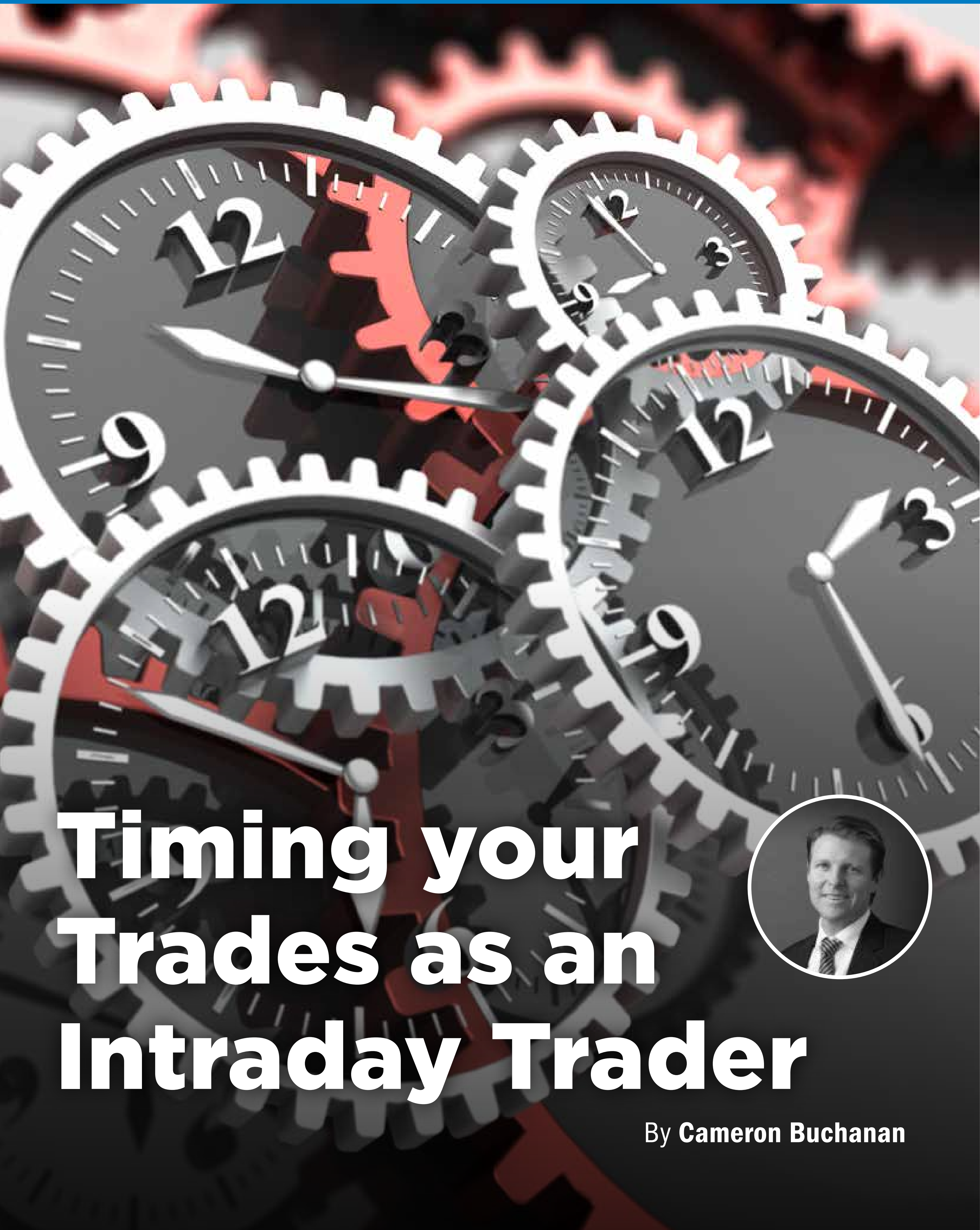
TIMING YOUR TRADES AS AN INTRADAY TRADER



Timing your Trades as an Intraday Trader

By **Cameron Buchanan**

As an intraday Futures Trader, I understand amongst many other factors and skills, the importance of precise timing of trade entries to be able to produce profitable results. To nail down the timing of my intraday trades, in this article I intend to breakdown the tools and systems I use, so you have some tools to experiment with.

Before I go into the technical part of the article, many people have never properly considered trading intraday due to misconceptions or mistruths about the high risk of markets suitable for intraday trading, and the excessive amount of analysis required which needs an enormous amount of time. Many people are put off by intraday trading, without fully understanding the goals and intentions of an intraday trader. Within intraday trading, there are many styles and approaches, however, my overall goal reflects many of the traders I meet, and that is to follow a precise set of rules with the intention of getting in and out of the market in the shortest amount of time, so as to decrease time exposure, and to most importantly make financial targets.

Intraday Traders do require specific mental skills and training to go along with their trading system or approach, however I am not going to focus on these skills today. That is another beast to tackle for another time. As stated in the previous paragraph, I want to focus on the rules one can use to fine tune your trade entries and start analysing and planning some set ups. I must say, you only need to master one market, and that market has must be a highly liquid Futures market such as the SP500, DAX, NASDAQ, Dow Jones, Gold, Crude Oil, Euro currency FX Futures or Yen FX Futures. There are many markets one can trade, however just focus on one. Many traders get distracted by thinking they need to analyse so many markets, like stock traders. One liquid and volatile market is all you need to have for the opportunity to be profitable. I will focus on the DAX Futures commonly coded as FDAX. The FDAX is worth 25 Euro a point, and it can be extremely volatile, which is an important component when deciding what market to trade. It is a fast moving market and not the one I would recommend for new traders, though it serves as an example of how to read the structure of the charts. And the system can be used on other futures markets.

So where do we begin when we start reading charts?

1. Where are we in the thought and behaviour cycle of the market:

I find Elliott Wave analysis to be a brilliant place to start. As we know, nature and human emotions drive price action, and so nature can be measured using Fibonacci mathematics in predicting the market

CHART 1.0: ELLIOTT WAVES ON FDAX WEEKLY CHART

CHART 2.0: FRACTAL FIBONACCI WAVES

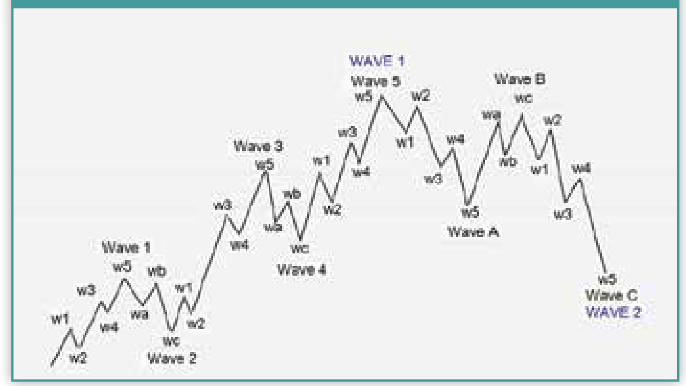


CHART 3.0: FDAX WEEKLY CHART IN CORRECTION PHASE

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movements. Applying Elliot Wave principles gives me a probability framework as to what current phase the market is in relative to a trend or a counter trend, and what is the likely future behaviour of the price action. Elliot wave unfolds in a 5 wave motive pattern and a 3 wave corrective pattern. In the motive pattern waves 1, 3 and 5 are called the impulse waves and move with the long term trend. Waves 2 and 4 are counter trends to the primary trend.

Now once this motive 5 wave cycle is complete, the market moves into the correction phase, which comprises of the 3 wave pattern that reverses the trend. It is made of Waves A, B and C. Waves A and C are now impulse waves of the corrective phase. Wave B is the corrective wave of the correction phase. Check out the diagram on Chart 1.0.

Elliott waves take place over any timeframe from minutes in a day to months/years, which is fortunate as intraday traders execute on very small timeframes like 5 minute charts. When analysing waves, we notice wave structures of smaller degree occurring within wave structures of larger degree. This is where the fractal and Fibonacci mathematics can be seen in the motive and correction cycles together. Therefore, a motive wave should have 21 fractal waves within the 5 (wave 1,2,3,4,5) larger waves and the corrective wave should have 13 fractal waves within the 3 larger (A,B,C) waves. All these fractal waves are compressing into larger waves of Fibonacci proportion.

See Chart 2.0. Now this theory is archetypal in principle but like all nature, it is never perfect. However this fractal wave theory can provide a repeatable and organic pattern to the market structure, and this is important to traders because we look for repeatable patterns to form. Not only do these patterns give us possible entry and exit points, most importantly knowing what wave we are in can give us an idea of the likely market behaviour we are about to endure. Therefore Impulse waves can offer fast trending, cleaner and larger price moves, while Corrective waves can be mostly choppy, grinding and shorter moves. I find this very important to know, because we can place limits around where price will likely go. This is very important for the entire trade planning process, because we need to know whether a trade target is worthy of setting. I prefer trading with the impulse waves, especially wave 3. The phase does not matter. I will trade a correction pattern through only wave A or C.

2. Top Down Approach:

Traders have many types of charts available to them, though I prefer to do my analysis from the larger degree and then down to the smaller degree where the executions are made. Therefore, I analyse first to last: Monthly, Weekly, Daily, 4 hour, 1 Hour, 15 Minute and 5 Minute. I start by understanding what phase and wave the market is in on the larger scale, so the monthly and weekly is easier to determine. Then within that phase/ wave what phase/wave are we in on daily, and repeat this process drilling down the degree of chart. Identifying the waves on the smaller degrees are very confusing at first, so my number one piece of advice is, if you can't see the waves in 60 seconds; stop and move up a degree. Our goal in doing this is to find the likely direction of the trend, and figure out whether the market is moving with the primary trend or the counter trend.

CHART 4.0: FDAX DAILY CHART 1

CHART 5.0: FDAX DAILY CHART 2

CHART 6.0: FDAX 4 HOUR CHART

Practical Analysis: FDAX

a. Weekly Chart (Largest Degree) is in a Correction Phase and it is impulse mode on Wave C. I remain bearish in the medium term, because price is finding resistance at the 25% of Wave A, as seen by the extension tool. See Chart 3.0.

b. Daily Chart- We can start to drill into the pattern and find important levels of support and resistance. Daily chart has completed a full cycle within Wave A and B as shown by Chart 4.0 and we can see Wave C starting to form and continuing the weekly trend down.

Key resistance levels we need to see hold are the 25% extension down at around 12720, and the 61.8% at 12770. Refer to Chart 5.0. I believe Wave 3 is commencing and when it impulses, it will move very quickly. Interesting to also note- Wave 1 took 28 candles, while wave 2 has taken 14 candles, and turned down at the 61.8% of Wave 1. Therefore, time and price is also mathematically in harmony. On the day of analysing these charts, the daily candle retested the key resistance levels and failed to close over them displaying a fairly bearish looking candle as the market closed at its midpoint of the day.

c. 4 Hour Chart/ 1 Hour Chart (Medium Degree): Looks like we are starting wave 3 or market is still in wave 1 of a new down trend in the short and medium term.

d. 5 or 15 Minute Chart (Smaller Degree): It is time to pinpoint a location to execute the entry with the highest probability opportunity being conscious of when trading with the primary trend and impulse wave direction. Now the primary trend is down, so for us to profit from this trade, I am ideally looking to go short, which means I sell futures contracts with the intention to buy them back at a lower price. If you look at Chart 7.0, the 5 minute chart shows the best place to enter the sell trade.

We call this the 'Resistance Zone'. Between these price levels are major resistance price levels. When we see the market failing to go back above these price levels, we have more evidence that the market is likely to impulse down. Ideally we want to enter the trade in the wave 3 of the chart we are trading. If you look at Chart 7.1 we have sub-waves within waves. We have sub-wave III within Wave 1, and sub-wave III within Wave 3. In hindsight, we can see that once sub-wave III broke the bottom of sub-wave I, the market broke down quickly and offered a potential profit in a very short time. Each trade offered at least a 1:1 risk to reward ratio, and a 500 Euro profit in under 45 minutes. I fine tune the timing of the entry with more rules with the risk tolerance being the most important factor when dialling in the entry.

Review: In summary, Elliott Wave Theory and a wave counting system offers traders a roadmap as to where price is currently situated and where it is likely to go. It provides a framework for answering the question, "Who is in command of the market"? With the use of Geometric retracement levels like Fibonacci retracements and price extension levels, we can map out the highly probable support and resistance levels. From these price levels we can find the best places in the market to trade from, and ultimately have more winning and diligently timed trades. Happy Trading!

Disclaimer:

The information in this article is general information only. When providing this information your personal objectives, financial situation or needs have not been taken into consideration. Accordingly, you should consider how appropriate the advice (if any) is, before acting

CHART 7.0: FDAX 5 MIN CHART

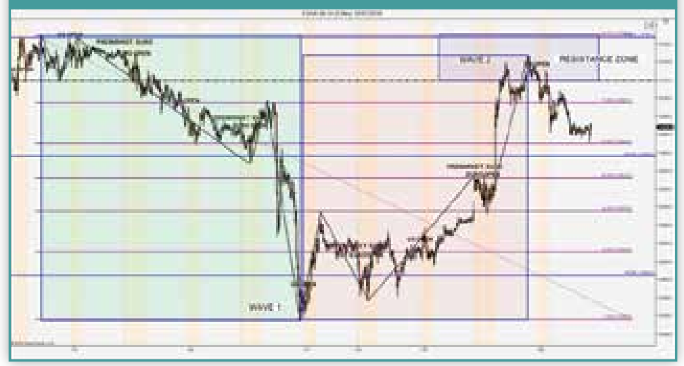

CHART 7.1: FDAX 5 MIN CHART

on the advice. Past performance is not a reliable indicator of future performance and does not guarantee profitability when investing. The International Day Trading Academy (ACN 165 005 550) is a Corporate Authorized Representative (CAR Number 001250922) of Beyond Capital Asset Management P/L (ACN 610 259 179) (AFSL 484045) for the purpose of FUTURES Trading Education. For further information please refer to our FSG at www.idta.com.au. To hear more from Cameron, refer to the insert in this magazine, or go to the International Day Trading Academy website info@idta.com.au

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