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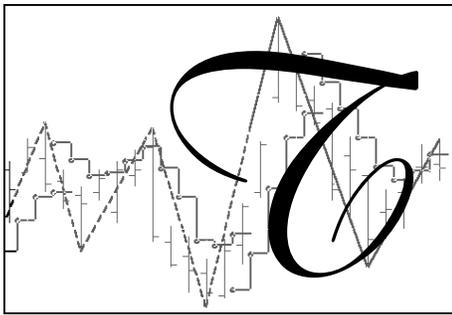
ROBERT
KRAUSZ'S

FIBONACCI TRADER®

JOURNAL

Volume 1, Issue 6

THE DYNAMIC RANGE™



his issue was held back so that the first of two new tools could be ex-

plained to you. These new tools have been incorporated into the latest version of the Fibonacci Trader program. If you haven't yet, please visit our Web site and download the latest version (V3.03).

This and the next issue are totally dedicated to these tools because I consider them useful and important. This issue will take a close look at the Dynamic Range technique and the next issue will look at the Ergodic Candlestick Oscillator (ECO). It's pronounced er-god-ik. This latest technical tool was given to us by my good friend Bill Blau. In fact, future issues of the Journal will keep referring to them, helping you to include one or both of them in your trading plans. We'll begin with a general comment about the Fixed Range, and then move

onto the Dynamic Range. At first the Dynamic Range technique may appear to be complicated, but as with all new concepts a little work and they become simple in practice.

The Fixed Range has been around for approximately sixty-two years. Charts 1 and 2 show an application on an intraday chart and a daily chart respectively. The usefulness and the validity of this tool is borne out by the fact that sixty-two years later it is still in use. That's unusual in our industry where indicators go in and out of fashion rather fast.

To take the Fixed Range concept and make it dynamic is not only new but it introduces a new paradigm to the energy point levels based on the traditional usage of the Pivot Point and Support & Resistance levels. I can talk about this till breakfast, but only your own eyes can see its usefulness. Once you carefully observe the Dynamic Pivot (DP) and the other Dynamic lines in real time will you

realize the power of this technique. That is why I intend to follow up on the application of the Dynamic Range in future issues of the Fibonacci Trader Journal. Of course, to see the effect clearly you should have both the Fixed and the Dynamic on the same chart. In a few moments we will take a look at this combination.

Let's look at the Fixed lines first. We'll look at an intraday chart first, a 50-minute/Daily/Weekly plan for the June 99 T-bond contract (Chart 1). Click on the HPZ button on the FTTools toolbar or click on Indicators on the main menu.

- A) Select High Probability Zones
- B) The period should be set to Next

Adjust the colors and line thickness of the Fixed lines to suit you. You should have five lines on the screen as per Chart 1 (Fixed Resistance 2, Fixed Resistance 1, Fixed Pivot, Fixed Support 1, Fixed Support 2). Chart 2 is an example of the Fixed lines applied to a Daily/Weekly/Monthly plan of the June 99 T-bonds.

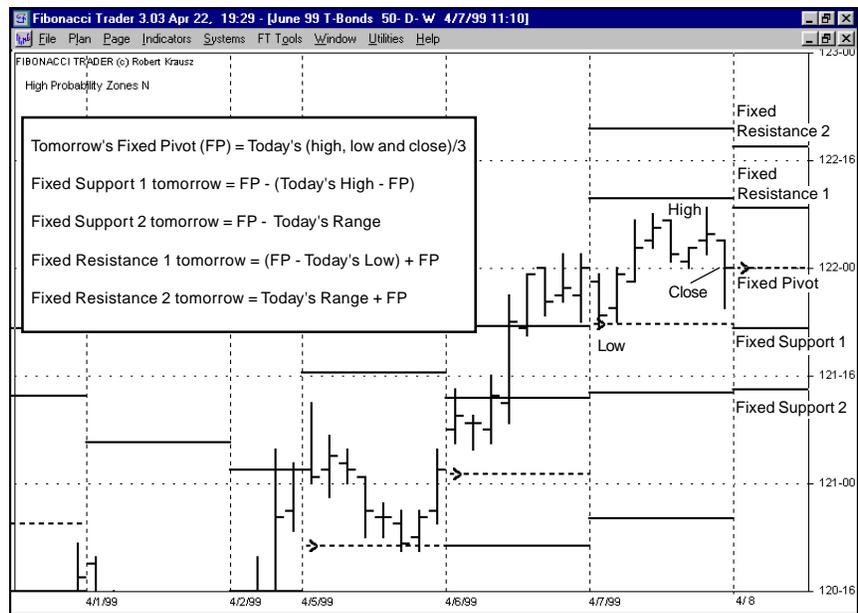


Chart 1: June 99 T-bonds 50-min/Daily/Weekly Plan. For tomorrow's Fixed lines we use today's high, low and close. The calculations are set (fixed) for the next day.

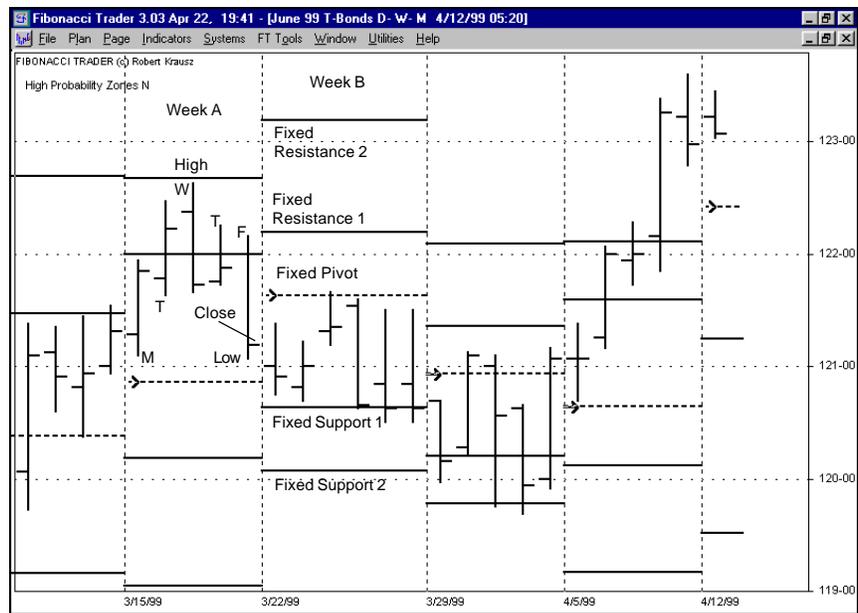


Chart 2: June 99 T-bonds Daily/Weekly/Monthly Plan. For the daily bar's Fixed lines (Week B) we use the previous week's (Week A) high, low and close. The calculations are set (fixed) for the next week.

As I said earlier the Fixed Range concept is based on the old floor traders calculation, which I am sure many of you already know. For those of you who don't know the calculation,

here it is: First, you add together the high, low and close of today, then divide by three. This will give us the Fixed Pivot Point for tomorrow. This point is fixed for the entire next day, hence the name Fixed Pivot Point.

The second step is to take today's low, subtract it from tomorrow's Fixed Pivot, and add it to the Pivot Point. This is tomorrow's projected high, which we will call Resistance 1. This Resistance 1 is fixed, and is called Fixed Resistance 1.

Step three is to take the difference between today's high and tomorrow's Fixed Pivot point. Subtract this difference from the Fixed Pivot and this

is the addition of Resistance 2 and Support 2. This is obtained by taking 100% of today's range and adding it to the Fixed Pivot Point giving us Fixed Resistance 2. Next, take 100% of today's range and subtract it from the Fixed Pivot Point. This gives us Fixed Support 2, for the entire next day (please see Chart 1).

Use the same calculation we used for the 50-minute/Daily/Weekly plan for the Daily/Weekly/Monthly setup. In the case of the latter, we will have a Weekly Fixed Pivot to calculate the fixed levels for the entire week to come (Chart 2).

Chart 2 shows how the weekly high, low and close sets up our fixed points for the next week. Please follow on Chart 2. It is Week A's high, low and close that gives up the Fixed Pivot and the other Fixed lines for Week B. To make our life simpler we will abbreviate all of these names as follows:

FR2 = Fixed Resistance 2
FR1 = Fixed Resistance 1
FP = Fixed Pivot
FS1 = Fixed Support 1
FS2 = Fixed Support 2

DYNAMIC RANGE

To apply Dynamic Range lines go to the Indicator menu:

- A) Click on Dynamic Range
- B) Adjust the period to N and length to 1.

Please understand that the calculations are different from the Fibonacci Zones, which will be covered

To take the Fixed Range concept and make it dynamic introduces a new paradigm.

will give you tomorrow's projected low, called Support 1. This Support 1 is fixed for the entire next day's trading.

Many people have claimed that they invented this calculation. Actually, I first saw it in a book by George Cole, published in 1936 (that's correct, over 62 years ago). He said then that he did not know where the calculation came from, but that he got it from one of the old floor traders in Chicago.

Since 1936 there have been some variations on this theme, but the only one we are concerned with

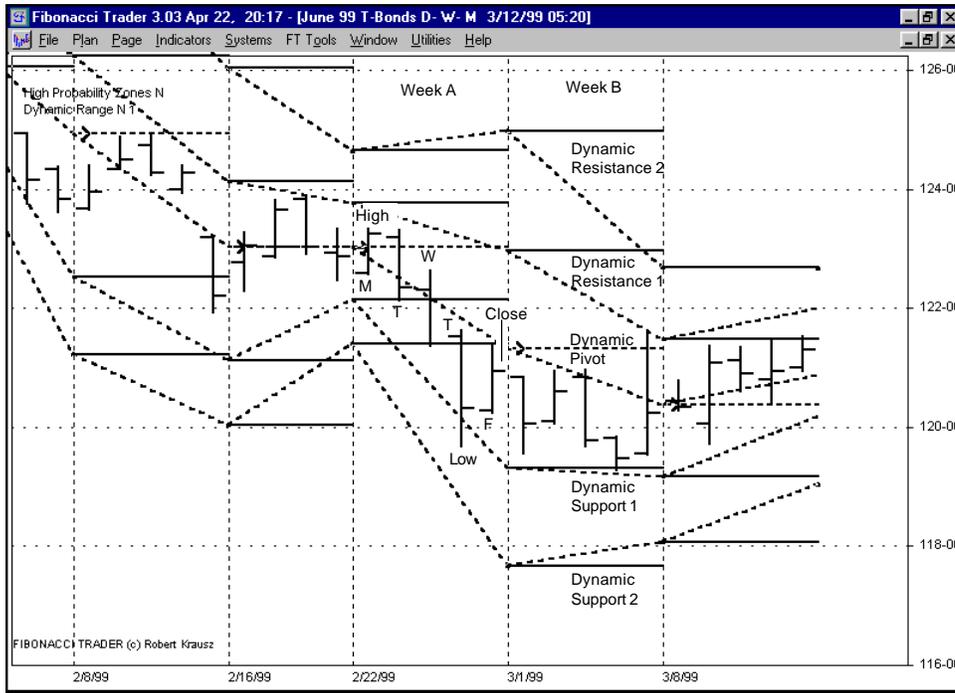


Chart 3: June 99 T-bonds Daily/Weekly/Monthly. Here, both the Fixed (solid lines) and the Dynamic Range lines (dashed) are plotted. Notice that at the start of the week the the Fixed and Dynamic start at the same level on Monday.

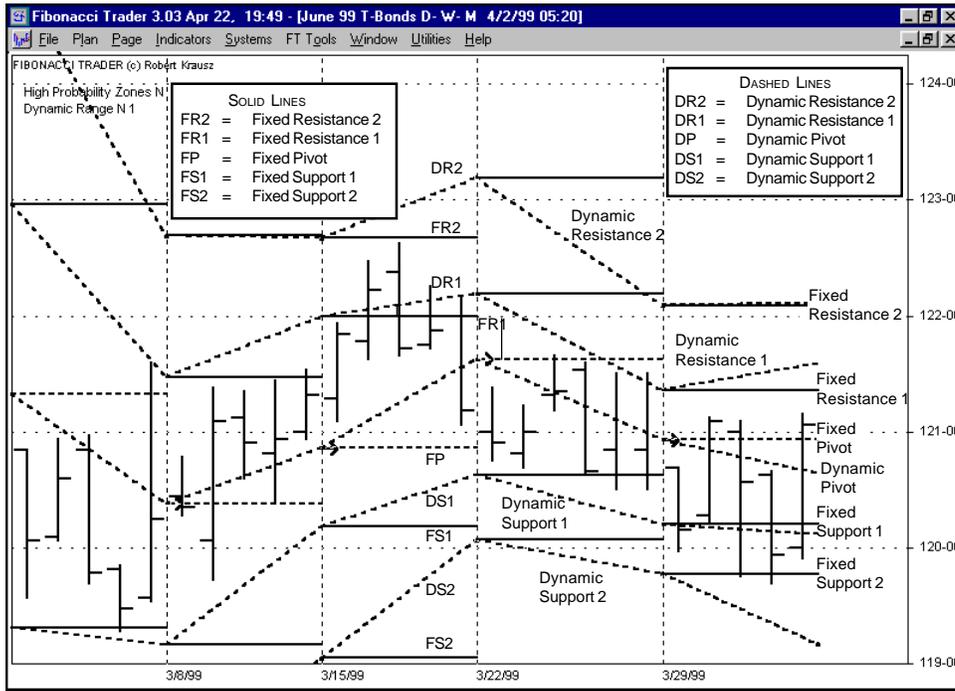


Chart 4: June 99 T-bonds Daily/Weekly/Monthly. Here is a continuation of the daily bars of the June 99 T-bond contract with both the Fixed (solid) and Dynamic Range (dashed) lines.

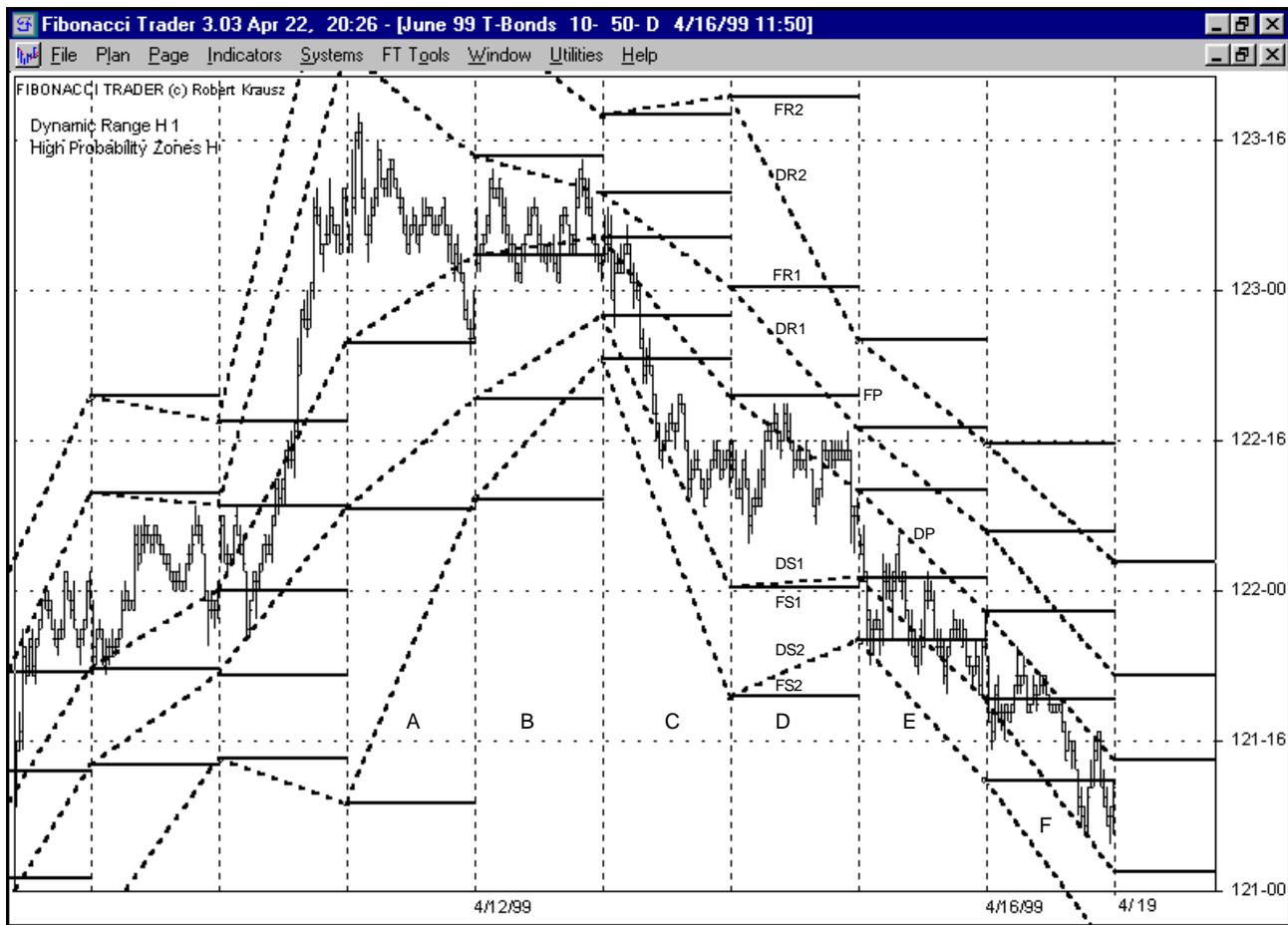


Chart 5: June 99 T-bonds 10-minute/50-minute/Daily Plan. The angular direction of the Dynamic Pivot tend to show the trending direction of the 10-minute bars. The steepness of the angle, or lack of it, between the Fixed and Dynamic Pivot and Lines can be important. Notice the effect on prices when the DP, DR1 and DS! face the same direction.

in the next issue. Charts 3 and 4 on the left page here shows all of these abbreviations.

SHORT TERM CONCEPTS

Chart 5 helps us enter the world of shorter time frames. This is a 10-minute/50-minute/Daily plan for the June T-bonds with the Daily Fixed Pivot, Daily Fixed Support and Resistance lines and it shows the Dynamic Range lines. Both sets of lines gives us useful information. Please be aware that I try to use current charts for illustrations, such as this, but sometimes I have to pick a past chart to show a setup to make a point clearly.

The projected Daily Fixed lines for Monday (4/19) are based on the day's action on Friday (4/16) and are fixed for the entire trading day on Monday. The Dynamic Lines develop as the day progresses after the open and adjusts to the market on a tick by tick basis.

When the first few ticks come on the open the direction of the Dynamic Lines appear to be very acute angles. This is not a mistake, as the day progresses the Dynamic Lines direction becomes clear after a few 10-minute bars are on the screen. You will get used to it after a few days.

The fixed lines show you where they should be

based on the previous day's action. But the Dynamic Lines show you where they are up to the moment. It is the difference between the Fixed and the Dynamic lines that supply us with useful information.

Please look at day D (4/14). The market opens almost unchanged, below the Fixed Pivot. The Dynamic Pivot was below the Fixed Pivot (the angle is pointing downwards) all day. In spite of the fact that prices rose about the first third of the day to challenge the Daily Fixed Pivot, the Dynamic Daily Pivot stayed below the Fixed Pivot point.

When you do a bar-by-bar backtest of the 10-minute bars or if you watch this in real time, you will see my concept at once. I can only request that you do this, but if you do not, then I have wasted my time passing on to you a nice private tool. As usual the traders that do the most work and thinking will reap the benefits. As far as I am aware, the Fibonacci Trader is the only program with the Dynamic Ranges™ in real time. I have used it for years. Let's see how the "copy merchants" handle this one.

What else? The Dynamic Range lines do not always all face the same way. Look at day B. Lines DR2 and DR1 angle downwards while lines DS2 and DS1 slope upwards. The Dynamic Pivot is just above the Fixed Point. Guess what? Congestion trading for the 10-minute bars. Prices do not break to the downside until the Dynamic Pivot is pointing downwards and it is below the Fixed Pivot. There, a private tool of mine is now in your hands — please use it wisely. See days C, D, E and F.

And please check out how at DayB the setup is similar to congestion on Day D as the DR1 and DR2

point down and DS1 and DS2 point up. Already some subtle points give information. Also if you look back you will see it is unlikely that the price direction can turn without the Dynamic Pivot turning down.

This is not a stand alone tool, so try combining this with the Dynamic Fibonacci Channel (DFC) us-

— *ℱ* —

**The Traders that do the
most work and thinking will
reap the most benefits.**

— *ℱ* —

ing the same concepts as before. Please see Chart 6, which is the same 10-minute Bond chart as before.

The market was rising until Day A when the DFC Daily top band pushed prices back and flattened out in the 123-16 area. Note, at this point the Dynamic Pivot (DP) plus Dynamic Support 1 (DS1) plus Dynamic Support 2 were still pointing up but note the direction of the Dynamic Resistance 1 and Dynamic Resistance 2 were already pointing downwards. Could this be a warning?

Yes, I know on day E the prices have hit the bottom bands (the solid line) of the Daily DFC. But here we can see the difference. First, the DFC bottom band is still trending down and not yet leveled out. Second, all of the Dynamic Lines (daily) are still pointing down, roughly parallel to each other. Subtle, yes, but also dynamic.

Chart 7 (shown on page 8) shows the S&P 9-minute/45-minute/Daily. The market was rising until

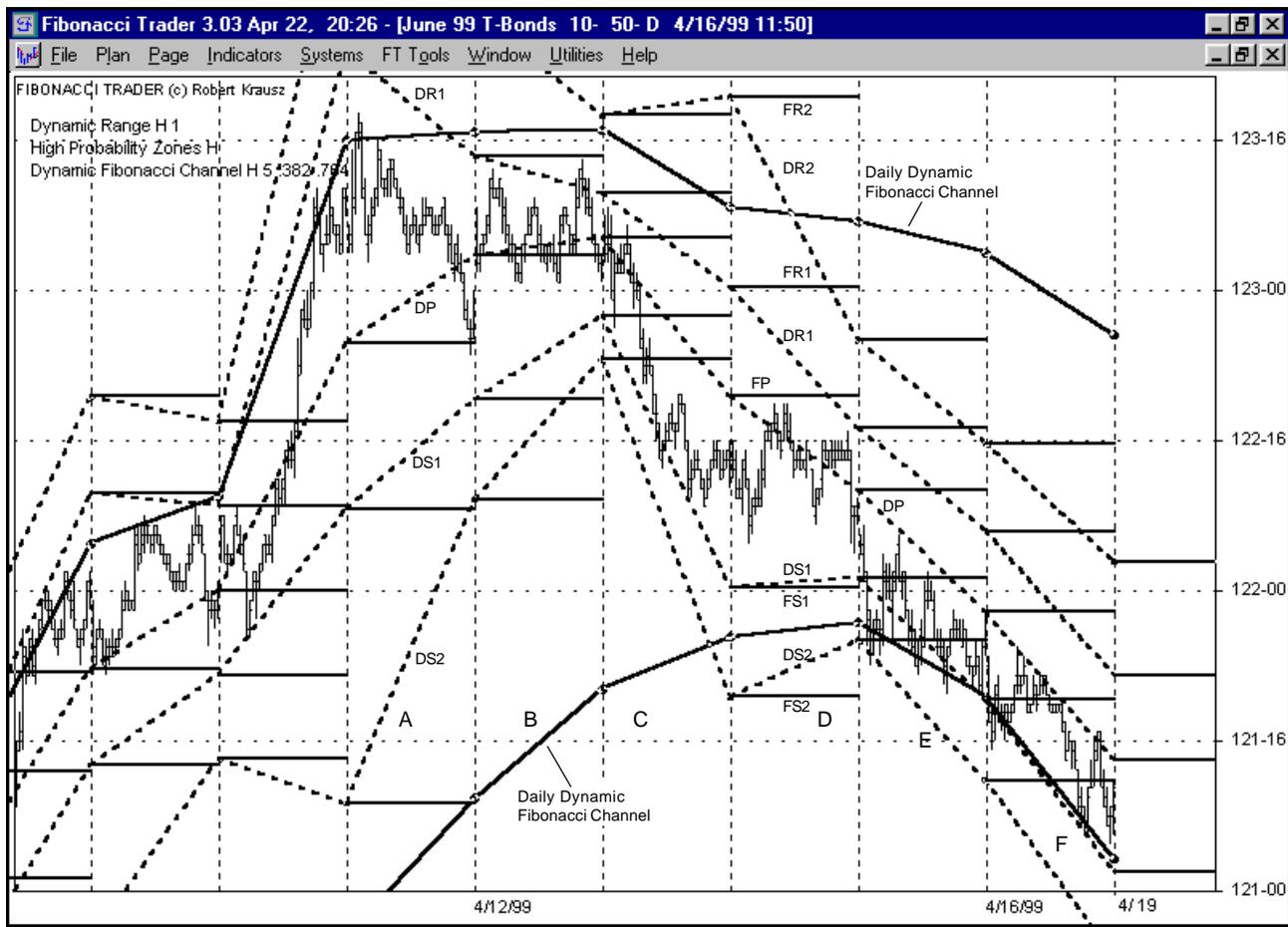


Chart 6: June 99 T-bonds 10-minute/50-minute/Daily Plan. On this chart the Daily Dynamic Fibonacci channel is added. The market was rising until Day A when the DFC Daily top band pushed prices back and flattened out in the 123-16 area.

Day B (4/13), the DFC top band turned down gently, DR1 and DR2 point down, but DS1 and DS2 point up while the DP is slightly up. Does this look similar to Day B on Chart 6 (the 10-minute T-bonds)? On 4/14, Day C of the S&P chart, 4 of the 5 Dynamic Range lines point down. Also note that the Fixed Pivot was challenged twice and held. Check out this day on your program from the open to the close. What do you see when you track the market bar-by-bar?

On 4/14 there was a slight gap up on the opening and for the first four 9-minute bars the Dynamic Pivot

was exactly on top of the Fixed Pivot. But on the fifth 9-minute bar the Dynamic Pivot dipped below the Fixed Pivot. Even though 2 bars rose back up to the Fixed Pivot line, the Dynamic Pivot stayed below the Fixed all day. Remember what I said earlier. The Fixed Pivot is where it should be by the projection based on yesterday's range. But the Dynamic Pivot is where it really is today following every live tick. It is the difference between the two that gives us important information. It is very difficult to change direction intra-

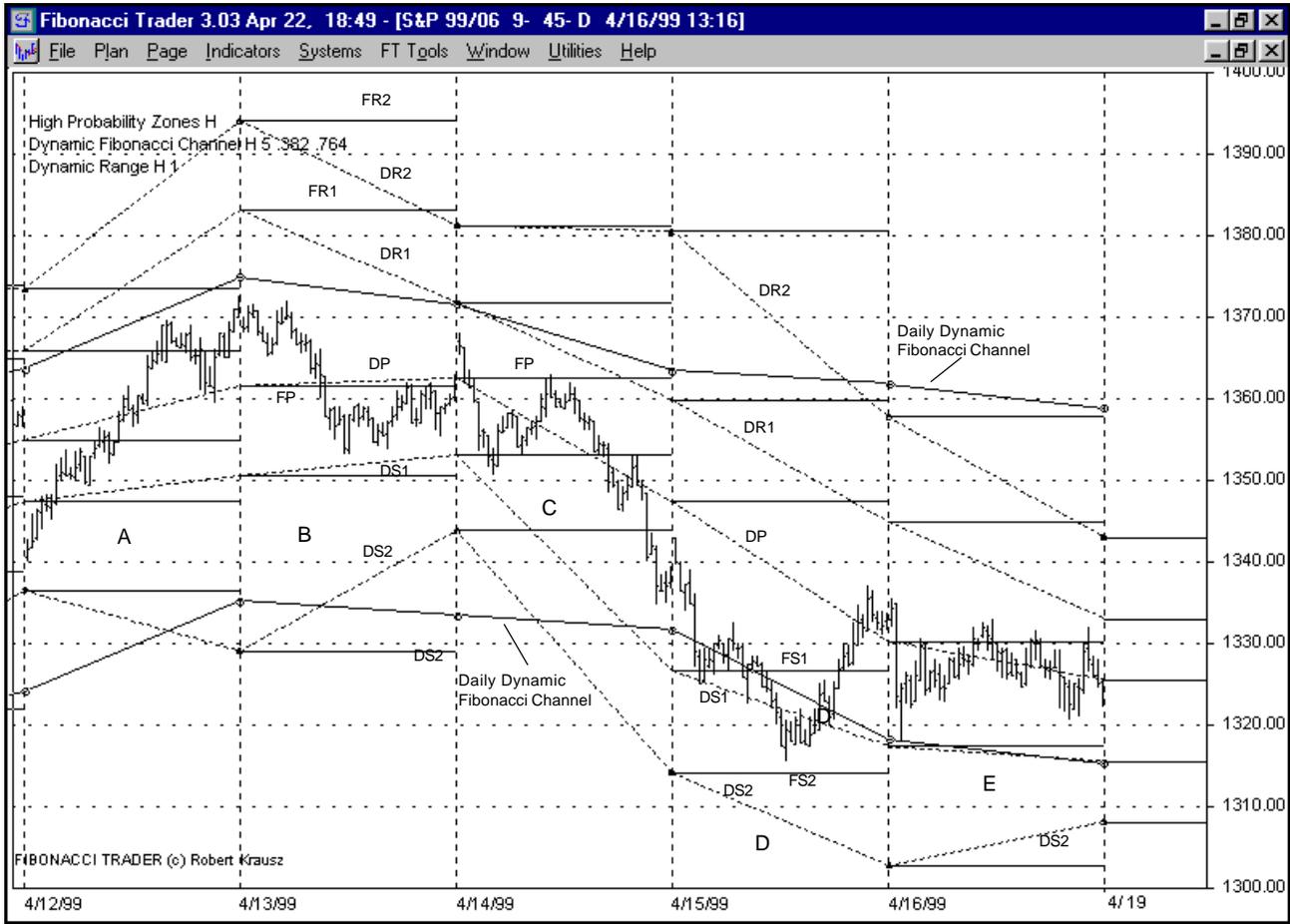


Chart 7: June 99 S&P 500 9-minute/45-minute/Daily Plan.

day unless the geometry between the Fixed and the Dynamic Pivot changes.

Also the angular distance between the Fixed and the Dynamic lines acts as a beam for price direction. See how on chart 7, Day E (4/16) DS2 is already well above the fixed S2 and pointing upwards. DS1 is almost level and the other three are all down. Nevertheless, please note when a DS2 rises in this manner, it is often enough to

stop the downside trend in its tracks, as it did this Friday. Does this mean a reversal is guaranteed?

No, but if you were short from Day B some profit taking is advisable. In future issues we will return to this concept with up to

date charts. Issue 7, detailing the Ergodic Candlestick Oscillator will follow shortly.

I wish you super trading,
Robert Krausz, MH, BCHE



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