

CHAPTER 11

Type One and Type Two Trades

The foundation of the eSignal program is focused on the Elliott Type One and Type Two trades. The Type One trade is a Trend Following Trade. It is based on entering the market at the end of Wave 4, and taking profits at the end of Wave 5. In the Type Two trade, the market is entered at the end of Wave 5, with the initial target for profits being at the same price level as the previous Wave 4. In the pages that follow, the rules for the Type One and Type Two trades are introduced, followed by examples of each trade.

In a Type One trade, the attempt is made to enter the market at the end of Wave 4. Depending on the direction of the current 5-Wave sequence, the market can be entered in either a Long or Short position. The Type One trade is defined as a **Trend Following** trade, or **Continuation** trade.

The Type Two trade is a **Counter** or **Contra Trend** trade. It goes against the current market direction. Type Two trades are entered at the end of a Wave 5. We then assume a change in trend after the market has reached a price objective.

Rules for Type One Trades

The Type 1 Trade is used for entering at the end of a Wave 4 Retracement. The Type 1 Trade is a Trend-Following Trade, or Continuation Trade.



Figure 11-1: Type One Trade

1. Wait for the Oscillator to pull back to zero.
2. Make sure the PTI is above 35.
3. Make sure the Wave 4 Channels are holding.
4. When the market breaks the Regression Trend Channels or the DMA, buy the market for a Wave 5 rally.

Rules for Type Two Trades

The Type 2 Trade is used for going against the trend at the end of a Wave 5 rally or decline. The Type 2 Trade is an Contra Trend, or Counter Trend Trade.

1. When the Wave 5 makes new highs, make sure the Elliott Oscillator shows divergence between the Wave 3 peak and the Wave 5 peak.
2. When five waves are complete, the market changes trend. Wait for the price to cross the Regression Trend Channel.
3. When prices cross the Regression Trend Channel, enter the market.

The initial target is the previous Wave 4.



Figure 11-2: Type Two Trade

Type One Buy—Daily



1. The market is in an Elliott Wave 4 pullback.
2. The Elliott Oscillator has retraced to zero.
3. PTI is > 35 .
4. The market is holding above the red Wave 4 Channel.

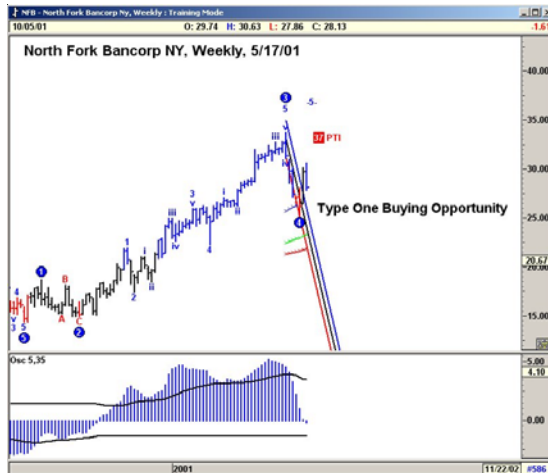
Buy at the cross of the Regression Trend Channels.

Figure 11-3: Bisys Group Inc., Daily



Figure 11-4: Bisys Group Inc., Daily

Type One Buy—Weekly



1. The market is in an Elliott Wave 4 pullback.
2. The Elliott Oscillator has retraced to zero.
3. PTI is > 35 .
4. The market is holding above the red Wave 4 Channel.

Buy at the cross of the Regression Trend Channels.

Figure 11-5a: North Fork Bancorp NY, Weekly

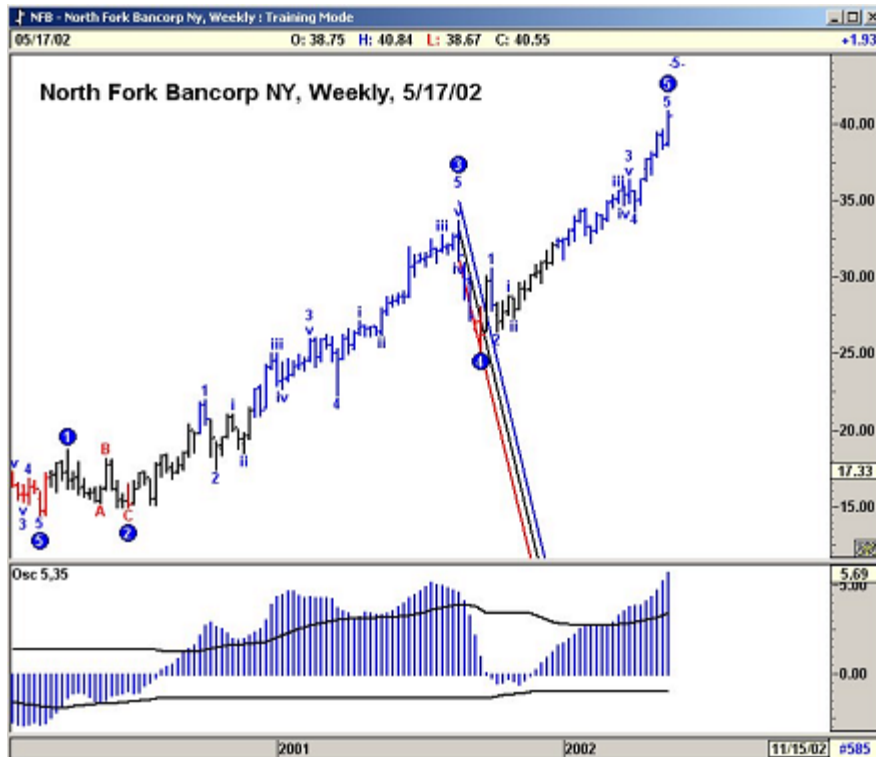


Figure 11-5b: North Fork Bancorp NY, Weekly

Type One Sell—Weekly



1. The market is in an Elliott Wave 4 pullback.
2. The Elliott Oscillator has pulled back to zero.
3. The PTI is > 35.
4. The market is holding below the **green** Wave 4 Channel.

Apply a trigger and short this market.

Figure 11-6: AT&T, Weekly



Figure 11-7: AT&T, Weekly

Type One Sell—Daily



1. The market has moved into a Wave 4 retracement.
2. The Elliott Oscillator has pulled back to zero.
3. PTI is >35 .
4. The market is holding below the Wave 4 Channels.

Everything looks good to short this market when it crosses below the Regression Trend Channels.

Figure 11-8: Intermune Inc., Daily



Figure 11-9: Intermune Inc., Daily

Type Two Buy—Daily



1. This market is in a Wave 5 Down, and has made new lows.
2. The Elliott Oscillator is showing good divergence.
3. The market just crossed above the Regression Trend Channels.

Everything looks good to buy this market.

Figure 11-10: Intermune Inc., Daily



Figure 11-11: Intermune Inc., Daily

Type Two Buy—Daily



1. The market has made new lows with a Wave 5 Down.
2. The Elliott Oscillator is showing good divergence.

Buy this market at the cross of the Regression Trend Channels.

Figure 11-12: Soybeans, Daily

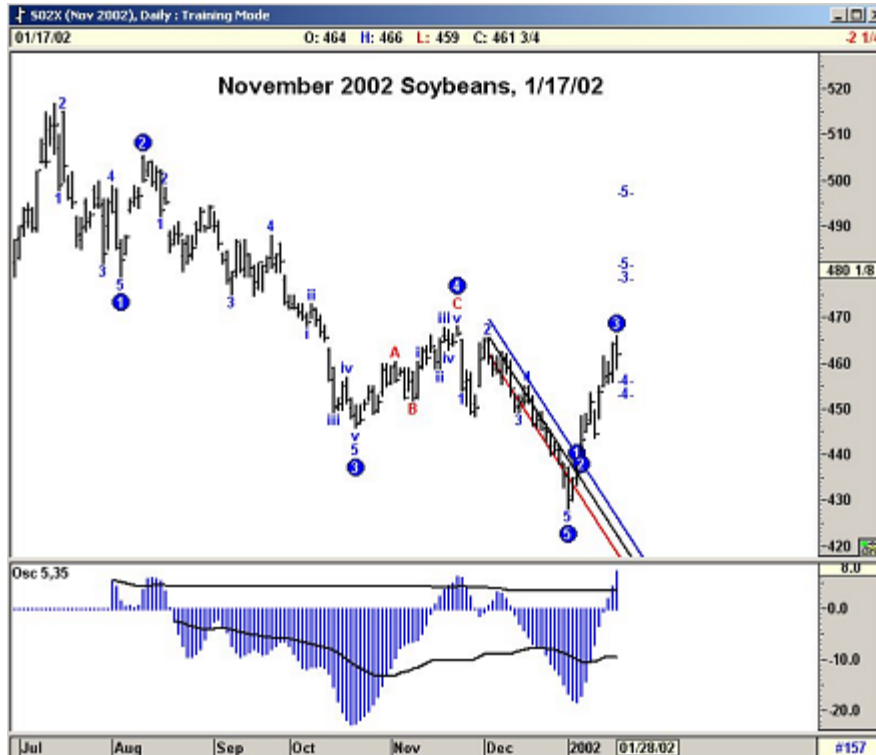
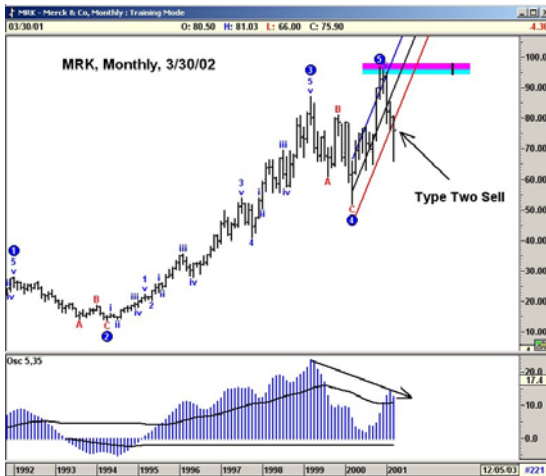


Figure 11-13: Soybeans, Daily

Type Two Sell—Monthly



1. The market has made a Wave 5 with new highs.
2. The Elliott Oscillator is showing good divergence.

Short this market at the cross of the Regression Trend Channels.

Figure 11-14: MRK, Monthly

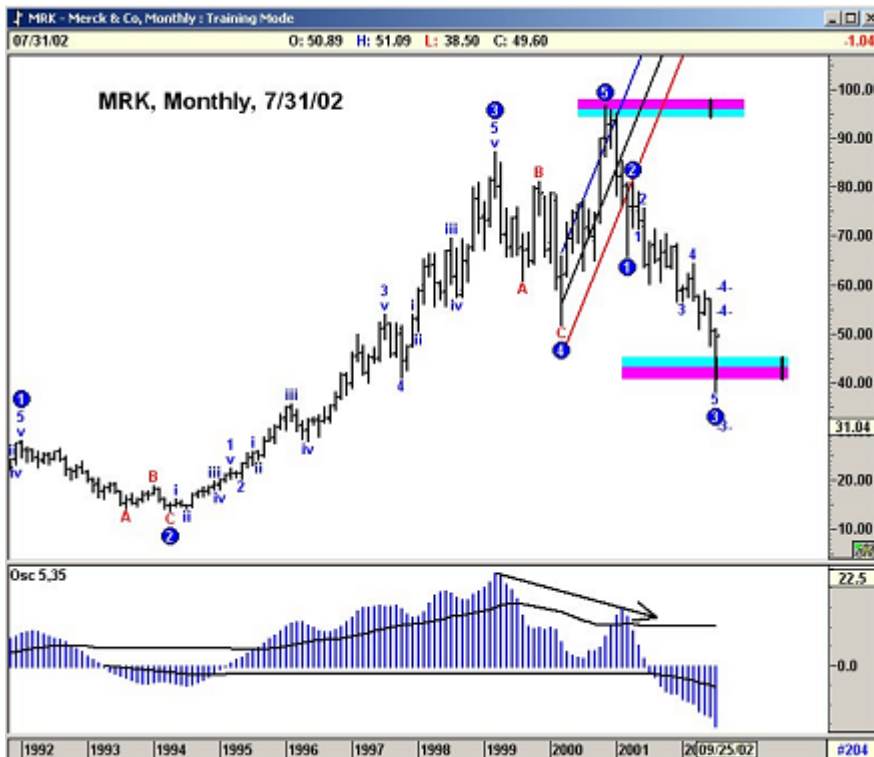


Figure 11-15: MRK, Monthly

Type Two Sell - Daily



1. The market has made a Wave 5 with new highs.
2. The Elliott Oscillator shows good divergence.

Short this market at the cross of the Regression Trend Channels.

Figure 11-16: Valero, Daily

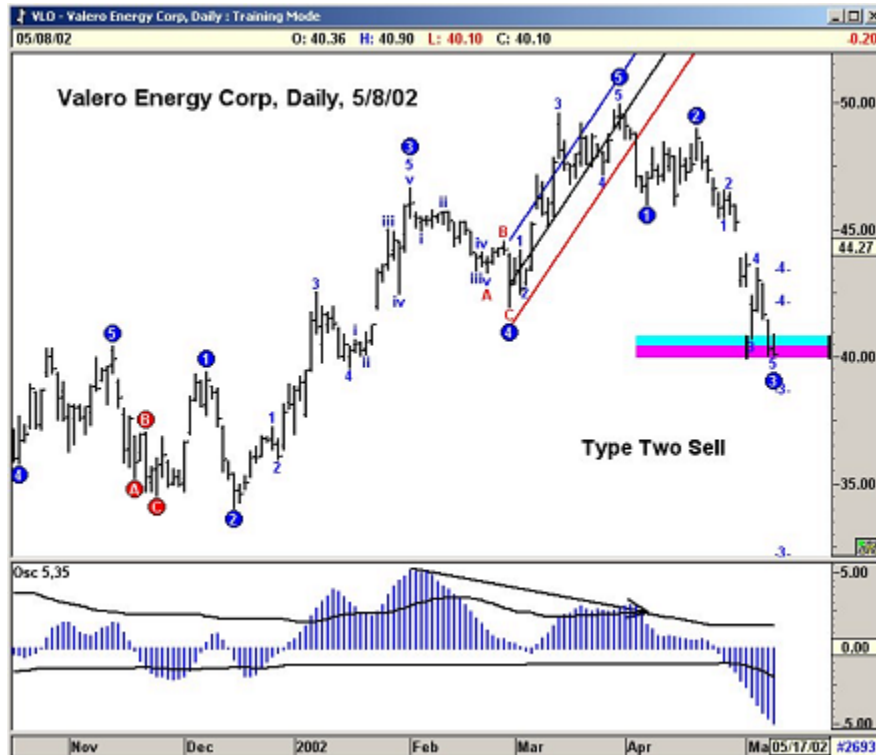


Figure 11-17: Valero, Daily

Type Two Sell—60-Minute



1. Market is in an Elliott Wave 5 up with new highs.
2. Elliott Oscillator shows good divergence.
3. The prices just fell below the Regression Trend Channels.

This market looks good here for a Type Two Sell.

Figure 11-18: Rowan, 60-Minutes



Figure 11-19: Rowan, 60 Minutes

Catching Wave 3 in a Type One Trade

One of the most frequently asked questions about Elliott trades is, “How can I get into Wave 3? That’s where all the money is, right?” While that may be true, Wave 3s are very difficult to predict, not having the statistical indications we can draw for Wave 4 and Wave 5. However, we have seen cases in which a Type One trade turns out to be Wave 3! The following is an example of such.

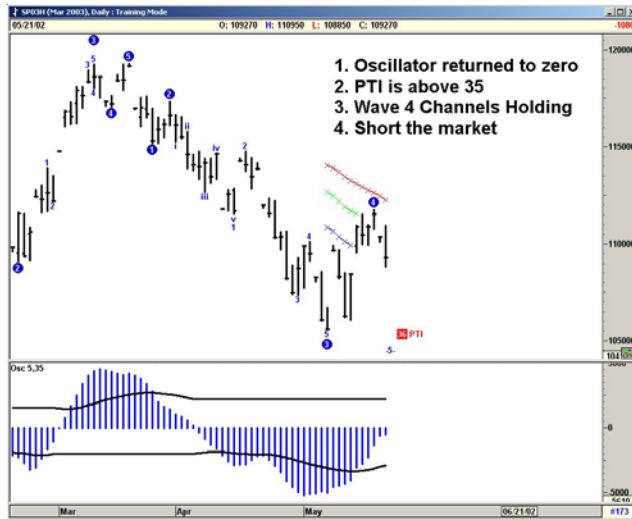


Figure 11-20: March 2003 S&P, Daily

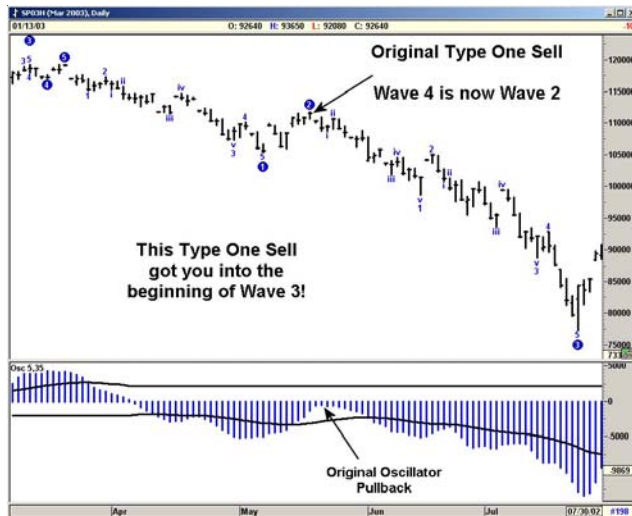


Figure 11-21: March 2003 S&P, Daily

Results:

What was thought to be Wave 5 carried so much momentum that it became an extension of Wave 3, resulting in even greater profits.

Forecasting a Double Top or Failed Fifth Wave

Type One Buy—Laborious Wave 4

The key here is that the Profit Taking Index (PTI) dropped below 35. Statistically, this indicates a potential Wave 5 failure, or at best, a Double Top. In the example below, DELL is setting up as a Type One Buy. The Oscillator has pulled back to zero, and the Wave 4 Channels are holding. However, the PTI is only 21, indicating that chances for a Wave 5 making New Highs are very low. Additionally, looking back, DELL has a very simple Wave 2, indicating a good chance that Wave 4 will be long and complex.



Figure 11-22: Type One Buy, Failed Fifth Wave



Figure 11-23: Type One Buy, Failed Fifth Wave

Results:

DELL eventually makes new highs, but the process is long and drawn-out, eating away at emotional capital and Options Premiums. If a long position is taken in a situation such as this, very tight stops should be used.

Type One Buy—Failed Wave 5

The PTI is again below 35. In this AAPL chart, the Wave 5 never materializes. The Profit Taking is too great in this market to take the prices to new highs, and

the vicious sell off generates a new trend in the opposite direction.



Figure 11-24: Type One Buy, Failed Fifth Wave

Results:

It is apparent that the PTI is a good early warning indicator **not** to take a Type One Trade. Any PTI below 35 indicates that Profit Taking is too great, and the Wave 5 will most likely not make new highs. Any attempt to enter the market for a potential Wave 5 should be done with very tight stops. We would recommend not entering the market at all in these situations.

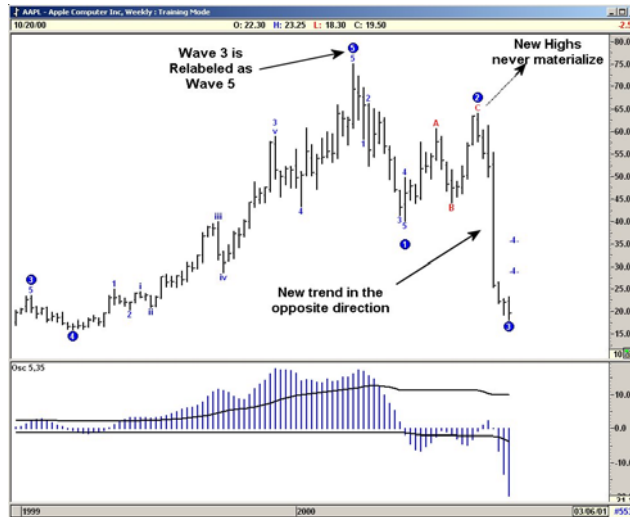


Figure 11-25: Type One Buy, Failed Fifth Wave