ATM Elliott Wave User Manual

CMR ATM

Getting Started With ATM Elliott Wave

The ATM Elliott Wave study is an automated momentum based calculator for Elliott Wave counts across all time frames and markets. The rights to use the study were purchased by Capital Market Research from CQG Inc in 2011. These ATM Elliott Wave and the ATM Major Wave Oscillator can be viewed through Bloomberg G<GO> or LP charts.

The ATM Elliott Wave is not a mechanical trading system. Rather it is a collection of tools, theories, methods and techniques.

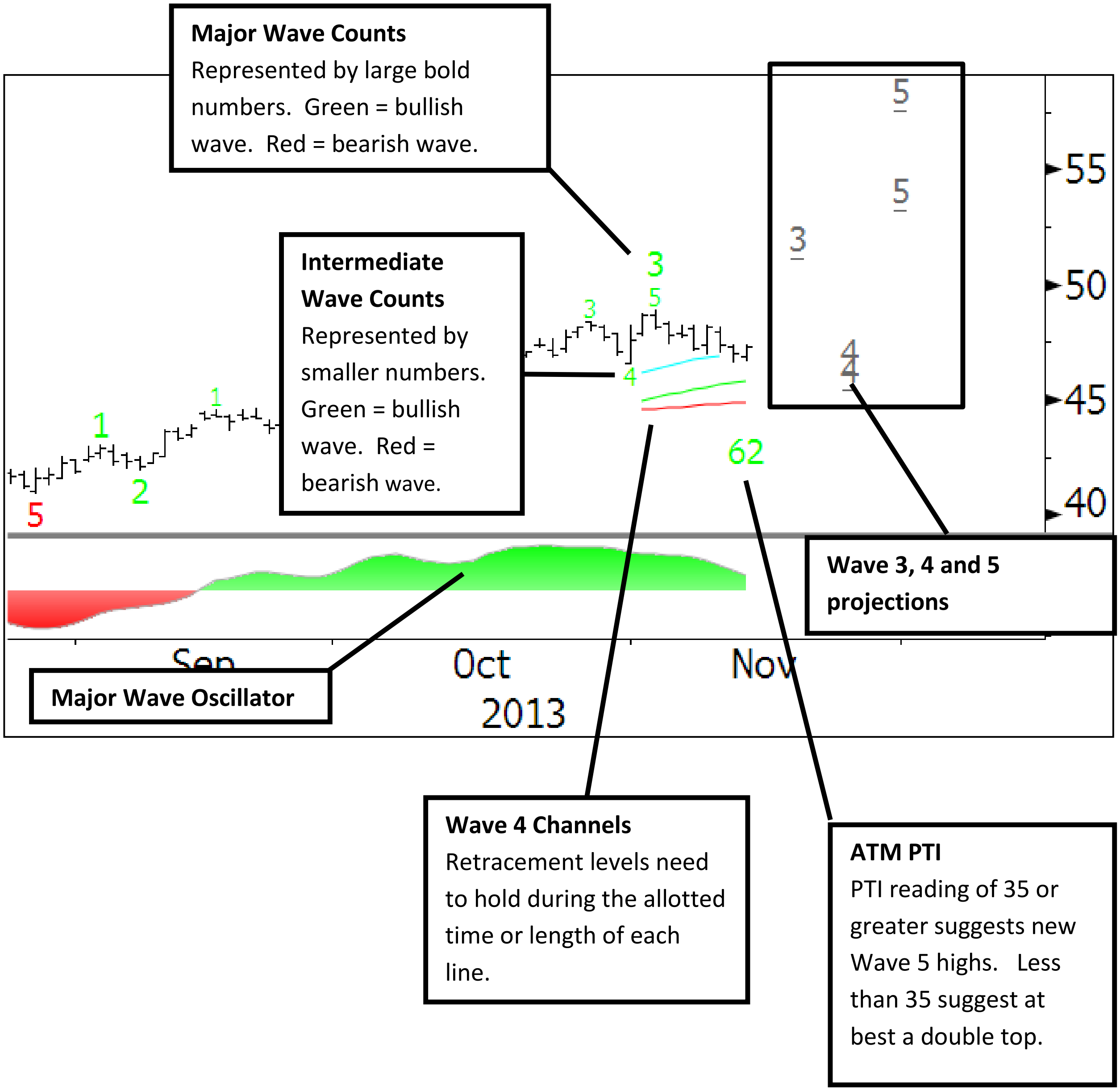
The ATM Elliott Wave study attempts to calculate Major and Intermediate Elliott Waves counts using Elliott Wave Theory. To obtain the optimum wave count, we recommend using 300 to 600 bars of data. Once you are experienced with how the wave counts are affected by our pivot and momentum calculations, using 150 or more bars is acceptable for a wave count.

CAUTION: Using less than 150 bars or more than 800 bars of data might result in inconsistent or bad wave counts.

The handbook is divided into 9 parts:

1. Identifying the ATM Elliott Waves
2. Choosing the right period/range for forecasting
3. Elliott Waves Five– an introduction
4. The ATM MWO (Major Wave Oscillator)
5. ATM PTI (Profit Taking Index)
6. ATM Wave 4 Channels

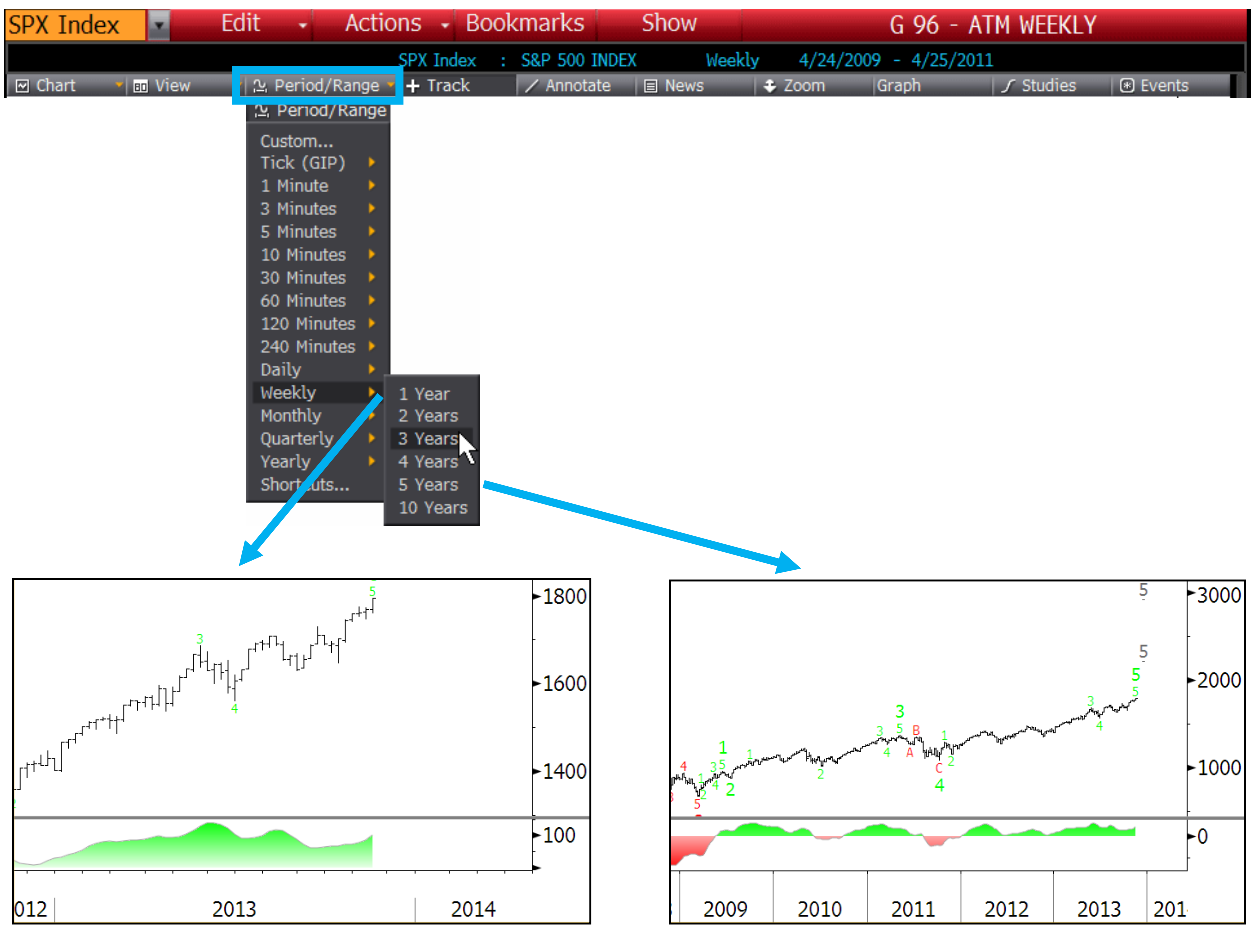
1. Identifying the ATM Elliott Wave and ATM MWO



2. Choosing the right period/range for forecasting

ATM Elliott Waves are all calculated based on the time period specify for the chart. ATM Elliott Waves work on any time frame that you can specify on the chart from 1 minute to 1 year. Choose the period/range based on your investment horizon (risk horizon).

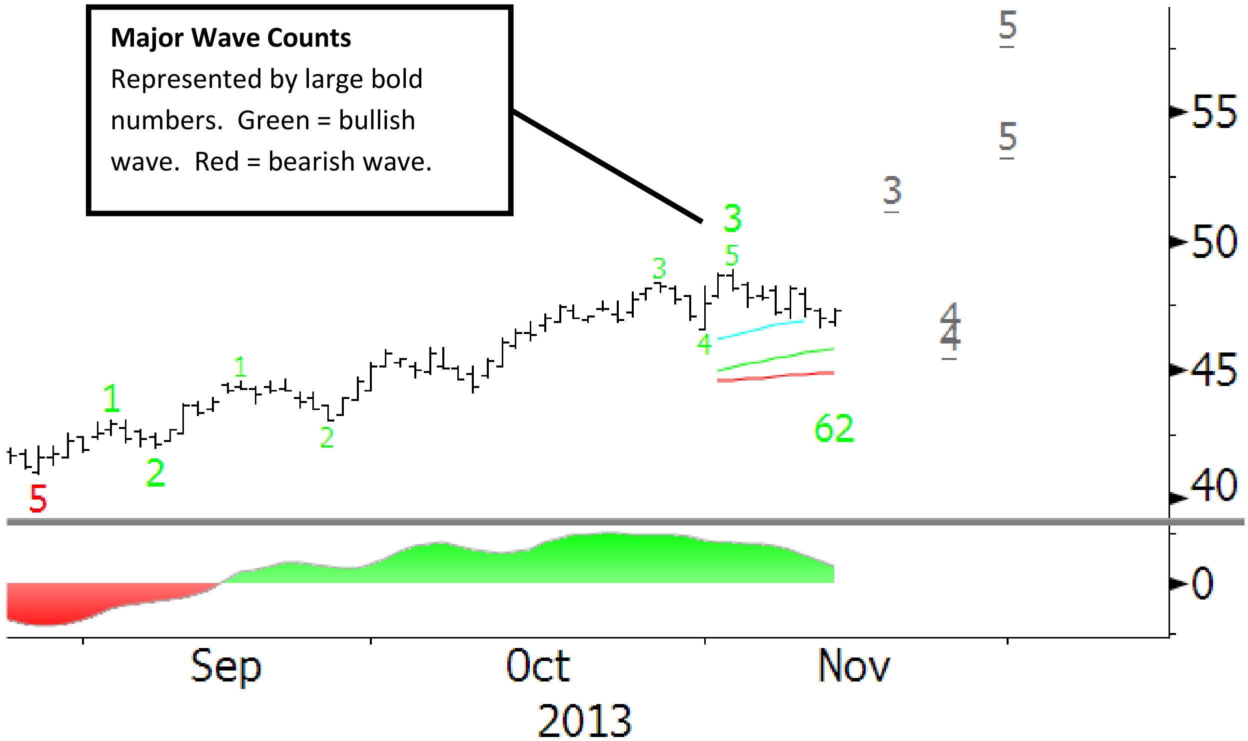
TIP: Choose a longer data set from the drop down menu, for example, Weekly – 5 Years VS 1 year.



ATM EW chart with 1 year worth of weekly data. The minimum / maximum data requirement is 150 / 500 bars.

ATM EW chart with 5 year worth of weekly data. 260 weeks of data will produce a proper Elliott Wave count.

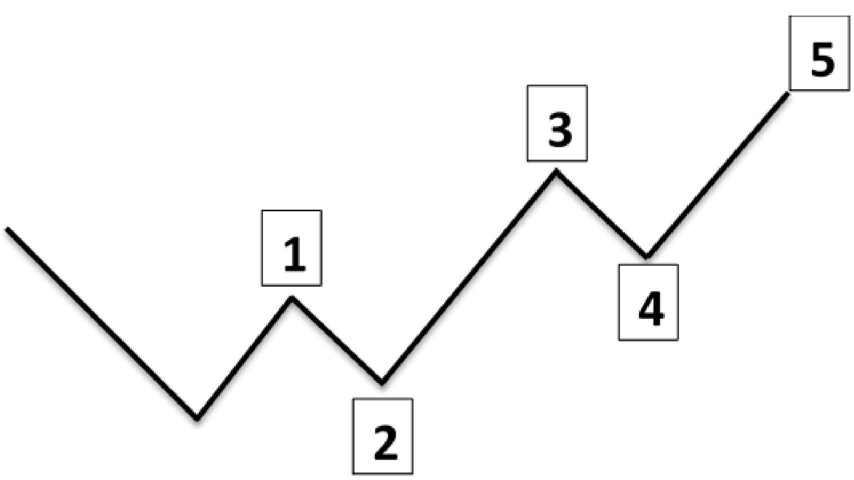
3. Elliott Waves – Five Waves of structure



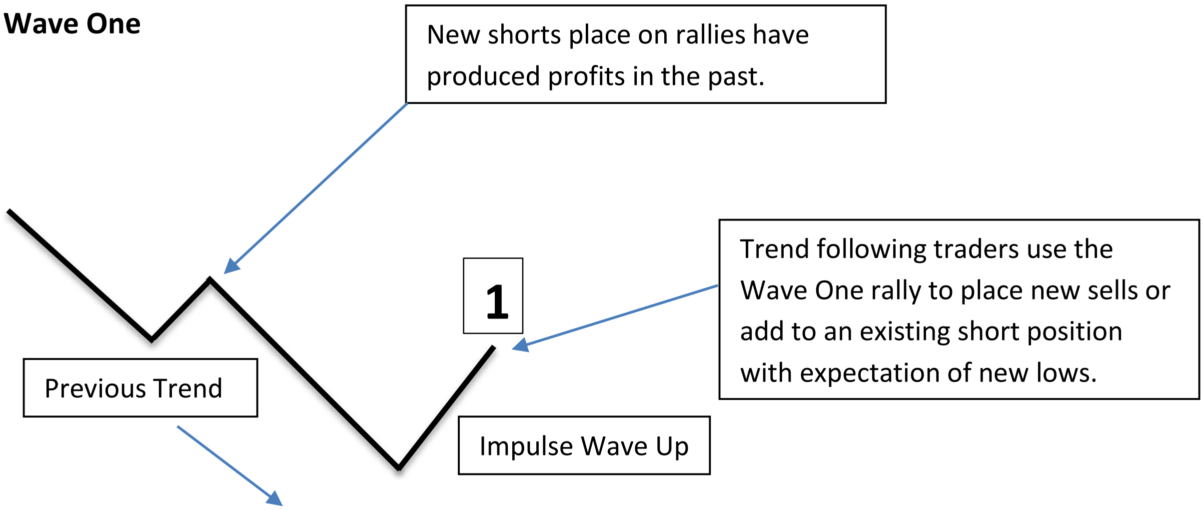
Wave Introduction

An Elliott Wave pattern consists of five waves. Waves 1, 3 and 5 are considered impulse waves. Wave 2 and 4 are corrective waves.

The Elliott Wave pattern may be going either up or down. All guidelines are the same regardless of the direction.



Wave One



Definition – Wave One is the first impulse wave in the opposite direction of the previous trend. It cannot be verified until the retracement (Wave Two) is complete.

Personality – Wave One is usually a weak move against the previous trend with few participants.

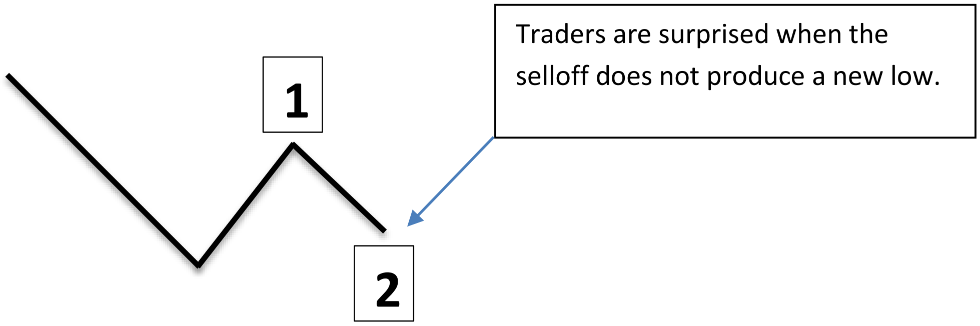
Wave One is created by profit taking within the late stages of a previous Wave 5 or Wave C.

Wave One usually consists of a three wave move. However, it may sometimes be a five wave move.

Once Wave One is finished, the market will revert to its previous trend direction. In addition, trend following approaches will reenter the market with hopes of a return to the extremes of the previous trend.

What to Watch for – The length of Wave One is used to calculate the Fibonacci retracement of Wave Two and the Fibonacci extension of Waves Three and Five.

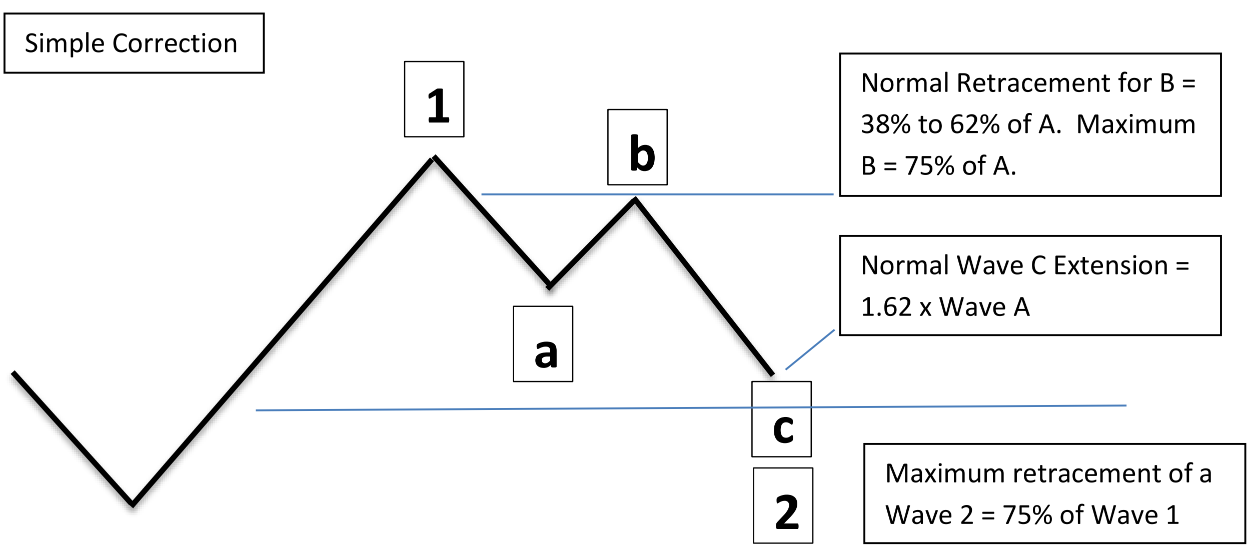
Wave Two



Definition - Wave Two can be a profit taking correction wave. It is created by the traders who think the past trend will continue and entered the market at the end of Wave One. The end of Wave 2 occurs without making a new extreme and is the beginning of a new trend in the opposite direction. Wave Two is a retracement of Wave One, and its low is a function of new buyers coming into the market and traders who are covering their latest trades made at the end of Wave One.

Wave Two corrections can be either; simple or complex.

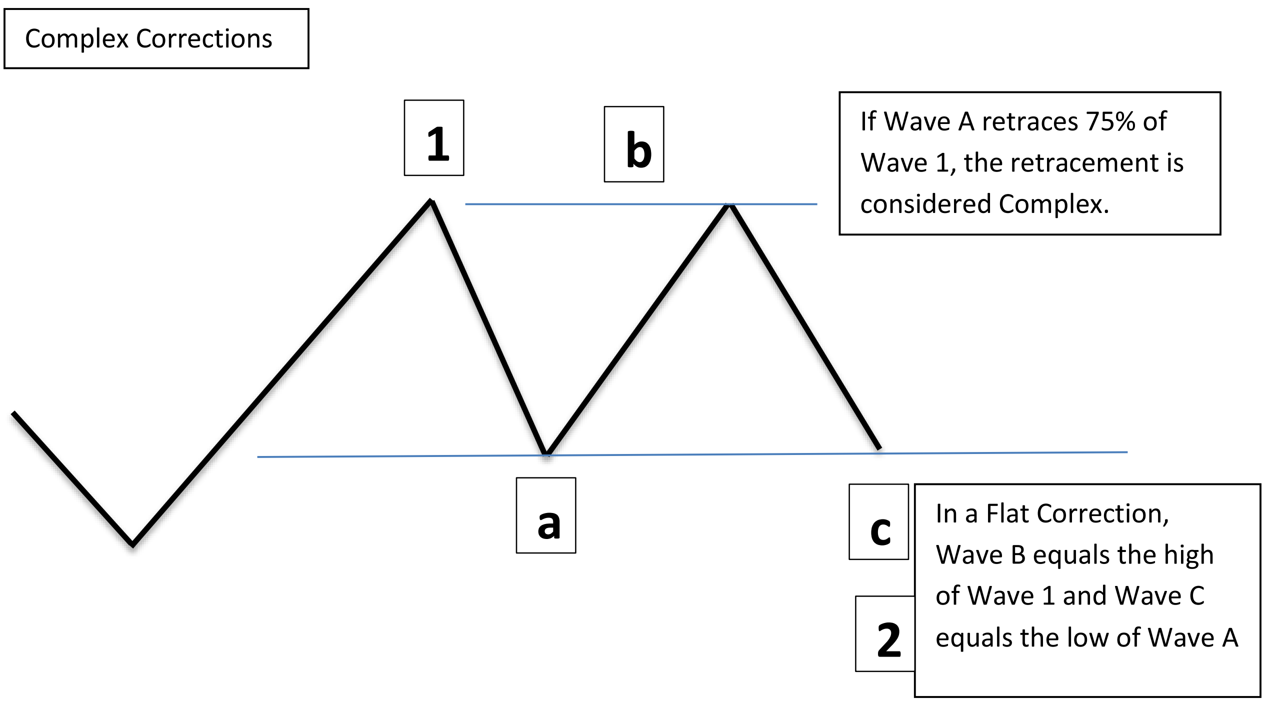
A simple correction is primarily a three step (A, B, C) zig-zag pattern where wave B of the pattern is no more than a 75% retracement of the Major Wave One. A wave B that retraces 38 to 62% of Wave A typically produces a Wave C that equals wave A or 1.62% of Wave A.



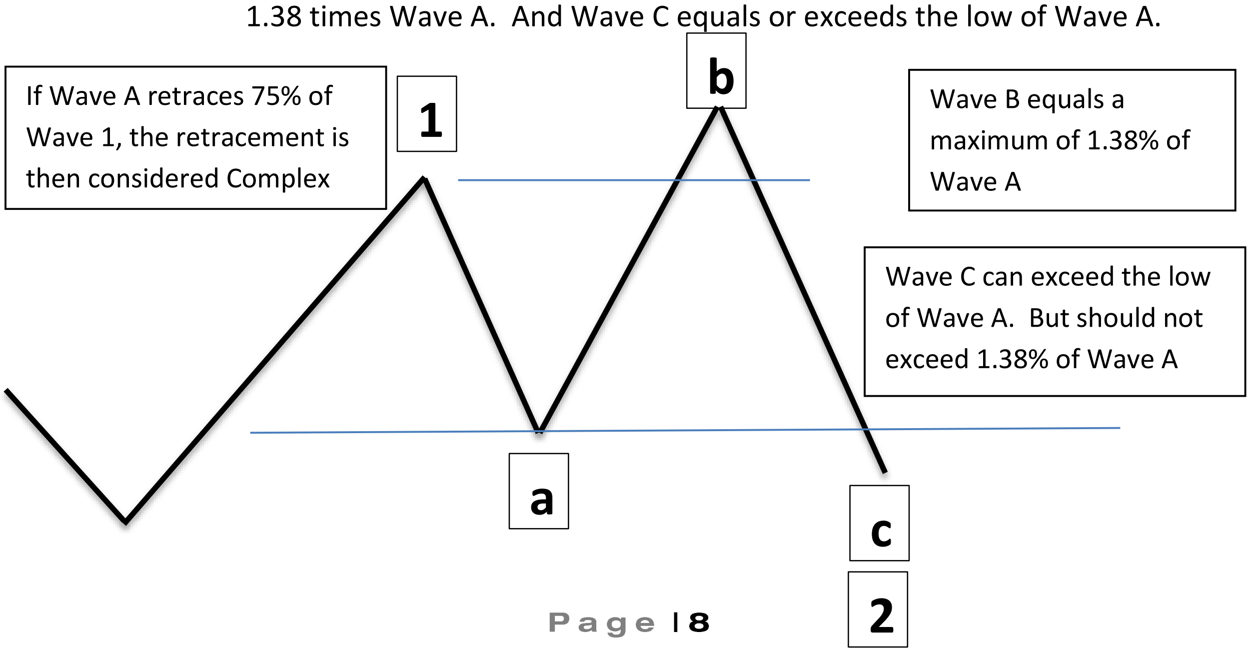
A Wave Two that retraces Wave One by 75% or greater - is considered a complex retracement.

There are two types of complex correction waves

a) Flat – where Wave A retraces 75% of Wave One. Then Wave B equals the high of Wave One. And Wave C equals the low of Wave A.



b) Irregular - where Wave A retraces 75% of Wave One. Then Wave B equals 1.38 times Wave A. And Wave C equals or exceeds the low of Wave A.



Personality – Wave C of Wave Two is often extremely powerful. There is uncertainty as to market direction at this point, and the participants are keen to maintain their profits.

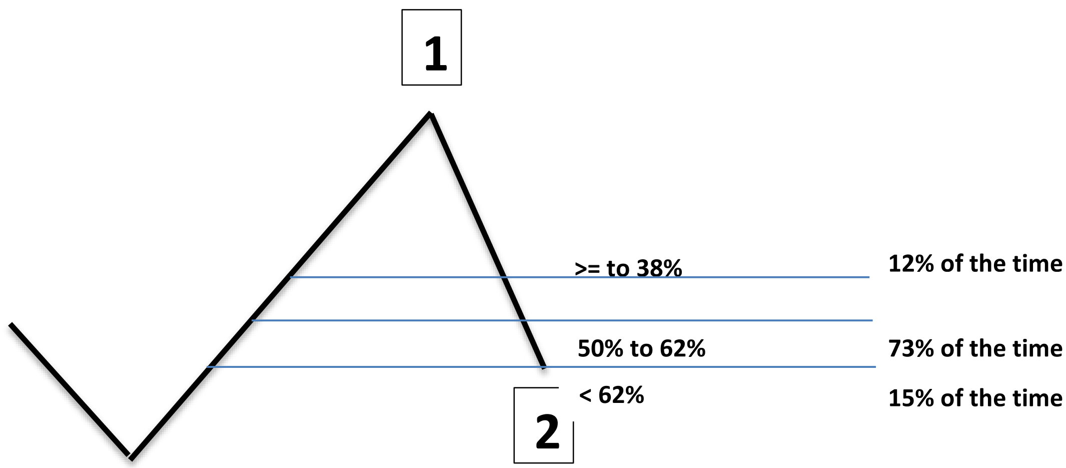
What to Watch for -

A Fibonacci retracement of 38% of Wave One occurs only 12% of the time.

A Fibonacci retracement of 50 to 62% of Wave One occurs 73% of the time.

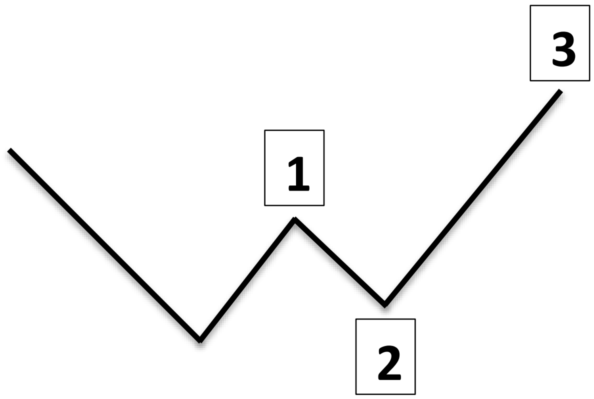
A Fibonacci retracement of less than 62% of Wave One occur 15% of the time. .

Wave Two cannot retrace past the beginning low/high of Wave One (point 0).



The end of Wave Two is the beginning of Wave Three and is the ideal point of entry.

Wave Three



Definition - Wave Three is the second impulse wave in a five wave sequence. Its potential length is measured as a Fibonacci extension of Wave One measured from the end of Wave Two.

Personality - Wave Three is the most dynamic of the impulse waves both in time and price. Therefore, it has the best probable profit opportunity. It is created once Wave Two fails to exceed Wave 0. Wave Three accelerates once the end of Wave One is exceeded. As Wave Three matures, trend following and breakout systems confirm the trend. Near the end of Wave Three, positions taken at the beginning are eager to take profits. Plus positions that were stopped out or exited on the rally are waiting on a pullback to re-enter.

What to Watch for - During a Wave Three, there should be several spots to add positions as price sets back in a bullish Wave Three or rallies within a bearish Wave Three. Every retracement in a Wave Three is either a Wave Two or Wave Four on a shorter time frame.

Expect Wave Three to achieve a minimum objective of a 1.618 Fibonacci extension of Wave One measured from the end of Wave Two.

Wave Three Extension Probabilities:

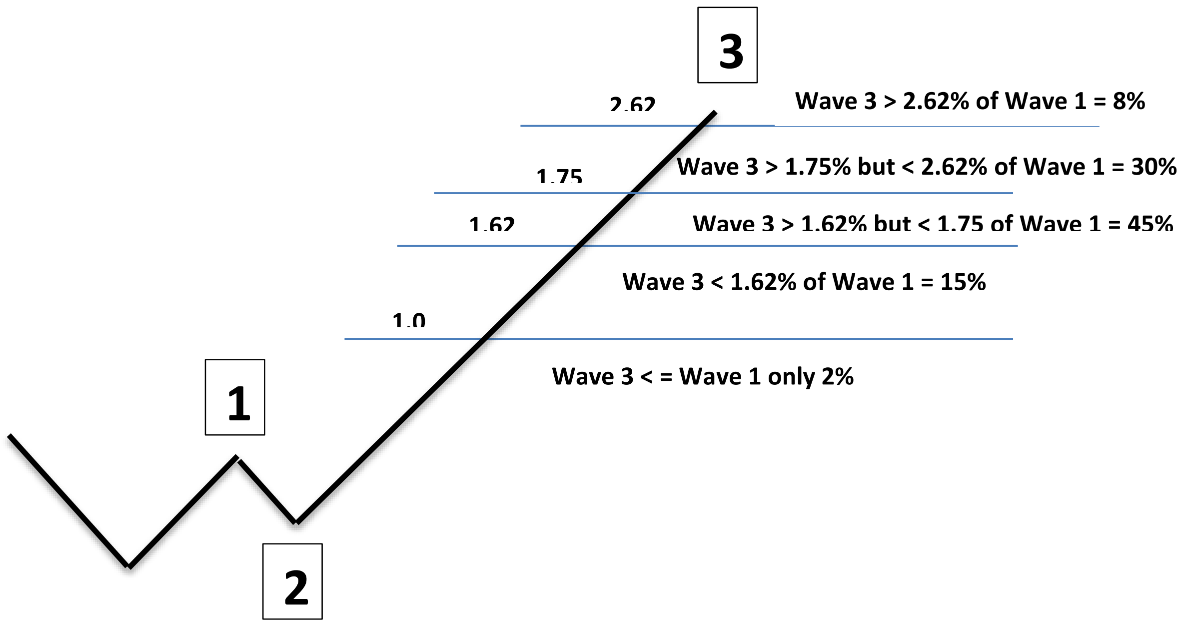
Where Wave 3 is less than Wave 1 – 2% of the time.

Where Wave 3 is greater than Wave 1 but less than 1.62 – 15% of the time.

Where Wave 3 is greater than 1.6 but less than 1.75% - 45% of the time.

Where Wave 3 is greater than 1.75 but less than 2.62% - 30% of the time.

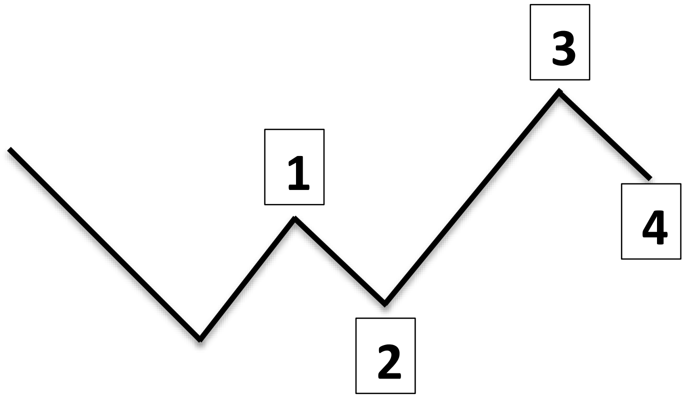
Where Wave 3 is greater than 2.62% - 8% of the time.



During a Wave Three, the strength of the ATM MWO will be at its highest magnitude.

Expect Wave Three to consist of five internal waves. If Wave Three does not contain five internal waves, expect Wave Five to have five internal waves.

Wave Four



Definition - Wave Four is a profit taking corrective wave and is a Fibonacci retracement of Wave Three.

Personality - Wave Four corrections may consist of any of the various types of correction. Near the end of Wave Three, positions taken at the beginning of Wave Three are eager to take profits. Plus, positions that were stopped out or exited during Wave Three are waiting on a pullback to re-enter. This constant buying and selling activity creates an orderly profit taking decline.

What to Watch for - For equities, a Wave Four cannot overlap Wave One. If it does, Wave One, Two and Three will change to an A, B, C wave. In Futures, the overlap can be 17% of Wave One.

A Wave Four will appear on the chart once the wave has retraced 90% of the height of the ATM MWO for Wave Three. It is at this point the ATM PTI (Profit Taking Index) is used. A PTI reading greater than 35 indicates Wave Five should exceed wave Three.

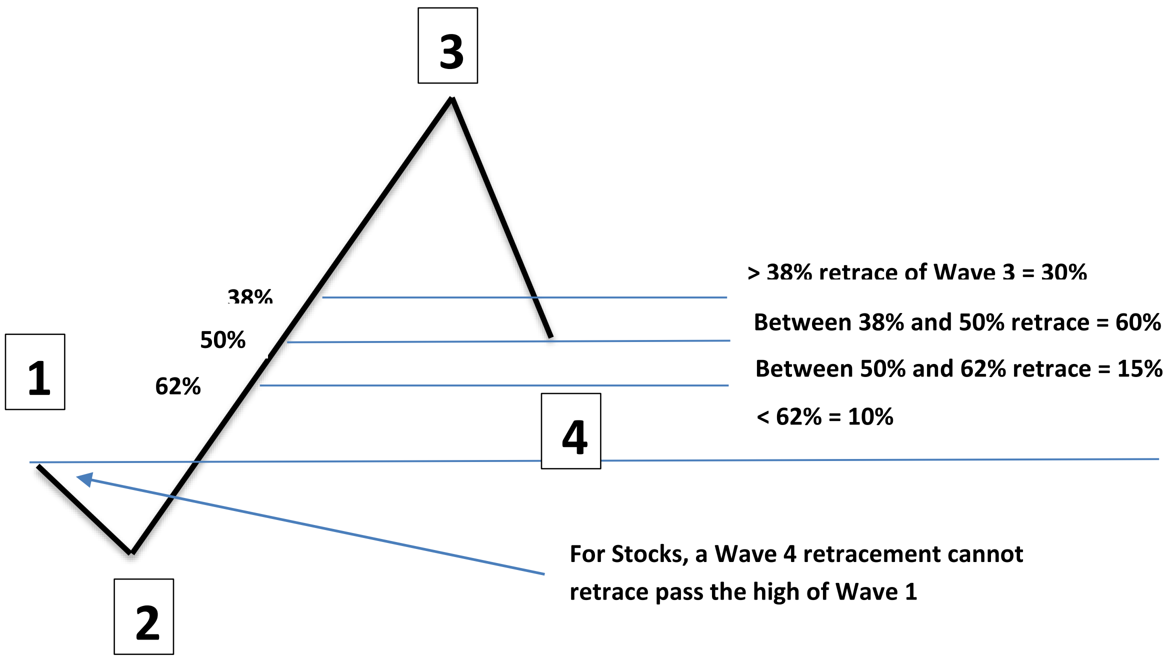
Wave Four Retracement Probabilities:

Where Wave 4 retraces 23 to 30% of Wave 3 – 15% of the time.

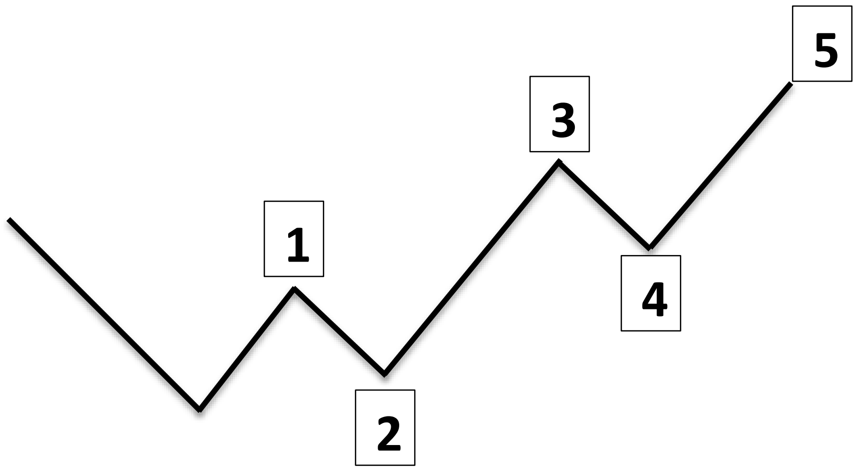
Where Wave 4 retraces 30 to 50% of Wave 3 – 60% of the time.

Where Wave 4 retraces 50 to 62% of Wave 3 – 15% of the time.

Where the Wave 4 retraces is greater than 62% of Wave 3 – 10% of the time.



Wave Five



Definition - Wave Five is the third and last impulse wave in the five wave sequence. It is a Fibonacci extension of Wave One measured from the end of Wave Four.

Personality - At the end of Wave 4, profit taking is over, and those who exited early in Wave Three are eager to re-enter.

Notice the change in mindset from the third to the fifth wave. While Wave Three was created by crisis and panic response, Wave Five is not. It is fueled by orderly entry.

Wave Five can move to new extremes, but it lacks the power found in Wave Three. This power is reflected in the ATM MWO and the divergence difference between the extreme price of Wave Three and the current price of Wave Five.

The activity of Wave Five concludes, and the market enters a corrective phase and a potential new Wave pattern can begin.

A normal Wave Five consists of three internal waves. If Wave Three was at least a 1.618 Fibonacci extension of Wave One – expect a typical Wave Five.

An extended Wave Five consists of five internal waves. An extended Wave Five occurs if Wave Three failed to reach a 1.618 Fibonacci extension of Wave One. This condition will usually result in Wave Three changing to a Wave One and Wave Four changing to a Wave Two and Wave Five becoming a Wave Three. The ATM MWO will notify you to this development as its highest peak will exceed the previous peak during the Wave Three.

What to Watch for - When Wave Five is over, look for the first move in the opposite direction when the retracement fails to exceed the end of Wave Five.

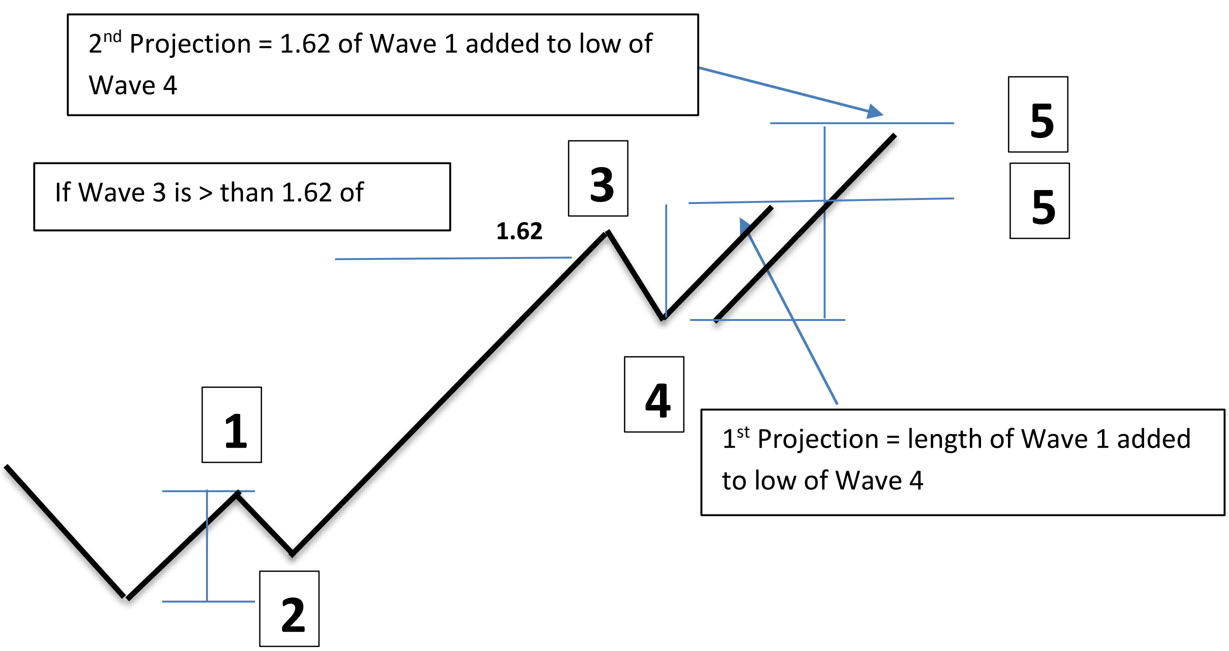
During a Wave Five, the ATM MWO when compared to the last Wave Three, will diverge (height of ATM MWO during Wave Three price peak will be higher than the value of ATM MWO during Wave Five price peak).

Wave Five Extension Probabilities:

If Wave 3 is greater than a 1.62 extension of Wave 1, expect Wave 5 to relate to the length of Wave 1:

1st Wave 5 projection will equal the length of Wave 1 added to the low of Wave 4

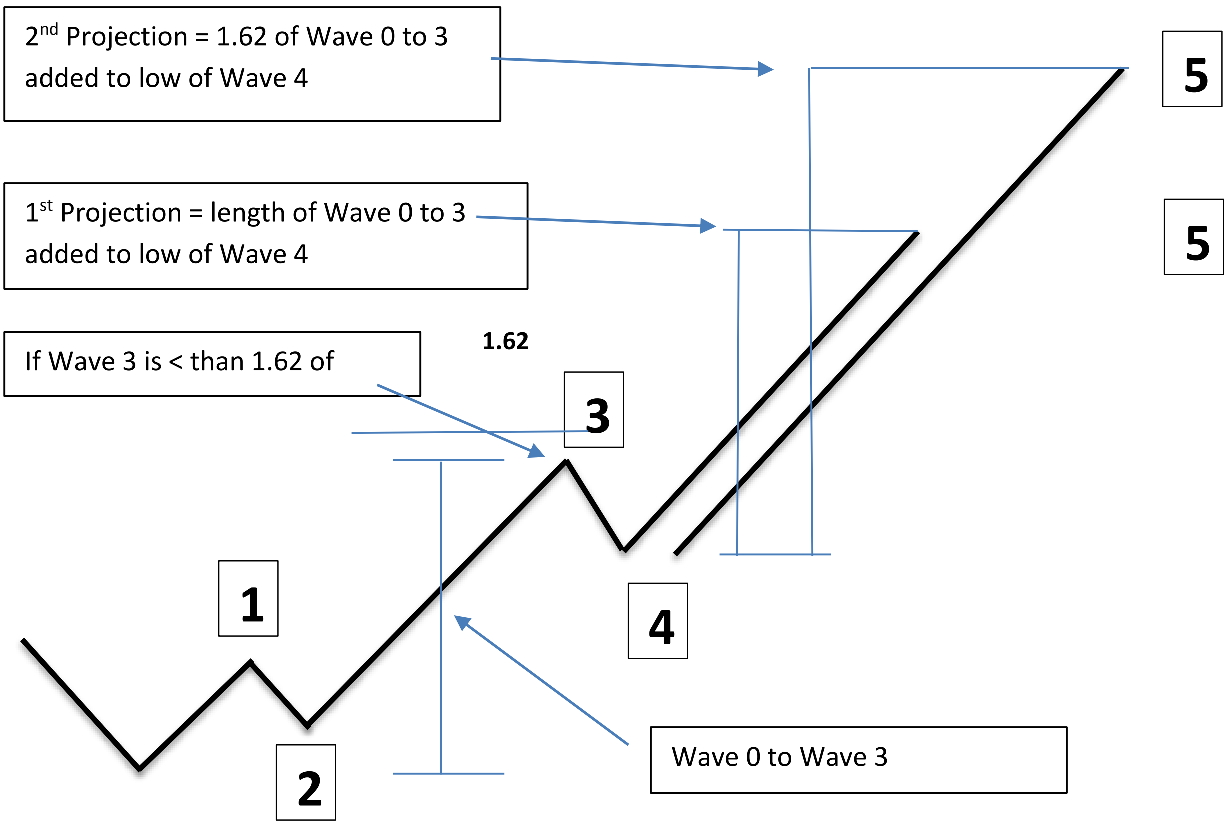
2nd Wave 5 projection will equal 1.62% the length of Wave 1 added to the low of Wave 4



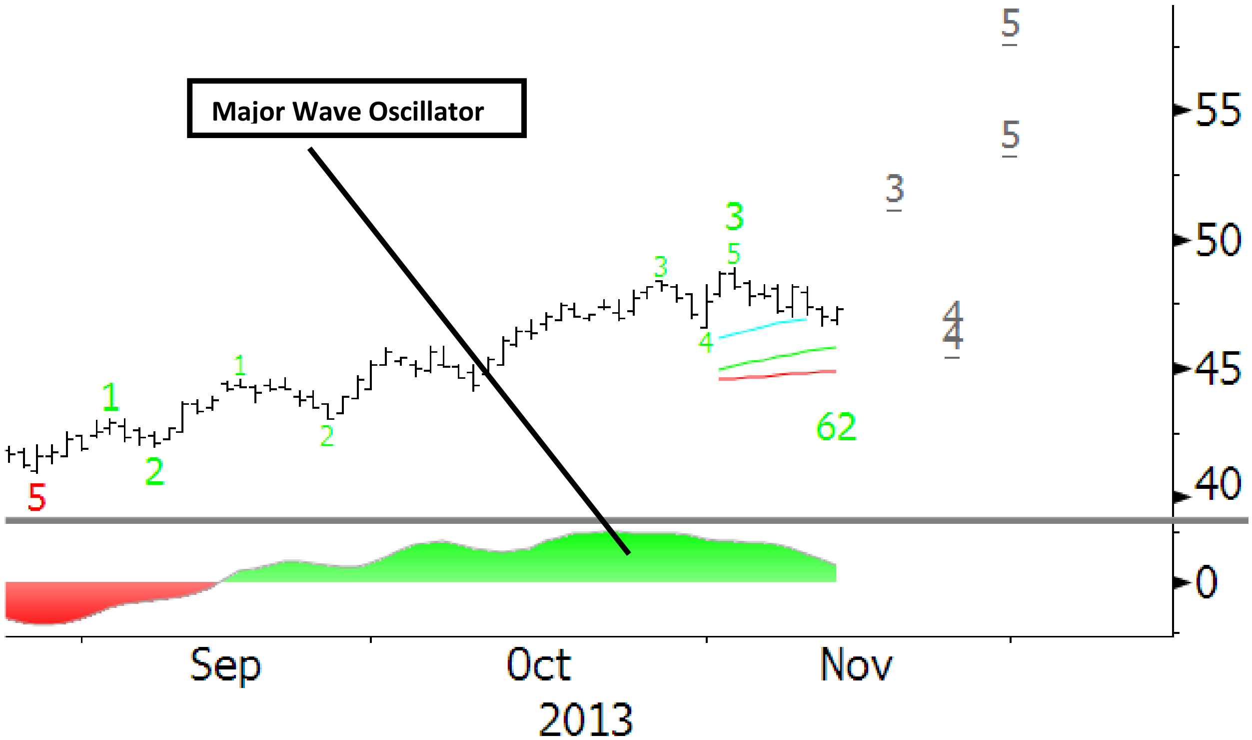
If Wave 3 is less than a 1.62 extension of Wave 1, expect Wave 5 Extension to relate to the length of Wave 0 to the end of Wave 3:

1st Wave 5 projection will equal the length of Wave 0 to 3 added to the low of Wave 4

2nd Wave 5 projection will equal 1.62% the length of Wave 3 added to the low of Wave 4



4. The ATM MWO (Major Wave Oscillator)

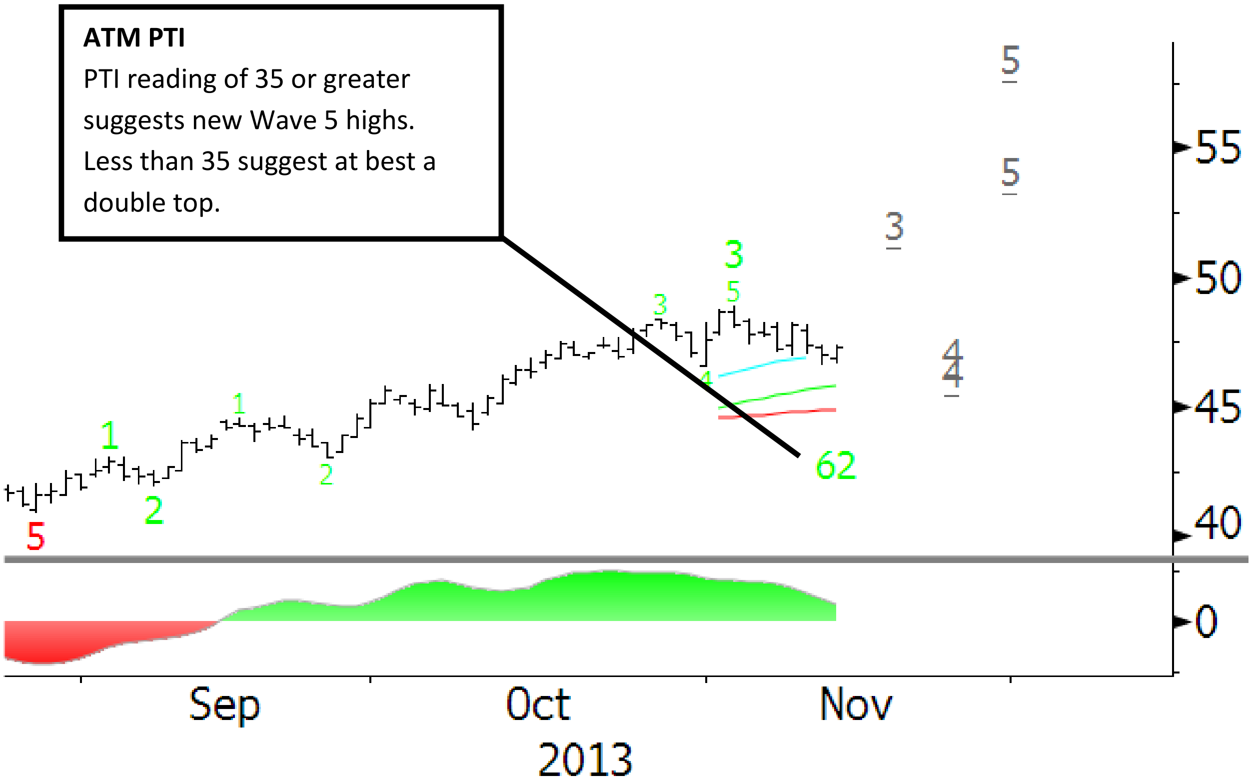


The ATM MWO study measures the rate of price change in one wave against the rate of change in another wave. To achieve this purpose the visual mass in the oscillator during Wave Three and compare it to the mass created during Wave Five.

Wave Three progress through price and time with greater measurements than Wave Five.

Due to these physical differences, the area created in the ATM MWO during a Wave Three will be larger than the area created during Wave Five.

5. ATM PTI (Profit Taking Index)



The ATM PTI deals with Buying /Selling strength at different stages within a five wave sequence.

Based on Elliott Wave rules, Wave Fours is a profit taking wave. Traders long during Wave Three are taking profits. Once the profit taking is over, buyers come into the market, and this pushes the market to new highs in a Wave Five.

While Wave Four is in progress, the ATM PTI will track the price action and compare it to the price action in Waves 1, 2 and 3. This cross referencing between time frames creates the ATM PTI.

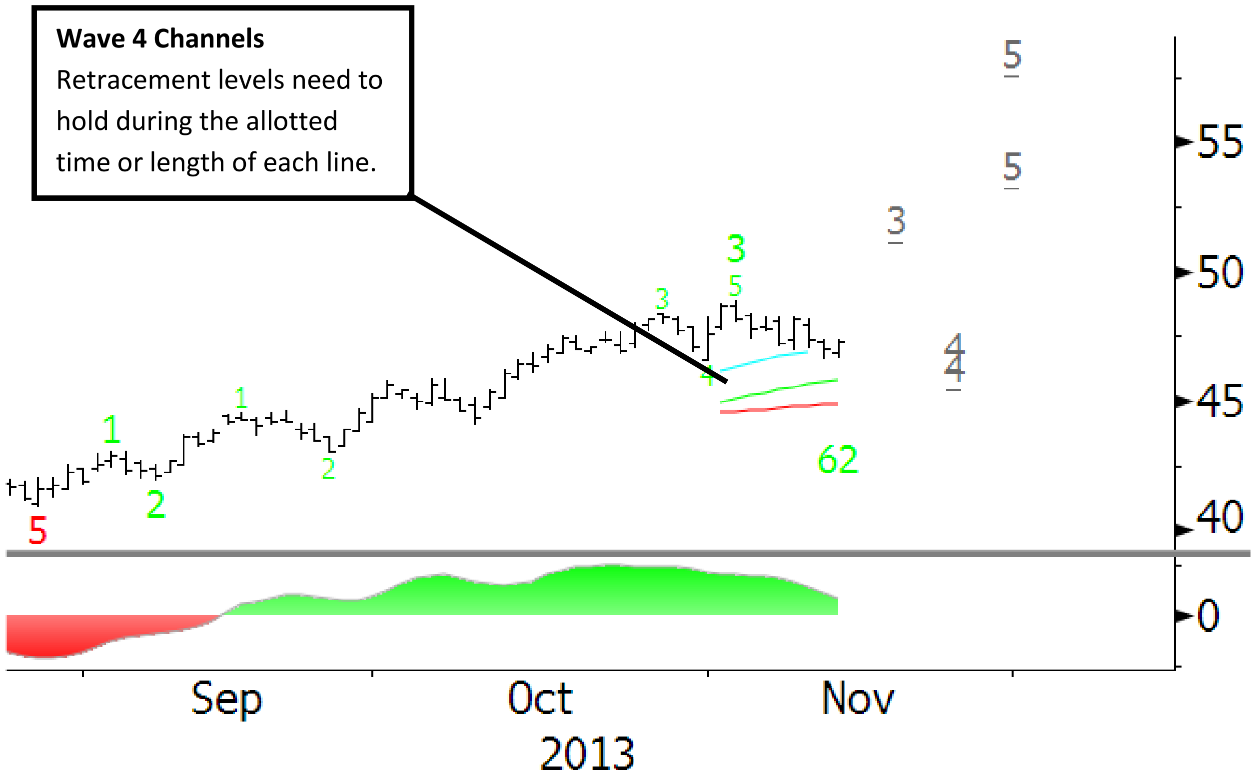
Most Wave Four retracements generating an index value of 35 to 60 and indicates average profit taking.

Statistically, if the ATM PTI is greater than 35, the market exhibits a greater tendency to establish a Wave 5 or 2nd attempt to reach the last Wave Three extreme.

Statistically, if the ATM PTI is less than 35, the market generally fails to establish a Wave 5 or 2nd attempt to reach the last Wave Three extreme.

If the ATM PTI is less than 35, and the market initiates a Wave 5, the potential for a double top becomes very high.

6. ATM Wave 4 Channels



Where the ATM PTI deals with buying/selling momentum, the ATM Wave 4 Channels deal with time. After a strong rally, the retracement phase is allowed a certain amount of time prior to initiating the Wave 5 phase.

When the ATM Elliott Wave study discovers a potential Wave Four in progress, the study will display the ATM Wave 4 Channels.

If the Wave 4 Retracement holds above the Wave 4 channels, the odds for a strong Wave 5 (or 2nd attempt) are greater

If the Wave 4 Retracement holds below the Wave 4 channels, the odds for a strong Wave 5 (or 2nd attempt) are low.

The significance of Wave 4 Channels

1) During a Wave Four Retracement, if price holds above the First Channel, then the statistical odds are better than 80% for a strong wave Five rally.
2) During a Wave Four Retracement, if price holds above the Second Channel, then the statistical odds are better than 60% for a strong wave Five rally
3) The third channel is the last channel and an area to place stops. If the price does not hold at the third channel, the odds are against a new Five Wave high.

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