

Special Report for MTPredictor software users

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Weekly analysis on the QQQQ

In this special report I would like to take a look at the weekly chart of the QQQQ (formally the QQQ). This is the US stock that tracks the Nasdaq-100 index.

To start with I would like to return to the last Major low, which unfolded in October 2002.

Although a manual analysis of the weekly QQQQ going into this low suggested that the prior decline was complete, I would like to include a chart of the weekly SPY (US stock that tracks the S&P 500 index) here because the automatic routines ("Show Elliott waves" module) in MTPredictor nailed this low nicely. So I want to start from a point where you would have had confidence (at the time) that a Major low was indeed complete.



Here you can see how the automatic "Show Elliott waves" module in the software found a 5-wave decline. But more importantly the week of Oct 7, 2002 was painted blue (a buy set-up bar) and the low of this bar fell at WPT support (the minimum Wave 5 WPT). As outlined in the Trading Course, this was an ideal Wave 5 pattern and *if* the weekly SPY exceeded the high of the blue bar, then it would suggest that the prior Wave 5 decline was indeed complete.

The software automatically found all of this at the time.

The following week, the SPY exceeded the high and the rest is history - with this pinpointing the exact low of Oct 2002 perfectly:



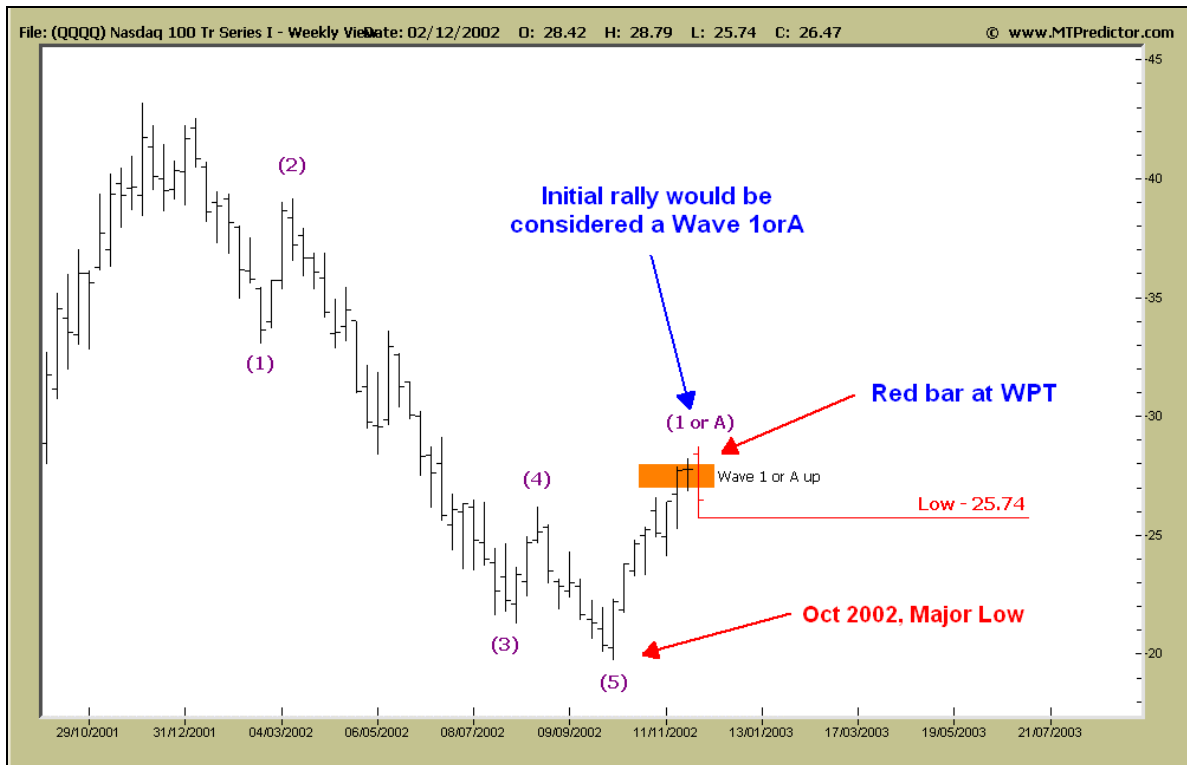
However, what is important, and what I wish to stress here is that *at the time* you had confidence that a Major low was complete in the US markets as of Oct 2002.

Now I would like to look at how the QQQQ has unfolded since that low.

If you look at the chart on the next page, you can see how the QQQQ made an *initial rally* off this Major low. In Elliott wave terms this would be considered a Wave (1orA).

Continued on the next page . . .

Here is the position just after the Oct 2002 low:



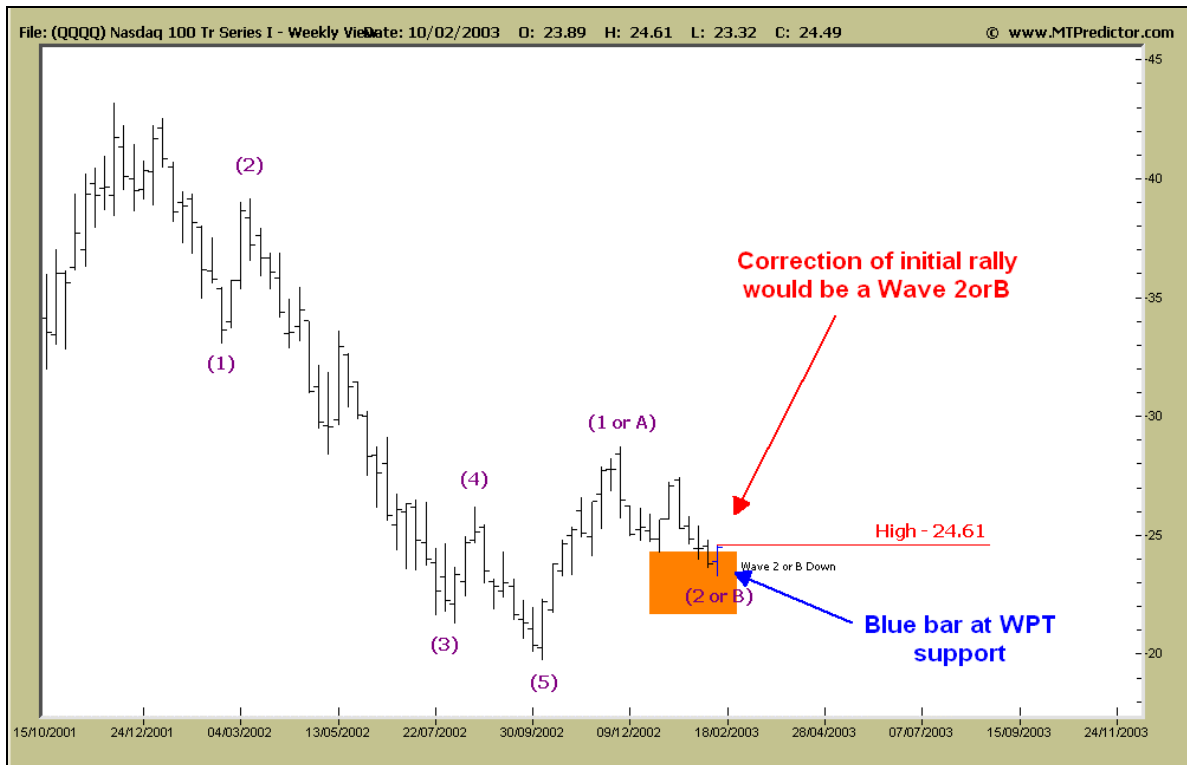
The QQQ did indeed rally off the Oct 200 low. As you can see from the chart above, I have labelled this initial rally as Wave 1orA. With a red (sell) bar right at the Wave 1orA WPT (Wave Price Target) this was the most likely area for this initial rally to end. A trade below the low of the red bar would signal that this Wave 1orA high was indeed complete.

But it is the *correction* to this initial rally that really interested me. In Elliott wave terms, the correction to the first swing off an important high or low would be considered a Wave 2orB. But the most important point here (please see the Trading Course for more info) is that this has the *possibility* of being a Wave 2 correction. Why is this so interesting ?

Well, a Wave 3 rally follows the completion of a Wave 2 correction, and as a Wave 3 is usually the strongest and longest of all the Elliott wave sequences, it carries the largest profit potential. Being able to identify the end of a Wave 2 correction allows you to enter a potentially very large move with the smallest initial risk. In other words this is the best trade (and best trade entry position) you can get !

Let's take a look at the chart a few weeks later...

Here is the position a few weeks later:



As you can see, the QQQ did indeed decline. But more importantly the decline entered the Wave 2orB WPT and then a blue (buy) bar unfolded. As outlined in the Trading Course, this Wave 2orB low would be complete on a trade above the high of the blue bar.

As I indicated on the previous page, this now has the possibility of being the very start of a strong Wave 3-type rally. Therefore, being able to enter a new long trade at this point would allow a very small initial risk into what could potentially be a very big move. This is the best trade entry position there is !

Let's see what unfolded. . . .

Here is the position some months later:



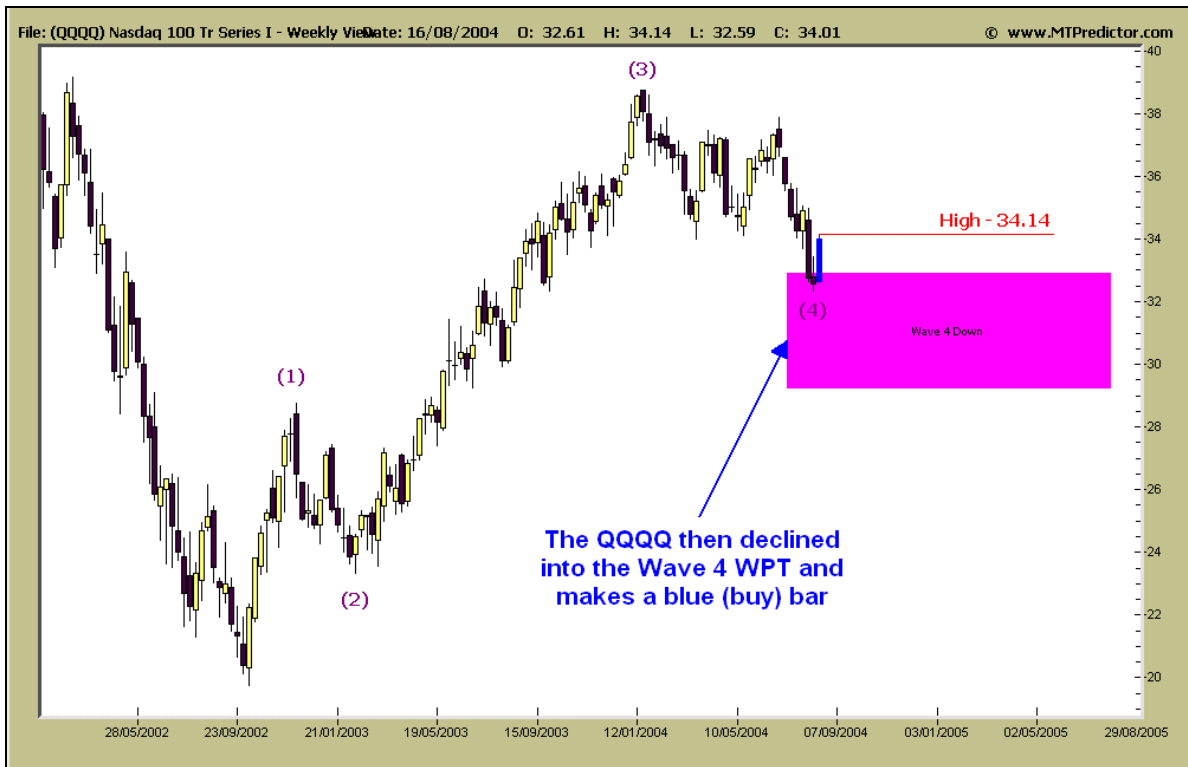
As you can see from the chart above, this is exactly what happened, with a strong Wave 3 rally unfolding.

As you can also see, this rally continued until it reached the level of the Typical Wave 3 WPT, where a red bar unfolded. As already outlined, if the QQQQ declined below of the red bar (at WPT resistance), then the current rally could be over.

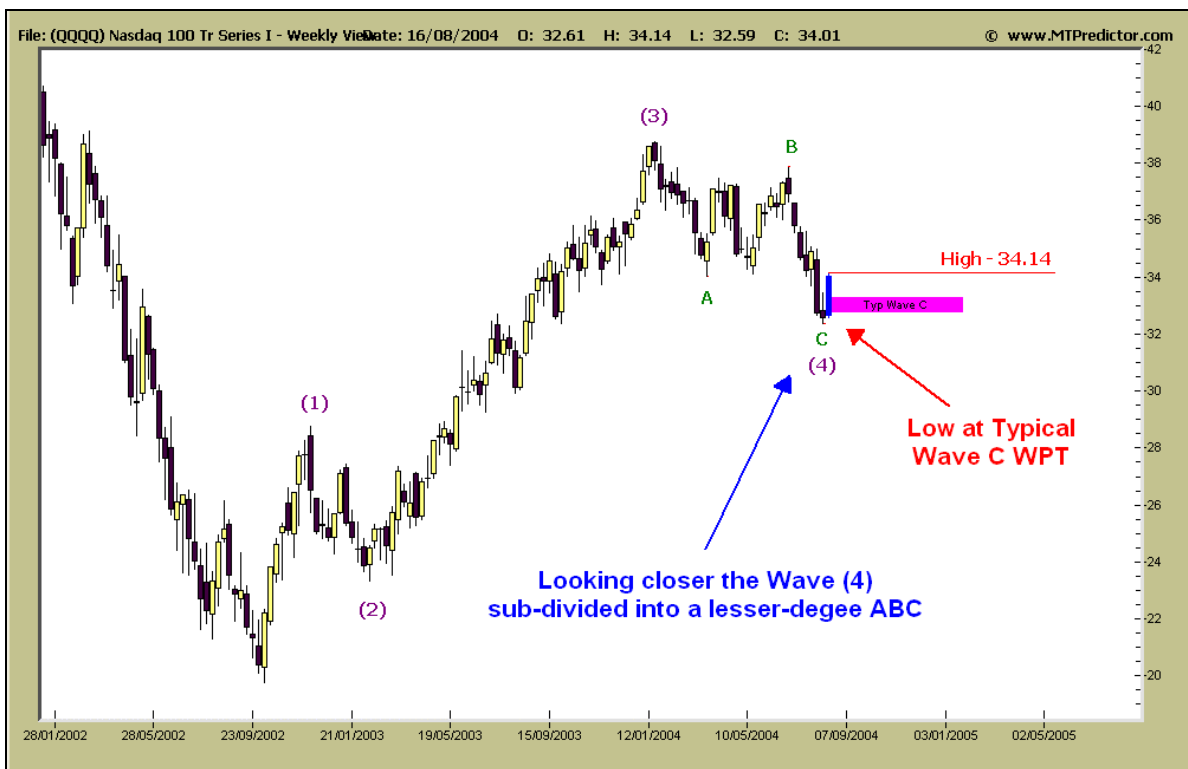
In Elliott wave terms, *ideally* a Wave (4) correction should now unfold.

So let's move forward in time to see what happens . . .

Here is the position a few months later:



And, lo-and-behold, this is exactly what happened – a decline into the Wave 4 WPT, where a blue (buy) bar unfolded.



Not only that...but on closer inspection, the Wave (4) correction clearly sub-divided into a lesser-degree abc.

As you can see from the second chart on the previous page, not only was the QQQQ in the Wave 4 WPT, but the minor wave C was also at the Typical Wave C WPT support zone. And a blue (buy) bar had unfolded...

Therefore, a trade above the high of the blue bar would not only signal the end of the minor abc correction, but also the larger-degree Wave (4) correction. *Ideally* a Wave (5) rally should then unfold:



And as you can see from the chart above, this is exactly what happened !

As such, this was the first area where the entire rally off the Oct 2002 low could end. As outlined in the Trading Course, I do not like trying to pick the end of a Wave 5 swing (due to its low reliability). But this was now the place where any longs (taken off the prior Wave (4) low) should be protected, with stops moved closer to the market.

However, for the purpose of this report I would just like to take a moment and reflect on what has unfolded over the last 2 years - paying particular attention to the WPTs (Wave Price Targets) and how they would have helped you make an informed trading decision at the time.

Here is a *summary* of the WPTs over the last 2 years:



As you can see from the chart above, the QQQ has rallied in a text book perfect 5-wave Elliott sequence. But the most relevant part for MTPredictor users is how the end of each of these waves - 1, 2, 3, 4, minor c and 5 - have all unfolded in the WPT support or resistance areas. In other words, you were prepared *in advance* for the areas where each of these swings were most likely to end by a simple coloured area on the chart.

Could this kind of information have helped your trading decisions over the last 2 years ?

MTPredictor does not stop there. The software is capable of identifying automatic trade set-ups with the "T" module. So, let's return to the best tradable opportunity already highlighted to see if MTPredictor managed to catch the strong Wave 3 swing during 2003. Please remember that in hindsight this was the largest move in the last 2 years, and would have resulted in the biggest profit. Let's see what MTPredictor's automatic routines uncovered in early 2003.

Automatic trade set-up

Here is the situation in Feb 2003:



As you can see from the chart above, a perfect TS1 buy set-up unfolded as of the week of Feb 10, 2003. As you already know, this was the exact week the Wave (2) low was ending.

The software automatically placed the trade entry and initial stop triggers on the chart for you, as well as projecting the potential profit targets. The most important of these was the Typical Wave 3 WPT. As you already know, this would be the most likely area for the next swing to stop if it unfolded as a Wave 3. This was the area to check for the potential profit compared with initial money risk. As you can also see, the software calculated this to be approximately 9.5x the initial risk required to take the trade (ignoring slippage and commission). Now I hope you realise why these are my favourite trade set-ups and why I consider these to be the best trades in the book – because of the very large potential profit in terms of initial risk.

Let's see how this turned out as the weekly QQQQ rallied into the Typical Wave 3 WPT.

11 months later in Jan 2004, we have:



As you already know, the weekly QQQ rallied strongly in a Wave 3 swing to reach the Typical Wave 3 WPT, where this long trade would have been stopped out in late Jan 2004.

However, from a trader's point of view (not an analyst's, as earlier in this report), the profit at this point would have been just over 10x the initial risk required to take the trade (ignoring slippage and commission).

An analyst would look at the chart and see how the software caught the very bar the Wave 2 low came in...and then was stopped out on the bar after the high came in. A trader is not interested in chart accuracy, but focuses on profits and losses i.e. what goes into and comes out of their bank account. A trader would know that a profit of 10x the initial risk was an extremely good trade.

Summary

I hope this special report has shown that from an analyst's point of view the WPTs (Wave Price Targets) have managed to nail every major turn on the weekly QQQQ chart in the last 2 years.

But more importantly, the automatic routines uncovered a trade that maximised your profit (in terms of initial risk) during the strongest single move in that 2 year period.

This is what MTPredictor is all about. Automatic trade selection, uncovering trades where the potential profit is large in relation to the initial risk. But MTPredictor also allows the advanced traders to use the individual modules in the software (for example the WPTs) to help take a view on future market movement for use in their own trading.

Thanks

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