positions to take advantage of this rally. It was not until the QQQ reached the "larger-degree" typical wave C WPT, that you should have considered looking for a decline to unfold in this market.

If you look at the chart below, you can see how this ABC corrective rally was even more obvious when looking at the weekly chart, where the software automatically identified the ABC correction:



However, at this point in time a high had not been confirmed, because, as you will know by now, *if* this market closes above the Typical Wave C WPT then you should anticipate a continued Wave (3) rally.

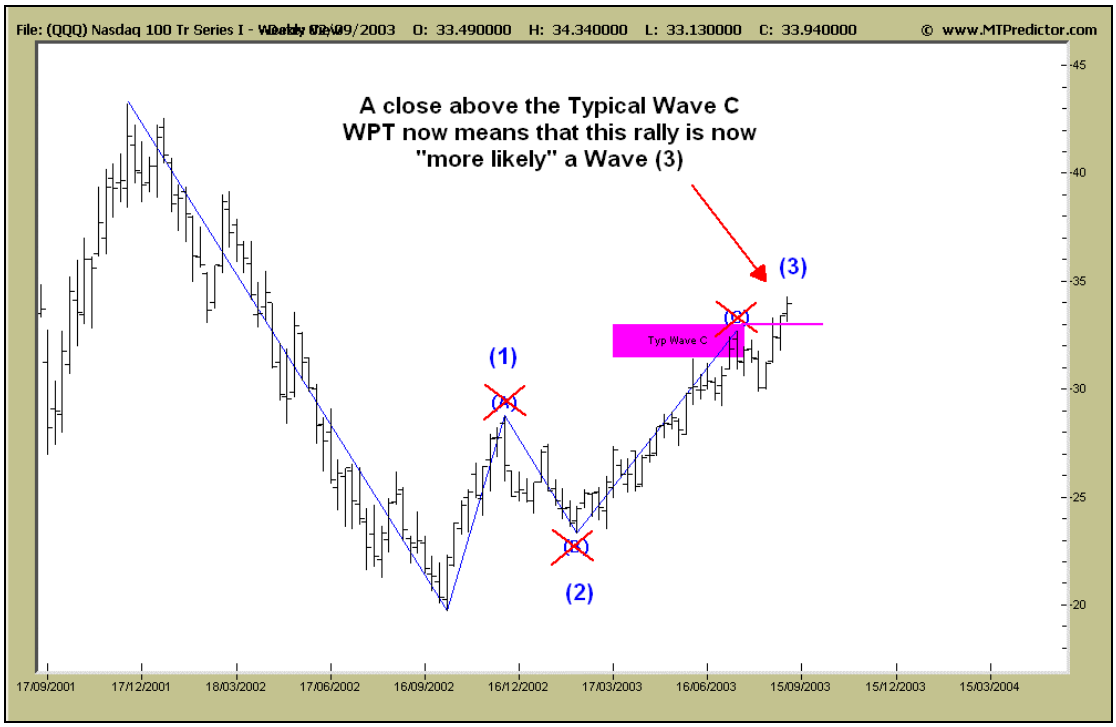
As such, a major decision on the next intermediate degree move is being made on the US markets as this course is being written (Jul 2003) !

I hope you can all see how this particular case study and longer-term analysis enabled MTPredictor users to stay long throughout a period where many of the trading advisers, software programs and Elliott wave analysts across the world were calling for a major crash. As you can see, this major crash did not unfold, and allowed MTPredictor users to profit from the rally. It is only now, (at the time of writing), that the *possibility* of a major high and, therefore, a continued decline in the main US markets is unfolding. But, as I outlined above, the QQQ is only *at a level* where a wave C high *could* unfold, we need to wait and see how the QQQ reacts at this level before this question is answered for sure.

Update in May 2004.

When I wrote this chapter (in July 2003), the QQQ was right at the area where an important decision was due. Now I would like to update you, to show what has happened since then.

As you can see in the chart below, the weekly QQQ closed above the Typical Wave C WPT in September 2003, therefore the current swing should have been viewed as *more likely* to be a Wave (3) type swing in the process of unfolding.



As I have outlined in earlier sections, you should now consider that the current swing would continue into the next WPT resistance area which, in this example, was the Typical Wave 3 WPT.

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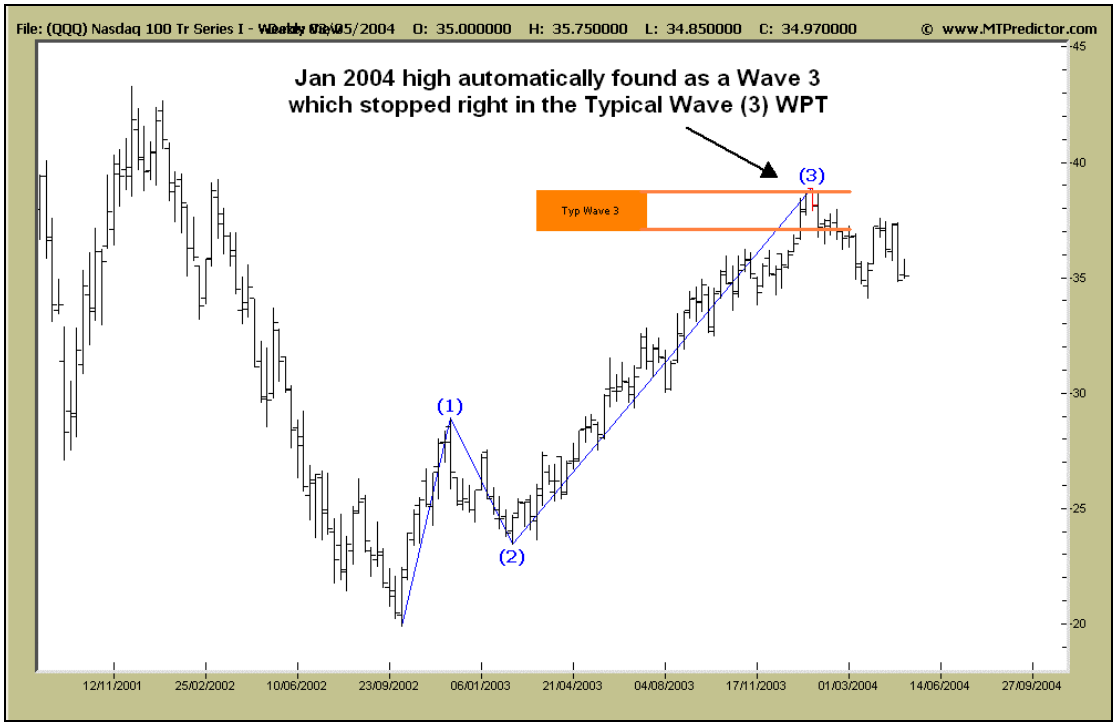
As you can see from the chart below, this is exactly what happened:



Here, the rally on this weekly timeframe did not stop until it reached the Typical Wave 3 WPT in Jan 2004.

I hope you can all see how helpful the initial analysis was on the QQQ. However, the close beyond the Typical Wave C WPT confirmed that the current swing was turning into a Wave (3), thus keeping you long (on this weekly chart) until Jan 2004, when the rally finally stopped.

This also helped the individual stock traders, as it enabled them to focus purely on buy set-ups throughout this rally.

Chapter 21 – Summary

Part 2 is the main section of the MTPredictor trading/training course and has taken your analysis skills to the next level, in particular using the MTPredictor programme to perform manual analysis above and beyond the standard trade set-ups, to uncover additional and more advanced trading opportunities.

Chapter 2 opened this section with a look at the important numbers used within the MTPredictor software program. As you saw in this chapter, the ratios that are used to project future support and resistance levels are largely derived from the Fibonacci number series. The 1.618 ratio is the fundamental building block of the MTPredictor analysis techniques.

Chapter 3 built on these numbers to show how the WPT module allowed you to project quickly and easily where all the most common Elliott wave sequences were most likely to end. As such, you should now be able to take any manual Elliott wave analysis and then, with a just a few simple and quick mouse clicks, project future price targets where each of these waves are most likely to end. This will be an invaluable tool to your everyday trading.

Chapter 4 took a look at how the MTPredictor software program coloured the bars on the chart either red (for a sell) or blue (for a buy) automatically for you. As such, identifying the end of an Elliott wave sequence became a simple matter of seeing whether one of these coloured Reversal Bars unfolded at one of the WPT support or resistance targets.

Chapter 5 then pulled these two chapters together with the automatic "Show Elliott waves" routine within MTPredictor. As you saw, this module allowed you to automatically identify not only the most likely Elliott wave pattern, but also automatically project the WPTs where the current wave sequence was most likely to end and apply the coloured reversal bars. As such, this will be the tool you use on an everyday basis to uncover the most likely areas for the current Elliott wave sequence to end. Not only that, this chapter went into detail on how MTPredictor was unique in the way it applied its automatic Elliott wave routines.

Chapter 6 looked at how you could apply manual analysis to your charts using the tools and modules within the MTPredictor program, to be able to identify trade set-ups above and beyond the automatic routines. This should be considered the first advanced chapter within the course.

Chapter 7 took this manual analysis to the next level and looked at how you could extend your Elliott wave knowledge as taught in Section I, and apply it to more advanced and in-depth Elliott wave patterns.

Chapter 21 – Summary

Chapter 8 looked in detail at the crucial Initial Risk to Reward module in the software. In particular, in this chapter you learned how to look at profits not in pure dollars, but as a function of the initial risk required to take the trade.

Chapter 9 looked at the training mode within the software, demonstrating how you could use this to go back to some prior point in history and apply the automatic routines within the software. This is particularly useful for training purposes and to familiarise yourself with the MTPredictor modules and routines.

Chapter 10 should be considered another advanced chapter, in which I looked at a number of advanced trading strategies that allowed you to find additional trade set-ups above and beyond the standard Wave C, TS1 and TS2 trade set-ups.

Chapter 11 is the last advanced chapter that covered many techniques allowing you to adjust the standard trade management techniques to take advantage of different possible scenarios within the markets. In particular, it showed when you should bias the standard projective stop loss guidelines in favour of a strong wave (3) type move.

Chapter 12 took a look at Time analysis and how this can be used to supplement, or provide additional confirmation for the standard MTPredictor trade set-ups.

Chapters 13 and 14 looked at additional time frames, in particular how you can use the same MTPredictor automatic routines and analysis techniques on either short-term (intra-day) charts or longer-term weekly charts. The main point to note here is how the analysis is approached in exactly the same way no matter whether the chart is a daily chart of IBM, a five-minute chart on the ES or a weekly chart of Soybeans - it is all the same to MTPredictor.

Chapter 15 took a specific look at how to trade Stocks with the software. In particular it considered how you should only trade Stocks that are moving *in the direction of* the main market. Also, it highlighted how you should not look to trade Stocks every day, but only when a minor correction is unfolding on the main markets This is a very important chapter if you are a Stock trader, and I thoroughly recommend that you re-read it a number of times to fully understand its implications.

Chapter 16 introduced a method to identify the main trend of the US Indices. This could be used as a simple and mechanical method for orienting your individual stock trades using weekly charts. Or even your short-term day-trades using daily charts. If you trade US stocks, then this should be read in conjunction which chapter 23.

Chapter 17 looked at you, as an individual trader, and demonstrated the different ways you could move up the cure with respect to additional and more advance analysis techniques.

Chapter 21 – Summary

Chapter 18 is another very important chapter, because it looks at my daily routine when preparing the MTPredictor daily report. If you are new to MTPredictor, then this will be a very important chapter, so I suggest that you study it carefully as it will show how I use the Trade Scanner and also what settings I use on a daily basis.

Chapter 19 looked at additional studies that are found within the software. Although I do not use studies much in my own analysis, a few of these are worth looking at for additional confirmation of the standard MTPredictor trade set-ups

Lastly, chapter 20 looked at a case study I wrote on the QQQ in April of this year (2003). This is of particular interest because it shows how I used the automatic routines in the software to project how the QQQ was most likely to move in the coming months. As you have seen from the update posted at the time of writing this course (July 2003), the QQQ unfolded exactly as projected. This demonstrates how you can use the automatic routines and manual analysis within the MTPredictor software program to make very accurate projections for future price movements. This chapter was updated again in July 2004 to show how the weekly QQQ continued to rally, eventually stopping at the Typical Wave 3 WPT. As I write this second edition the weekly QQQ appears to be unfolding in a corrective Wave (4). So lets see what unfolds as we move forward from August 2004.

As you can see, this has been a very detailed and in-depth section - I do suggest that you re-read this section a number of times to become fully familiar with all the contents. The main reason is that will allow you to take your analysis techniques to the next level, above and beyond the standard and automatic trade set-ups. This is especially important, because I know a number of you would like to find more trade set-ups than the automatics routines generate on a daily basis.

The MTPredictor software program is a very powerful tool. The main piece of advice for you is that the routines and modules within the software are best used when there is an obvious and easy to recognise Elliott wave count. If you remember from Section I, this does not always happen. To be a successful and profitable trader you must be willing to admit that sometimes there is no obvious or easy to recognise Elliott wave count on the current chart. When this happens, the only thing is to have the discipline and patience to either wait until the pattern becomes clearer on the current chart, or move on to another market.

Chapter 22 – Questions and answers

In this chapter, I'd like to answer some specific questions I have received, as well as look at some specific examples that have been sent in by MTPredictor customers recently.

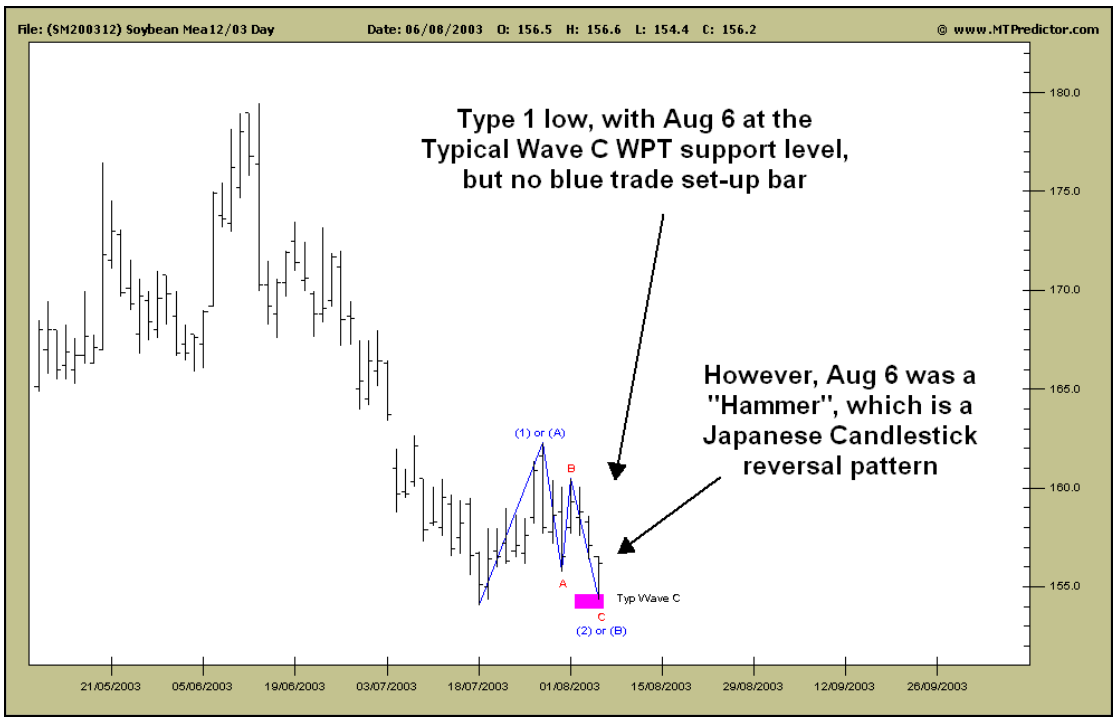
Questions covered in this chapter:

- Can I use my own Reversal Bars with the MTPredictor analysis ?
- Can manual analysis be combined with automatic analysis on short-term charts ?
- MTPredictor has not found an automatic wave count on this chart, and I am struggling to find a manual wave count - what should I do ?
- When should I first adjust my protective stop ? I find that using the 100% initial risk guideline results in some trades being stopped out prematurely.
- MTPredictor has found a set-up, but it is not reversing off WPT support – is this still a valid trade set-up ?
- How many trade set-ups should I anticipate in a typical trading month ?
- I am using an inside day for a reversal trade entry, but today the market has opened beyond the high of the original set-up – what should I do ?
- Most of the examples in this course are taken from recent history (2001 – 2003), so are these techniques optimised for this period ?
- Can manual analysis be combined with automatic analysis on daily charts ?

Question: “Can I use my own Reversal Bars in conjunction with the MTPredictor analysis ?”.

This is a very interesting question as it allows users to go beyond the standard red and blue coloured Reversal Bars that are provided in the software. As you know by now, for a trade set-up to be valid the market in question must reverse from a WPT support or resistance level and then make a coloured Reversal Bar. However, what happens when a market makes an ABC correction that is reversing off the typical wave C WPT, but there is no red or blue Reversal Bar ? Normally, I would suggest that this is not a valid trade set-up, and therefore should be ignored.

However let's look at a specific example that was sent in by one MTPredictor user (Chuck) on (Dec) Soybean Meal:



As you con see on the chart above, on August 6 2003 (Dec) Soybean Meal had made a good-looking TS1 by set-up, with the ABC correction reversing right of the typical wave C WPT. However, August 6 was not a coloured Reversal Bar. However, Chuck also follows Japanese candlesticks and noticed that August 6 was a Hammer, a Japanese candlestick reversal pattern. Therefore, he used the break of the high of this Japanese candlestick reversal pattern as confirmation that the TS1 low was indeed complete.

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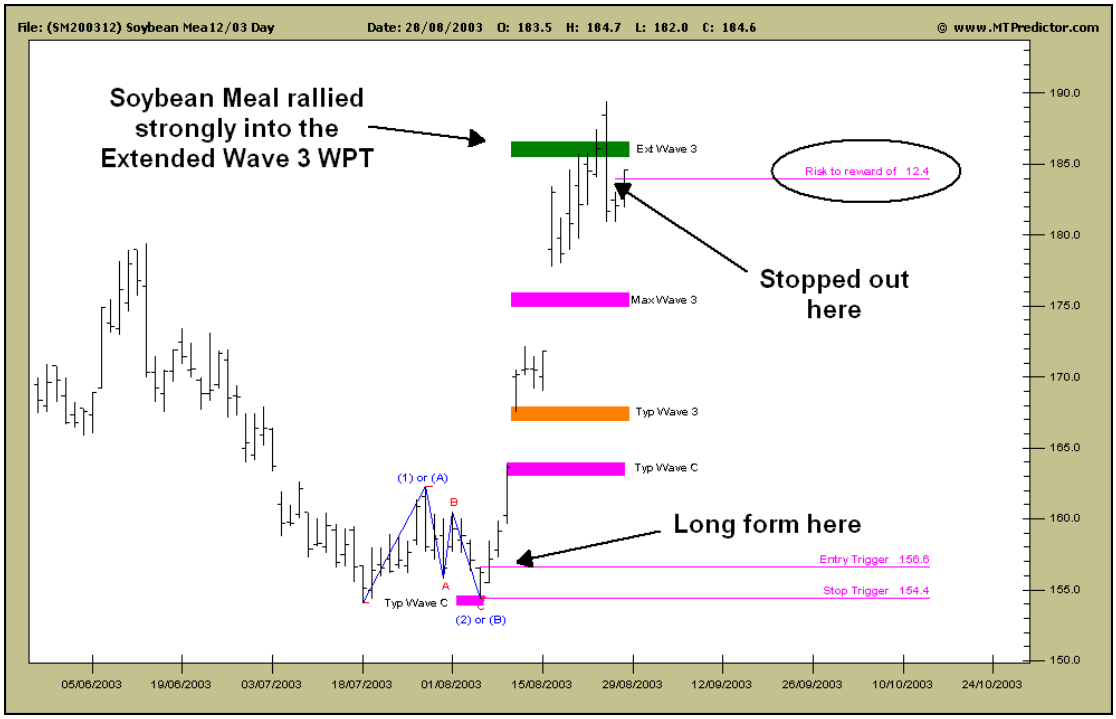
Let's now see how this trade unfolded over the next few weeks:



As you see, this allowed Chuck to nail the very day that Soybean Meal made a corrective low and started to rally strongly. In fact, it rallied into the extended wave (3) WPT before reversing. This resulted in a great trade, that would have made approximately 12 ½ times the initial risk (ignoring slippage and commission).

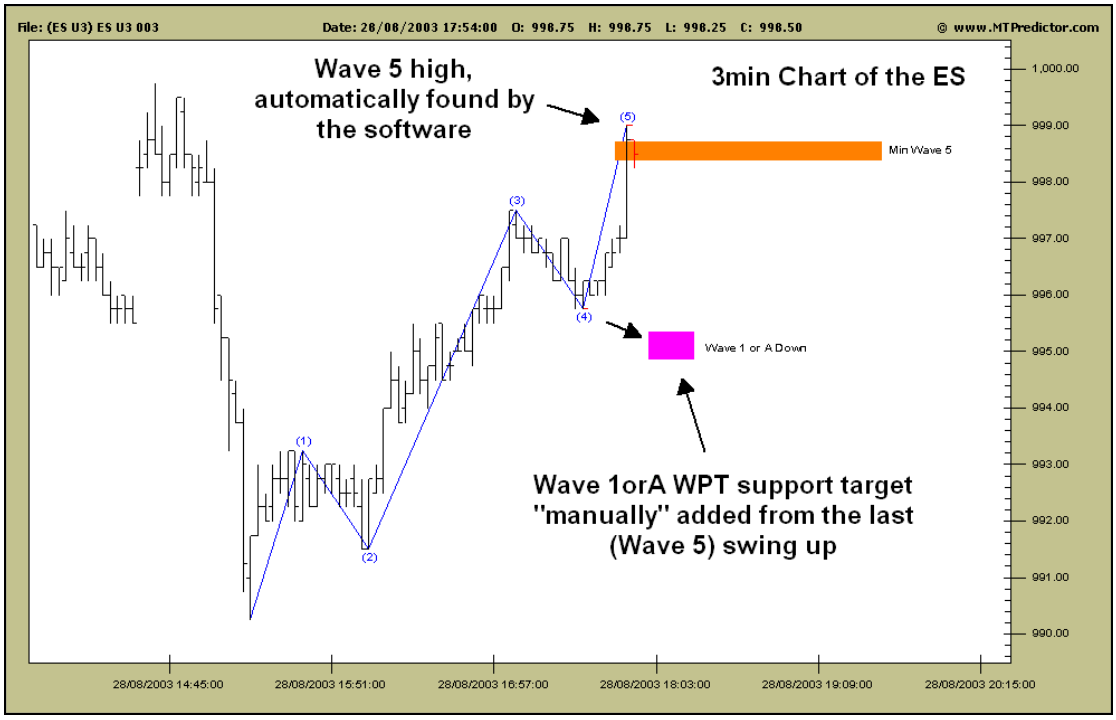
Although I don't recommend entering trades that are not confirmed by either a red or blue Reversal Bar, if you are an experienced trader and follow additional reversal indicators, then, as you can see from this example, you can use them to confirm that one of the standard MTPredictor trade set-ups is complete, and a trade should be entered.

Continued on the next page . . .

Question: “Can manual analysis be combined with automatic analysis on short-term charts ?”.

Because this question is related to manual analysis it should be considered an advanced question, however, as you'll see from the answer below it follows the same basic procedure as you have seen throughout the course.

Let's look at a specific example using a 3-minute chart of the ES (S&P E-mini):

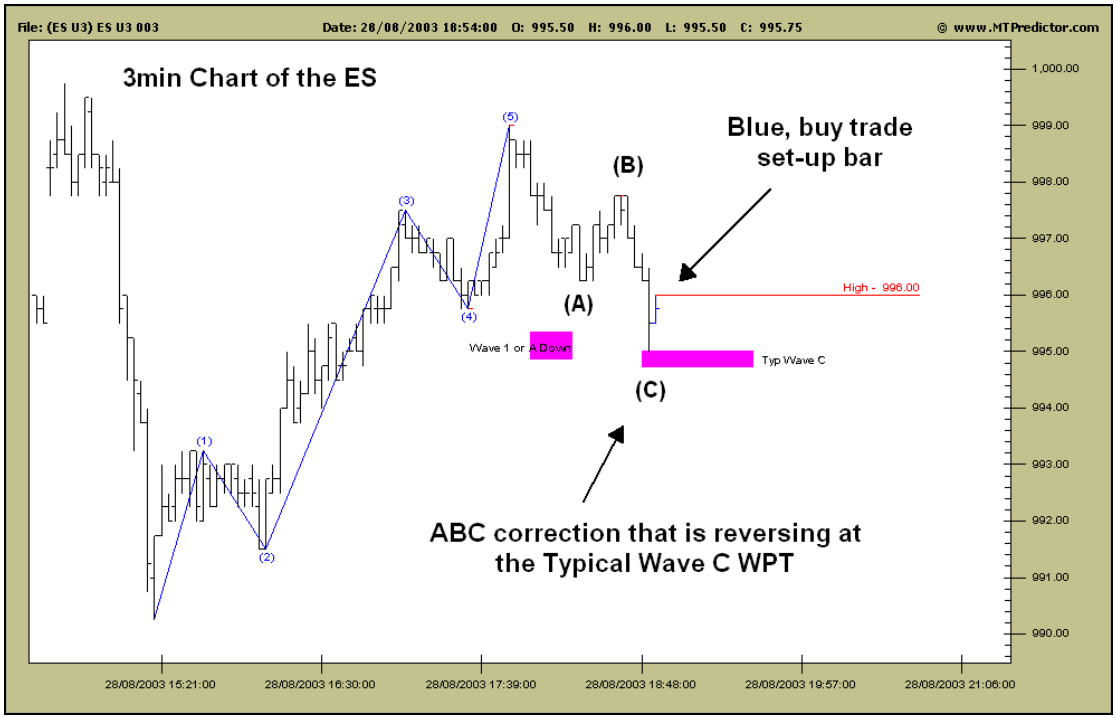


On August 28 2003 the ES (on this 3-minute chart) made a wave 5 rally that was stopping at the minimum wave 5 WPT, this was automatically found by the software. So the question now is: what should you anticipate happening from here ?

As you have seen in prior chapters, the first target following a completed wave 5 swing is the Wave 1orA WPT taken from the prior wave 4 high or low. I have added this WPT to the chart above.

So, now let's focus on the decline into this Wave 1orA WPT to see how it unfolds, and more importantly whether we can see an easy to recognise, obvious pattern.

This is what happened during the next ½ hour:



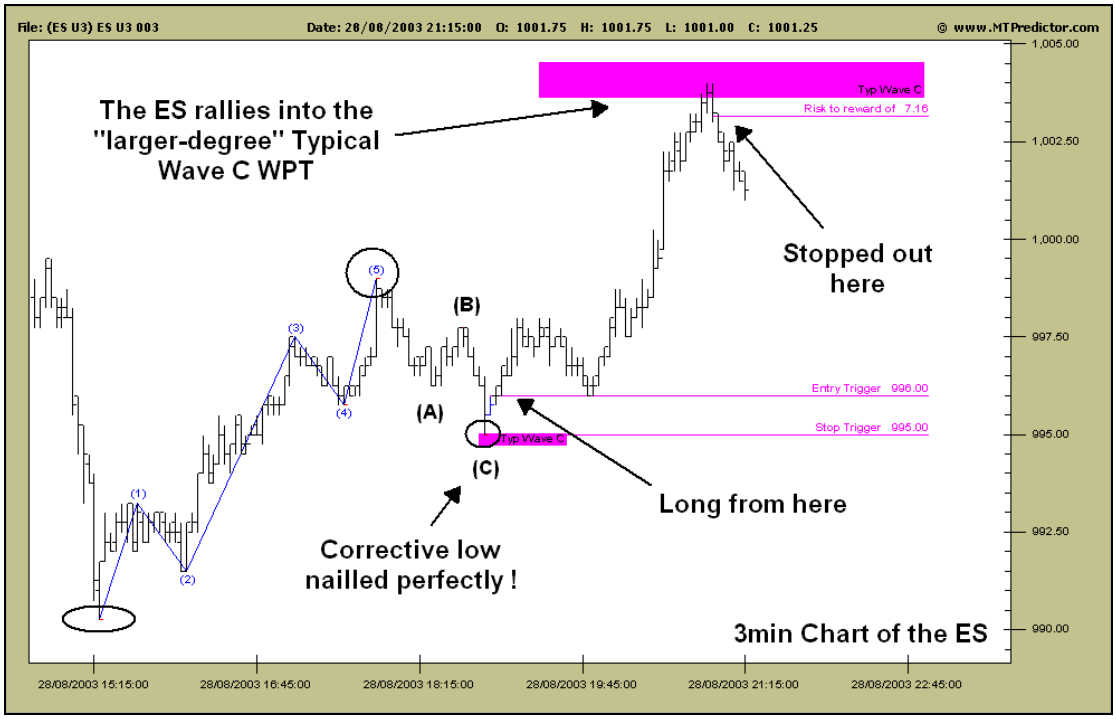
As you see from the chart above, the ES did indeed decline off the prior wave 5 high, but more importantly this decline unfolded as an ABC correction. Although the software did not automatically identify it, I can hope you can see from the chart that this three-swing (ABC) correction was very obvious ?

The most important point is that the wave C (of the ABC correction) stopped right at the typical wave C WPT. As you know by now, this is the *most likely* area for a wave C correction to end. Added to a blue, buy Reversal Bar also at this low, and I hope you can see that all the ingredients for a potential long trade are starting to come together.

Also, support at the typical wave C WPT was *in the same area as* the prior wave 1orA WPT outline on the prior page. As such, this was an additional reason why a corrective low would probably be made in this area

Just as you have seen throughout this course, a trade above the high of the blue Reversal Bar would confirm that this wave C low was complete and therefore a new long trade should be considered.

Let's see how this worked out:



From the chart above, the ES rallied beautifully off this corrective low, only stopping at the larger-degree typical wave C WPT. Although you would have had to place this larger-degree wave C WPT on the chart manually, I have highlighted (by the three circles) the swing pivots you would have needed to use for this larger-degree profit target. Again, this has been covered in great detail earlier in this course.

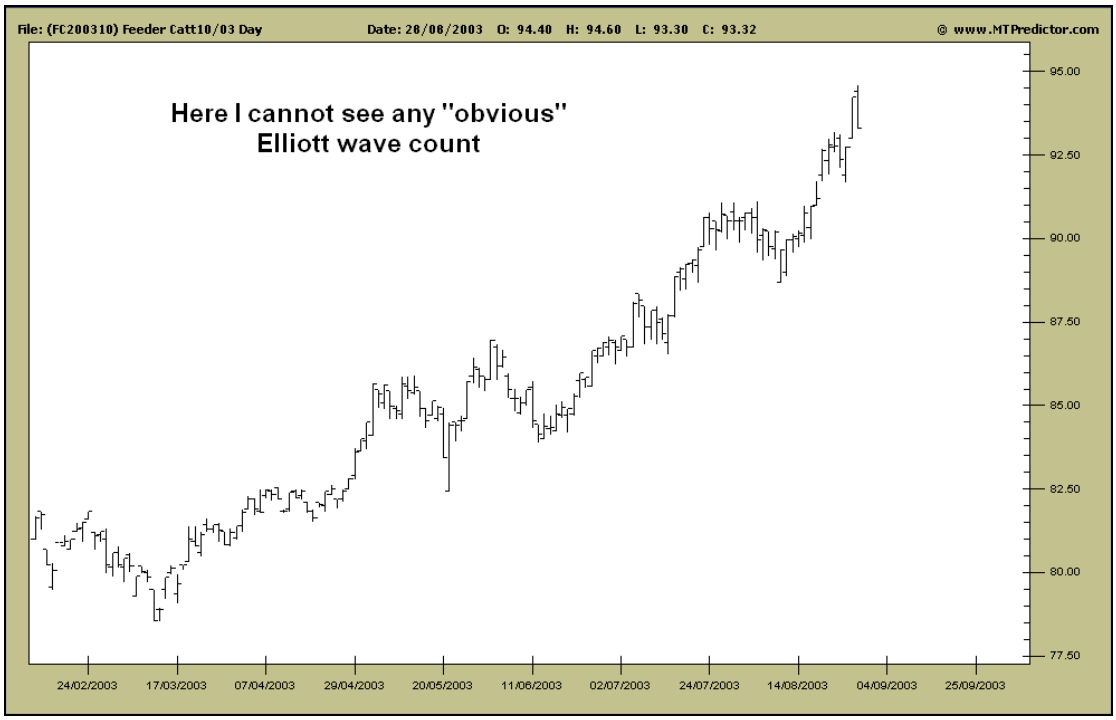
As you can see, you would have started to trail your protective stop once the ES reached this profit target. This would have resulted in a profitable trade of approximately 7 times the initial risk (ignoring slippage and commission).

Although this required some manual analysis, this trade set-up was very simple indeed, in fact all you had to do was recognise the ABC correction - the rest was a standard MTPredictor set-up, in that the wave C low reversed at the typical wave C WPT with a blue buy Reversal Bar. You should be very familiar with this ABC trade set-up by now!

But to answer to the question specifically, 'Yes' you can use manual analysis and combine it with the automatic routines in MTPredictor, as long as you follow the basic guideline of only ever working with an Elliott wave pattern when it is obvious and easy to recognise. Remember that 50% of the time no obvious and easy-to-use Elliott wave pattern is present on a chart.

Question: “MTPredictor has not found an automatic wave count on this chart, and I am struggling to find a manual wave count - what should I do ?”

Here is an example:



Here I cannot see an *obvious and easy to recognise* Elliott wave count.

Therefore, the answer to this question is very simple indeed, and has been answered in great detail in section I - when there is no obvious and easy to recognise Elliott wave count on the chart either wait until a obvious count or obvious trade set-up unfolds, *or* move to another market. Approximately 50% of the time there is no obvious or easy-to-use Elliott wave count on any particular chart.

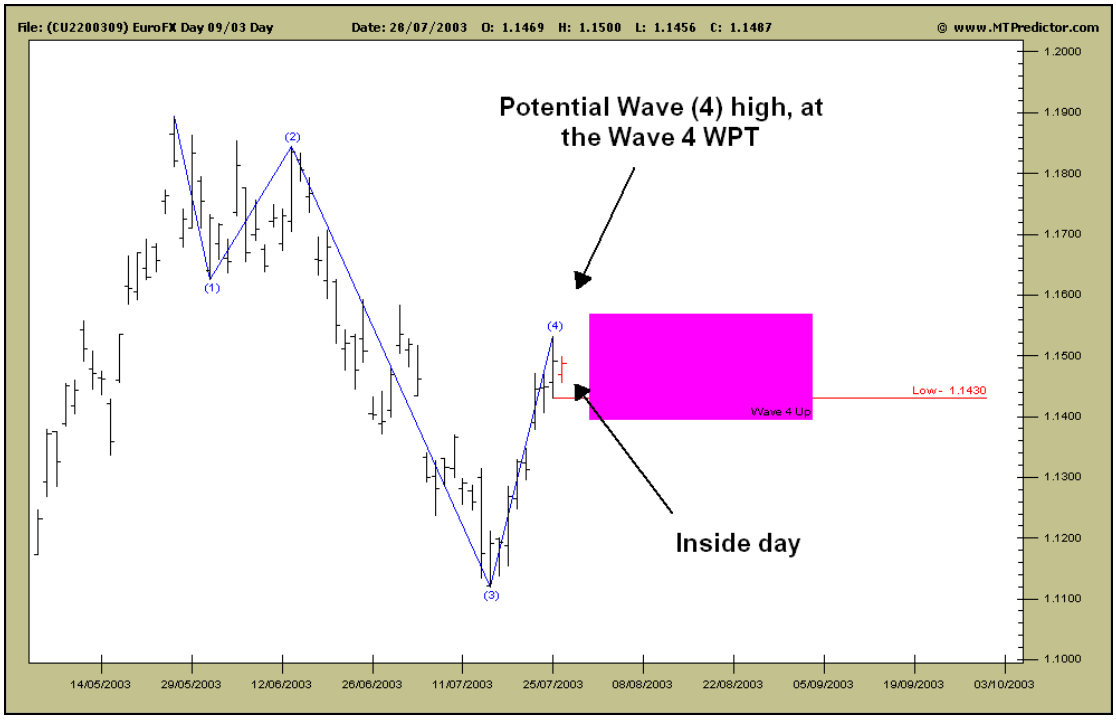
The worst mistake you can make is trying to *force* an Elliott wave count on a chart when no obvious one is present. This will normally get you into trouble, resulting in losing trades and is NOT recommended.

As you have seen through this course, the best and most reliable trade set-ups come from the simple ABC correction, because the ABC correction is one of the simplest and easily-recognisable Elliott wave patterns – therefore, it is one of the most reliable to use.

Question: "When should I first adjust my protective stop ? I find that using the 100% initial risk guideline results in some trades being stopped out prematurely."

This is a very good question, and the answer relates to how individual traders prefer to manage their own trades. Trading, although following the same basic rules and guidelines, is a very personal experience. And because we are all individuals, although we may all enter trades at the same time, we may prefer to *tweak* the basic trade management guidelines and manage our trades in different ways to suit our own personality better.

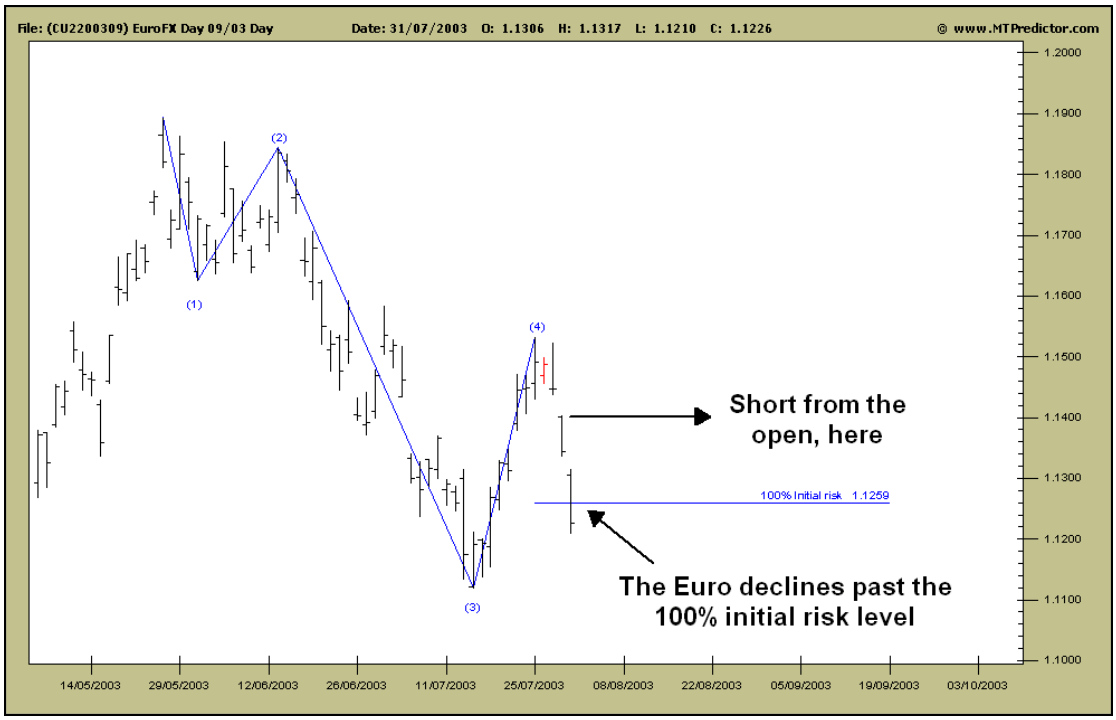
Let me show you an example.



Here the software has automatically found a potential wave (4) high in the Euro that is reversing off the wave 4 WPT. With July 28 an inside day, there is the opportunity for a potential short trade off this set-up

If you look at the first chart on the next page you can see how the Euro did indeed decline, filling this short trade on the open a few days later on July 30. The Euro then dropped sharply over the next few days, passing 100% initial risk level, so, using the basic trade management guidelines, you would have lowered your protective buy stop to break-even.

The trade was entered on the open on July 30, and the protective stop was lowered to break-even on July 31:

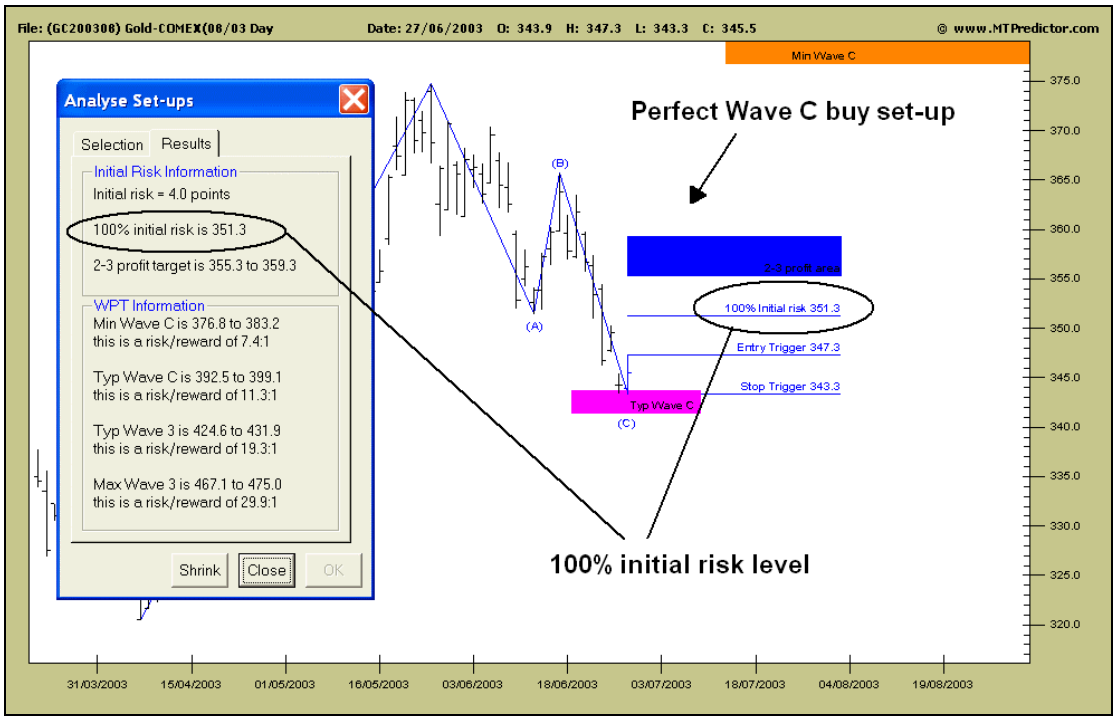


However, although the Euro moved sharply lower over the next month, you would have been stopped out prematurely on August 7.

However, as you can see from the second chart on the prior page, the Euro moved lower over the next month but your protective buy stop would have been triggered, closing out your short trade at break-even on August 7. As such, you would have missed out on this profitable trade

So, in this example, moving your stop to break-even would not have been a good idea as it prevented you from capturing what would otherwise have been a profitable trade.

However, this is not always the case - let me show you another example:



Here is a perfect Wave C buy set-up in (Aug) Gold on Jun 27 2003.

As you can see, the software has automatically calculated the level of the 100% initial risk point and displayed it on the chart for you.

Let's see what happened over the next few days.

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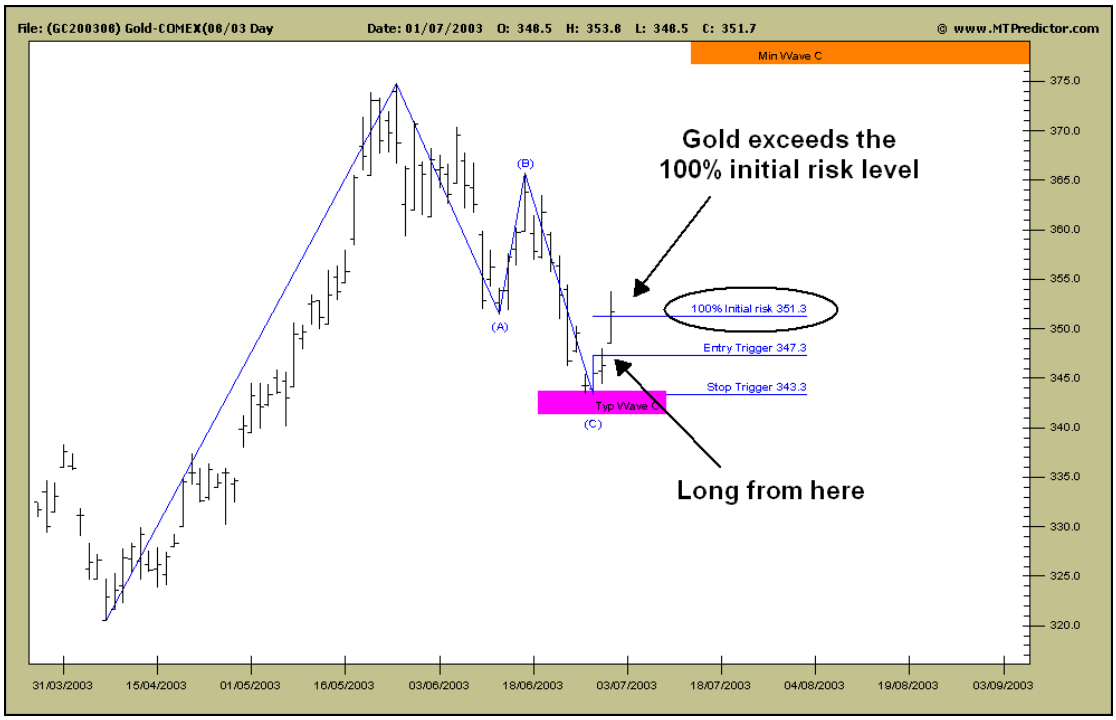
A day later a new long trade was entered, and Gold then rallied past the 100% initial risk level. Now your protective sell stop should have been raised to break-even:



As you can see from the chart below, this trade did not turn out as expected, with Gold declining for the next few days:

As you can see from the second chart on the prior page, your long trade would have been stopped out at break-even (almost, as the open on Jul 8 was just 2 ticks below the break-even level). However, the important point is that otherwise, this trade would have been stopped out for a full loss as Gold continued to decline to below the original stop level of 343.3. As such, raising your protective stop when you did would avoided a larger than necessary loss.

Personally, I like avoiding losses, not just for the financial benefit, but because psychologically it is a lot easier to deal with over time than facing a number of small and unnecessary losses.

However, as you have seen from the first example, sometimes you do get stopped out prematurely in an otherwise good trade. The choice of whether to raise your protective stop to break-even is a personal one. It all depends on whether you prefer to protect yourself early and avoid unnecessary losses, or are happier taking a few more small losses but reap the benefits of the few trades that do continue in the original direction.

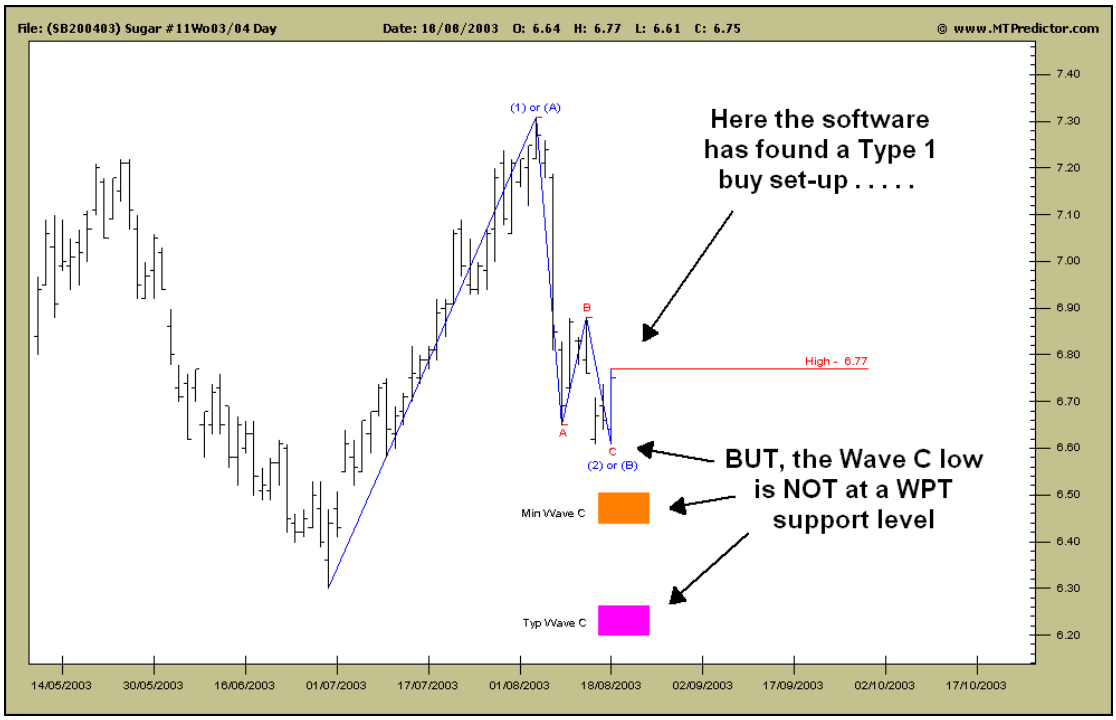
There is no easy answer to this question, it is a personal choice.

Question: "MTPredictor has found a set-up, but it is not reversing off WPT support – is this still a valid trade set-up ?"

This is a very good question and the answer is covered in great detail in chapter 7, to recap: for a valid trade set-up, three factors must combine to signal a potential trade. These are:

- Firstly, the market in question must be at a level where a reversal is anticipated to unfold, normally the wave C WPTs.
- Secondly, the market in question must make a coloured Reversal Bar to signal that it is indeed making a reversal.
- Thirdly, the market in question must then exceed either the high (of the blue Reversal Bar) for a long trade, or the low (of the red sell Reversal Bar) for a short trade to signal the trade set-up is complete and a new position should be entered.

Let me show you an example:

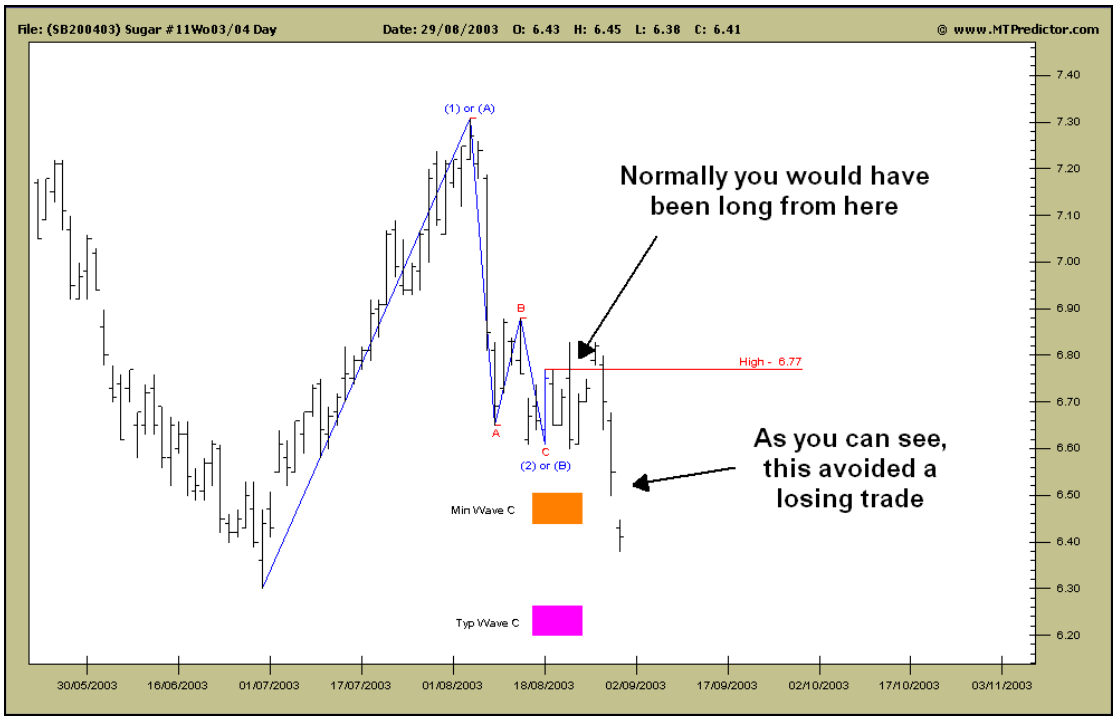


On August 18, Sugar made a potential TS1 low, which was automatically identified by the software. This is shown in the chart above.

However, you can see the wave C low (of the TS1 set-up) was not reversing off a WPT support level. The question is: should you consider this a valid and therefore *ideal* trade set-up ?

The answer to this is "No". As outlined on the prior page, three criteria are needed. In this example, the market was not reversing off WPT support, therefore it should not be considered an ideal trade set-up.

Let's see what unfolded over the next couple of weeks:



As you see from the chart above, if you had taken a long trade off the August 18 TS1 low, you would have been stopped out for a loss.

However, this was not an *ideal* trade set-up, therefore you would not have entered a long trade.

This is why you should always check the trade set-up, as automatically found by the software, and confirm that it is reversing off WPT support and you have a coloured Reversal Bar. In this way you will restrict your trades to only those that are ideal and therefore have the highest probability of unfolding as anticipated.

Question: “How many trade set-ups should I anticipate in a typical trading month ?”.

Again this is a very good question and one that is very often misunderstood or over-anticipated by most novice traders. As you will have gathered from all the trade set-ups in this course, the best and most reliable trade set-ups come from only taking *ideal* trade set-ups in which all the pieces come together to allow you to enter the market with a small controlled risk.

As such, if you decide to trade outside these ideal trade set-ups, the probabilities of success will drop and losses will normally follow. Therefore, it makes perfect sense to only wait and trade these ideal set-ups.

The most important word in the paragraph above is *wait* - you must have the patience and discipline to wait for the ideal trade set-up to unfold. Many new and inexperienced traders simply do not have the patience and discipline required to wait for the set-ups. They normally believe that because they have entered the business of trading, they must trade every day. The truth is very far from this, in fact over-trading is probably the single most common reason for most new traders failing in this business.

I cannot stress this point enough, as most new and inexperienced traders find it very hard to do nothing while they are waiting for a trade to unfold. Preparing and waiting for the ideal trade set-up is actually what makes you the money over time, because it avoids the unnecessary losses normally associated with over-trading.

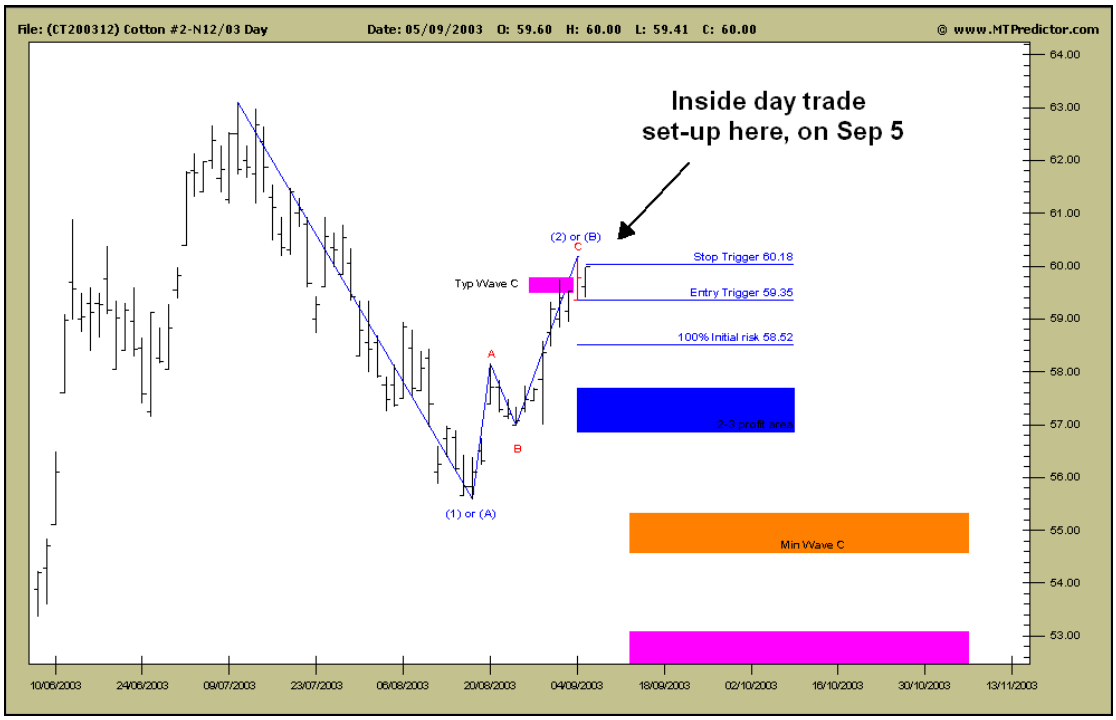
Therefore, the answer to this question, although I cannot put a specific number on it mainly because different markets will unfold differently at different times, is probably a lot less than most new and inexperienced traders expect.

The same applies to day trading, just because you are a Day-Trader does not mean that you must trade every day. Exactly the same approach should be applied to short-term and day trading as with your longer-term swing trading off daily charts. You should only take the *ideal* trade set-ups. Sometimes this will mean you will have 2 or 3 trades in one day, and sometimes you will go 2 or 3 days between trades.

Question: “I am using an inside day for a reversal trade entry, but today the market has opened beyond the high of the original set-up – what should I do ?”

The answer to this particular question can be found in Chapter 18, where I said “The inside day set-up is valid as long as the market remains within the price range of the first day. If it trades beyond the extreme of the original set-up before the entry trigger, then the set-up is invalidated”.

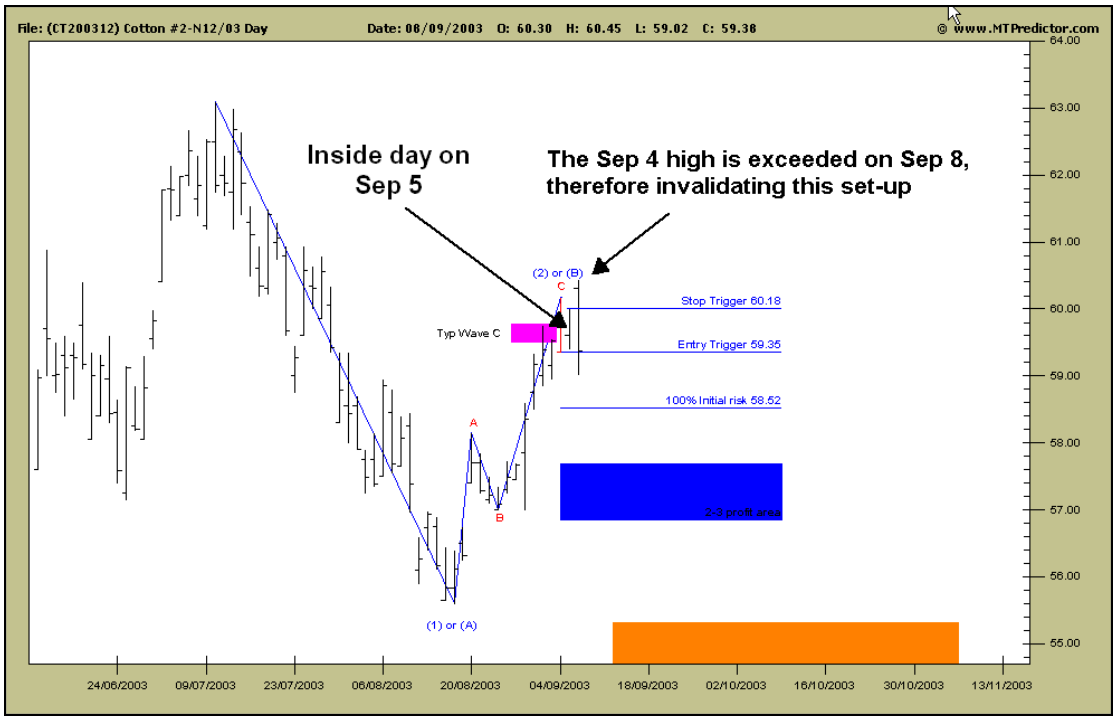
However, to clarify this particular point let me show you an example. Here is a potential inside day reversal set up on a daily chart of (Dec) Cotton:



As you see from the chart above on September 5, Cotton made an inside day following what appears to be the completion of a TS1 high. As such, you could use a break of the low of the day before the inside day (which was September 4) to initiate a new short trade.

But, let's see what happened the next day.

Here you can see how on the next day (Sep 8), Cotton gapped up on the open and traded above the September 4 high:



Because the extreme of the original set-up, which was the high of September 4 in this example, was exceeded before the original trade entry, the original sell set-up was invalidated.

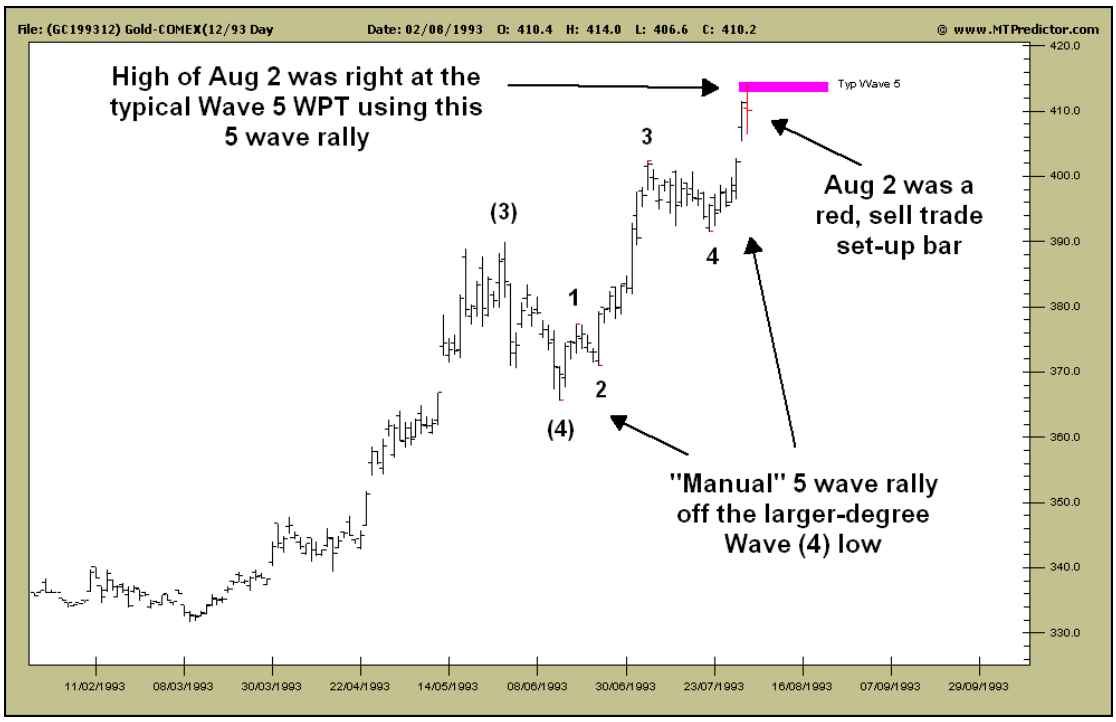
The idea behind an inside day sell set-up is that the market in question stays within the price range of the day before the inside day and then moves from that price range in the anticipated direction. A move in the wrong direction invalidates the set-up. Therefore in this example, because the initial move was up and exceeded the high of September 4 before it traded below the low of September 4, the inside day set-up went in the wrong direction first, so the original inside day sell set-up was invalidated.

When this happens you should cancel your inside day order with your Broker.

Question: “Most of the examples in this course are taken from recent history (2001 – 2003), so I am worried that these techniques are optimised for this period”.

I do understand your concerns especially in today's world of computer-generated software that is optimised for recent history. I do not believe that this kind of optimisation can work in the long-term. To me it is obvious that if you optimised a certain technique to work on recent history then that is the only period of time that it will work on, in other words the optimised parameters will not transfer as effectively as you would like into the future.

As such, the techniques that are included in MTPredictor have stood the test of time; because these techniques have been developed from those I used in my own trading during the last 17 years. As a good example of this, in Chapter 15 I cited one of the trades that I actually entered earlier in my trading career on Gold. As an example of applying these techniques to a market some 10 years ago let's have a closer look at this particular example.



As you can see on the chart above, using very simple manual analysis, a 5-wave advance off the larger degree wave (4) low became apparent. Using this 5-wave rally it was then very easy to add the wave 5 WPTs onto this chart to get an idea of where this rally was likely to end. As you can see, the high of August 2 was right at the typical wave 5 WPT. The software had painted August 2 as a red, sell Reversal Bar, so all the pieces were falling into place for a potential wave 5 high unfolding.

Let's see what happened:

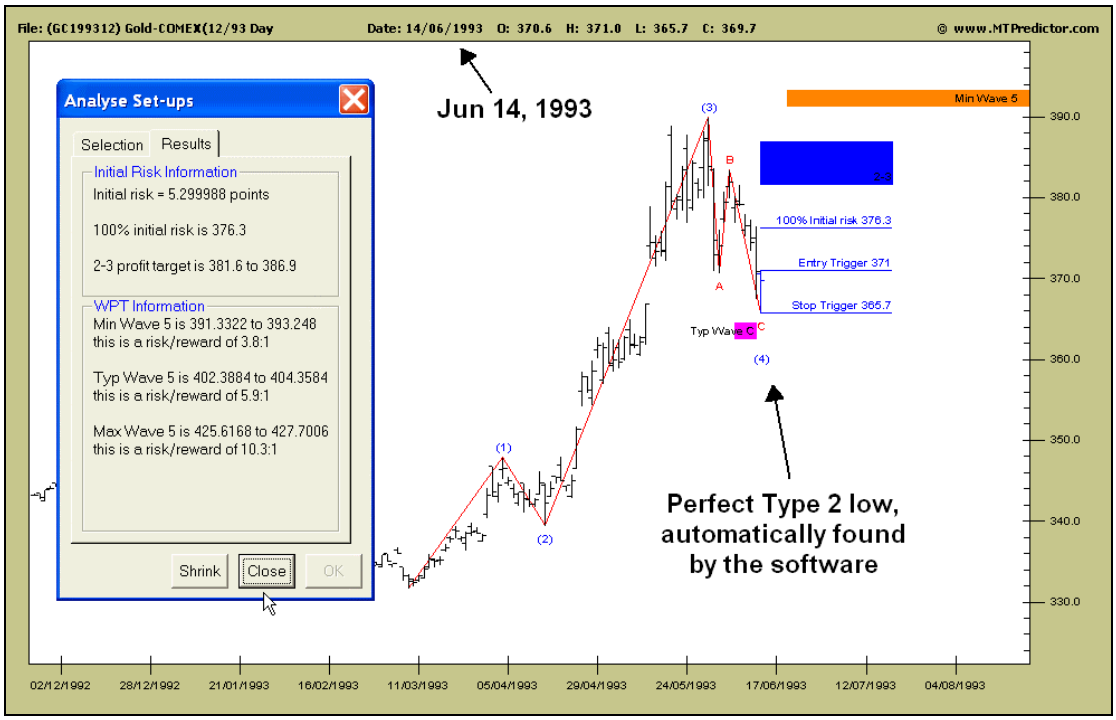
As you see from the chart above, Gold declined sharply from this high leaving August 2 as the very day this strong rally reversed sharply.

However, to look at this example in relation to the question, I hope you can see that all I had to do was apply the same techniques that have been taught throughout the course and identifying this trade set-up (some 10 years later) became very simple indeed. I just wish I had MTPredictor 10 years ago !!

If you were unhappy that this analysis had been applied manually, let's go back a few months and see whether an automatic trade set-up unfolded on this particular chart.

Continued on the next page . . .

Here is the situation on June 14, where a perfect TS2 is in the process of unfolding, but more importantly the software automatically found this set-up:



Let's see how this progressed:

As you see from the chart above, this resulted in a very nice and profitable trade.

I hope this has demonstrated that even using a chart that is over 10 years old, both manual and automatic analysis unfolded exactly in the same way as has been demonstrated in all the examples taken from recent history throughout the whole of this course.

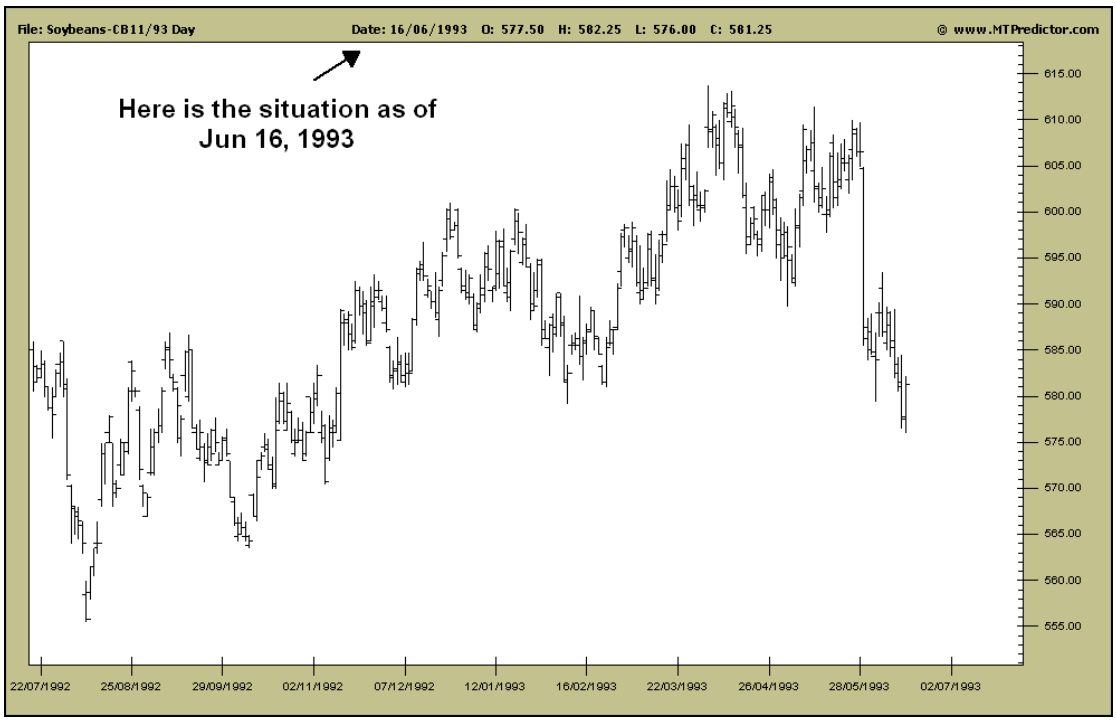
Continued on the next page . . .

Question: “Can manual analysis be combined with automatic analysis on daily charts?”

To answer this question I would again like to return to a chart from 10 years ago to show that, not only can you combine manual analysis with automatic analysis in the MTPredictor software program but also that these techniques work equally well on charts that are 10 years old rather than from just the recent period of 2001 – 2003, from which most of the examples in this course are derived.

Again I would like to share an example of a trade that I took in my own trading account at the time on (Nov) Soybean in June/July 1993.

Let's take a look at the situation as of June 16 1993:

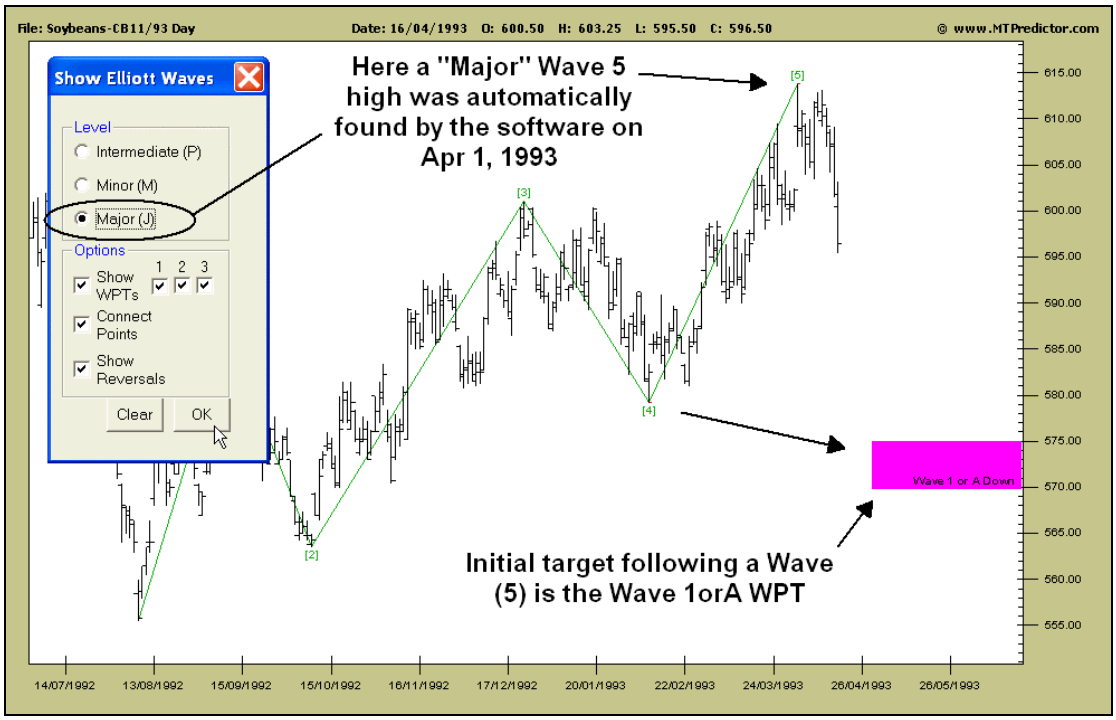


Can you see any obvious Elliott wave pattern on the chart above ?

At the time, 10 years ago, I had to do all my Elliot wave analysis manually, however, for this example I would like to show how the MTPredictor software program could not only help with automatic Elliott wave analysis but also manual analysis using the WPTs and coloured Reversal Bars to help uncover the long trade that I took at the time.

First, let's set the scene by looking at the larger-degree Elliott wave pattern. For this I would like to start by returning to the most recent high on the chart above, which was on April 1.

As you see from the chart below, the MTPredictor software program automatically found a “Major” 5-wave advance going into the April 1 high:



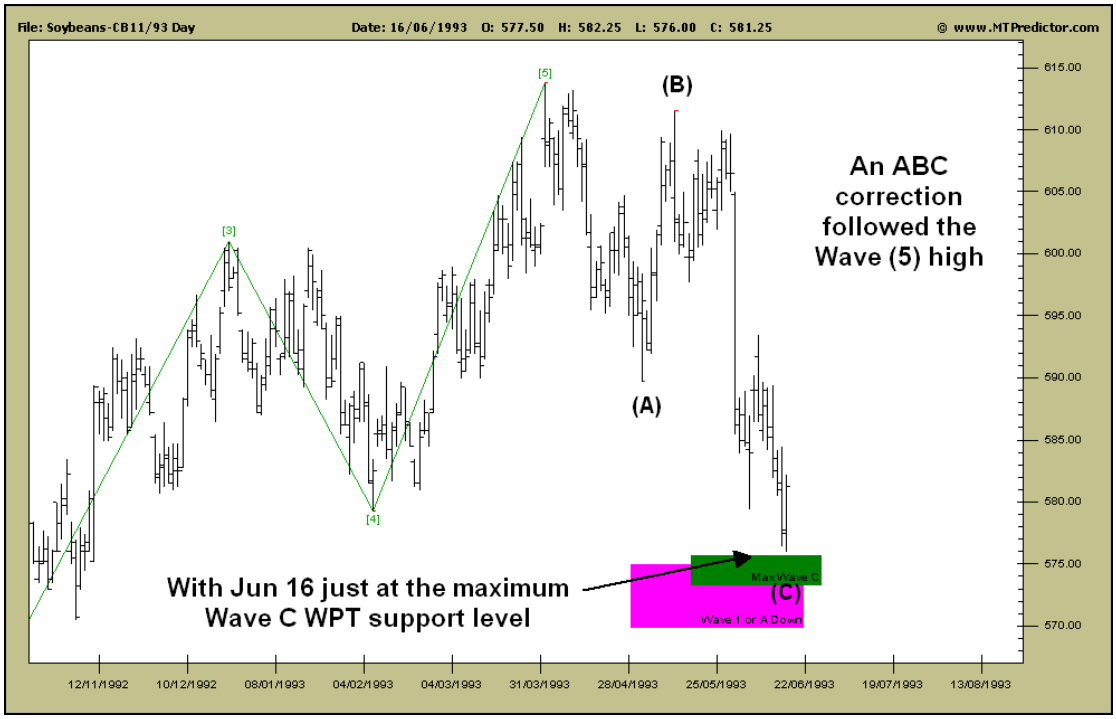
From what you have learnt and read in this course so far, what should you anticipate is *most likely* to unfold from a completed 5 wave sequence ?

Exactly, *ideally* a simple ABC correction should follow this (5) wave advance, and ideally the entire ABC correction should terminate in the area of the wave 1orA WPT taken from the prior wave (4) low.

So let's see what unfolded on the next page.

Continued on the next page . . .

Here is the situation back on June 16:



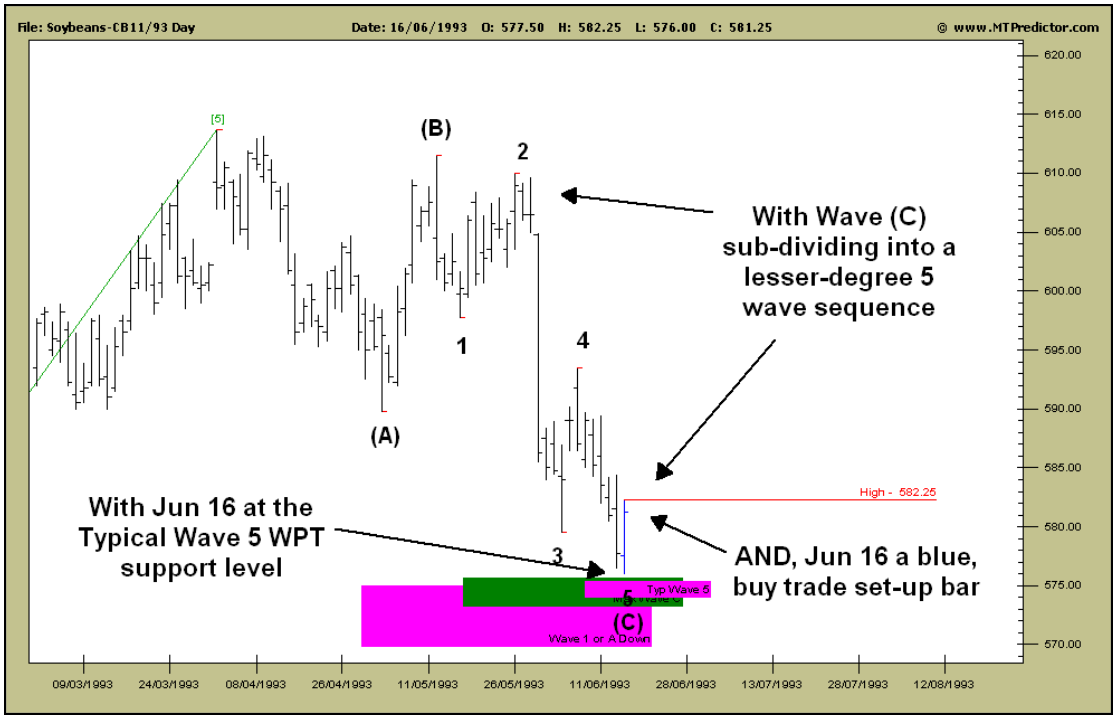
As you can see, this is precisely what happened.

Although you had to label this ABC correction manually, I hope you can see from the chart above that this was the most obvious Elliott wave structure to place on the chart at this particular time, especially as this was the pattern you were anticipating because it was following on from a completed wave (5) high.

I have added the wave C WPTs onto the chart above as well. As you can see, the low of June 16 was right at the maximum Wave C WPT. This was also in the area of the wave 10rA WPT placed on the chart on the prior page.

As such, from an Elliott pattern and WPT support perspective, as of June 16 1993 it was starting to look as if a corrective decline was complete and you should be looking for a buying opportunity. However, the analysis does not stop there because there was more confirmation that a potential low was at hand, on the chart on the next page.

Again, here's the situation as of June 16 1993:



If you refer back to Section 1, you will see that *ideally* a wave (C) swing should sub-divide into a lesser-degree 5-wave sequence. Again, although this had to be placed on the chart manually, I hope you can see (and agree) that this is the most obvious way to label the chart at this time.

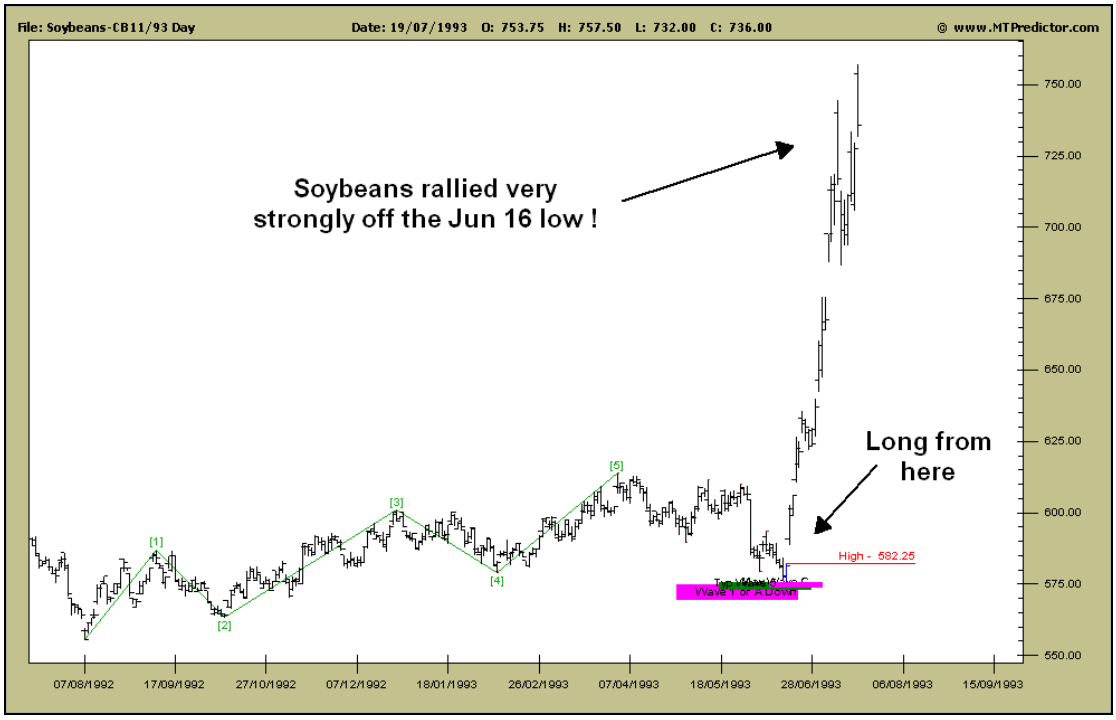
Using this manual 5 wave count I have placed the wave 5 WPTs on the chart and as you can see, the typical wave 5 WPT fell at the low of June 16. Also, this was in the same area as the prior two WPTs shown on the last page. From an Elliott pattern perspective, the low of June 16 was looking perfect in that a Major wave (C) low appeared complete, and also this low was unfolding at a very strong support level at the coincidence of three WPTs of different degrees.

Now add in that June 16 was painted as a blue, Reversal Bar, and you can see that a potential long trade was starting to unfold.

Although it has taken a few pages two describe this particular analysis, I hope you can see that this is all very logical, straightforward and, more importantly, very easy to apply using the MTPredictor software program. And all of this on a chart that is over 10 years old!

Let's see the outcome on the next page.

Although I was anticipating a strong rally off what I considered a "Major" wave (C) low, I could not have anticipated the strength of the rally as news broke that the Mississippi River flooded and had destroyed vast areas of the Soybean crop.



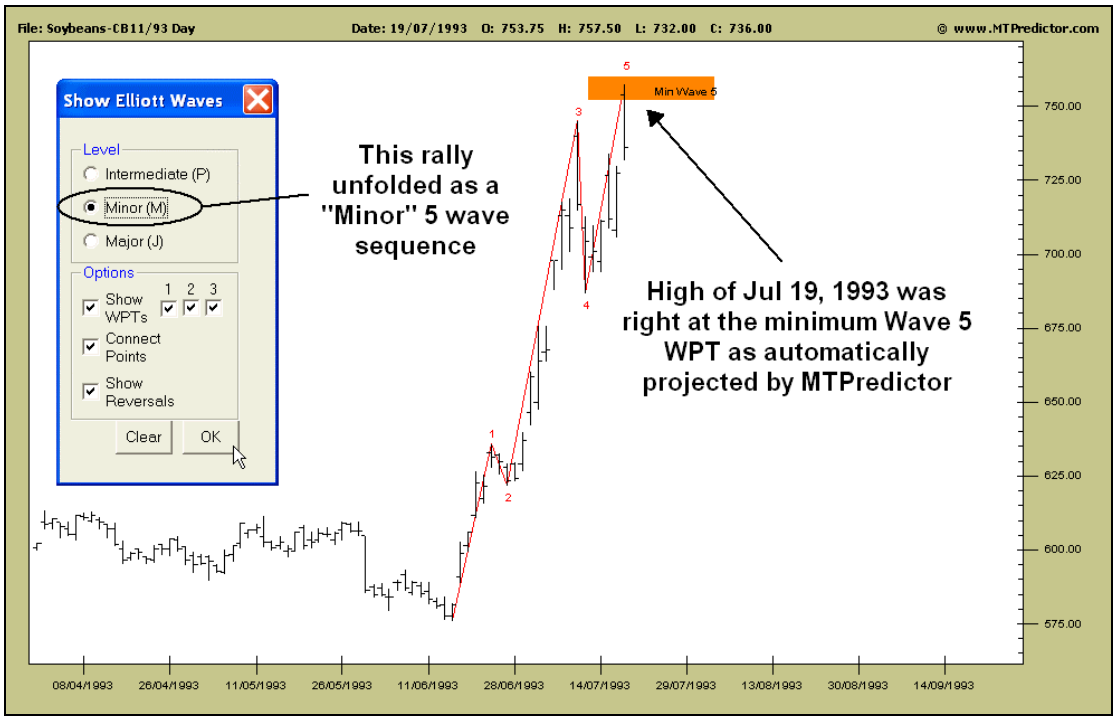
As you can see, the rally off the June 16 1993 low was spectacular to say the least. But most importantly, although you could never have known *in advance* a rally as strong as this would unfold, the analysis and techniques involved in uncovering the long trade on this particular chart are all exactly the same as have been covered throughout this trading course.

The MTPredictor analysis does not stop there - on the next page I would like to take a closer look at this strong advance.

Most fundamental analysts would say that it is impossible to perform technical analysis on a rally that has unfolded as a result of a natural disaster. So let's see what MTPredictor can do.

Continued on the next page . . .

As you can see from the chart below, the automatic routines within the MTPredictor software program automatically identified a 5 wave rally going into the July 19 high:



But more importantly, July 19 1993 appeared to be reversing at the minimum wave 5 WPT. As such, this would have been the ideal place to look to bank profits from the strong rally off the June 16 low.

As you see from the second chart on the prior page, this nailed the exact high of this explosive rally perfectly.

Again, I hope this is a good example of not only how you can combine manual analysis and automatic analysis within MTPredictor software program, but also of how these techniques work equally well on a chart that is over 10 years old and not just from the last 2-3 years.

Most traders will always remember a few spectacular trades from their own trading career. And for me, the short trade on Gold from the last section, and this long trade on Soybeans have always stuck in my mind as great trades, ones that I will remember forever. However, I have included them in this section to demonstrate that the tools and techniques included in the MTPredictor software program are not just optimised from the last 2-3 years, but have been built on principles that have stood the test of time and I have used in my own trading account for many, many years.

Chapter 23 – Conclusion

I hope you have enjoyed the journey through this Training Course, and have now reached a level where you appreciate the simplicity and ease with which MTPredictor approaches analysis and trade identification in the markets.

As you know, my own view on the way Elliott wave analysis should be applied is unique, and very different from the way Elliott wave analysis is taught by many of the standard methods today. Some pure Elliott wave analysts will disagree with me…that is okay! I hope you can see that treating Elliott wave analysis *in isolation* (the unique MTPredictor *isolation approach*), where the primary aim is identifying *ideal trade set-ups* and not trying to forecast any future outcome, releases you from many of the constraints and problems that arise with this form of analysis.

I cannot stress this difference enough. Therefore, when you look at the way I approach the markets and MTPredictor is used to analyse and identify trade set-ups in the markets, please understand and be fully aware of this.

In particular, I hope that I have been able to demonstrate, and also that you have found from your own research by looking at many examples, that when you use Elliott wave analysis in the standard way, it tends to come unstuck more times than not. Please note, I'm not saying that Elliott wave analysis does not work, just that from my own experience (and from many traders I have spoken to over the years) I believe there is an easier and simpler way to approach this analysis.

Again, the way I have taken one particular Elliott wave pattern (the simple ABC correction) and then used this as the basis of the automatic trade set-ups within MTPredictor, makes trade identification and therefore trade management simple and straightforward. I personally believe that because, in today's markets, there is so much information and so many techniques available, if you try to take in all this information it will only lead to confusion. I have heard the phrases “information overload” and “paralysis of analysis” far too many times over the years. Therefore, I believe it is far easier to focus on one particular method and then take the fishing approach to trading. In other words, you take your line and cast into the markets and only reel in the best and biggest fish. Although this may take some time waiting for the big fish to bite, it is normally better in the long-run.

This analogy highlights the MTPredictor approach in that it is far better to have the patience and discipline to wait for, and then only trade, the *ideal* and perfect trade set-ups. Although this will mean that you may not trade every day, I believe that over-trading is one of the worst mistakes any trader can make and should be avoided at all costs. This is why sticking to just the standard trade set-ups will help, because it will enable you to create the self-discipline and patience that is required for a successful long-term approach to the markets.

Throughout my years as a private trader, whenever I incurred a period of losing trades, I thought the answer was to become more educated and look for greater and more in-depth ways to understand the market. This personal journey took me through many different (an ever more complicated) ways to perform technical analysis. However, although I became an expert in many different forms of analysis, the bottom-line results did not reflect this new-found expertise. After many years of going down this road, I suddenly stopped and looked back, and finally realised that the route to profitable trading does not come from unlocking the markets or finding that one perfect method - simply because the so-called "Holy Grail" does not exist.

In a way, the real "Holy Grail" is to consistently, over time, make trades where the profits are larger than the losses. It is as simple as that. And in reality, the real Holy Grail is within yourself and your ability to apply your own simple method consistently and, more importantly, have the patience and discipline not to make silly and unnecessary trades.

This is where the professional trader has a huge advantage over most new (and inexperienced) private traders - they fully understand that to make money over a period of a year does not mean making trades every day, or even every month. They fully understand that to make a profit at the end of a trading year needs the patience and discipline to wait for, and then only trade, the best trade set-ups, which may mean only participating in and taking full advantage of one or two major moves during that year.

The statistics on the number of private traders that fail in the markets are alarming, and I believe one of the main reasons for this is over-trading, and the belief that there is one Holy Grail or perfect market technique that can predict with complete accuracy any future market movement. If you stop and think about this for a while, this is pure gambling mentality and complete nonsense. If there were one Holy Grail, then some of the highly paid institutional traders would certainly have found it by now. If you look at most of the successful traders throughout history and those who have made the most money, one consistent theme links them all - the ability to keep their losses small in relation to their profits. Once you understand that this is the real Holy Grail and accept that you *will* make losses, but the trick is keeping the losses small, and stop looking for that one method which avoids all losing trades, then the sooner you will become a profitable long-term trader.

This is what the MTPredictor approach to the markets designed to do - in particular, the three standard trade set-ups are designed not to predict or forecast any future market movement but to allow you to enter a new trade with a small controlled risk. And, more importantly, to keep the inevitable losses (and there will be losses) small in relation to the profits over time. This is the key to a profitable long-term approach to the markets and, in my own opinion, is the real Holy Grail.

Steve Griffiths

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