

Traders Education Tutorial

Steven Griffiths, Dynamic Traders Group, Inc.

Enhancing Profits With Price Objectives

In last week's tutorial entitled *Wave 2 or B Corrections Part 3, Trade Entry and Trade Management*, I demonstrated a simple trade-entry on Jan. 7 off what we suspected was a *potential* Wave B low on a 15min S&P Chart, by using the minor swing breakout method. I then raised the protective sell-stop on the resulting Long position just below each successive minor swing low, thus keeping us in a profitable trade as long as the current trend remained in force. This is a very simple and particularly effective strategy to use with *short-term* intraday data.

This week I would like to include some Price analysis to obtain a Profit objective to help us maximize our Profits as the trend reaches what we anticipated will be the *maximum* target for the counter-trend if the current move is a Wave C as we originally anticipated.

All trading strategies begin with an assumption of the current position of the market. Here we are assuming that the S&P low on Jan 6 is a Wave B low, hence we are now anticipating a Wave C corrective rally.

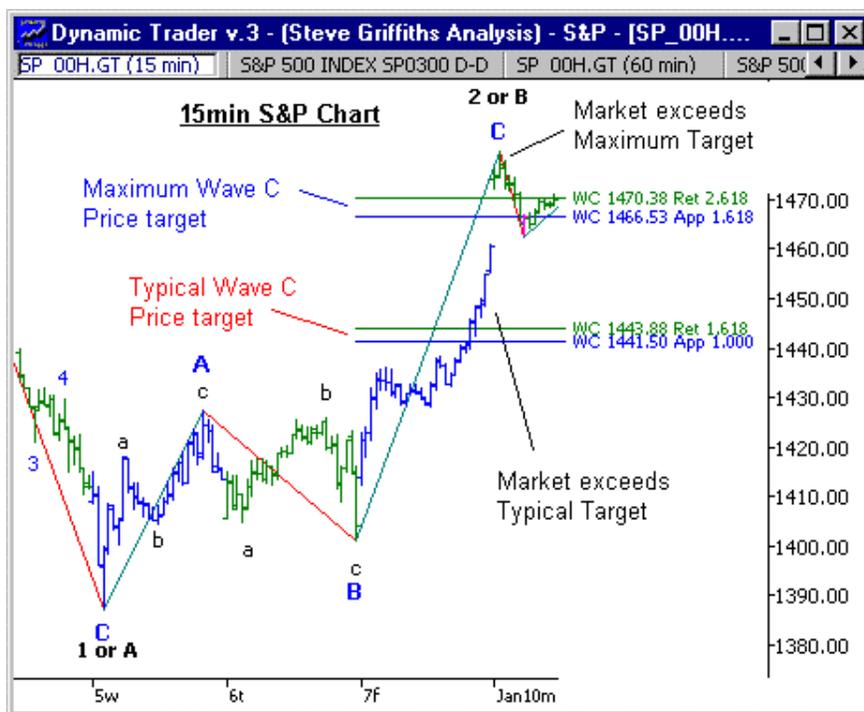
The *Typical* price target for a Wave C includes:

- 100% Wave A projected from the end of Wave B (100% Alternate Price Projection)
- 161.8% Wave B also projected from the end of Wave B (162% External Retracement)

And a *maximum* price target for a Wave C includes:

- 161.8% Wave A projected from the end of Wave B
- 261.8% Wave B also projected from the end of Wave B

These price projections are shown on the Chart on the next page.



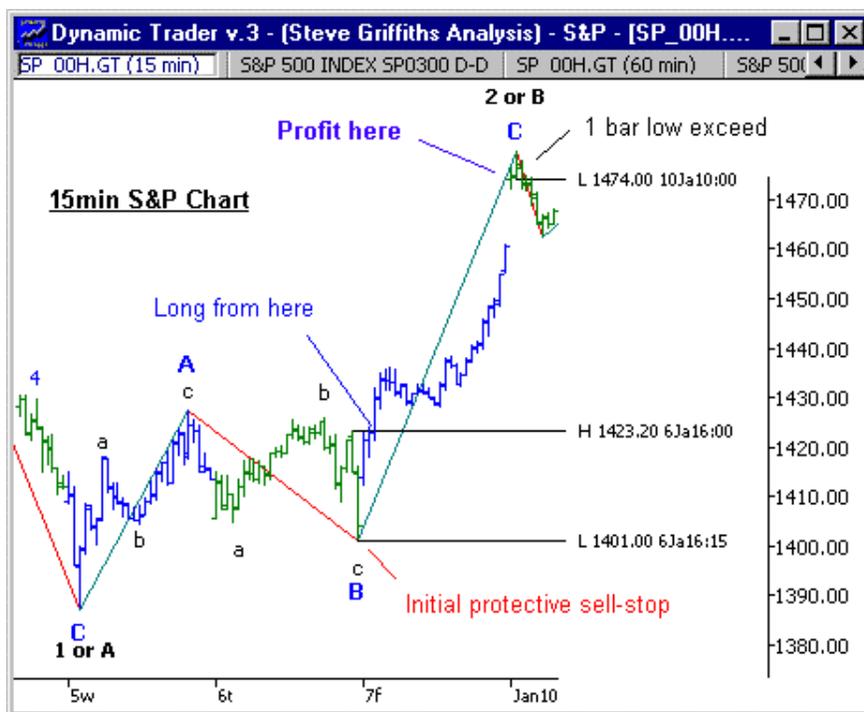
The *typical* Price target for a Wave C falls in the range of 1441.50 – 1443.88, and *maximum* Price target falls in the range of 1466.53 – 1470.38.

As we can see from the chart, the market blasted straight through the *typical* Price target and *gapped up* on the open the very next day to just above the *maximum* Price Target. As the S&P is now at what we would consider the *maximum* Price target for our current opinion of the position of the market, and we are sitting on a nice profit, what do you think the sensible course of action would now be?

Since the Dynamic Trading analysis suggests the probabilities are the current corrective rally is nearing an end, the open profit on the long position should be protected.

One method to protect provides once a market has reached an extreme price target is to trail the stop one tick below the low of the previous bar until stopped out. This trailing stop strategy is applicable to any time frame. Since the analysis and trading decisions for this S&P trade were made on a 15-minute chart, we would use the trailing stop on the 15-minute bars.

As you can see on the following chart this would have stopped you out on the very high bar of this current rally, with a profit of 12 points more than just using the break of the last swing low, as per our example last week.



This is another very simple but very effective trade management technique to apply to any market and any time frame. The only addition to last week's example is the inclusion of the *typical* and *maximum* Price targets anticipated for the current position of the market, in this case a Wave C. Instead of continuing to trail the protective sell-stop just below the last minor swing low, we begin to trail the stop much closer to the market once it has reached what we believe is the price extreme for this counter-trend in order to protect as much profit as possible.

Lessons Learned

1. The Dynamic Trading price analysis will project the high-probability typical and maximum targets for any market position.
2. If a market reaches the maximum target, trail the stop very close to the market to protect open profits.
3. The Dynamic Trading book provides complete instruction how to make the high-probability price projections for each market condition. The End-of-Wave Price Projection routine in the Dynamic Trader software will make all price projections and price target zones with one click from a high or low.

Robert Miner's *Dynamic Trader* book was named the 1999 *Trading Book of the Year* by the Supertraders Almanac.