DT Trade Strategies

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This tutorial will describe the two main entry and stop strategies I use and recommend. I have written about them many times in tutorials and report comments and will review them here.

Pattern Entries and Stops

We often rely on the pattern of the market to identify the trend position – is it impulsive or corrective? What can the market do to confirm or invalidate the position?

If we have an opinion of the pattern position, we are able to make the high probability end-of-wave targets which usually point to the minimum, typical and maximum price targets for the trend or counter-trend.

Let’s use a recent actual S&P example that was included last Tuesday in the DT Intraday Futures Report. I will be using short-term, 5-minute data but the exact same strategy is applicable to any time frame and any market including futures, stocks, indexes or mutual funds.

The assumption mid-morning was a low was made at the 10:15 bar and an impulsive rally would begin. W.1 or A and 2 or B were complete. The recommendation was to buy on the breakout above the W.1 or A high with the initial protective sell-stop one tick below the W.2 or B low. See the 5M chart below. The idea was to be long for a potential W.3 rally.

At about 11:30, the S&P traded above the W.1 or A high electing a long trade. The recommendation was to place a *stop-and-reverse (S&R)* to a net short position one tick below the W.2 or B low. A stop-and-reverse is simply a sell order for twice the number of contracts that you are long which will result in a net short position.

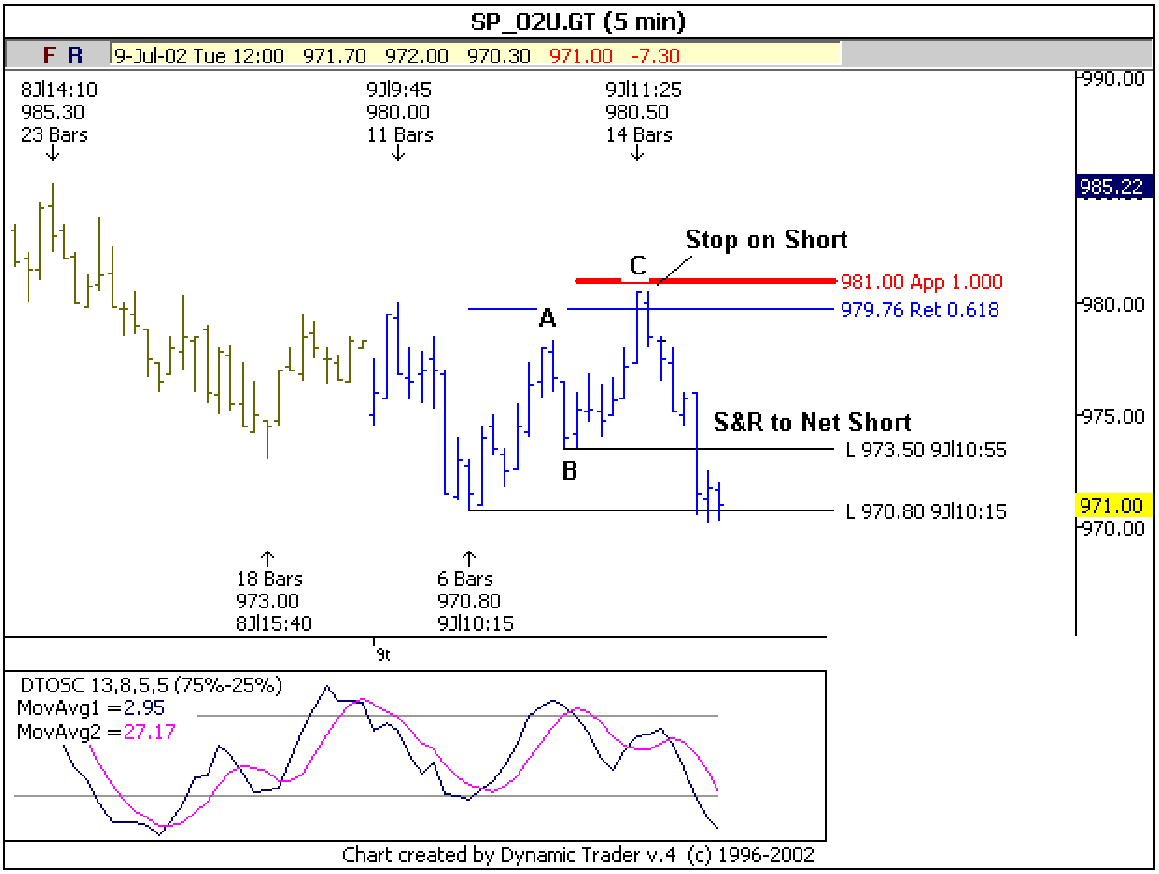
Why a S&R? If the S&R were elected, the assumption that an impulsive rally was going to be made would be incorrect. The rally should then only be a correction and the bear trend should continue to a new low. We would want to be short.

We were using the pattern position to identify the most likely trend direction and the place where the market would confirm or invalidate the potential trend position.

Some traders have difficulty reversing a position. It is an important hurdle that you must overcome. One way to get over the reversal phobia is to think of it as an independent trade instead of a reversal of position. If there were no open position, the trade would be initiated.

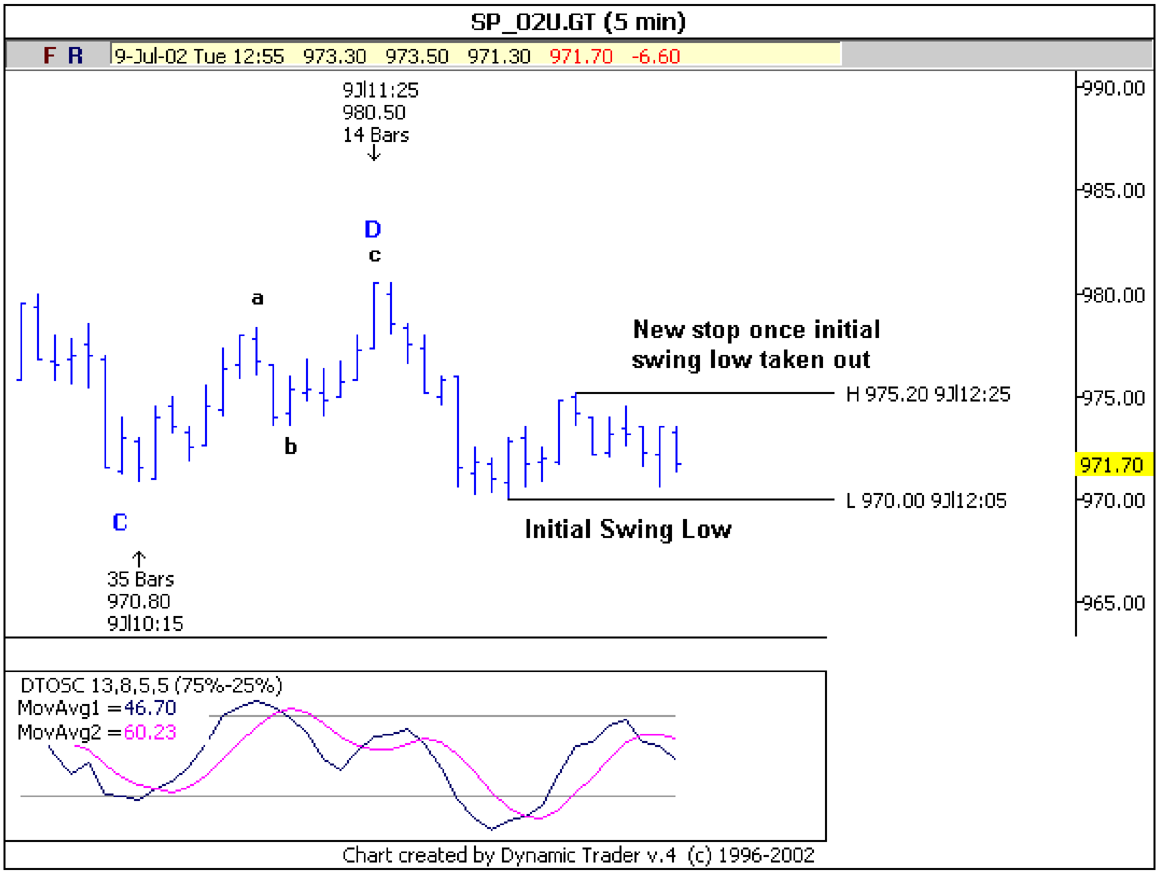
Less than one hour after the breakout above the W.1 or A high, the S&R to a net short was elected when the S&P declined below the W.B low.

The stop on the short position was placed one tick above the W.C high.



What would be the strategy for stop adjustment? Once again we use the pattern position. If the market is declining from an ABC correction, the assumption is the decline will be a five wave impulse trend. Once the W.1 and two are complete, the stop is adjusted to one tick above the W.2 high.

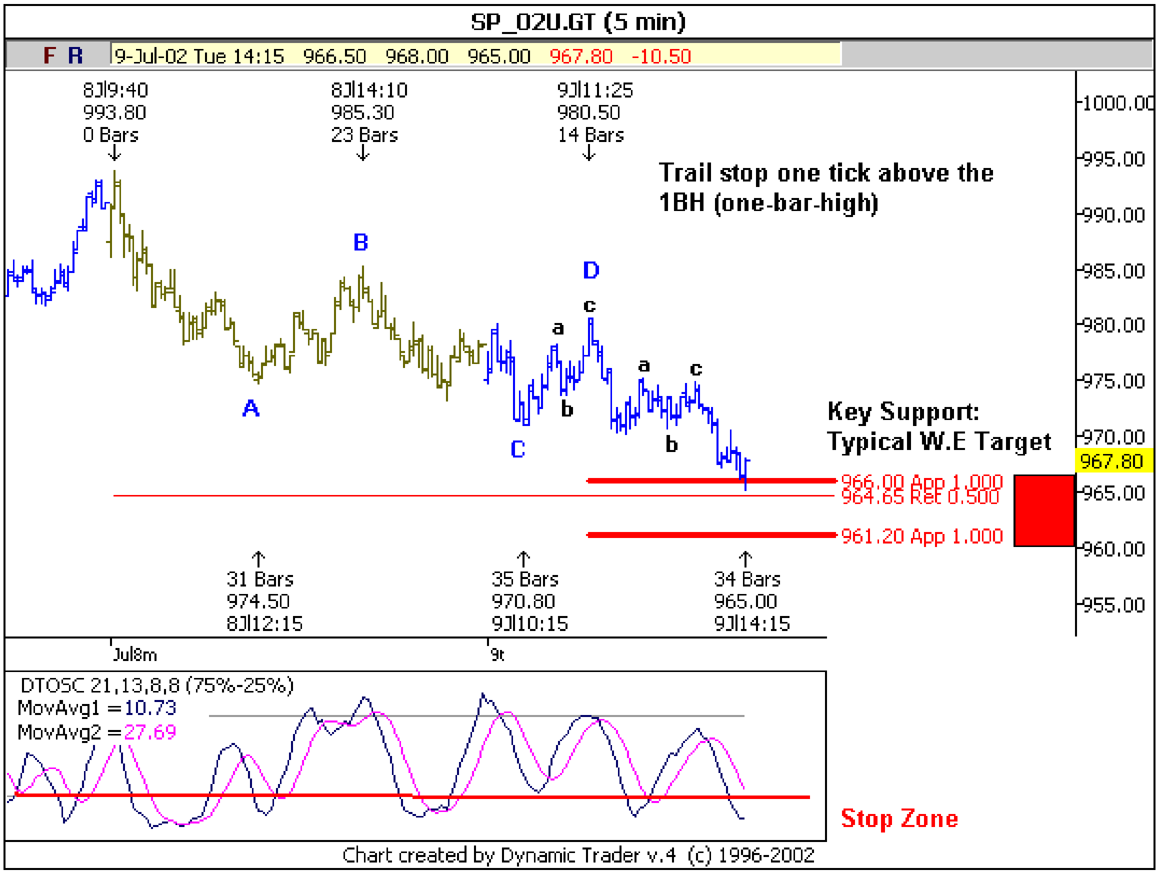
About an hour later, the S&P had made a sharp decline and then traded sideways. The initial low was considered the W.1. Once the W.2 was complete by a decline below the W.1 low, the stop was adjusted to one tick above the W.2 high.



The S&P eventually declined and the stop was brought down to one tick above the W.C high.

How would we look to exit the trade and take profits? Once the market reached a minimum target zone, the stop is trailed close to the market. In this case, 966-961 was the target zone which included the 50% retracement (always a key) and the 100% alternate price projections of the prior two swings which formed a target zone for a potential W.E. Once this target zone is reached and the DTOSC (StoRSI) is in the Stop Zone in a Bear Trend (below 25%), the stop would be trailed one tick above the 1BH (one-bar-high).

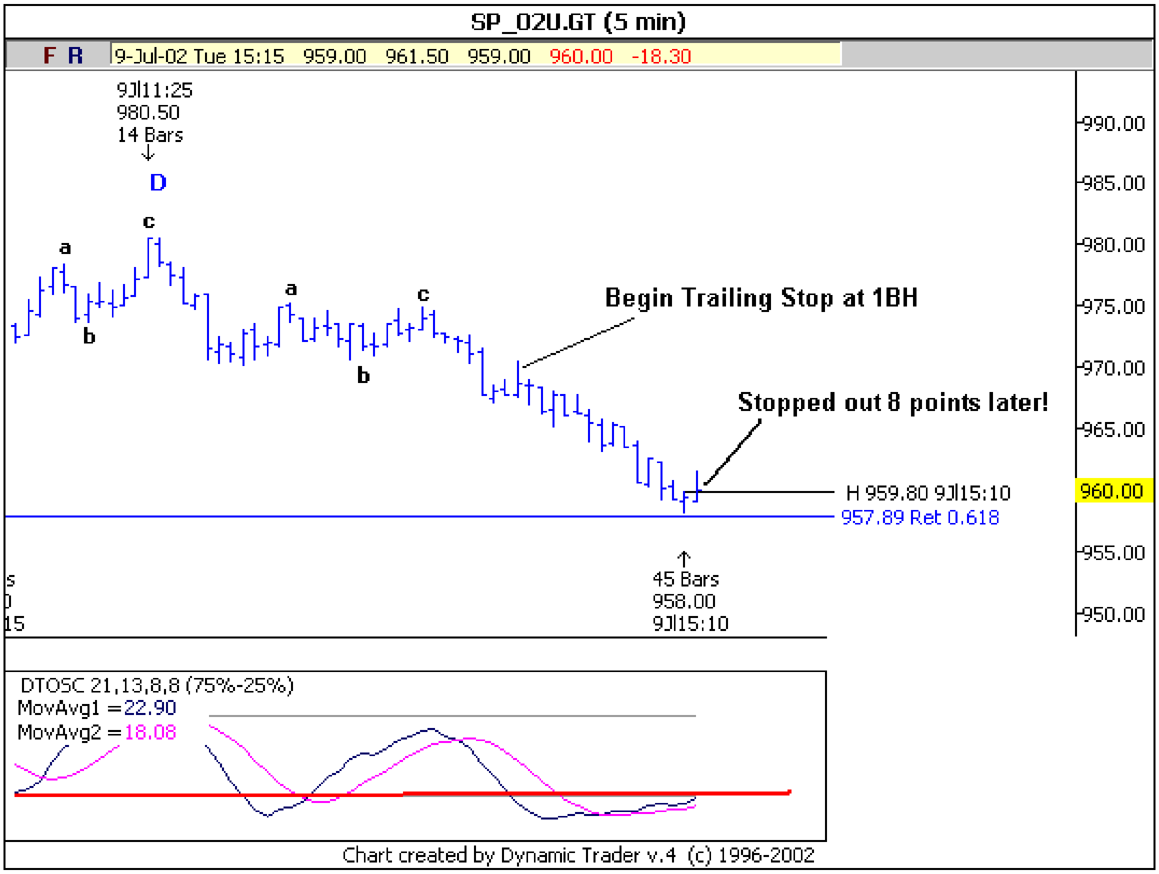
In mid-afternoon, the S&P reached this target zone and the StoRSI was in the stop zone. The recommendation was then to trail the stop one tick above the 1BH.



Why not exit at the price target or the first cross over of the DTOSC instead of trailing the stop? Trailing the stop at the 1BH keeps it very close to the market yet will probably keep you in the market if the trend continues.

I almost never recommend taking profits (or entering a trade) at a price target. I always like the market to provide some signal it is going to do what I anticipate by making a reversal, taking out a minor swing high or low or trading above (below) a bar before entering or exiting a trade. That way you have a better probability of staying with the trade if the trend continues.

It was about an hour and eight points later before the short trade was stopped out by taking out the 1BH.



There was a small loss on the first long trade and a much larger profit on the second short trade for a net profit for the day of the two trades.

This is not an after the fact example but exactly as referred to during the day in the Intraday Reports and chat room. It is nothing new or complicated. It is a simple strategy I have referred to many times and used by many traders. The trading strategies responded to the market position and were all made in advance.

Strategy Highlights

1. The pattern position of the market will often provide a completely objective entry and initial stop strategy, including if a stop-and-reverse strategy is warranted.
2. The strategy is always prepared in advance. Either the market fulfills the conditions for entry and stop or it does not.
3. The exit strategy is completely objective. Once the conditions are met, the stop is adjusted.
4. The trade is not exited until the market provides a reversal signal.

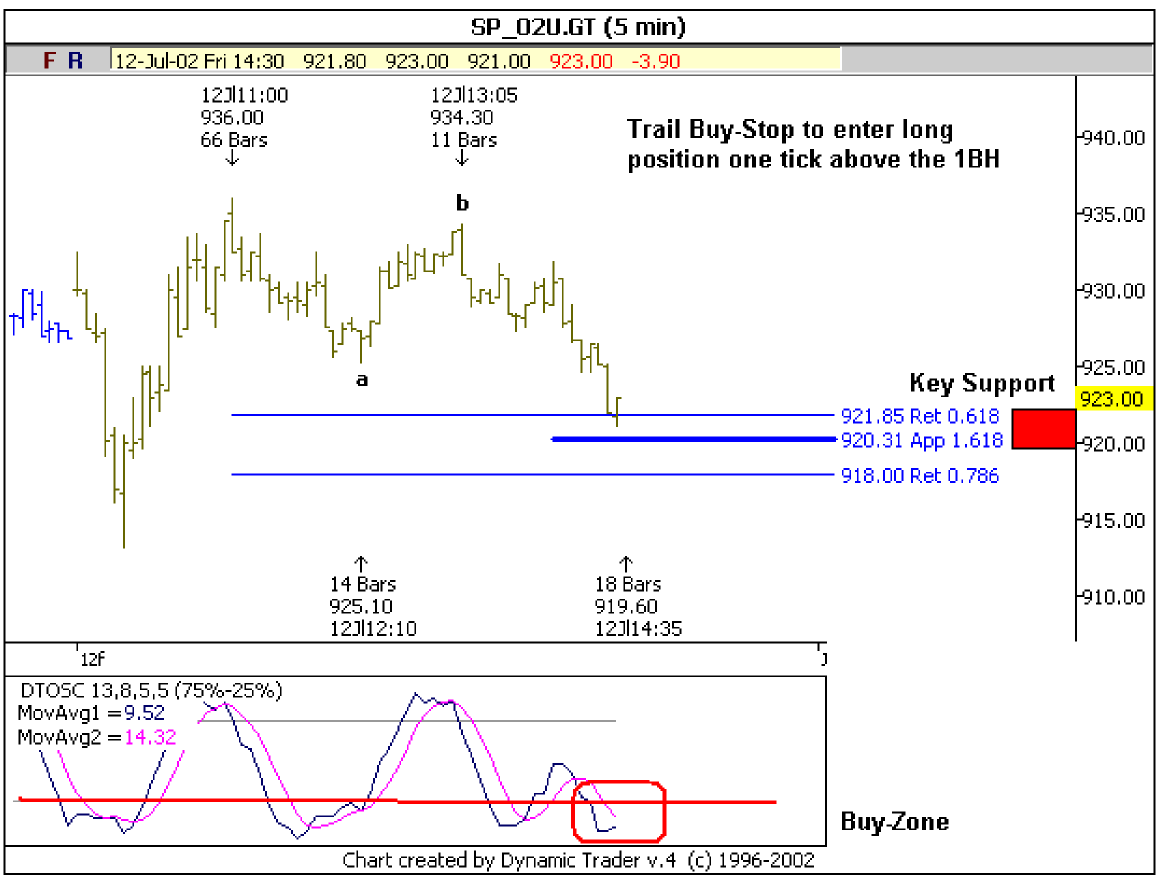
Indicator Entries and Stops

Let's take a look at another example and how we use the DTOSC (StoRSI) or any other indicator to hook us in and out of the trade. If you don't have DT, use whatever indicator you typically look at. They all show about the same thing.

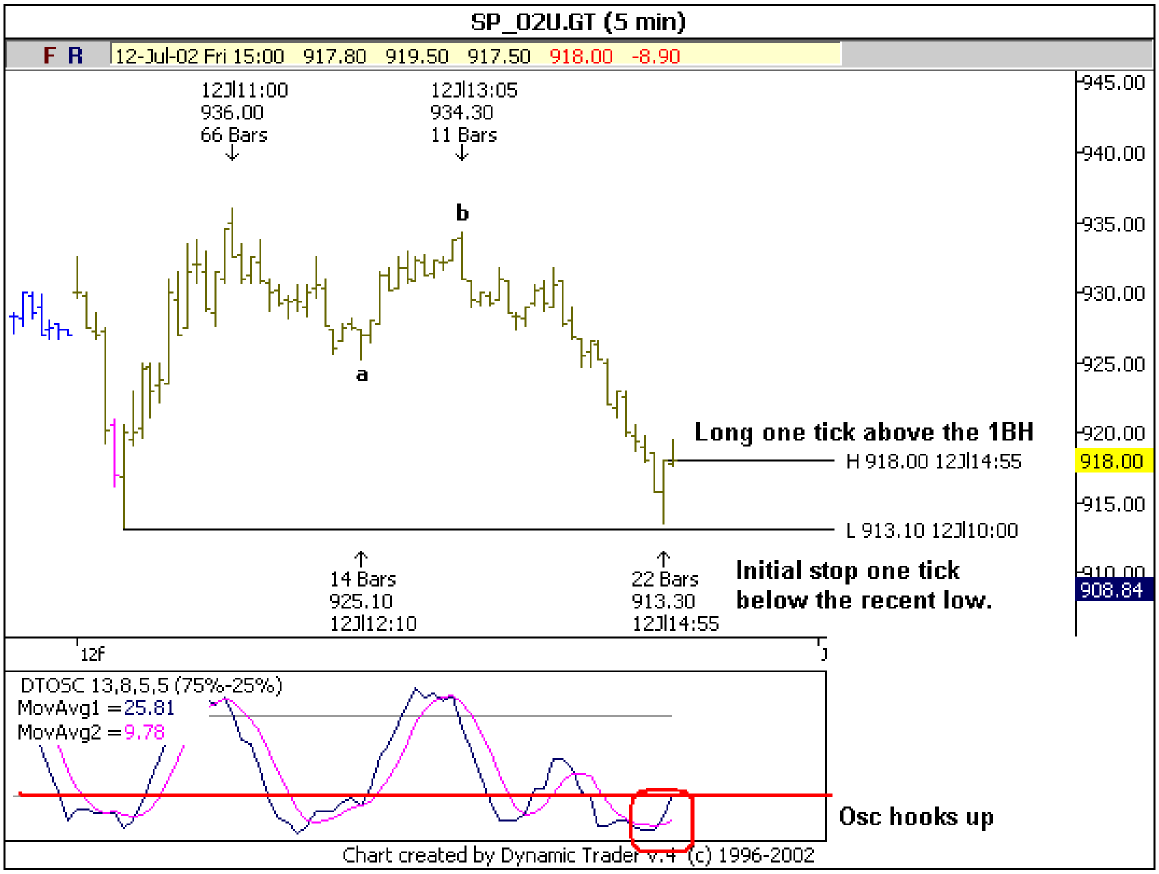
In the middle of the afternoon on Friday, my assumption was the main trend was up from Thursday's reversal day low and the S&P was making an ABC correction.

At the 14:35 bar, the S&P had reached a potential support zone and W.c target which included the 61.8% retracement of the day's range and the 162% APP of W.a. The StoRSI (DTOSC) was in the Buy-Zone for a Bull Trend and hooking up.

A chart was sent to DT Intraday Futures Report subscribers and the comments noted a potential DTOSC double low. The typical trading strategy is to trail an entry stop for a long position one tick above the 1BH.

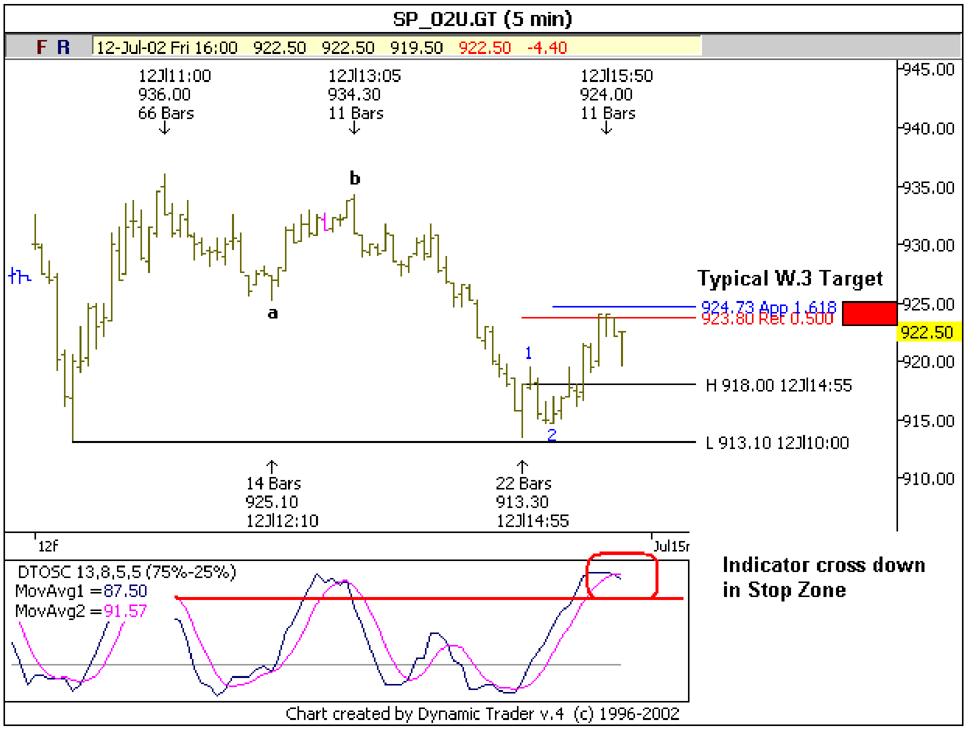


About 30-minutes later, the entry signal was made when the S&P traded above the 1BH. The initial protective sell-stop is placed less than five points away, one tick below the recent low.

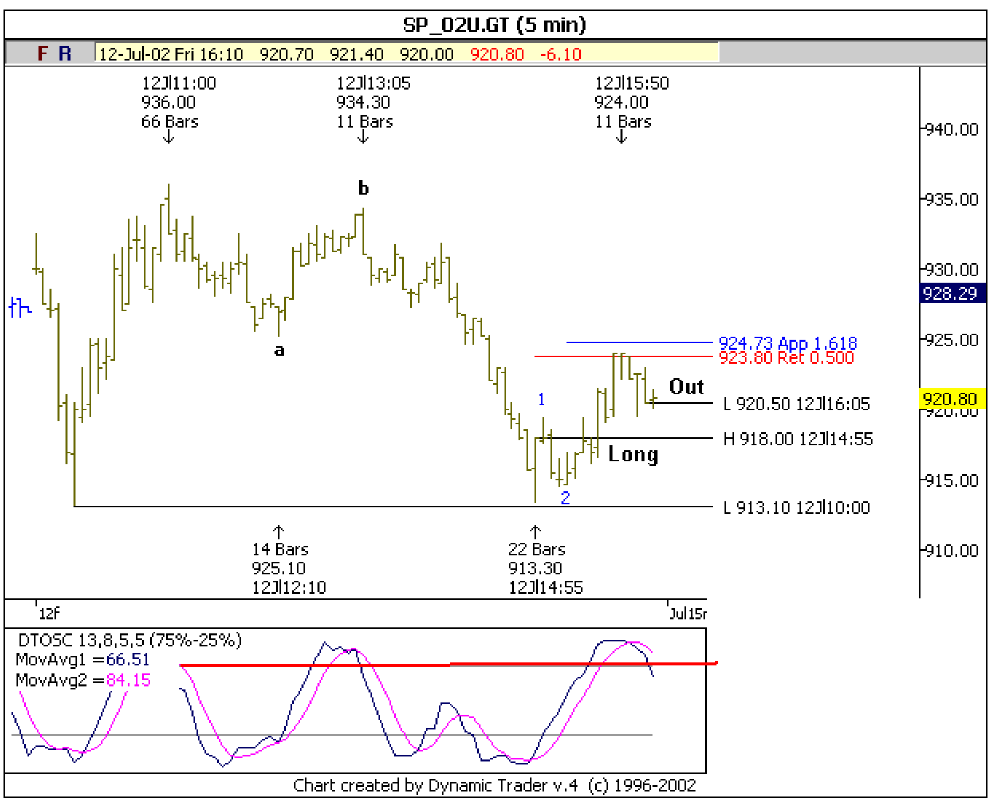


What is the exit/profit strategy? Once the indicator reaches the Stop-Zone (above 75%) and crosses down, trail the stop one tick below the 1BL. The exit strategy is prepared in advance and is completely objective. There are no more decisions to be made.

About 30 minutes later, the indicator reaches the Stop Zone and hooks down. The S&P has reached a potential resistance zone. The stop is trailed one tick below the 1BL.



The stop at the 1BL was elected just a few bars after the DTOSC crossed down from the Stop Zone.



The profit was less than three points on this trade. I may end of being complete wrong about the trend position of the market. The S&P may not of made an ABC correction. The bear trend may be resuming. What ever that may be, the trade strategy was made in advance and the entry and exit was completely objective. And, at least a small profit resulted.

Strategy Review

1. If the market is at a support or resistance target zone, ideally an end-of-wave target, once the Osc hooks up, trail the entry one tick above (below) the 1Bh or L. Place the initial protective stop one tick beyond the extreme made prior to entry. This will usually be a very small capital exposure.
2. Once the Osc reaches the Stop Zone and hooks down, trail the stop one tick above/below the 1BL or H.

These strategies are applicable to every time frame and every market.

For a complete tutorial on indicators and trading strategies, download **and study** the 84-page *DT Indicators and Trading Strategies* manual from the Subscriber Page. This manual along with the time and price manuals and other tutorials are only available to paid subscribers. They do not show on the one-week Trial Subscribers page.

The beauty of these strategies is there is not a lot of guess work during the trading day. The entry and stop strategies are objective. You do have to use your judgment and experience to identify the simple patterns and price targets, but that is easy to learn and is what we constantly teach in our reports and tutorials and what we constantly update in the DT Intraday Reports.