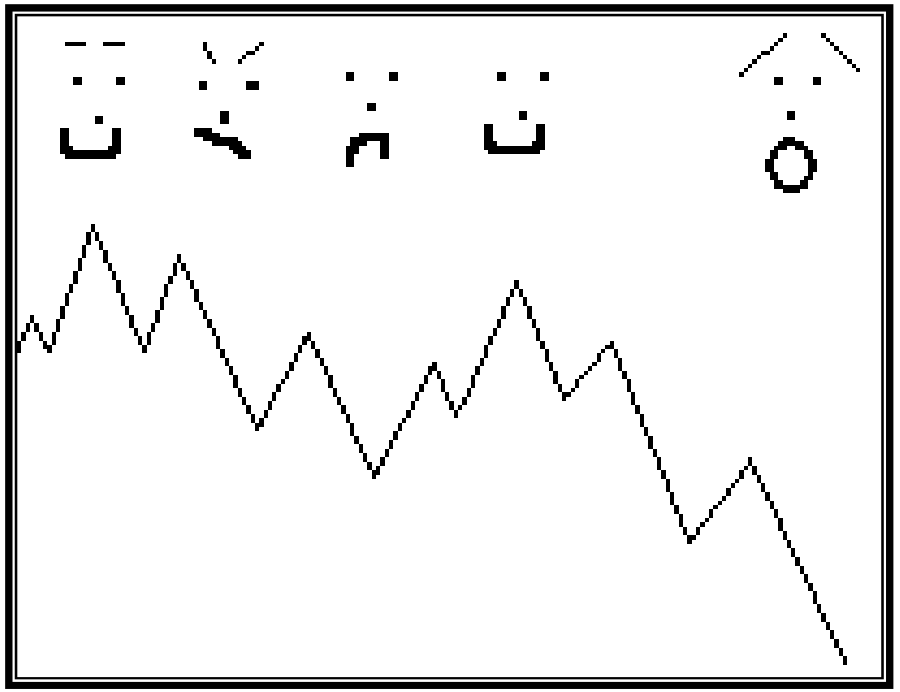
Elliott-Wave Fibonacci Spread Trading

Presented by Ryan Sanden



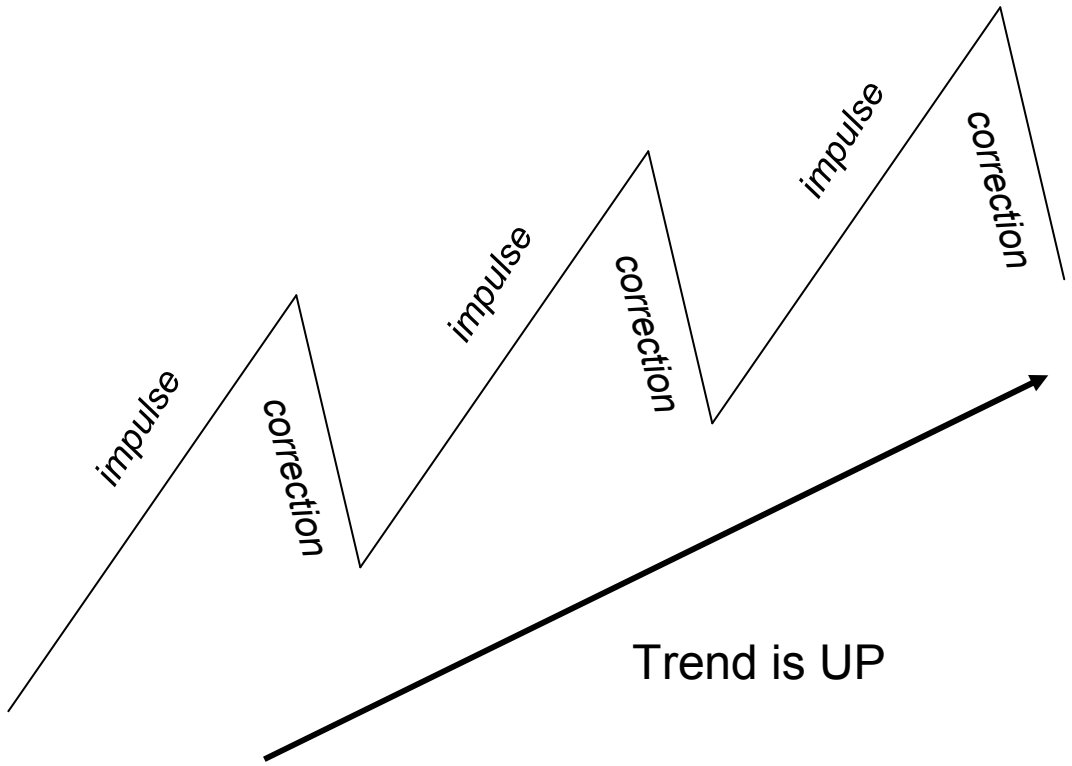
The inevitable disclaimer:

Nothing presented constitutes a recommendation to buy or sell any security. While the methods described are believed to be effective in the long run, no guarantee of efficacy is being made. Trading involves risk. I will in no way be responsible for any decisions or trades made as a direct or indirect result of this material. Full understanding of all trading instruments and exchanges is the sole responsibility of the trader.

Ryan owns positions in the following related securities discussed herein: SDS

Principles of Market Trends

- Markets move in *trends.*
- Movements with the trend are called “impulses”.
- Movements against the trend are called “corrections”.
- Trends eventually change.



Principles of Market Trends

- Trends depend on their *time frame*.
- Green = uptrend
- Red = downtrend

6 Trends

Principles of Market Trends

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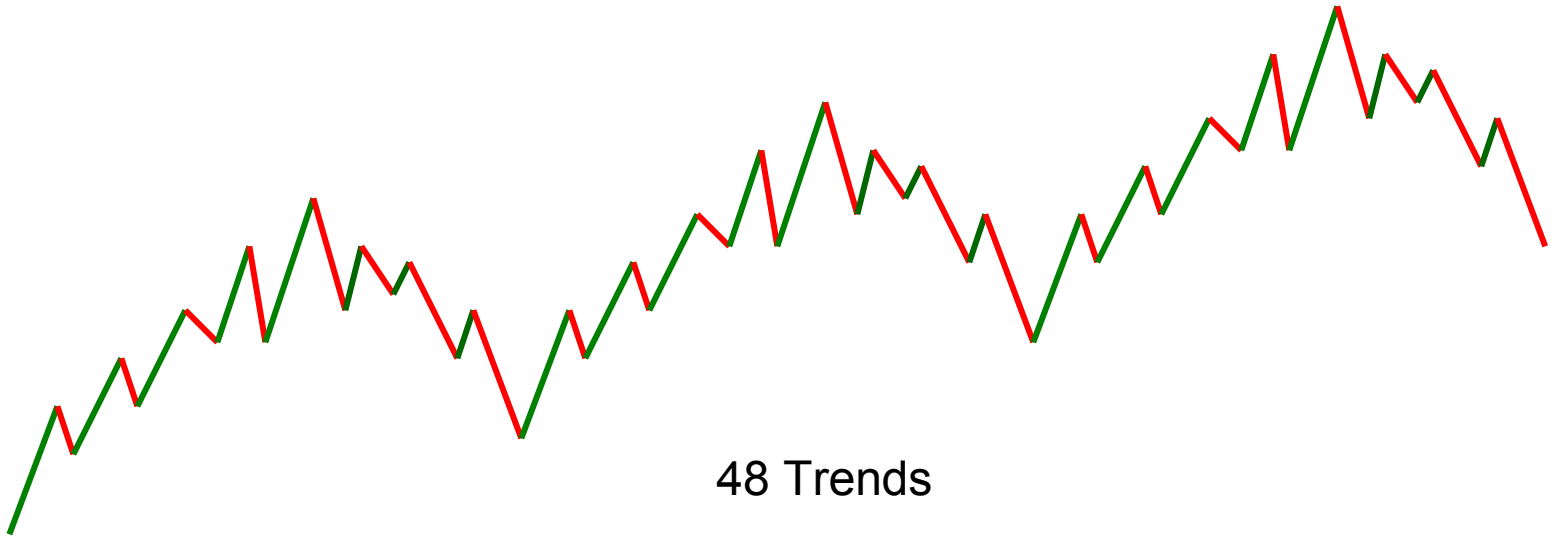

48 Trends

Principles of Market Trends

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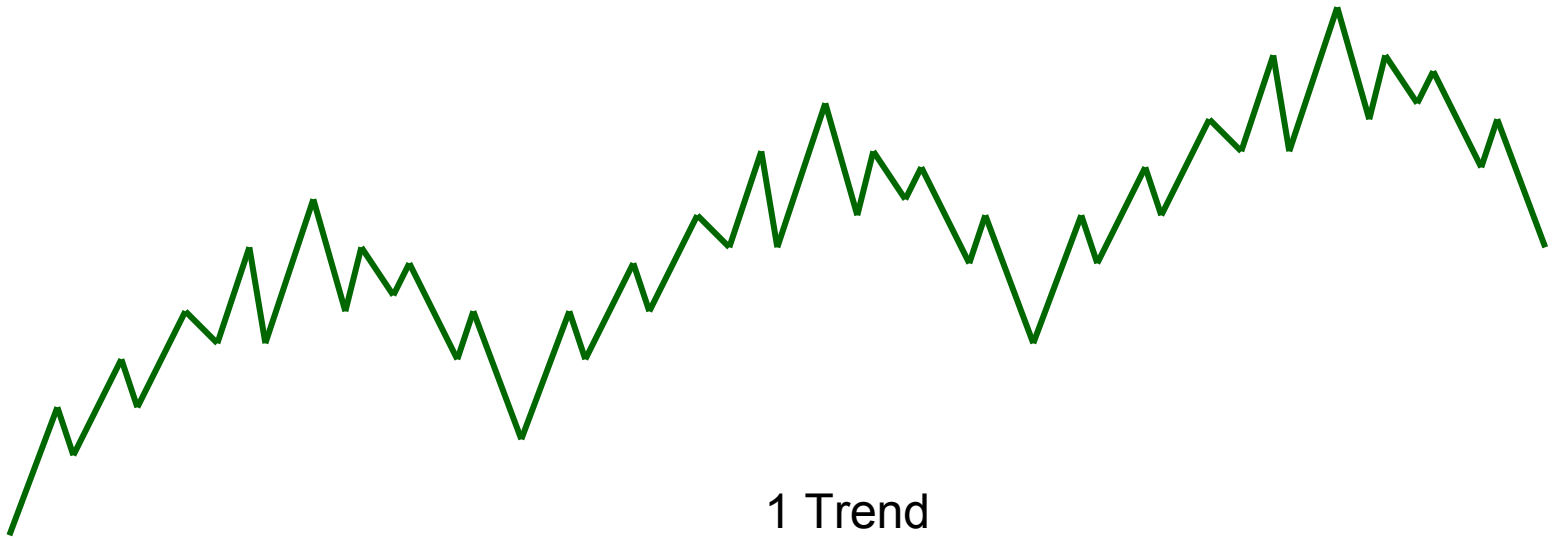
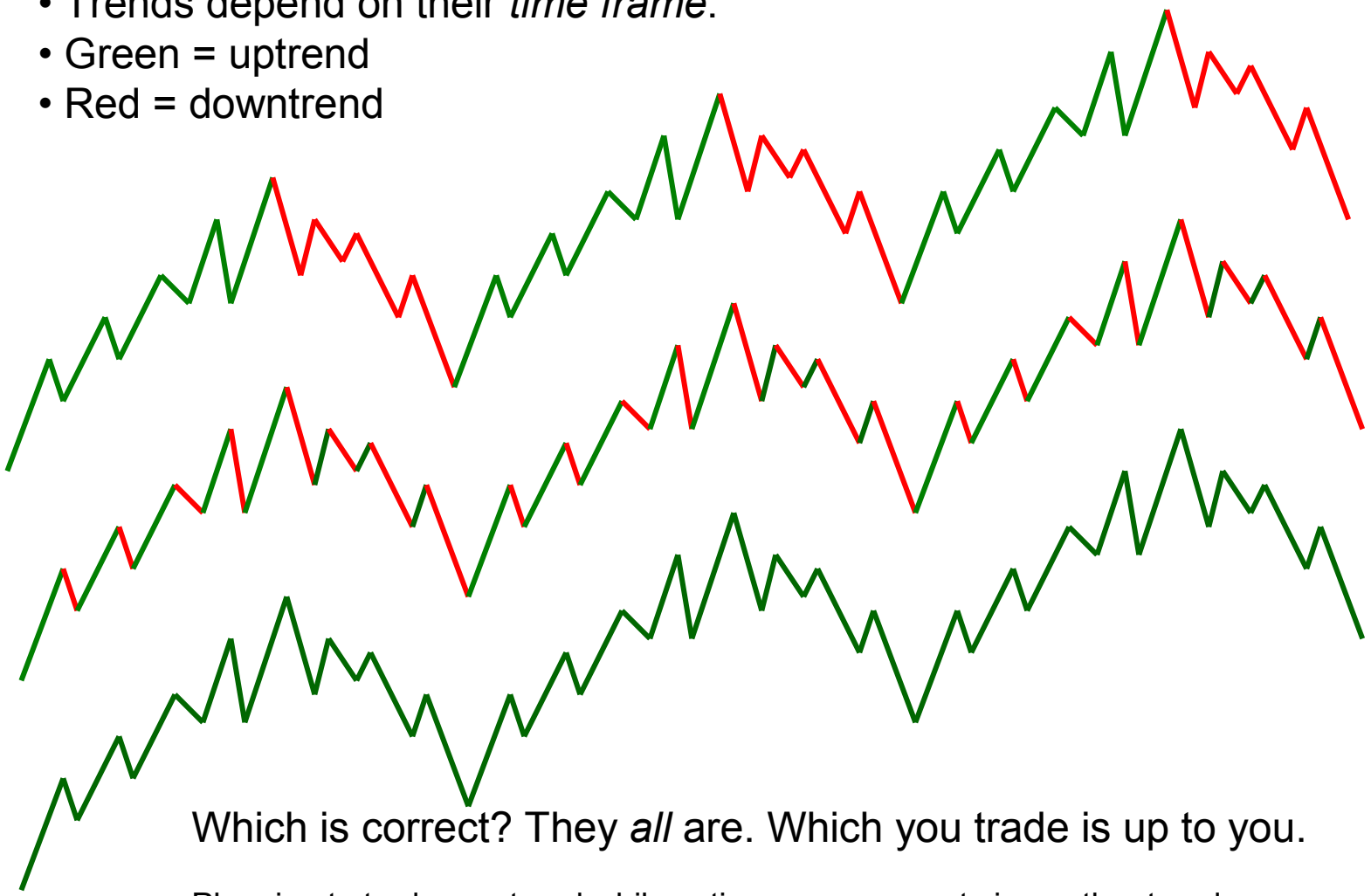


1 Trend

Principles of Market Trends

- Trends depend on their *time frame*.
- Green = uptrend
- Red = downtrend

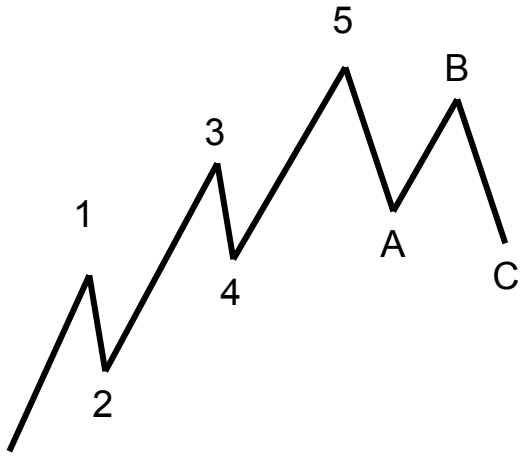


Which is correct? They *all* are. Which you trade is up to you.

Planning to trade one trend while acting on movements in another trend is called a *trend relativity error*. It is one of the most common trading mistakes.

Principles of Elliott Wave Theory

Markets tend to advance in 5 waves, and retrace (correct) in 3 waves.



Larger-degree uptrend (higher time frame trend is up)

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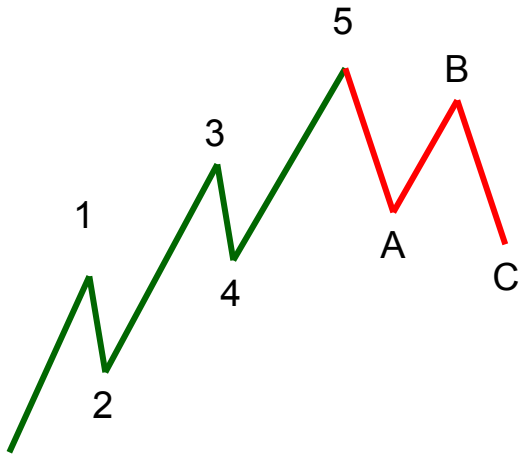

Larger-degree uptrend (higher time frame trend is up)

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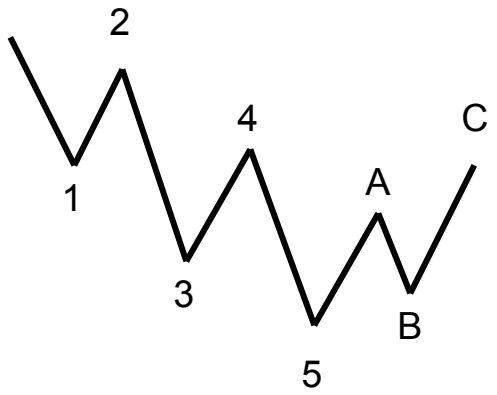

Larger-degree downtrend (higher time frame trend is down)

Principles of Elliott Wave Theory

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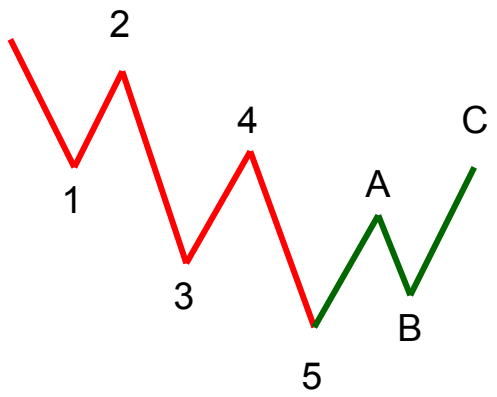
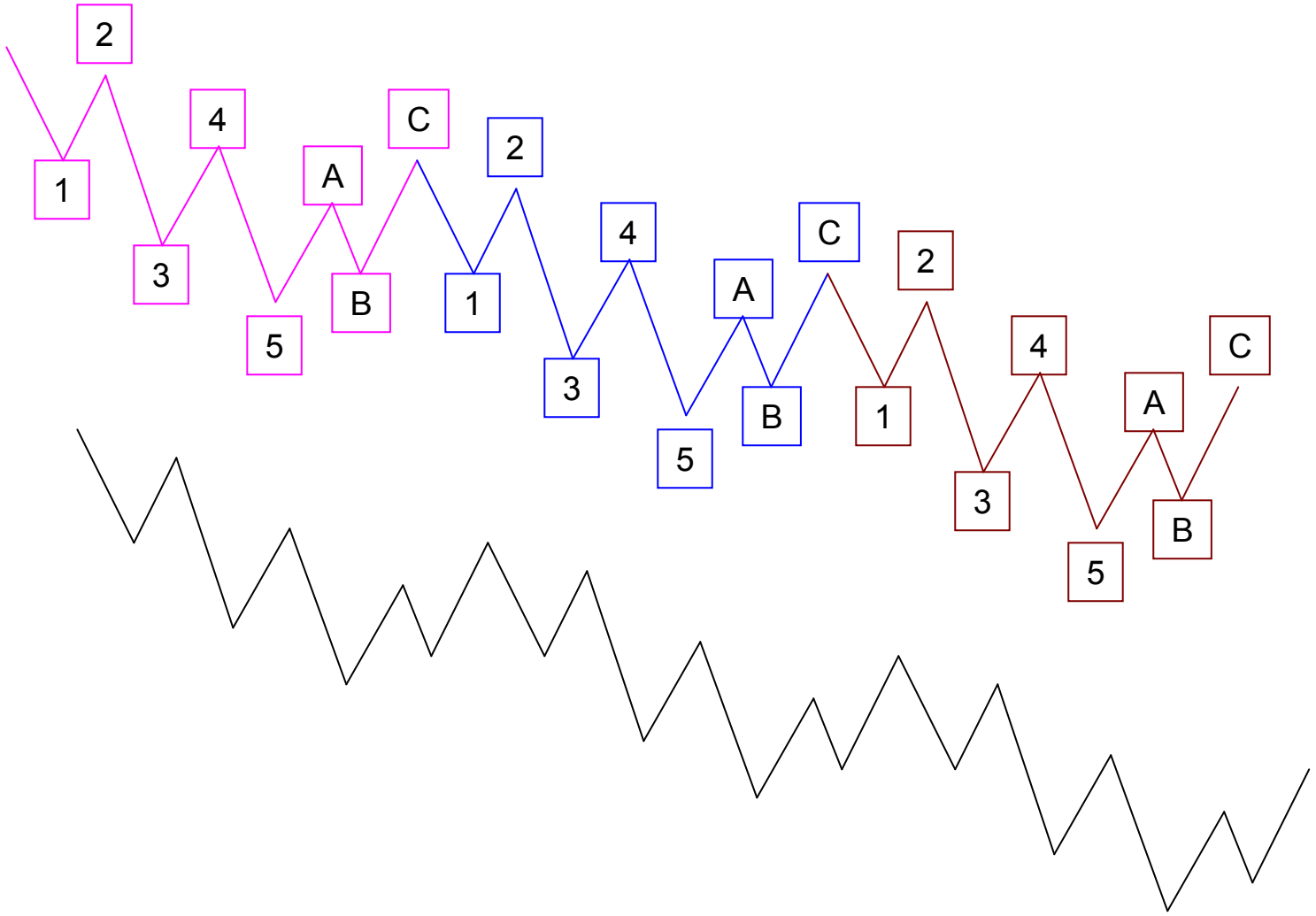


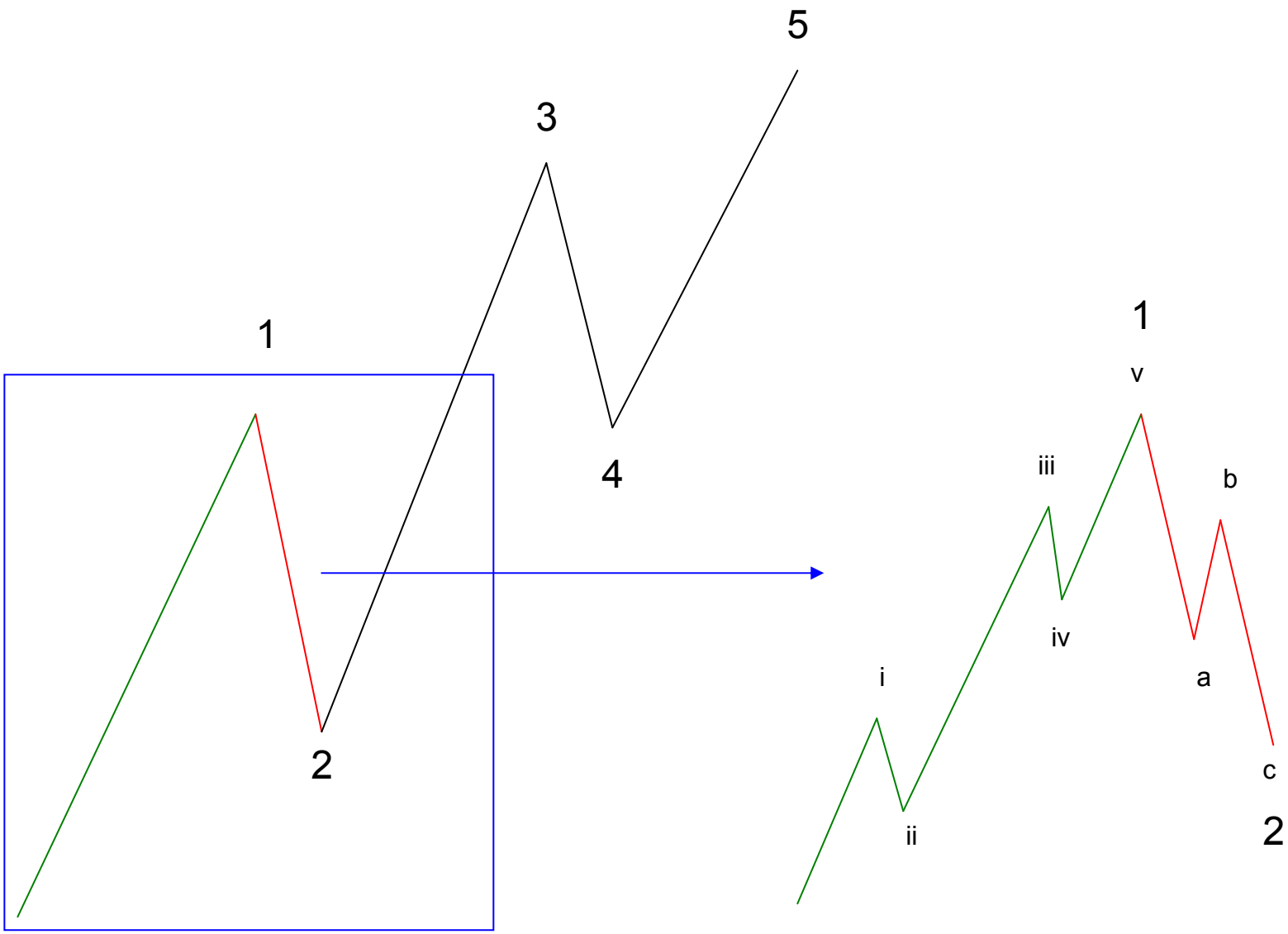
Larger-degree downtrend (higher time frame trend is down)

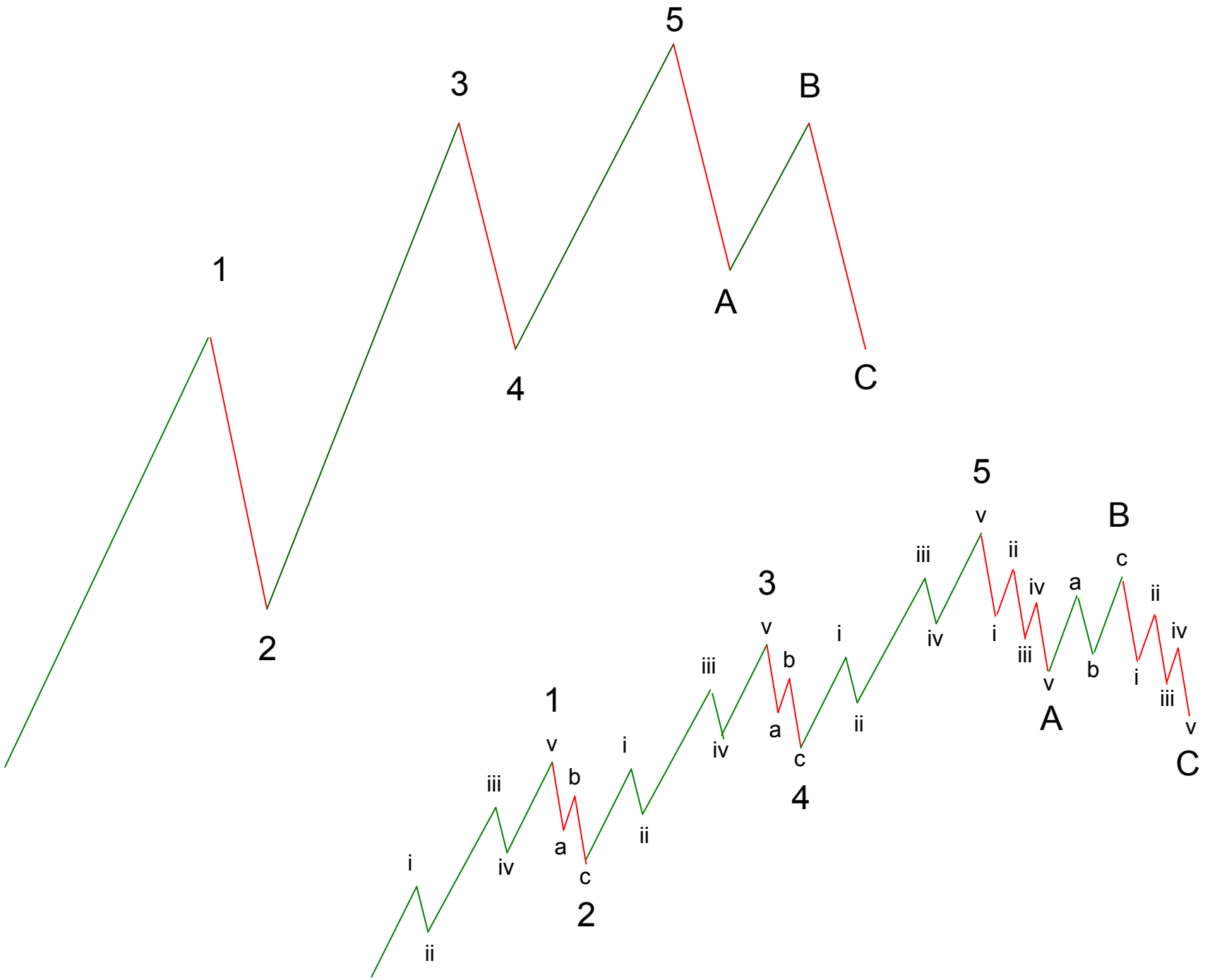
These structures “repeat”.. That is, they connect together:



If I take away the colors and labels.. It really looks like the stock market.
Yet, the underlying order is there if you know what to look for.

They don’t just infinitely repeat. That would be too easy. Really, they combine to make “higher degree” waves. So, what looks like repetition is really just larger degree waves unfolding.

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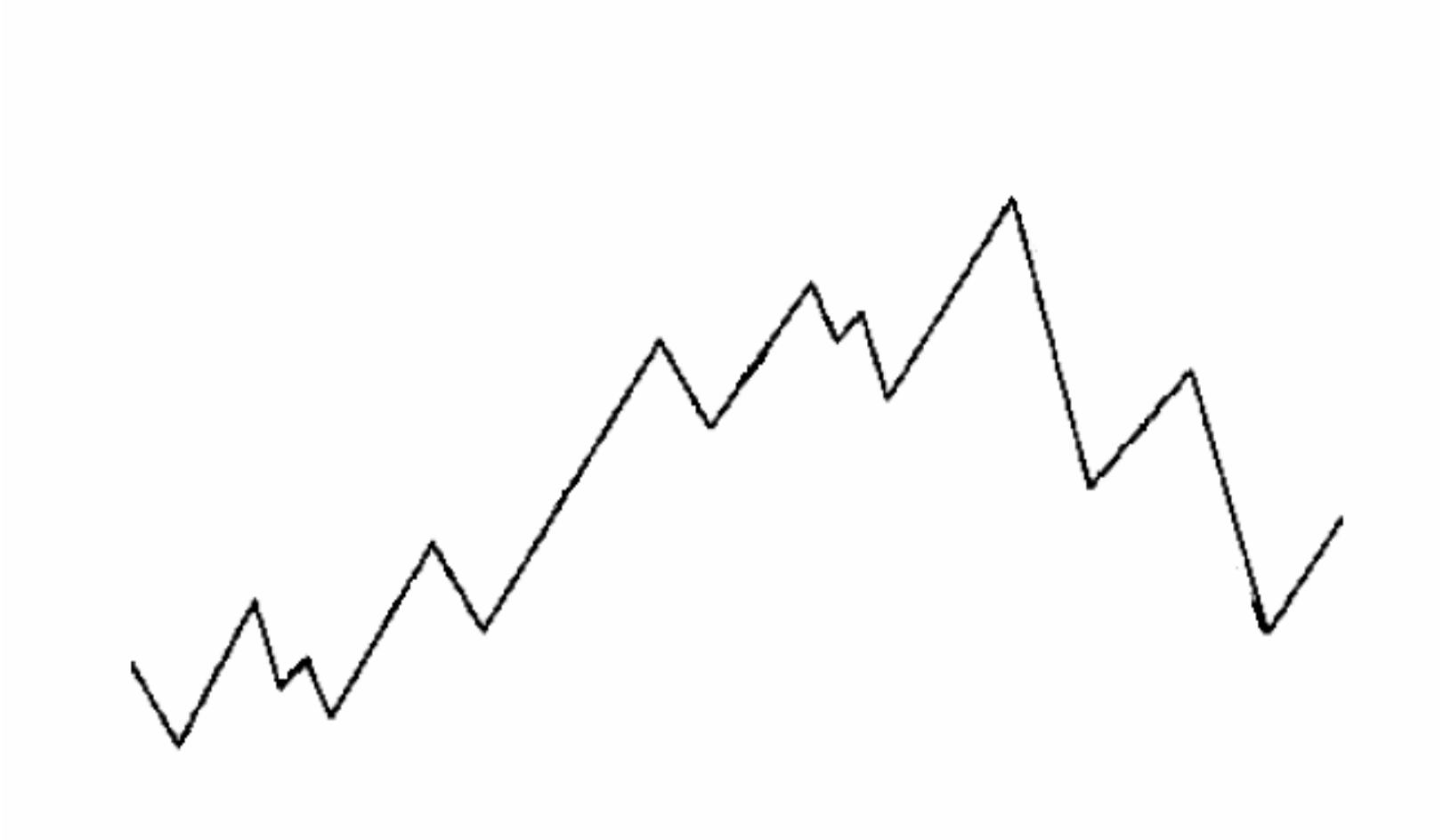
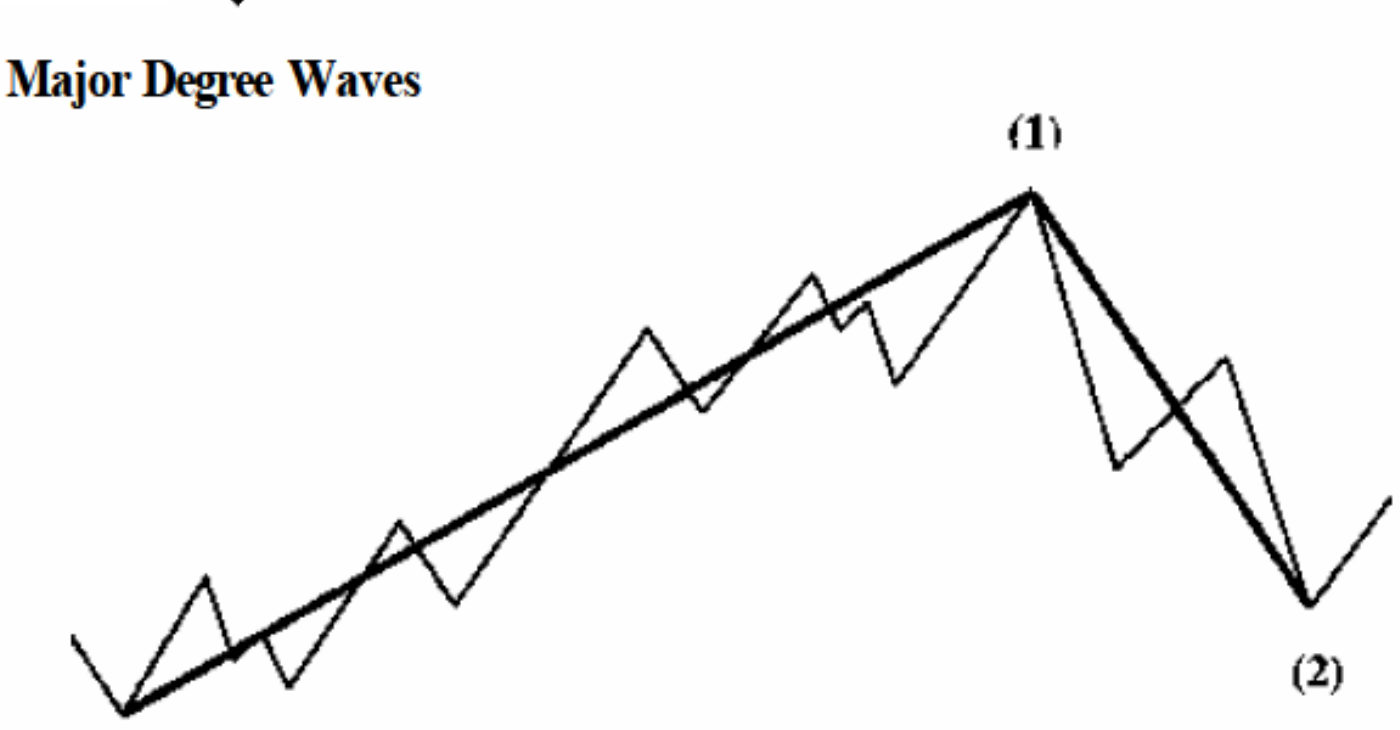
An Idealized Market



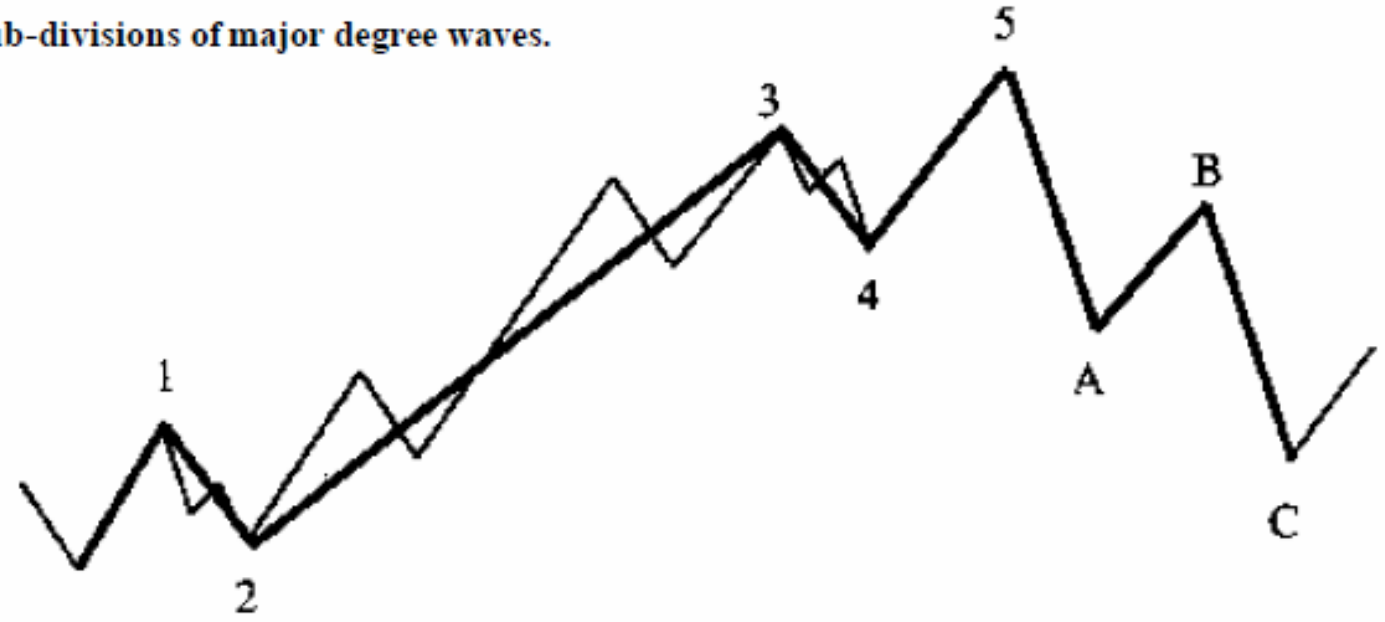
Major Degree Waves – “The Big Trend”



Intermediate Degree Waves – “The Major Moves”

Intermediate Degree Waves

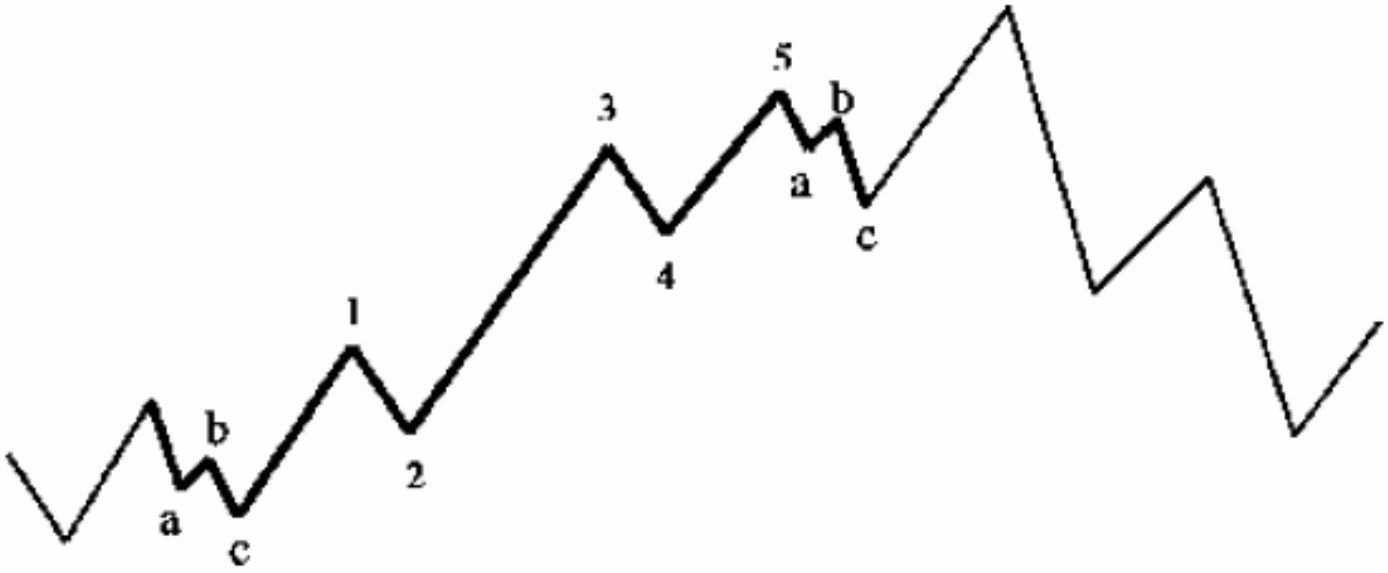
Sub-divisions of major degree waves.



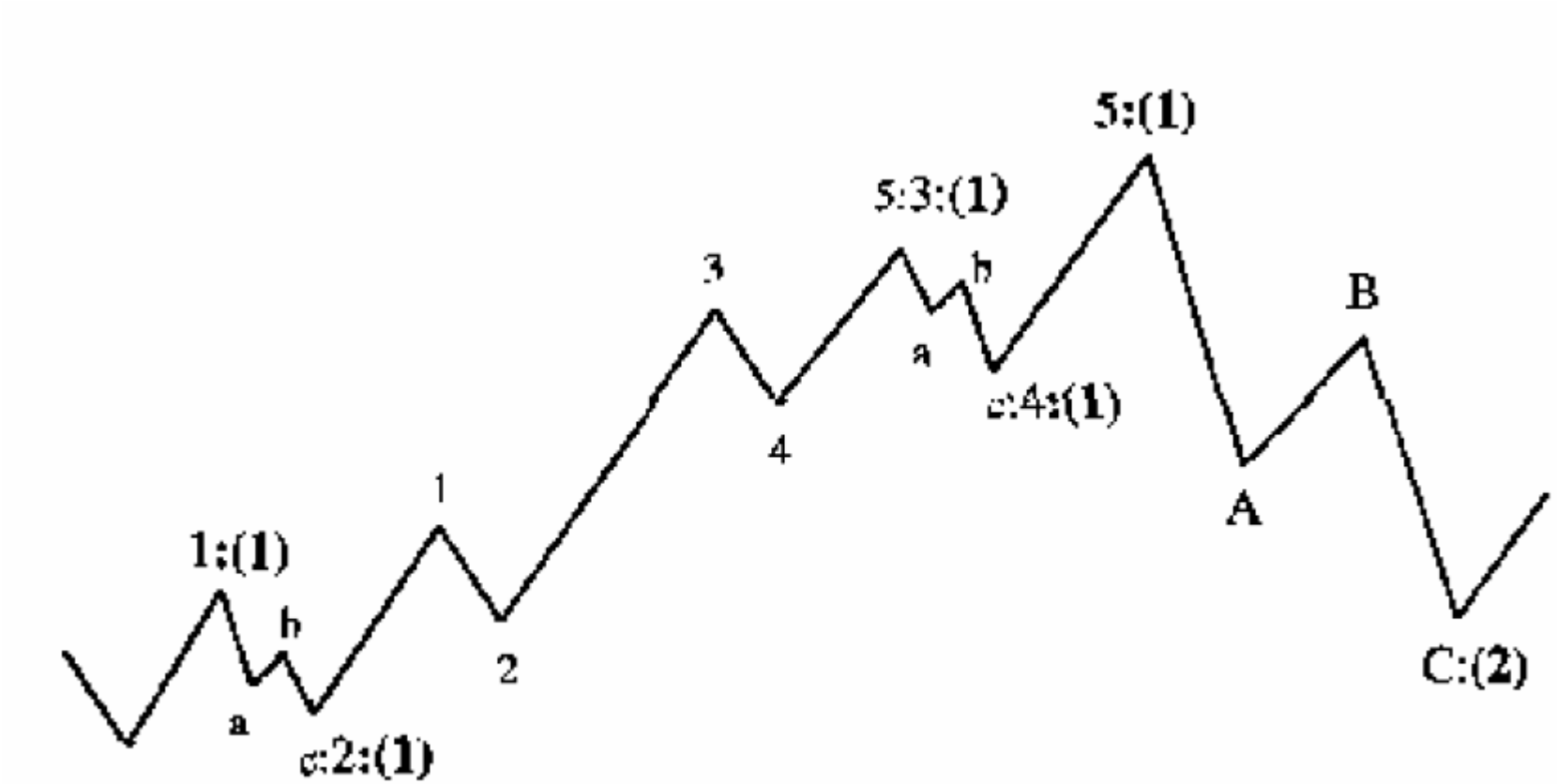
Minor Degree Waves – “The Daily Wiggles”

Minor Degree Waves

Sub-divisions of intermediate degree waves



Nested Waves. Elliott-Wave “map” of the market.



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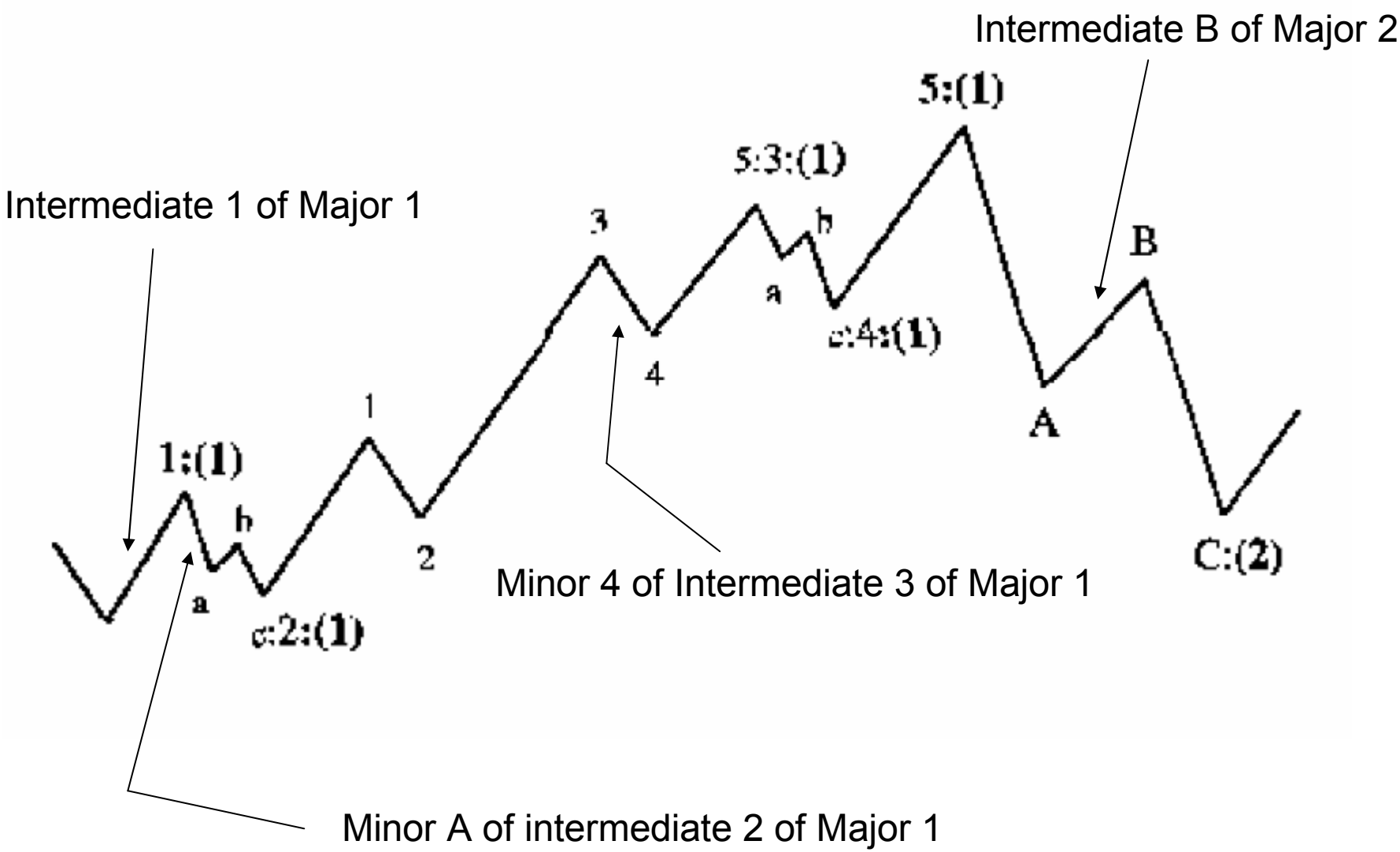
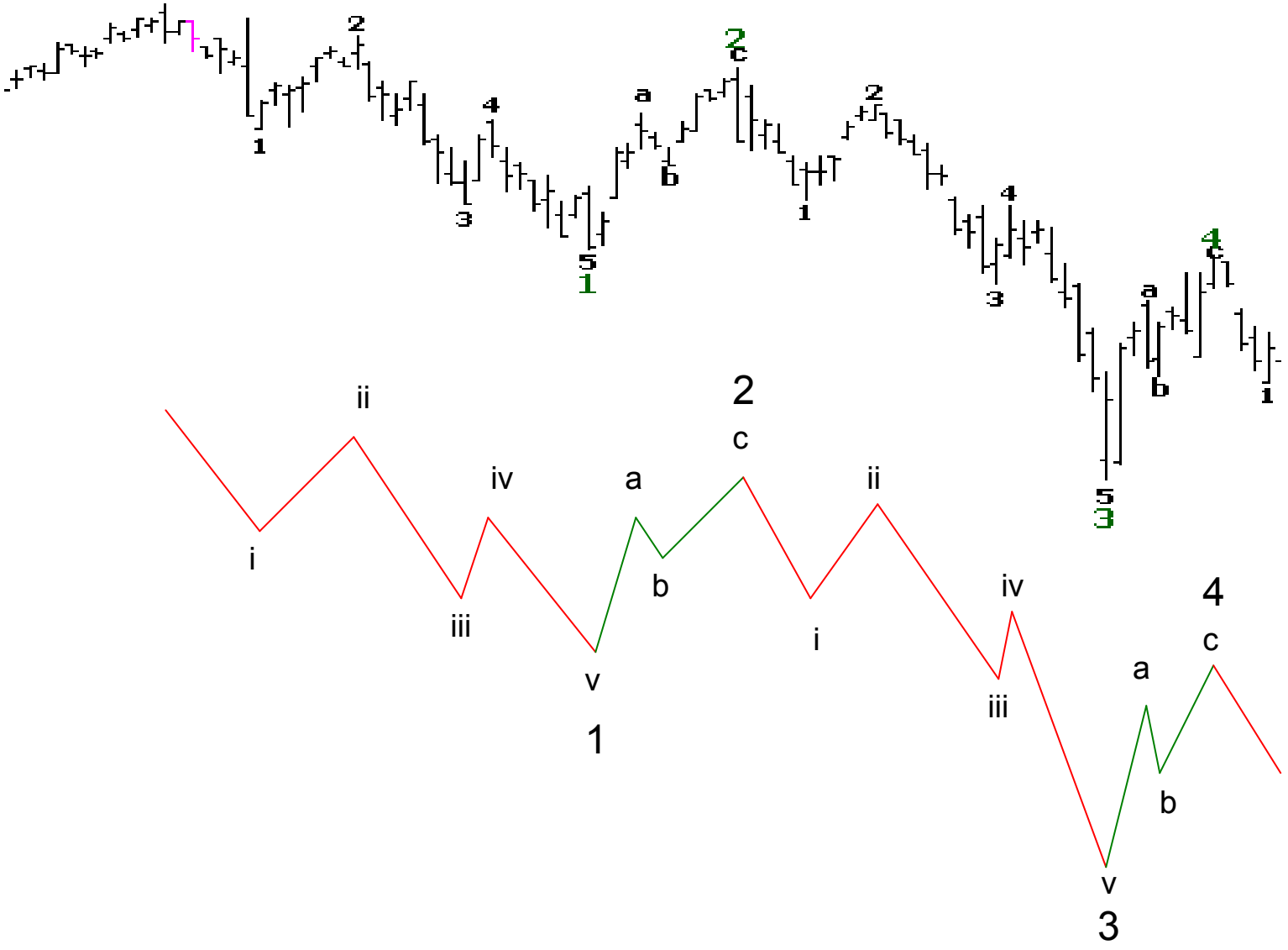


S&P 500 Example:

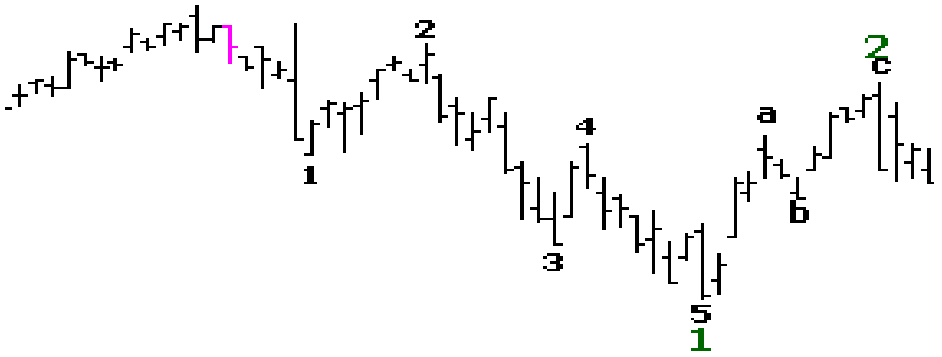
Daily Bars.
September 2007 through January 2008

(Market Top)



Q: That's Wonderful. How can I use this knowledge?

A: The better we can predict where we are in the structure, the better we can predict the next move in the market.

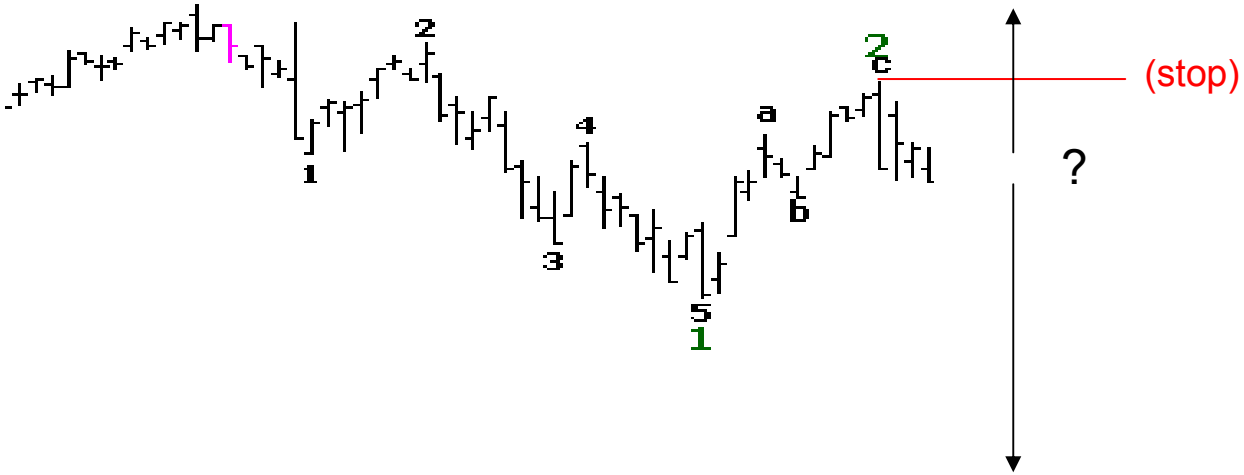


For example, let's pretend that the above chart is "now".
We can see enough to clearly identify the above wave count.

We just finished a "2" of the of the "green" waves, and now we expect a "3" of the green waves. Therefore, we are bearish. This is true even though the casual observer looks at the chart and sees a bottom!

Q: How do we know when we're wrong?

A: This is a very important question. When we don't have a firm opinion of the market anymore, we should exit the trade. This becomes a stop loss. The waves offer natural stop loss points!



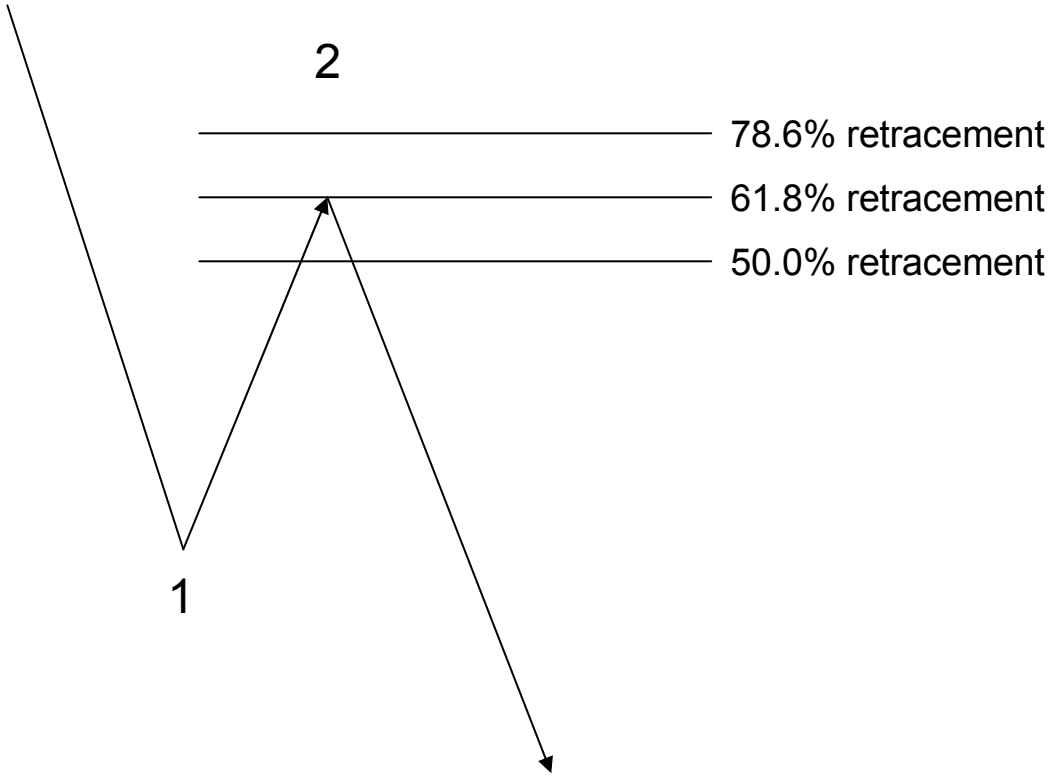
So, we can draw the waves as best as we think. Then, if the market hits our stop loss, then we will wait until we have a new clear picture to trade.

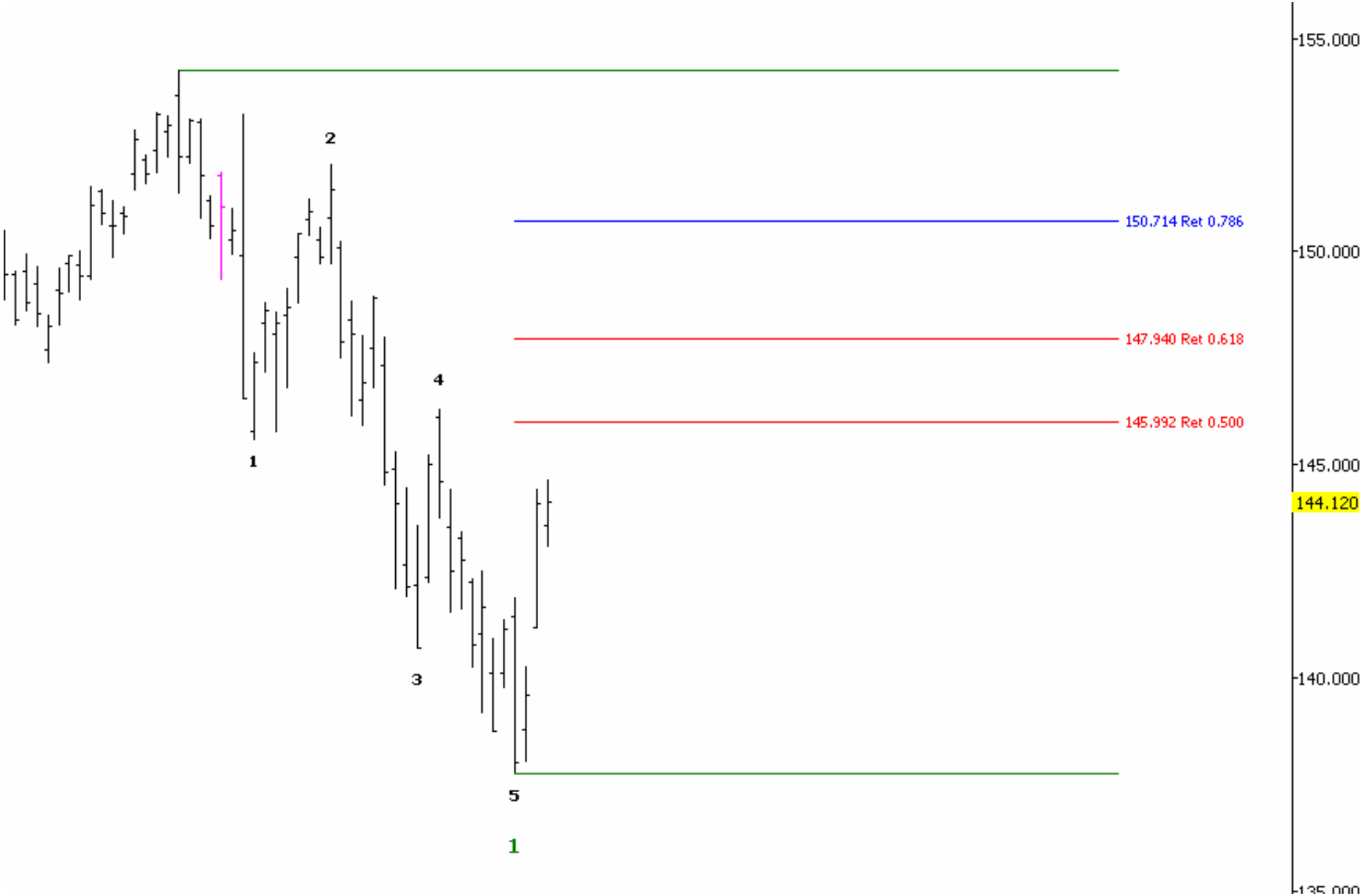
Sometimes we're wrong about the wave count. That's OK. We're right often enough to make this methodology worthwhile.

Fibonacci

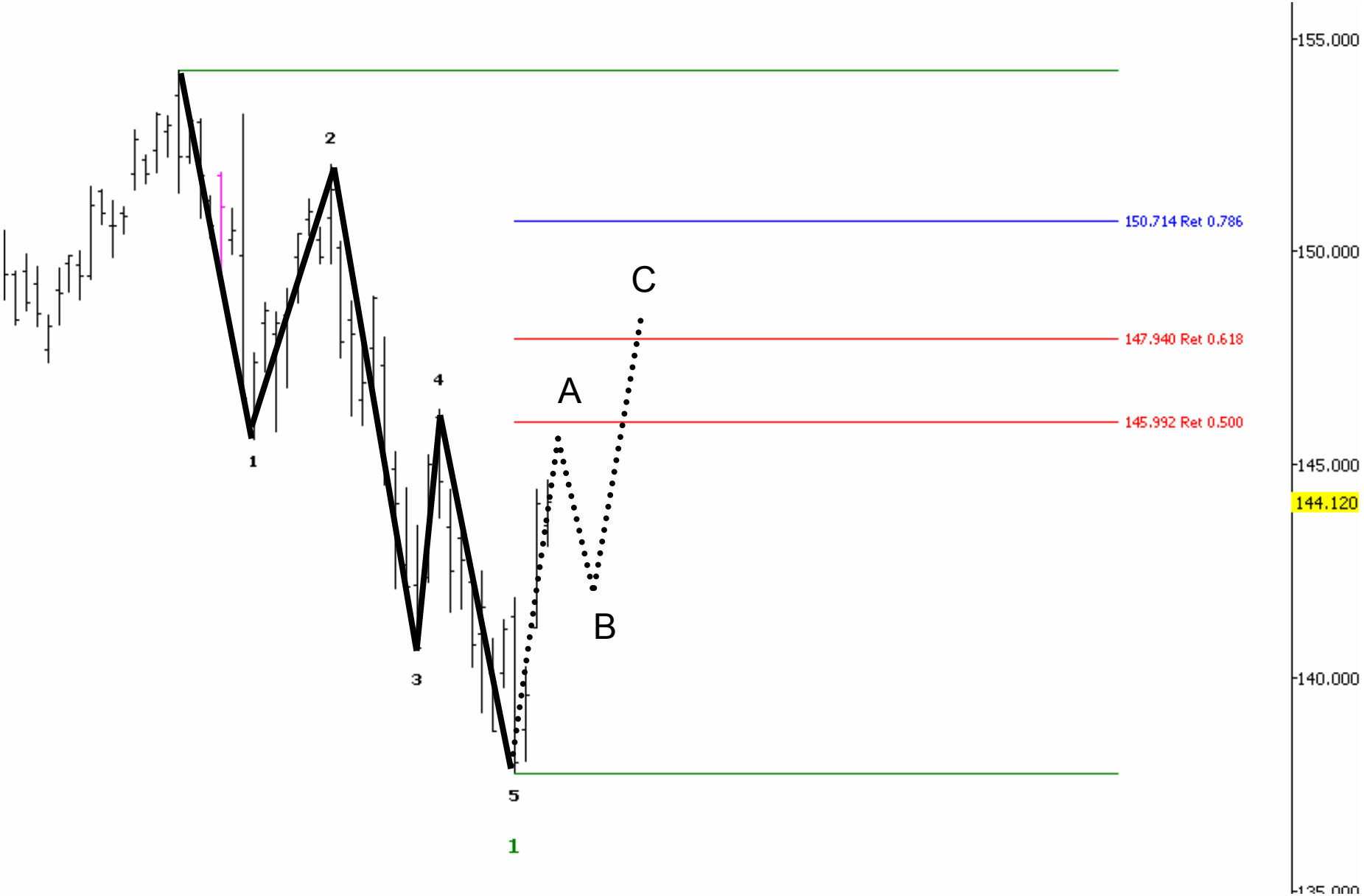
To make life easier, each wave has a “target” region for where it should end. We use Fibonacci relationships to plot these on the chart in advance.

For example, Wave 2 target is 50%-78.6% of Wave 1:

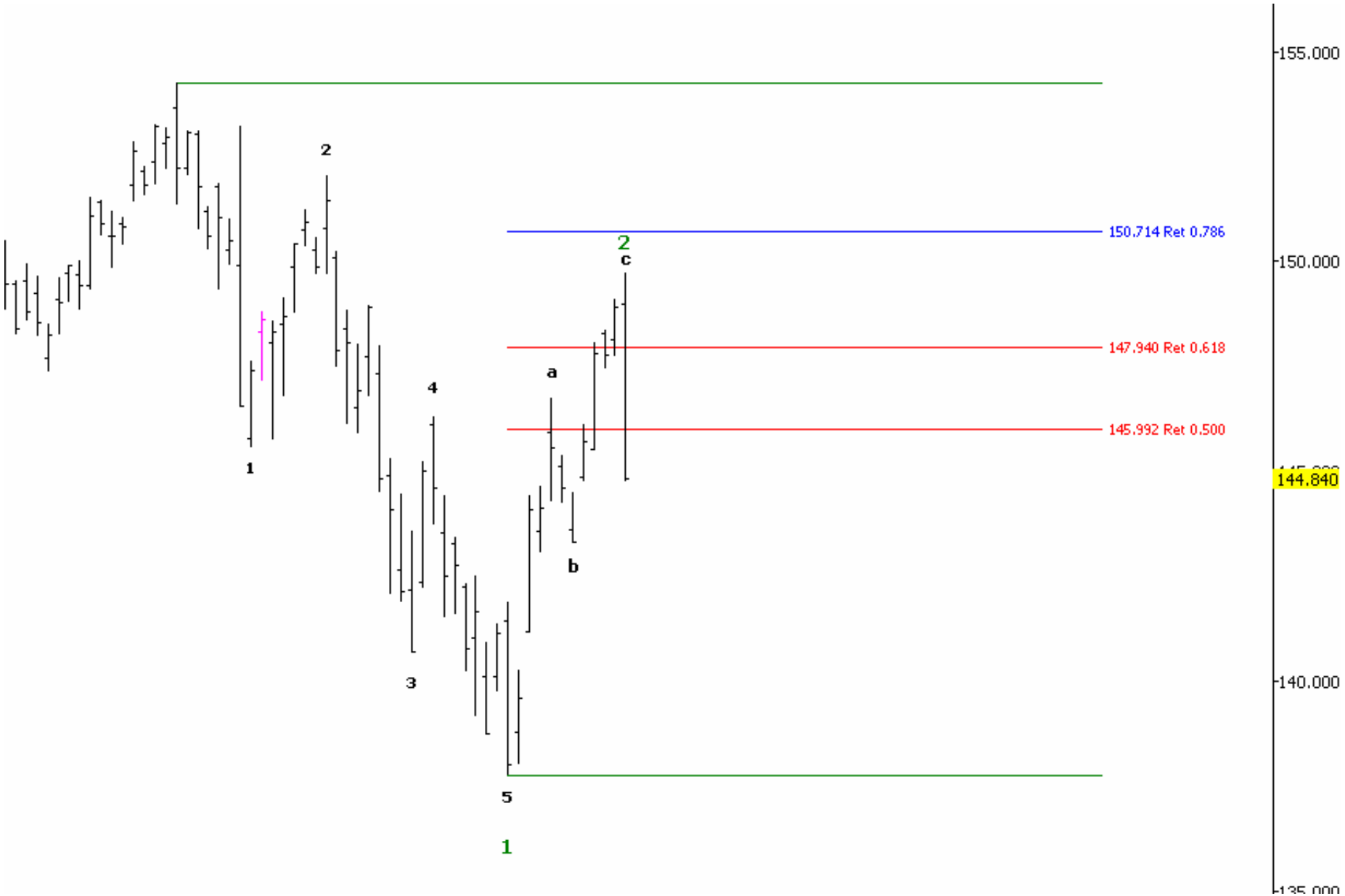




Green Wave 1 down is finished. Currently in Green Wave 2 up.
This wave should end somewhere between $145.99 and $150.71. ($147.94 is best.)



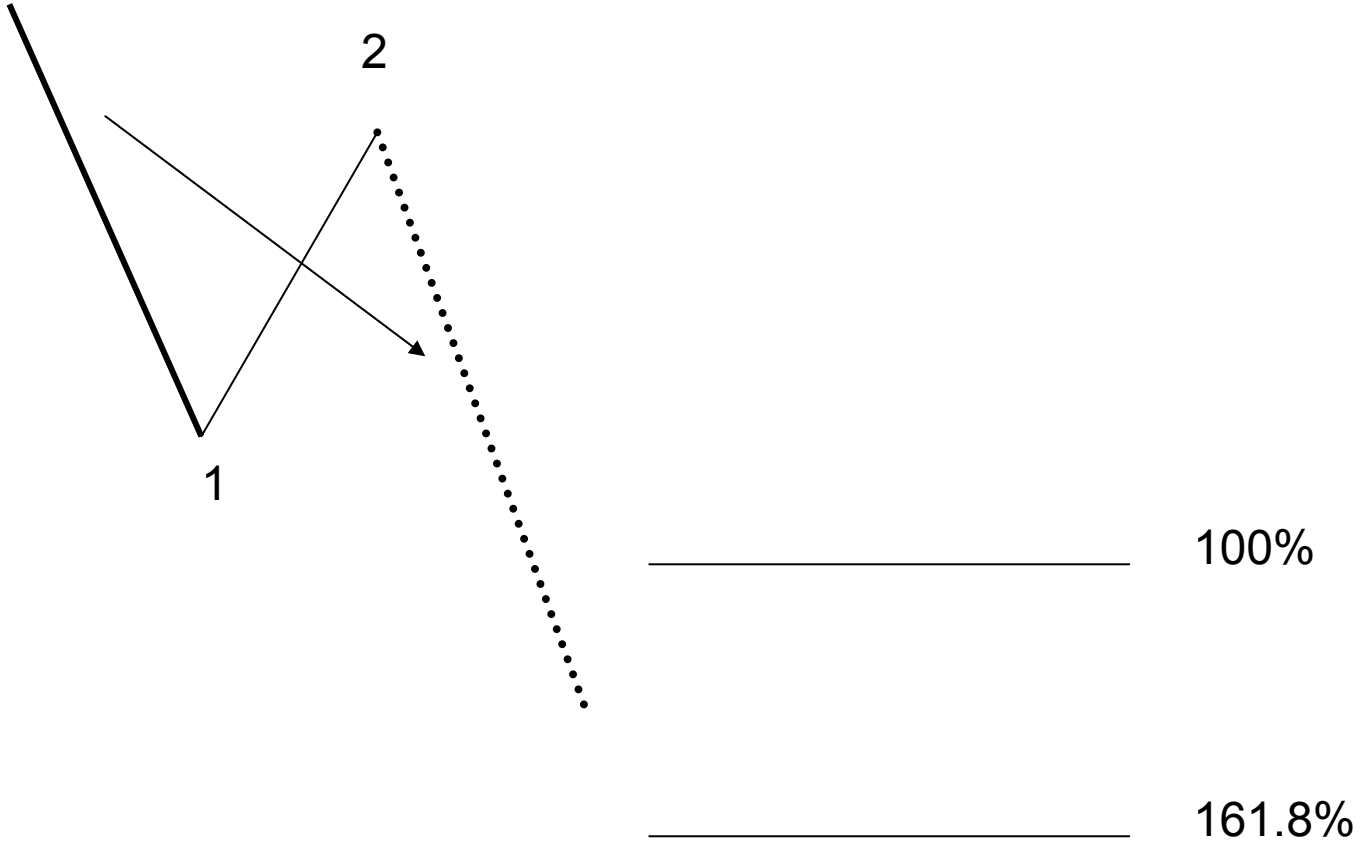
Getting an “ABC” from here would be ideal…



That would be a reversal.

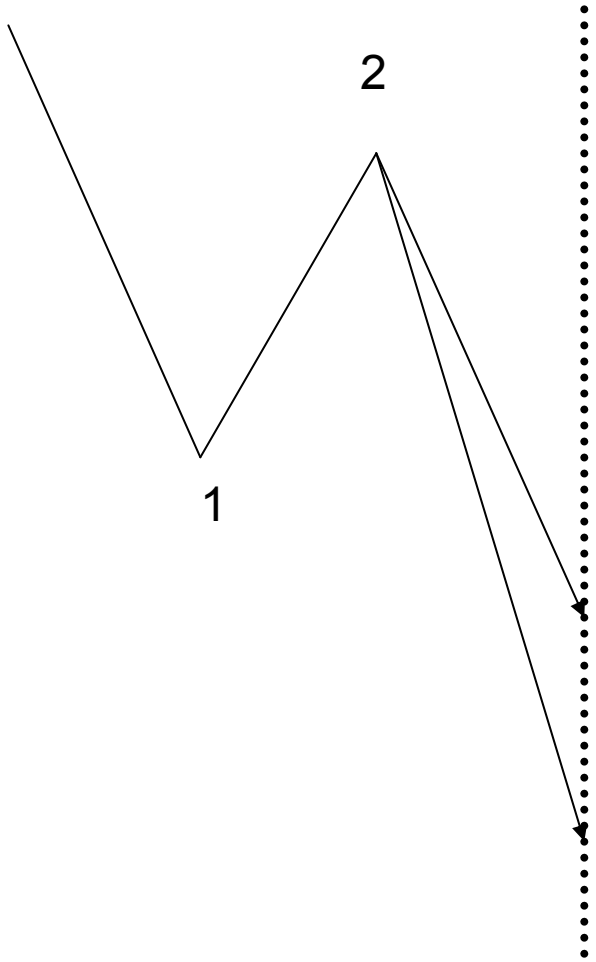
Now, we have to “project” a likely extent for Wave 3:

Wave 3 is generally 1.000 to 1.618 of Wave 1, projected from the end of Wave 2. This is technically named an “alternate price projection”.

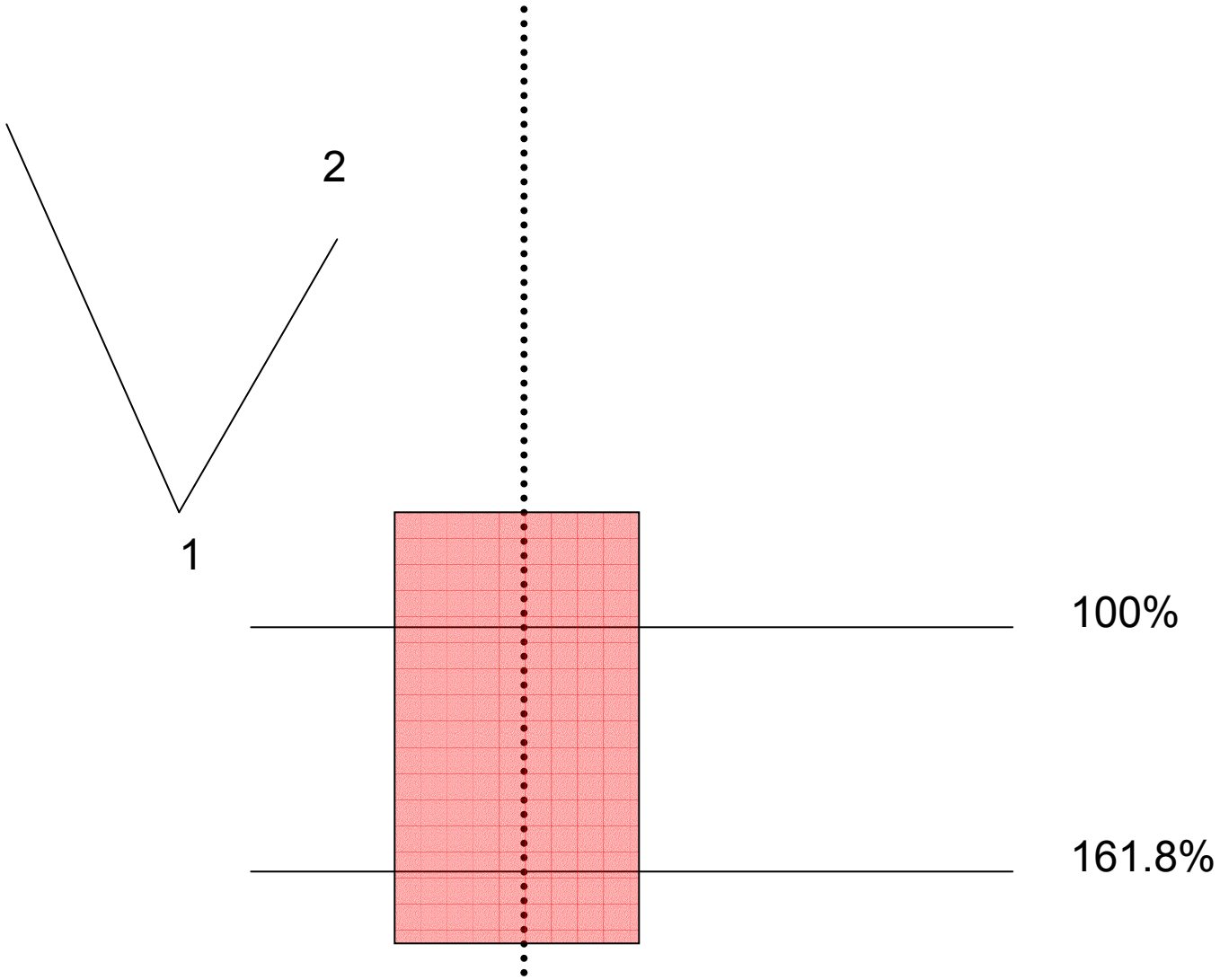


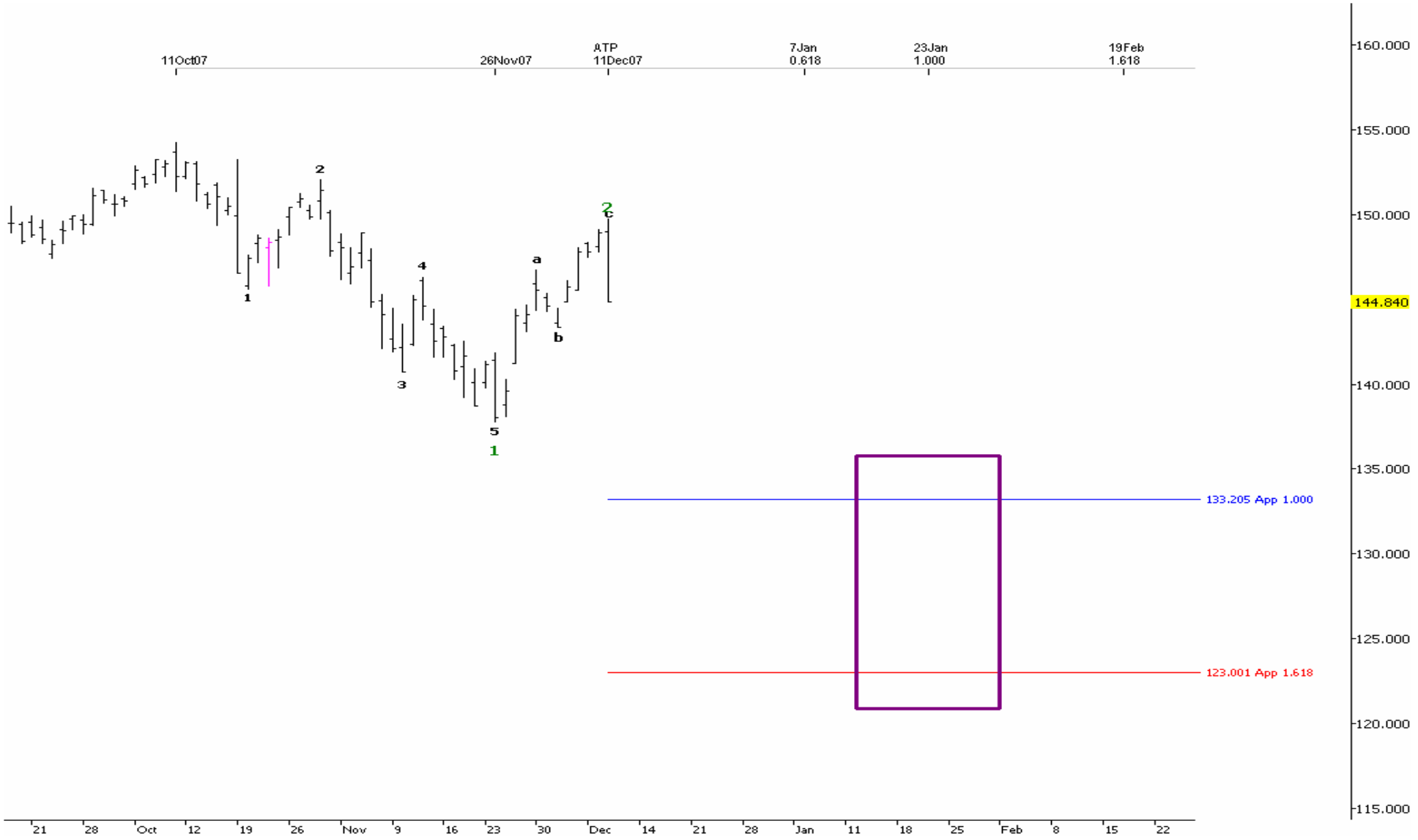
Although it's a little more tricky, we can project time the same way:

Wave 3 is generally 1.000 or so (in time) of Wave 1, projected from the end of Wave 2. This is technically named an "alternate time projection".



Combining these, we can get a general idea for price and time:





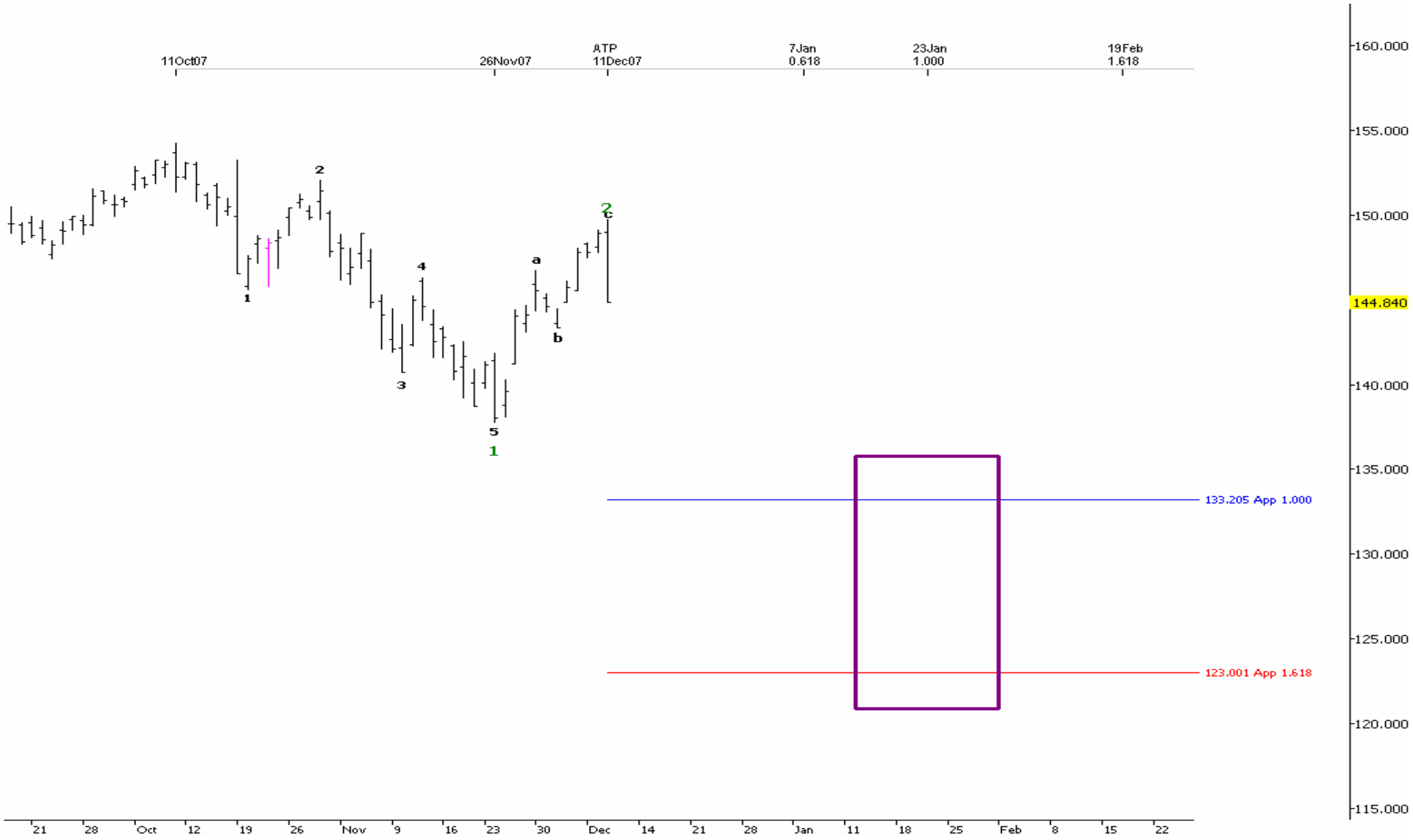
Looks like we're shooting for 123 to 133 sometime in the middle of January.

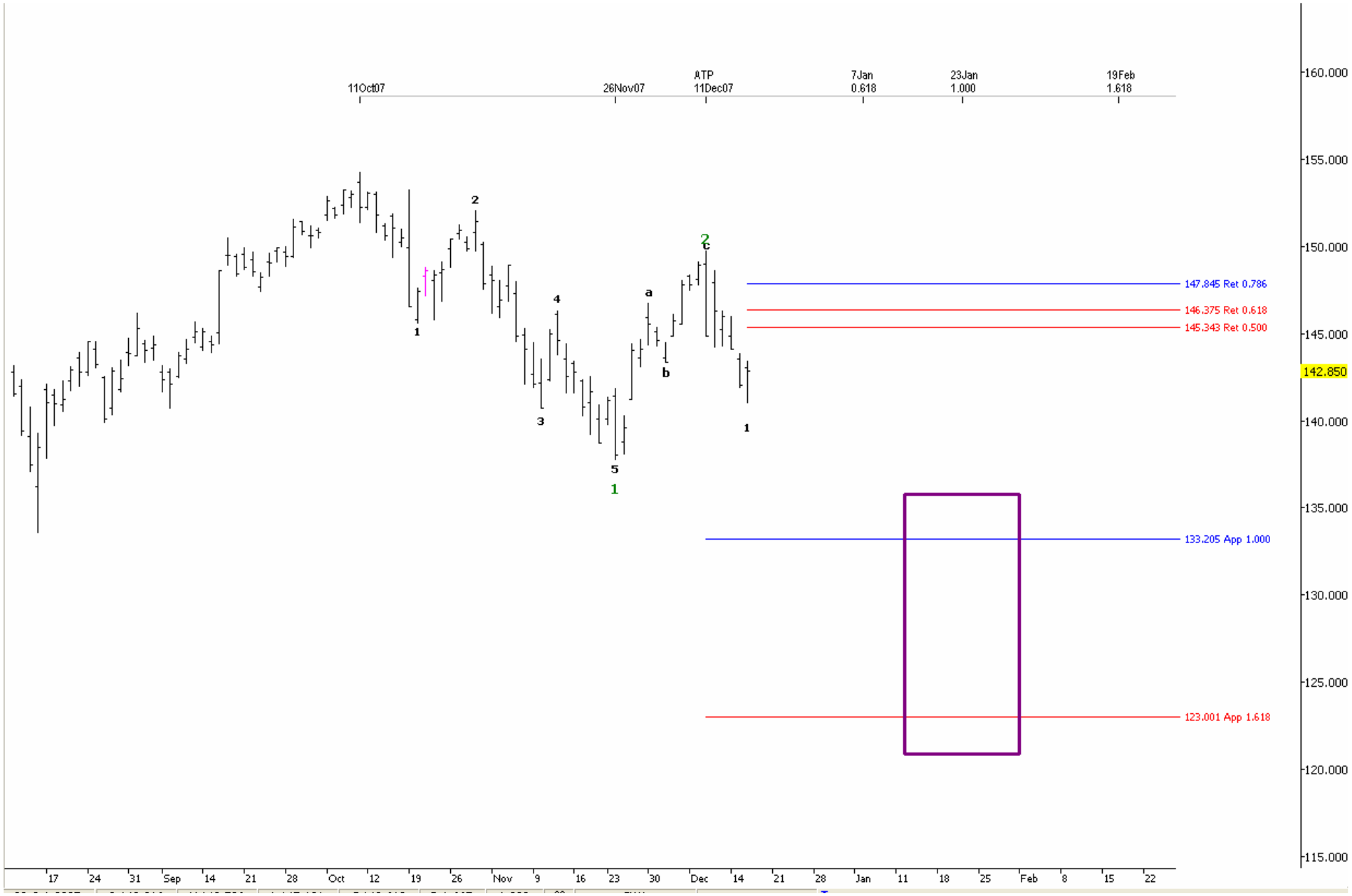
Price and Time Targets for Various Waves

Note: There are others! I am just presenting basic ideas here.

Wave	Price	Time
Wave 1	Can't be projected. This wave is created by fundamentals and is how fundamentals drive the market.	Can't be projected. This wave is created by fundamentals and is how fundamentals drive the market.
Wave 2	50% to 78.6% of Wave 1	Around 61.8% of Wave 1
Wave 3	100% to 161.8% of Wave 1, projected from end of Wave 2	Around 100% of Wave 1, projected from end of Wave 2
Wave 4	38.2% to 61.8% of Wave 3	Around 61.8% of Wave 3
Wave 5	100% of Wave 1, projected from end of Wave 4	Around 100% of Wave 1, projected from end of Wave 4
Wave A	Can't be projected. This wave is created by fundamentals and is how fundamentals drive the market.	Can't be projected. This wave is created by fundamentals and is how fundamentals drive the market.
Wave B	50% to 78.6% of Wave A	Around 61.8% of Wave A
Wave C	61.8% to 161.8% of Wave A, projected from end of Wave B	Around 100% of Wave A, projected from end of Wave B

How it played out:

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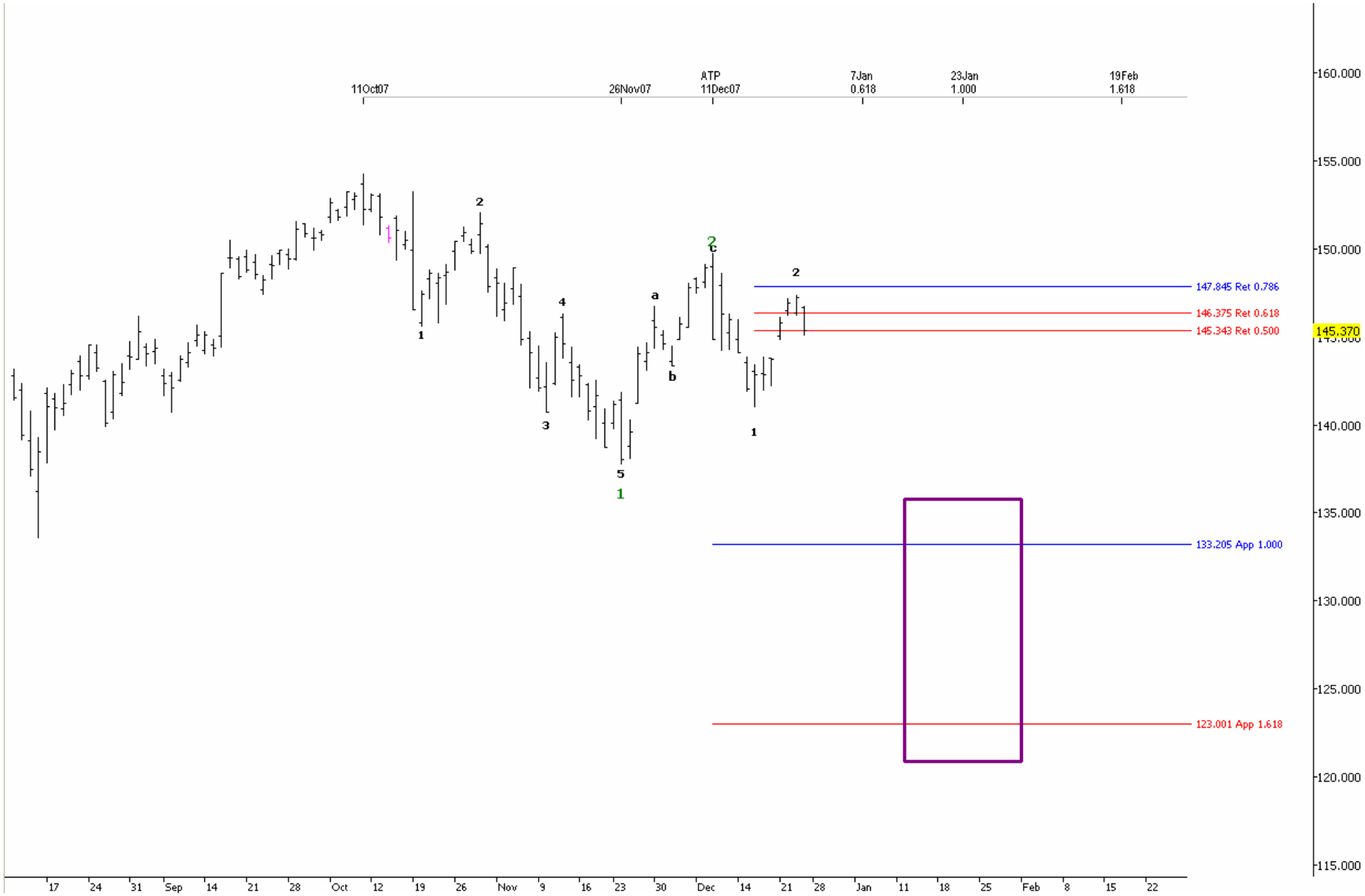
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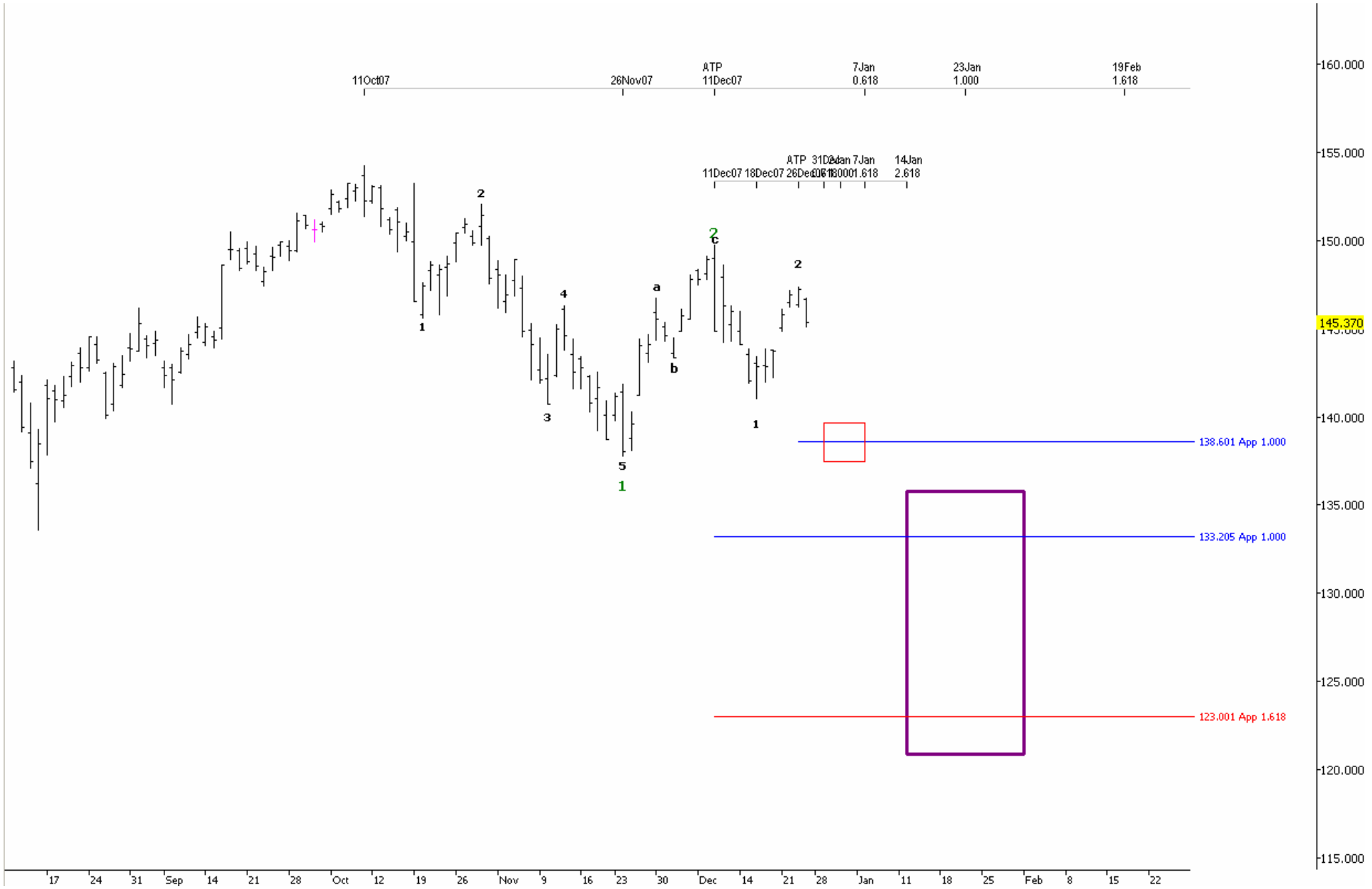
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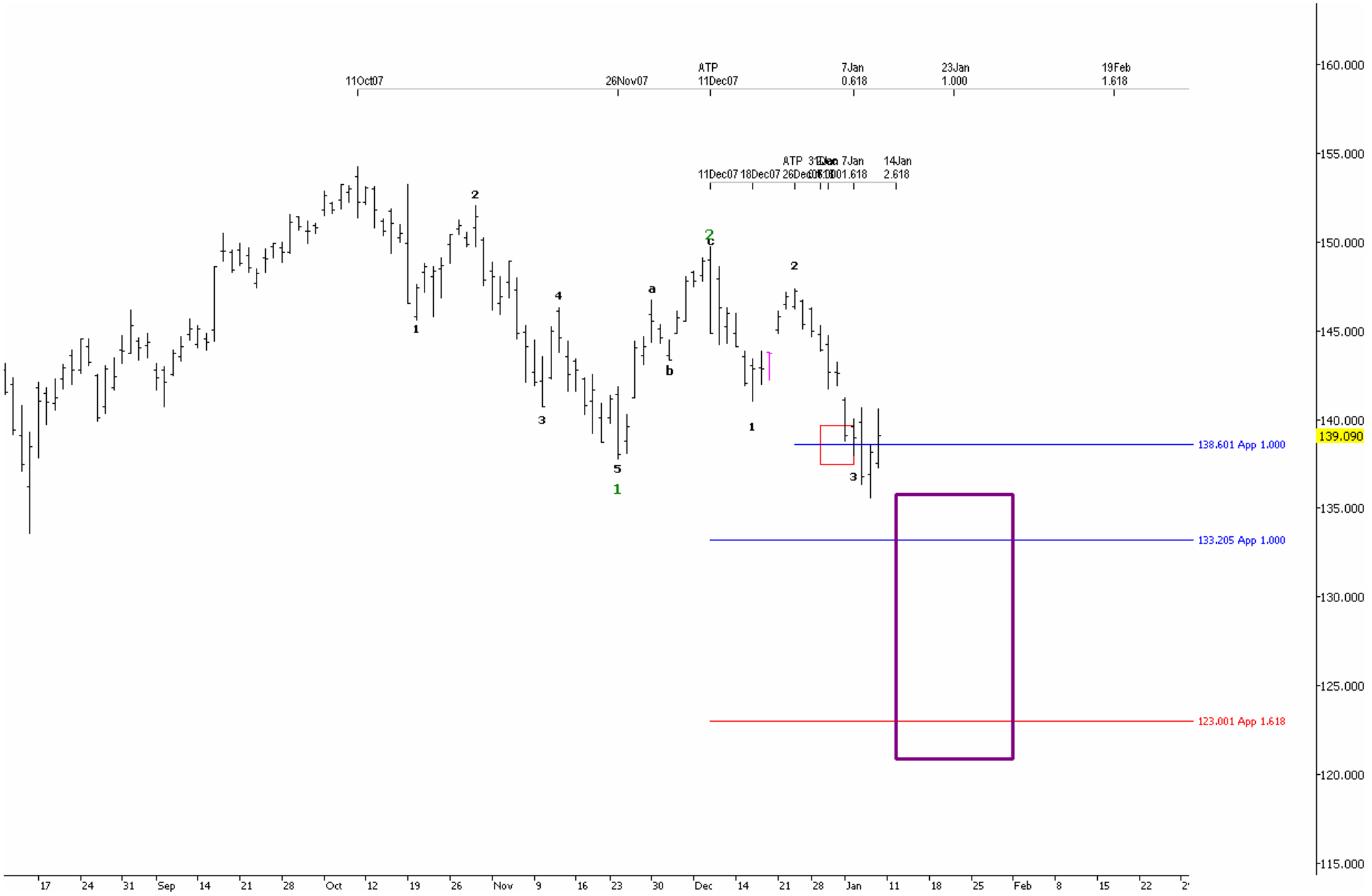
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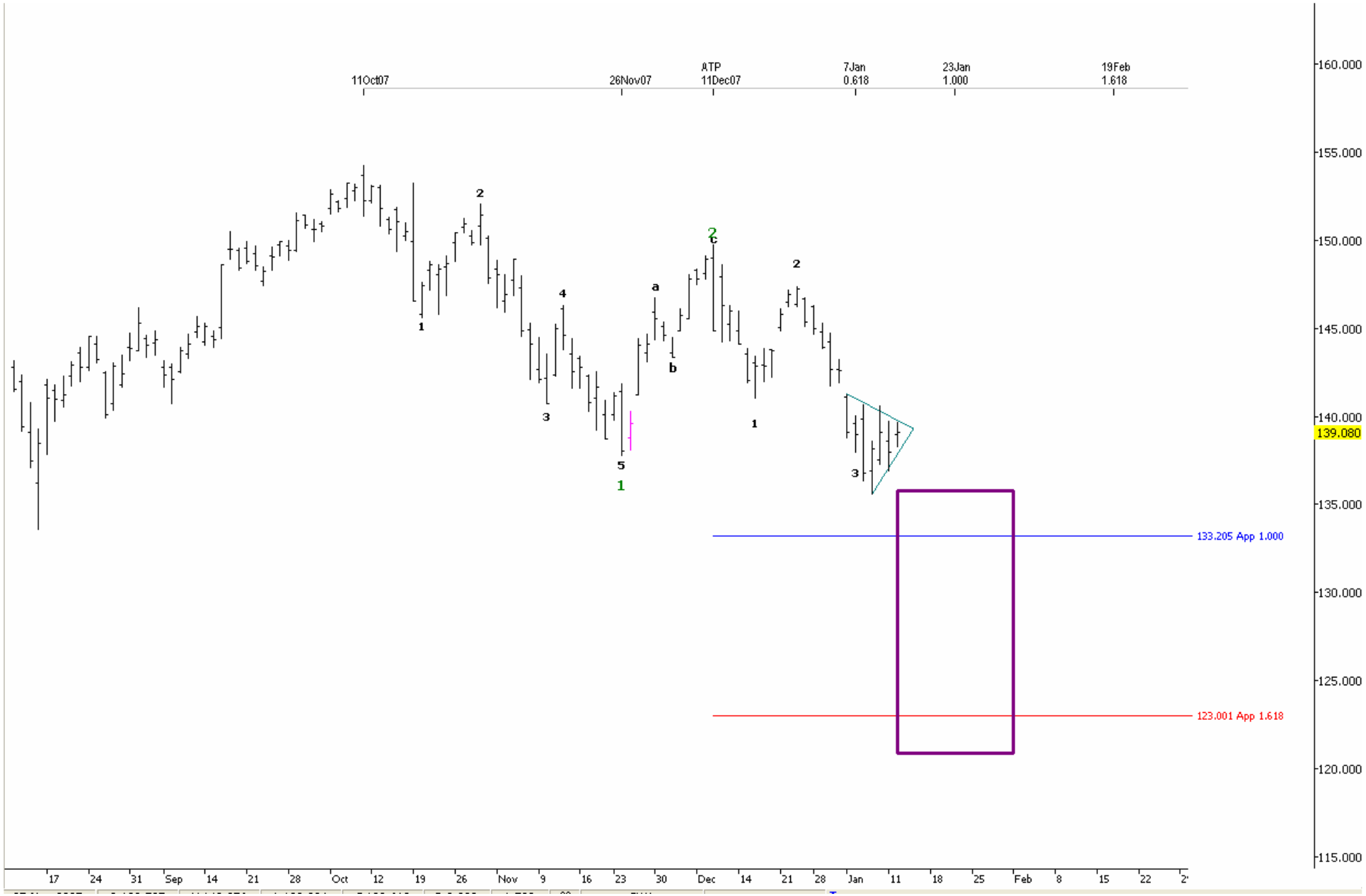
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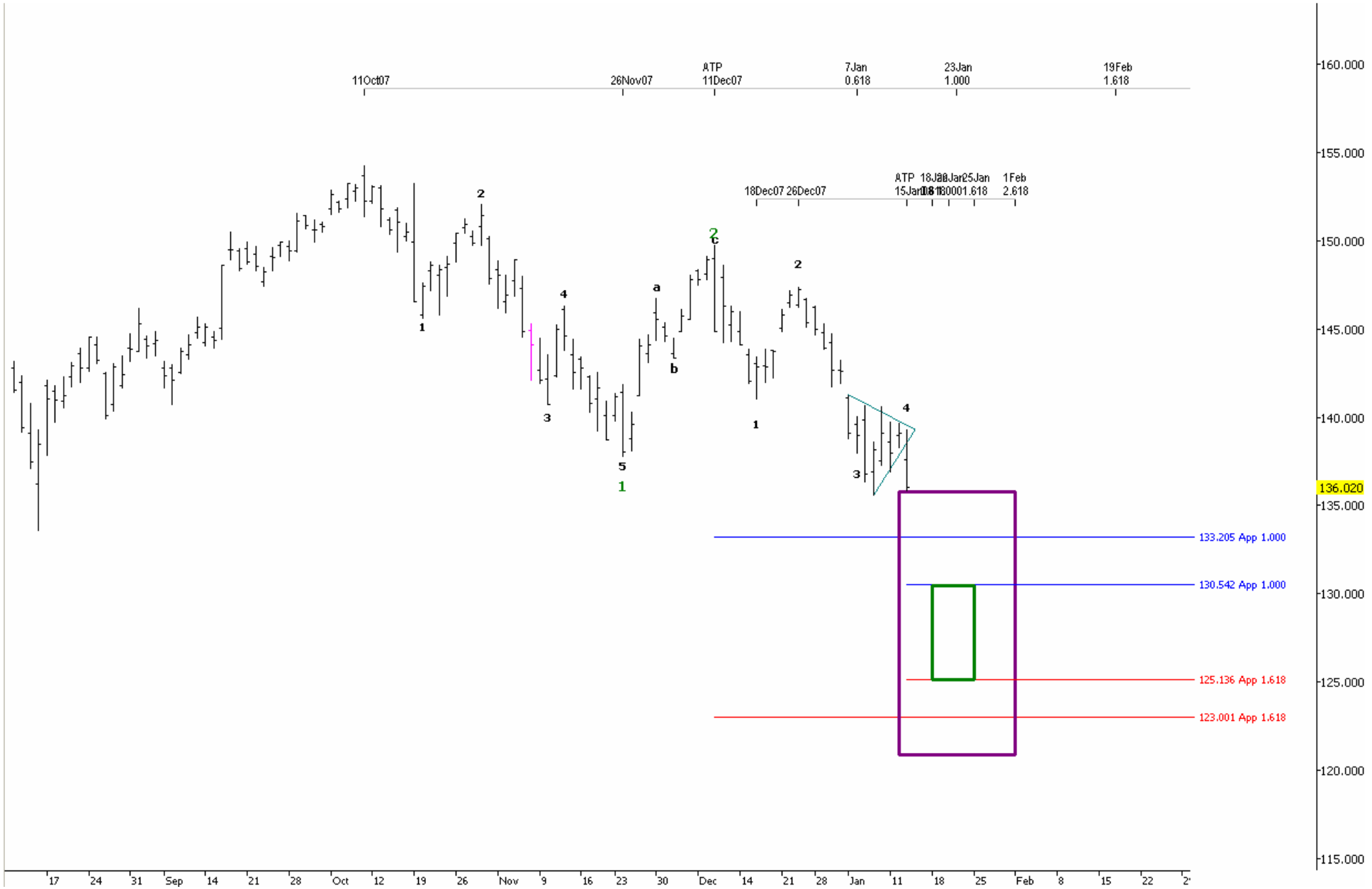
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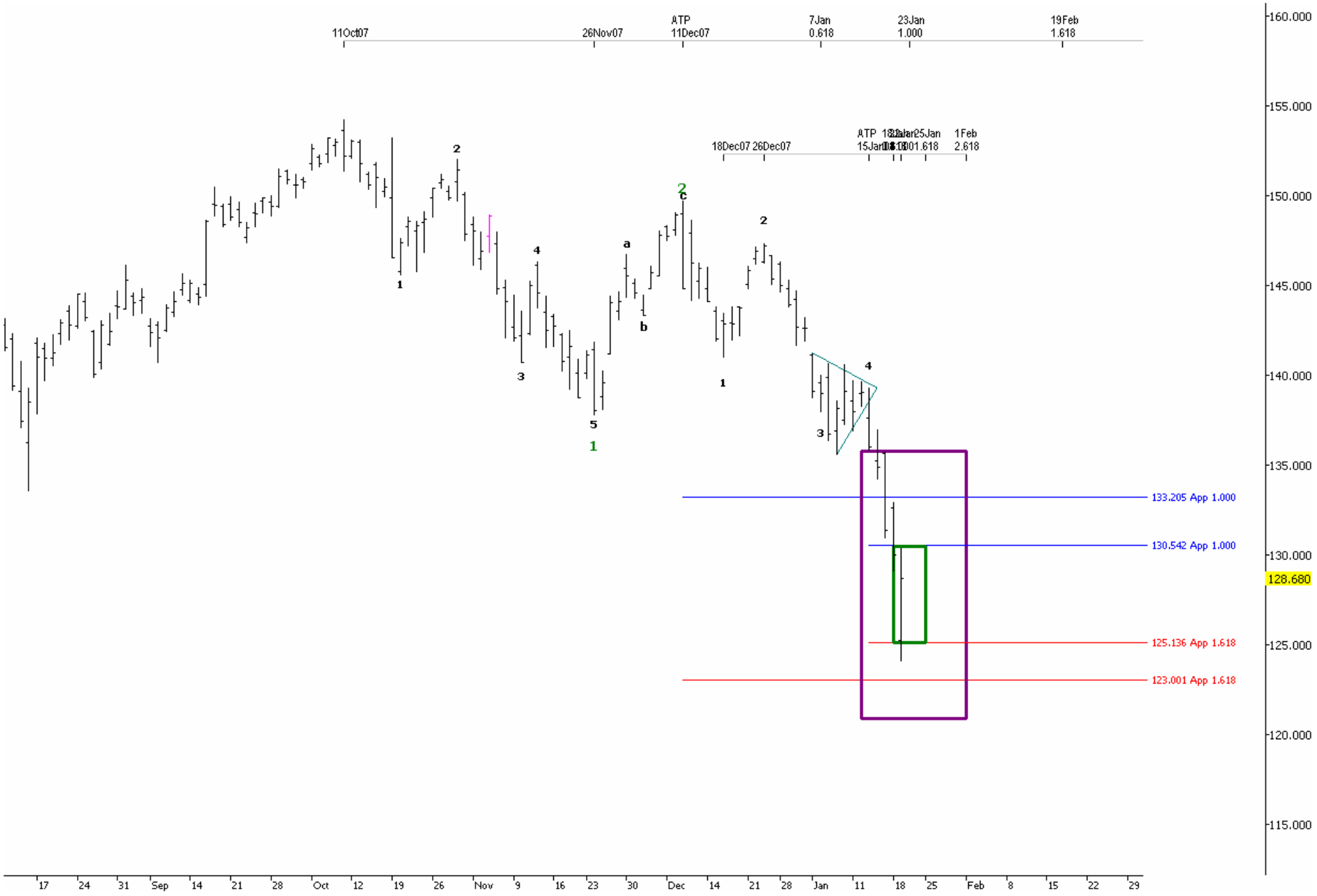
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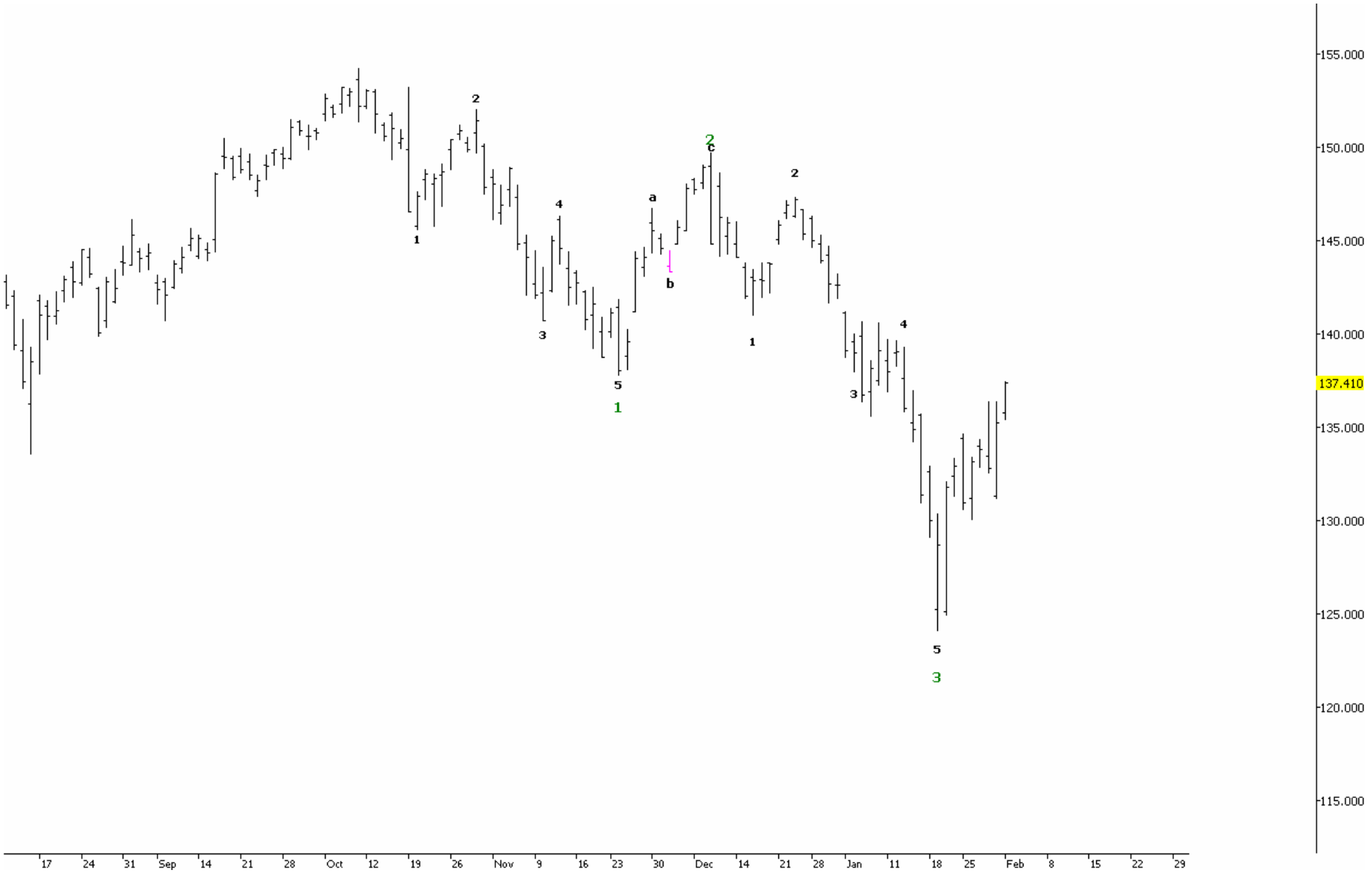
155.000
150.000
145.000
140.000
137.410
135.000
130.000
125.000
120.000
115.000
17
24
31
Sep
14
21
28
Oct
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Nov
9
16
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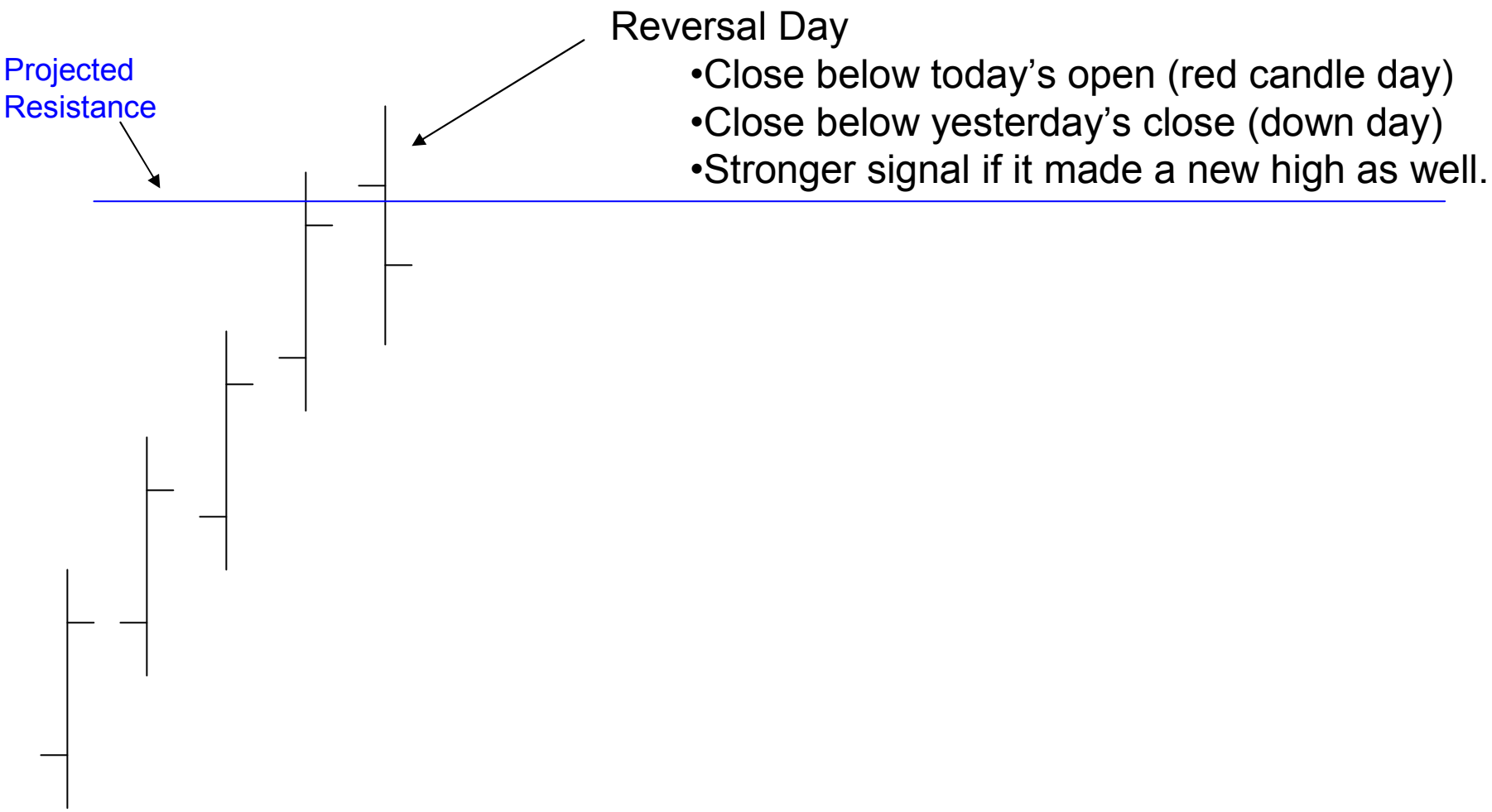
30
Dec
14
21
28
Jan
11
18
25
Feb
8
15
22
29
1
2
3
4
5
a
b
c
1
2
3
4
5
1
2
3

Review of Process (thus far)

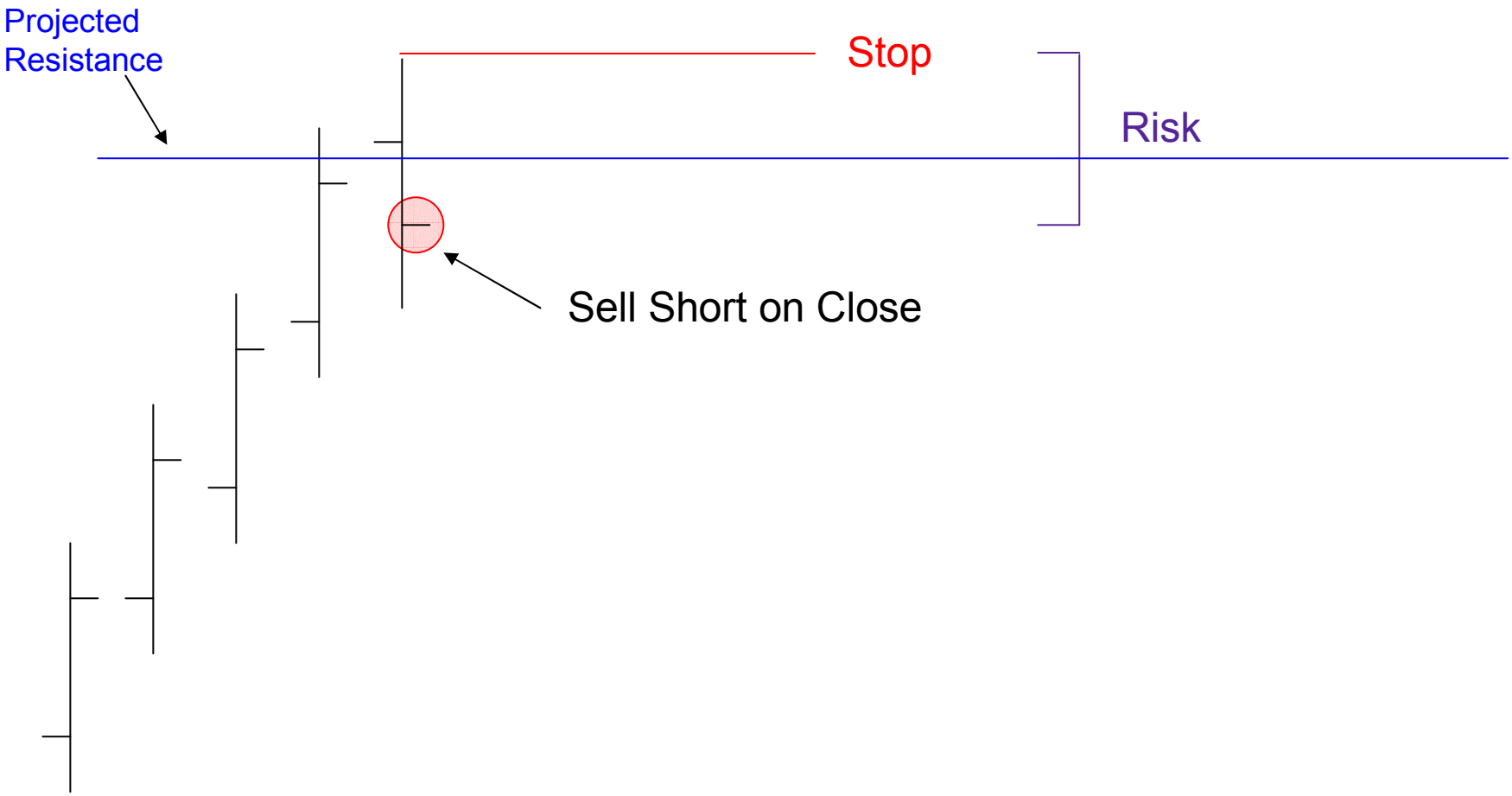
- 1. Label Waves
  - Determine Bullish or Bearish
  - Determine Stop Loss

- 2. Perform Price and Time Projections
  - Get an idea for approximately where and when we should expect trend reversal.

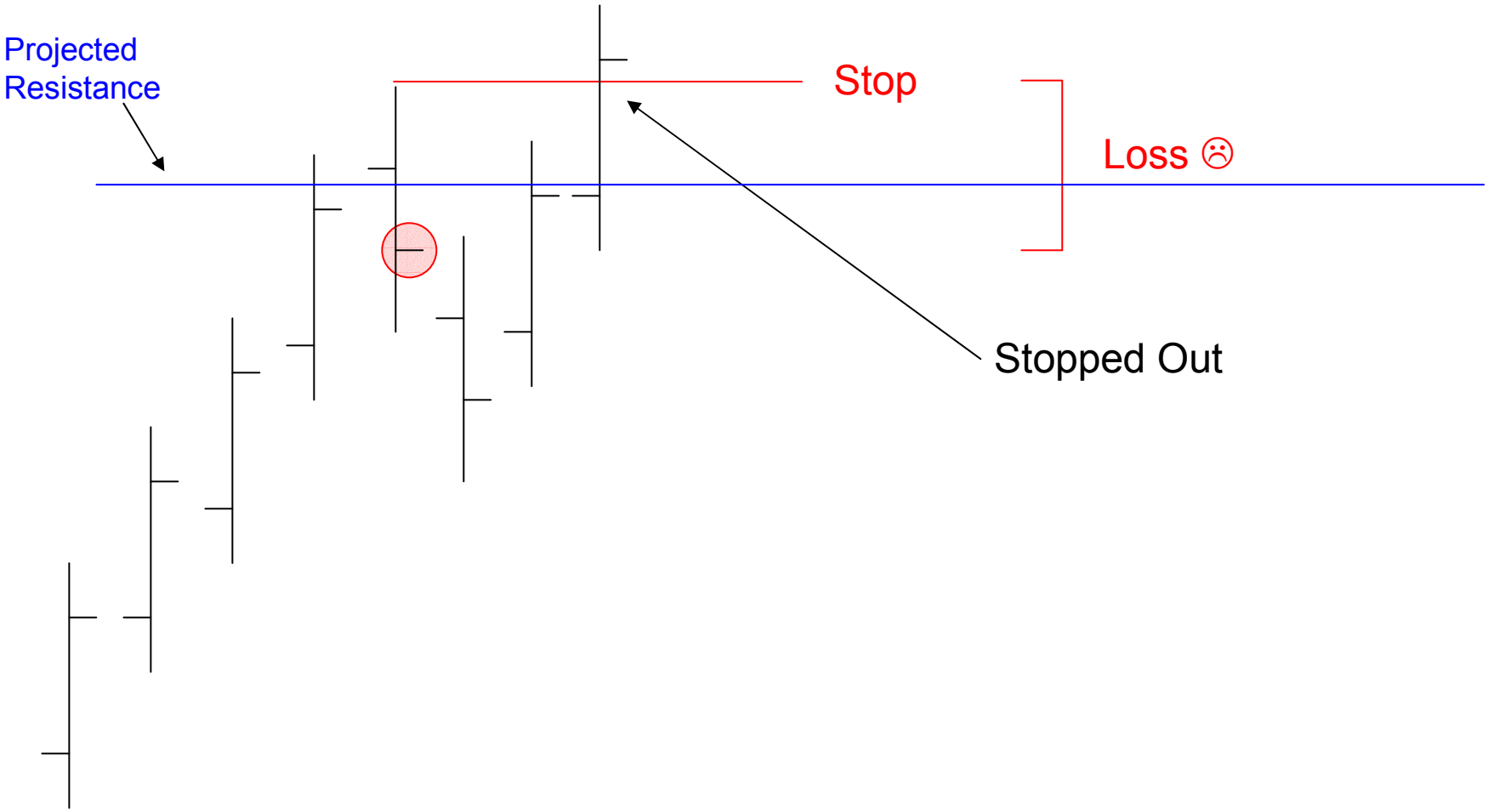
Entries


Projected
Resistance
Reversal Day
•Close below today's open (red candle day)
•Close below yesterday's close (down day)
•Stronger signal if it made a new high as well.

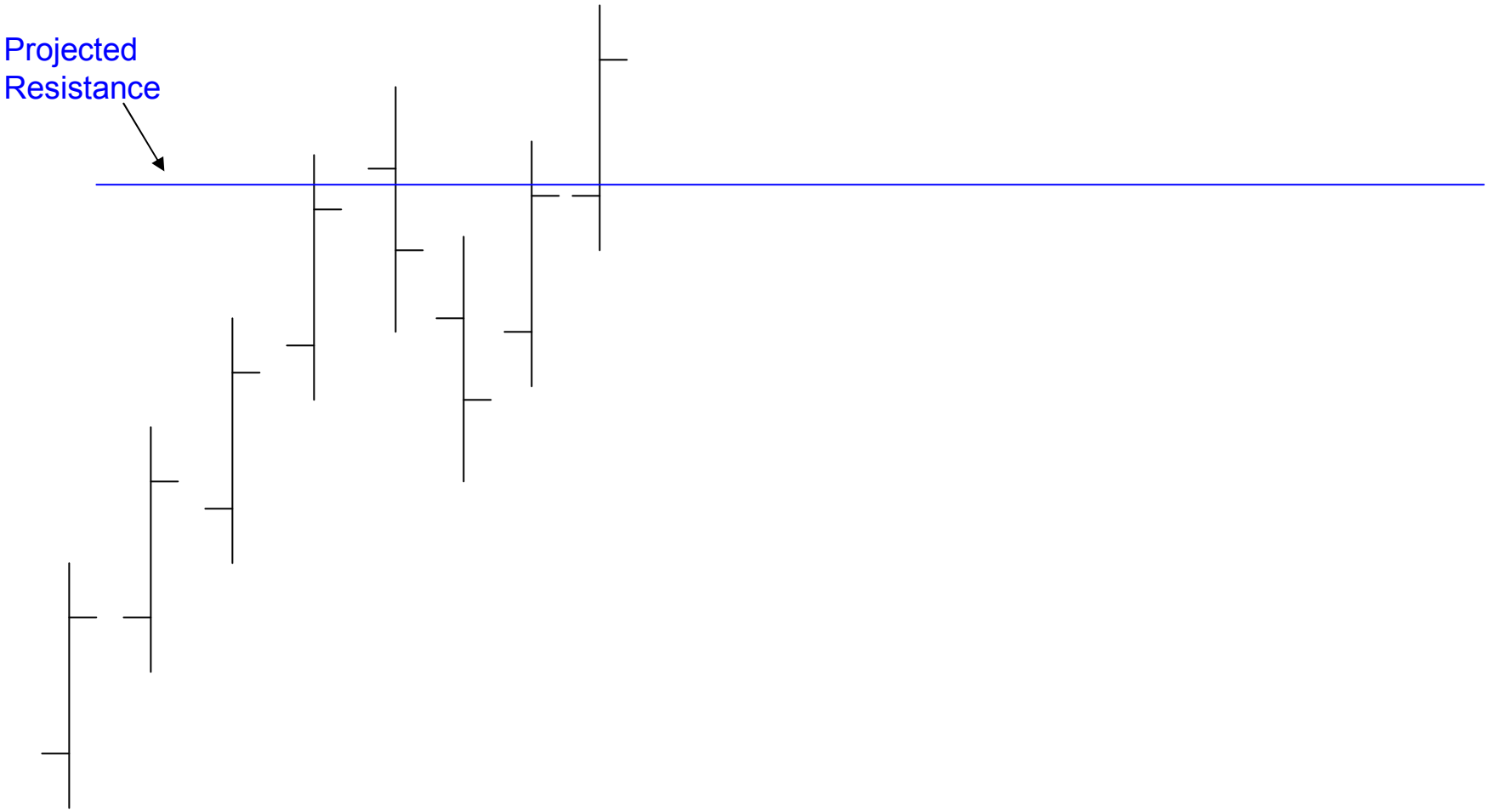
Entries



Entries



Entries



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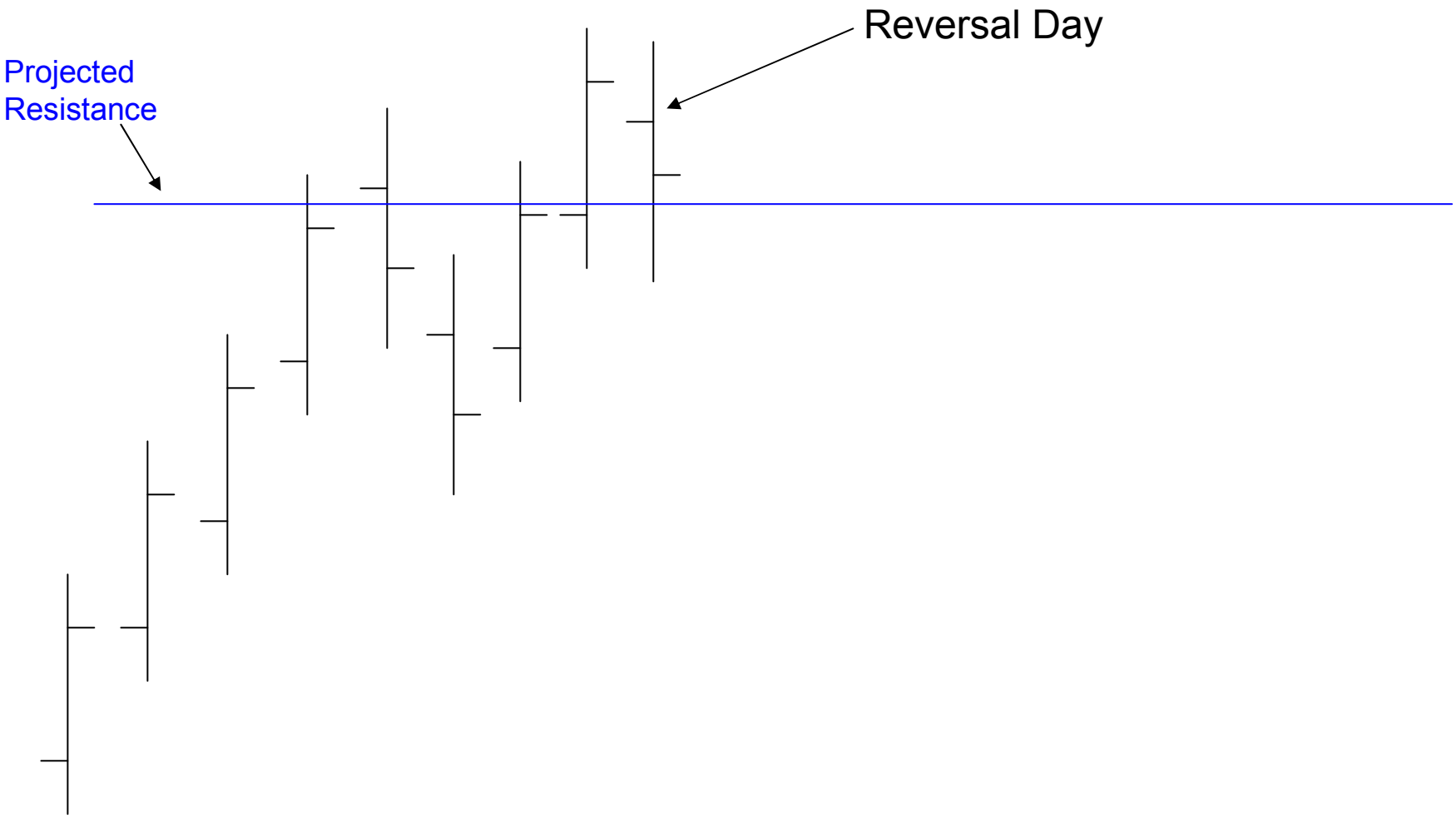

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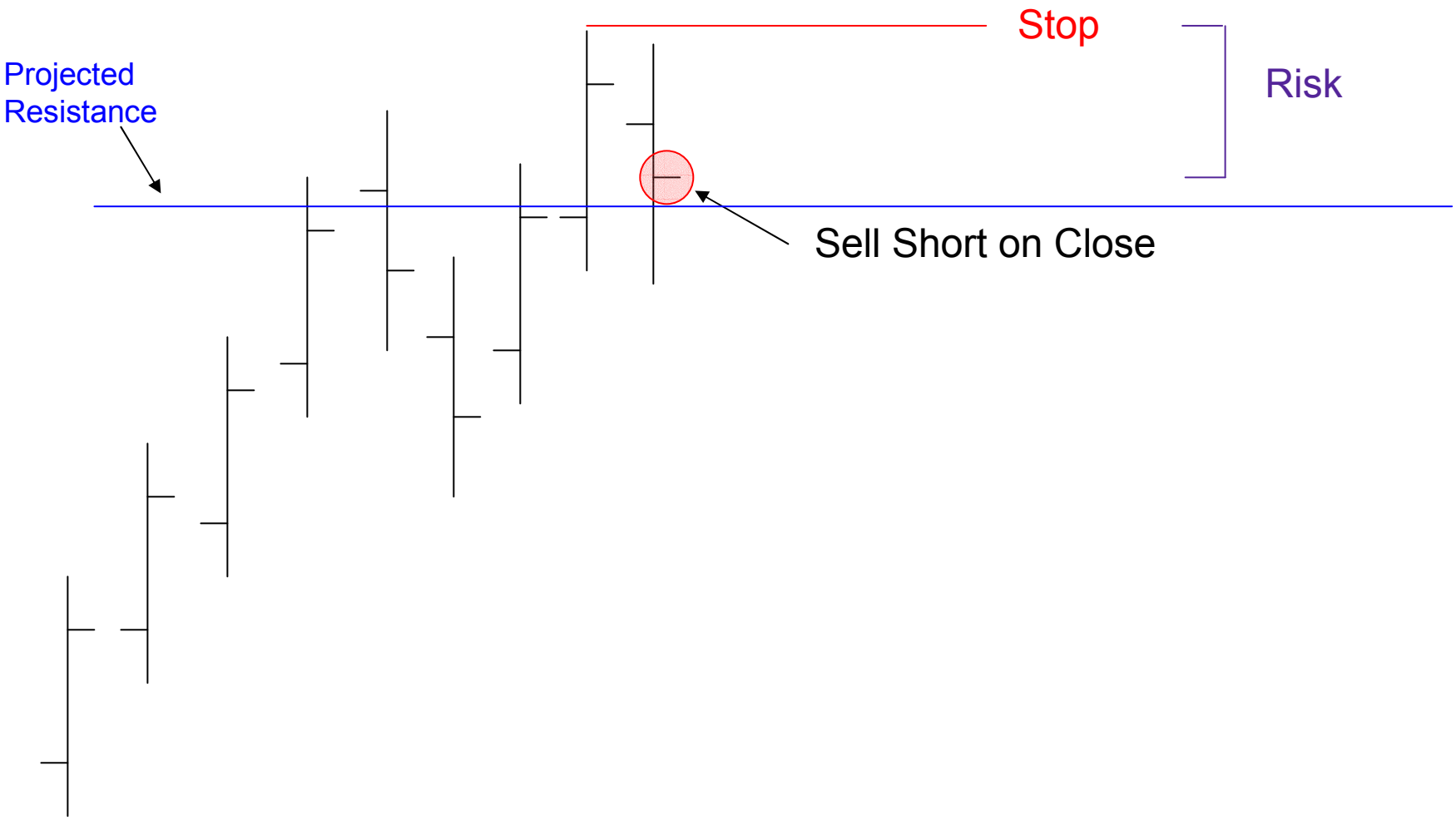

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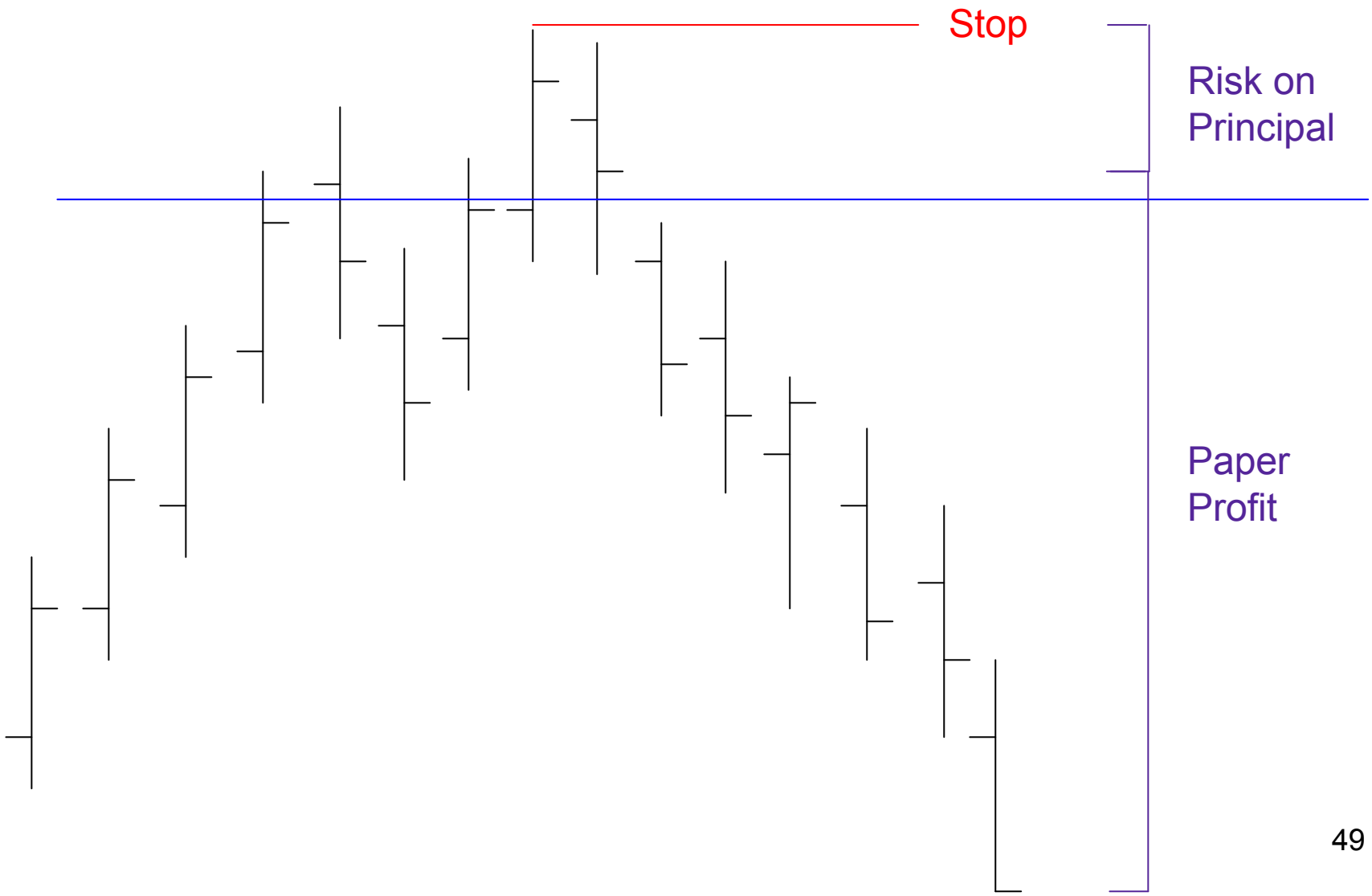
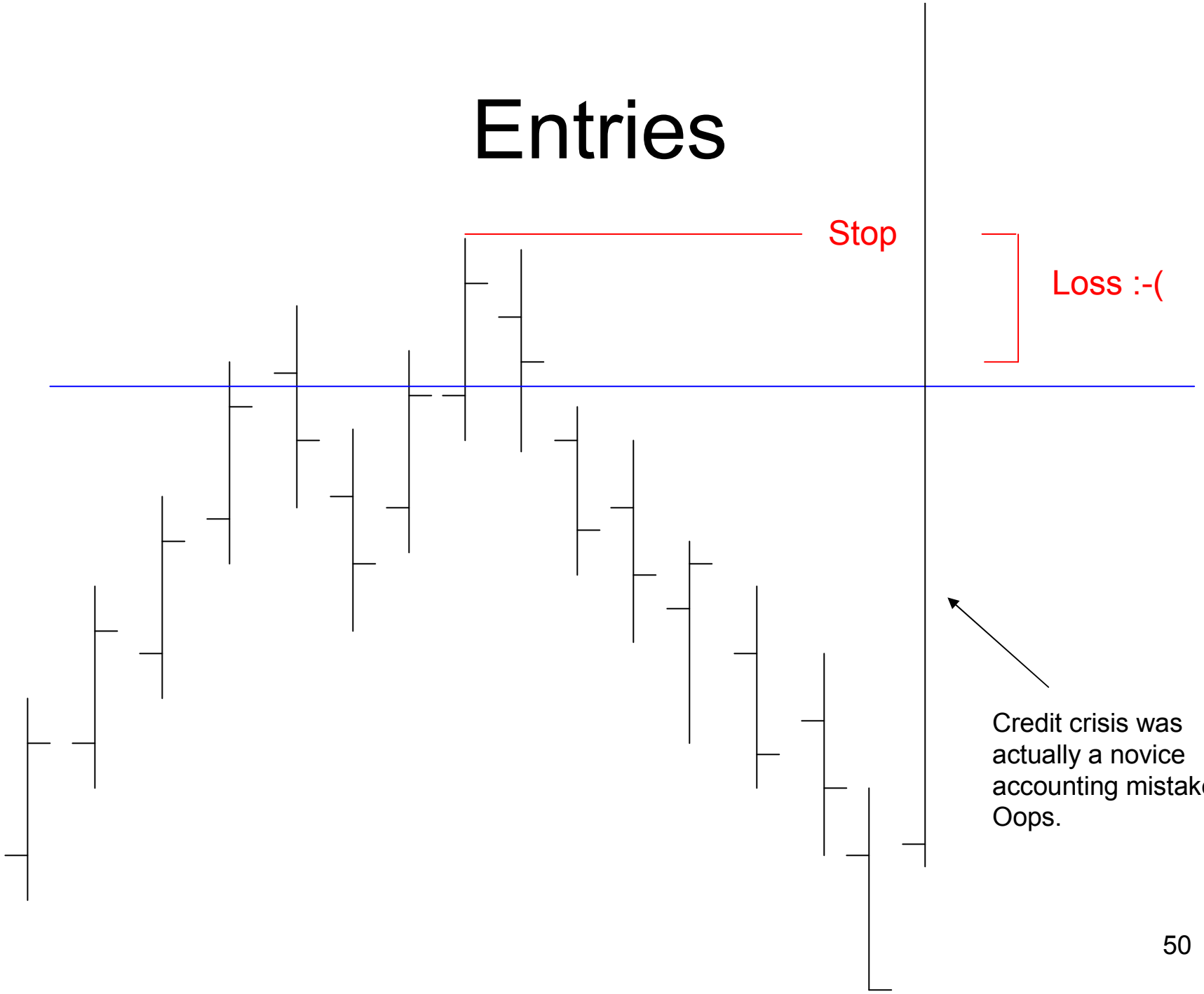


Entries


Stop
Loss :-(
Credit crisis was actually a novice accounting mistake. Oops.

Trailing Stops

N-Day high or N-Day low. N is a number.

For example:

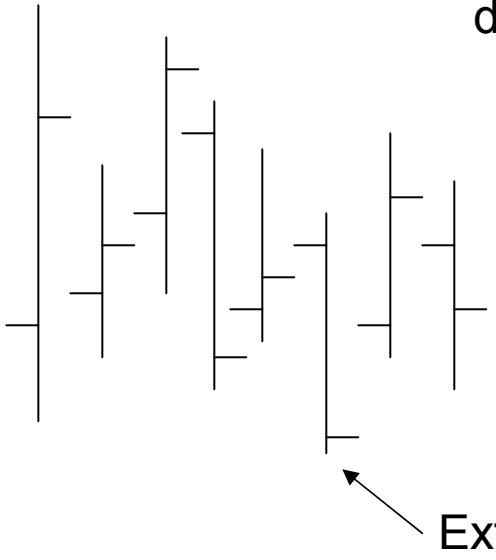
- 3-Day high
- 1-Day High
- 2-Day Low

3-Day High:

Highest high of last 3 days prior to and including the extreme point, non-inclusive of “inside days”.

Inside Day:

A day whose range is “inside” the previous day’s range.



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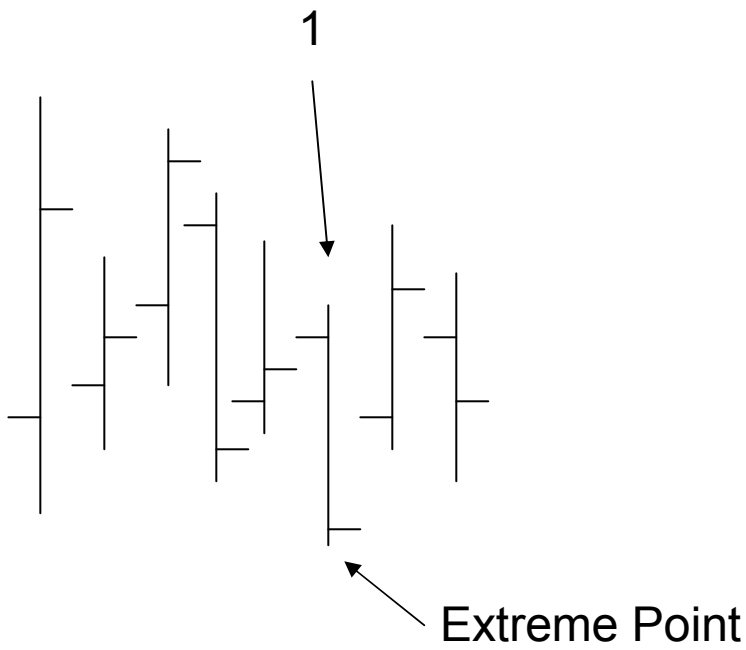

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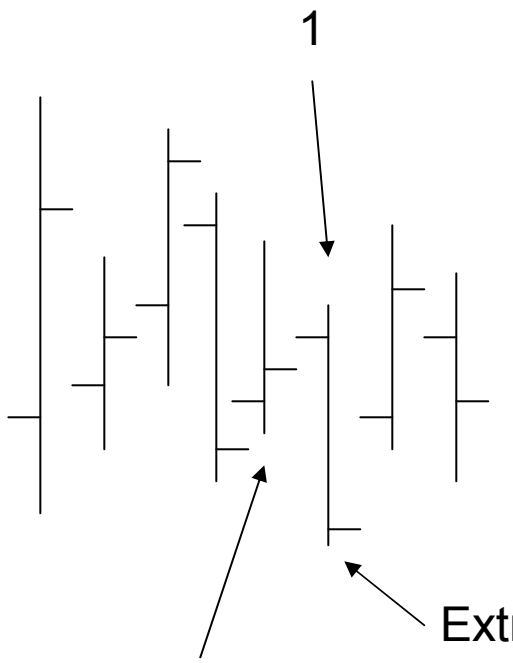

Inside Day. Its range is “inside” the previous day’s range.

Trailing Stops

N-Day high or N-Day low. N is a number.

For example:

- 3-Day high
- 1-Day High
- 2-Day Low

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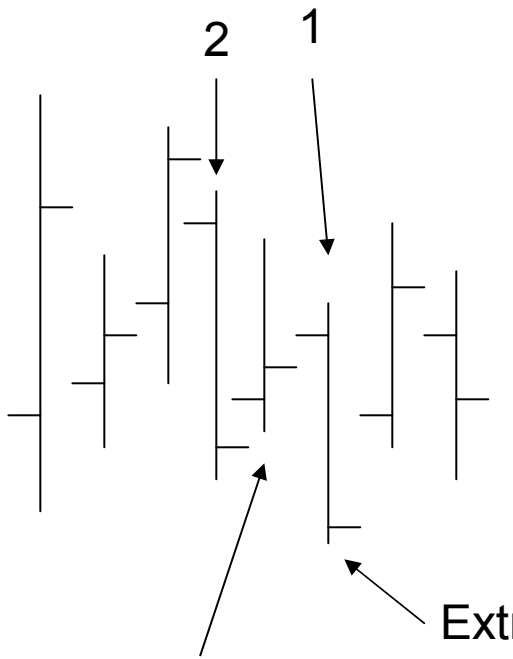
Highest high of last 3 days prior to and including the extreme point, non-inclusive of “inside days”.



Inside Day. Its range is “inside” the previous day’s range.

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N-Day high or N-Day low. N is a number.

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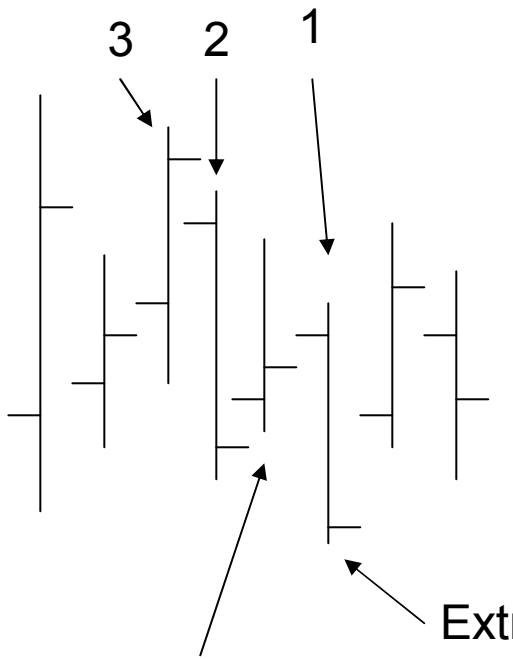

Inside Day. Its range is “inside” the previous day’s range.

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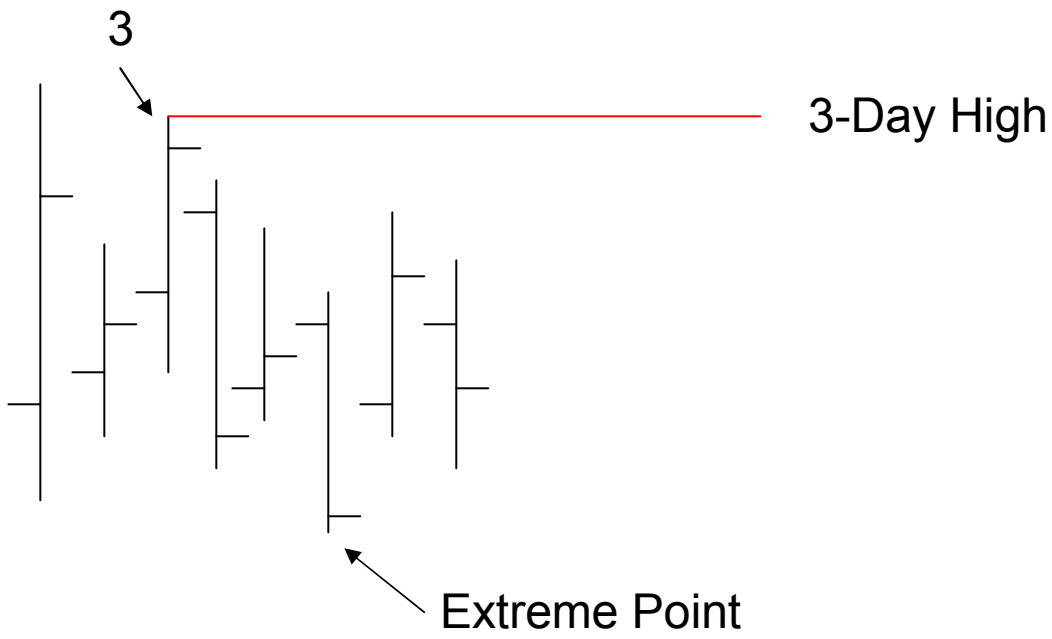
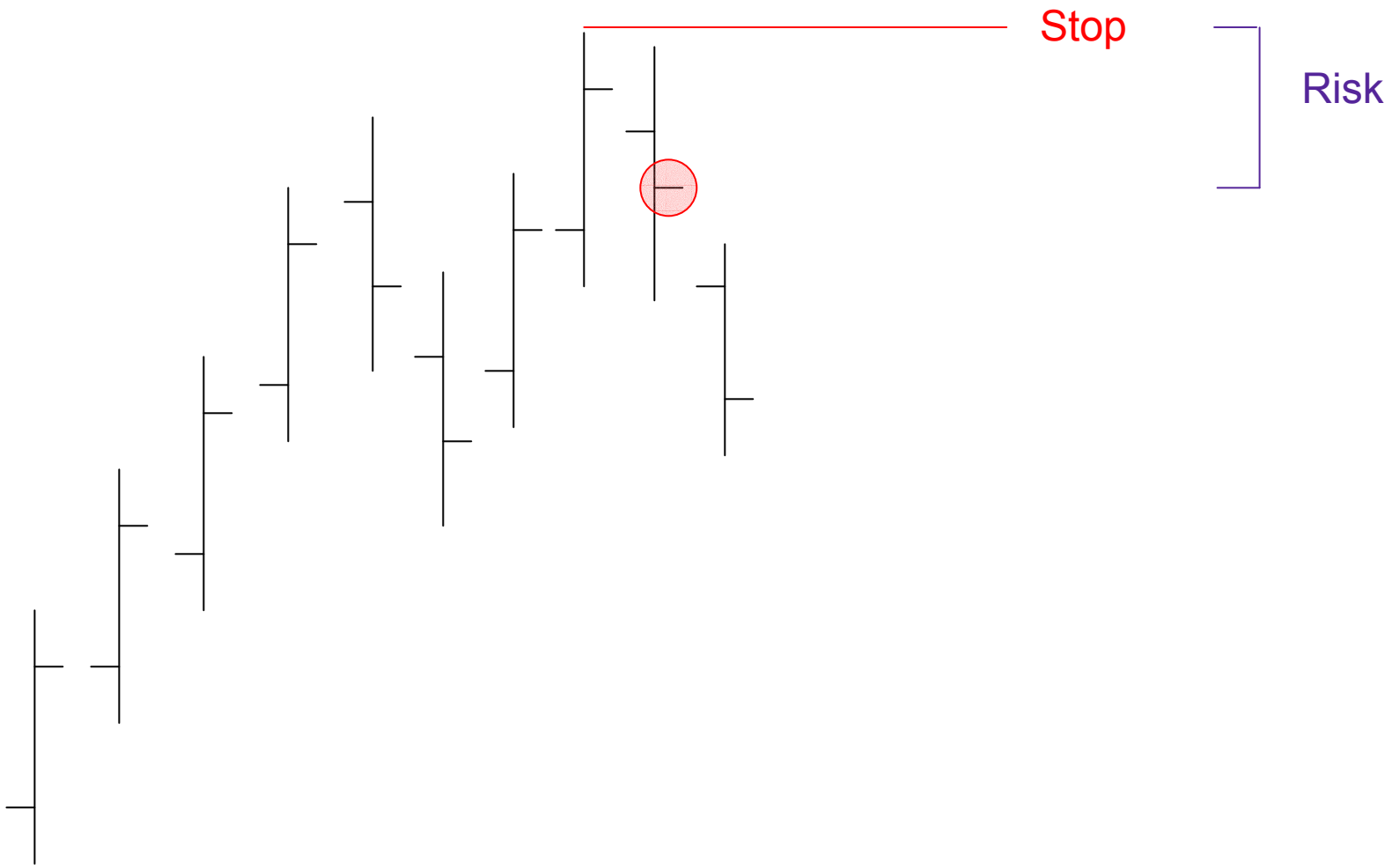
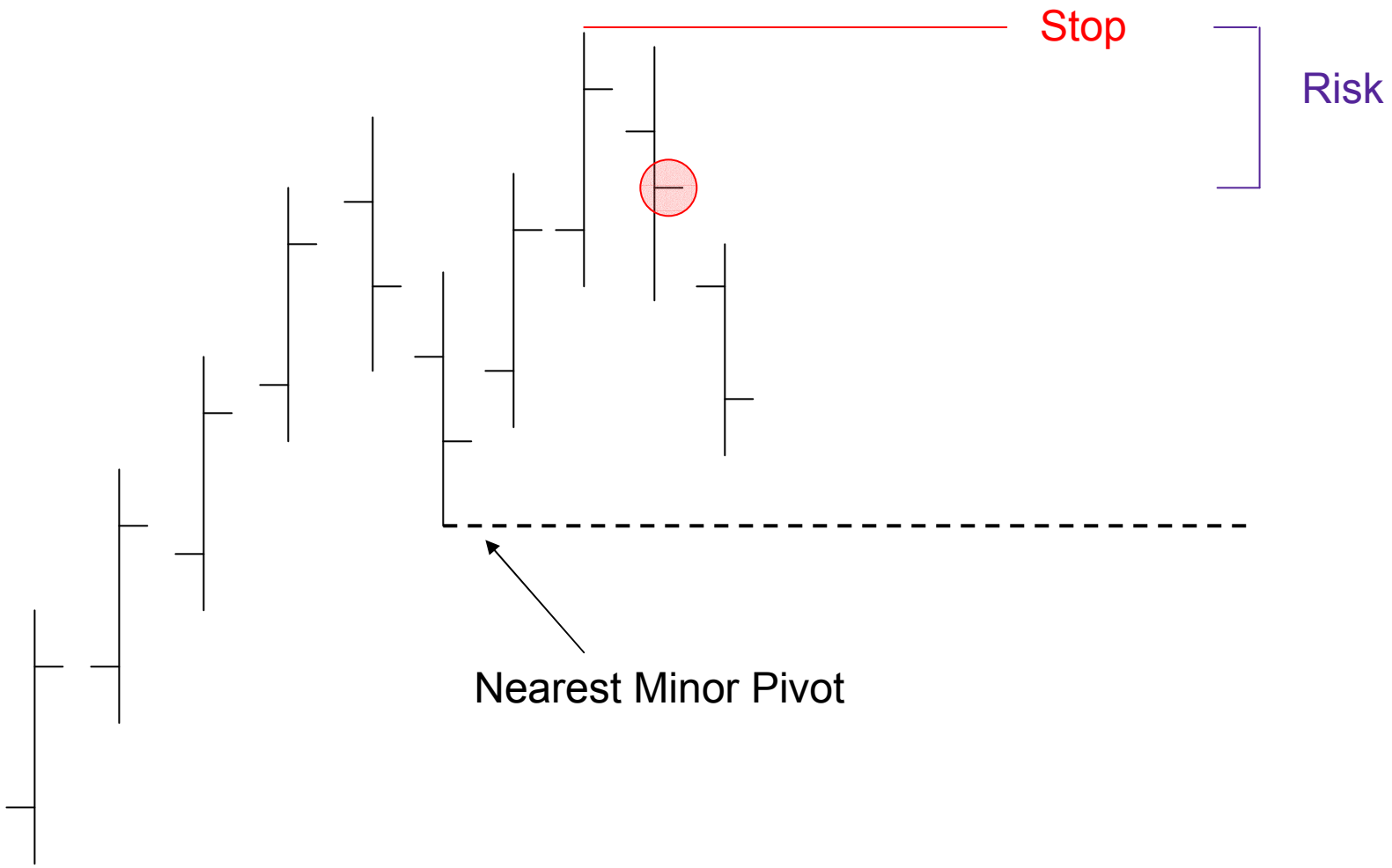
Highest high of last 3 days prior to and including the extreme point, non-inclusive of “inside days”.



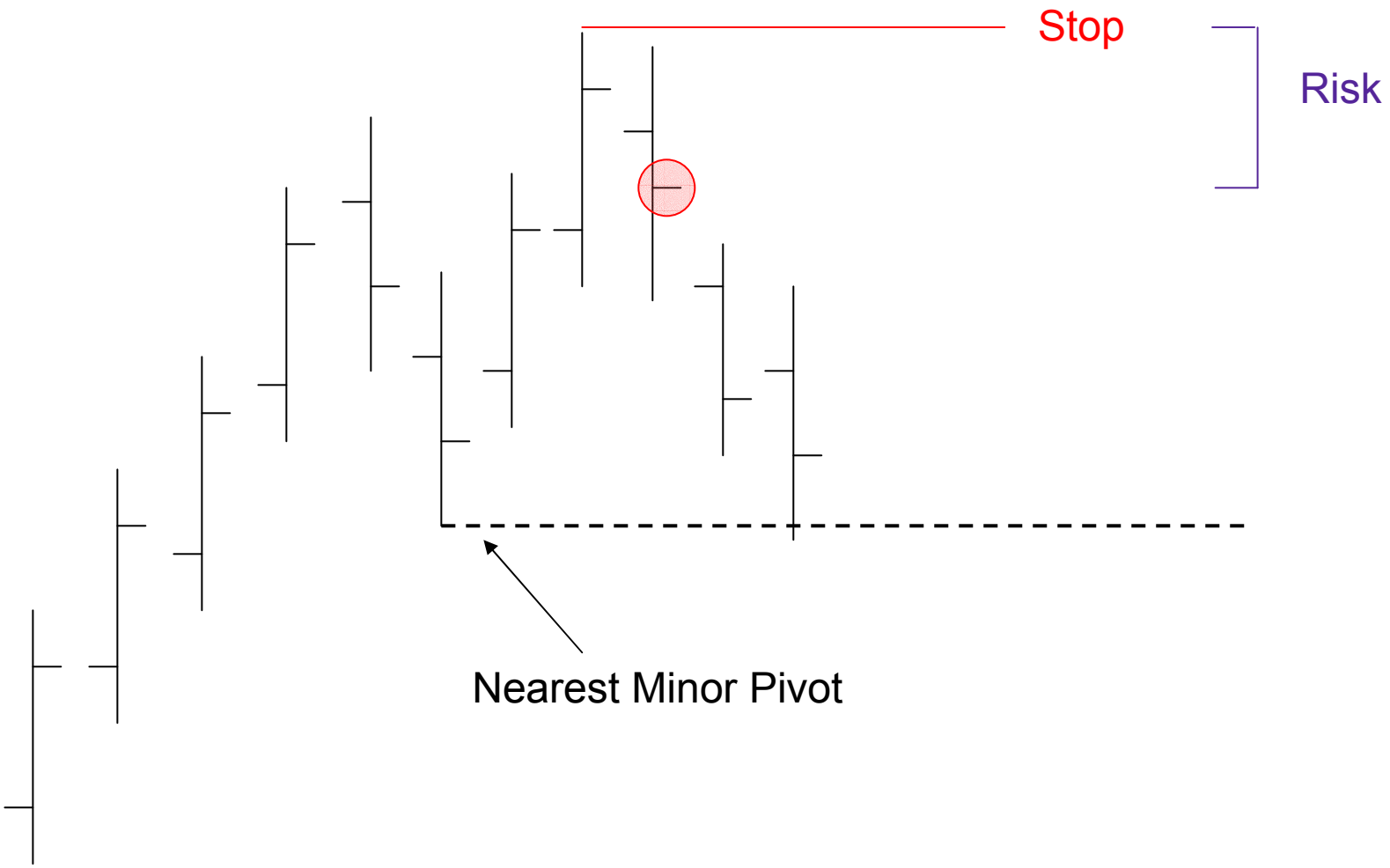
Exits



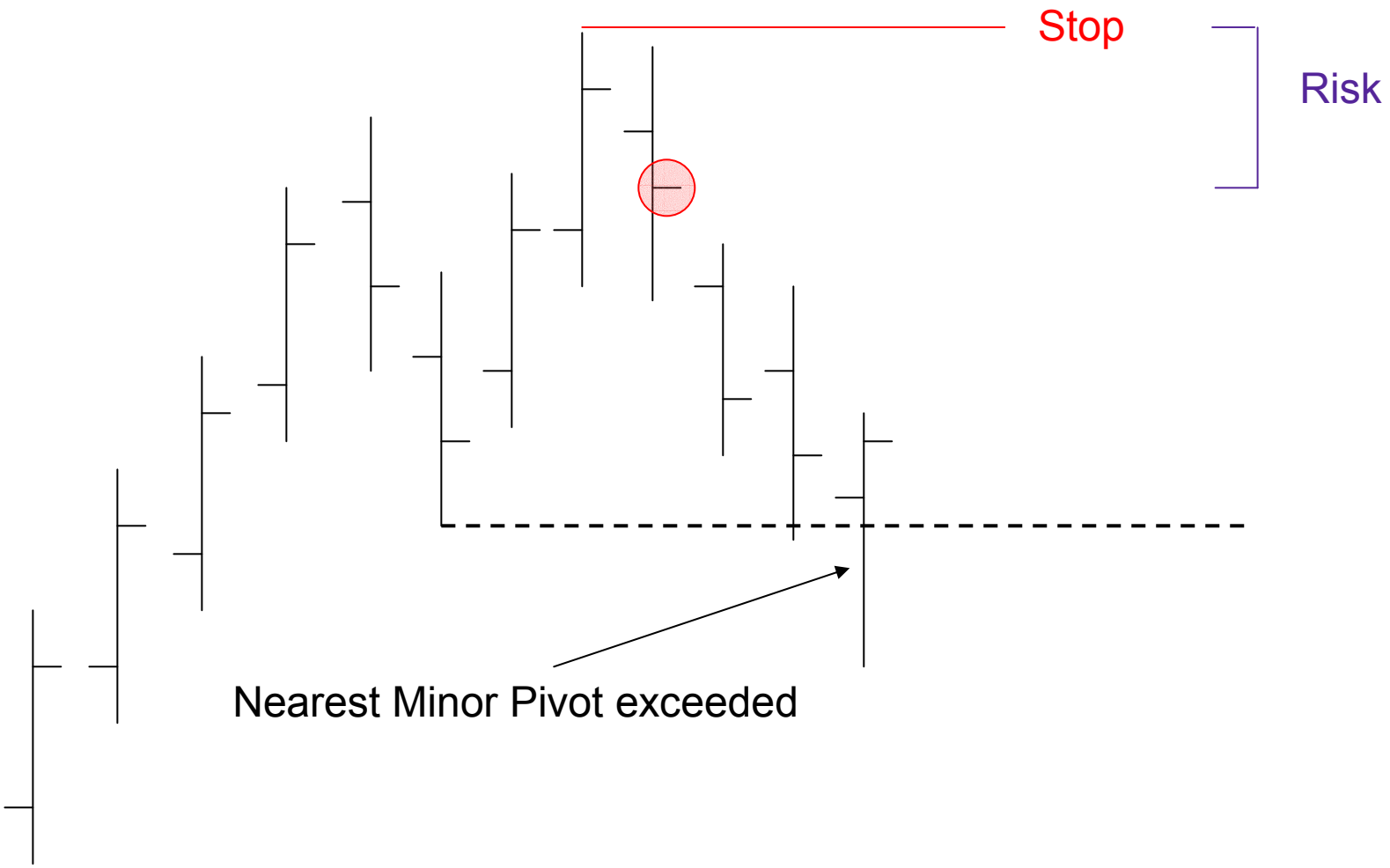
Exits



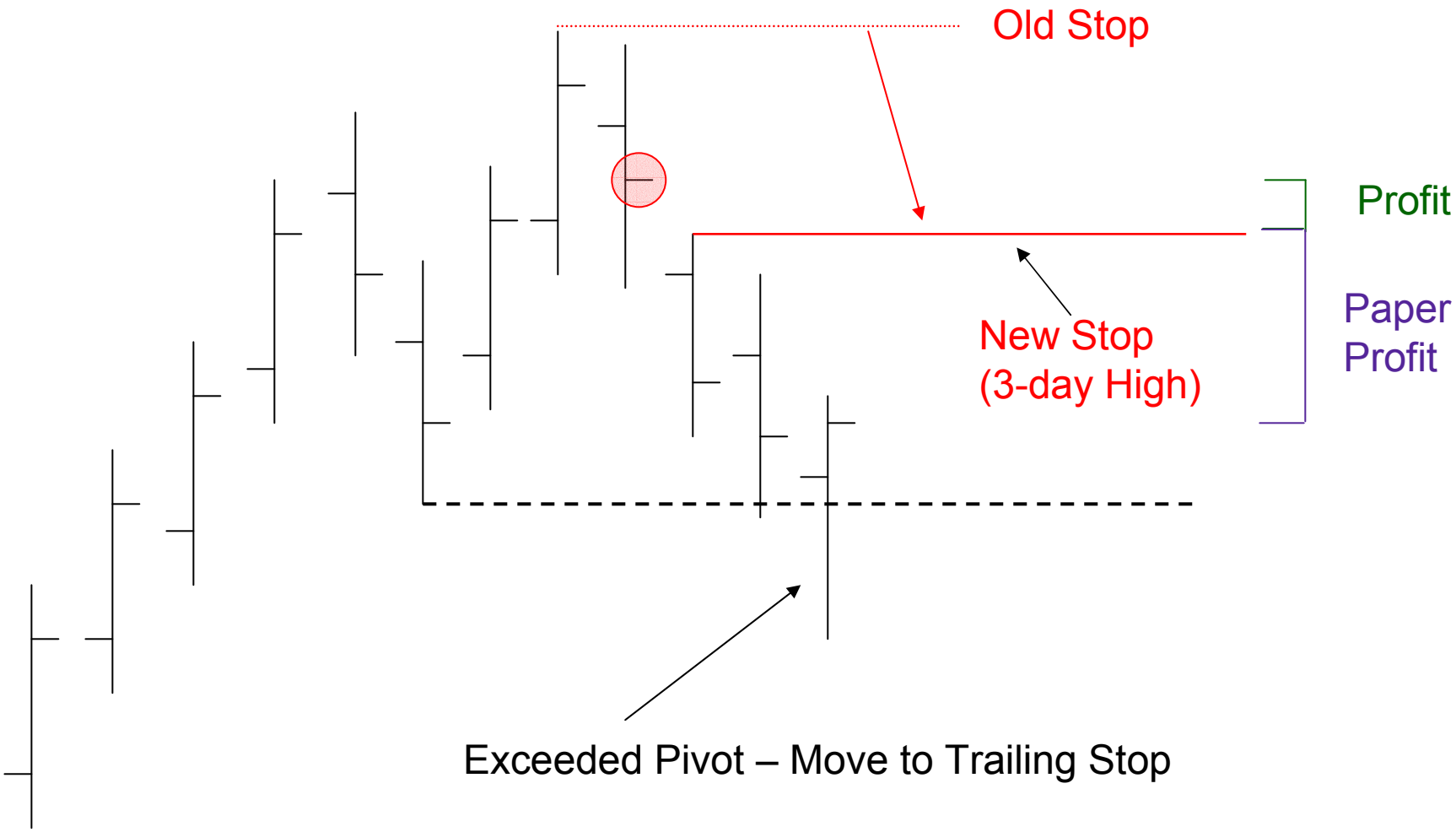
Exits



Exits

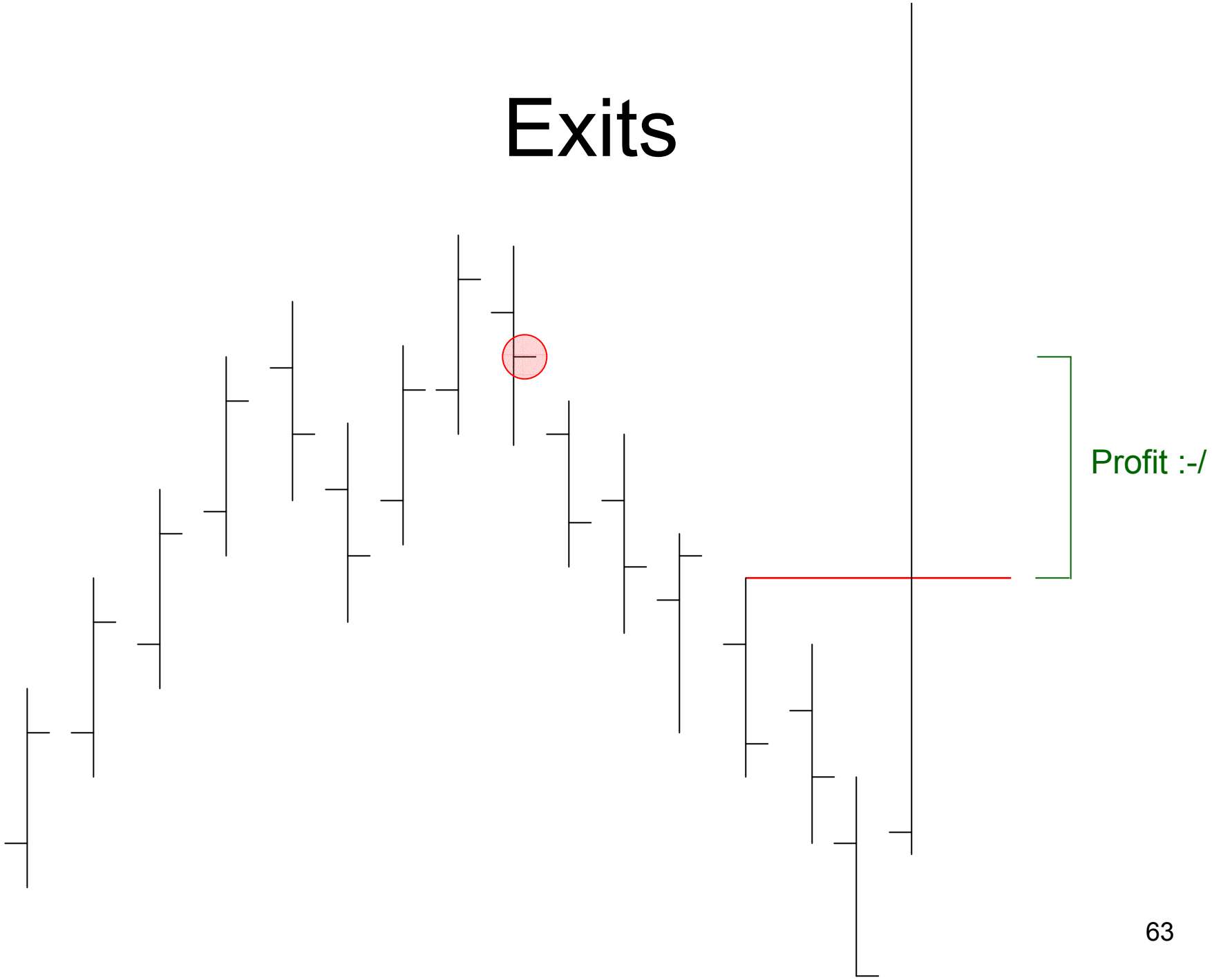


Exits

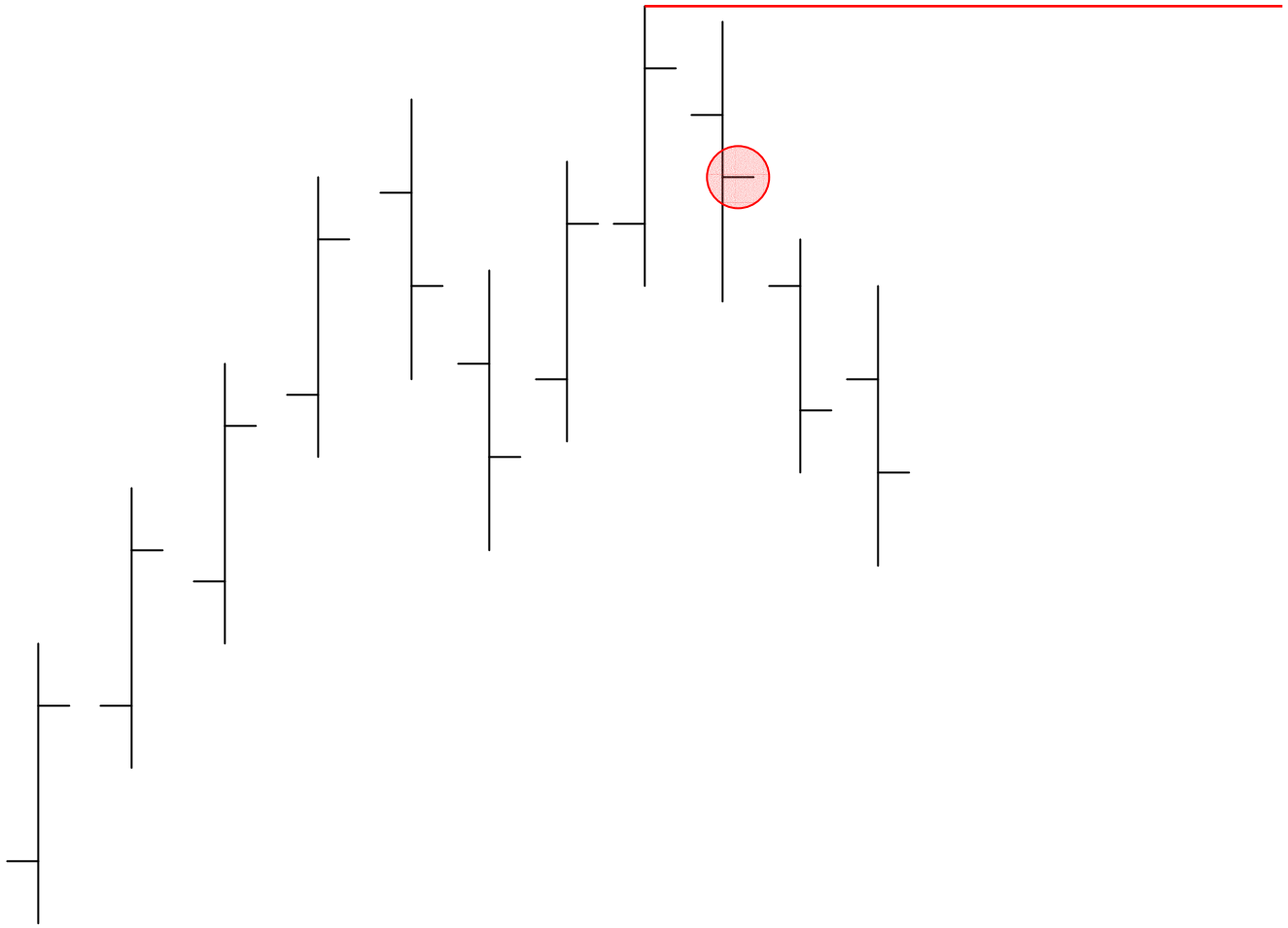

Old Stop
Profit
Paper
Profit
New Stop
(3-day High)
Exceeded Pivot – Move to Trailing Stop

Exits

Exits

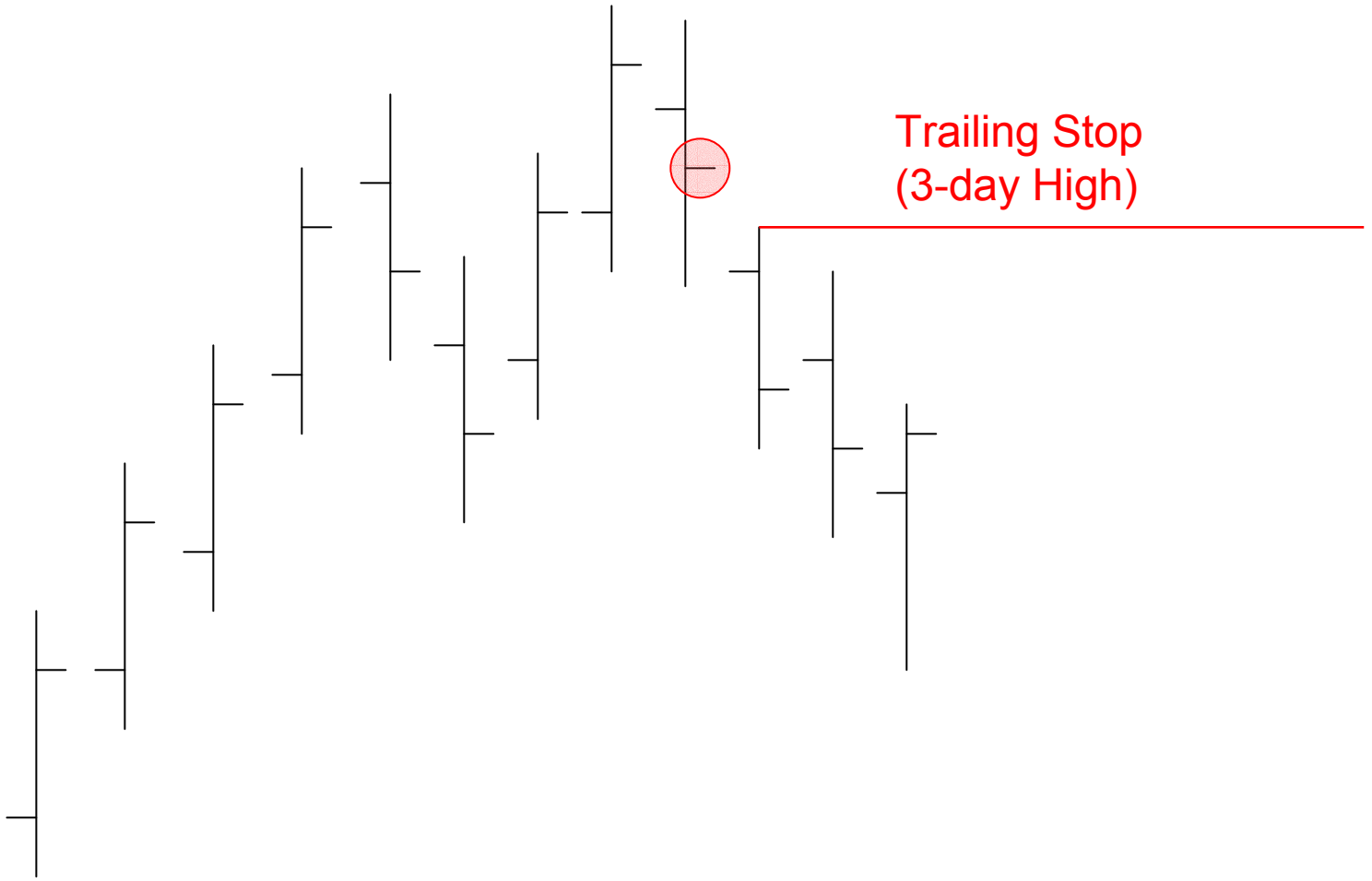


Exits – Towards Price Target

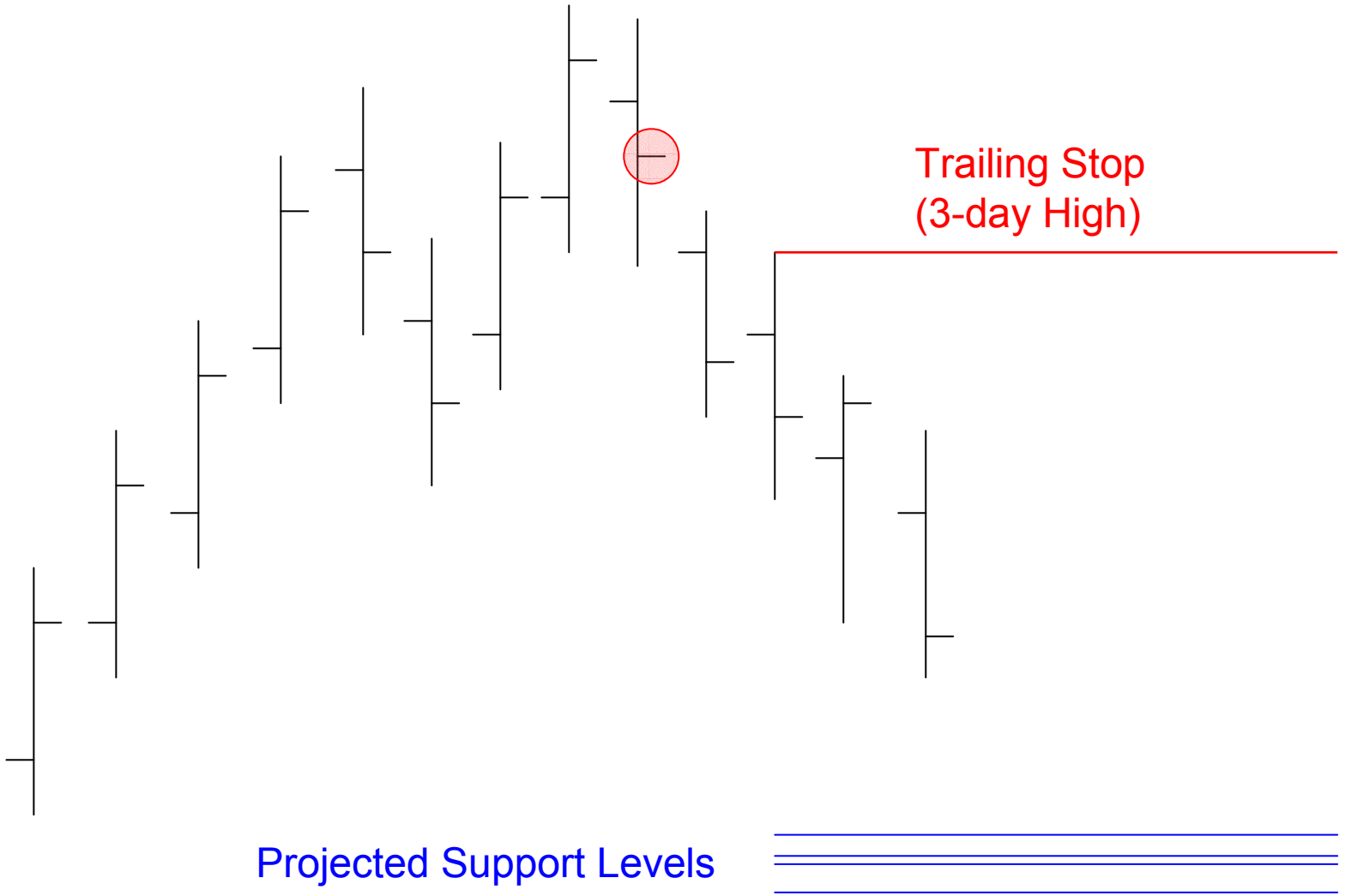


Projected Support Levels

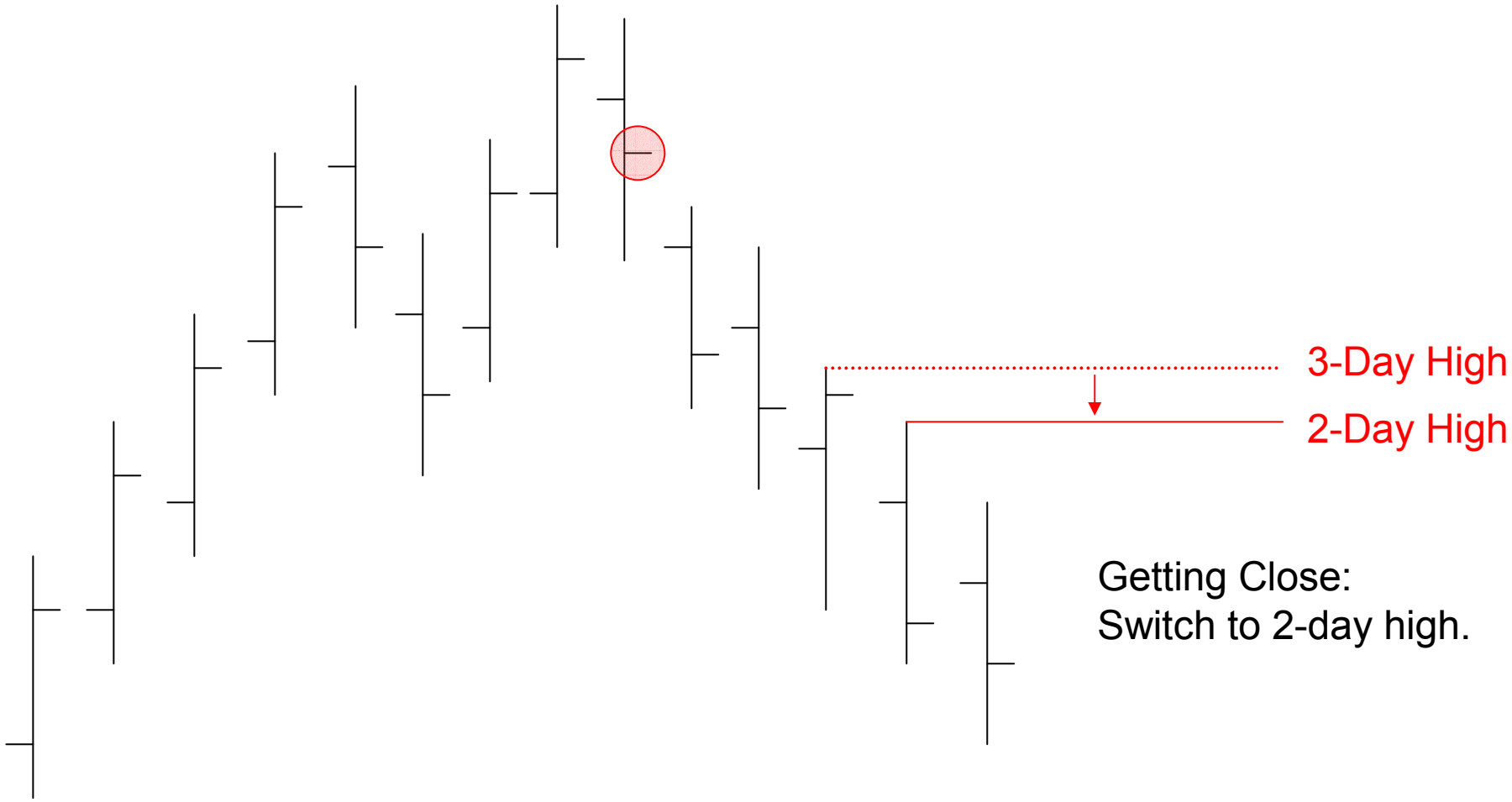
Exits – Towards Price Target



Exits – Towards Price Target

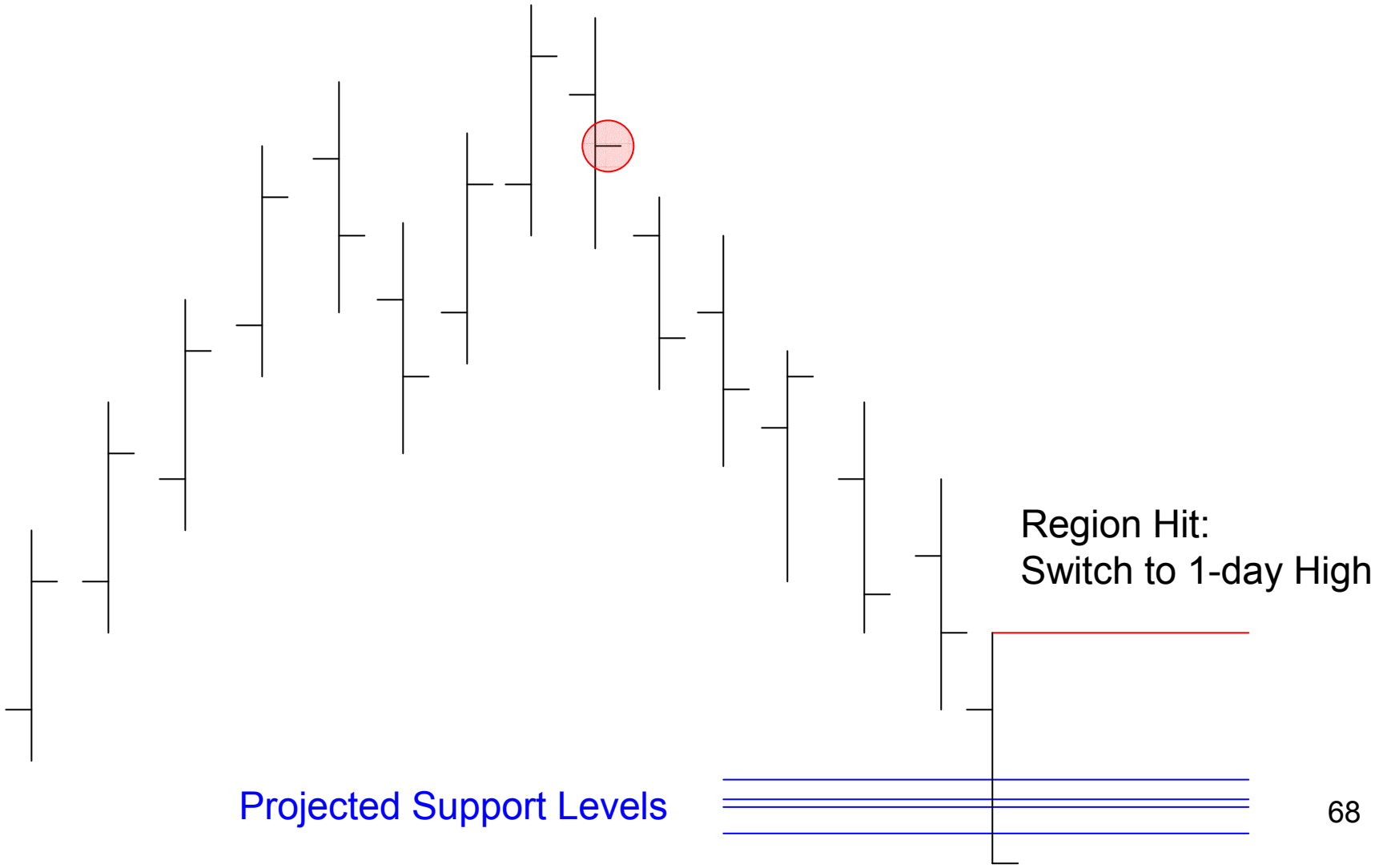


Exits – Towards Price Target

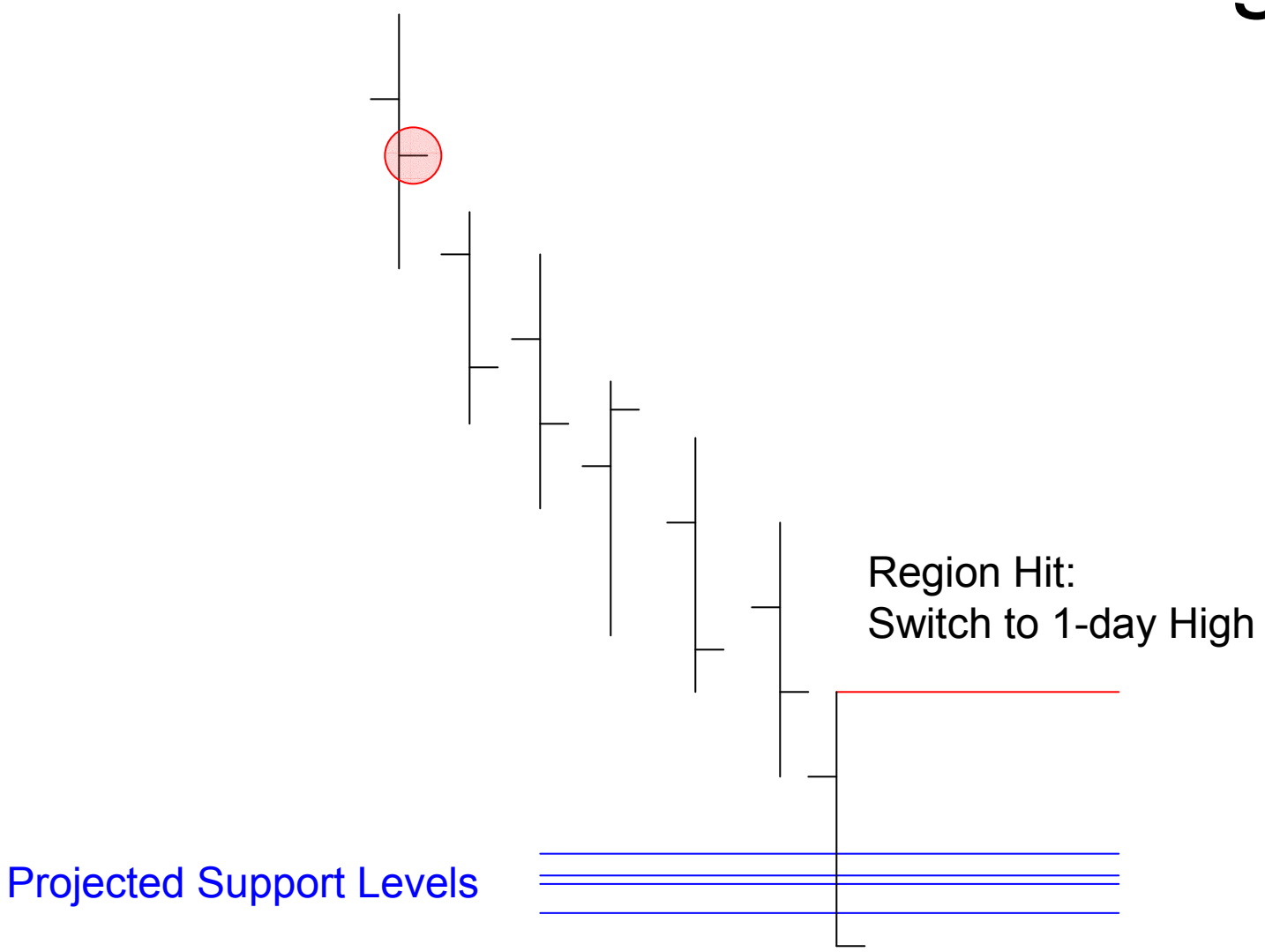


Projected Support Levels

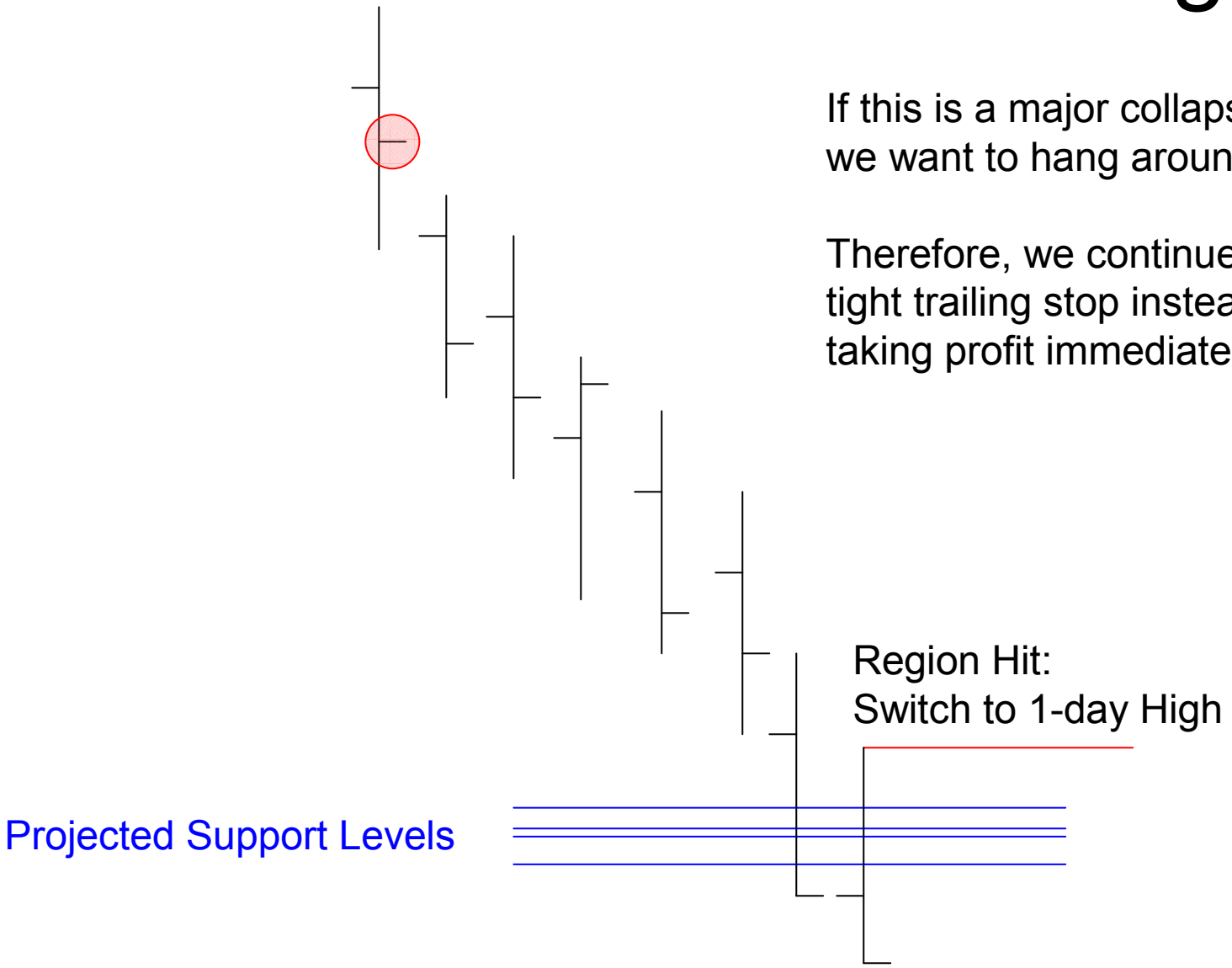
Exits – Towards Price Target



Exits – Towards Price Target



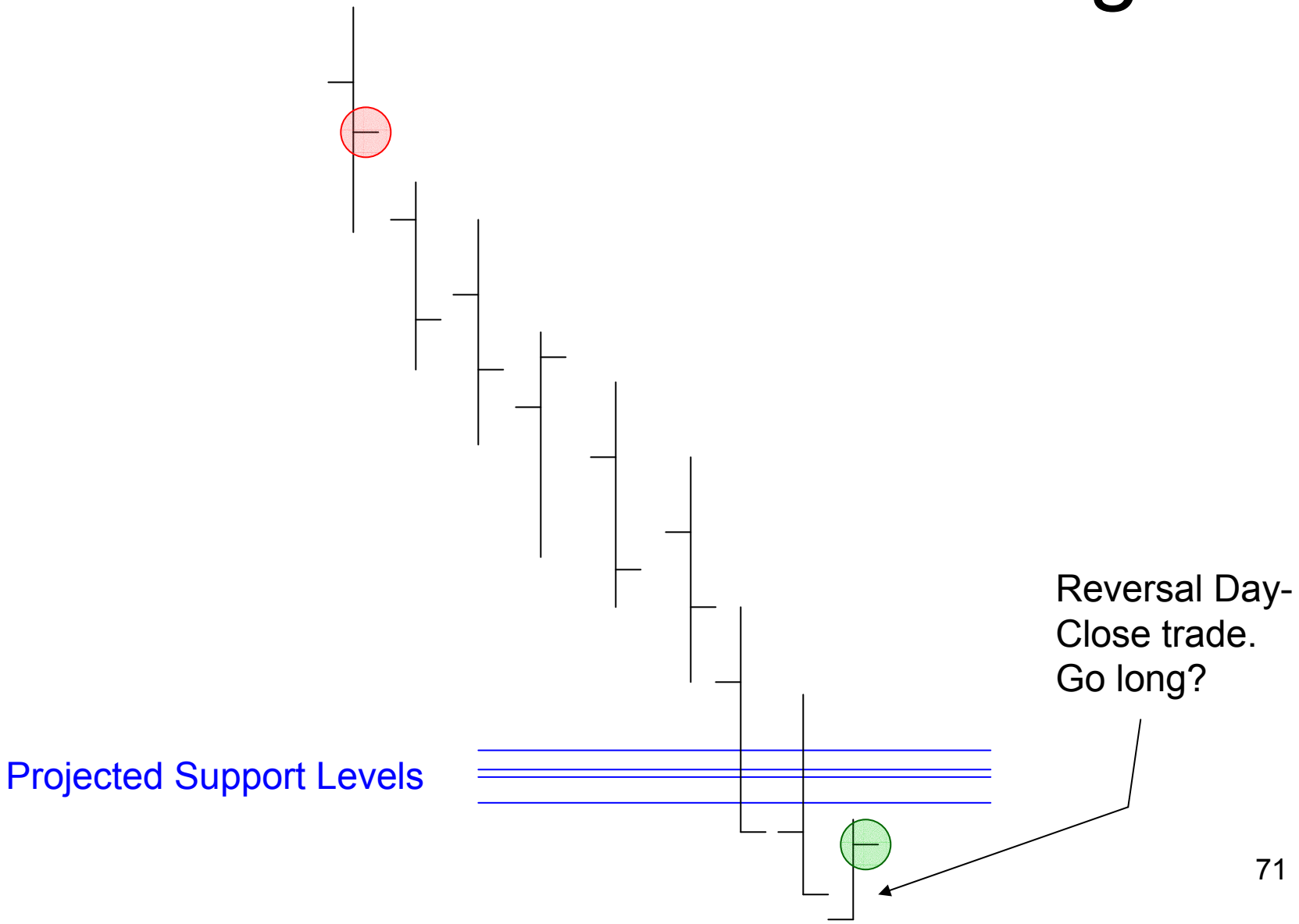
Exits – Towards Price Target



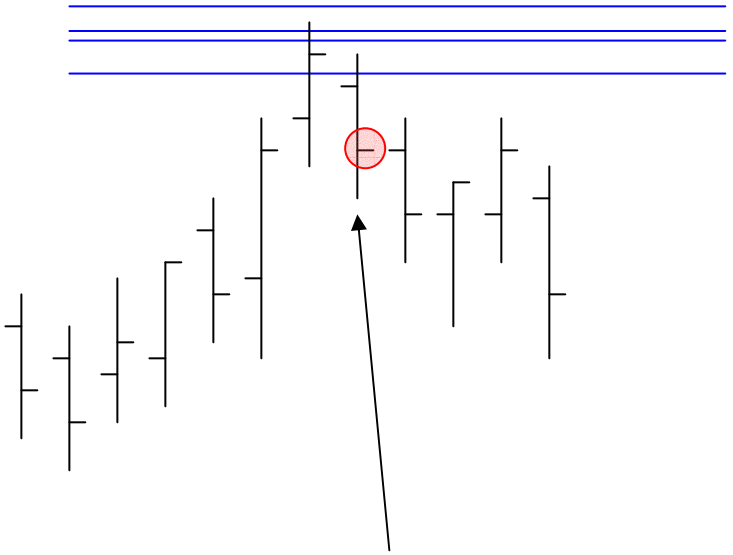
If this is a major collapse,
we want to hang around for it.

Therefore, we continue with the tight trailing stop instead of just taking profit immediately.

Exits – Towards Price Target



Trend-Continuation Entries



Projected Resistance Levels

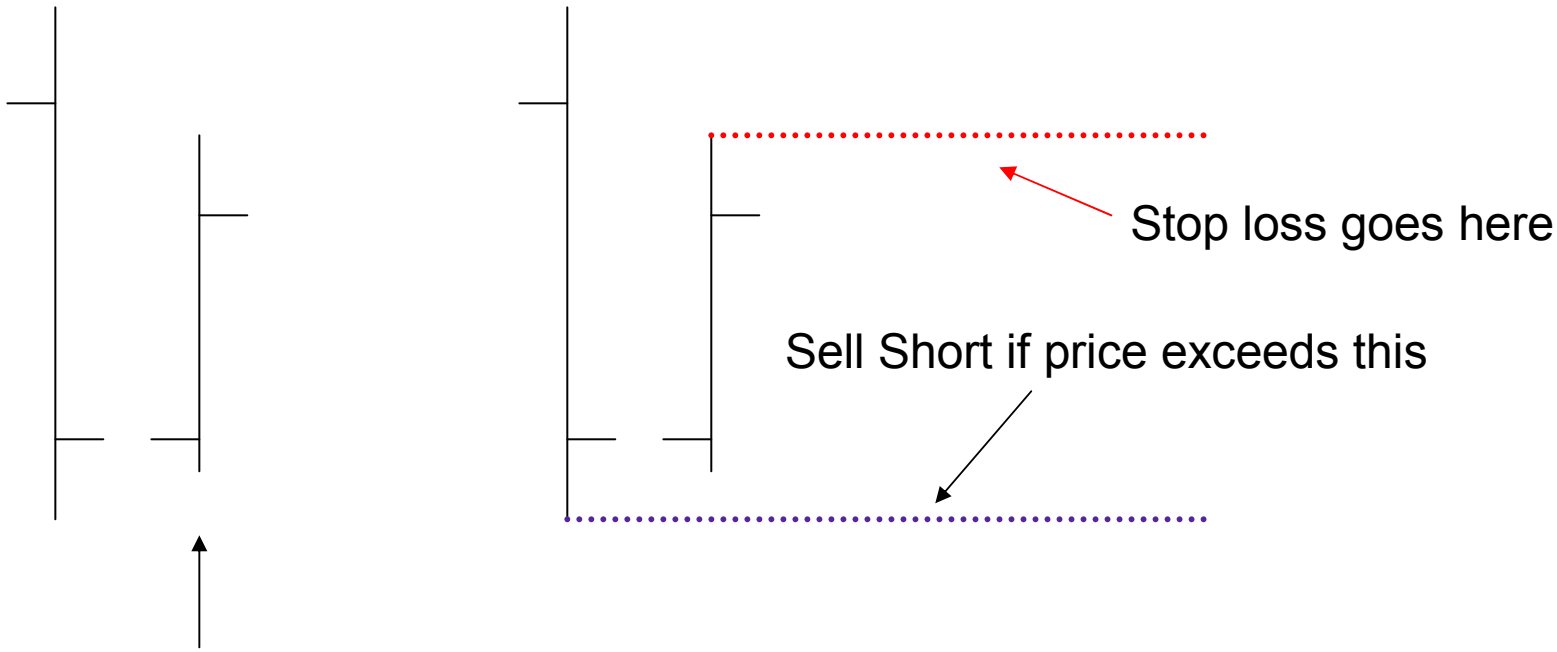
Reversal Day– But we missed it.
Should have sold short,
but I didn't see it. Still good profit
potential left though. What now?

Potential profit. However,
risk is too large to enter
now (stop loss too far away).

Projected Support Levels

Trend-Continuation Entries

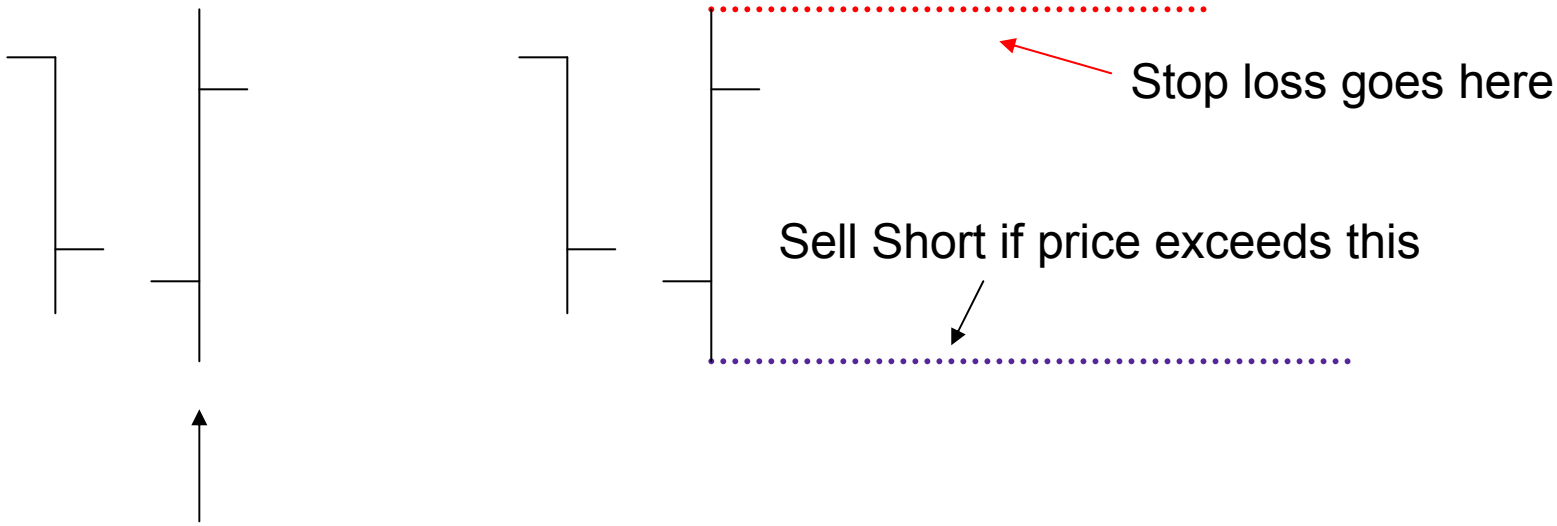
Inside Day Trend-Continuation Entry



Inside day. This day's range is "inside" the previous day's range.

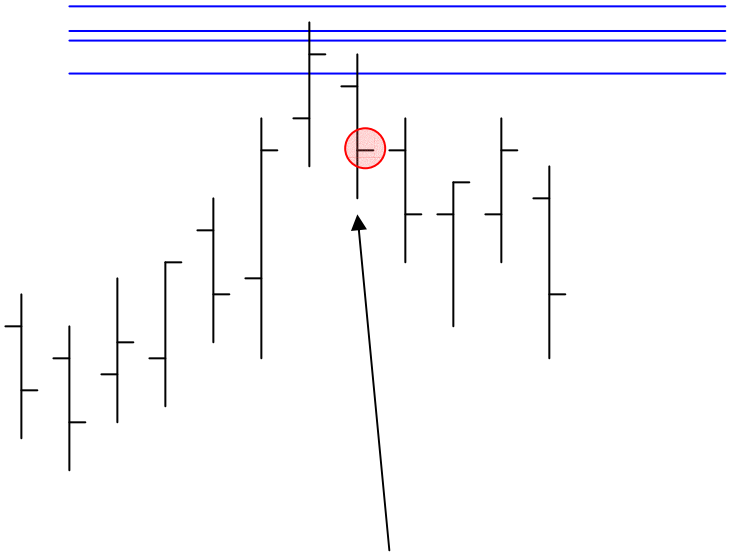
Trend-Continuation Entries

Outside Day Trend-Continuation Entry



Outside day. This day's range is "outside" the previous day's range.

Trend-Continuation Entries

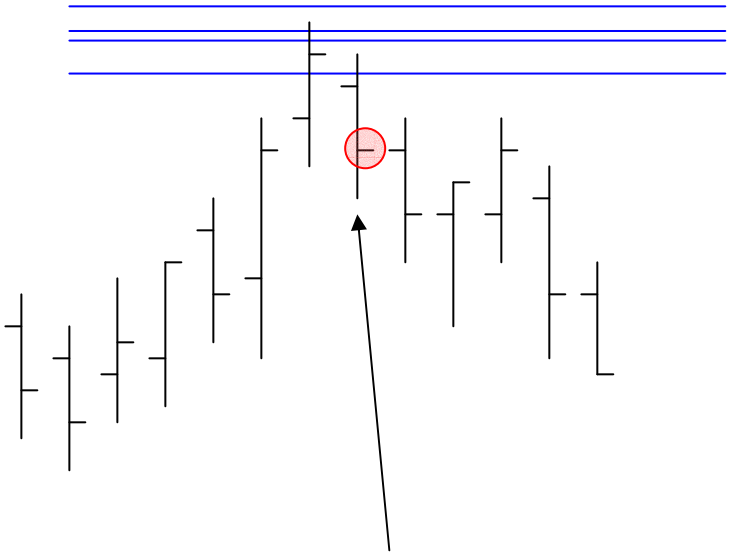


Projected Resistance Levels

Reversal Day that we missed

Projected Support Levels

Trend-Continuation Entries

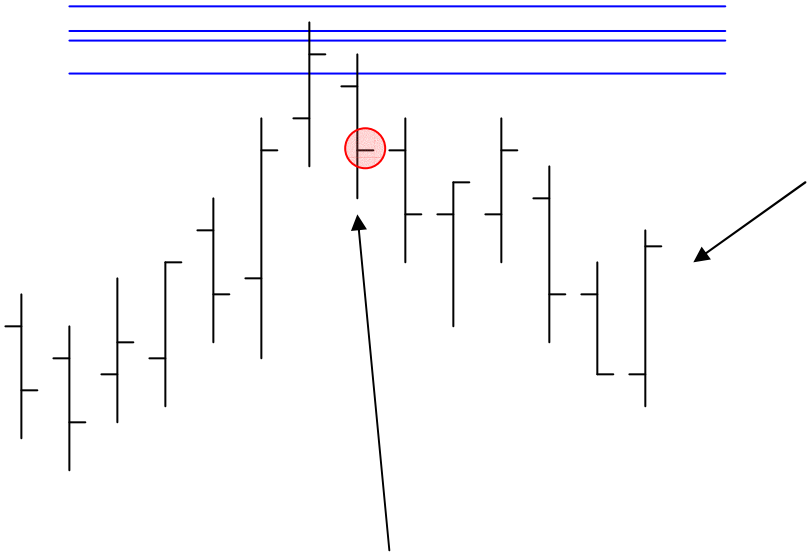


Projected Resistance Levels

Reversal Day that we missed

Projected Support Levels

Trend-Continuation Entries



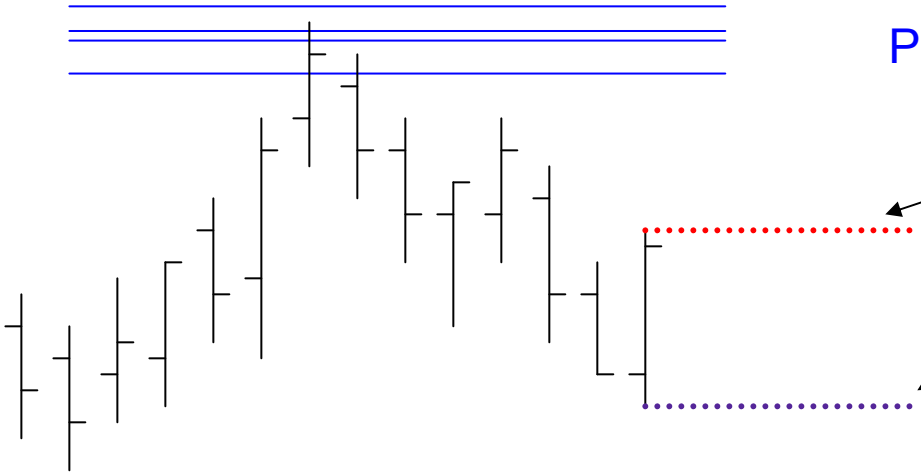
Projected Resistance Levels

Outside Day

Reversal Day that we missed

Projected Support Levels

Trend-Continuation Entries



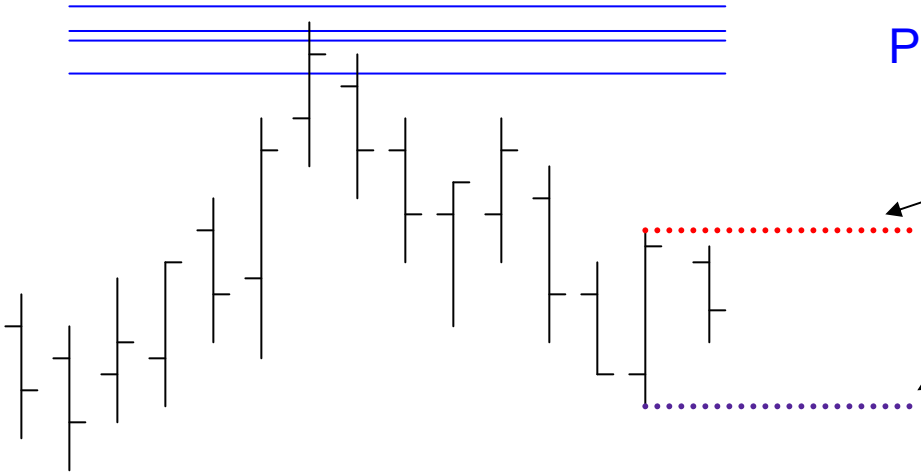
Projected Resistance Levels

Stop loss will go here

Enter if we go below this

Projected Support Levels

Trend-Continuation Entries



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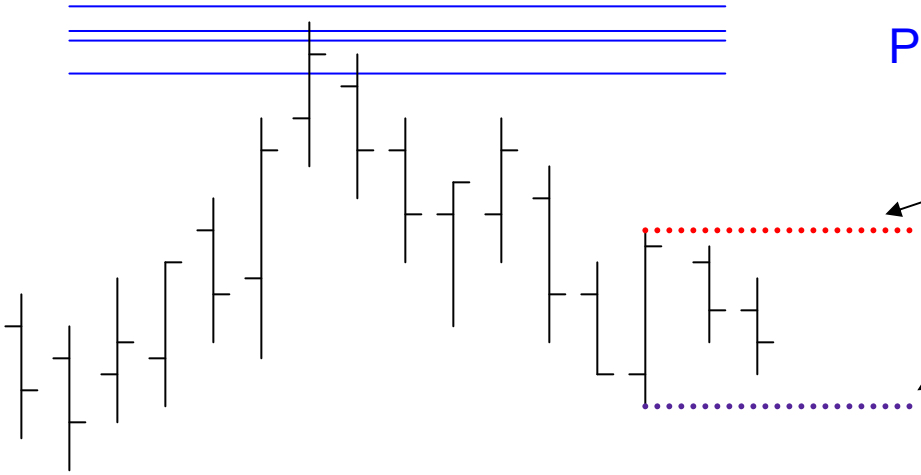
Projected Support Levels

Trend-Continuation Entries



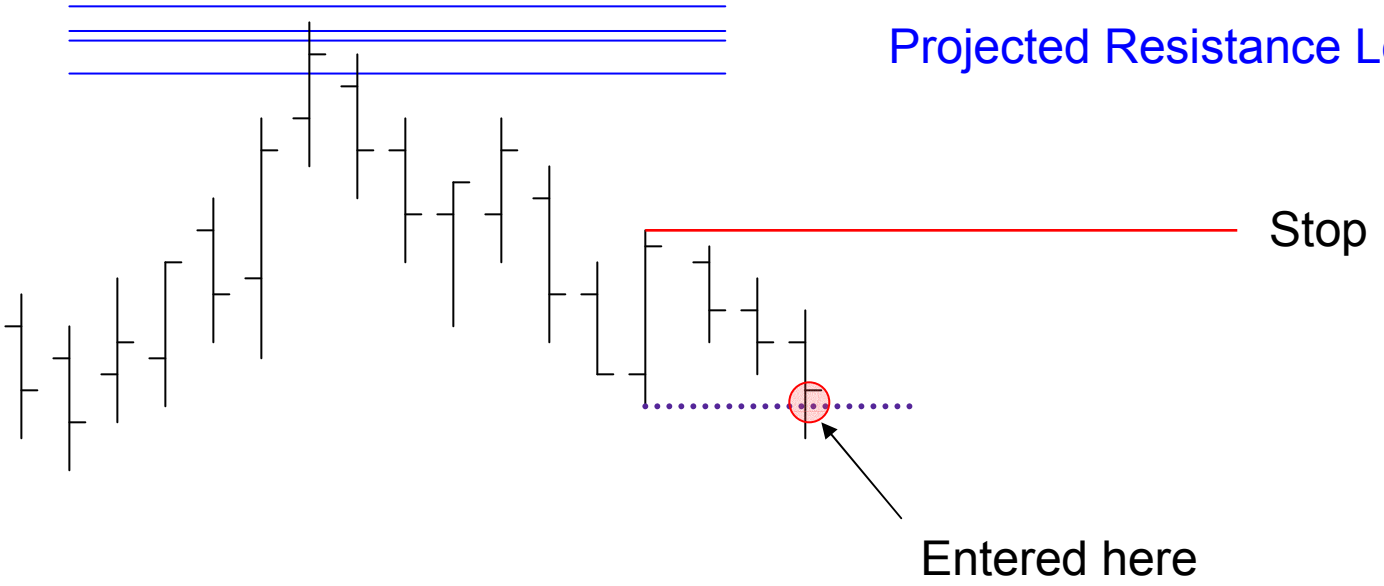
Projected Resistance Levels

Stop loss will go here

Enter if we go below this

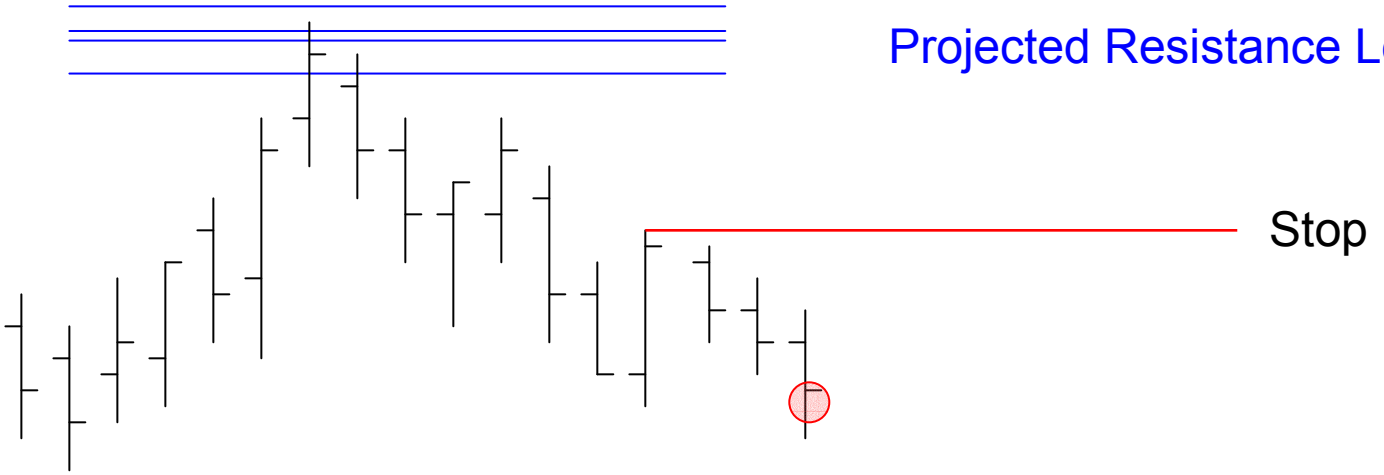
Projected Support Levels

Trend-Continuation Entries



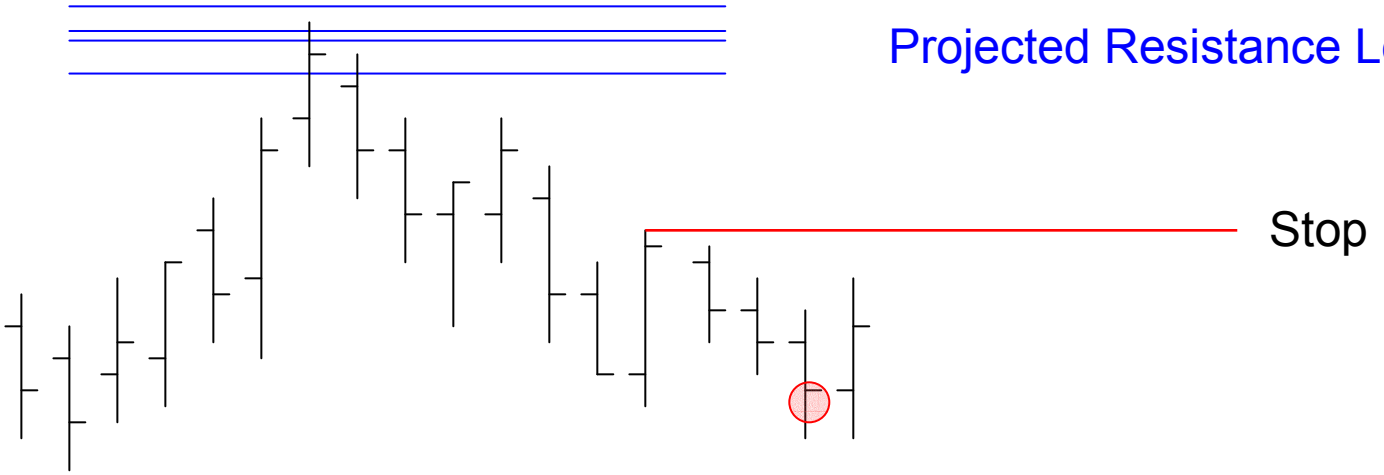
Projected Support Levels

Trend-Continuation Entries



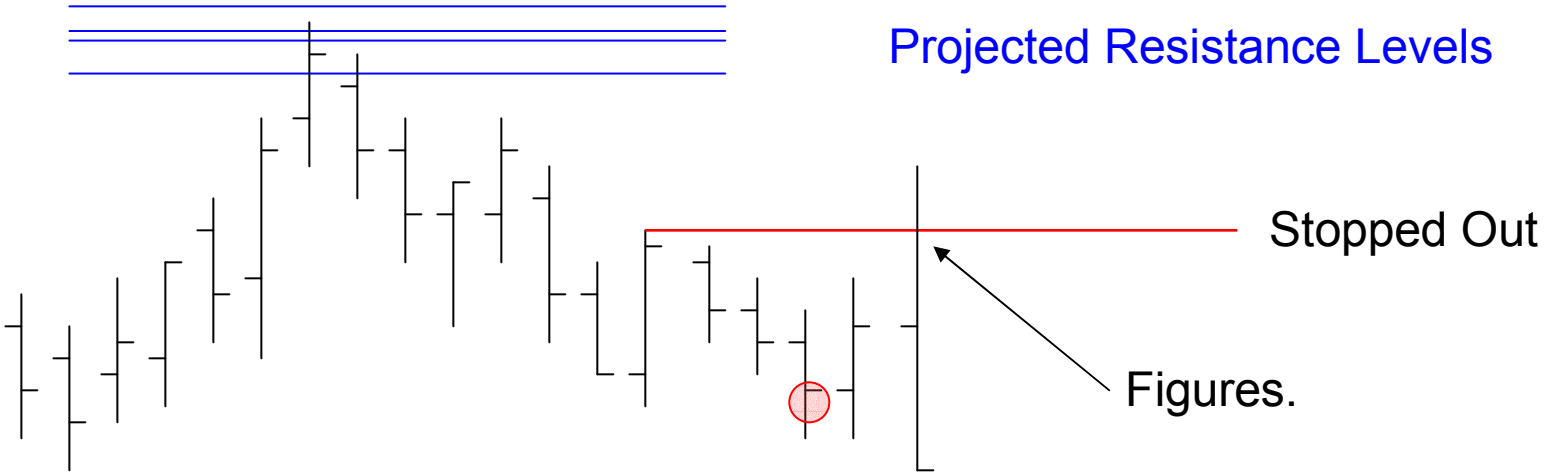
Projected Support Levels

Trend-Continuation Entries



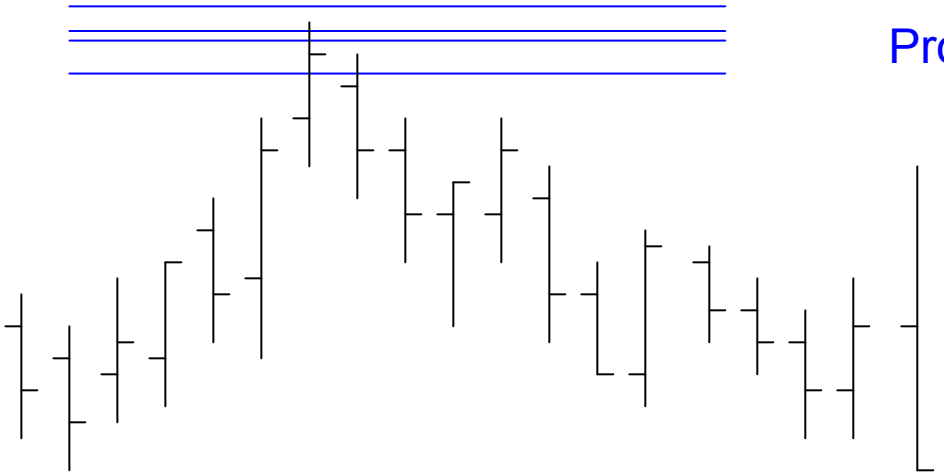
Projected Support Levels

Trend-Continuation Entries



Projected Support Levels

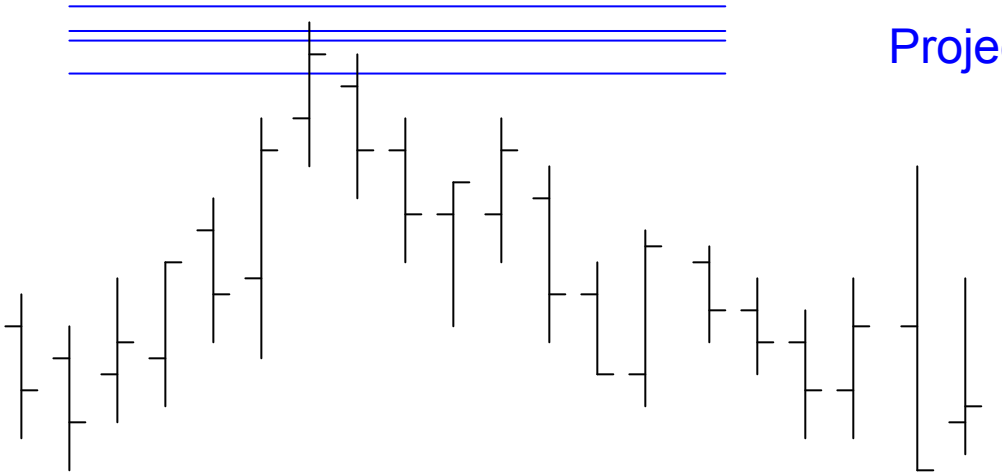
Trend-Continuation Entries



Projected Resistance Levels

Projected Support Levels

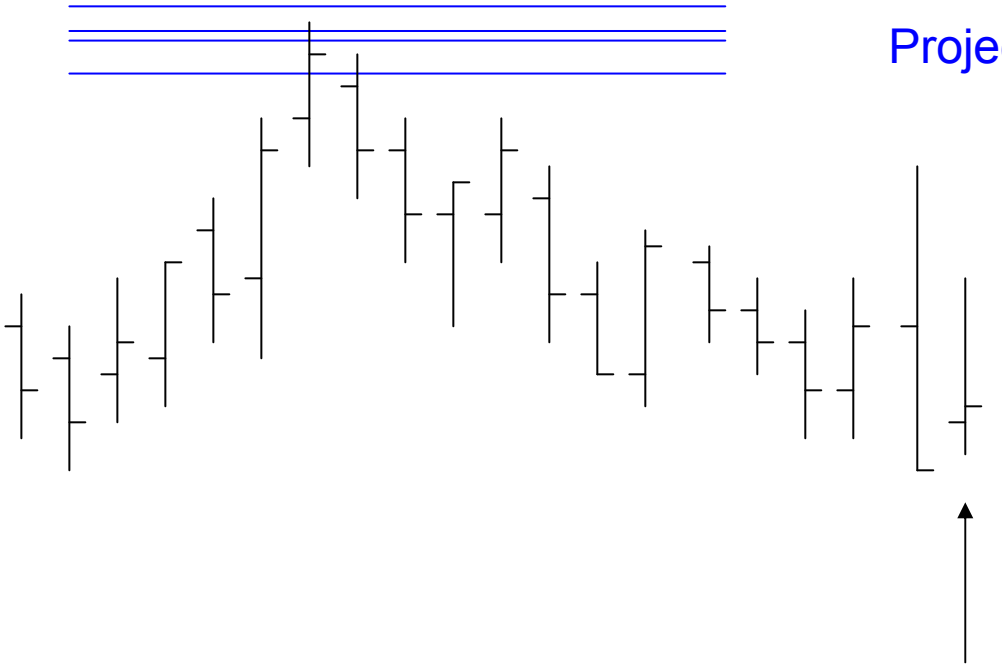
Trend-Continuation Entries



Projected Resistance Levels

Projected Support Levels

Trend-Continuation Entries

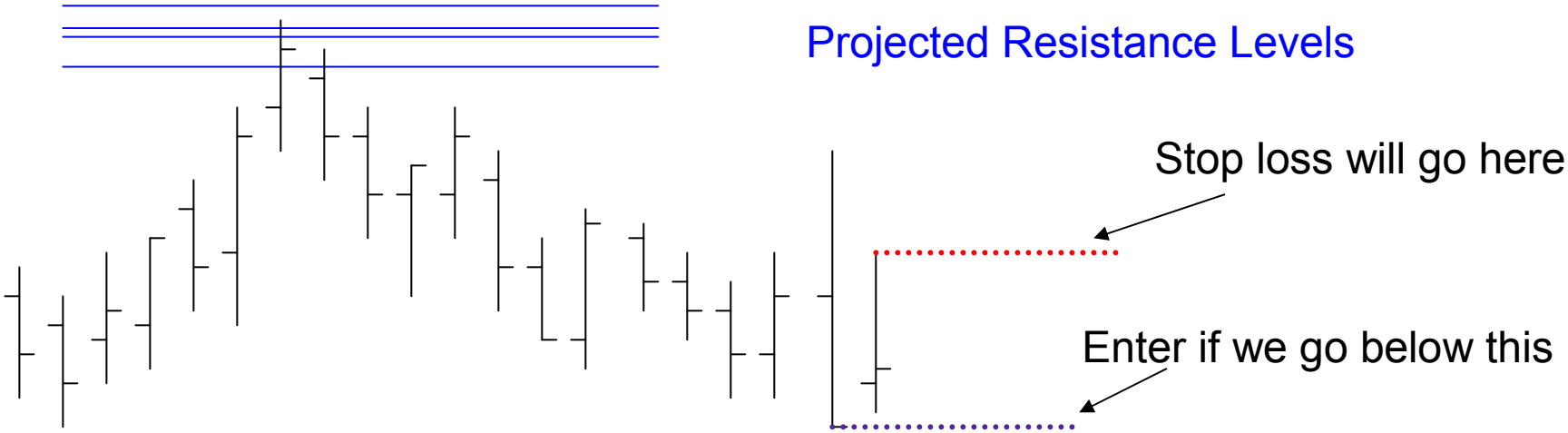


Projected Resistance Levels

Inside Day

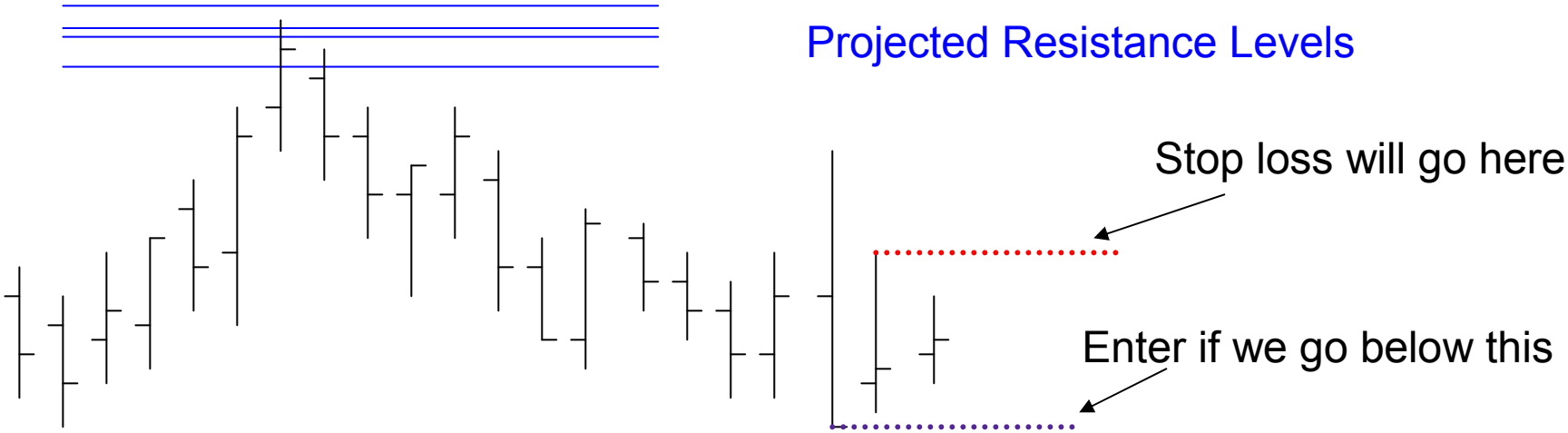
Projected Support Levels

Trend-Continuation Entries



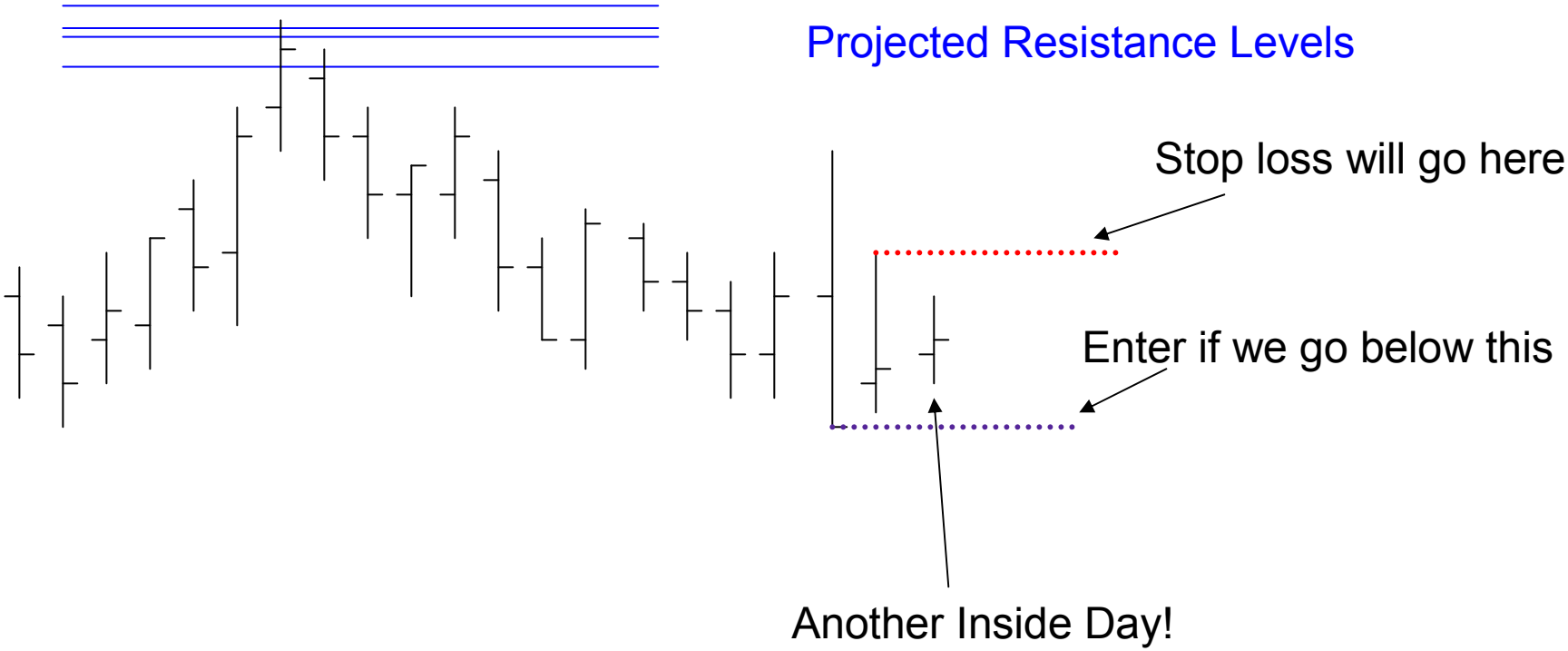
Projected Support Levels

Trend-Continuation Entries



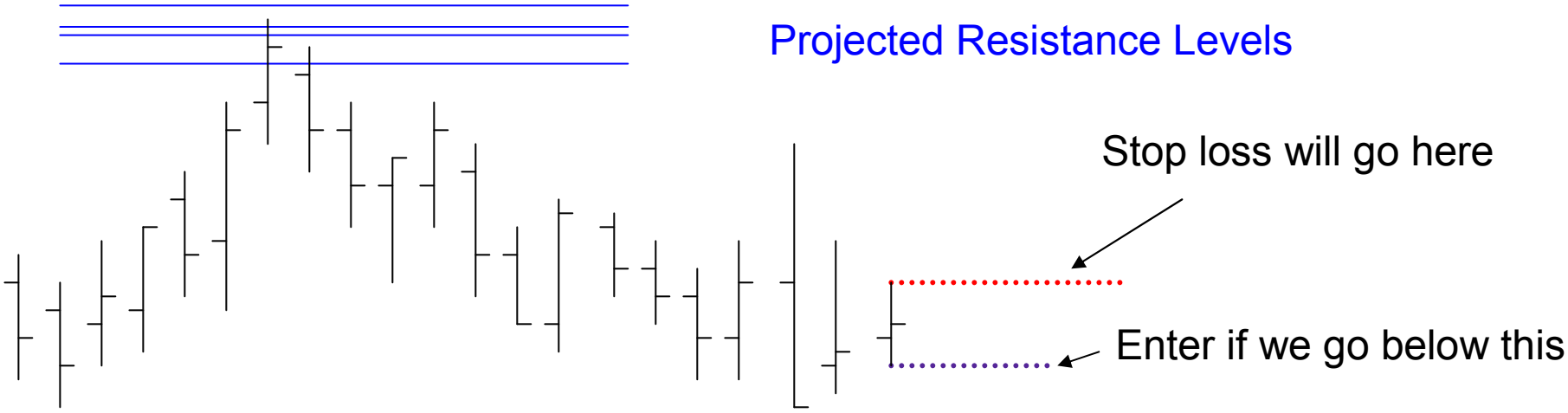
Projected Support Levels

Trend-Continuation Entries



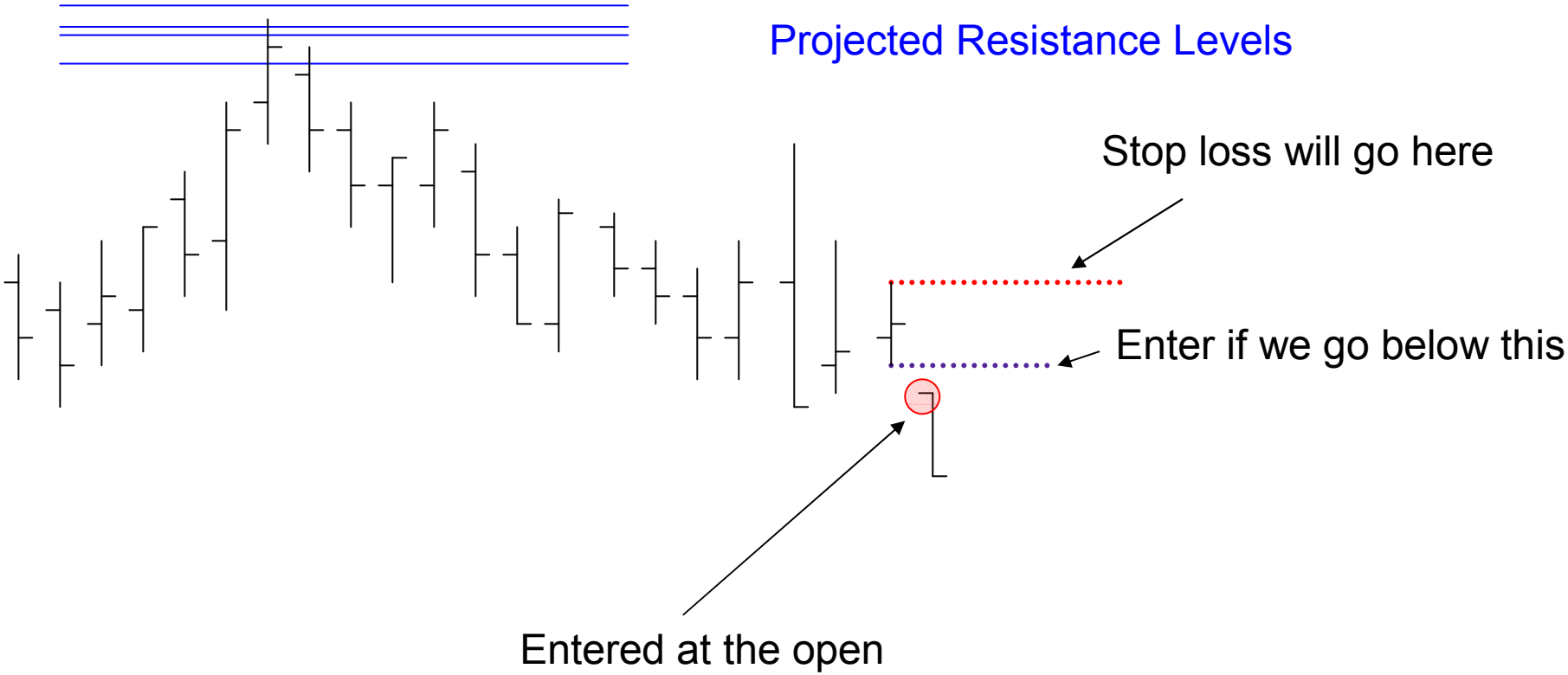
Projected Support Levels

Trend-Continuation Entries

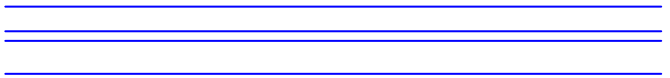


Projected Support Levels

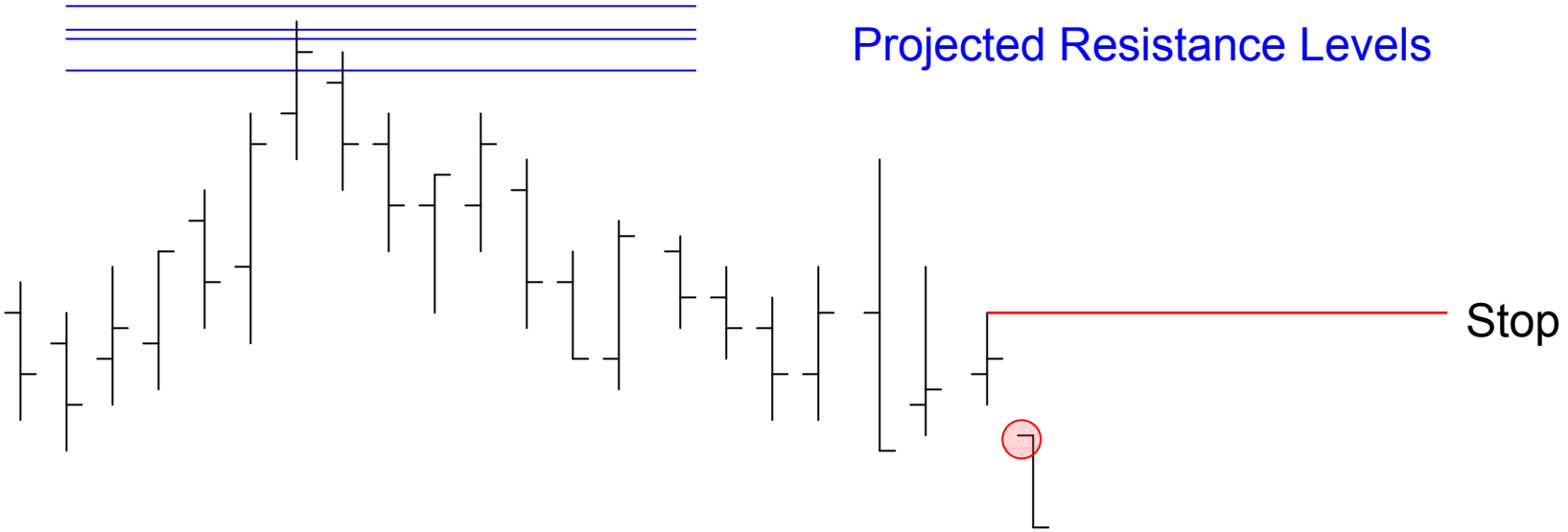
Trend-Continuation Entries



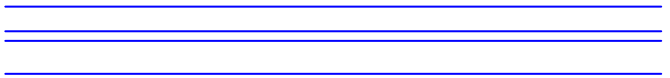
Projected Support Levels



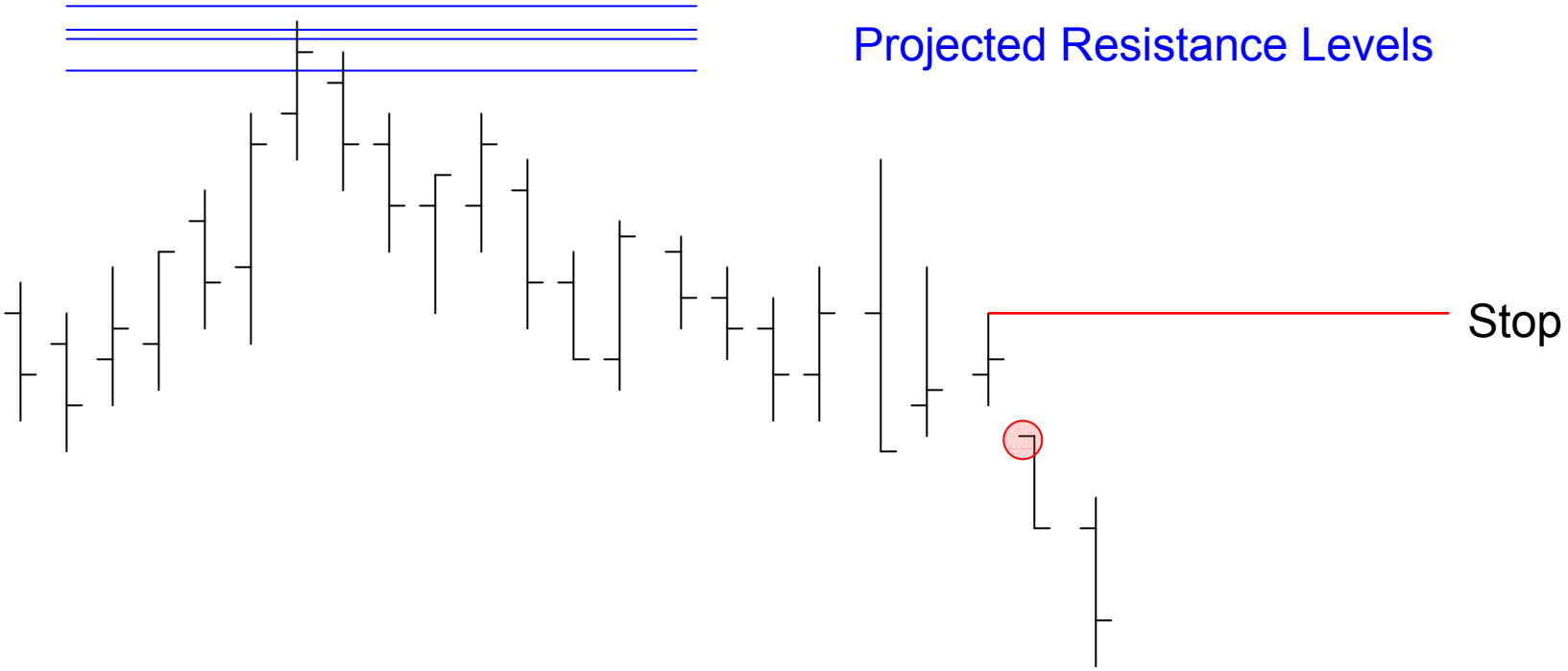
Trend-Continuation Entries



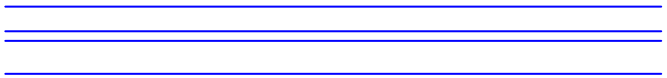
Projected Support Levels



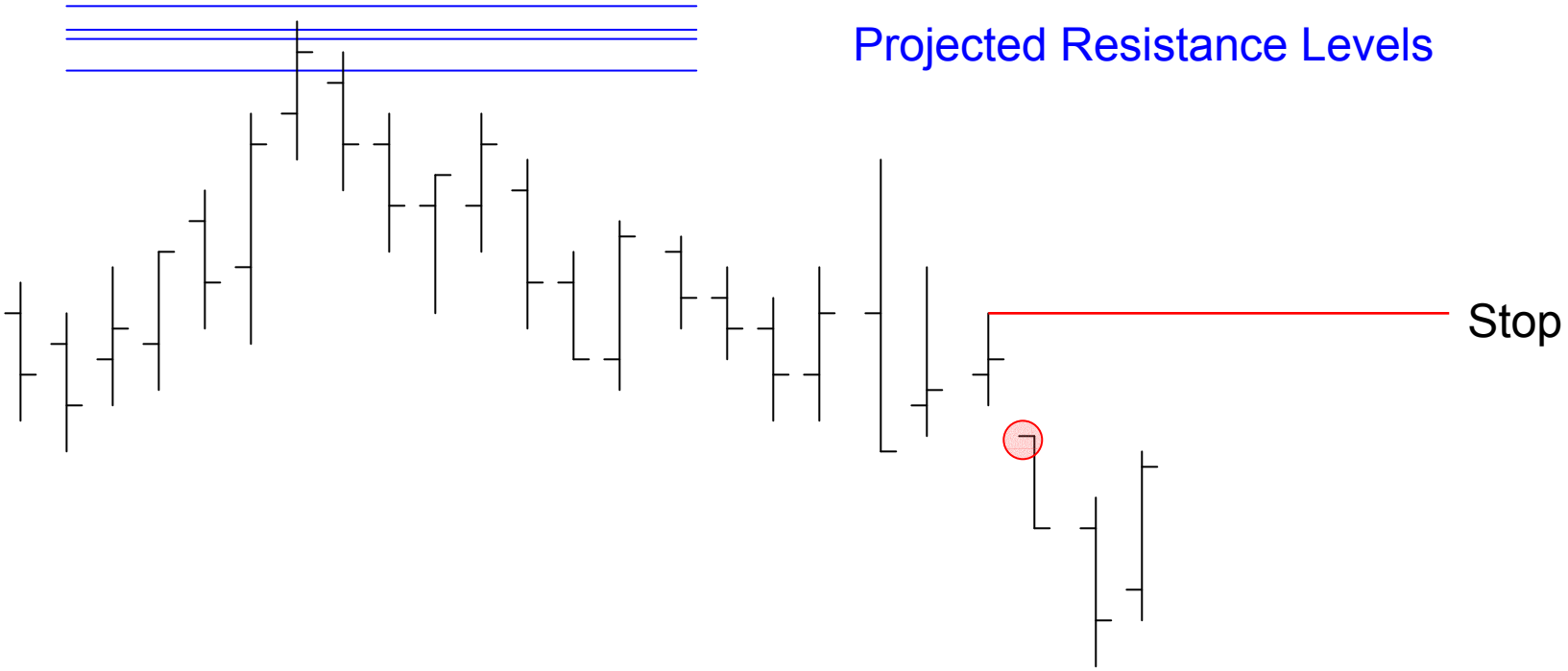
Trend-Continuation Entries



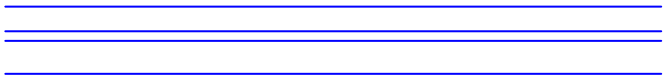
Projected Support Levels



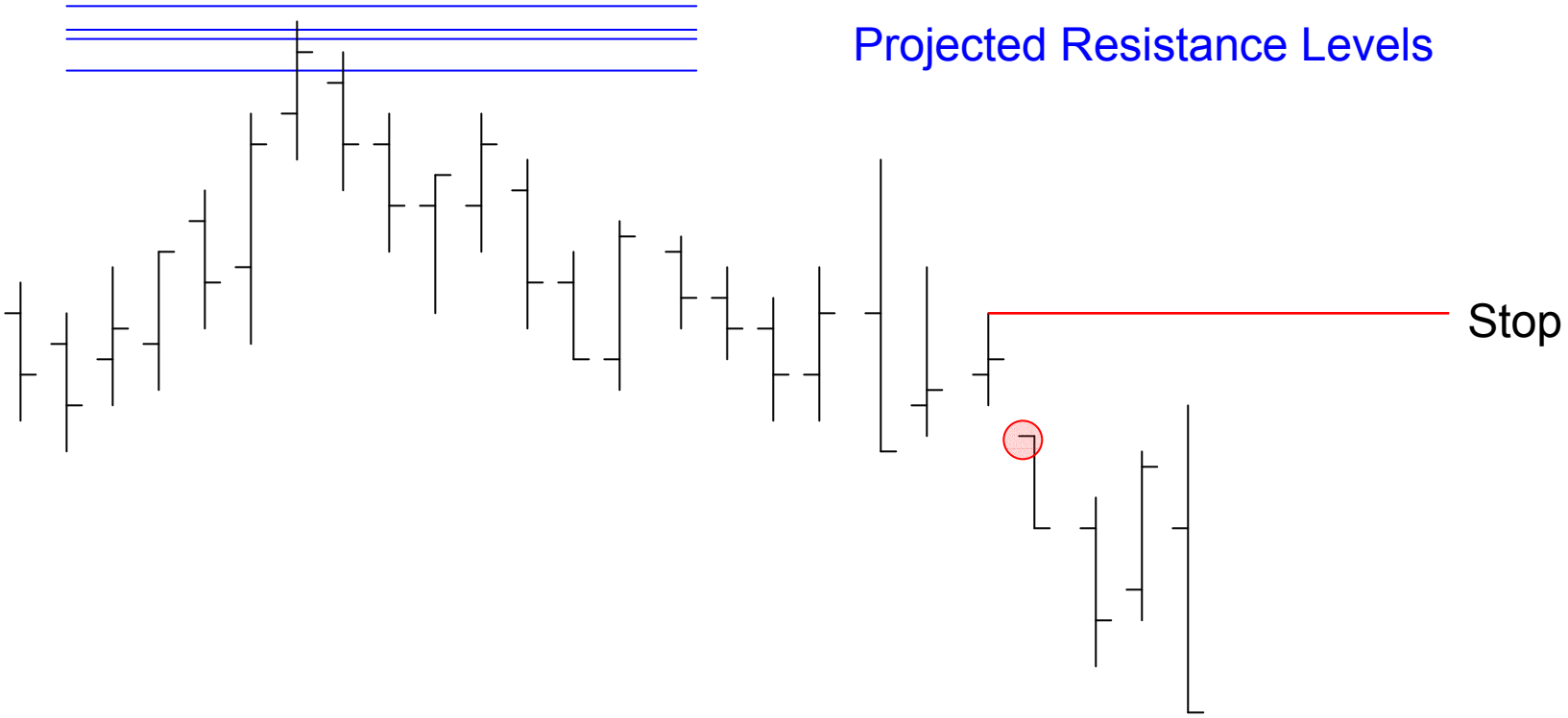
Trend-Continuation Entries



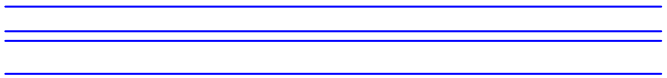
Projected Support Levels



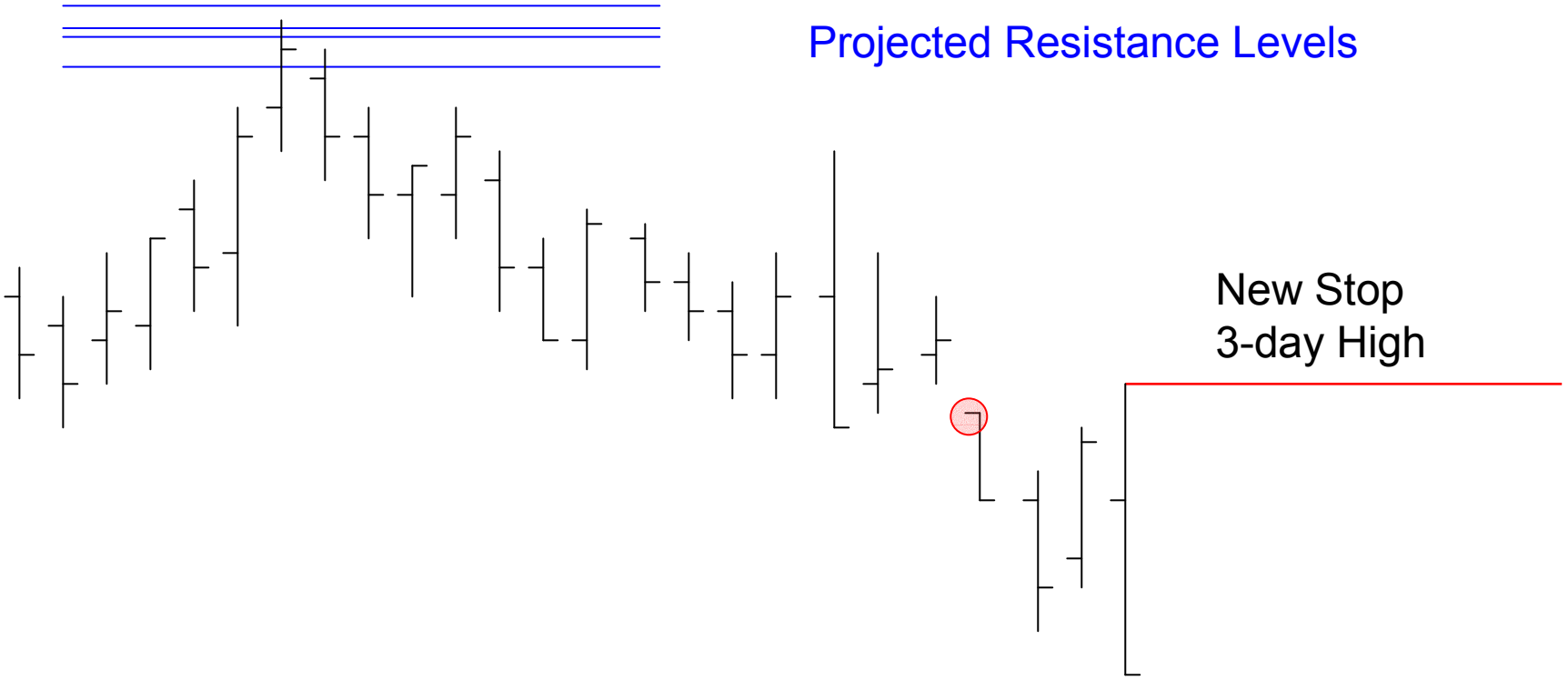
Trend-Continuation Entries



Projected Support Levels



Trend-Continuation Entries



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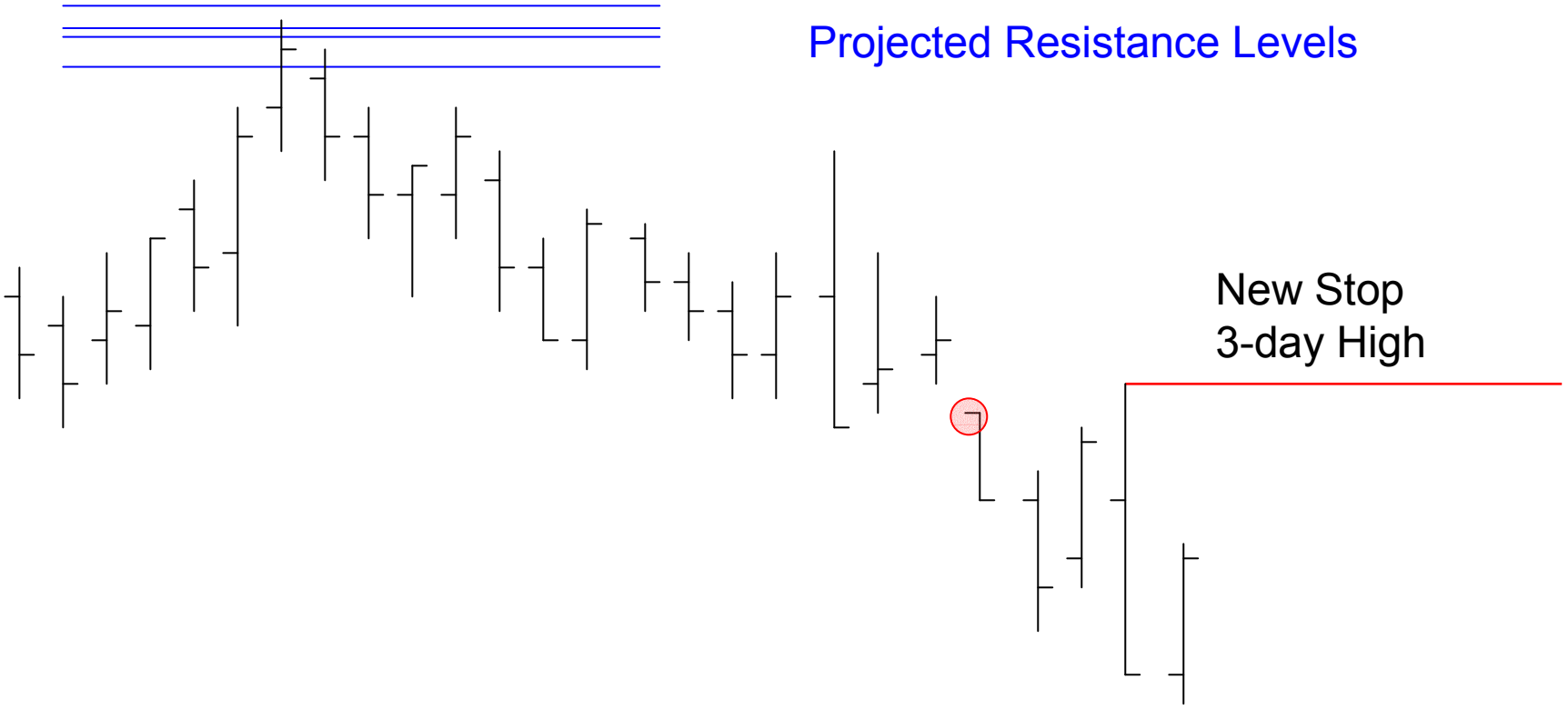

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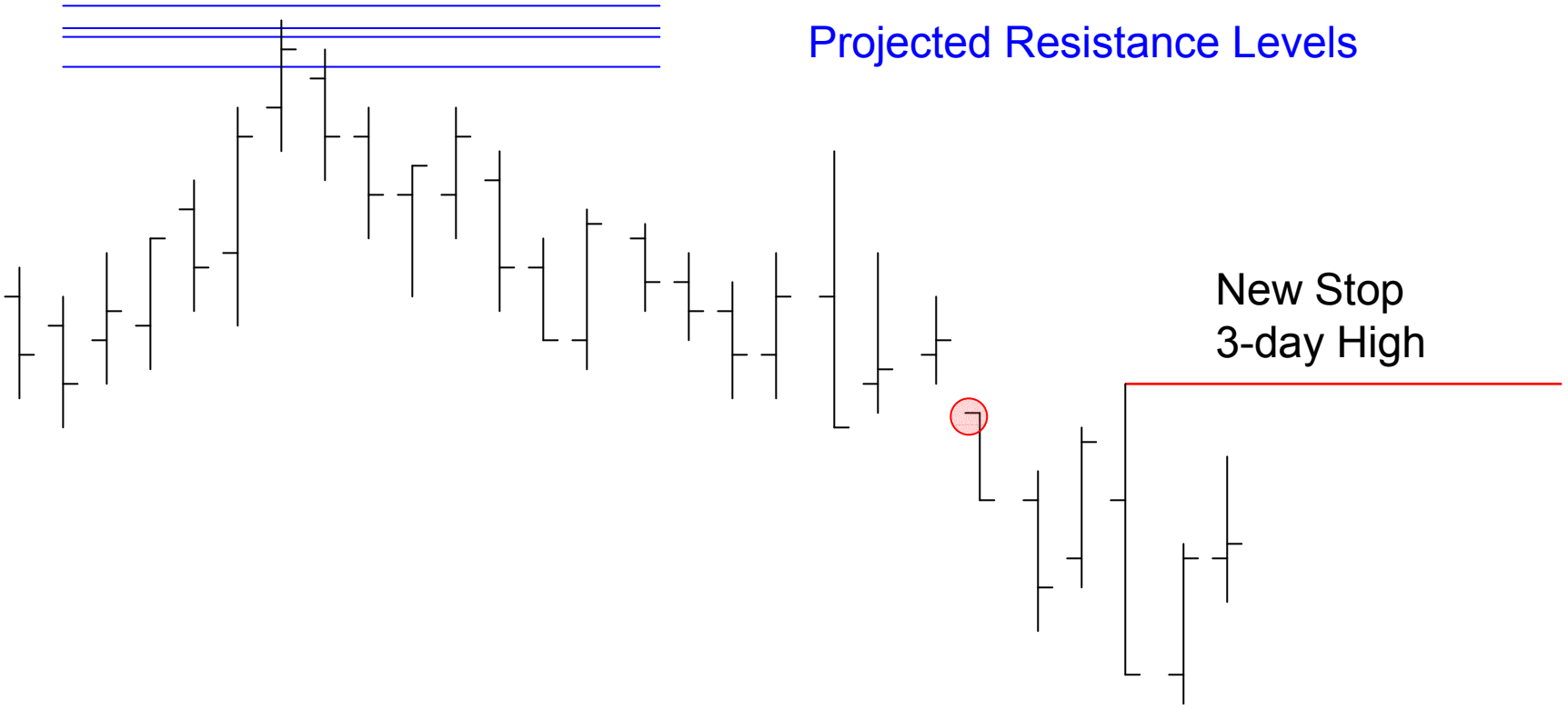

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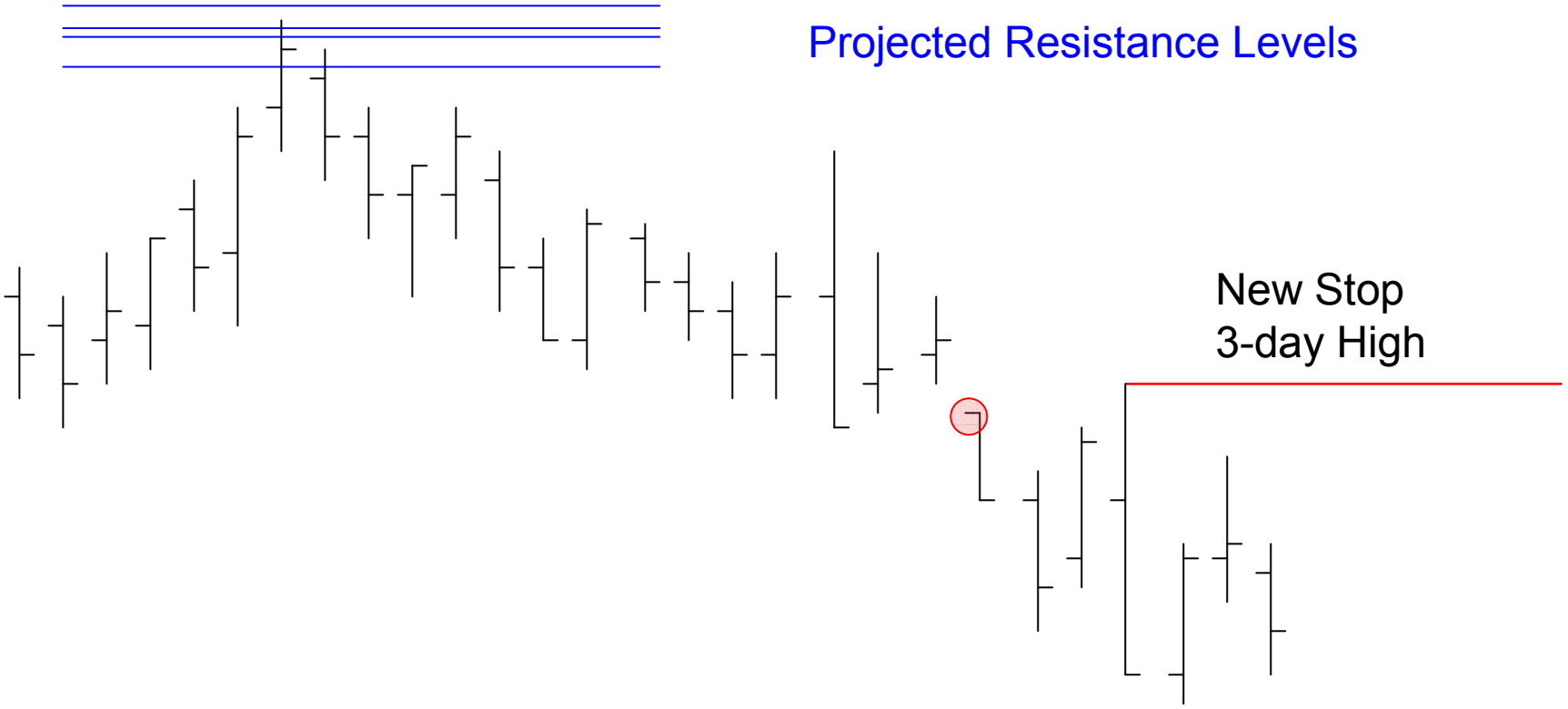

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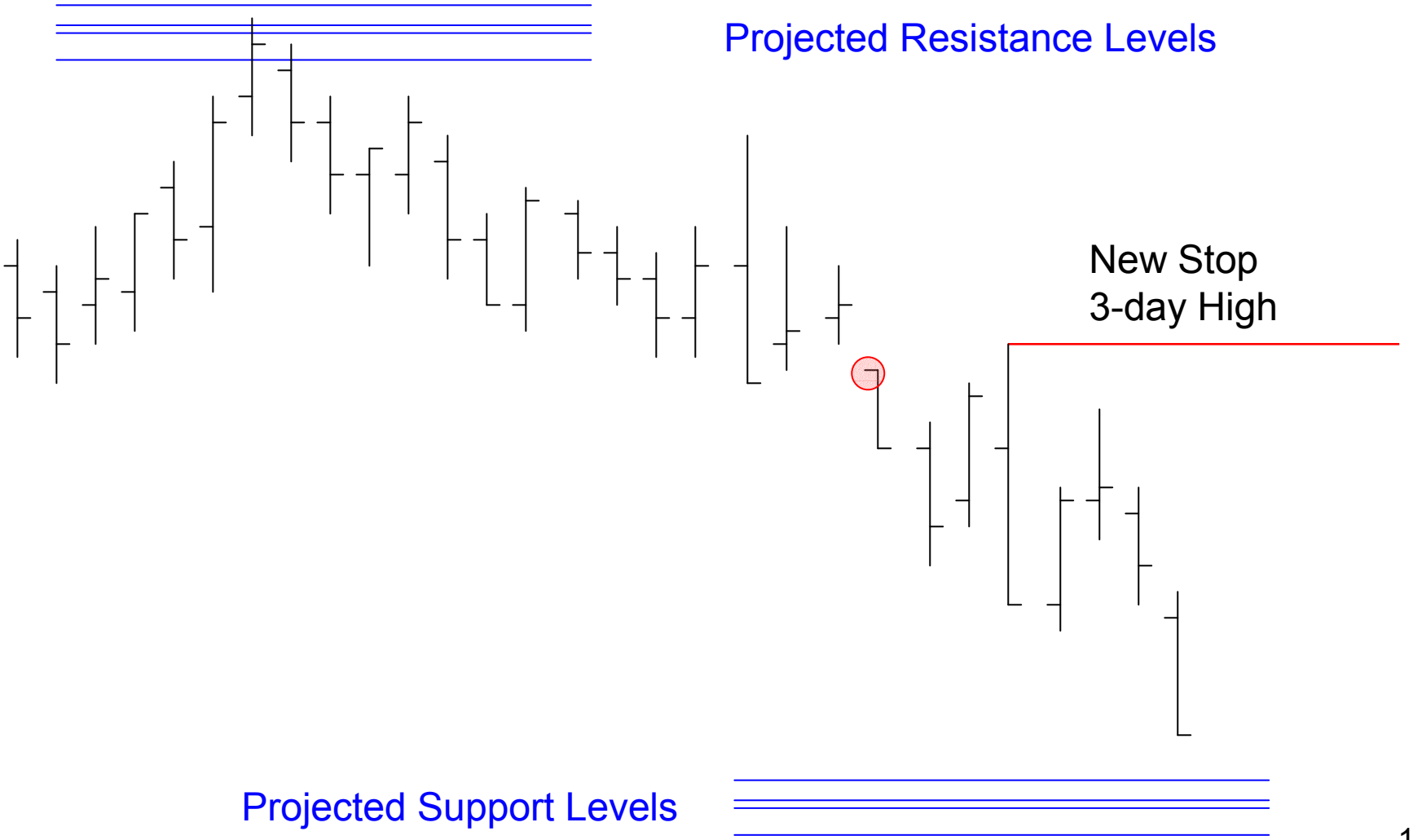

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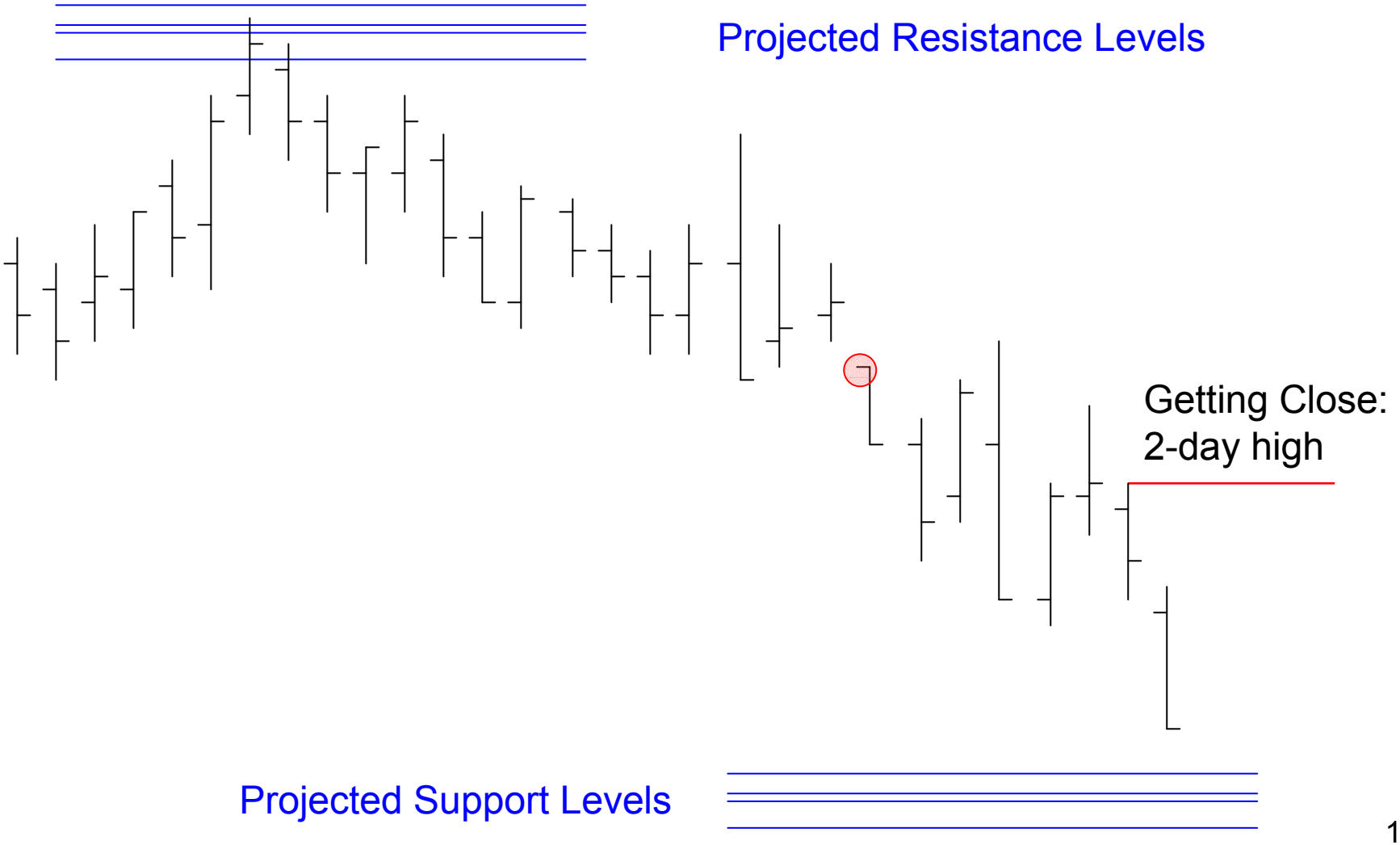

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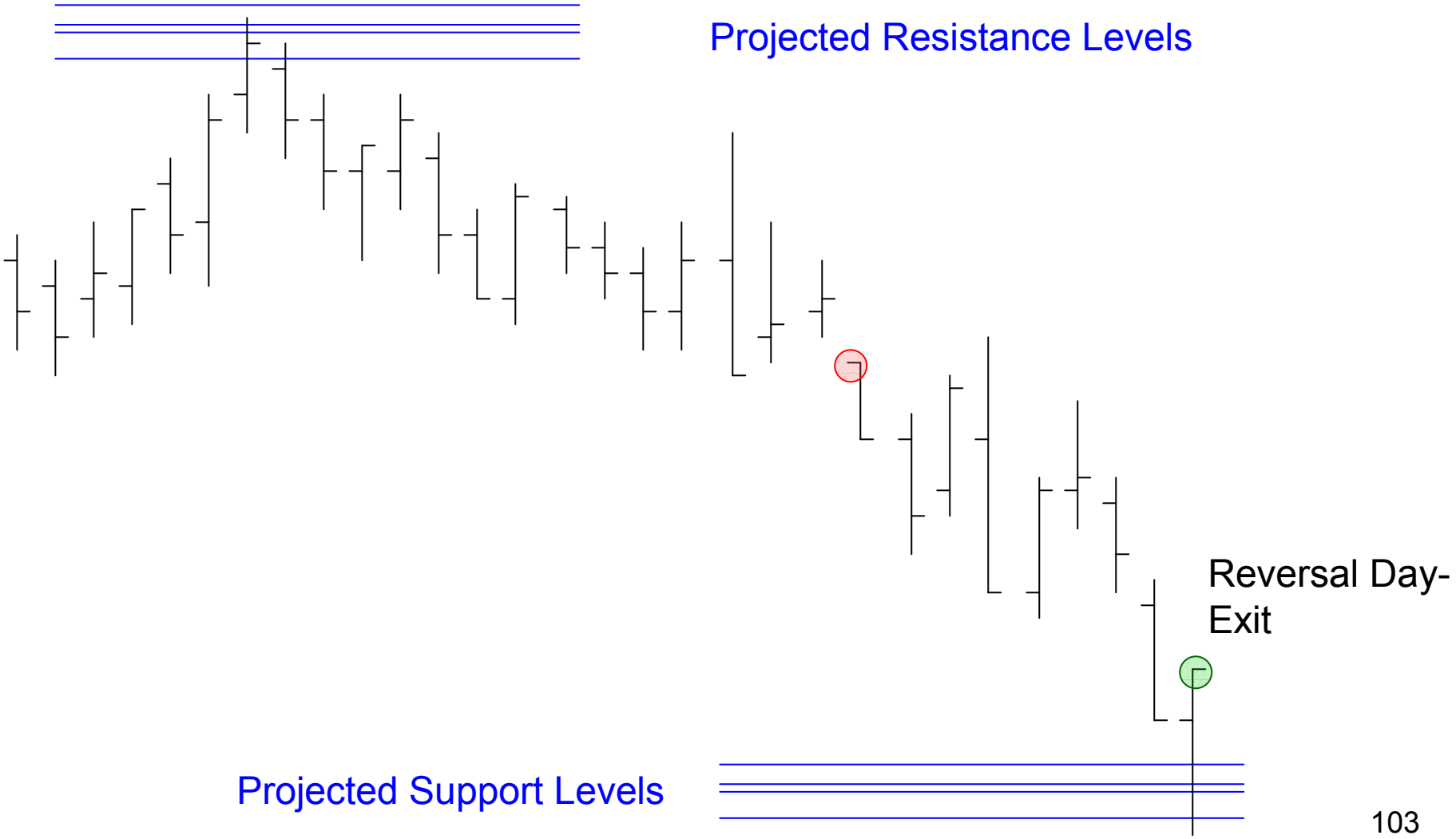
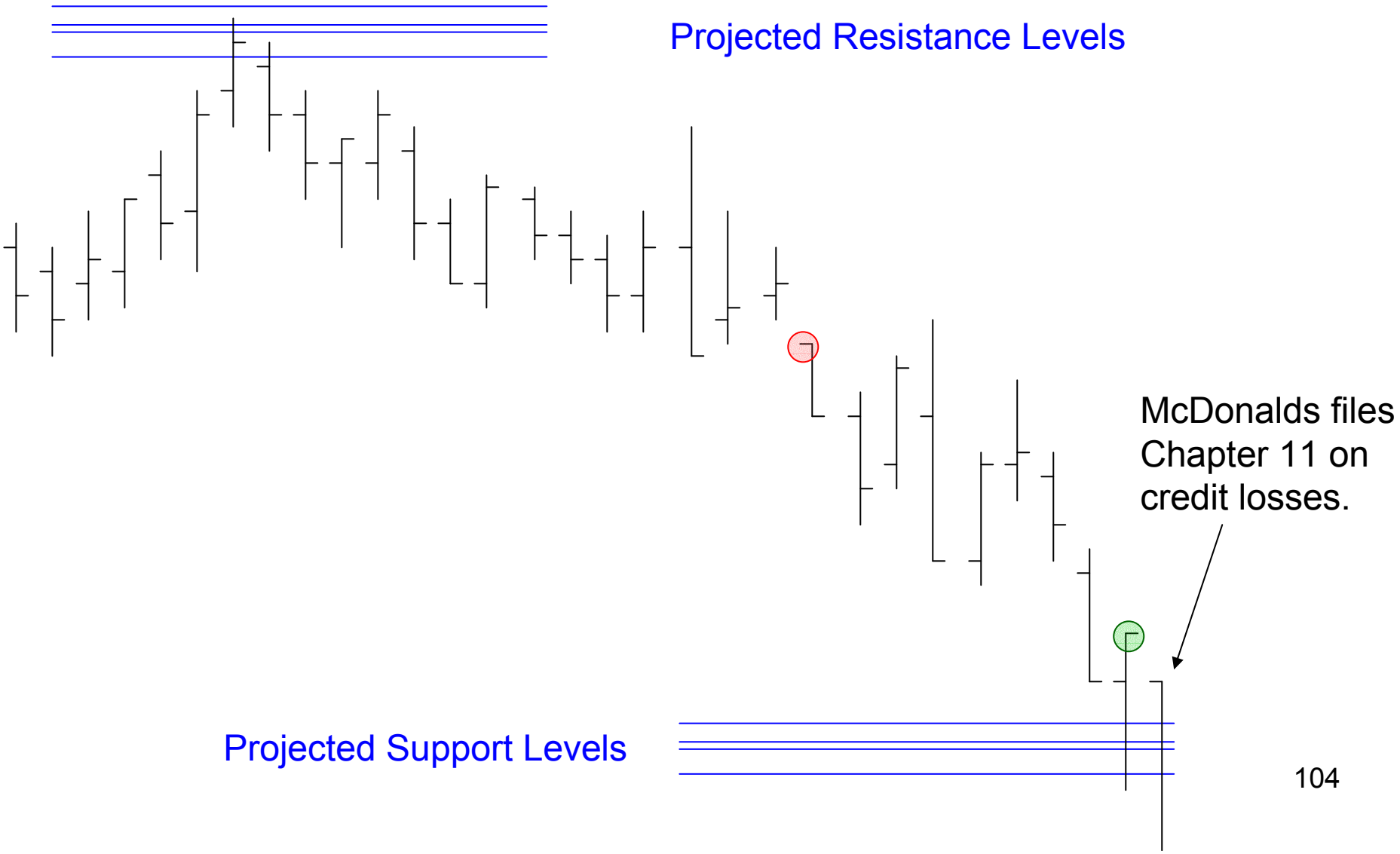


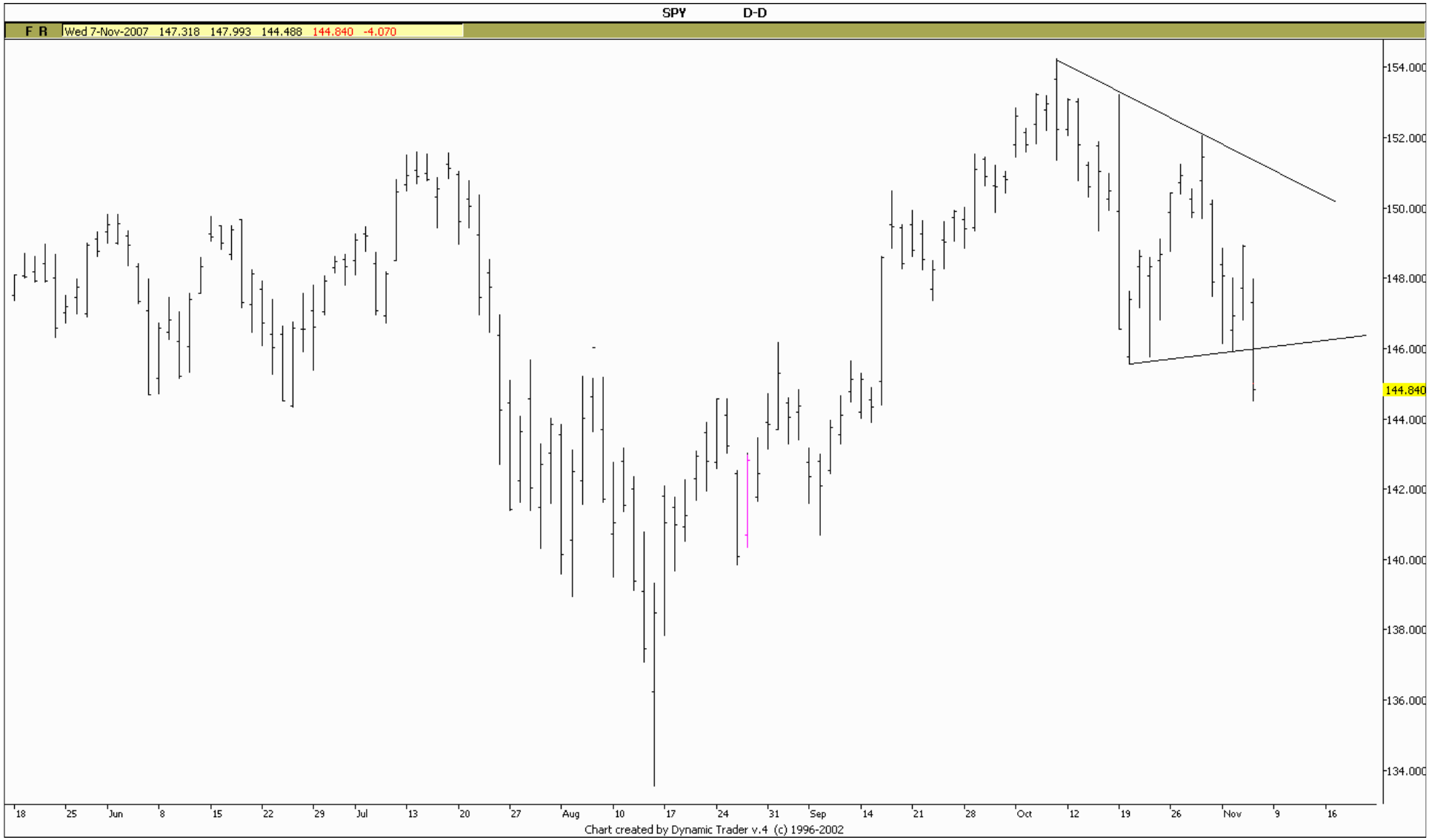
Trend-Continuation Entries



Bear Market S&P 500 Activity

- We will now go through a step-by step walkthrough of the entire Bear Market, from the beginning.

- It will begin very detailed, but eventually just show the method is working.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F R
Wed 7-Nov-2007 147.318 147.993 144.488 144.840 -4.070
154.000
152.000
150.000
148.000
146.000
144.840
144.000
142.000
140.000
138.000
136.000
134.000
18
25
Jun
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15
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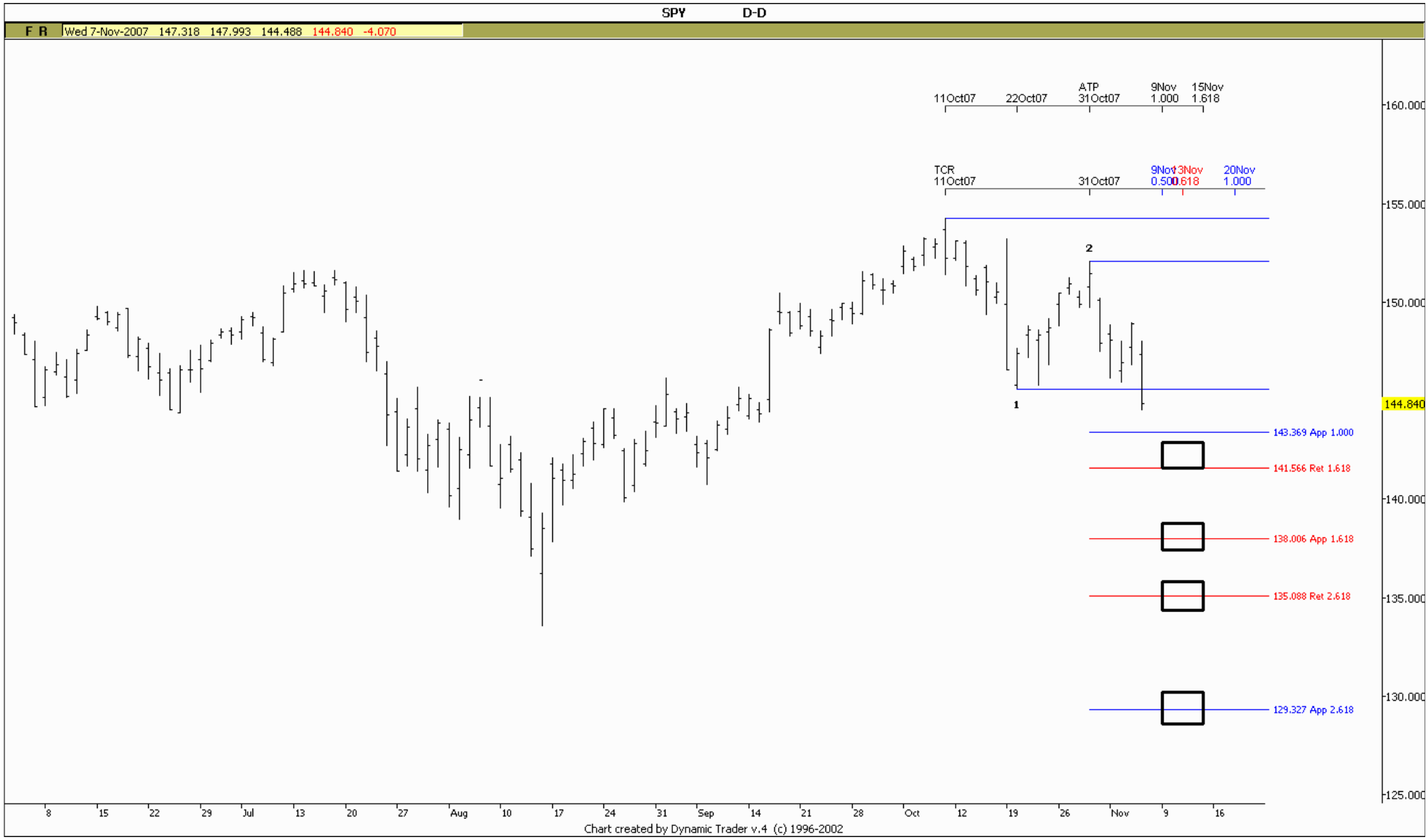
Chart created by Dynamic Trader v.4 (c) 1996-2002


SPY D-D
F R
Wed 7-Nov-2007 147.318 147.993 144.488 144.840 -4.070
11Oct07
22Oct07
ATP
31Oct07
9Nov
1.000
15Nov
1.618
TCR
11Oct07
31Oct07
9Nov
0.500
13Nov
0.618
20Nov
1.000
1
2
143.369 App 1.000
141.566 Ret 1.618
138.006 App 1.618
135.088 Ret 2.618
129.327 App 2.618
160.000
155.000
150.000
144.840
140.000
135.000
130.000
125.000
8
15
22
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Jul
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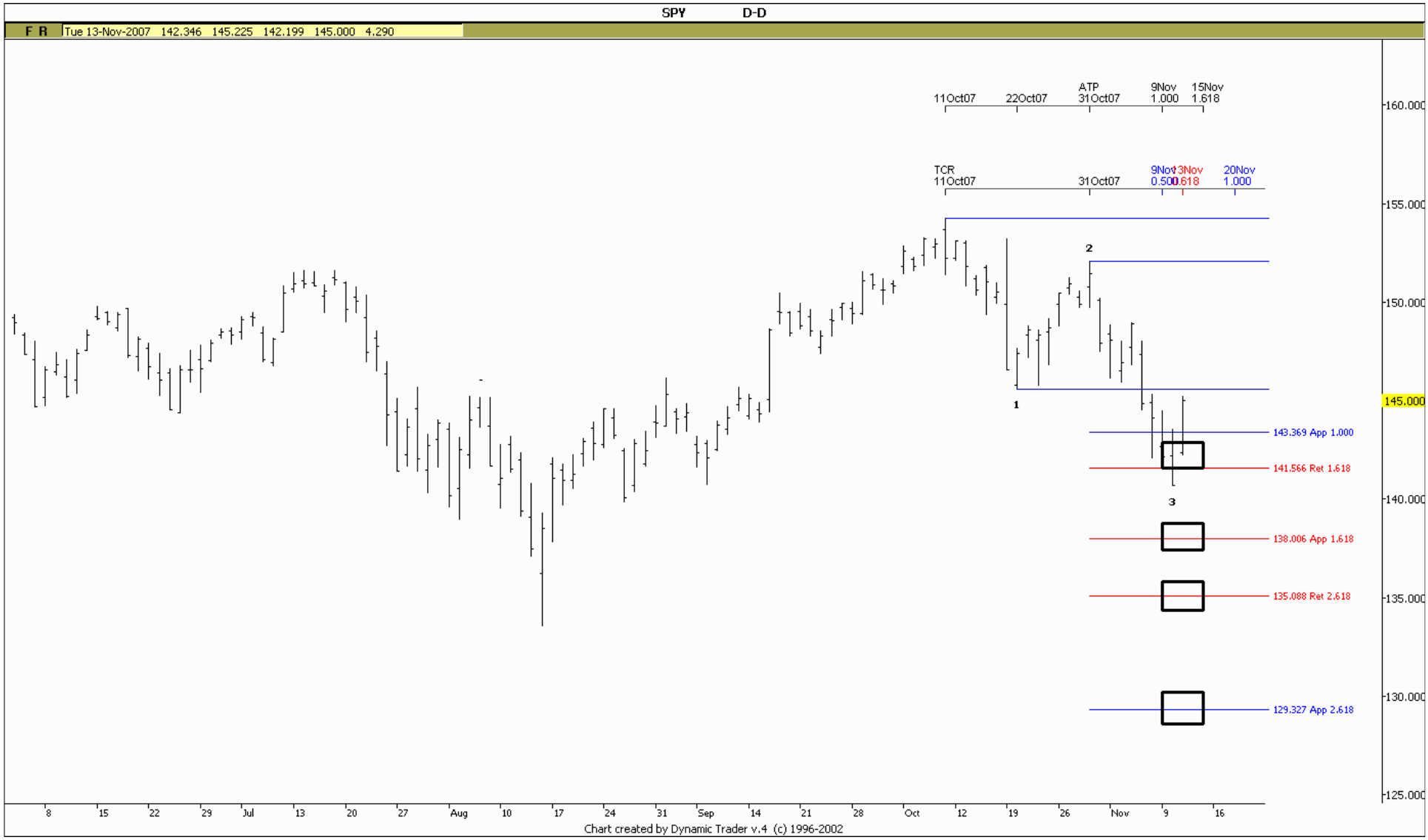
Chart created by Dynamic Trader v.4 (c) 1996-2002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11Oct07 22Oct07 ATP 31Oct07 9Nov 1.000 15Nov 1.618
TCR 11Oct07 31Oct07 9Nov 0.500 13Nov 0.618 20Nov 1.000
1
2
3
143.369 App 1.000
141.566 Ret 1.618
138.006 App 1.618
135.088 Ret 2.618
129.327 App 2.618
160.000
155.000
150.000
145.000
140.000
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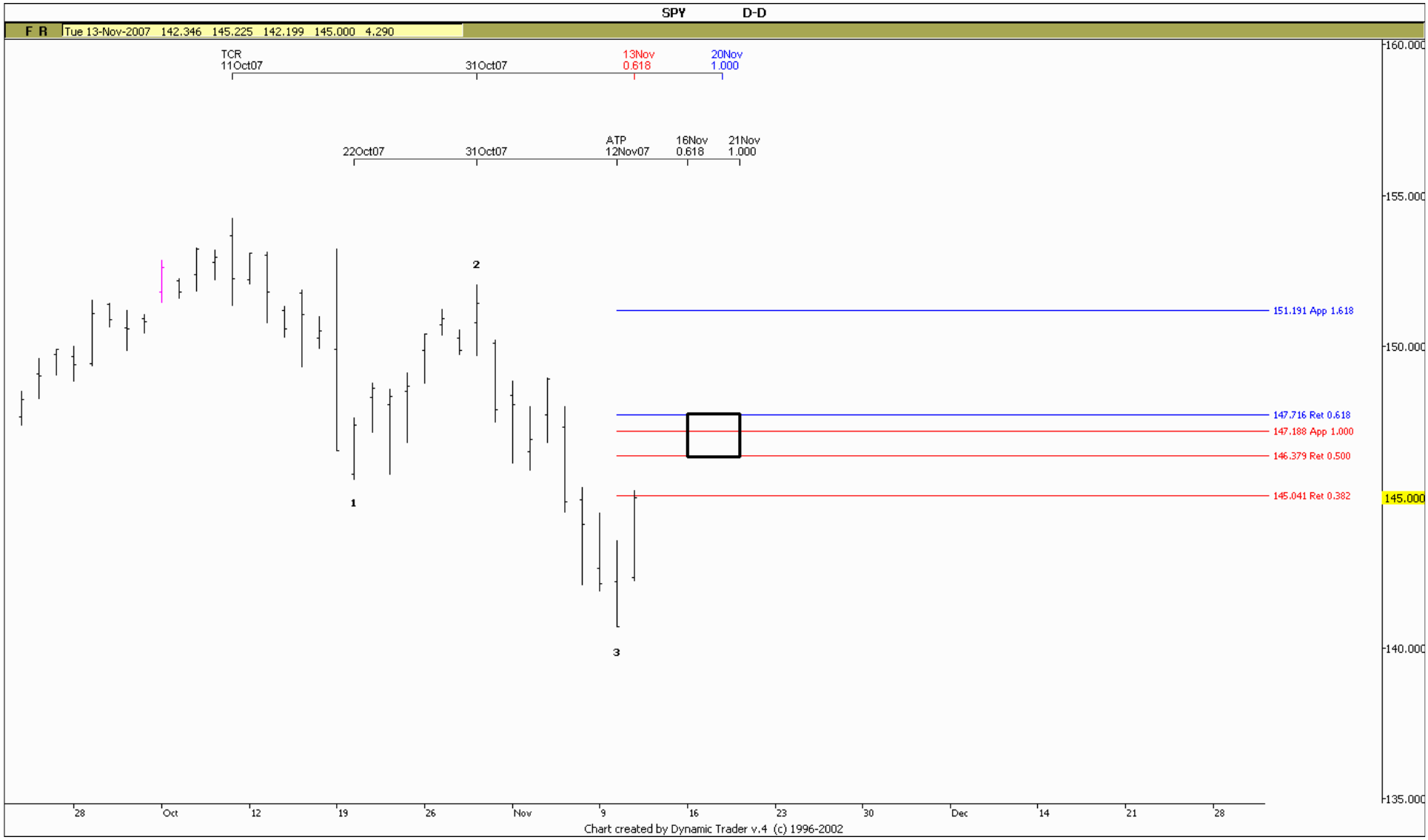
125.000
8 15 22 29 Jul 13 20 27 Aug 10 17 24 31 Sep 14 21 28 Oct 12 19 26 Nov 9 16
Chart created by Dynamic Trader v.4 (c) 1996-2002


SPY D-D
F R Tue 13-Nov-2007 142.346 145.225 142.199 145.000 4.290
TCR
11Oct07
31Oct07
13Nov
0.618
20Nov
1.000
22Oct07
31Oct07
ATP
12Nov07
16Nov
0.618
21Nov
1.000
151.191 App 1.618
147.716 Ret 0.618
147.188 App 1.000
146.379 Ret 0.500
145.041 Ret 0.382
160.000
155.000
150.000
145.000
140.000
135.000
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2
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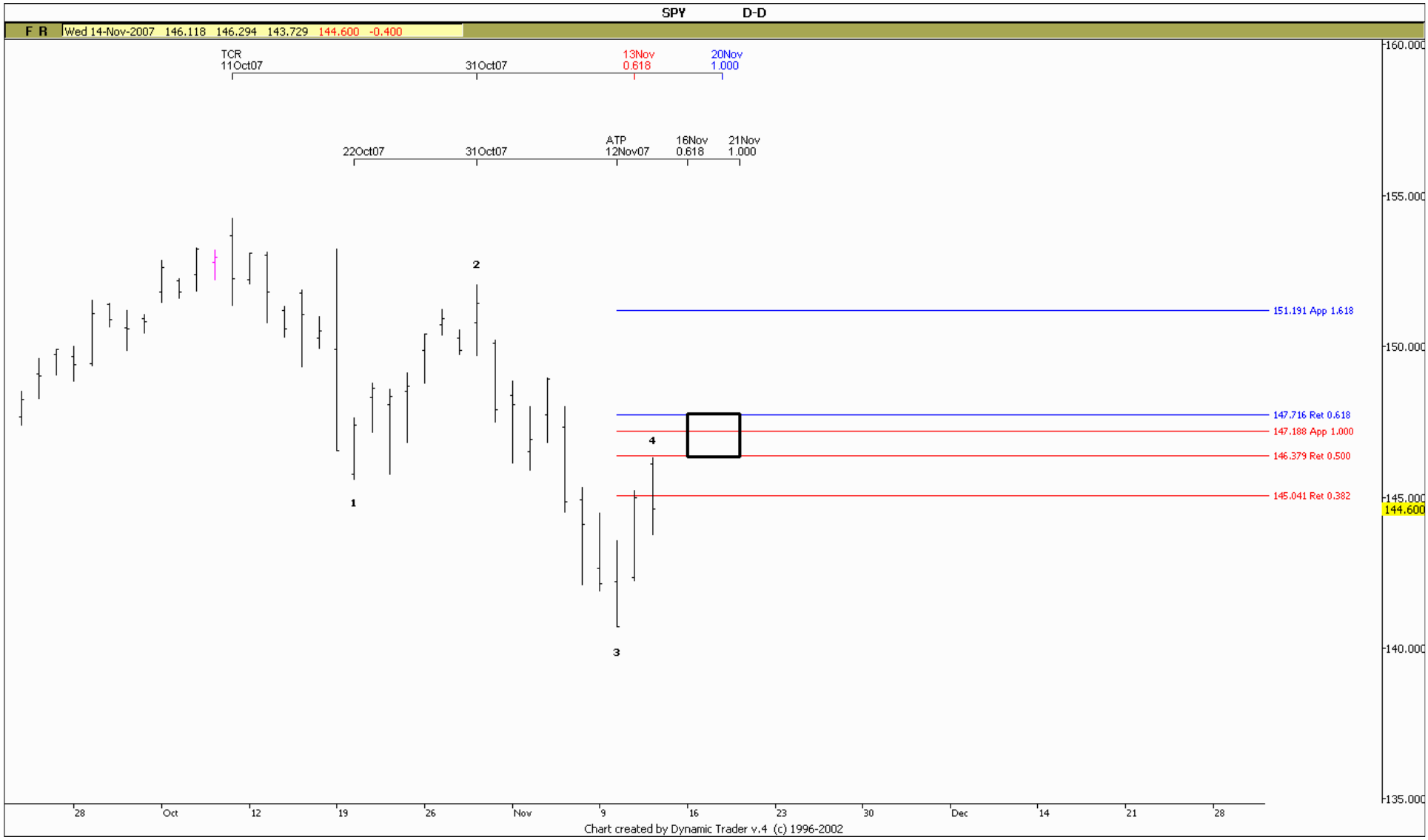
Chart created by Dynamic Trader v.4 (c) 1996-2002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F R
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TCR
11Oct07
31Oct07
13Nov
0.618
20Nov
1.000
22Oct07
31Oct07
ATP
12Nov07
16Nov
0.618
21Nov
1.000
1
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151.191 App 1.618
147.716 Ret 0.618
147.188 App 1.000
146.379 Ret 0.500
145.041 Ret 0.382
160.000
155.000
150.000
145.000
144.600
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Chart created by Dynamic Trader v.4 (c) 1996-2002

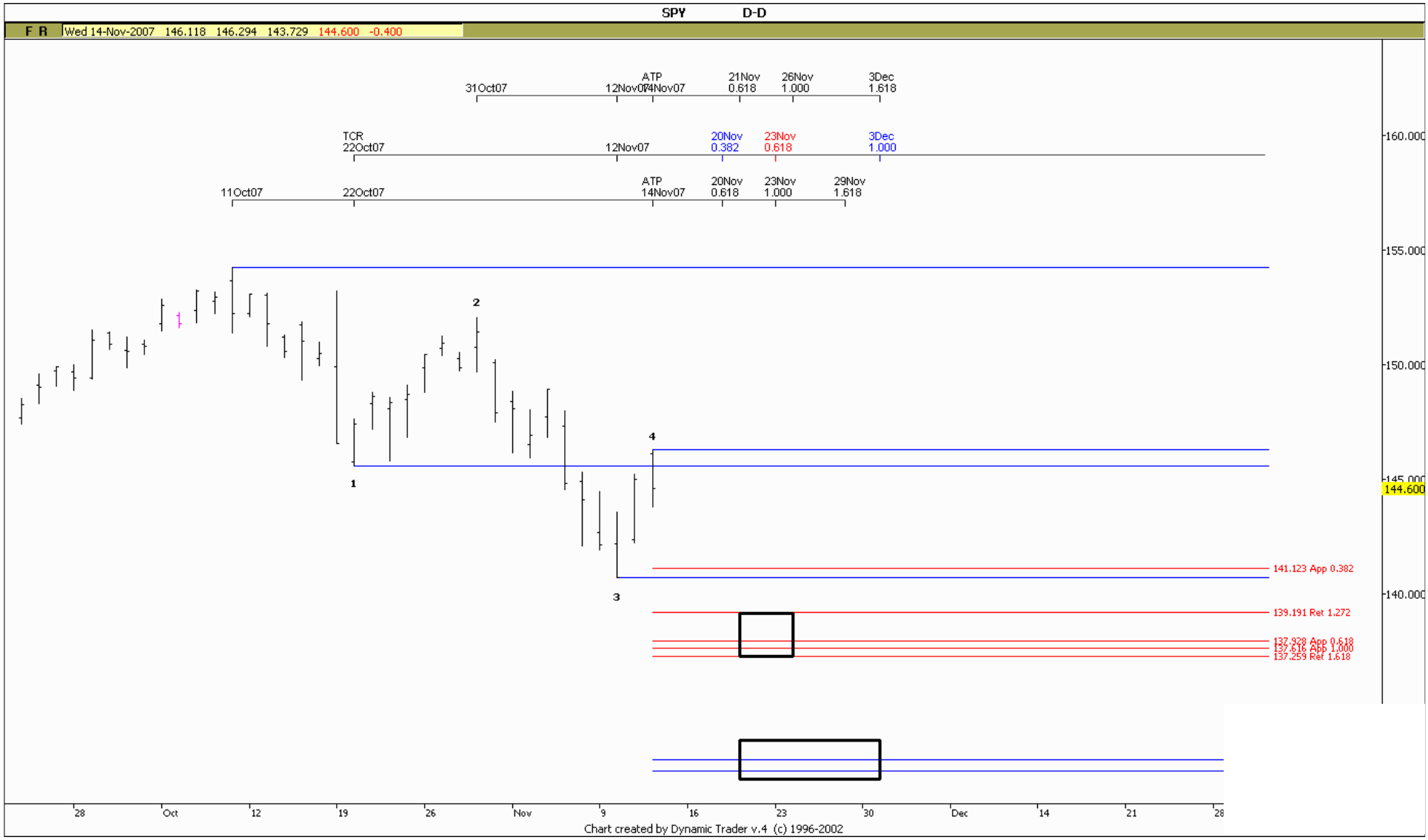
SPY D-D
F R Wed 14-Nov-2007 146.118 146.294 143.729 144.600 -0.400
31Oct07
ATP
12Nov07 14Nov07
21Nov 0.618
26Nov 1.000
3Dec 1.618
TCR
22Oct07
12Nov07
20Nov 0.382
23Nov 0.618
3Dec 1.000
11Oct07
22Oct07
ATP
14Nov07
20Nov 0.618
23Nov 1.000
29Nov 1.618
1
2
3
4
141.123 App 0.382
139.191 Ret 1.272
137.928 App 0.618
137.616 App 1.000
137.259 Ret 1.618
160.000
155.000
150.000
145.000
144.600
140.000
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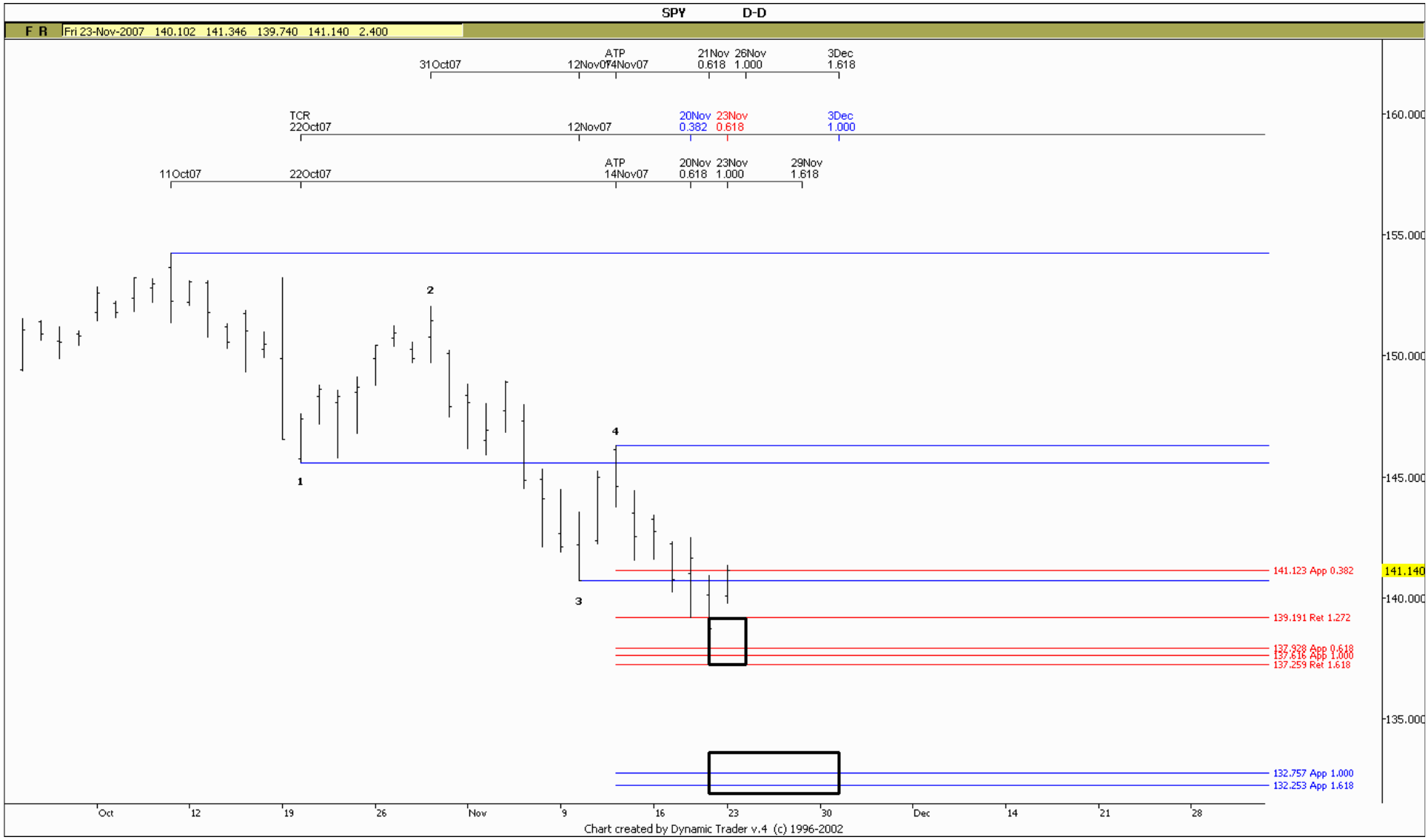
Chart created by Dynamic Trader v.4 (c) 1996-2002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ATP
12Nov07 14Nov07
21Nov 26Nov
0.618 1.000
3Dec
1.618
TCR
22Oct07
12Nov07
20Nov 23Nov
0.382 0.618
3Dec
1.000
11Oct07
22Oct07
ATP
14Nov07
20Nov 23Nov
0.618 1.000
29Nov
1.618
1
2
3
4
141.123 App 0.382
139.191 Ret 1.272
137.928 App 0.618
137.616 App 1.000
137.259 Ret 1.618
132.757 App 1.000
132.253 App 1.618
160.000
155.000
150.000
145.000
141.140
140.000
135.000
Oct
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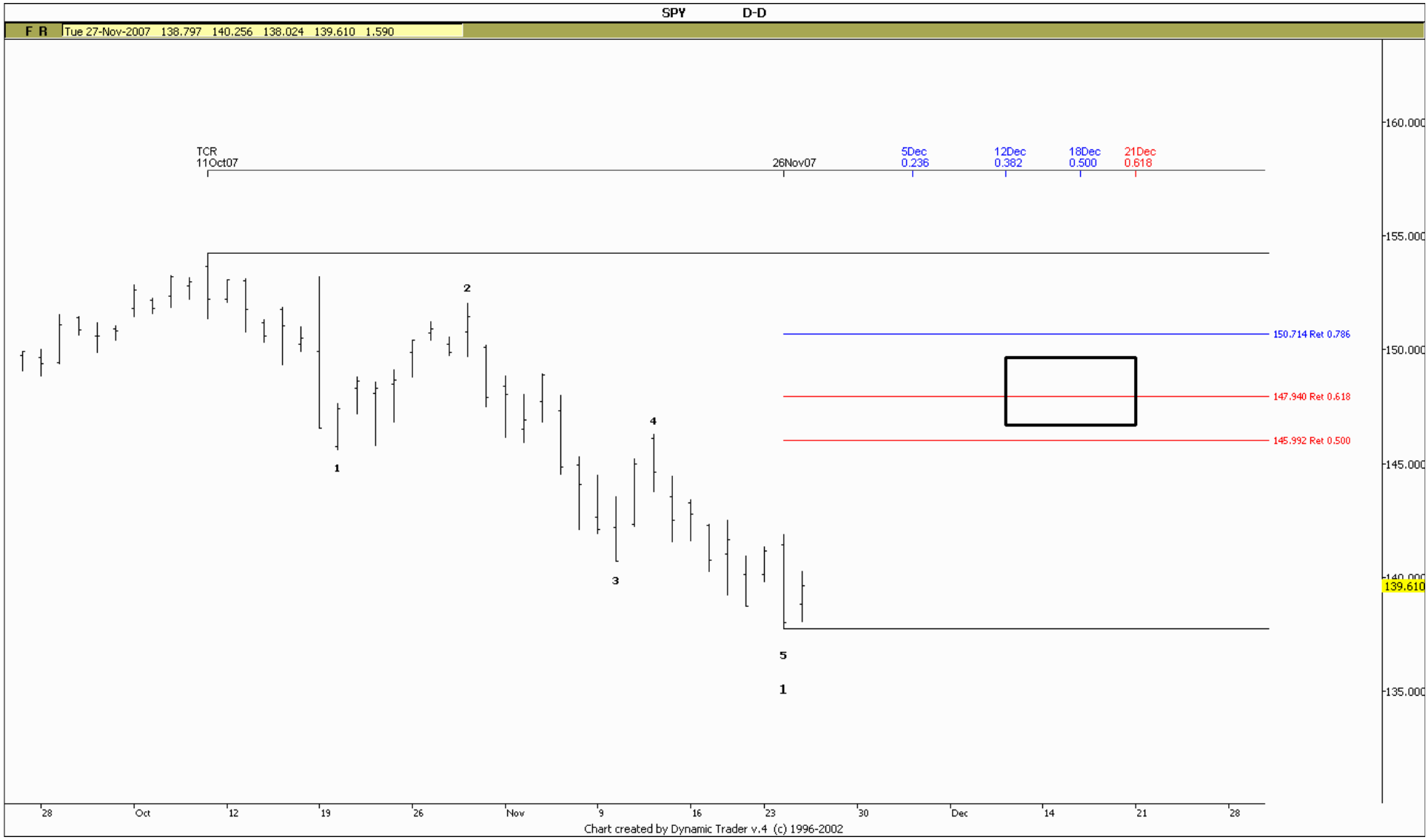
Chart created by Dynamic Trader v.4 (c) 1996-2002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26Nov07
5Dec
0.236
12Dec
0.382
18Dec
0.500
21Dec
0.618
150.714 Ret 0.786
147.940 Ret 0.618
145.992 Ret 0.500
160.000
155.000
150.000
145.000
140.000
139.610
135.000
1
2
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4
5
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Oct
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Dec
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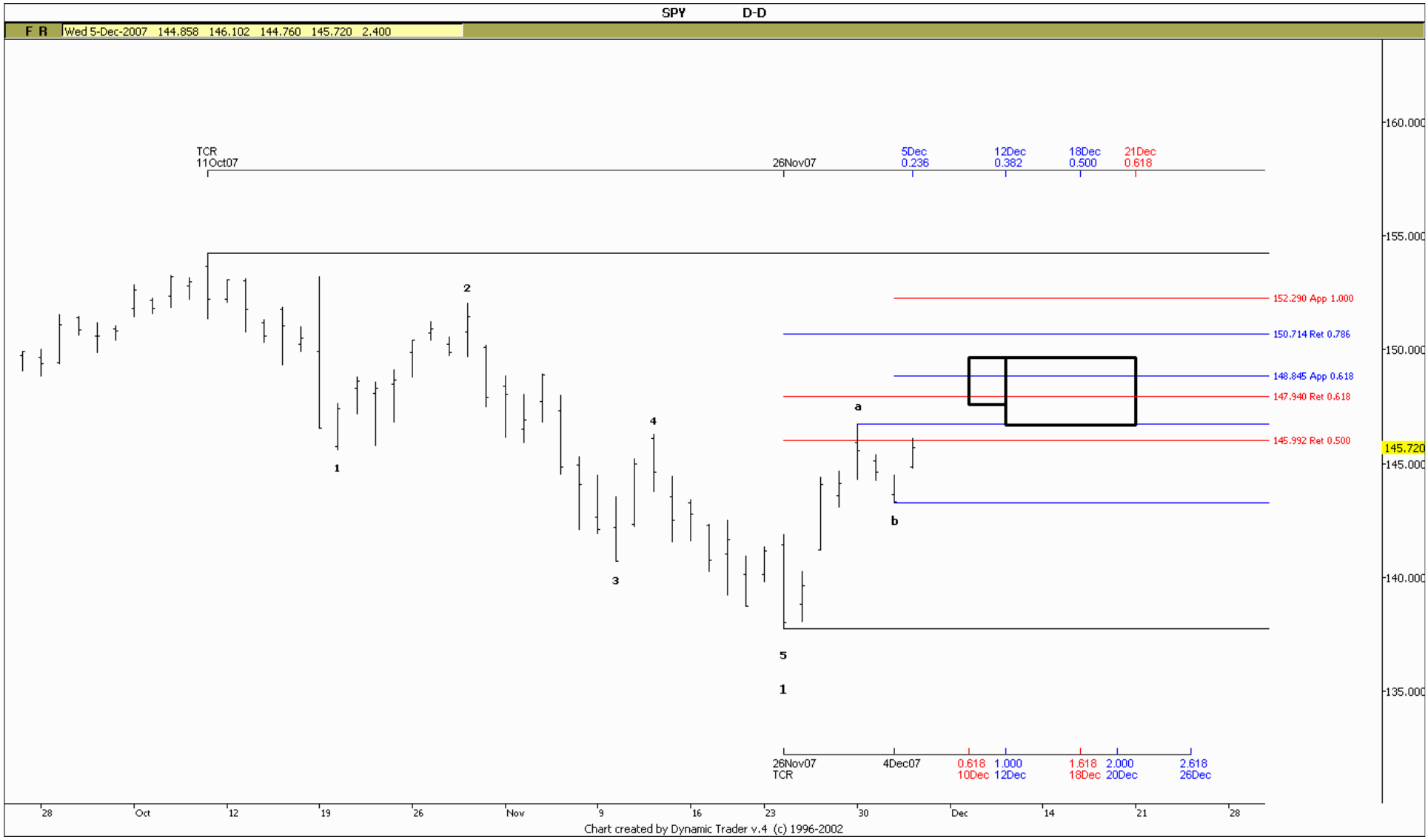
Chart created by Dynamic Trader v.4 (c) 1996-2002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26Nov07
5Dec
0.236
12Dec
0.382
18Dec
0.500
21Dec
0.618
152.290 App 1.000
150.714 Ret 0.786
148.845 App 0.618
147.940 Ret 0.618
145.992 Ret 0.500
145.720
160.000
155.000
150.000
145.000
140.000
135.000
1
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5
1
26Nov07
TCR
4Dec07
0.618
10Dec
1.000
12Dec
1.618
18Dec
2.000
20Dec
2.618
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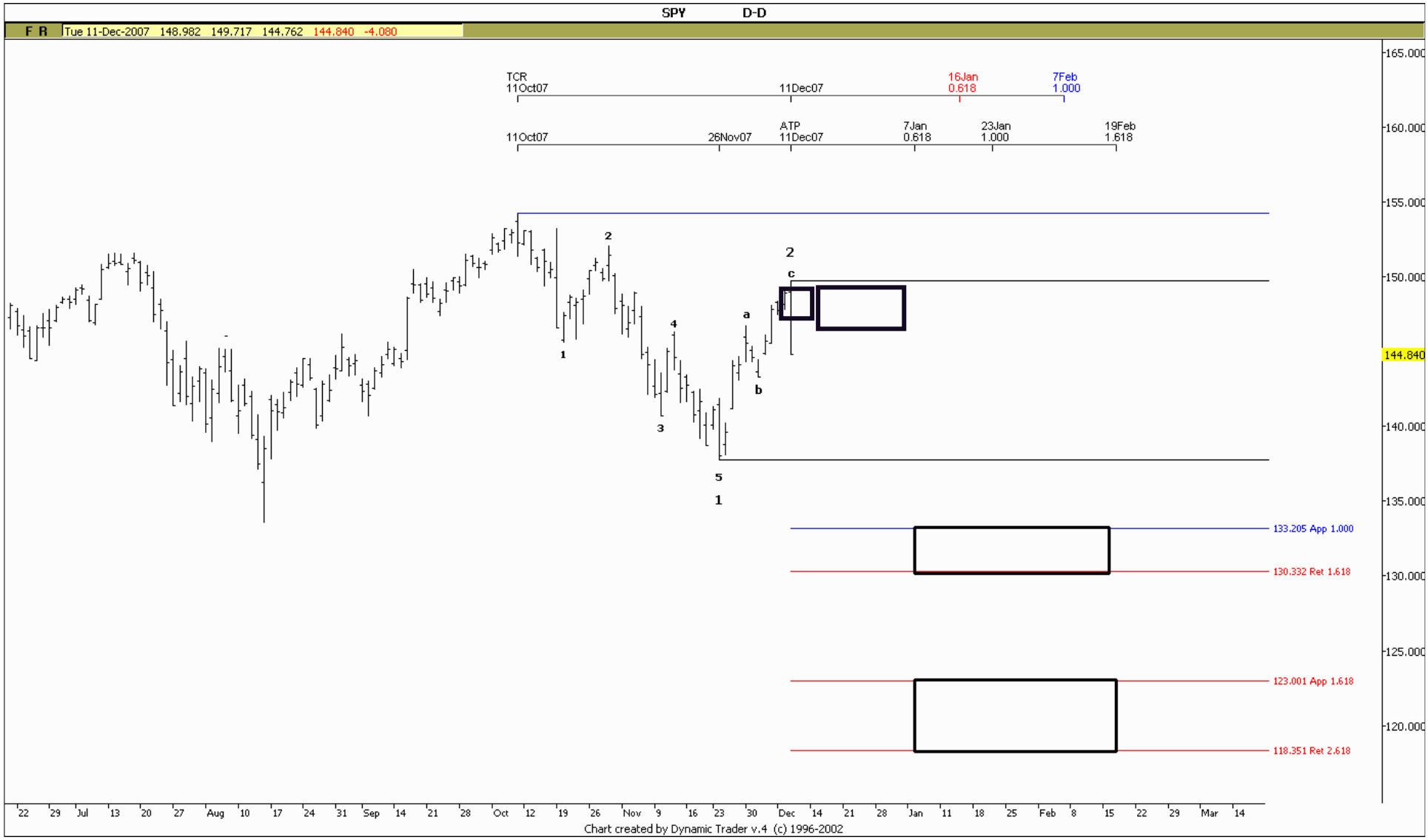
Chart created by Dynamic Trader v.4 (c) 1996-2002


SPY D-D
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TCR
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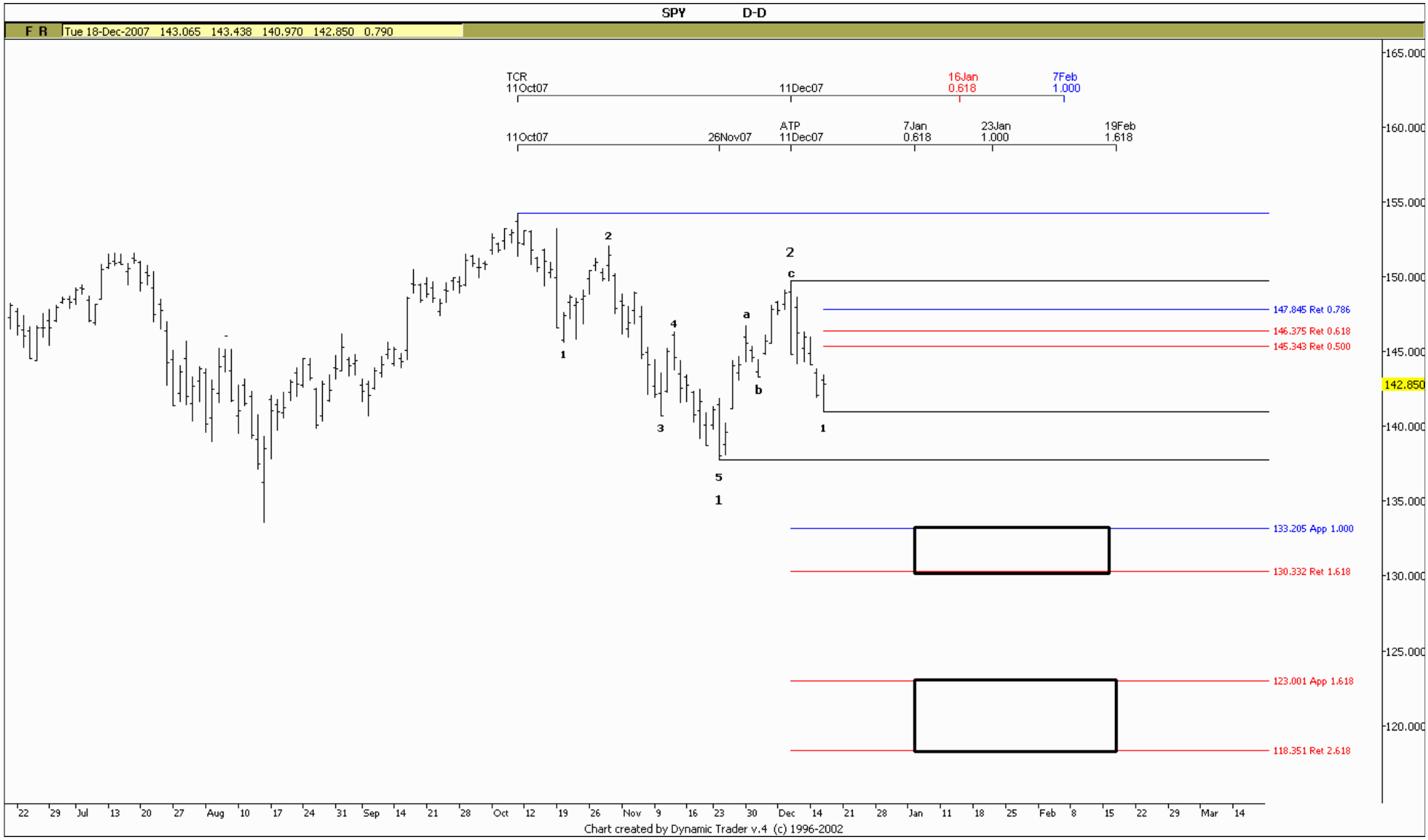
11Dec07
16Jan
0.618
7Feb
1.000
11Oct07
26Nov07
ATP
11Dec07
7Jan
0.618
23Jan
1.000
19Feb
1.618
165.000
160.000
155.000
150.000
144.840
140.000
135.000
130.000
125.000
120.000
133.205 App 1.000
130.332 Ret 1.618
123.001 App 1.618
118.351 Ret 2.618
22 29 Jul 13 20 27 Aug 10 17 24 31 Sep 14 21 28 Oct 12 19 26 Nov 9 16 23 30 Dec 14 21 28 Jan 11 18 25 Feb 8 15 22 29 Mar 14
Chart created by Dynamic Trader v.4 (c) 1996-2002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16Jan
0.618
7Feb
1.000
11Oct07
26Nov07
ATP
11Dec07
7Jan
0.618
23Jan
1.000
19Feb
1.618
147.845 Ret 0.786
146.375 Ret 0.618
145.343 Ret 0.500
133.205 App 1.000
130.332 Ret 1.618
123.001 App 1.618
118.351 Ret 2.618
165.000
160.000
155.000
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142.850
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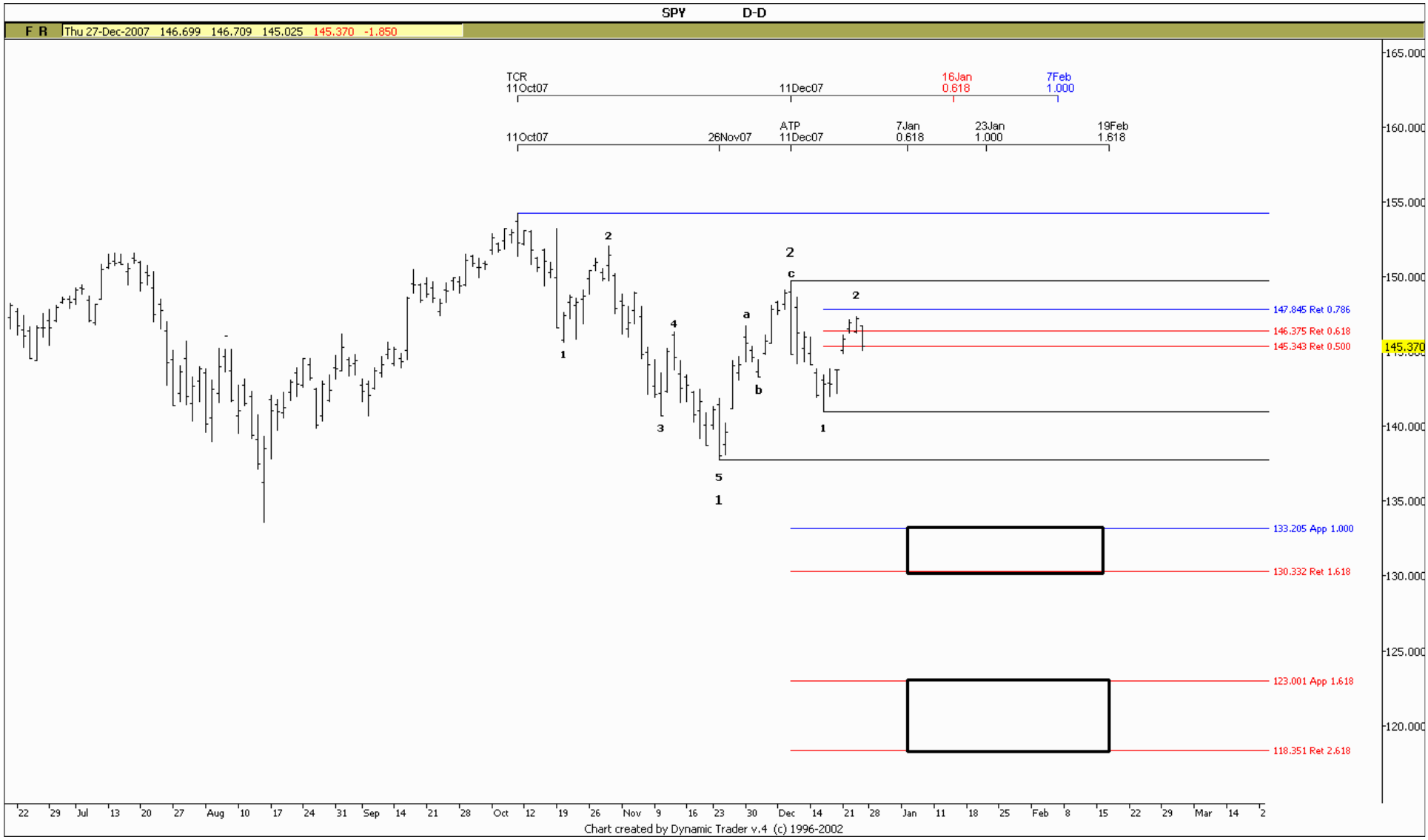
22 29 Jul 13 20 27 Aug 10 17 24 31 Sep 14 21 28 Oct 12 19 26 Nov 9 16 23 30 Dec 14 21 28 Jan 11 18 25 Feb 8 15 22 29 Mar 14
Chart created by Dynamic Trader v.4 (c) 1996-2002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TCR
11Oct07
11Dec07
16Jan
0.618
7Feb
1.000
11Oct07
26Nov07
ATP
11Dec07
7Jan
0.618
23Jan
1.000
19Feb
1.618
147.845 Ret 0.786
146.375 Ret 0.618
145.343 Ret 0.500
145.370
133.205 App 1.000
130.332 Ret 1.618
123.001 App 1.618
118.351 Ret 2.618
165.000
160.000
155.000
150.000
145.000
140.000
135.000
130.000
125.000
120.000
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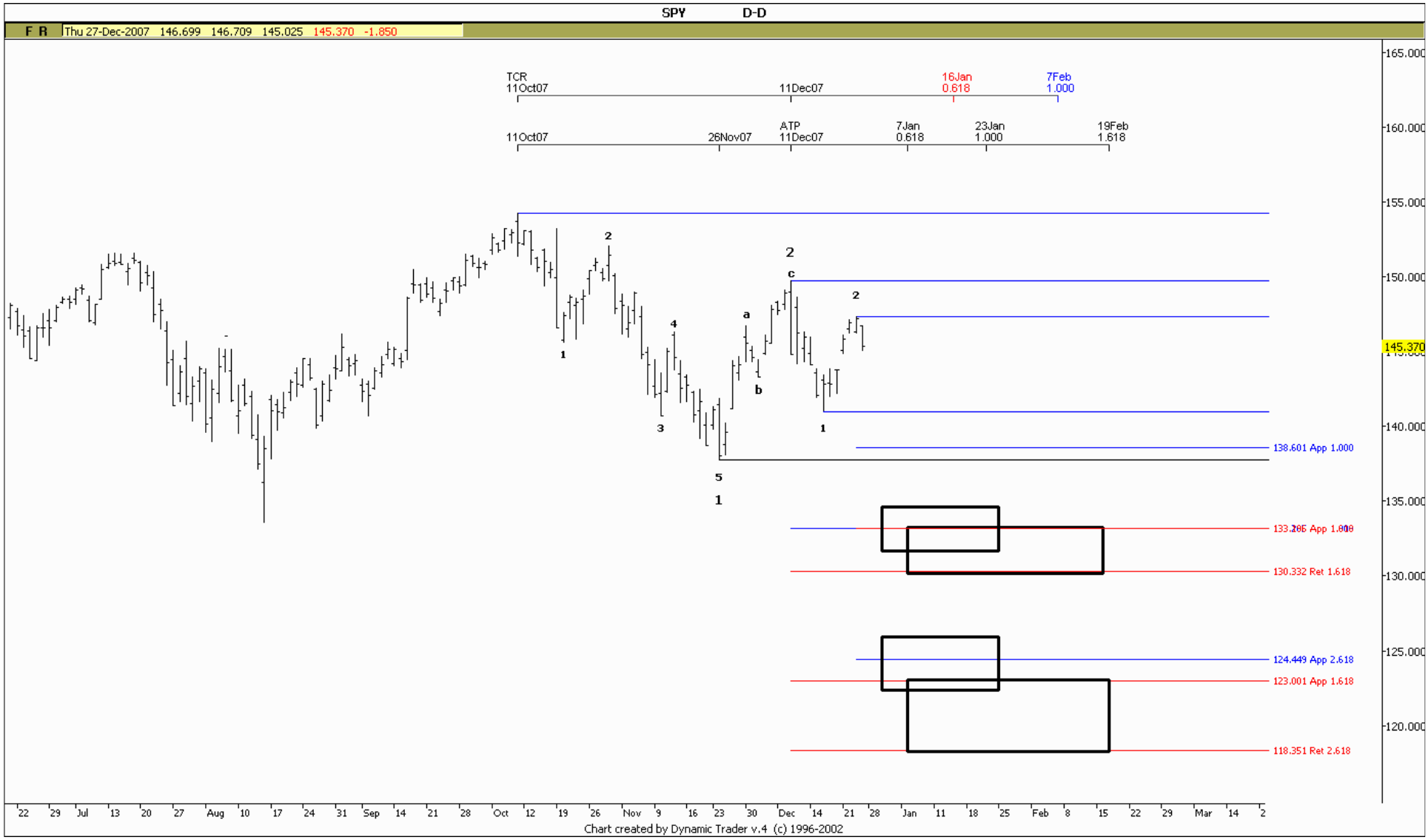
Chart created by Dynamic Trader v.4 (c) 1996-2002


SPY D-D
F R Thu 27-Dec-2007 146.699 146.709 145.025 145.370 -1.850
TCR
11Oct07
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16Jan
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1.000
11Oct07
26Nov07
ATP
11Dec07
7Jan
0.618
23Jan
1.000
19Feb
1.618
165.000
160.000
155.000
150.000
145.370
140.000
135.000
130.000
125.000
120.000
138.601 App 1.000
133.285 App 1.000
130.332 Ret 1.618
124.449 App 2.618
123.001 App 1.618
118.351 Ret 2.618
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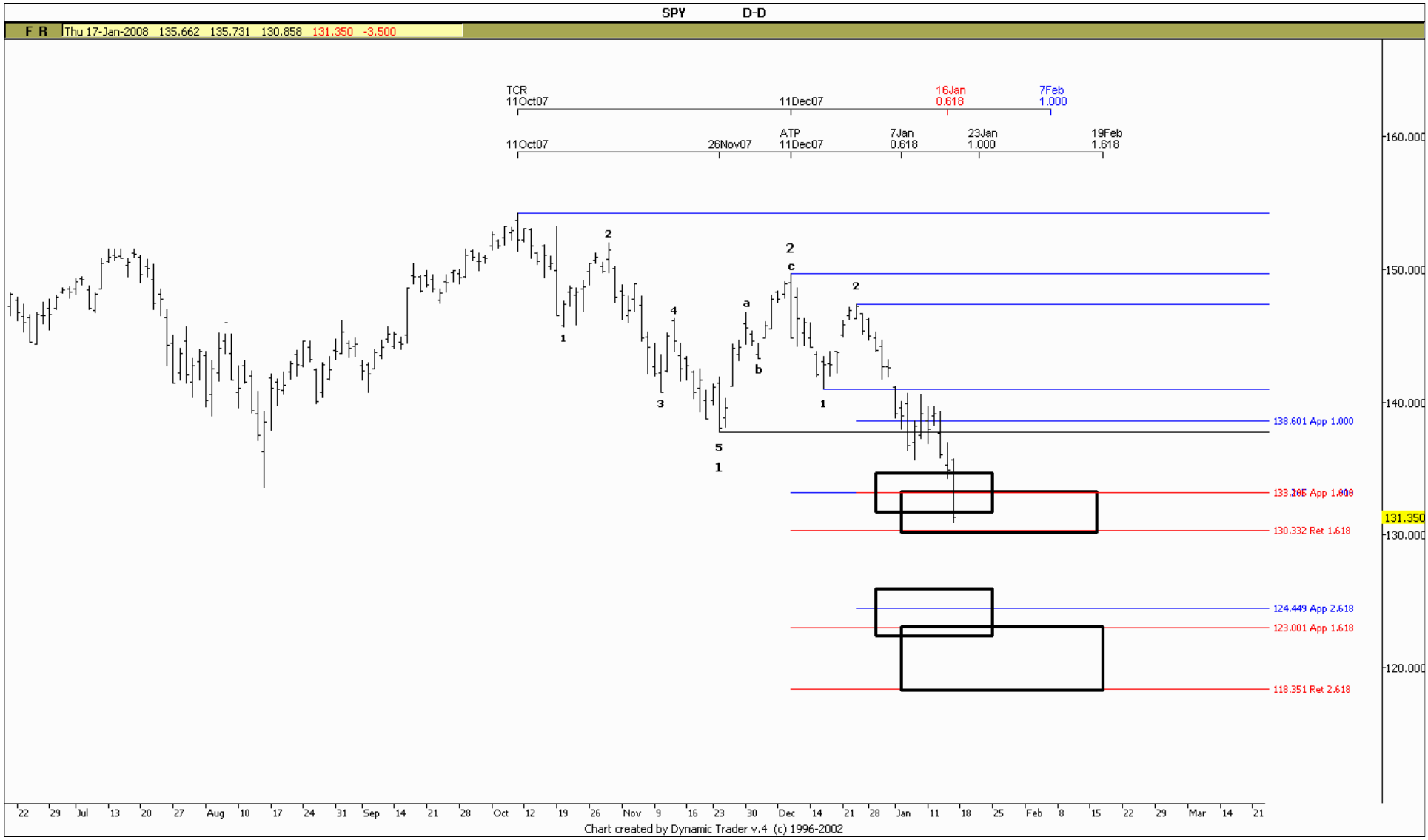
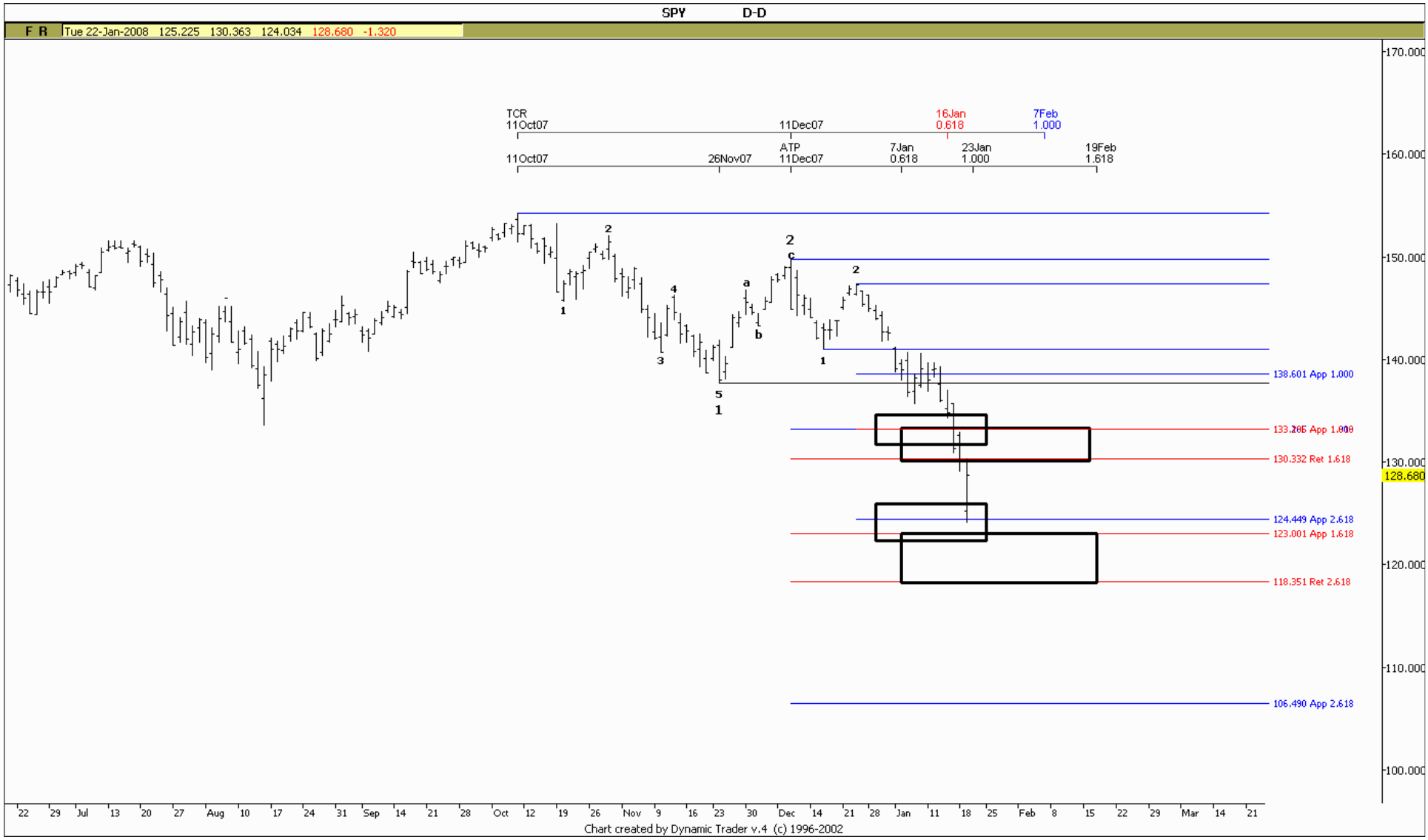
Chart created by Dynamic Trader v.4 (c) 1996-2002



Note: I am deliberately counting this section differently from at the beginning of this presentation. And it still works! This shows the versatility of these techniques.



Note: I am deliberately counting this section differently from at the beginning of this presentation. And it still works! This shows the versatility of these techniques.


SPY D-D
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TCR
11Oct07
11Dec07
16Jan
0.618
7Feb
1.000
ATP
11Oct07
26Nov07
11Dec07
7Jan
0.618
23Jan
1.000
19Feb
1.618
123.001 App 1.618
118.351 Ret 2.618
106.490 App 2.618
160.000
150.000
140.000
130.000
128.680
120.000
110.000
100.000
27 Aug 10 17 24 31 Sep 14 21 28 Oct 12 19 26 Nov 9 16 23 30 Dec 14 21 28 Jan 11 18 25 Feb 8 15 22 29 Mar 14 21 28 Apr 11 18 25 May
Chart created by Dynamic Trader v.4 (c) 1996-2002

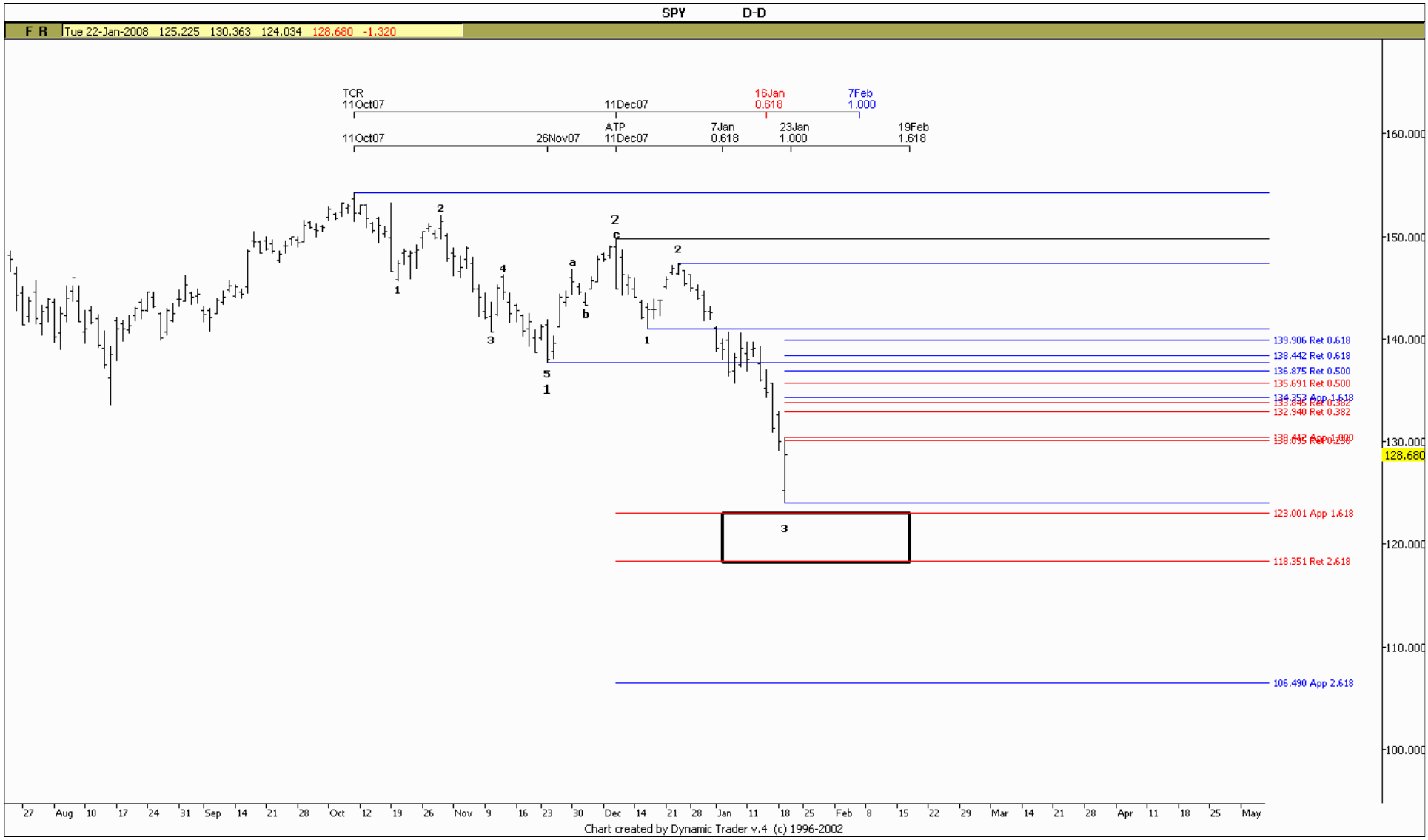
SPY D-D
F R Tue 22-Jan-2008 125.225 130.363 124.034 128.680 -1.320
TCR
11Oct07
11Dec07
16Jan
0.618
7Feb
1.000
ATP
11Oct07
26Nov07
11Dec07
7Jan
0.618
23Jan
1.000
19Feb
1.618
139.906 Ret 0.618
138.442 Ret 0.618
136.875 Ret 0.500
135.691 Ret 0.500
132.940 Ret 0.382
123.001 App 1.618
118.351 Ret 2.618
106.490 App 2.618
160.000
150.000
140.000
130.000
128.680
120.000
110.000
100.000
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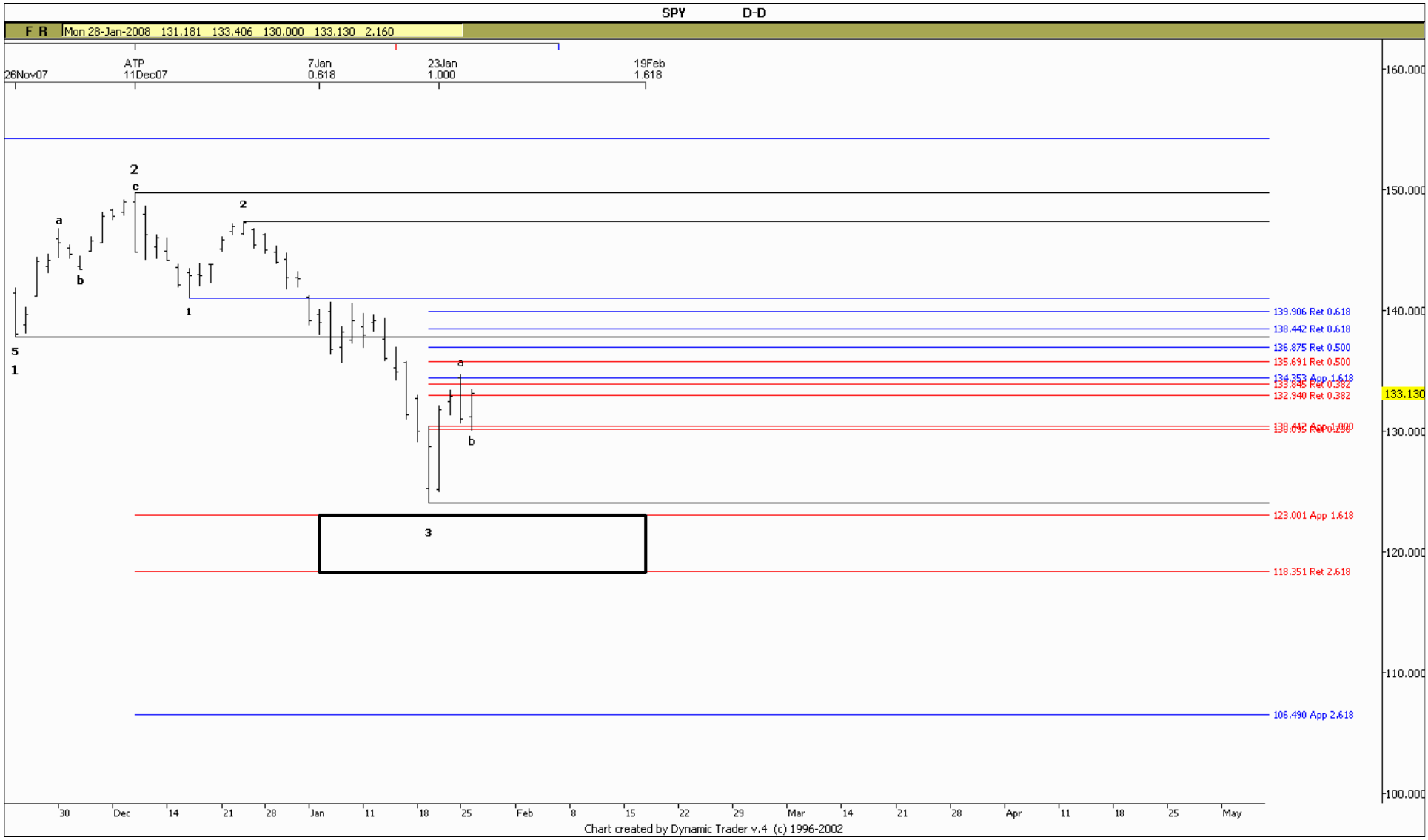
Chart created by Dynamic Trader v.4 (c) 1996-2002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26Nov07
ATP
11Dec07
7Jan
0.618
23Jan
1.000
19Feb
1.618
139.906 Ret 0.618
138.442 Ret 0.618
136.875 Ret 0.500
135.691 Ret 0.500
132.940 Ret 0.382
123.001 App 1.618
118.351 Ret 2.618
106.490 App 2.618
133.130
160.000
150.000
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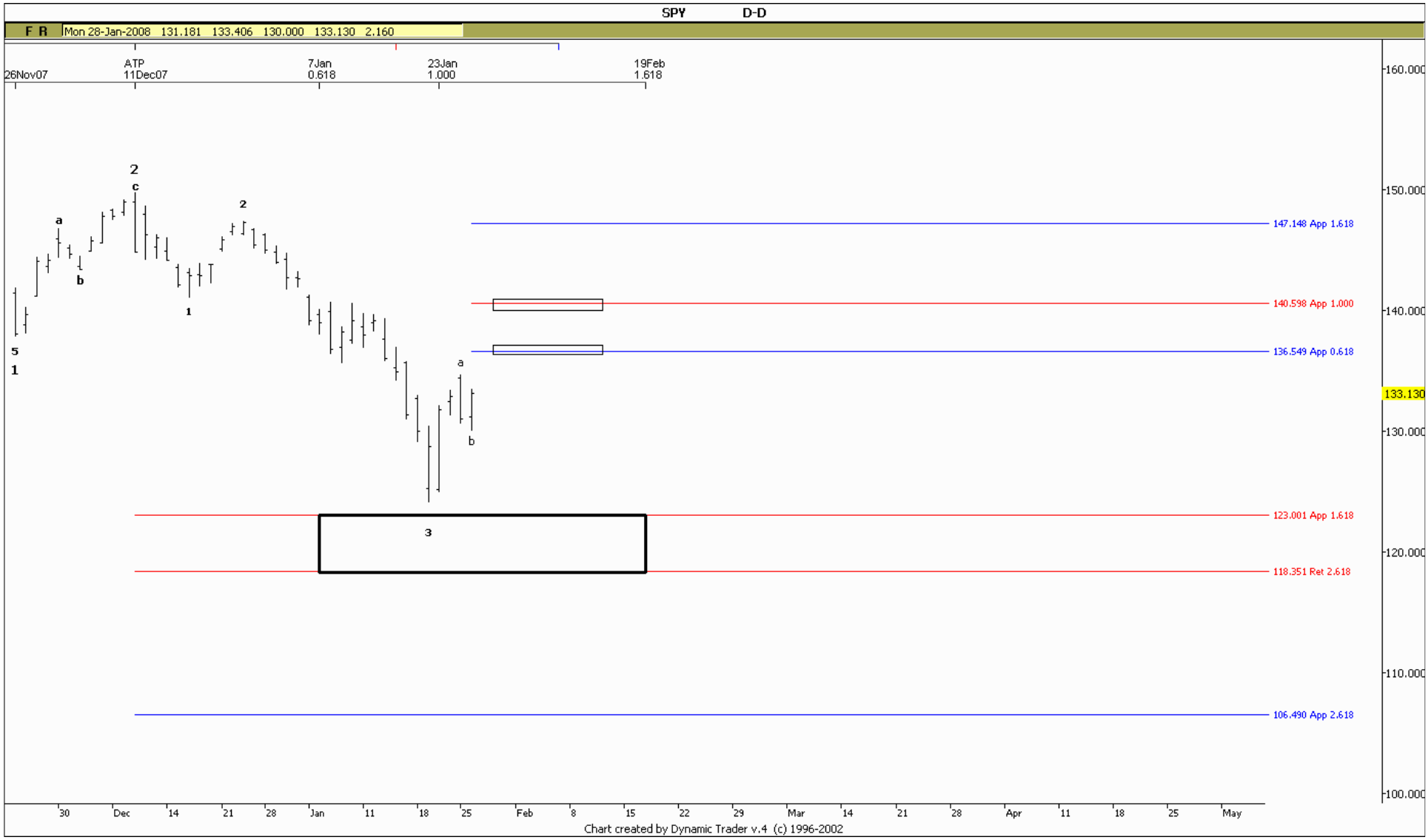
Chart created by Dynamic Trader v.4 (c) 1996-2002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ATP
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23Jan
1.000
19Feb
1.618
147.148 App 1.618
140.598 App 1.000
136.549 App 0.618
123.001 App 1.618
118.351 Ret 2.618
106.490 App 2.618
133.130
160.000
150.000
140.000
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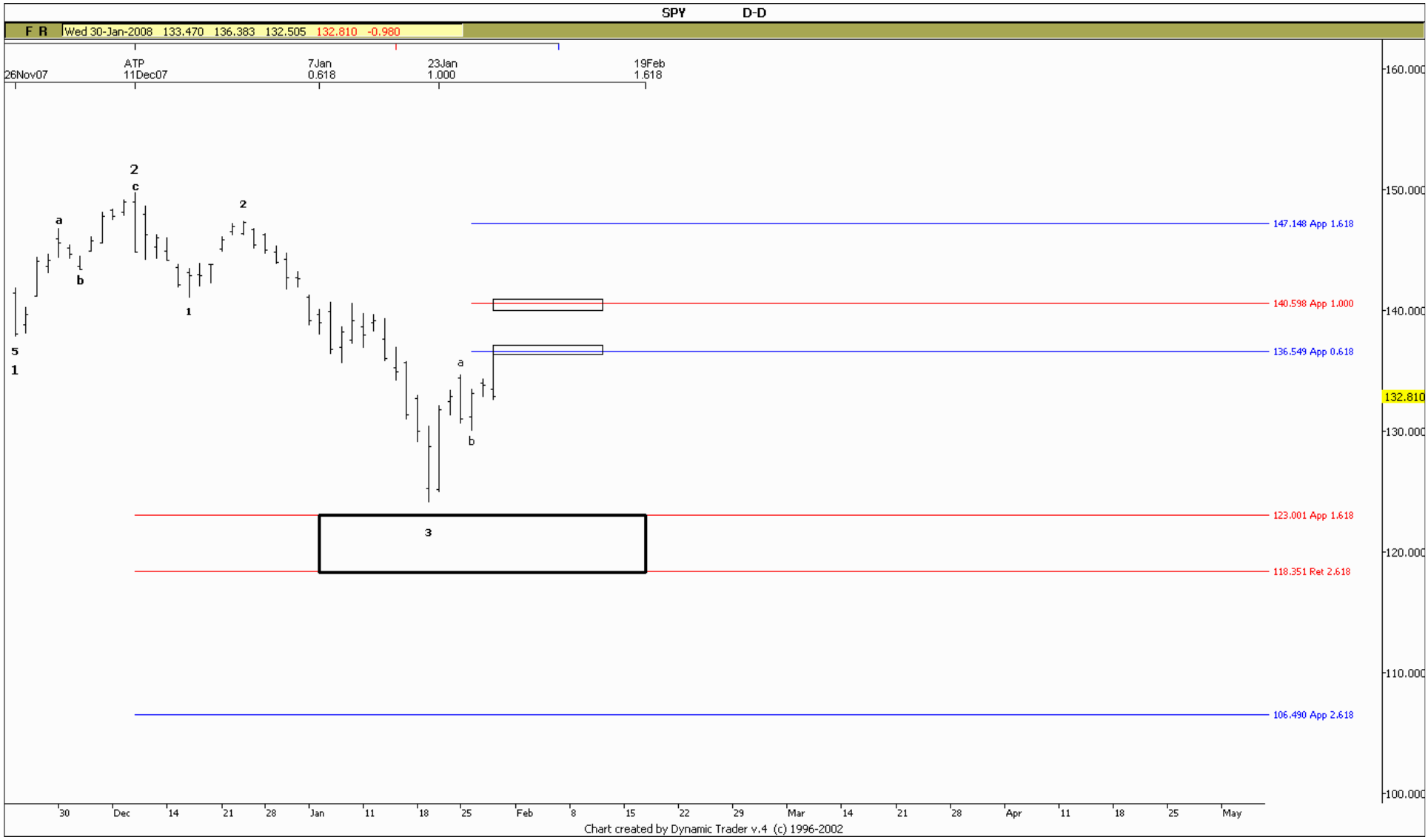
Chart created by Dynamic Trader v.4 (c) 1996-2002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ATP
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1.000
19Feb
1.618
147.148 App 1.618
140.598 App 1.000
136.549 App 0.618
123.001 App 1.618
118.351 Ret 2.618
106.490 App 2.618
132.810
160.000
150.000
140.000
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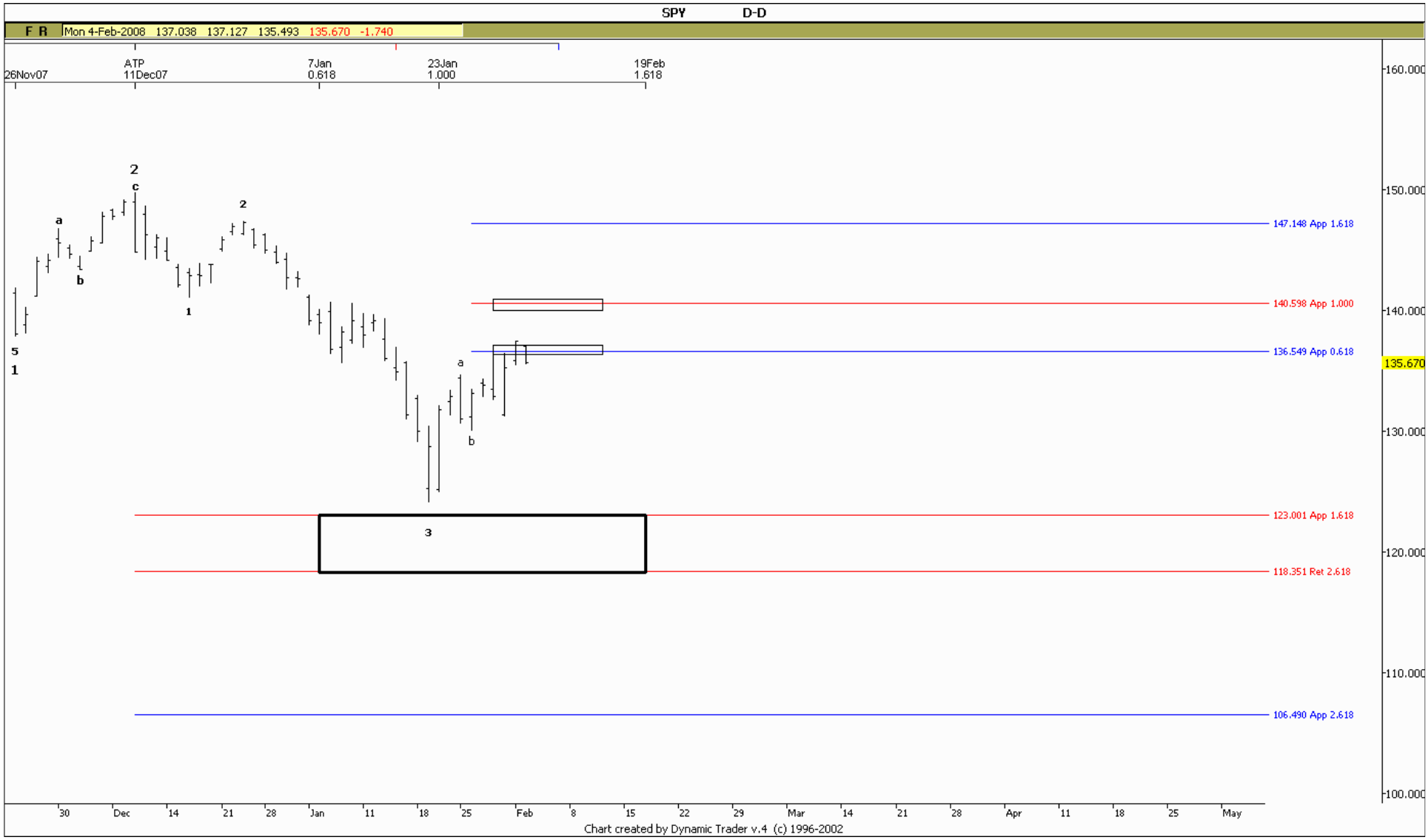
Chart created by Dynamic Trader v.4 (c) 1996-2002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19Feb 1.618
147.148 App 1.618
140.598 App 1.000
136.549 App 0.618
135.670
123.001 App 1.618
118.351 Ret 2.618
106.490 App 2.618
160.000
150.000
140.000
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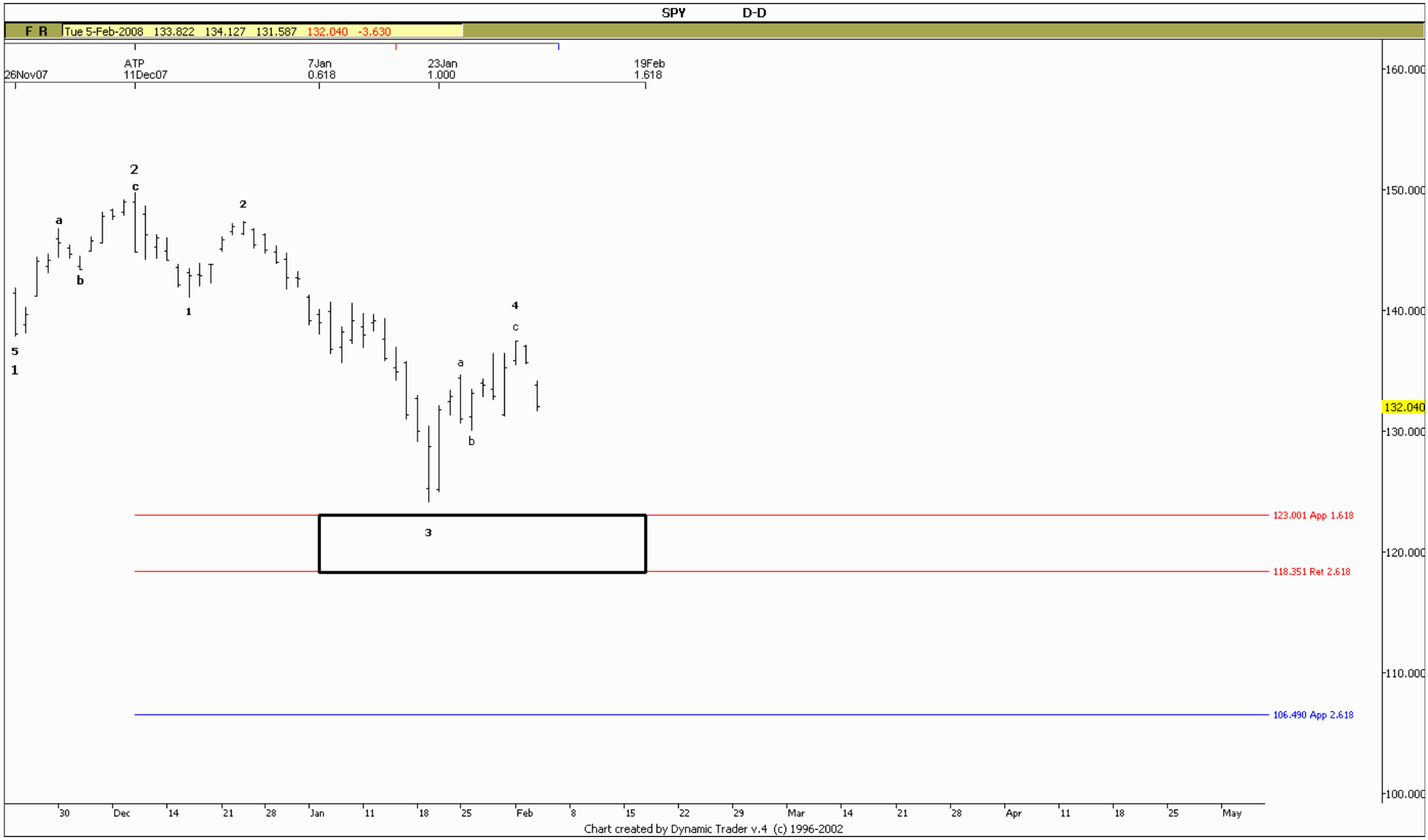
Chart created by Dynamic Trader v.4 (c) 1996-2002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160.000
150.000
140.000
132.040
130.000
120.000
110.000
100.000
123.001 App 1.618
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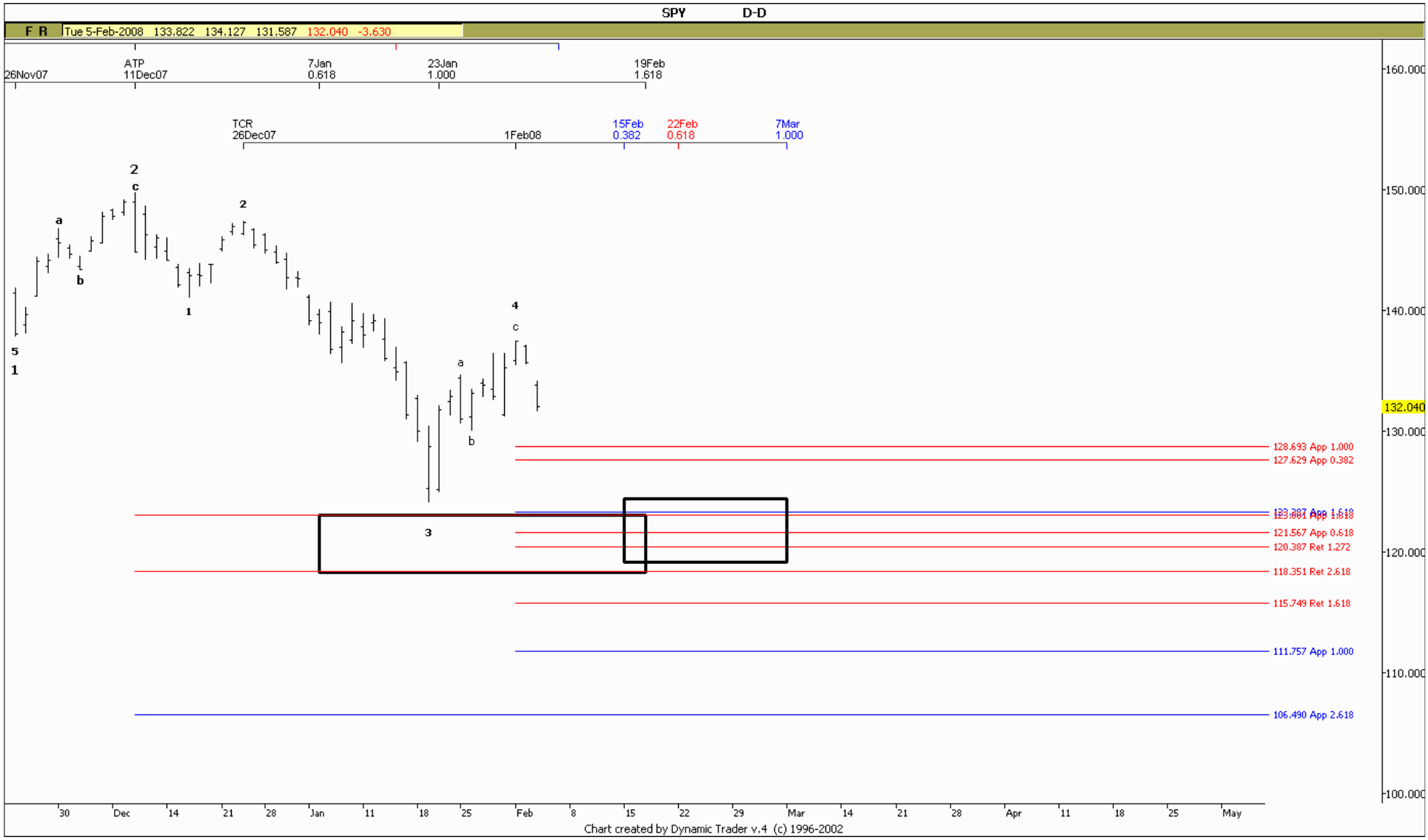
Chart created by Dynamic Trader v.4 (c) 1996-2002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26Nov07
ATP 11Dec07
7Jan 0.618
23Jan 1.000
19Feb 1.618
TCR 26Dec07
1Feb08
15Feb 0.382
22Feb 0.618
7Mar 1.000
128.693 App 1.000
127.629 App 0.382
121.567 App 0.618
120.387 Ret 1.272
118.351 Ret 2.618
115.749 Ret 1.618
111.757 App 1.000
106.490 App 2.618
160.000
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140.000
132.040
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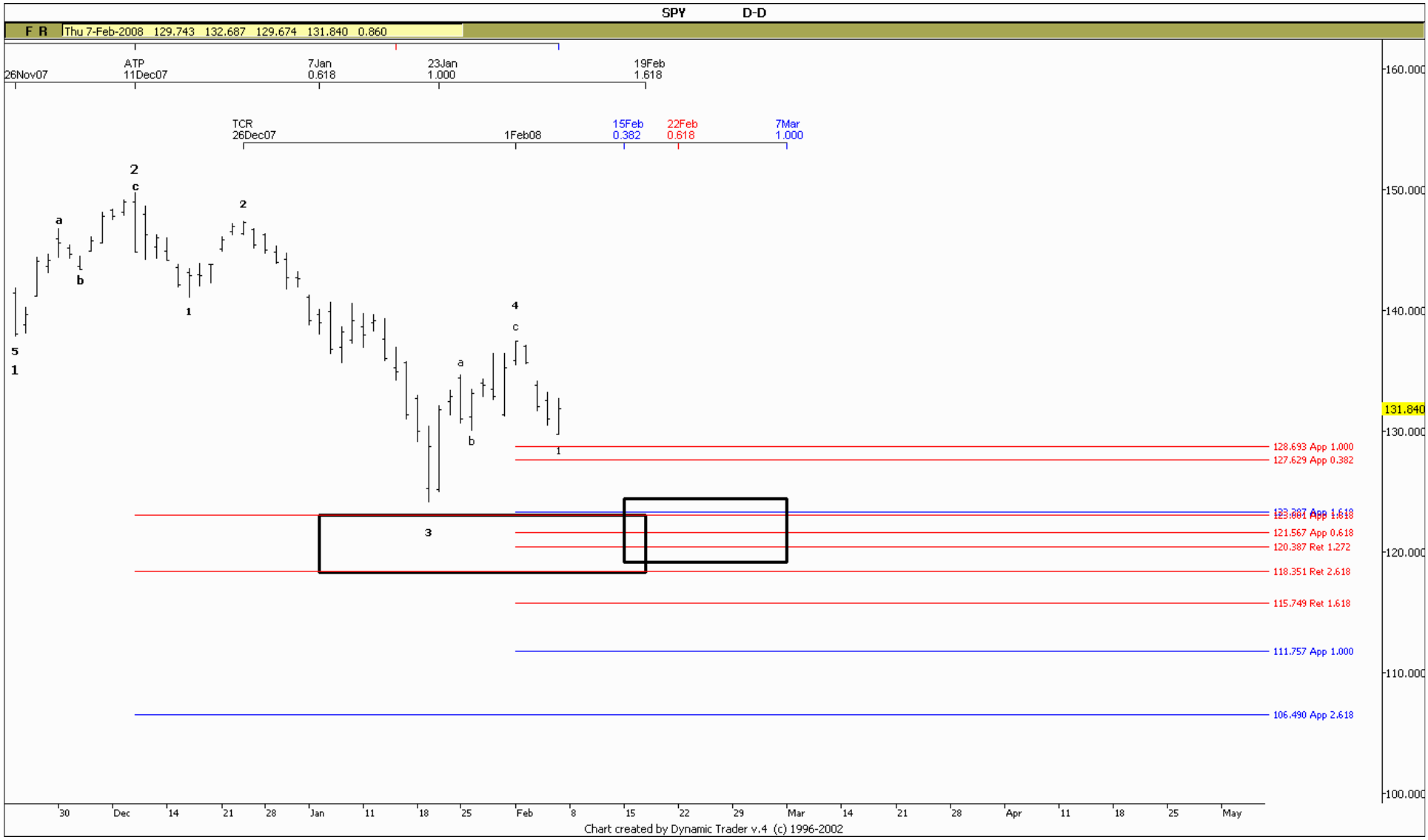
Chart created by Dynamic Trader v.4 (c) 1996-2002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ATP
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7Jan
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23Jan
1.000
19Feb
1.618
TCR
26Dec07
1Feb08
15Feb
0.382
22Feb
0.618
7Mar
1.000
128.693 App 1.000
127.629 App 0.382
121.567 App 0.618
120.387 Ret 1.272
118.351 Ret 2.618
115.749 Ret 1.618
111.757 App 1.000
106.490 App 2.618
160.000
150.000
140.000
131.840
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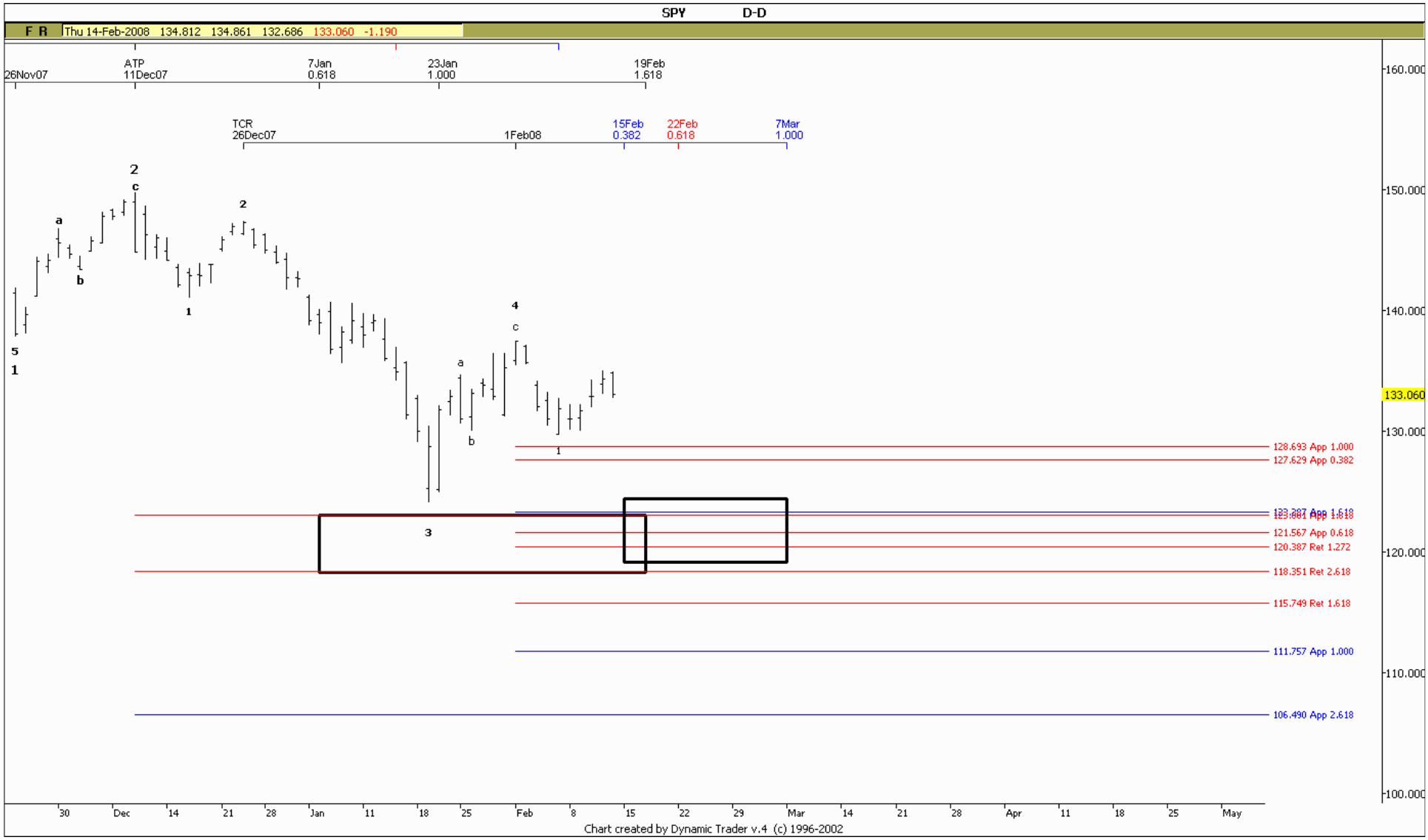
30 Dec 14 21 28 Jan 11 18 25 Feb 8 15 22 29 Mar 14 21 28 Apr 11 18 25 May
Chart created by Dynamic Trader v.4 (c) 1996-2002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ATP 11Dec07
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23Jan 1.000
19Feb 1.618
TCR 26Dec07
1Feb08
15Feb 0.382
22Feb 0.618
7Mar 1.000
128.693 App 1.000
127.629 App 0.382
121.567 App 0.618
120.387 Ret 1.272
118.351 Ret 2.618
115.749 Ret 1.618
111.757 App 1.000
106.490 App 2.618
160.000
150.000
140.000
133.060
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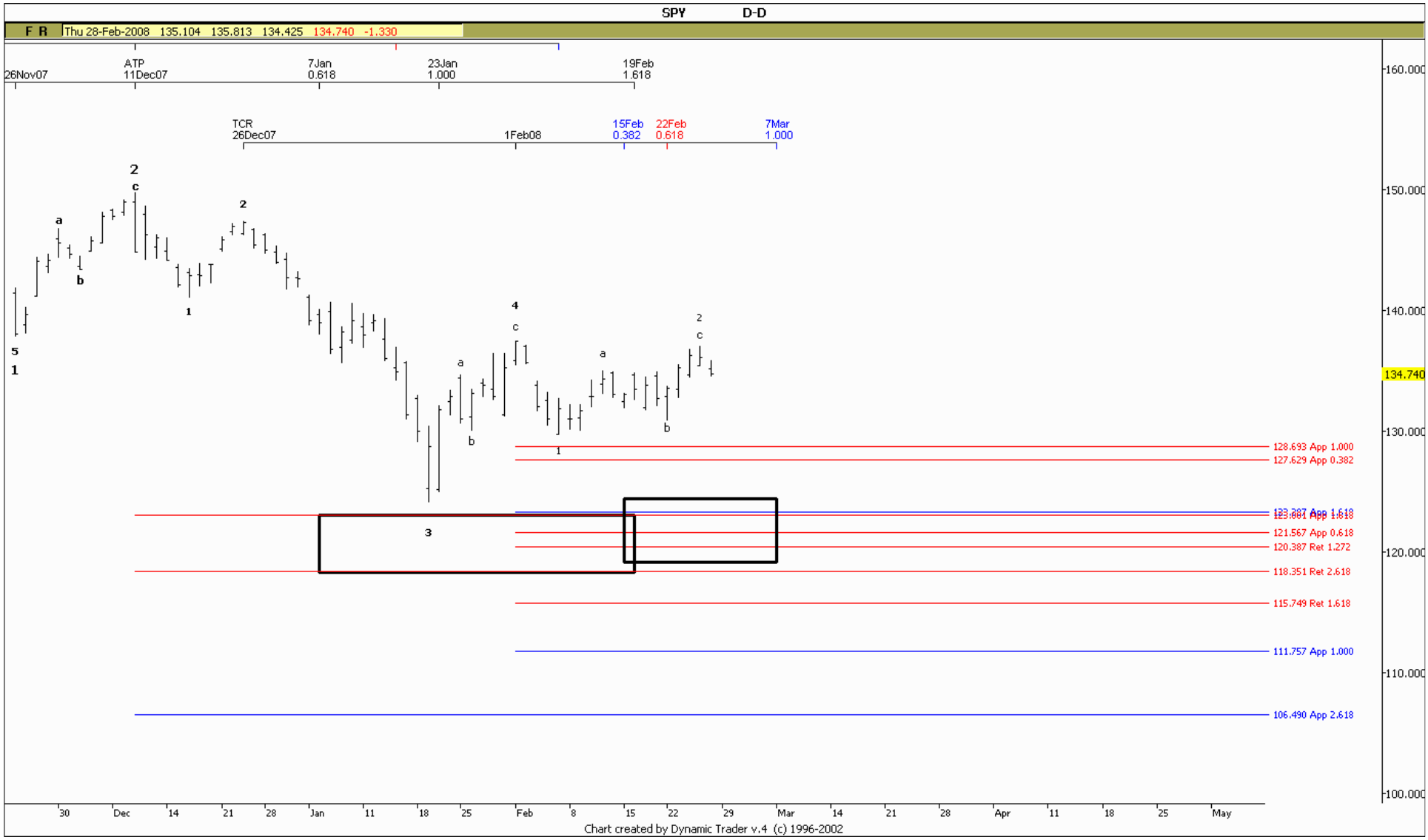
Chart created by Dynamic Trader v.4 (c) 1996-2002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23Jan 1.000
19Feb 1.618
TCR 26Dec07
1Feb08
15Feb 0.382
22Feb 0.618
7Mar 1.000
128.693 App 1.000
127.629 App 0.382
121.567 App 0.618
120.387 Ret 1.272
118.351 Ret 2.618
115.749 Ret 1.618
111.757 App 1.000
106.490 App 2.618
160.000
150.000
140.000
134.740
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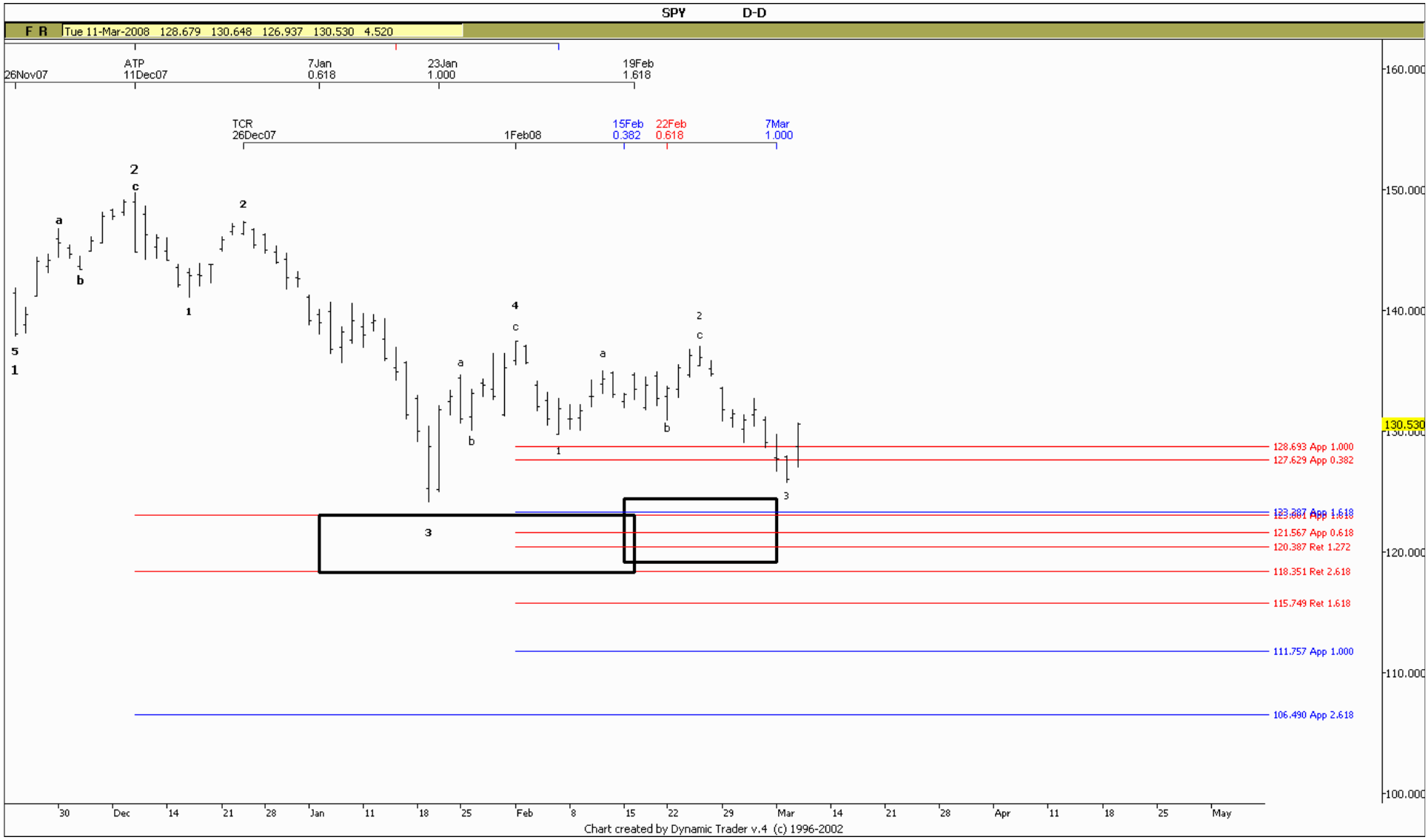
Chart created by Dynamic Trader v.4 (c) 1996-2002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ATP 11Dec07
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23Jan 1.000
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TCR 26Dec07
1Feb08
15Feb 0.382
22Feb 0.618
7Mar 1.000
128.693 App 1.000
127.629 App 0.382
121.567 App 0.618
120.387 Ret 1.272
118.351 Ret 2.618
115.749 Ret 1.618
111.757 App 1.000
106.490 App 2.618
130.530
160.000
150.000
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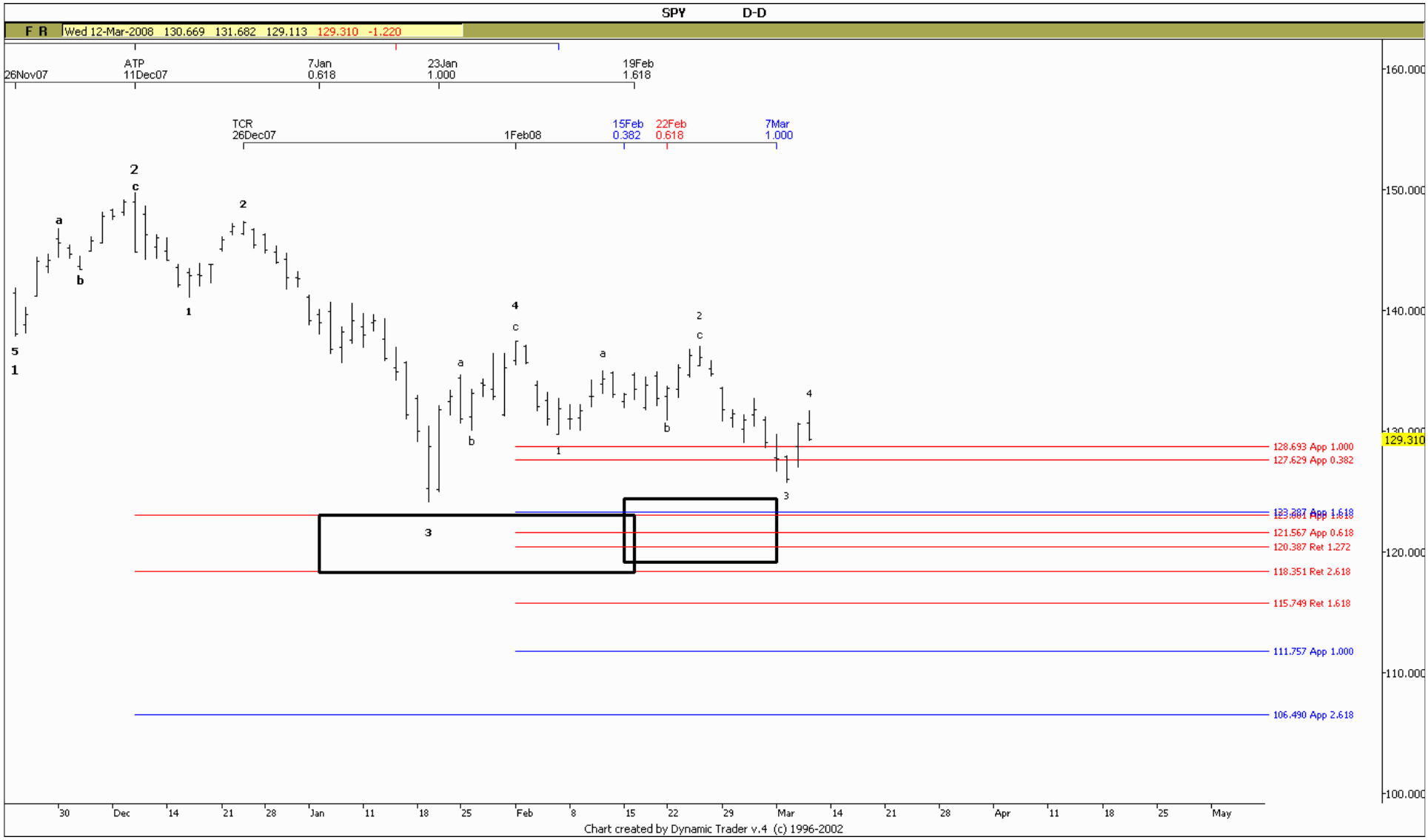
Chart created by Dynamic Trader v.4 (c) 1996-2002


SPY D-D
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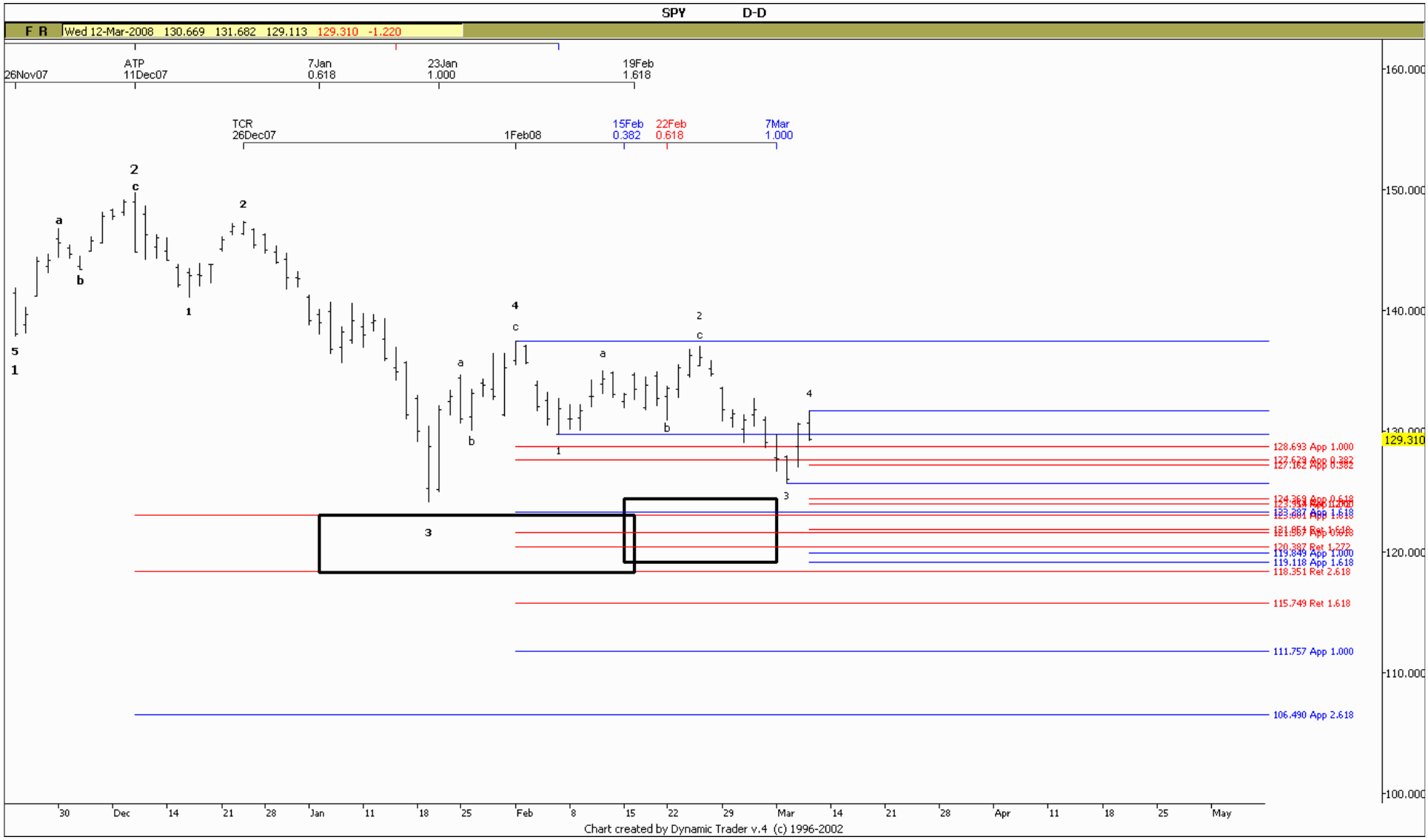
26Nov07
ATP 11Dec07
7Jan 0.618
23Jan 1.000
19Feb 1.618
TCR 26Dec07
1Feb08
15Feb 0.382
22Feb 0.618
7Mar 1.000
128.693 App 1.000
127.629 App 0.382
121.567 App 0.618
120.387 Ret 1.272
118.351 Ret 2.618
115.749 Ret 1.618
111.757 App 1.000
106.490 App 2.618
160.000
150.000
140.000
129.310
120.000
110.000
100.000
30 Dec 14 21 28 Jan 11 18 25 Feb 8 15 22 29 Mar 14 21 28 Apr 11 18 25 May
Chart created by Dynamic Trader v.4 (c) 1996-2002


SPY D-D
F R Wed 12-Mar-2008 130.669 131.682 129.113 129.310 -1.220
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ATP 11Dec07
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23Jan 1.000
19Feb 1.618
TCR 26Dec07
1Feb08
15Feb 0.382
22Feb 0.618
7Mar 1.000
128.693 App 1.000
127.162 App 0.382
118.351 Ret 2.618
115.749 Ret 1.618
111.757 App 1.000
106.490 App 2.618
129.310
160.000
150.000
140.000
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100.000
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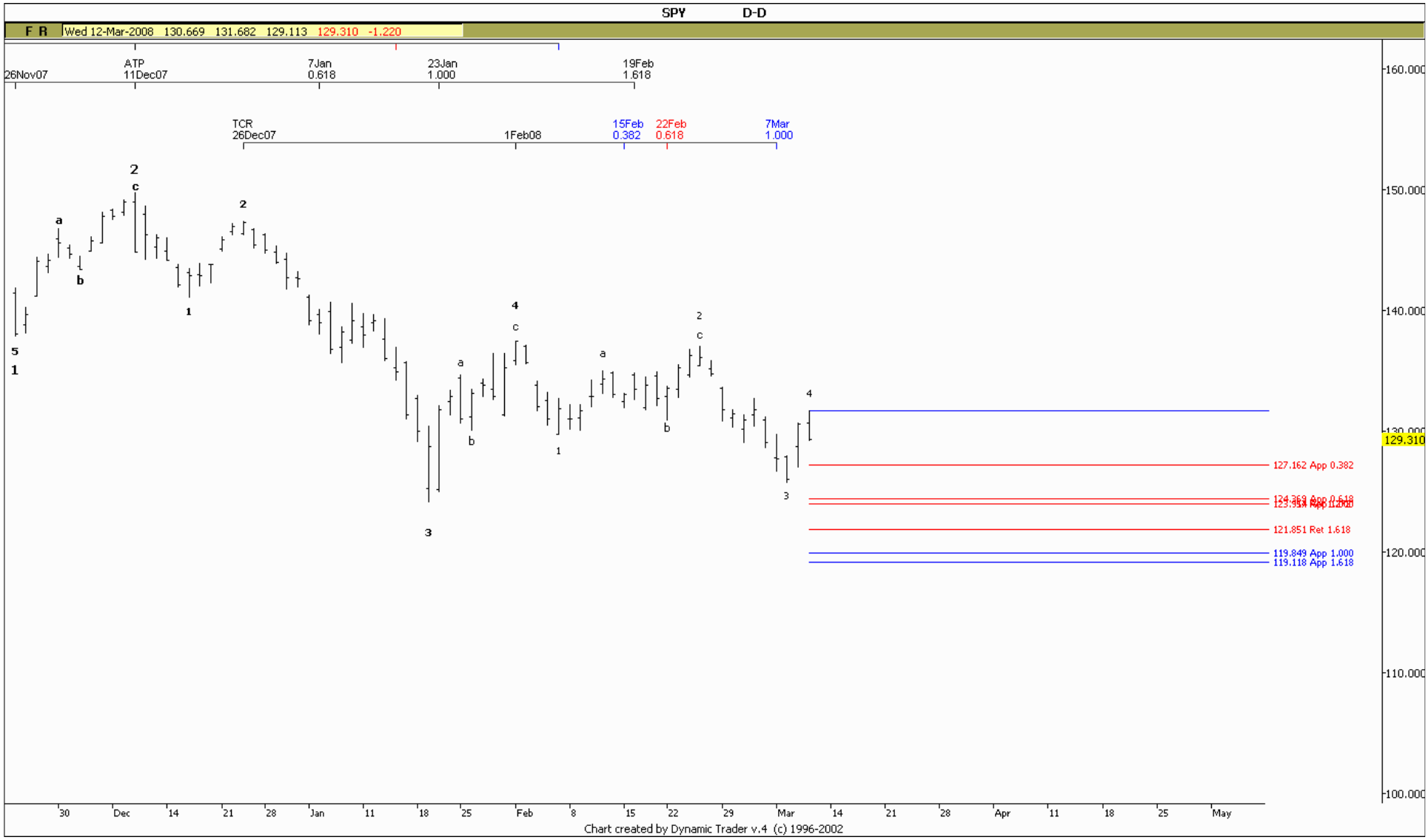
Chart created by Dynamic Trader v.4 (c) 1996-2002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19Feb 1.618
TCR 26Dec07
1Feb08
15Feb 0.382
22Feb 0.618
7Mar 1.000
127.162 App 0.382
121.851 Ret 1.618
119.849 App 1.000
119.118 App 1.618
129.310
160.000
150.000
140.000
120.000
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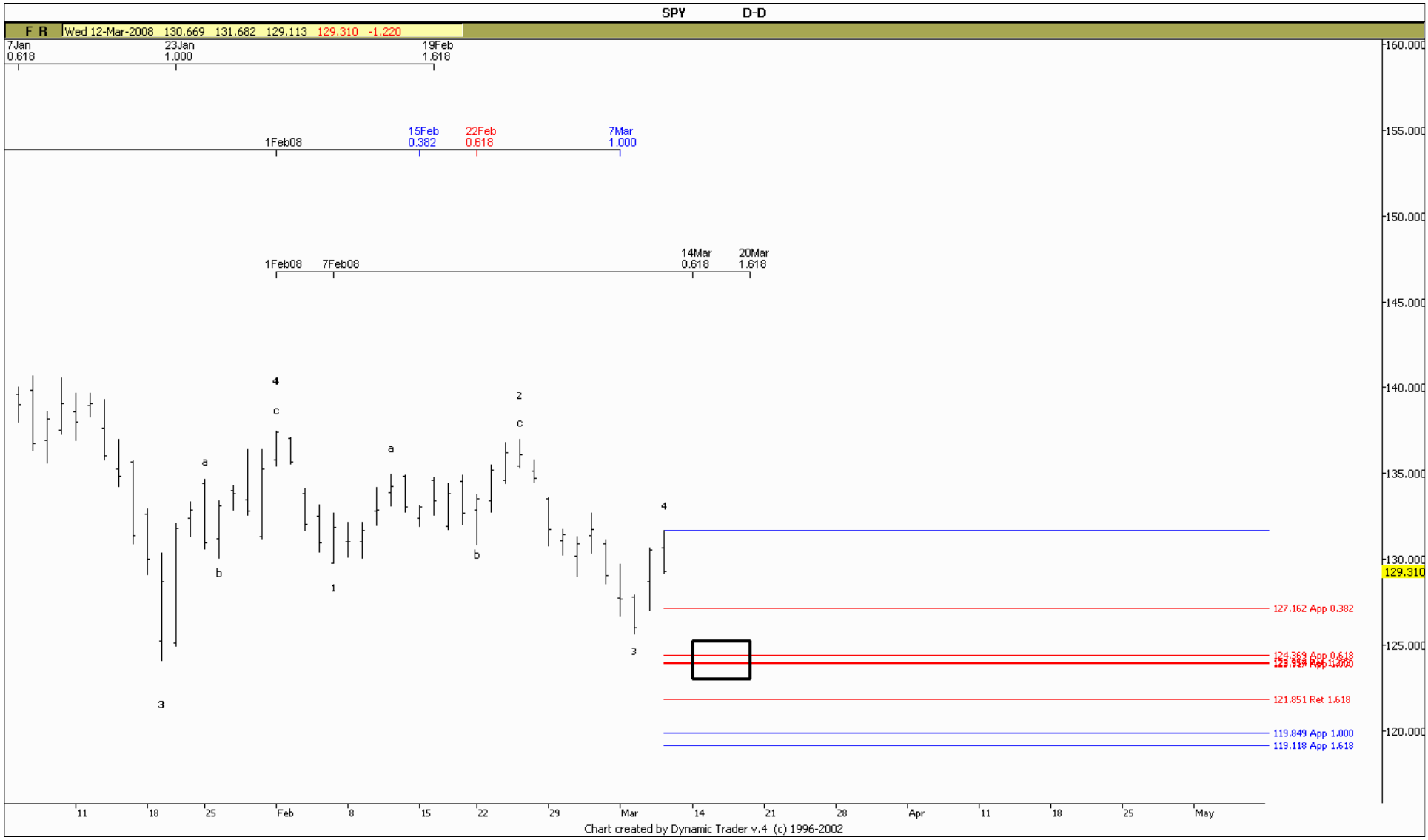
Chart created by Dynamic Trader v.4 (c) 1996-2002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F R
Wed 12-Mar-2008 130.669 131.682 129.113 129.310 -1.220
7Jan 0.618
23Jan 1.000
19Feb 1.618
1Feb08
15Feb 0.382
22Feb 0.618
7Mar 1.000
1Feb08 7Feb08
14Mar 0.618
20Mar 1.618
160.000
155.000
150.000
145.000
140.000
135.000
130.000
129.310
125.000
120.000
127.162 App 0.382
124.369 App 0.618
121.851 Ret 1.618
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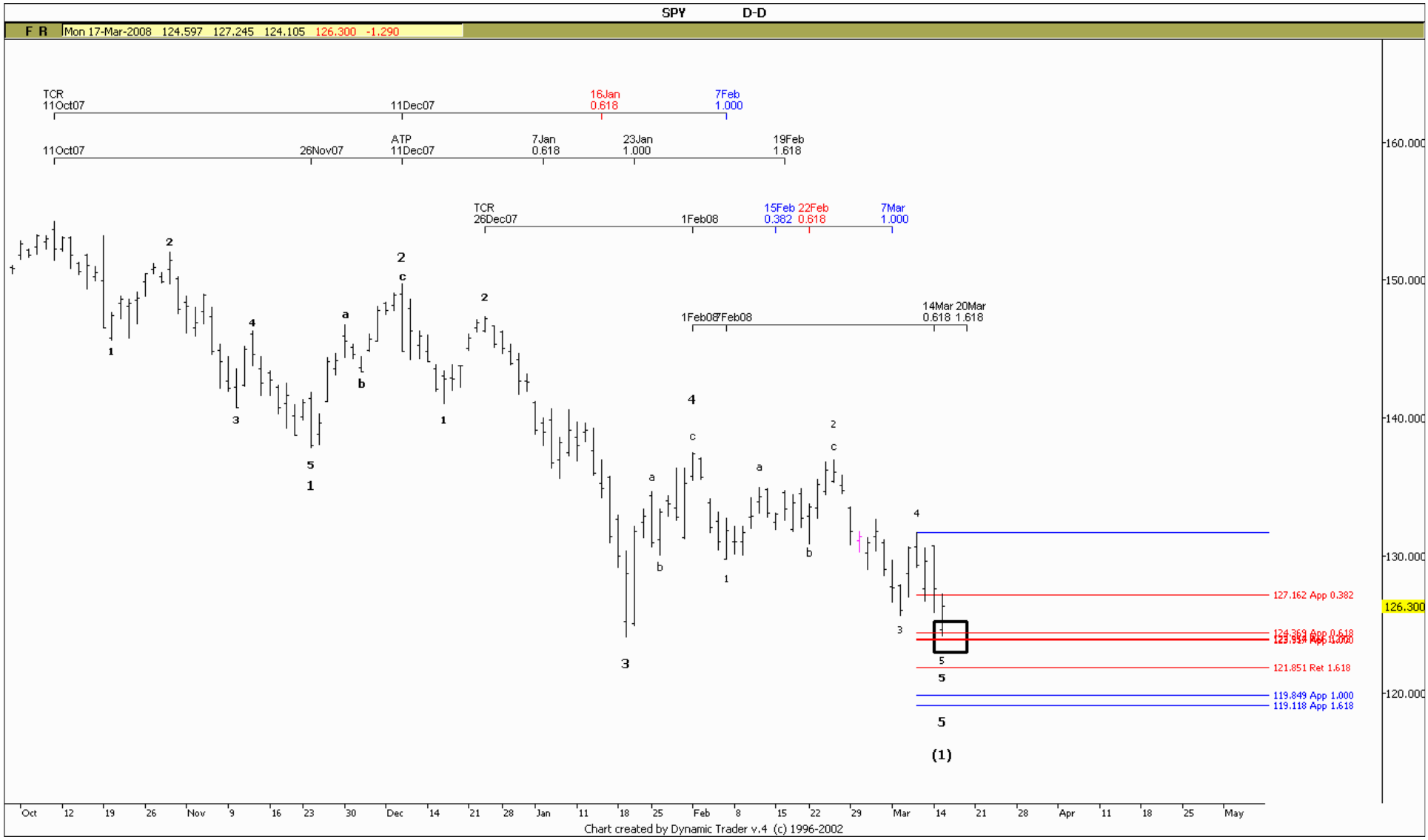
Chart created by Dynamic Trader v.4 (c) 1996-2002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1.000
11Oct07
26Nov07
ATP
11Dec07
7Jan
0.618
23Jan
1.000
19Feb
1.618
TCR
26Dec07
1Feb08
15Feb 22Feb
0.382 0.618
7Mar
1.000
1Feb08 7Feb08
14Mar 20Mar
0.618 1.618
127.162 App 0.382
121.851 Ret 1.618
119.849 App 1.000
119.118 App 1.618
160.000
150.000
140.000
130.000
126.300
120.000
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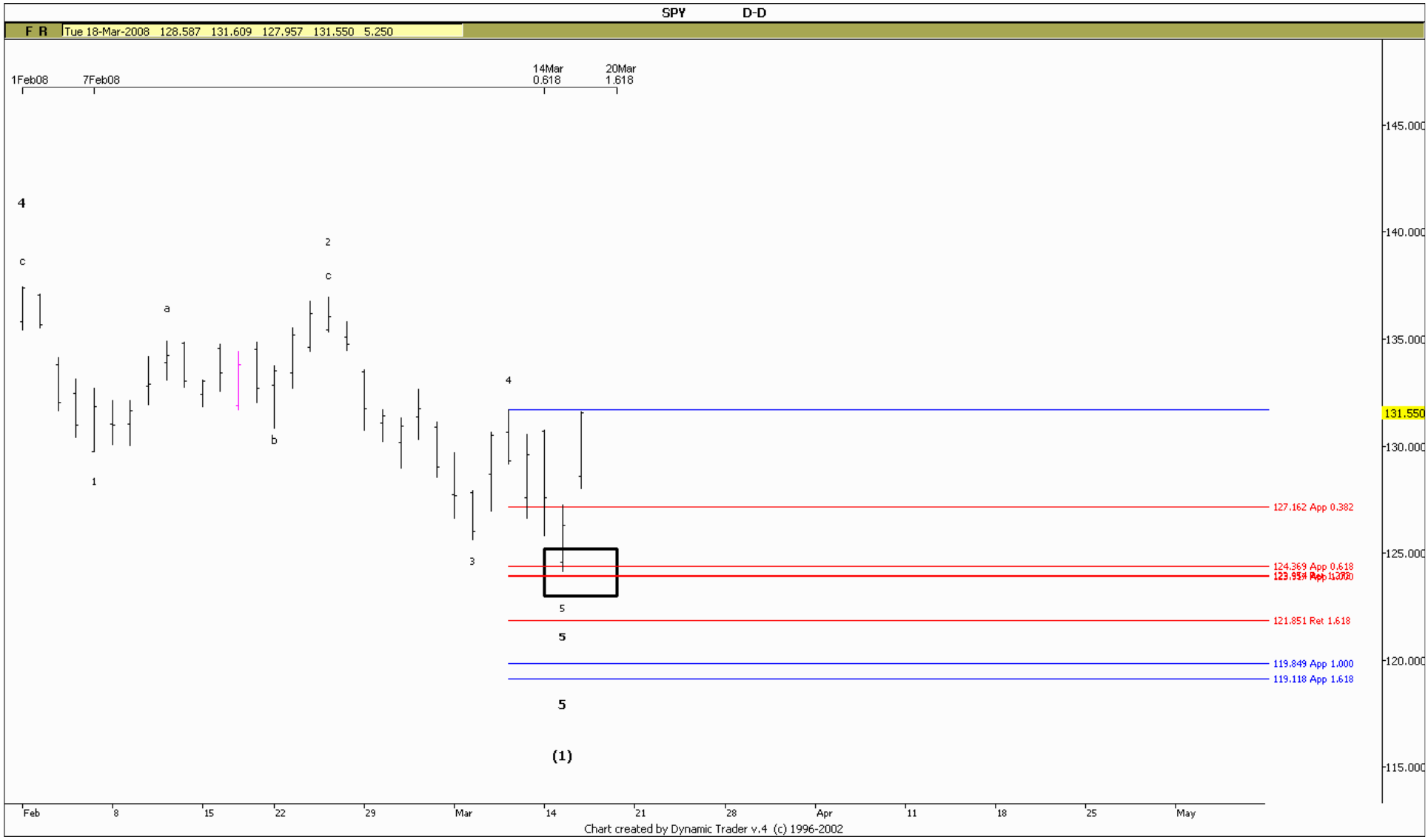
Chart created by Dynamic Trader v.4 (c) 1996-2002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7Feb08
14Mar
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20Mar
1.618
4
c
2
c
a
b
1
4
3
5
5
(1)
145.000
140.000
135.000
131.550
130.000
127.162 App 0.382
124.369 App 0.618
125.000
121.851 Ret 1.618
120.000
119.849 App 1.000
119.118 App 1.618
115.000
Feb
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15
22
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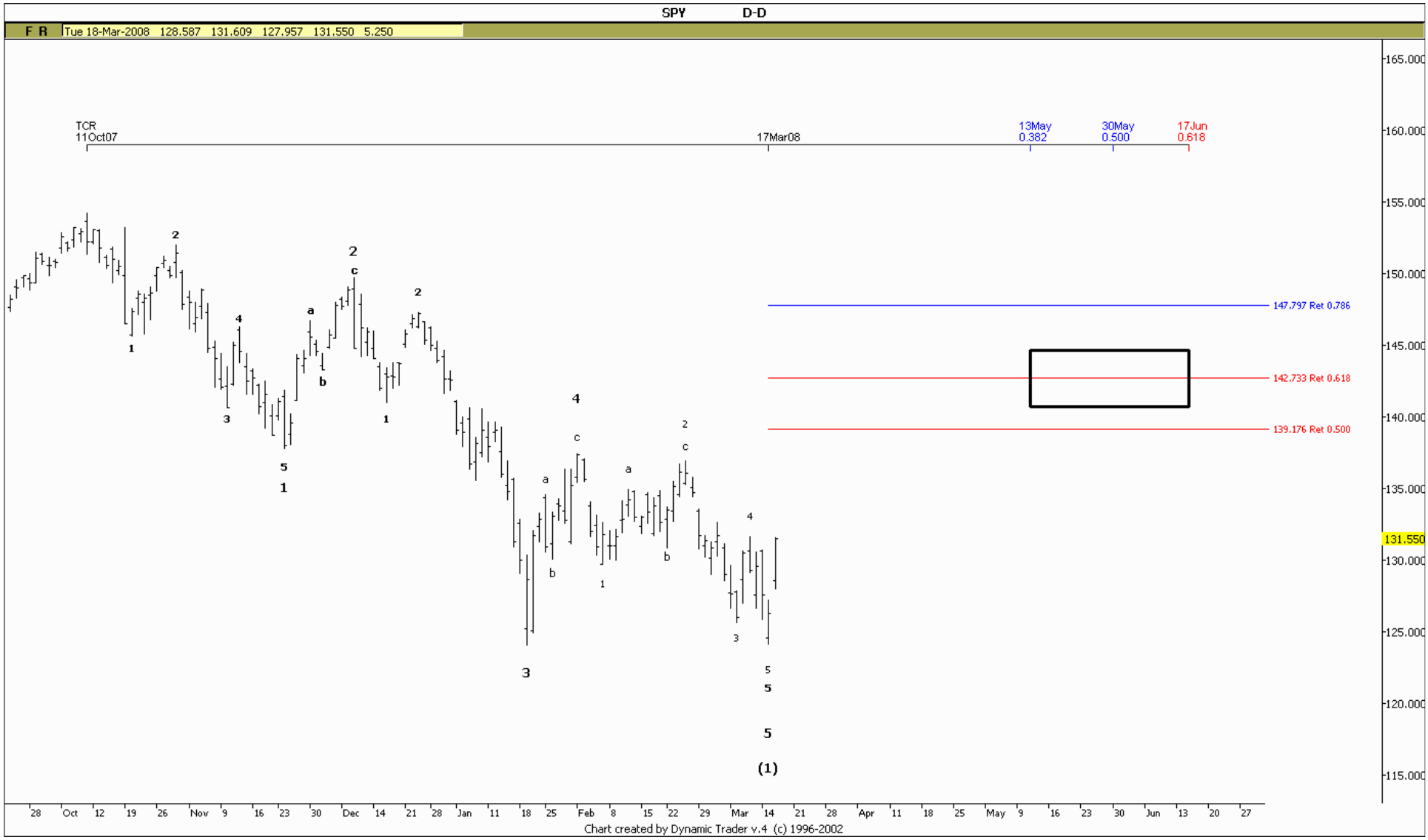
Mar
14
21
28
Apr
11
18
25
May
Chart created by Dynamic Trader v.4 (c) 1996-2002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F R Tue 18-Mar-2008 128.587 131.609 127.957 131.550 5.250
TCR
11Oct07
17Mar08
13May
0.382
30May
0.500
17Jun
0.618
147.797 Ret 0.786
142.733 Ret 0.618
139.176 Ret 0.500
165.000
160.000
155.000
150.000
145.000
140.000
135.000
131.550
130.000
125.000
120.000
115.000
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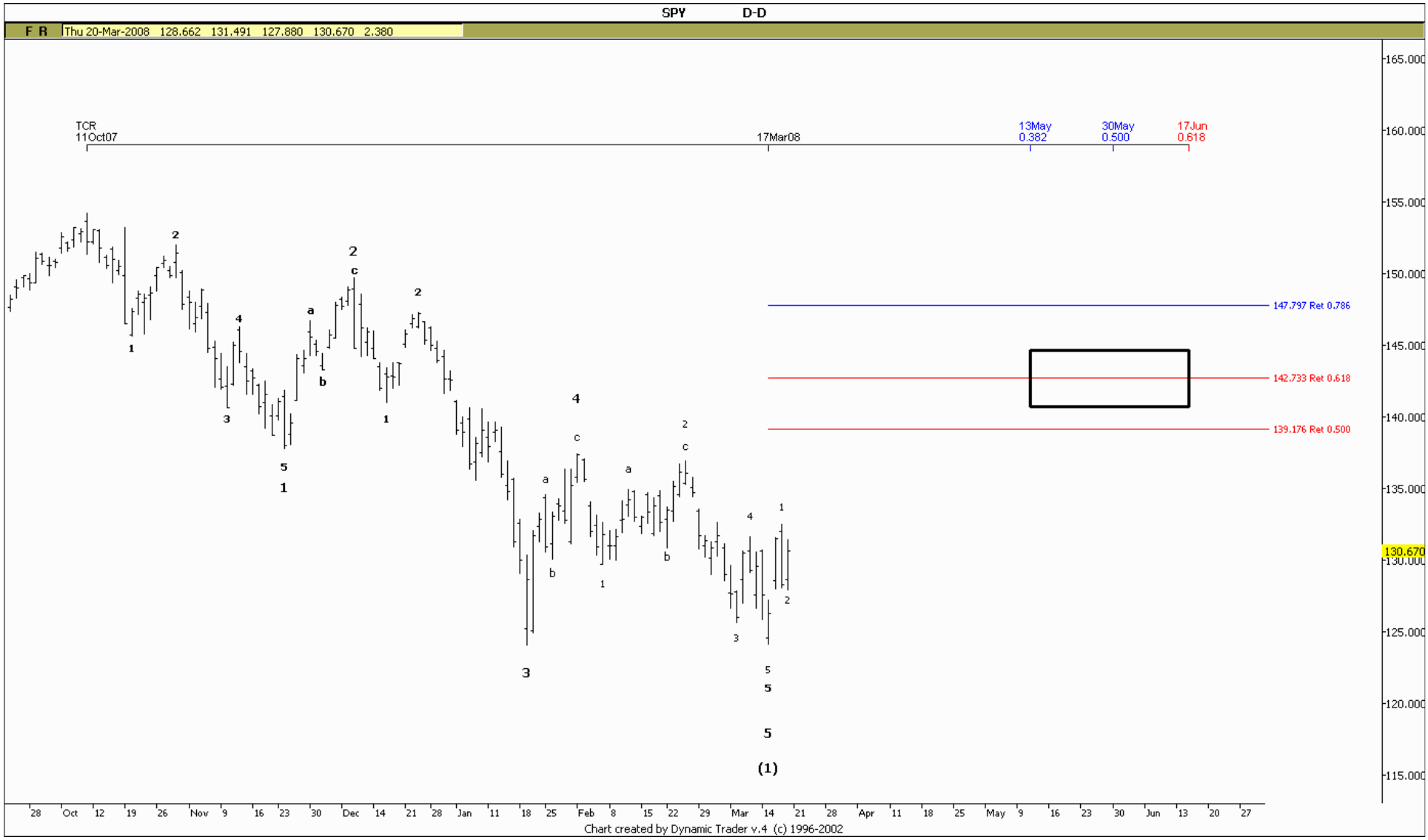
Chart created by Dynamic Trader v.4 (c) 1996-2002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Thu 20-Mar-2008 128.662 131.491 127.880 130.670 2.380
TCR
11Oct07
17Mar08
13May
0.382
30May
0.500
17Jun
0.618
147.797 Ret 0.786
142.733 Ret 0.618
139.176 Ret 0.500
165.000
160.000
155.000
150.000
145.000
140.000
135.000
130.670
130.000
125.000
120.000
115.000
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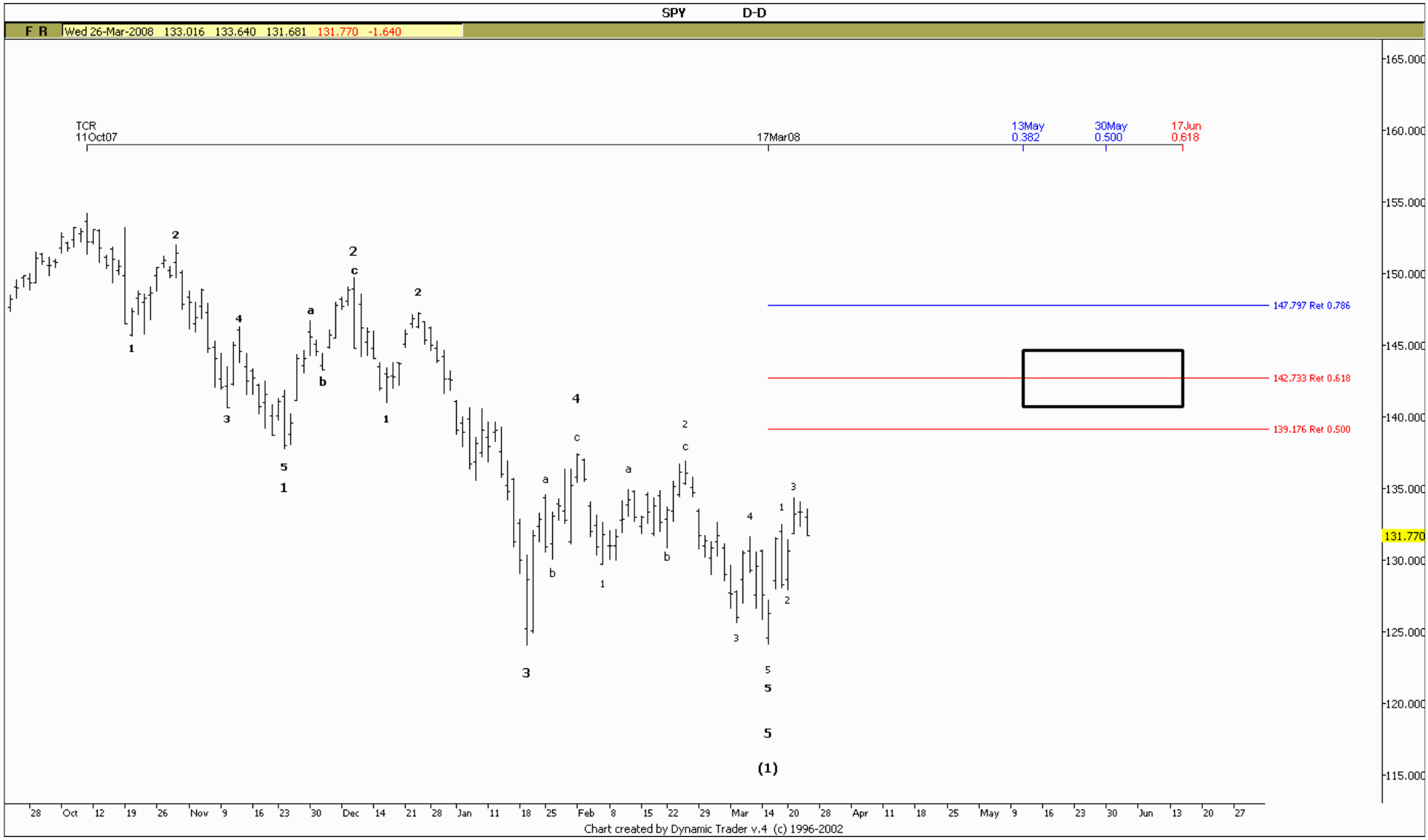
Chart created by Dynamic Trader v.4 (c) 1996-2002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TCR
11Oct07
17Mar08
13May
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30May
0.500
17Jun
0.618
147.797 Ret 0.786
142.733 Ret 0.618
139.176 Ret 0.500
165.000
160.000
155.000
150.000
145.000
140.000
135.000
131.770
130.000
125.000
120.000
115.000
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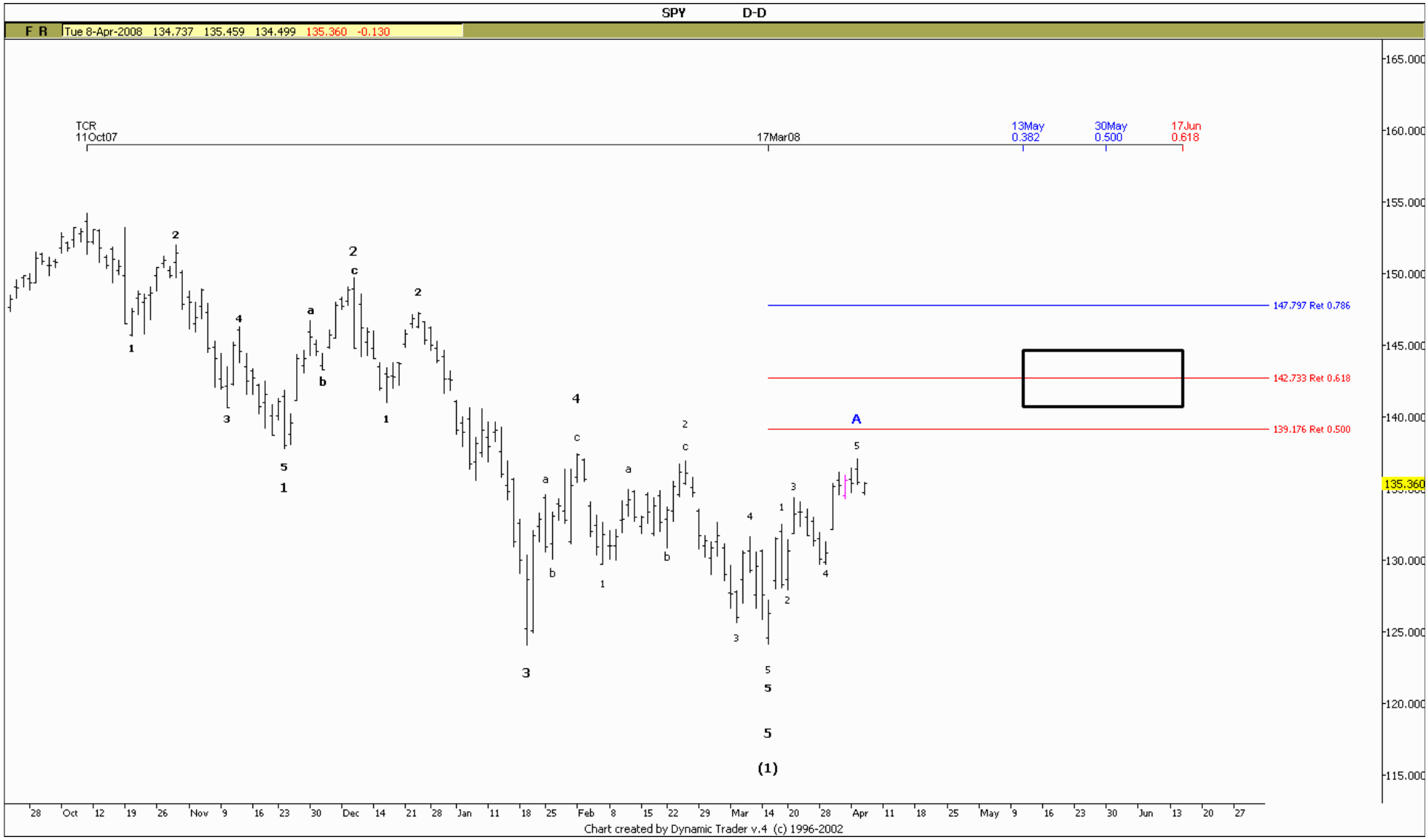
Chart created by Dynamic Trader v.4 (c) 1996-2002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TCR
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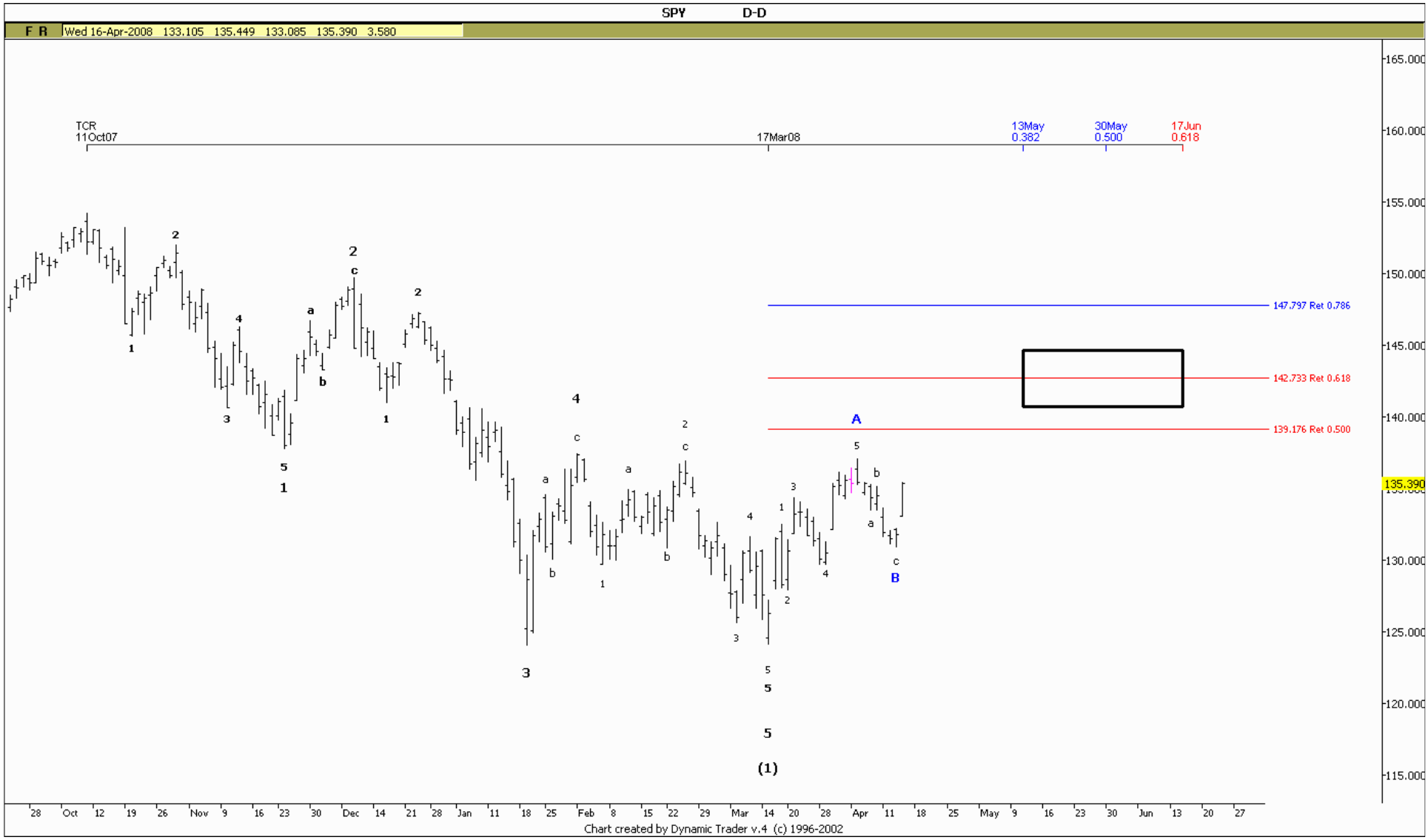
17Mar08
13May
0.382
30May
0.500
17Jun
0.618
147.797 Ret 0.786
142.733 Ret 0.618
139.176 Ret 0.500
A
(1)
165.000
160.000
155.000
150.000
145.000
140.000
135.360
130.000
125.000
120.000
115.000
28 Oct 12 19 26 Nov 9 16 23 30 Dec 14 21 28 Jan 11 18 25 Feb 8 15 22 29 Mar 14 20 28 Apr 11 18 25 May 9 16 23 30 Jun 13 20 27
Chart created by Dynamic Trader v.4 (c) 1996-2002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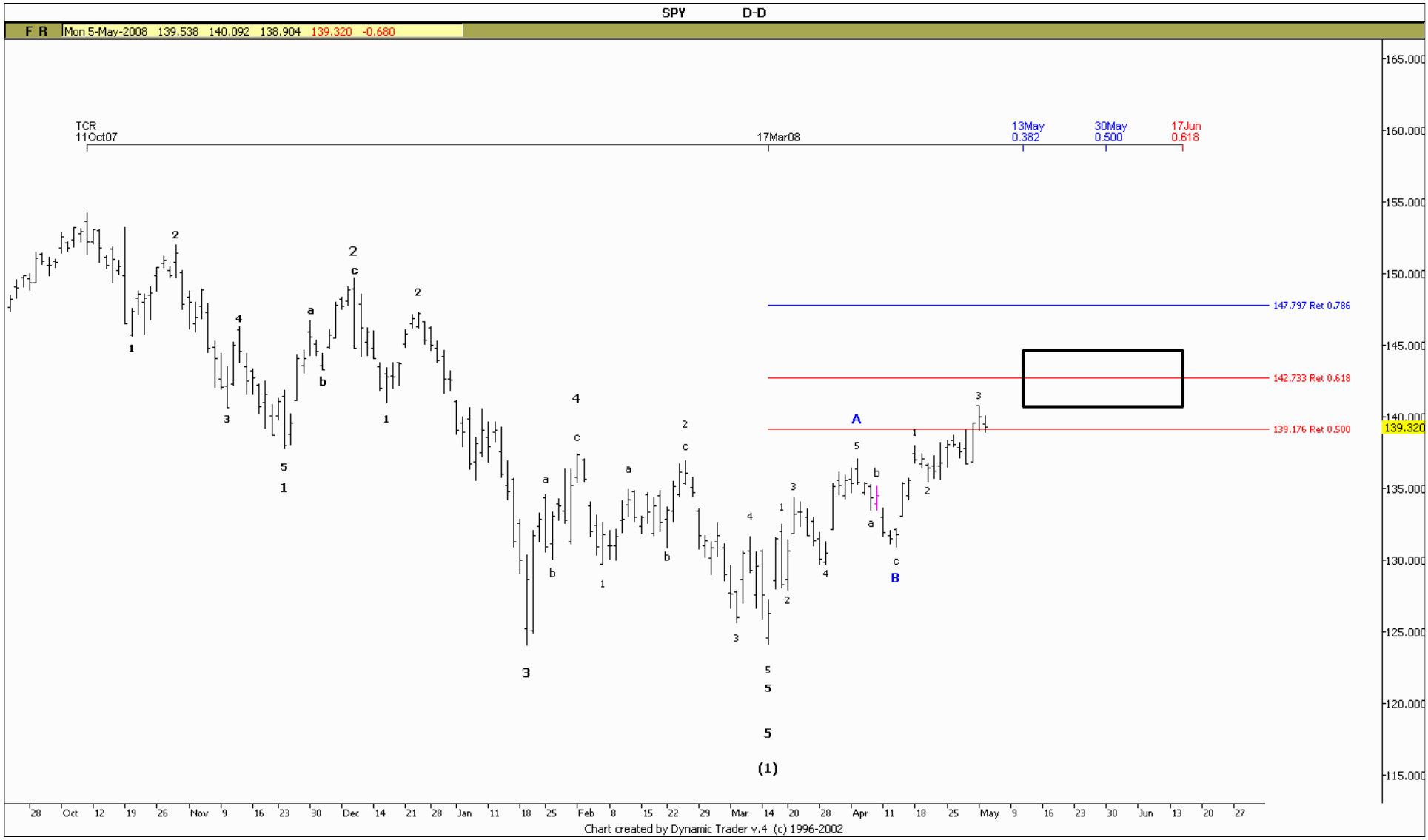
TCR
11Oct07
17Mar08
13May
0.382
30May
0.500
17Jun
0.618
147.797 Ret 0.786
142.733 Ret 0.618
139.176 Ret 0.500
165.000
160.000
155.000
150.000
145.000
140.000
135.390
130.000
125.000
120.000
115.000
28 Oct 12 19 26 Nov 9 16 23 30 Dec 14 21 28 Jan 11 18 25 Feb 8 15 22 29 Mar 14 20 28 Apr 11 18 25 May 9 16 23 30 Jun 13 20 27
Chart created by Dynamic Trader v.4 (c) 1996-2002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TCR
11Oct07
17Mar08
13May
0.382
30May
0.500
17Jun
0.618
147.797 Ret 0.786
142.733 Ret 0.618
139.176 Ret 0.500
139.320
165.000
160.000
155.000
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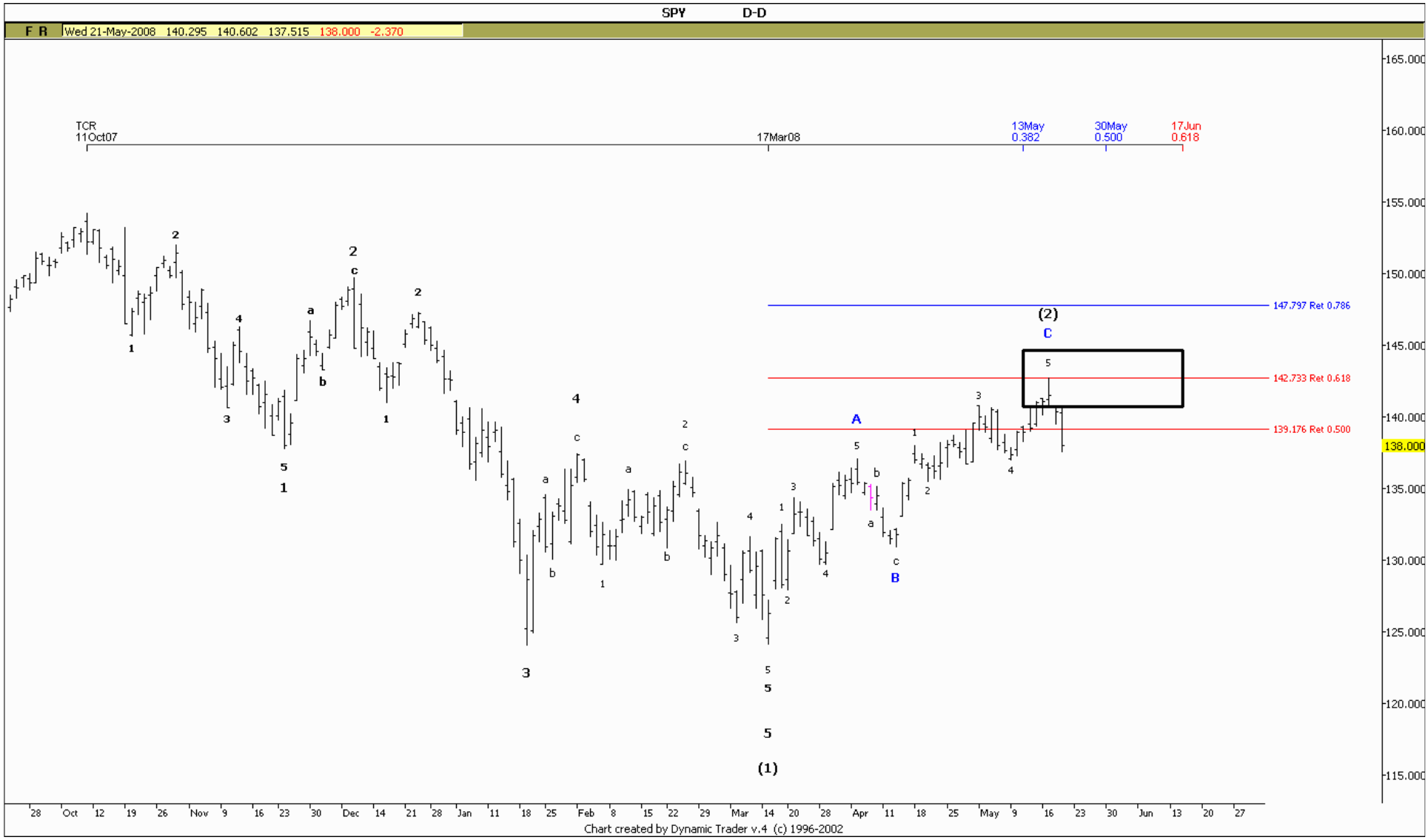
130.000
125.000
120.000
115.000
28 Oct 12 19 26 Nov 9 16 23 30 Dec 14 21 28 Jan 11 18 25 Feb 8 15 22 29 Mar 14 20 28 Apr 11 18 25 May 9 16 23 30 Jun 13 20 27
Chart created by Dynamic Trader v.4 (c) 1996-2002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TCR
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17Mar08
13May
0.382
30May
0.500
17Jun
0.618
147.797 Ret 0.786
142.733 Ret 0.618
139.176 Ret 0.500
(2)
C
A
B
(1)
165.000
160.000
155.000
150.000
145.000
140.000
138.000
135.000
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28 Oct 12 19 26 Nov 9 16 23 30 Dec 14 21 28 Jan 11 18 25 Feb 8 15 22 29 Mar 14 20 28 Apr 11 18 25 May 9 16 23 30 Jun 13 20 27
Chart created by Dynamic Trader v.4 (c) 1996-2002


SPY D-D
F R Wed 28-May-2008 137.681 138.503 136.524 137.810 0.630
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137.810
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112.614 App 1.000
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93.986 App 1.618
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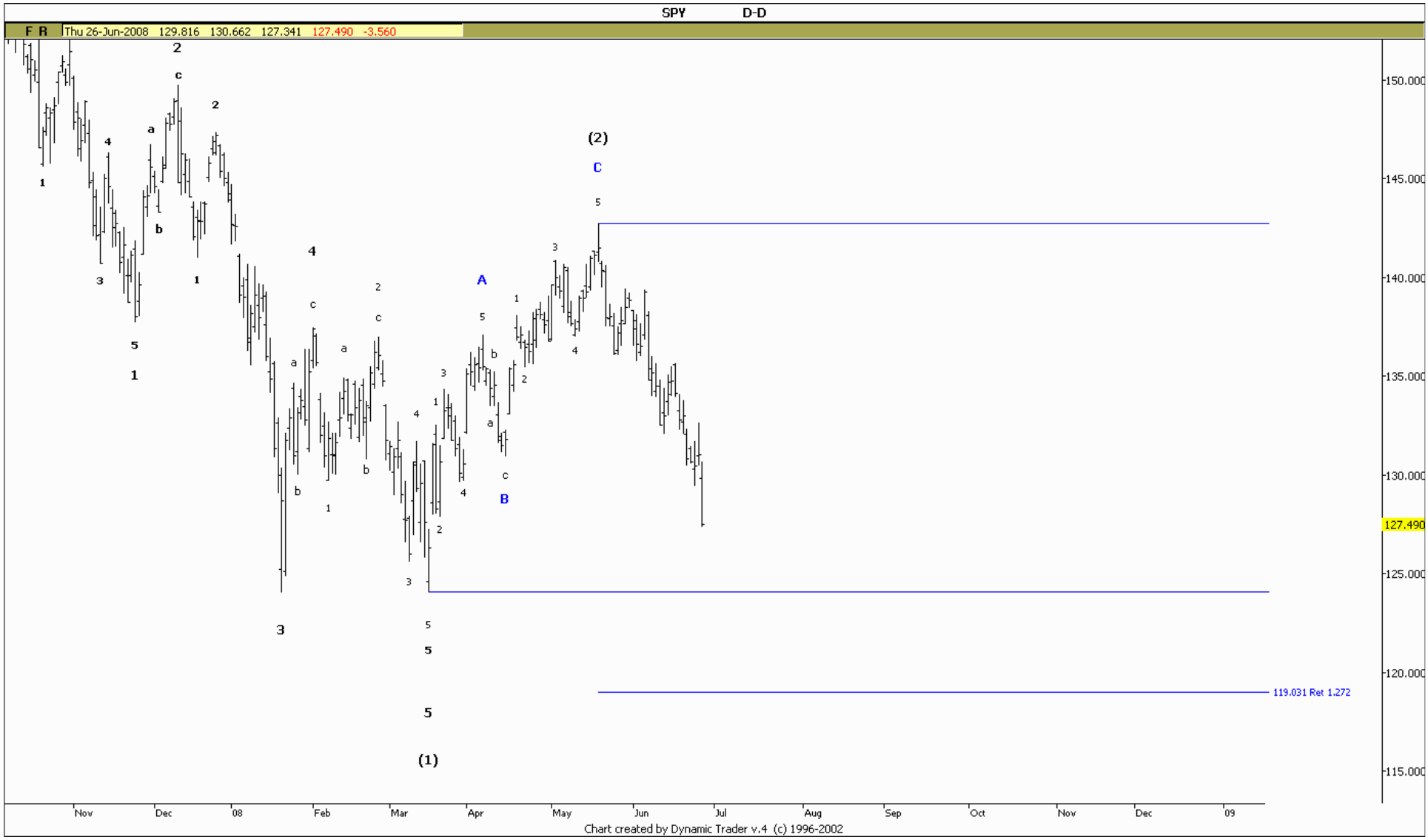
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140.000
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127.490
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119.031 Ret 1.272
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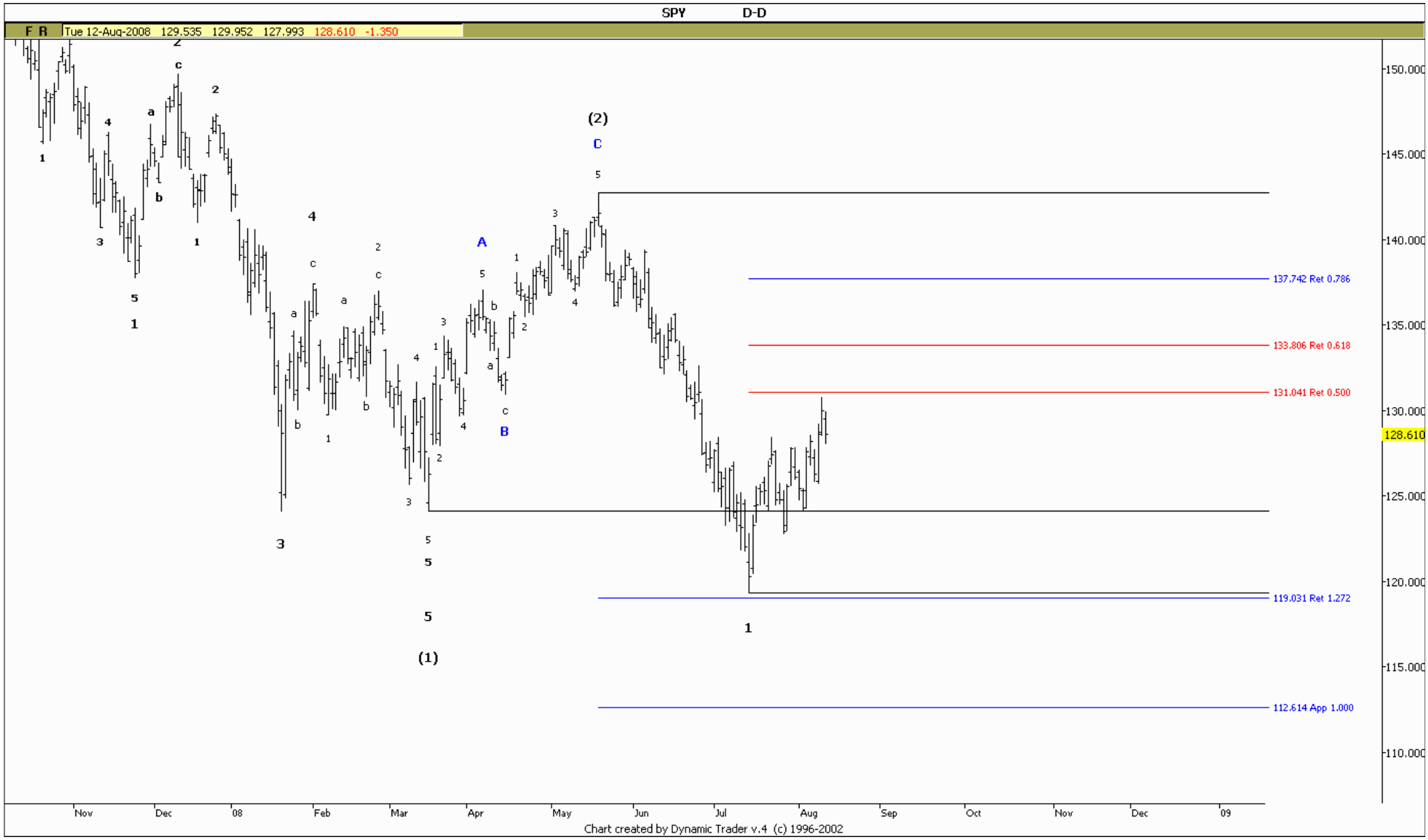
SPY D-D
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137.742 Ret 0.786
133.806 Ret 0.618
131.041 Ret 0.500
119.031 Ret 1.272
112.614 App 1.000
150.000
145.000
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135.000
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128.610
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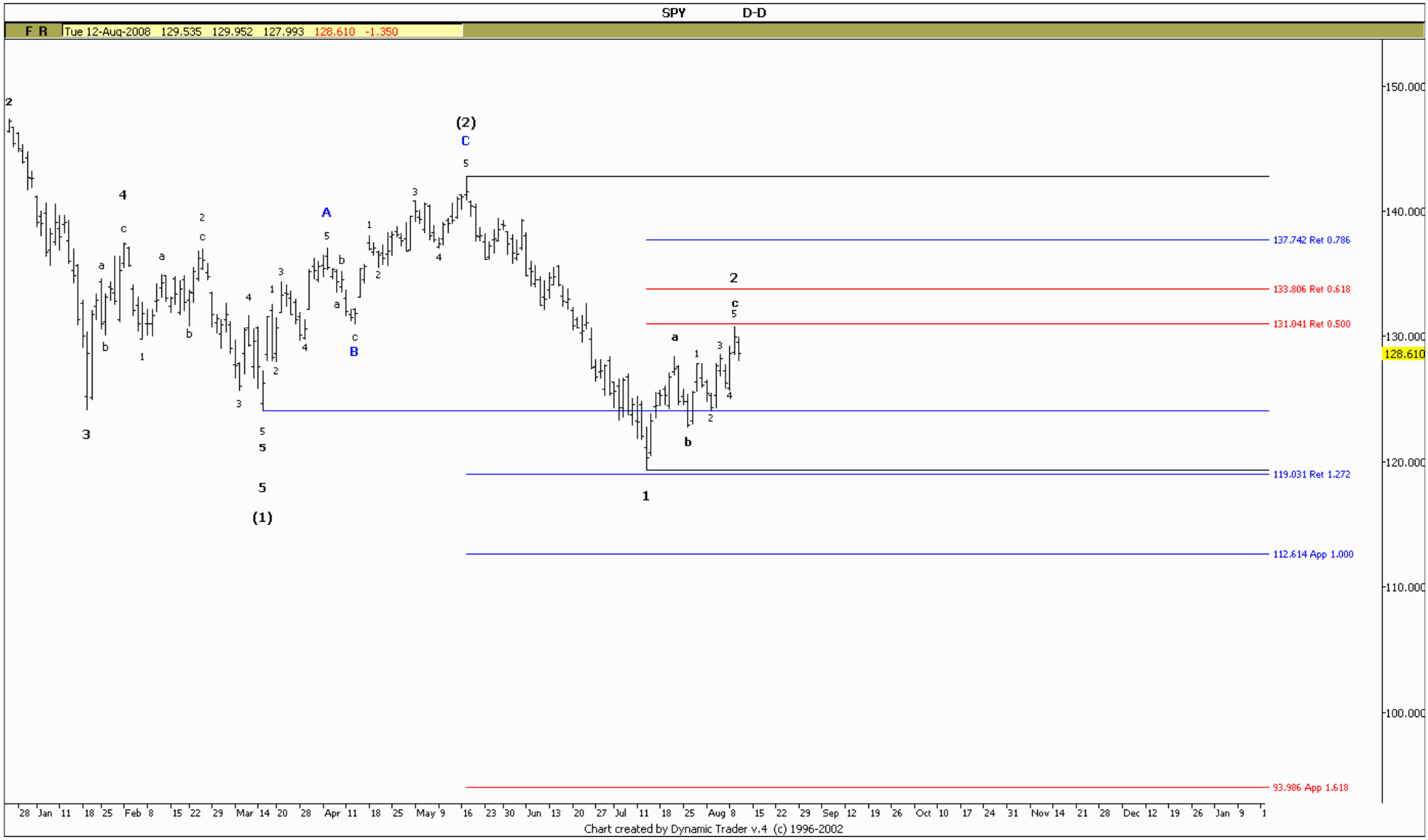
Chart created by Dynamic Trader v.4 (c) 1996-2002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F R Tue 12-Aug-2008 129.535 129.952 127.993 128.610 -1.350
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c
137.742 Ret 0.786
133.806 Ret 0.618
131.041 Ret 0.500
119.031 Ret 1.272
112.614 App 1.000
93.986 App 1.618
150.000
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128.610
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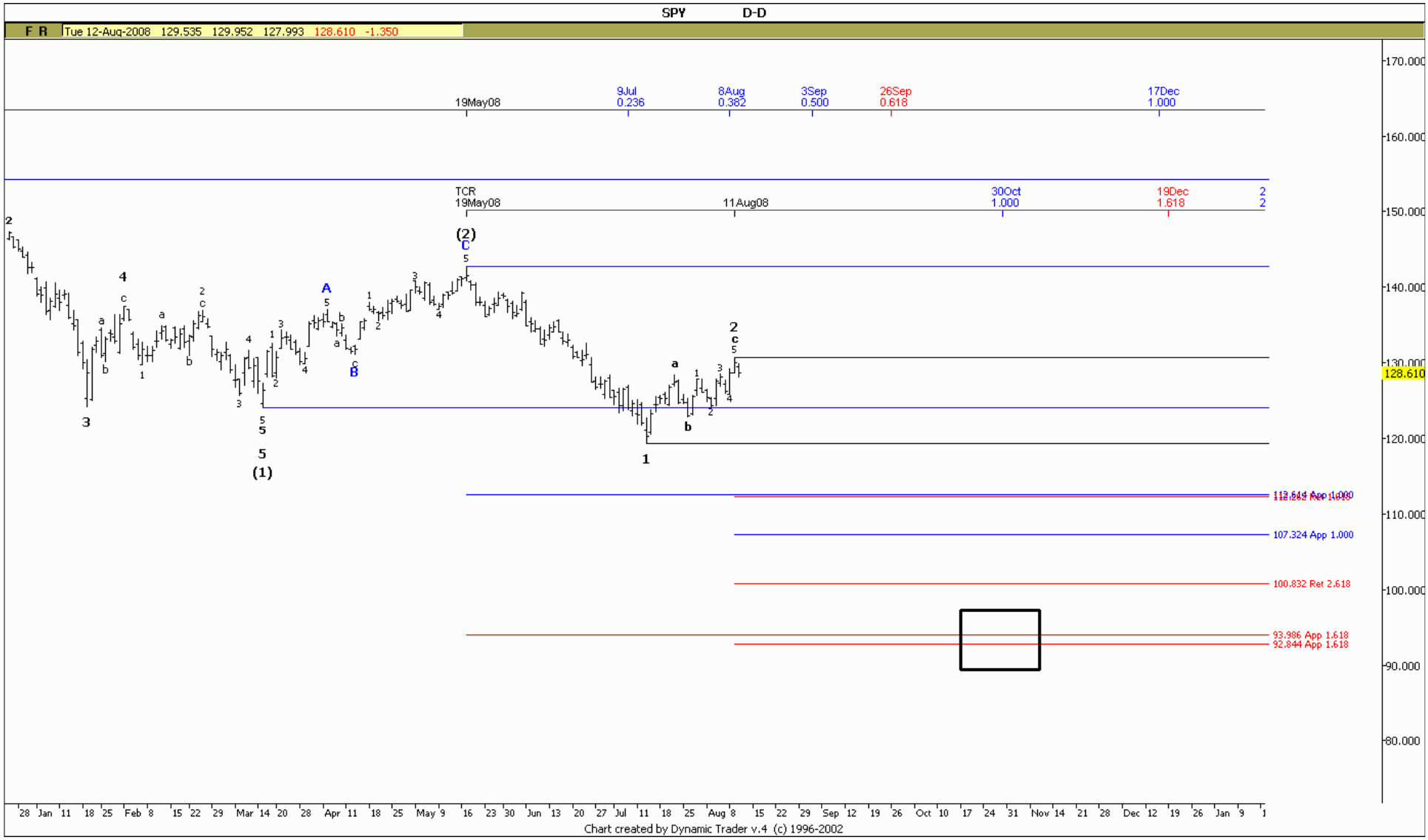
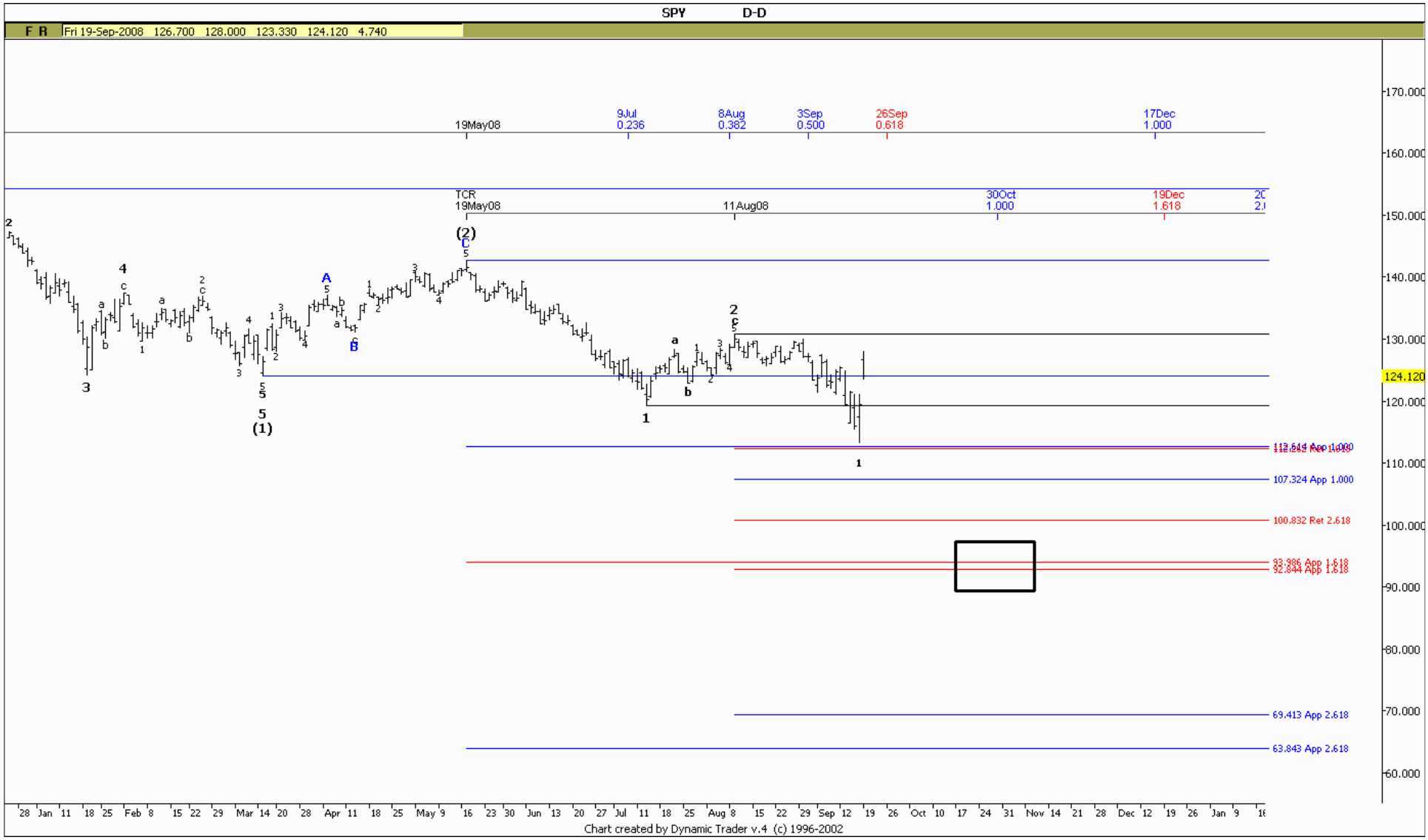
100.000
28 Jan 11 18 25 Feb 8 15 22 29 Mar 14 20 28 Apr 11 18 25 May 9 16 23 30 Jun 13 20 27 Jul 11 18 25 Aug 8 15 22 29 Sep 12 19 26 Oct 10 17 24 31 Nov 14 21 28 Dec 12 19 26 Jan 9
Chart created by Dynamic Trader v.4 (c) 1996-2002


SPY D-D
F R Tue 12-Aug-2008 129.535 129.952 127.993 128.610 -1.350
19May08
9Jul 0.236
8Aug 0.382
3Sep 0.500
26Sep 0.618
17Dec 1.000
TCR 19May08
11Aug08
30Oct 1.000
19Dec 1.618
2 2
(2)
C
A
B
(1)
107.324 App 1.000
100.832 Ret 2.618
93.986 App 1.618
92.844 App 1.618
170.000
160.000
150.000
140.000
130.000
128.610
120.000
110.000
100.000
90.000
80.000
28 Jan 11 18 25 Feb 8 15 22 29 Mar 14 20 28 Apr 11 18 25 May 9 16 23 30 Jun 13 20 27 Jul 11 18 25 Aug 8 15 22 29 Sep 12 19 26 Oct 10 17 24 31 Nov 14 21 28 Dec 12 19 26 Jan 9
Chart created by Dynamic Trader v.4 (c) 1996-2002


SPY D-D
F R Fri 19-Sep-2008 126.700 128.000 123.330 124.120 4.740
19May08
9Jul 0.236
8Aug 0.382
3Sep 0.500
26Sep 0.618
17Dec 1.000
TCR 19May08
11Aug08
30Oct 1.000
19Dec 1.618
(2)
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107.324 App 1.000
100.832 Ret 2.618
93.986 App 1.618
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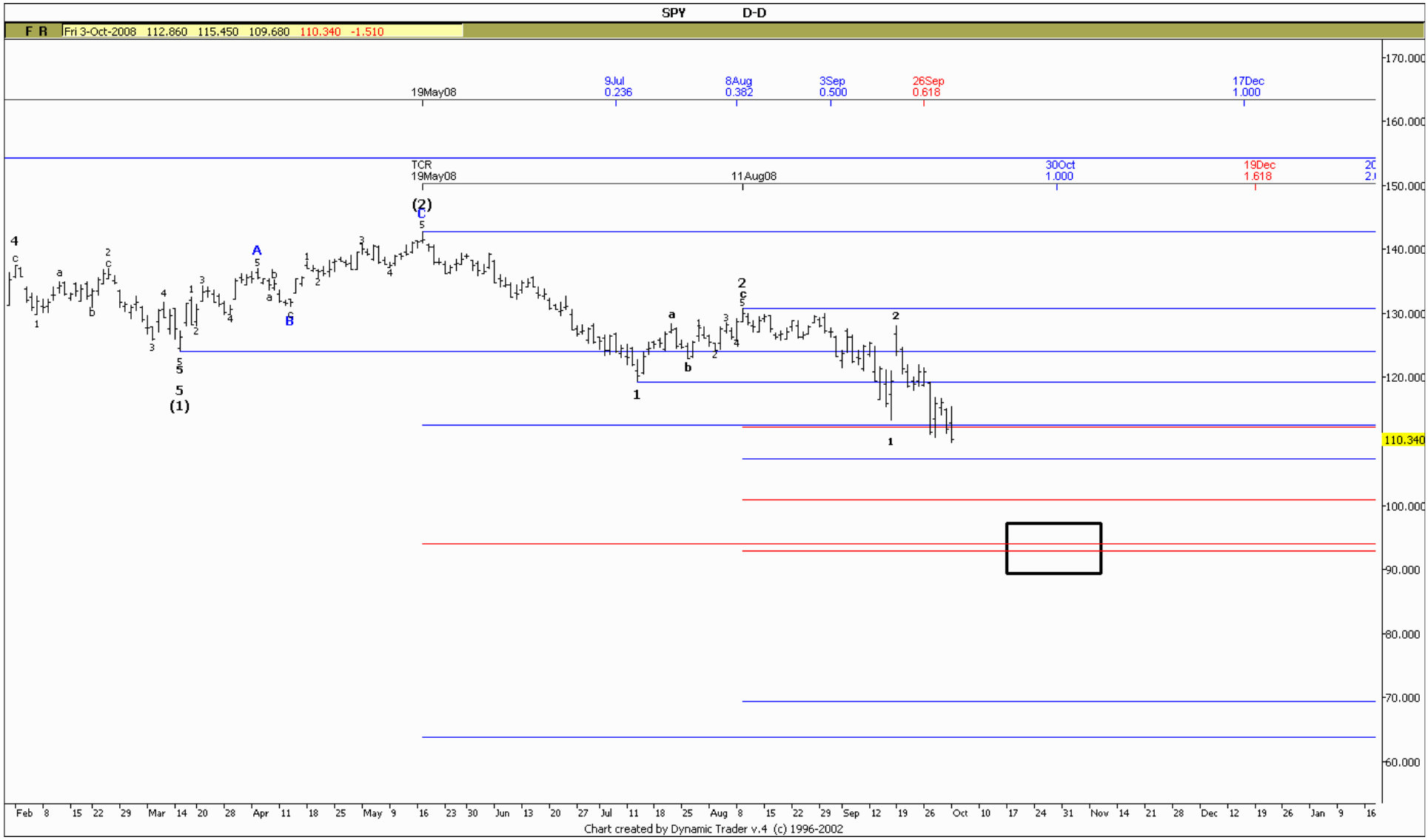
63.843 App 2.618
124.120
Chart created by Dynamic Trader v.4 (c) 1996-2002


SPY D-D
F R Fri 3-Oct-2008 112.860 115.450 109.680 110.340 -1.510
19May08
9Jul 0.236
8Aug 0.382
3Sep 0.500
26Sep 0.618
17Dec 1.000
TCR 19May08
11Aug08
30Oct 1.000
19Dec 1.618
(2)
(1)
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160.000
150.000
140.000
130.000
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110.340
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70.000
60.000
Feb 8 15 22 29 Mar 14 20 28 Apr 11 18 25 May 9 16 23 30 Jun 13 20 27 Jul 11 18 25 Aug 8 15 22 29 Sep 12 19 26 Oct 10 17 24 31 Nov 14 21 28 Dec 12 19 26 Jan 9 16
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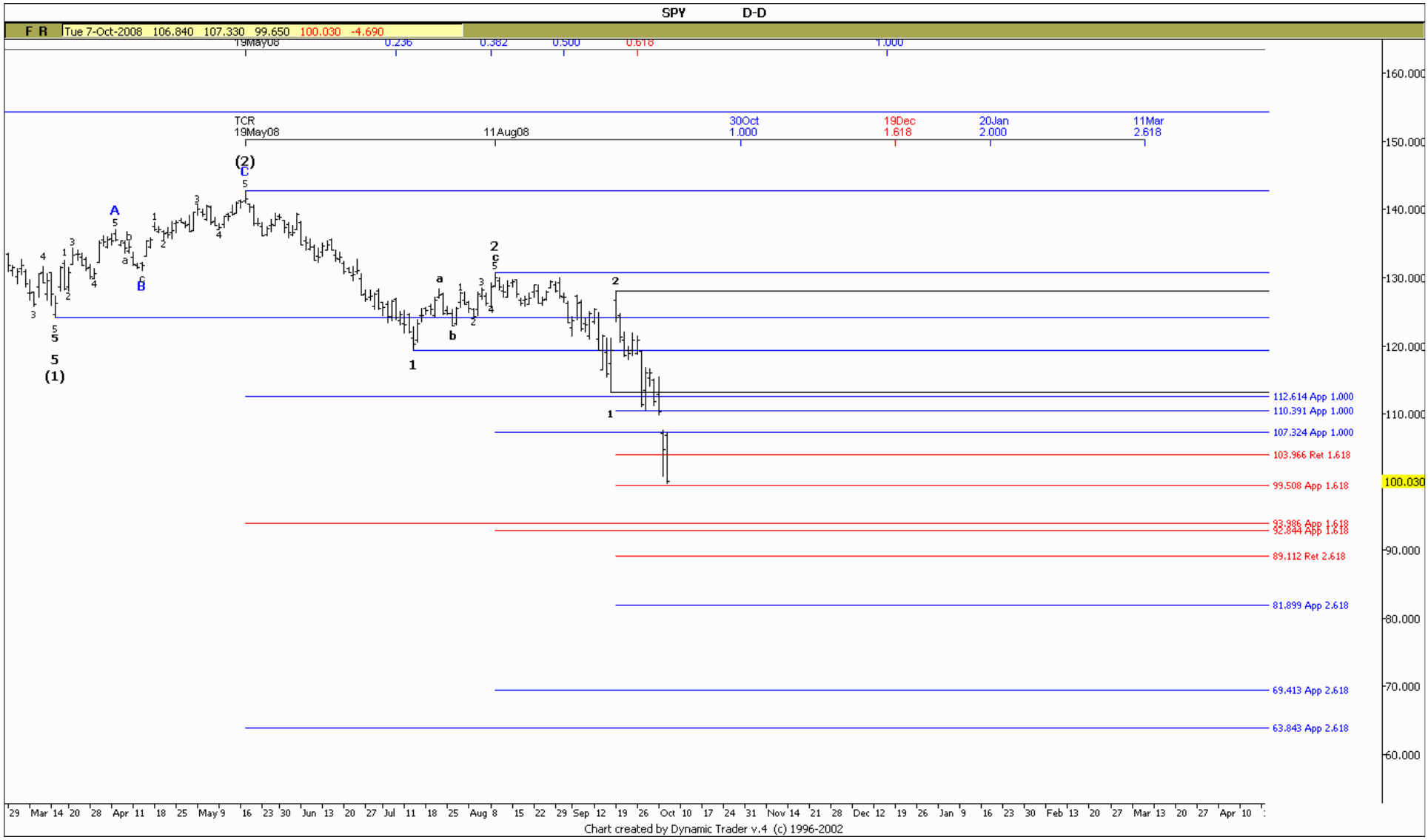
SPY D-D
F R Tue 7-Oct-2008 106.840 107.330 99.650 100.030 -4.690
19May08 0.236 0.382 0.500 0.618 1.000
TCR
19May08
11Aug08
30Oct
1.000
19Dec
1.618
20Jan
2.000
11Mar
2.618
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C
A
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112.614 App 1.000
110.391 App 1.000
107.324 App 1.000
103.966 Ret 1.618
99.508 App 1.618
89.112 Ret 2.618
81.899 App 2.618
69.413 App 2.618
63.843 App 2.618
160.000
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100.030
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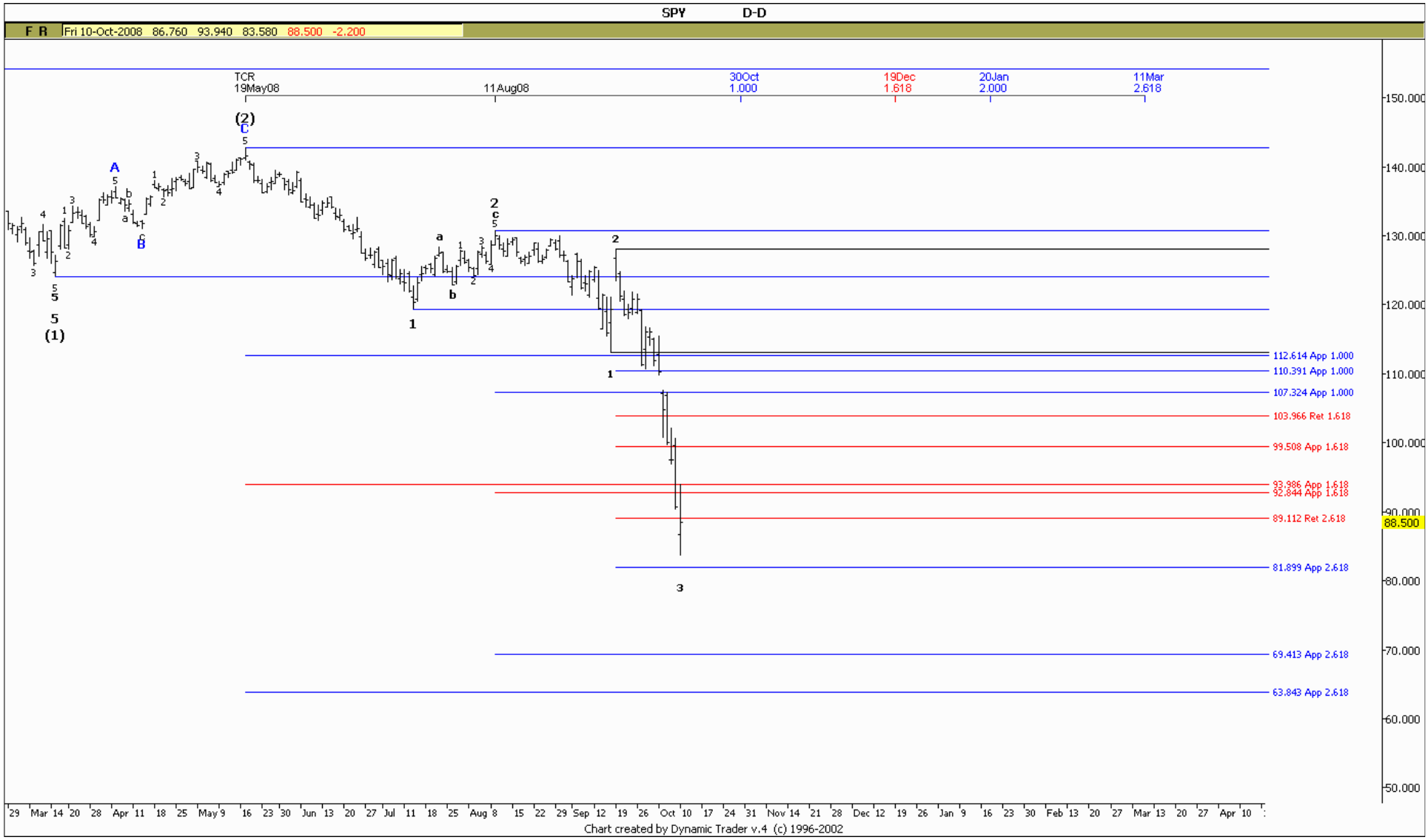
Chart created by Dynamic Trader v.4 (c) 1996-2002


SPY D-D
F R Fri 10-Oct-2008 86.760 93.940 83.580 88.500 -2.200
TCR
19May08
11Aug08
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1.000
19Dec
1.618
20Jan
2.000
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2.618
112.614 App 1.000
110.391 App 1.000
107.324 App 1.000
103.966 Ret 1.618
99.508 App 1.618
93.386 App 1.618
92.844 App 1.618
89.112 Ret 2.618
81.899 App 2.618
69.413 App 2.618
63.843 App 2.618
88.500
Chart created by Dynamic Trader v.4 (c) 1996-2002

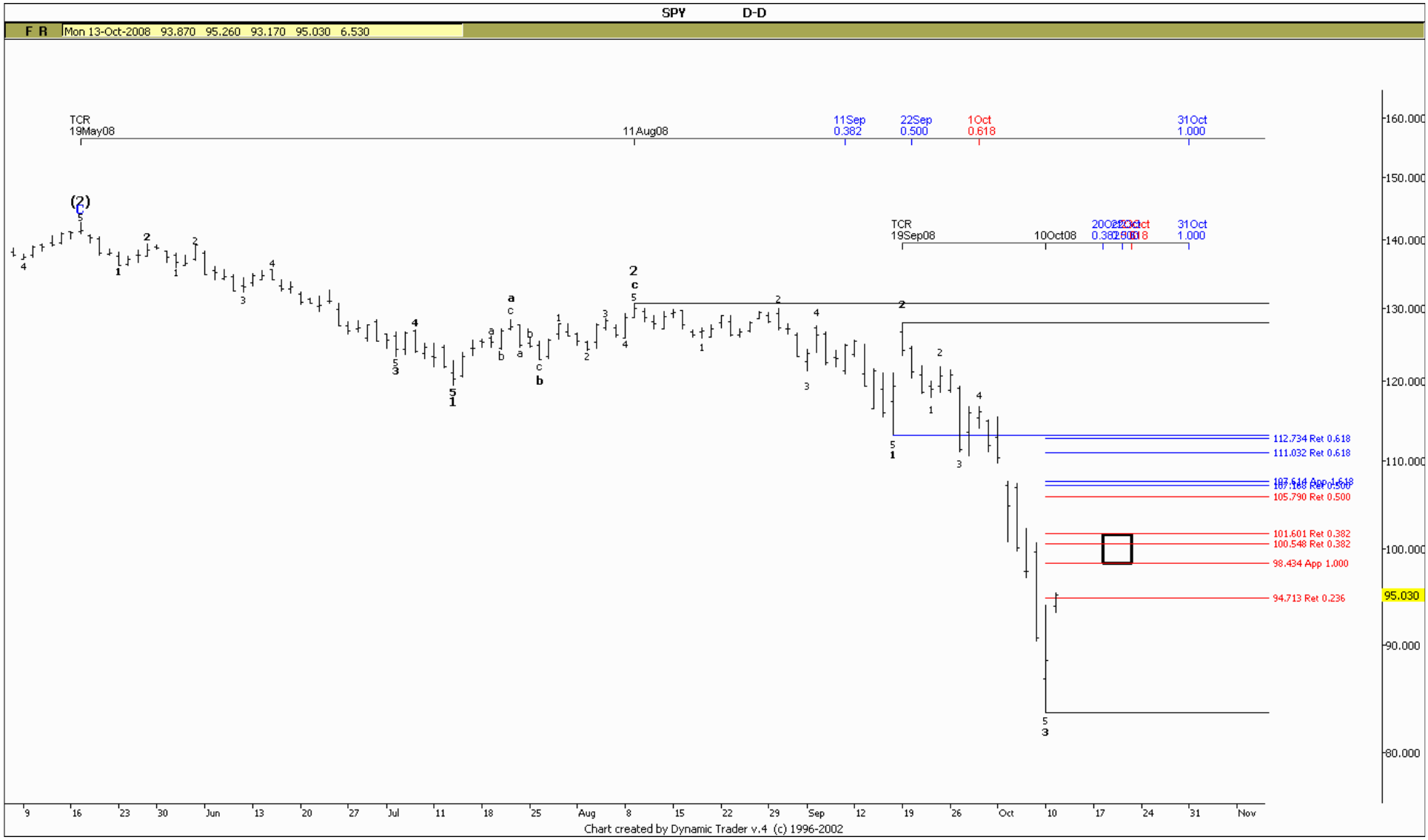
SPY D-D
F R Mon 13-Oct-2008 93.870 95.260 93.170 95.030 6.530
TCR
19May08
11Aug08
11Sep
0.382
22Sep
0.500
1Oct
0.618
31Oct
1.000
TCR
19Sep08
10Oct08
31Oct
1.000
112.734 Ret 0.618
111.032 Ret 0.618
105.790 Ret 0.500
101.601 Ret 0.382
100.548 Ret 0.382
98.434 App 1.000
94.713 Ret 0.236
160.000
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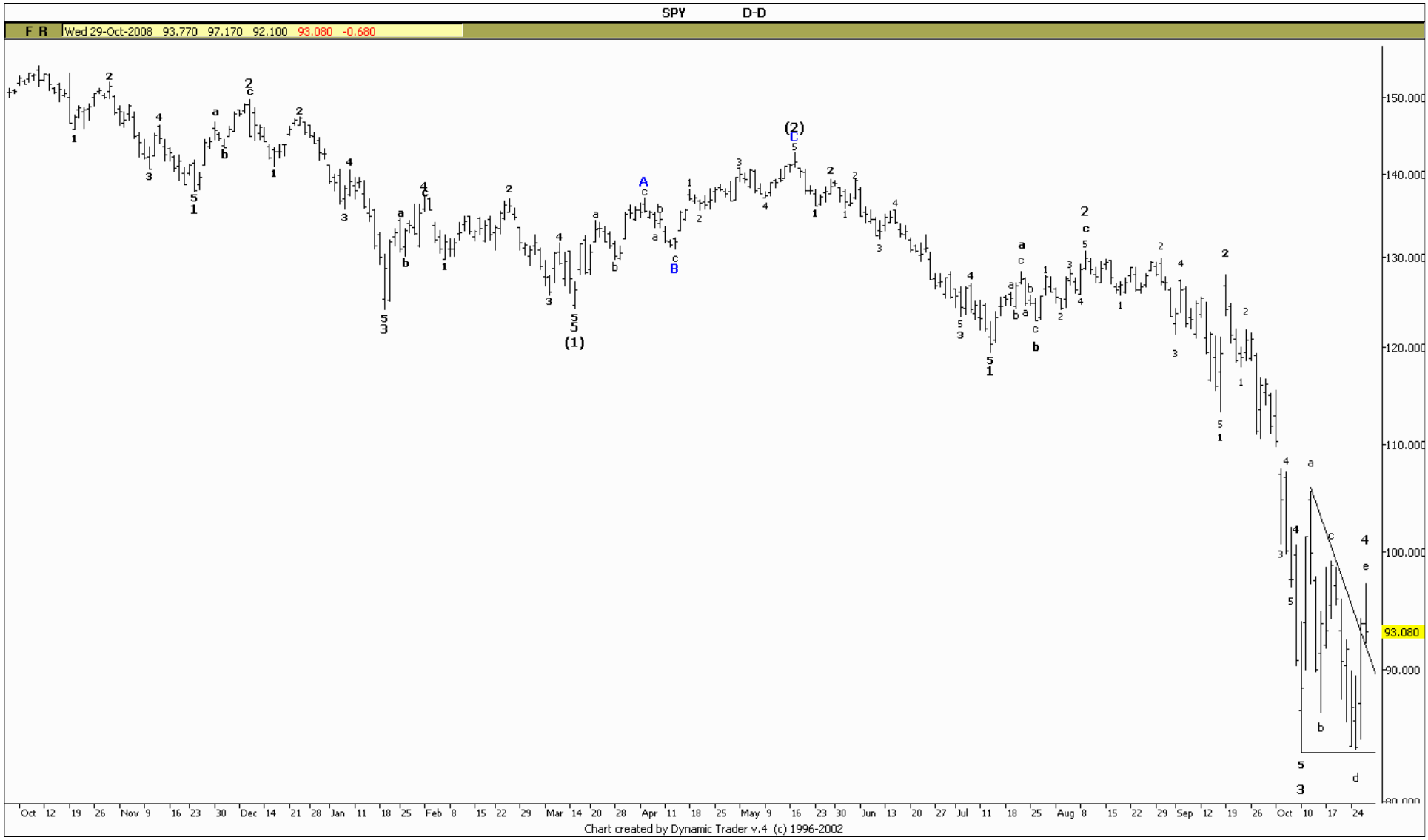
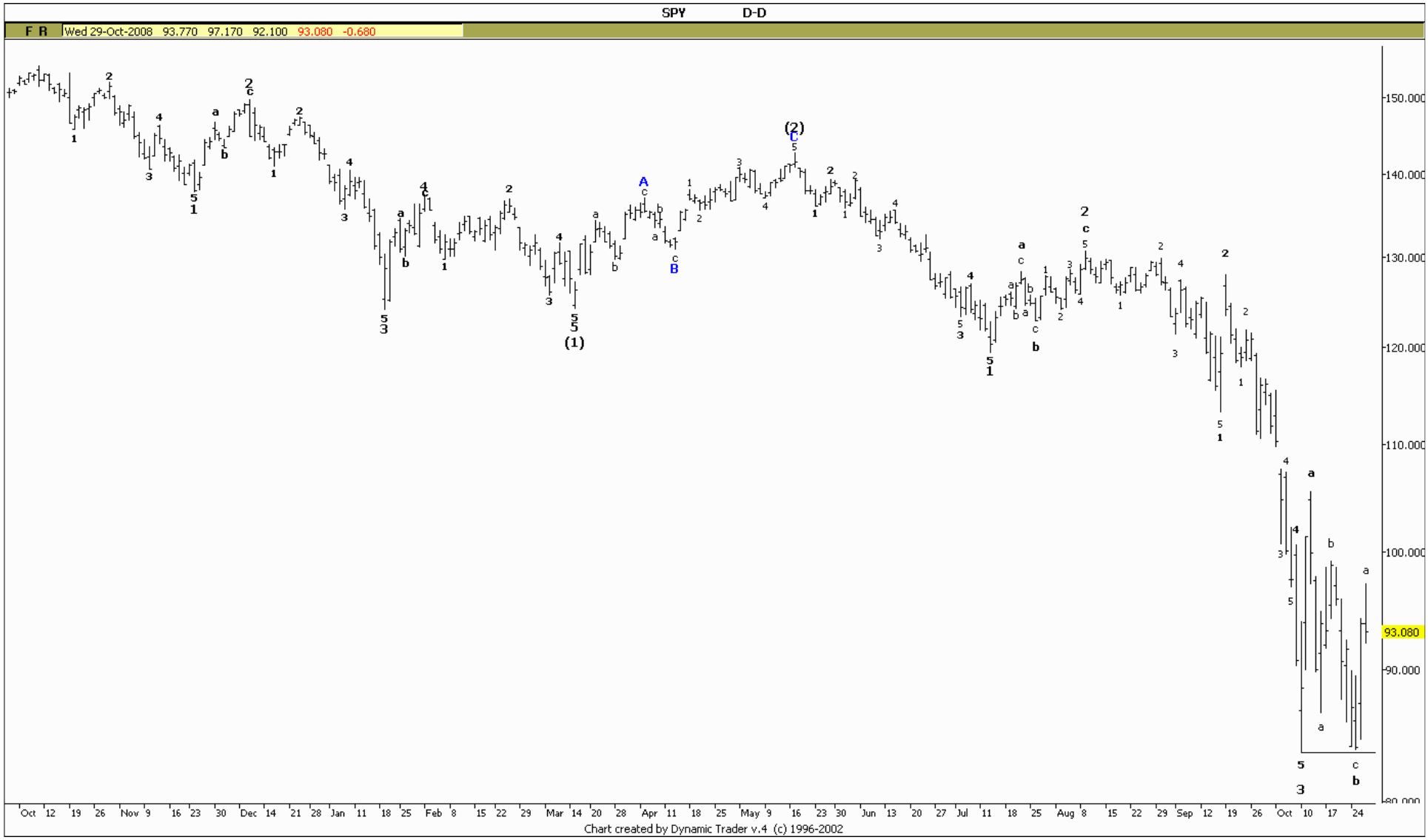
Chart created by Dynamic Trader v.4 (c) 1996-2002


SPY D-D
F R Wed 29-Oct-2008 93.770 97.170 92.100 93.080 -0.680
150.000
140.000
130.000
120.000
110.000
100.000
93.080
90.000
Oct 12 19 26 Nov 9 16 23 30 Dec 14 21 28 Jan 11 18 25 Feb 8 15 22 29 Mar 14 20 28 Apr 11 18 25 May 9 16 23 30 Jun 13 20 27 Jul 11 18 25 Aug 8 15 22 29 Sep 12 19 26 Oct 10 17 24
Chart created by Dynamic Trader v.4 (c) 1996-2002


SPY D-D
F R Wed 29-Oct-2008 93.770 97.170 92.100 93.080 -0.680
150.000
140.000
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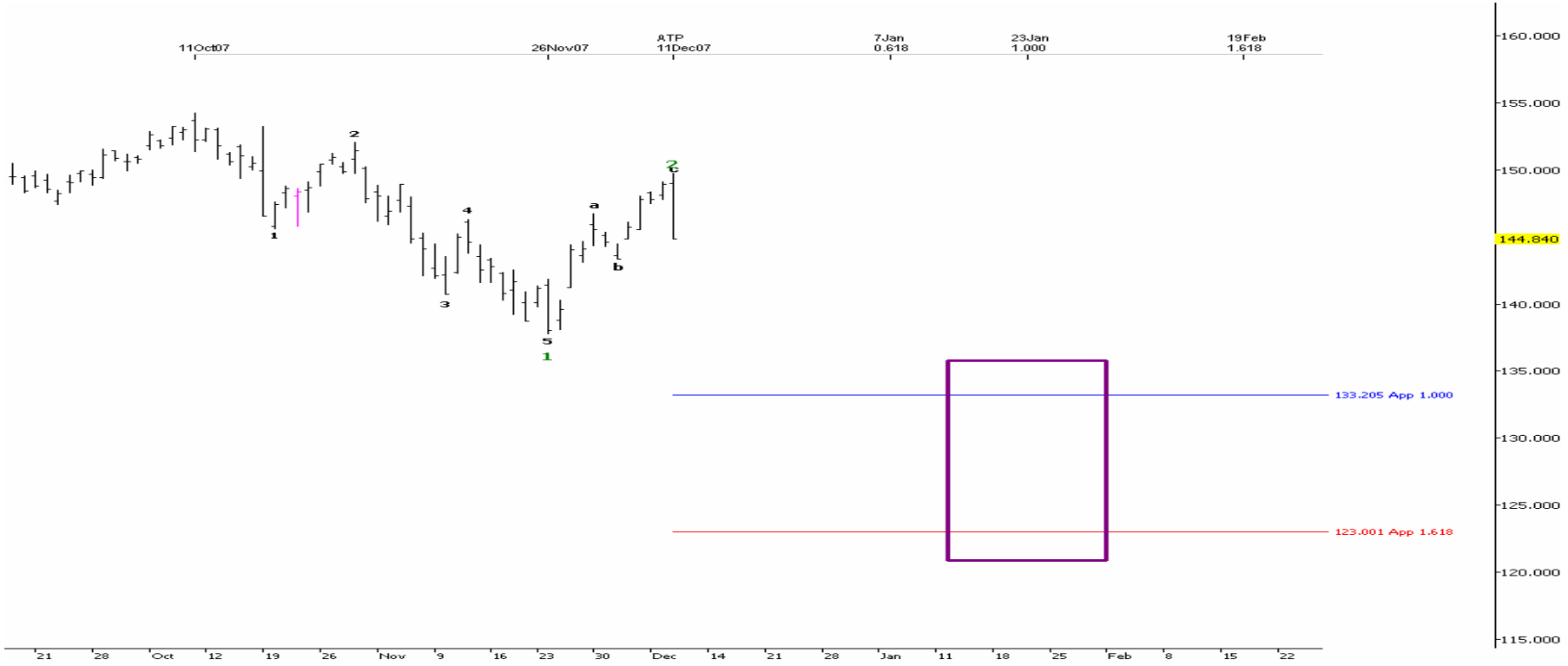
90.000
Oct 12 19 26 Nov 9 16 23 30 Dec 14 21 28 Jan 11 18 25 Feb 8 15 22 29 Mar 14 20 28 Apr 11 18 25 May 9 16 23 30 Jun 13 20 27 Jul 11 18 25 Aug 8 15 22 29 Sep 12 19 26 Oct 10 17 24
Chart created by Dynamic Trader v.4 (c) 1996-2002

Choosing the Spread



Here's our example from before. We said we are expecting approximately $123 to $133 sometime in the middle of January.

Always target the worst-case scenario: Assume the stock goes to $133.
We therefore want a bear put spread with the short put at $133. For long put, choose an ITM option with strike above stop loss. The more ITM, the better.

Choosing the Spread

So, we have established a bear put position:

SPY @ $144.84. (Dec 11, 2007). Stop @ $150

Long Put: Jan 2008 $160
Short Put: Jan 2008 $133

At VIX = 30, the following are the most likely prices:

Long Put: $16.37
Short Put: $1.44

Put Spread: $14.93

(Spread is better when extrinsic value in short option is greater than extrinsic value in long option)

If we hit stop at expiration (worst-case scenario):

Long Put: $10.00
Short Put: $0.00

Put Spread: $10.00

If we hit profit target tomorrow (again, not as good as if it happens next month):

Long Put: $27.15
Short Put: $5.13

Put Spread: $22.02

Choosing the Spread

If we hit profit target at expiration:

Long Put: $27.00
Short Put: $0.00

Put Spread: $27.00

So, if we are right, spread will be worth between $22.02 and $27.00, which, considering the original spread cost was $14.93,
represents profits of 47% and 81%.

If wrong, spread will be worth $10 and will represent a loss of 33%.

If we hit stop tomorrow (not as bad):

Long Put: $12.26
Short Put: $0.70

Put Spread: $11.56 (loss of 23%)

Risk Management

If we risk our whole account every time, eventually we'll be wrong three times in a row and lose 50% three times (thus losing 87.5% of the account). That's not good.

We solve this by only risking 3% of our account on any trade.

We said the risk in the spread was 33%.

To position size, simply divide 3% by 33%: 0.03 / 0.33 = 9.1%

Therefore, we can buy 9.1% of the account on this option spread. The rest should be held in cash. On a $100,000 account, we buy $9100 of this spread. Since the original spread price was $14.93, we buy a 6-contract spread.

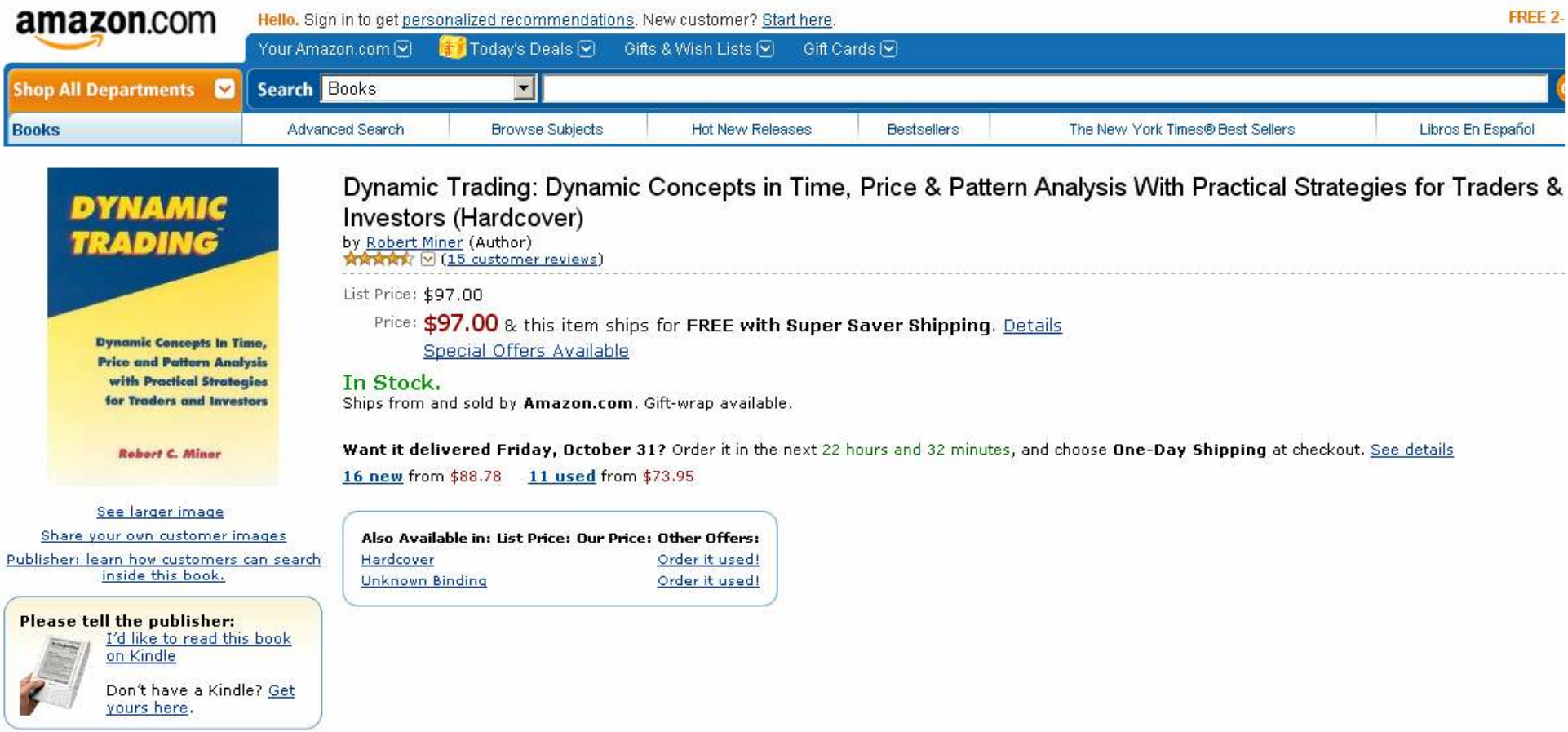
If we are right, we should get a return between 47% to 81%. We'll say 65% for sake of argument.

65% return on 9.1% of your account is 5.9%.
For intermediate-term investing, you will trade a spread around 10 times per year. (Wrong 10 times: -26%).

Special Thanks To:

Dynamic Trading, by Robert Miner

Little of anything presented today is original. I now credit my primary source
And direct you to this book for more detailed instruction if you are still interested.



ELLIOTT WAVE PRINCIPLE

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