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WORKBOOK

ELLIOTT WAVE THEORY FOR SHORT TERM AND INTRADAY TRADING

By Steven Poser

COVERING: FUTURES, STOCKS AND DAY TRAD1NG

Elliott Wave Theory is often seen as a tool to determine long term cycles in the markets. However, the fractal nature of Elliott Wave makes it just as useful for short-term and intraday trading. In this session, Steven will explain why Elliott Wave is an excellent tool for day trading. He will discuss how you can make money even when you have the wrong wave count and the wrong assumptions; how Elliott Wave is forward looking and a great money management tool. He will also focus on the weaknesses of wave-based trading and how to overcome them. Finally, he will describe how intermarket analysis, when used together with Elliott Wave, can add confidence to your trading analysis and final actions.

Steven Poser is President and Founder of Poser Global Market Strategies, Inc., an institutional and retail advisory services firm registered as a CTA with the CFrC which also offers training in technical analysis techniques for trading and analysis professionals. Prior to forming Poser Global Market Strategies Inc., Steven spent nearly eleven years as sole U.S. technical analyst at Deutsche Bank Securities in New York City, sitting, at various times, on the U.S. Government Bond Primary Dealer Desk, the International Bond Desk and the Currency Desk. Before joining Deutsche Bank, he was a computer analyst for Merrill Lynch Capital Markets and the Western Electric Company, where he helped create the Y2K consulting industry with his Y2K non-compliant coding techniques. He holds a post-graduate certificate in finance, an MBA with a concentration in economics and a BA in mathematics and computer science.

Steven has become a widely acclaimed technical analyst achieving recognition for his prescient calls on the U.S. bond, currency and stock markets. He has appeared on CNBC, is a regular guest on Reuters Financial Television and CNNfn and is frequently quoted by the many wire services. His letters and articles have appeared in publications such as Forbes, Barrons, Futures and The International Financing Review. He took highest honors in Knight Ridder Financial's trading game competition in 1996 and finished third in 1998 although he competed for only six months of the year.

Mr Poser's Personal Workshop was presented and recorded at a recent LIVE @ TAG conference.

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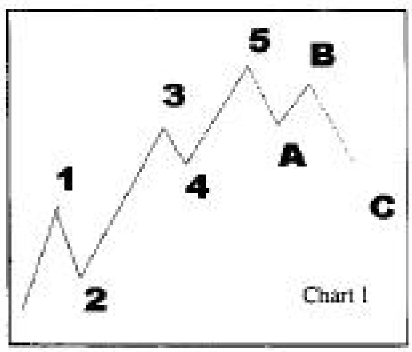
Day Trading With Elliott and Intermarket Analysis

- Flexibility is key
- Multiple time frames even when day trading
- Look for confirmation from indicators, trendlines, channels and retracements
- Make sure movements in other markets add up to the same story
- You can make money even when you are wrong!

Elliott Wave Review



- Fractal nature
- Impulsive versus corrective
- Retracements and Fibonacci
- Measured moves
- Third wave usually largest
- Prefer ratio of at least 1.618 times first wave for impulses.
- Failure to attain 1.618 ratio often a hint that move is corrective.
- Momentum should confirm third wave.
  Use proper time frame for momentum.

Is it a third wave?

- Yes? - Exceeds top of channel, momentum matches first wave end peak.
- No? Final wave of third very short, and wave-3 is very short. Will need shallow retrace and immediate rally implying labeled wave-3 then wave-i of wave-3.

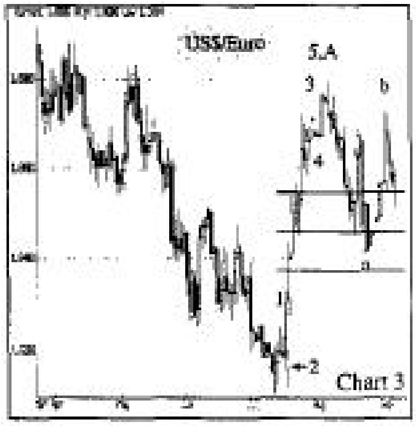
If you can't count it, it is corrective.

Corrections are often very complex: zigzag followed by a flat, triangle, etc.

Do not forget time as well as price!

Other wave characteristics:

- 2nd wave typically convinces that old trend is still active
- 4th wave often alternates with 2nd
- 5th wave can be a wedge
- Note deep 2nd wave retracement
- Wave-3 almost exactly 4.236 Fib ratio to Wave-1
- Shooting star on last candle in wave-5
- Wave-B still on going (no good wave counts since high at 1.0825) even on daily chart.
- Intermarket note: Euro weak along with surging Dow.

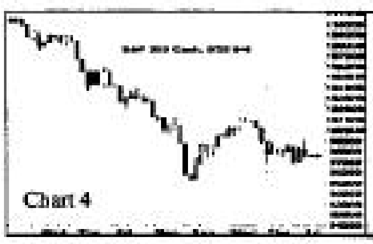


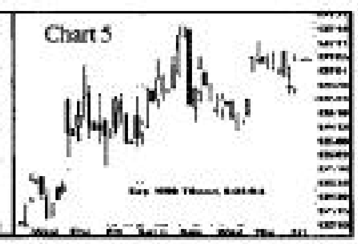
• Elliott Summary

- Useful tool for trading on its own
- Wave counts can be very subjective
- Lots of noise in intraday charts makes using EW a challenge
- Attempt to improve trading by combining with other methods

•Intermarket Analysis

- Normal approach is usually looking for leads and lags over periods of time
- Classic comparison is turn in CRB leading turns in bonds by, days or weeks
- This sort of information is almost useless for day traders
  - Intraday movements often see one market react to another
  - During 1998 stock market collapse, bonds and equities were mirror images and most Tbond traders had S&P futures up on their screens





If the dollar is leading the stock market, there is reason to hope that equities will move sideways to higher short term. The bottom labeled "F" on the dollar/yen chart is an apparent third wave low, and the US currency shows potential to rally back above ¥110 even past ¥113. Target levels had previously been computed at ¥107.50, which was the low, and at which point the Bank of Japan intervened.

- Bigger picture says wave-5 lower to at least ¥105.70, if not ¥104.20 or ¥100 (or even lower) should be expected.
- With that thinking in mind, one should then expect lower prices ultimately for the Dow. This fits with the wave picture in US equities too as shown below.

- Point B is wave-A, point D is wave-b, and prices are currently rising in wave-ii of wave-C down that should match or slightly exceed wave-A lows. Tells me that $/¥ will not collapse.

Points to remember

- Be inclusive and flexible in your analysis
- Look at several related markets
- Determine if they all add up to a similar story
- Do not just look at intermarket relationships to confirm wave counts, use candles, indicators, day counts, data releases, sentiment, patterns, etc.
- Remember that there is no "Holy Grail"
- Start at a higher time frame before entering day trade mode.

More useful hints

- When intermarket analysis disagrees with Elliott or other technical conclusions, stick to the technical conclusion, but be doubly cautious of any break to the expected pattern.
- If a market is range trading, and a related market breaks up (down), place buy (sell) stops at the range boundaries in the ranging market.

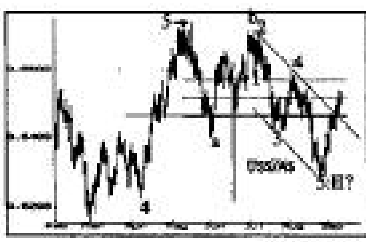


Chart 10

Chart 11

Some related markets I look at:

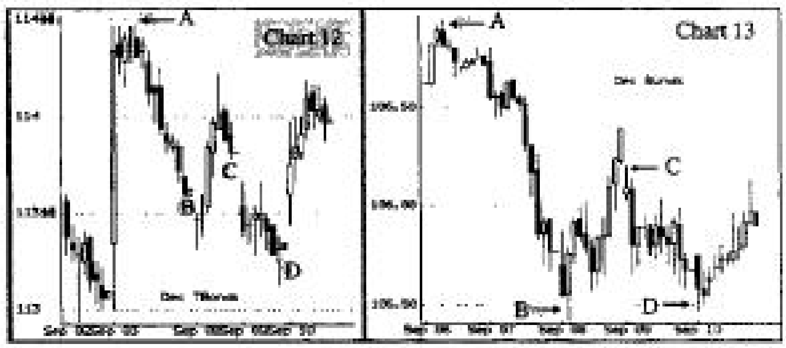
- US bonds to help predict the dollar, stocks, Fed funds, US money markets, foreign bonds
- US stocks to help predict US bonds and the dollar
- The dollar to help predict US and foreign bonds
- Oil to help predict the C$, US bonds
- Hang Seng to help predict technology stocks (from John Murphy)
- Foreign bonds (especially overnight) to help with US bond market open
- Foreign stocks to help predict US stock market open
- Gold to predict the number of conspiracy theories on internet chat rooms.

From daily analysis to intraday trading

- You must be aware of the over riding trends before day trading. Your willingness to stick with a position, or add, or how tight your stops are will be determined by the larger trend.
- Some of this bias will be gleaned from the kind of analysis shown in the dollar/stock market slides
- Many traders say that you should not have a bias as to market direction. As soon as you put on a trade, you have a bias, so that statement is misleading.
- What is more correct is that you do your analysis and trade plan to come up with a bias, and as soon as the market stops developing according to plan, an offsetting action must be taken.

Here's one quick and easy daytrading idea, especially for the insomniacs in the audience:

The European bond and stock markets often gap higher or lower at the open, based on how US stocks and bonds traded after their close. If the larger trend is counter to this move, it is a good bet that the moves will not be sustainable. Even if a larger trend is not present, if the move runs out of steam, an easy trade away from the US direction often results. Wait for a minor trendline break or move past the open level for entry.



- Point A - US bonds finish at highs on 3-Sep, bunds open higher on 6-Sep, sell on move into previous day's range, stop, intraday high
- Point B - US bonds close on their low 7-Sep, bunds move lower, buy as previous day's range is entered, stop at daily low

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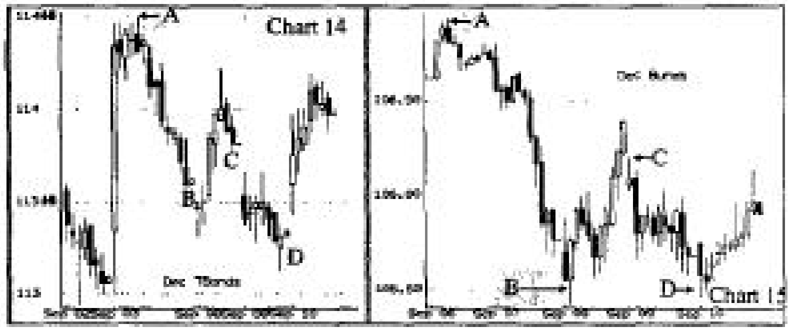


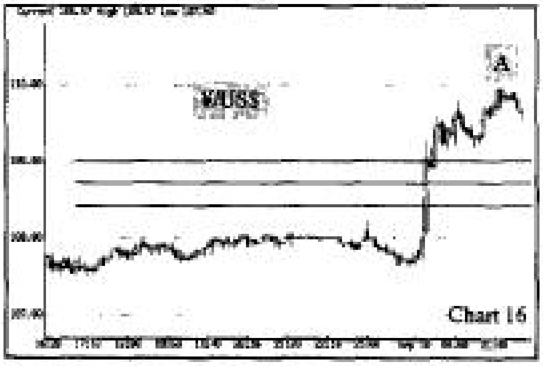
- Point C - US bonds close lower after bunds close, bunds fall at open, but no gap. Buy on moving into the previous day's range with stop at daily low.

- Point D - US bonds slip after bunds close, bunds gap open lower. Sell with stops above previous close.

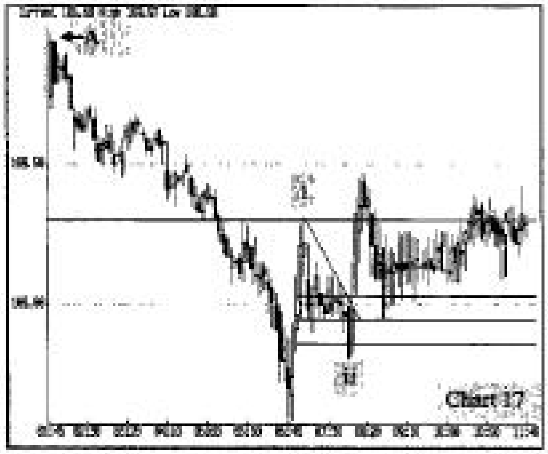
Note that previous examples would have worked also going the other way — bunds actually predicted the US market direction each day!

Traders are so convinced that the US markets always push other markets around, that you can often find yourself with a real advantage by considering how foreign markets can alter US markets too.

Making money when you are wrong

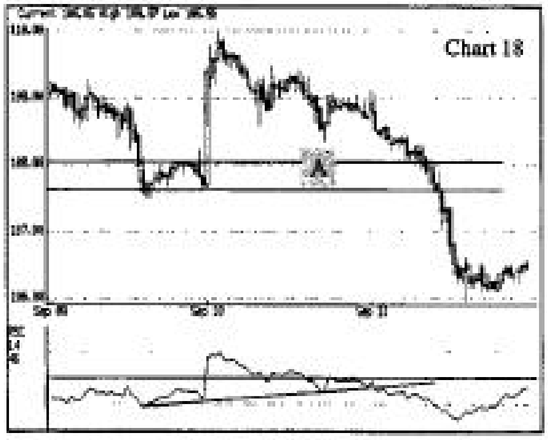


Best wave count appeared to be five waves for wave-a. Suggested intraday shorts, but with eye toward bigger rally toward ¥111/112 from ¥108.50/109.00 range.



Should have taken profits after failing to reach 62% retrace, by trailing stops above old 38% Fib level.

Long $ entry on trend line break after 62% retrace. Once taking out wave-i high, trail stops to that level.



Break of RSI uptrend in lower half of chart is first warning that high on chart was not 1st leg of larger correction.

Move below line above "A" gives overlap with first leg and drop below previous low at ¥107.50 confirms lower prices ahead.

Making money when your are wrong

- Each wave has certain characteristics. If you believe the market is set to move impulsively higher, and the market goes your way, but only struggles, take profits and reverse when a local low has been taken out, or on failed rally to nearby high, with stops above that high price.
- Lots of noise intraday. I rarely chase moves immediately after data releases. Rallies and drops almost always look like 3rd waves of some degree. Enter markets at 38% retrace and stop either on 50% retrace or failure to make new high within the next hour or two. If reaction does not continue, it typically means over reaction to the number.
- Though not wave-based, be aware that "Street" analysts get their reports out 30 minutes to an hour after data are out, so reversals often happen in that time frame!

Methodology weaknesses

- Often, the only place that a wave count is proven wrong is by taking out a local high or low. Unfortunately, that will often be the same place that other stops are placed from those not using Elliott.
  - Remedy - Place stops below 76% retracement instead. If wave count fails after that, once stops are run, lack of follow through is often an opportunity to re-enter for corrective retracement.
- Intermarket relations are not always constant and reactions are sometimes lagged
  - Remedy - Entries on intermarket analysis is even more subjective than E-Wave counts. Only enter if wave counts concur.

Methodology Weaknesses

- Elliott Wave is subjective — The most common problem with E-Wave. Combine Elliott with other methods and understand wave characteristics:
  - **Wave-1:** Market believes previous trend is still active and is not always obviously impulsive
  - **Wave-2:** Convinces market that old trend is still active with deep retracements
  - **Wave-3:** No doubt about it. Market surges higher and should be at least 1.618 times as large as wave-1
  - **Wave-4:** Usually choppy and uncountable. Larger trend obviously still active
  - **Wave-5:** Look for momentum divergences

Putting it all together

- Elliott Wave Theory is a good tool for intraday trading, but it works best when combined with other analytical tools. One such tool is intermarket analysis, which can often give you a "leg-up" on other traders.
- Always stay aware of related markets. See the slide of some examples that are worth tracking.
- Impulse waves should be easy to count. If it is not countable, it is usually not sustainable.
- Be aware of stop placement as E-Wave can often leave you with stops bunched with everybody else on the planet.

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