Multiple Contract Positions
Short and Intermediate Term Trades

Initial positions should be taken with two or three units. A unit is a specified number of contracts. For our discussion, we will consider one unit is one contract. If two contracts are traded, one contract should be considered a short-term position and one an intermediate-term position. *If the market moves in the anticipated direction, the objective is to take profits on the short-term position relatively quickly and remain in the market with the intermediate-term position for the majority of the trend.*

Why cover the short-term position relatively quickly? If the technical analysis of the market position was right-on all of the time, we would hold all positions to the ultimate trend objective. No analysis method is correct all of the time. The objective is to take profits on one unit relatively quickly and bank some profits in the event the market does not reach the trend objective.

Profit Objective For Short-Term Positions

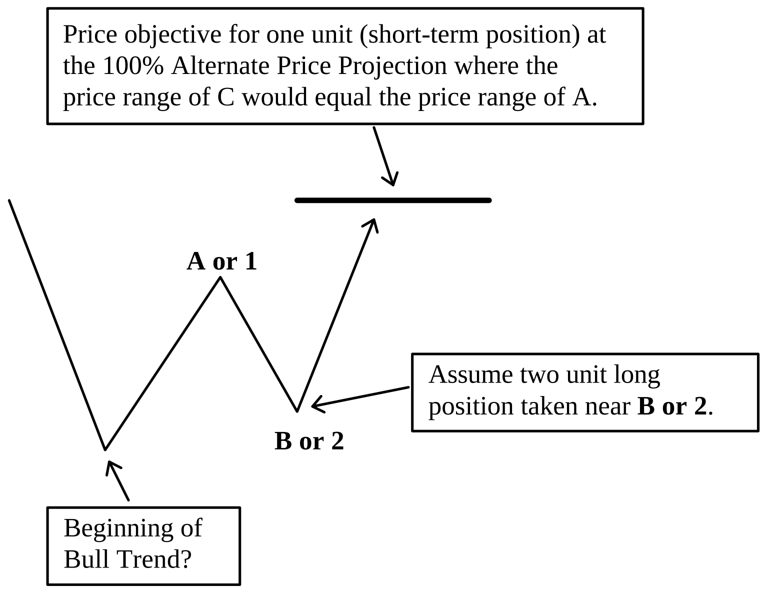
What is the target for profit-taking on the short-term position? As with every aspect of trading, the first consideration is the philosophy or concept behind the trading guideline.

Short-Term Profit Objective

The *minimum* profit objective for the short-term position should be the minimum price target anticipated if the main trend is *not* in the direction anticipated but is only a correction.

For instance, if the trader believes that a new bull-trend is beginning, what would the price objective be if the rally was only a typical correction to the prior bear-trend? In other words, what is the minimum expectation of the rally if it is only a corrective rally to a bear trend and not a new bull trend? The short-term long position would be covered if the market reached the minimum price anticipated if the main trend had not turned and the rally was only a correction.

Price Objective For The Short Term Position
The minimum price target if the main trend is not in the direction anticipated. With the illustration below, if the rally is a correction and not the beginning of a new bull trend, the minimum objective anticipated for an ABC correction is usually where wave-C equals the price range of wave-A.



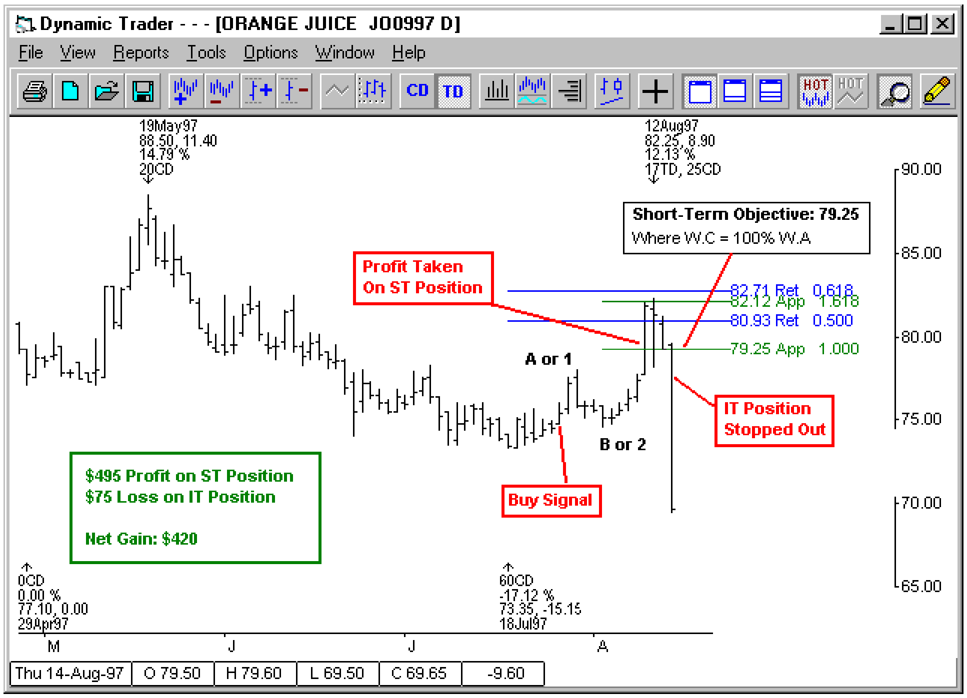
In the example above, profit should be taken on the short-term position either at or near the 100% Alternate Price Projection or the trailing protective sell-stop on the short-term position should be adjusted close to the market such as one tick below the prior day's low if the 100% APP is reached.

How To Be Wrong And Still Make Money

Let's take a look at a recent real-world example recommended in the *Dynamic Trader Weekly Report*. The July 26, 1997 report noted that OJ was near a 15 year price low and within the broad time period for a seasonal low. That report recommended a specific buy strategy that took advantage of the July 24-25 *double-inside-day* trade entry set-up. A long position was elected on Monday, July 28 at 75.75 (Sept. contract).

OJ immediately began to rally, just as anticipated. The Aug. 9 report recommended taking profits at 79.05 on the short-term position. 79.05 was just below the 100% Alternate Price Projection. The report recommended adjusting the protective sell-stop on the intermediate term position to 75.25, just below the "Wave-A or Wave-1" high. If the rally were the initial stages of a bull trend, price should not have declined below this level. A protective stop-loss is always placed at the point the trade outlook is invalidated.

On Monday, Aug. 11, OJ traded to the short-term, profit taking objective of 79.05, taking traders out of the short-term position for a $495 profit. Three days later, on Aug. 14, OJ made a sharp decline and the protective sell-stop for the intermediate term position was elected for just a $75 loss. The net profit on the two closed out positions was $420. See the chart below.



You can clearly see the value of trading two-unit positions. The Aug. 16 report which summarized the trade also included the following comments:

Comments from the Aug. 16 *Dynamic Trader Weekly Report*:

The recent OJ trade has provided us with another example of two important lessons that we have often repeated.

1. ***Trade the market, not the forecast***. No matter how convinced we are of a particular market position, there is always the possibility that the anticipated outcome will not unfold. Sound trading strategies are necessary which include to only consider entering a position with limited capital exposure. The most important objective of trading is to preserve capital. *Take care of your losses and the profits will take care of themselves.*

2. ***In most cases, each initial trade should be at least two units***. Profits should be taken relatively quickly on the short-term unit while the intermediate-term unit is maintained in the event a strong trend develops. The recent outlook for OJ of an immediate and consistent bull trend developing soon turned out to be dead wrong. But the trading strategies resulted in a net profit on the two-unit trade by taking profits relatively quickly on the short-term unit and adjusting the protective sell-stop on the intermediate term unit relatively close to the market.

The short-term profit objective may not always be the 100% Alternate Price Projection. Other market factors may suggest it should be less or more. *The example above is designed to make you think.* If you know how to think in terms of your trading objective, you will be able to make a logical trading decision regardless of what ever market activity unfolds.

In late Oct. 1997, my new book, *Dynamic Trading,* will be available. It includes a comprehensive chapter on *Trade Management and Trading Strategies* that I know you will find useful. Be sure and check our Web site in late Oct. for more information regarding the new *Dynamic Trading* book.