Pre-Open Preparation of
Dax Trading

Even if the operational side of the intraday trading mostly uses the 15- and 60-min charts (very rarely a 5-min time frame) we will start the technical analysis pre-open preparation with the longer time frames (monthly, weekly and daily charts). Then, we will continue our approach working our way toward the shorter time frames, such as 240-min, 60-min and 15-min charts. The 5-min chart is usually used for pinpointing the entries and the exits.

A trading report would not be complete without taking the elements of the inter-market analysis into consideration. We will use different tools under the banner of the Integrated Pitchfork Analysis: Dr. Andrews' pitchfork, Action & Reaction Line set-up, basic knowledge of Elliott waves, Floor pivots and Fibonacci ratios, to study the longer time frames of the S&P 500 Cash index in parallel with those of the Dax Cash index. The shorter time frames of these indices will be closely followed as the intraday market is evolving throughout the day. The trader will be surprised not only by the revealed symbiosis, but also by the impact of the trading tips that can make the difference between "to be or not to be" of a consistent trader.

1. Long Time Frames - Cash Index Charts

As we all know, trading the Dax Futures implies the use of futures charts rather than those of Dax Cash index. However, we are also aware that the duration of the Dax Futures contracts is just a couple of months. For instance, the December 2006 Dax contract started in April 2006, and will expire at the end of December 2006. In order to be as precise as possible in our research work, we need to study the contextual Dax behaviour through the continuing fluctuation charts on the longer time frames. Thus, we will analyse only the monthly and the weekly charts of the Dax Cash index ($DAXI symbol in e-Signal charting). Our inter-market analysis study will be done exactly in the same manner by analysing the S&P 500 Cash index's longer time frames.

1.1 Analysis of the Dax Cash Index Charts – A Prolific Edge for the Intraday Trader

The analysis of the market behaviour always starts with the monthly chart, even if most of the traders are not aware of this great advantage. The consistent trader is relentless in the search of a dominant trend of the futures charts, not only through the use of the monthly and weekly Dax Cash index charts but also through those of S&P 500 Cash index charts. Once the dominant trend is identified, we will verify its behaviour and compliance on the shorter time frames, but at that time on the 240-, 60- and 15-min Futures charts.

1.1.1 $DAXI Monthly Chart

A careful observation of the chart in Figure 1 will reveal the global context of this financial instrument, from its inception (January 1984) until today. The market has positively evolved in two manners:

- Firstly, in a crawling attitude that lasted 12 years, until the end of 1995,
- and secondly, in a vivacious and vehement move with a steep slope of about 60°, mirroring the euphoric manner of technology stocks. It lasted more than 4 years culminating in March 2000.

The occurrence of an almost perfect reversal bar that took the shape of a Gravestone doji informed the traders that the golden age

F1) Dax Cash Index – Monthly Chart

The Dax Cash index monthly chart shows the contextual market, enclosing the local market. We do not have to do anything but exercise the wise principle of Lee Lacocca, the retired General Motors chairman: Think globally and act locally!

Source: www.esignal.com

F2) Up-Sloping Local Market

Dr. Andrews' pitchfork faithfully describes the up-sloping local market of the monthly Cash index chart. One can obviously observe the attraction of the market price by one of the median lines, the lower median line in this case.

Source: www.esignal.com

was over and that a cruel correction would ensue. Three years later (March 2003) the retracement of the impulsive pattern ended, and a new up-sloping trend emerged. The upward momentum is still in motion today, with its classic swings and counter-swings. The polymorph pullbacks are scattered all over the place. Dr. Andrews' pitchfork generously shows the up-sloping dominant trend of the local market (rightmost side of the chart), which is still valid after 42 months of industrious efforts. In spite of this seemingly long period of months, we dared to call the market a local type because it hardly covers 15% of more than 22 years (273 months, to be exact) of the entire market activity. It also means that this local zone has the most current price of the ongoing market.

We tried to focus even closer on the chart in Figure 2. Dr. Andrews' pitchfork has faithfully delineated the up-sloping market flow, which is cruising along the channel formed by the lower median line and warning line n°1. The last four bars have found a strong support on the trigger line of the pitchfork. This represents a strong signal of up-trend continuation, emphasised by the presence of the two Dragonfly doji

F3) Dax Cash Index – Weekly Chart

The dominant trend on this weekly chart holds the same direction as that of the monthly chart. In spite of the steep angle, the last swing (Wave 5) of this impulsive pattern will probably terminate as soon as the top of the previous alternate wave (W3) will be reached. Its final target is greatly influenced by the magnet-like attraction power of the median line of the up-sloping pitchfork.

Source: www.esignal.com

F4) Dr. Andrews' Pitchfork

The local market is optimally described by Dr Andrews' pitchfork on this enlarged weekly chart. We can observe that the up-sloping trend can take one of the two pathways (trajectory 1 or 2) in order to terminate the last wave (W5) of the up-sloping 1-2-3-4-5 impulsive pattern.

Source: www.esignal.com

F5) S&P 500 Cash Index – Monthly Chart

The above monthly chart of the S&P 500 Cash index is almost identical with that of the monthly chart of Dax Cash index (refer to Figure 1): the overall context, the slopes of the three main swings, and the local market, which is trying harder to reach again the highest high of March 2000 market levels.

Source: www.esignal.com

reversal bars, which are in this case extremely bullish. They also announce the end of the present pullback, and the up-trend continuation. The Fibonacci retracement tool indicates the presence of a two-level cluster around the 7,231 key zone.

In summary, the dominant monthly trend is presently up-sloping. We maintain the 7,231 key level as the principal target, once the market flow has exceeded the 78.6% level of the prior pattern correction (6,863 level).

In case of an up-sloping failure (exhaustion of the current momentum), the downwards crossing of the trigger line represents a strong signal for a low-risk high-probability short trade with a good entry point just behind it.

1.1.1 $DAXI Weekly Chart

Now, we will study the impact of the weekly time frame on our intraday trading decisions. First of all, the covered period of this chart will be smaller - four years instead of twenty-two years (refer to Figure 3). The target (or targets) will be closer to the trading zone, but not so close yet.

Having enlarged the right side of the chart in Figure 3, we can better observe the most current movements of the local market (refer to the chart in Figure 4). The most current five-wave up-sloping pattern was initiated at the 5,244 level and the first impulsive swing was quickly corrected. An alternate impulsive wave (wave 3 of wave 5 – w3:W5) has taken birth at the 5,365 level being directed straightforward to the multiple upper resistances. We have drawn two possible trajectories (Figure 4):

- The first (n° 1), which follows the steep slope of the already existing wave 3 (w3:W5),
- The second (n° 2) having a leaner slope, which probably will be attracted, like a magnet, to the three confluences created by the intersections of Andrews' pitchfork median line and the horizontal resistances at the 6,162, 6,224 and/or 6,337 levels. We believe that this trajectory choice has the best probability.

In summary for the weekly chart, the dominant weekly trend remains in the same direction as that of the monthly chart. Even if we prefer the trajectory choice involving the three confluences, the final targets of the ongoing five impulsive wave pattern will be the same: 6,162, 6,224 or/and 6,337. If the market price will turn its back on the median line without trespassing it and then dramatically drops, it will certainly signal an up-sloping failure (exhaustion of the current momentum).

Once again, the downwards crossing of the trigger line will represent a strong signal for a low-risk high-probability short trade, with a good entry right behind it.

F6) S&P 500 Cash Index – Weekly Chart

This weekly chart of S&P 500 Cash index corroborates the dominant up-sloping trend of the same time frame chart of Dax Cash index (refer to Figures 3 and 4). We can say that both are upwards oriented with almost the same 30° slope.

Source: www.esignal.com

F7) S&P 500 Cash Index – Daily Chart

This daily chart of this S&P 500 Cash index presents even better the dominant up-sloping chart of the bigger time frames. We will see later in the article that the daily chart of the Dax Futures (refer to Figure 8) has not only the same direction but also the same trend slope.

Source: www.esignal.com

F8) Dax Futures – Daily Chart

The pre-market vigilant observation of this Dax Futures daily chart will reveal the intermediate-term trend, in all its splendour. The direction and the slope match those of the bigger time frames of the Dax Cash index charts. The dominant up-sloping trend still remains the same.

Source: www.esignal.com

1.2 S&P 500 Cash Index Charts

An Inter-Market Analysis Tool for the Dax Intraday Trader. By observing the chart in Figure 5, the trader will wonder what kind of interrelations can exist between two separate domestic markets located thousands of miles away across the Atlantic Ocean. The origin of commodities, especially raw industrial materials, is one of the factors that will greatly influence not only a country's domestic currency, but also its economy. Thus, we will often find hidden relationships among world economies, very often revealed by their stock market charts. Let us study the presumed relationships between S&P 500 Cash index and Dax Cash index through their monthly and weekly charts.

It is important here to understand that the weekly, monthly and daily dominant up-sloping trend of the S&P 500 Cash index remains in the same direction on these time frames. Moreover, we mentioned that they faithfully corroborate the current behaviour of the Dax Index.

2. Smaller Time Frames - Dax Futures Charts

Once we have evaluated the charts of the Dax and S&P 500 Cash indices, we can proceed and study the futures charts of the shorter time frames. We will quickly observe the utility of their intricacy, which will shorten the way to consistent trading.

2.1 Dax Futures Daily Chart

We can clearly state that the daily Futures chart is one of the most important time frames in the process of preparing the incoming day for the intraday trading strategy. Its characteristics have the advantage of being closer to the current market flow, thus best influencing the intraday trading.

Dr. Andrews' pitchfork shows on the chart in Figure 8, that the local market has climbed all the way up to the level of the upper median line. The last green bar, called a spinning top, shows a reversal rather than a trend continuation in spite of its up-sloping indicating colour. Thus, we are expecting a retracement of the current up-sloping impulsive wave (wave 3). Even if we consider the median line of the pitchfork as our dedicated target, because of its magnet-like power, we still have drawn above it two ascending minor trend lines that will probably act as pullbacks or at best as immediate targets.

A careful observation of the last swing will reveal its exhaustion due to the presence of the following:

- A continuous five days up-sloping move containing higher highs journeys, taking up an entire week,
- Three weak and narrow bars willing to terminate the most current swing,
- Last bar is a candlestick textbook example:
- A spinning bar (an excellent reversal signal), especially when it is located at the end of a trend,
- Its upper tail is twice as big as the lower tail, telling us that the bulls have already lost the game.

The reversal confirmation comes also from the RSI behaviour. In spite of its sharp upwards slope, the median line of the pitchfork (drawn within the indicator's zone) suddenly halted its progression. A reversal is imminent.

2.2 Dax Futures 240-min Chart

The 240-min chart is the indispensable magnifying glass, which allows us to extend the validities of the daily chart into the intraday arena. Despite the fact that this time frame is mostly used in currency Futures, we warmly recommend it also for Dax Futures intraday trading.

Dr. Andrews' Reverse Pitchfork Technique may seem peculiar on the chart in Figure 9, but for us it is nothing more than a very efficient tool that will very often reveal the imminent reversal of an ongoing trend. The double dojis situated right beneath the median line of the reverse pitchfork after a long up-sloping trajectory really announces the end of the up-trend dominance. If you are familiar with the

F9) How High is High?

The Reverse Pitchfork Technique fully reveals the high probability of a reversal. Very little known, this technique has the advantage to guide the trader through the unknown labyrinth of a reversal. It is one of those closely guarded secrets that can assist the trader to dramatically increase his/her confidence when the following question arises: How high is high?

Source: www.esignal.com

F10) Contextual Scene

The contextual scene in this chart is obvious. The broadening formation reveals the upper limits of the market flow and at the same time, halts the up-sloping trend. It seems that for a moment the market price apogee has been reached.

Source: www.esignal.com

Fibonacci Count Technique, you will notice that the last swing, finishing with a double doji, has exactly 21 bars. This Fibonacci number highly predicts a trend reversal. This reversal choice is strongly emphasised by the existence of a negative divergence between the market price and the OSC(5.35). The last, but not least, argument would be the 6,004 key level, which is a several layer cluster: daily floor pivot (R1), monthly and weekly resistance. One can imagine how strong its resistance would be at any penetration attempts. As a valuable decision factor, we should retain that the breaking of the lower border of the ascending channel will signal the beginning of the correction of the prior impulsive pattern.

We can then predict, with high probability, that a reversal will ensue in the absence of overnight positive news.

2.3 Dax Futures Operational Time Frames

We have finally arrived to describe the operational time frames. Our battling grounds in intraday trading offer a more accurate set-up of a bigger time frame's buying or selling pressure.

2.3.1 60-min Time Frame Chart

We like to keep the length of this chart equal to the length of the current trend and also have a partial visual capture of the prior trend, preferably the last half or third portion. It should not go back more than 10 days. Even if the memory of the trading participants sometimes can be amazing, most of the time only 5 to 10 days back suffice.

The chart illustrated in Figure 10 reveals the high probability of an imminent reversal. Some authors may even sustain that the market price has almost reached the 14.6% Fibonacci ratio. This element was not obvious on the upper time frame charts. Let us focus on the local market (refer to Figure 11) and describe this in more detail.

The advantage of the Action & Reaction Line setup (refer to Figure 11) is that it can replace the pitchfork when construction of the pitchfork is not possible. A close observation will indicate that the last impulsive wave (W5) has tested the centre line of this setup at least three times, and finally decided to reverse. For the moment, it looks like the reversal has begun, but is being held right on the reaction line n° 1. So far, the borderline between a pullback and a retracement is not clear. We can better define this situation only if the correction exceeds the 23.6%. Normal values for a pullback seldom exceed the 14.6% Fibonacci ratio values. In spite of this mitigated situation, we are inclined to plead for an immediate reversal. The drawn divergence on the OSC (5.35) is certainly there for a reason.

So we can conclude from the 60-min charts that in the absence of strong positive news the morning market flow will drop all the way down to the 5,940 cluster zone. We can take a short trade, right at the opening, with an optimal stop-loss (not more than 5 points), having a reward/risk ratio superior to three.

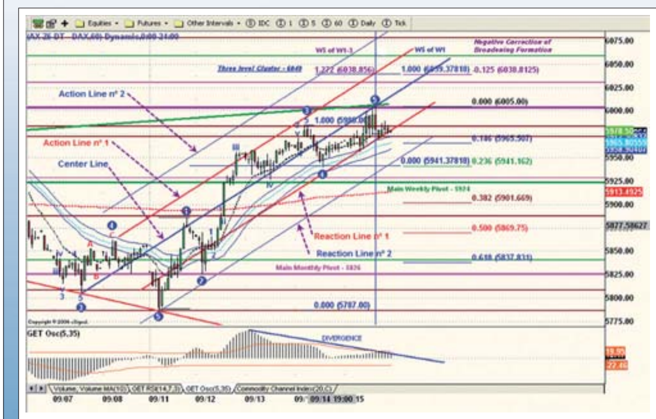
2.3.2 15-min Time Frame Chart

This type of time frame seems to be more adaptable to the volatile behaviour of Dax. However, it implies a tighter and a more disciplined approach of money and risk management.

We can clearly see on the 15-min chart (refer to Figure 12) several parameters that will plead in favour of a reversal. Moreover, we may say that the reversing movement has already begun:

- The ascending trend line has been broken by the down-sloping market flow (down bars),
- The very strong support 5,980 key level, representing the main daily floor pivot has been broken also, and the breaking bar has just closed beneath it,
- The correction of the prior impulsive pattern, ending with the fifth wave, has begun, since we are now in the alternate swing of the first down-sloping corrective swing, right after the termination of wave 5,
- The pitchfork drawn on the RSI shows a very steep down-sloping orientation. The indicator has just been blocked by the upper 150% Fibonacci Line, thus continuing its down move.

F11) Action & Reaction Line Method



For this precise situation, we switched from the Pitchfork Technique to the Action & Reaction Line method because of its efficiency in the process of revealing the most probable timing of a reversal.

Source: www.esignal.com

F12) Dax Futures – 15-Minutes Chart

This 15-min chart has the great merit here to expose the local market flow in all its splendour. The use of the classic pitchfork reveals that the reversal has already begun, and that the very strong support materialised by the main daily pivot has been trespassed.

Source: www.esignal.com

From the 15-min chart, we see that the opening market will be downward oriented in the absence of strong positive news. The immediate down targets will be 5,955, 5,940 – a very strong support – and finally 5,930. The latter support level could be exceeded, but there is a very high probability that the main weekly floor pivot at 5,924 level will temporarily block the market flow.

General Conclusions

In our highly competitive trading environment, the intraday trader needs to be a perpetual student of the market and learn new techniques as often as he/she can, or at least to try to optimise the existing ones if they already proved prolific and especially consistent.

The use of inter-market analysis and of multiple time frames has already proved for many traders as real enviable edges in the trenches of everyday trading. We firmly believe that the Integrated Pitchfork Analysis is one of the tools that is the most reliable and consistent. It harmoniously respects and obeys the following four principles:

- Getting the inexhaustible edge of learning and cruising with the "smart money" people,
- A ubiquitous usefulness in trending and sideways markets,
- A time-price ethereal space obeying evolvement, as close as possible to the reality of trading,
- And finally, an ergonomic and profitable intricacy with risk control and money management.

As most experienced traders know, the pre-open preparation will guarantee, in a way, the outcome of the day. A better preparation will ensure the optimal choices of low-risk high-probability trades. All this with one condition - to have the most adequate and efficient trading tools to your kind of market, adaptable to your personality traits.

Dr. Mircea Dologa

Dr. Mircea Dologa, a 20 years market veteran, is a Commodity Trading Advisor (CTA) who founded a new teaching and mentoring concept for young and experienced traders at *www.pitchforktrader.com.* He can be contacted for any questions at *mircdologa@yahoo.com.*