

PRICEACTION LTD PRESENTS

THE COMPLETE GUIDE TO FOREX TRADING

Must Read For All FOREX Traders



14.09.

19.09.

26.09.

04.10.

10.10.

ABOUT US

Making money consistently in the Forex market takes years of experience which includes losing a lot of money in the process. We are a team of more than 15 professional traders who have spent years compiling, testing, organizing, and consistently updating trading method to create our own new version, which is considered to be the easiest and most profitable trading system.

We scan the markets 24/7 every single day. So to coach you on Forex Signals based on our years of experience in combination with the technical analysis, we have published this guide. The Complete Guide To Forex Trading is the guide that is going to finally take your trading to where it should be, consistent, profitable, easy and requires very little time and effort.

The easy to follow strategies detailed in The Complete Guide To Forex Trading will provide you with profit making techniques that can be quickly learned. All that you have to do is to spend as much time as you can to master the method that we are going to share with you and use it to trade any financial market. We trade our expertise to save you from the losses and make you money from the beginning.

FAQ

1. What does The Complete Guide To Forex Trading offer?

- The Complete Guide To Forex Trading offers knowledge of Forex signals in order to help traders start making the most out of Forex trading and earn a consistent profit. Our mission is to help every trader to become a long term profitable without having to worry about it. Build your trading knowledge/skills by studying our trading course and learn how to do your own trading analysis in a short period of time after following our technical analysis.

2. How to make money like professional traders?

- Forex can be a very quick way to become rich only if you have the skill. This skill takes years to build. People who are in the markets for years understand the ever-changing market demands and act accordingly.

One way to is to learn to trade like the professional traders. This is exactly what we offer in our Ebook

where all the knowledge about signals is given by our professional traders. Another easier way is to take the exact same calls as the professionals and make money together. We offer this in our signal service where all the signals are given by our professional traders.

3. Do I need any specific background of trading experience to become a successful trader?

- Becoming successful in Forex takes years of hard work and patience. It is recommended to learn at least the basics of Forex trading in order to achieve better results. But with us, you don't even need any past experience in the industry. You only have to follow our guidance.

4. How to start trading Forex?

- First of all, you need to know the basics of trading Forex. If you're a complete beginner this book will help you to learn about the basics of Forex trading.

5. Can I still benefit from this guide even if I'm a newbie?

- Yes absolutely. We have included here all the knowledge/skills you need to understand Forex Trading, even if you are a newbie! By studying our trading course you can learn to do your own trading analysis in a short time. Just take your time to understand all the concepts discussed here, take your notes, and go back from time to time to review the strategies shared with you.

6. How can I maximize my learning from this The Complete Guide To Forex Trading?

- Our The Complete Guide To Forex Trading is a complete guide to learning about Forex Trading. Yet, if you want to maximize your learning, we recommend you to subscribe to our PriceAction Forex Ltd signal services. In that way, you will be able to compare your understanding of the signals to that of our professional traders. You should take your time to understand all the concepts discussed here, take your notes, and go back from time to time to review the strategies shared with you.

7. What is the difference between The Complete Guide To Forex Trading and other Ebook?

- In this The Complete Guide To Forex Trading, we have compiled the learning from our experience. With our experience in the market, we have learned how to sustain in an ever-changing market without being inconsistent. We have been profitable over the years which makes us the best choice for you if you want to sustain long term.

8. Do you provide signal services?

- Yes, we provide top-notch signal services. Foreign currency exchange is simple and easy to understand. Our goal is to offer a top quality service for all types and levels of traders among our trading community.

9. Why choosing the right broker is so important?

- After knowing the basics you will need a good broker next. 95% of traders lose money. What would happen if someone knew what 95% of traders are doing? S/he could simply take the opposite trades and win 95% of the times. This is exactly what the market maker brokers do, as a result, they want you to lose your money so that they can win. broker next. 95% of traders lose This is why a good broker is a very crucial

part of your Forex journey. We recommend you to use reputed true ECN brokers only.

10. In recent years, markets have been in crisis. Is it a good time to trade?

- With Forex, we can short currency pairs as well. In simple words, we can even make money when the price of an asset goes down. We bet against the asset when the prices go down, we win our bet and make money. Doesn't matter if the market is bearish or bullish, there is the money making opportunity all the time.

11. What is leverage?

- The level of credit you get on your currency investment from your broker. You can choose between a vast range of leverage amounts. Most brokers usually offer up to 1:100 (meaning for example – 1,000 EUR becomes worth 100,000 Euros of traded currency!). There are some brokers that offer even higher leverage, like 1:200. Remember, high leverage is far more risky while also potentially far more profitable. No other market can

compete with this scale of leverage.

12. How much money I can make by trading Forex?

- There is no limit. There is enough for everyone to make a fortune, but remember the market can go against you as well. You can lose your money in just a few minutes if you are hasty and don't take steps to reduce risks.

13. Is it risky to trade Forex?

- Forex trading is not completely risk-free, but when you learn from professionals to manage the deals, the risk is minimized. Like every type of investment, Forex contains possible risks. Forex traders face these risks because of the great possibilities for large earnings which Forex provides.

14. How many pips can I expect in a month?

- Monthly goal is to make anywhere from 2000-4000 pips per month with lowest drawdowns possible. If you follow all our instructions in The Complete Guide To Forex Trading and/or our provided signals, you will be in 2000+ pips profit per month hopefully.

15. How big is the Drawdown?

- This is a very relative concept and depends primarily on the risk you are taking in a deal. There are conservative traders who risk less than 1% of their capital in each order, but there are those who risk half their capital. This is the reason why it is difficult to determine what the maximum drawdown is.

16. What is the appropriate balance to start?

- As you can trade micro lots, you can start with as less as 200 USD. However, your deposit is up to you and you can choose it depending on your financial situation.

Keep In mind if you want to maximize the returns and profits, you need to make a significant financial investment as it can turn to be crucial. DO NOT INVEST MONEY YOU CAN NOT AFFORD TO LOSE!

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MODULE 1 - CHAPTER 1

SUPPORT & RESISTANCE

This section seeks to teach you the concept of support and resistance, as well as the reasoning behind its effectiveness. Increasing your knowledge and understanding of support and resistance is a vital element. The better you understand the concepts and theories, the more effective you will be in applying the concepts taught in this course to your actual trading.

You will also be presented with various triggers that when combined with support and resistance knowledge can generate outstanding trade setups.

The majority of Forex traders have heard about support and resistance, and many of these traders use support and resistance in their trading. However, very few understand the true potential that support and resistance presents in the Forex market.

Using the concepts taught in this course, you will be able to create trade setups that have great potential

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SUPPORT & RESISTANCE

and will be able to help you identify where and when you should enter and exit your trades.

However, to do this you must first become proficient at identifying support and resistance levels.

Support and resistance is one of the most widely used concepts in forex trading. Strangely enough, everyone seems to have their own idea on how you should measure forex support and resistance.

The beauty of support and resistance lies in its simplicity. Its validity has been tested over and over again throughout history and remains one of the most widely used analysis tool of all time. It works because it is based on simple crowd psychology. And as much as we don't like to admit it, we are basically the same irrational creatures we were a few hundred years ago.

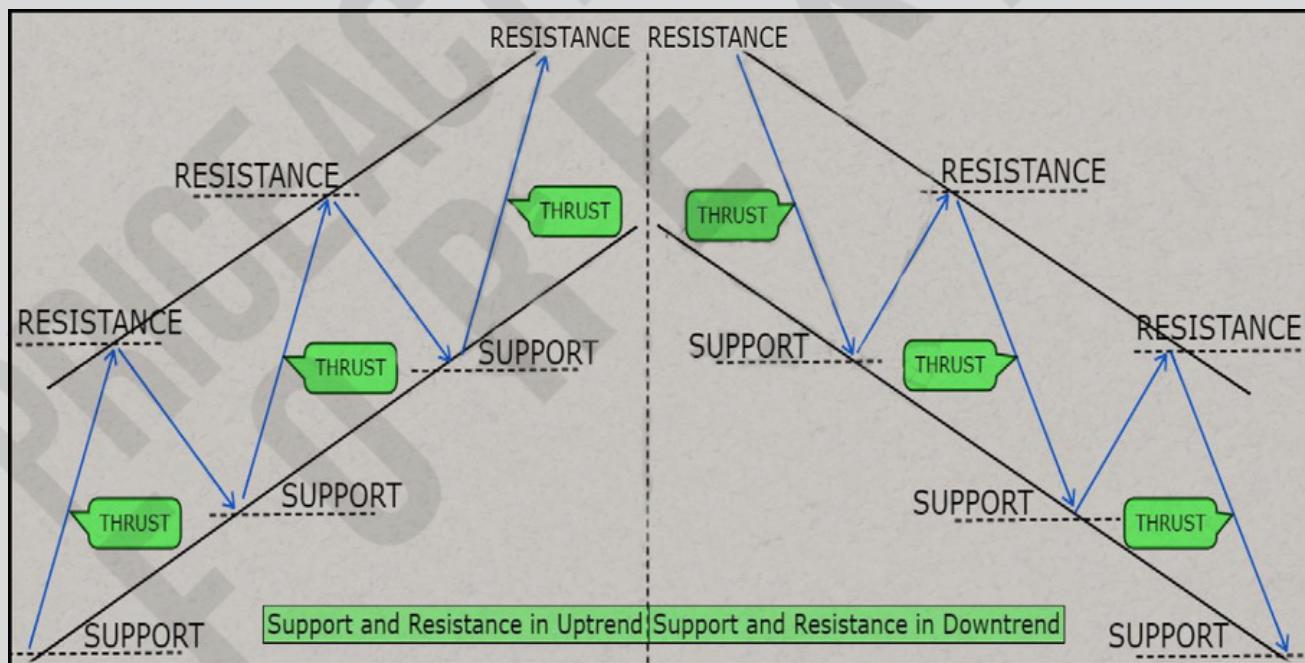
If you could predict where the market is heading, you would be a millionaire. Unfortunately, no one has

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developed an indicator that will predict the future. Many indicators have been created that will give you a probable direction of the market, and among them, the concept of support and resistance has risen to the top of the pile.

Example Support Resistance Levels:



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Support is a price level where the market has difficulty dipping below it because the demand is sufficiently high at that level. Support levels are always on or below the current price. In other words, the support line is where the price stops falling.

Here is an example from Support Levels:



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Resistance is the opposite of support. It is a price level where the market has difficulty surpassing that price level because the selling forces are strong at that price. Resistance levels are always on or above the current price. It is where the price level stops rising

Here is an example from resistance levels



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Strength of the Support and Resistance Line

Each time the price of the currency pair touches the support or resistance levels, it strengthens its validity. A psychological barrier exists at that price which will prevent it from dipping below the support line or crossing over the resistance line.

The support and resistance are given greater weight if it happens to lie on an even number. The psychological pressures are greater at these even numbers.

Our trading strategy recommendation from using this support resistance levels is very simple, first of all this support resistance trading strategy still need to be filtering with fundamental analysis and candlestick basics knowledge.

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Definition of 'PASR'

PASR is an acronym for Price Action Support Resistance. These price levels are derived from prior price activity viewed on charts where swing highs and lows display a reaction off of a certain price area.

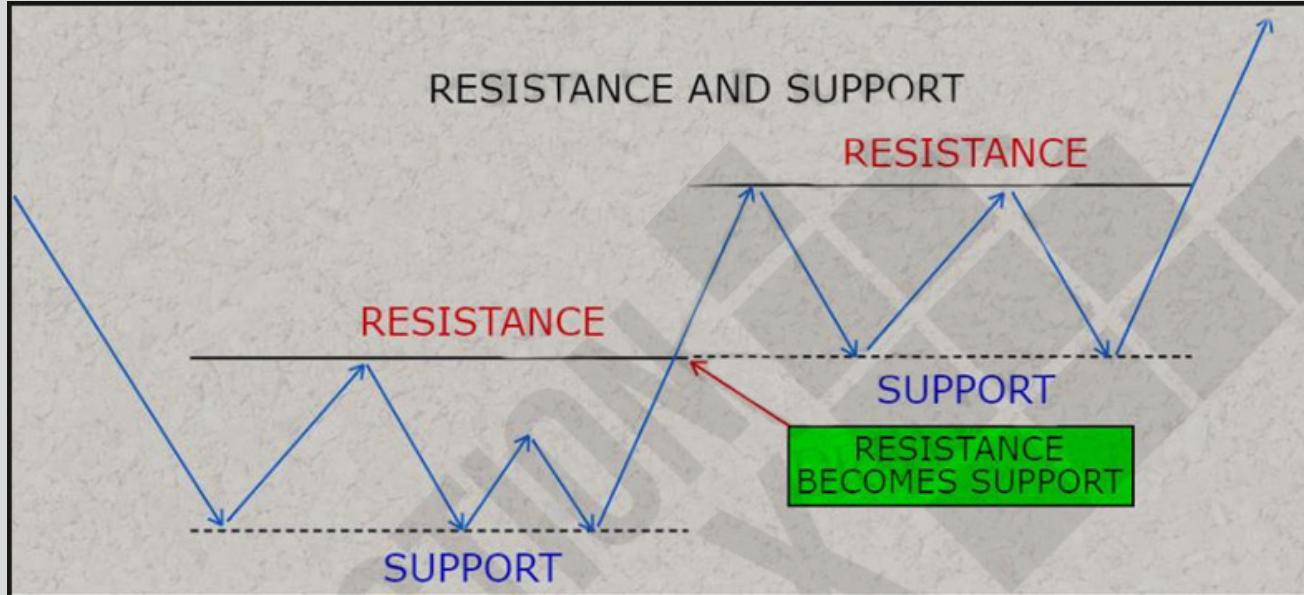
These price areas can subsequently function as either support or resistance in future market movement. Often, price support if eventually penetrated to the downside will become resistance and vice versa with a resistance price level where price penetrates to the upside.

Drawing in Price Action Support and Resistance levels is a discretionary "art" when viewing a chart, no matter what time frame.

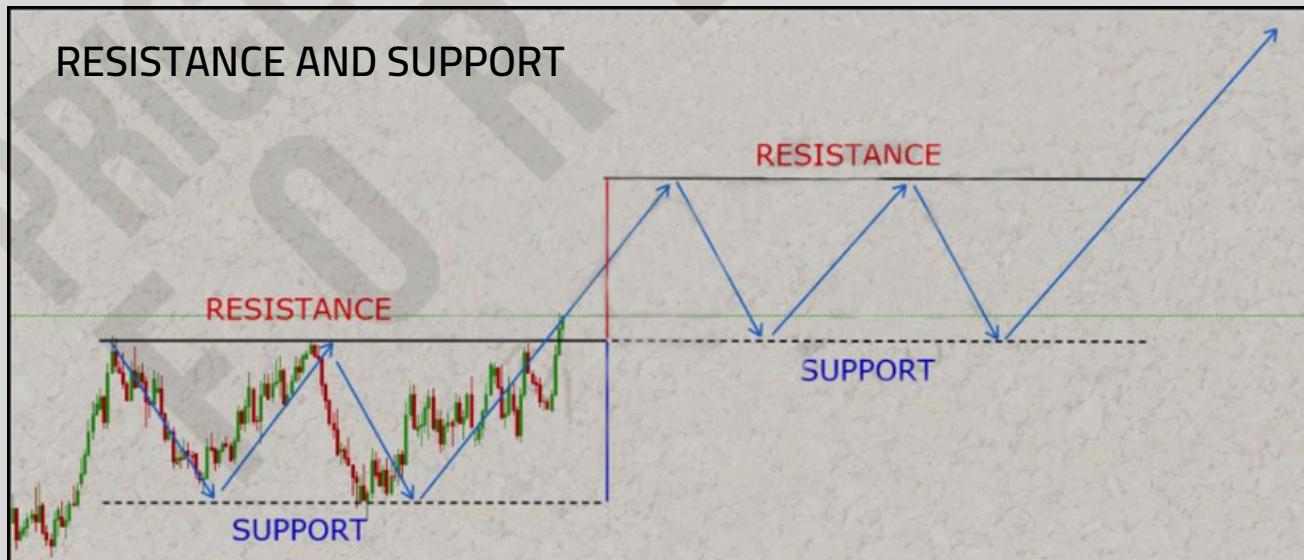
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Here's a graphic showing PASR:



Live Example:



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TREND LINES

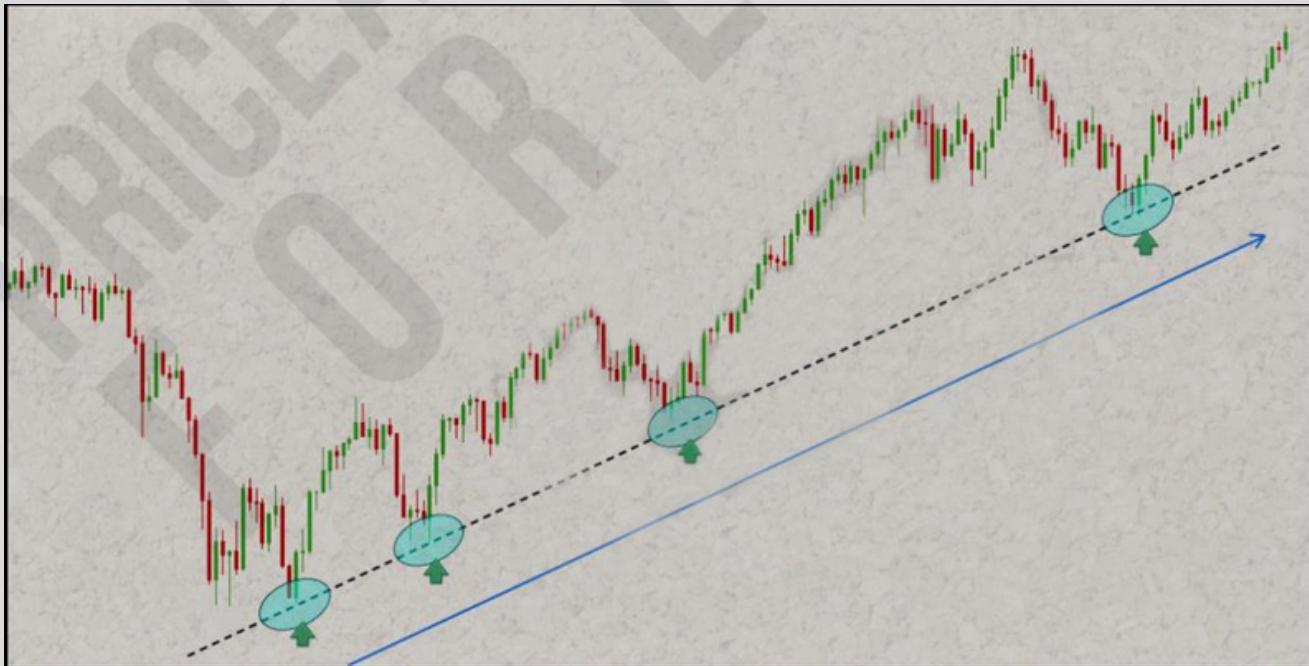
- Not a random drawing on the chart
- There are rules to follow when drawing a trend line
- Trend lines provide guidelines for price
- Can be a support/resistance
- Most of the time, trend lines are sloping
- The degree of the slope indicates trend strength
- Applicable to any chart time-frame

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TREND LINE - UPTREND

- Look out for swing lows on the chart
- Connect the lows of the swings to form a straight line -Lows and not the period close
- Trend Line must have at least 3 points of contact of the swing low
- Indicates bullish momentum, more buyers than sellers



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TREND LINE – DOWNTREND

- Look out for swing highs on the charts
- Connect the highs of the swings to form a straight line -Highs and not the period close
- Trend Line must have at least 3 points of contact of the swing high
- Indicates bearish momentum, more sellers than buyers



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Applying Support and Resistance

- There are 6 rules which can be used to draw effective support and resistance lines:

Rule 1. Support and resistance lines are zones, not specific points. Expect prices to reverse in this general area; do not expect prices to turn about instantly. These areas of resistance can easily range up to 30-40 pips in size.

A general rule is that the higher the time frame chart used to draw a support/resistance zone, the greater the resistance of that area. Thus a line drawn off a 4 hour chart would have more significance than one based off of a 15 minute chart.

Rule 2. Wait for confirmation of a price reversal before jumping head first into a trade. Just because you setup an area where price is likely to reverse does not mean

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Applying Support and Resistance

you should enter a trade the second the price hits this zone. Instead, wait for a signal that price is reversing and then enter your position.

It is critical to have some form of indicator or confirming signal to let you know price is indeed retreating from the resistance area. There are several different indicators, (MACO, RSI, CCI) signals J and candlestick formations that can be used to confirm a reversal in the Forex markets. A few basic ones are covered only in this section.

Rule 3. Instead of mentally noting where an area of resistance is, use a thick solid line that can be found in almost any Forex charting package. Play with the positioning of the line and choose the position that visually fits the Forex chart best.

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Applying Support and Resistance

Concentrate on fitting the line to the curves and tops of trends. Play around with your Forex charting package. Sometimes a particular chart in style offers too much information.

Rule 4. Identify support AND resistance areas. Find areas that not only exhibit support or resistance but ones that act as both a support and a resistance zone.

Look for areas that have shown both supporting and resisting characteristics over a period of time. These will be the best lines as they show strength on both sides and because of this, reinforce the validity of the line.

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Applying Support and Resistance

Rule 5. The best support and resistance areas have been around for a long time. Like a good wine, support and resistance zones only get better, or in this case stronger, with age.

The longer a support/resistance line has been around, the stronger that line tends to be. This proves specifically useful when a currency pair approaches an area it has not traded near for a long time. In addition to that, support and resistance lines are stronger on longer time frames. That is to say that a support/resistance zone on a daily Forex chart is stronger than a support/resistance line drawn on a 15 minute chart.

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Applying Support and Resistance

Rule 6. These rules are intended to help you find significant support and resistance zones, but by no means are they the only rules that you should or could use. Play around with different Forex charts and different time frames and see what you find most useful and most productive. Create rules that are simple and easy for you to follow. This way you can continue to apply them later on in your Forex trading career as well as easily adapt them if you come up with different ideas.

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SUPPORT & RESISTANCE

Drawing Support and Resistance Levels like a Pro

STEP 1 Remove EVERYTHING but the price action from your charts

You don't want anything distracting your eye when you're looking for the most important support and resistance levels on a chart, you want the clearest and 'purest' view of the chart you can get. For this reason, I take off any moving averages that I may use on my charts and I HIGHLY recommend you do to.

Just remember: A clear chart with only price bars (candlesticks) is going to give you the best view of the market and the key levels you need to find and draw on it.

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Drawing Support and Resistance Levels like a Pro



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Drawing Support and Resistance Levels like a Pro

STEP 2 Start at the weekly chart, draw in the long-term levels!

The weekly chart is what I consider the best place to start in learning to draw in support and resistance levels, because it provides you with the clearest view of the most significant long-term key levels you need to have on your charts.

For example, I am going to take you through how I would draw in the support and resistance levels on the same market (GBPJPY), starting from the weekly view.

You will notice in the example below, I have zoomed out a good distance on the weekly chart (about 2 years) and placed horizontal lines at what are the clearest and most obvious price points or areas in the market where price changed direction.

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Drawing Support and Resistance Levels like a Pro



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Drawing Support and Resistance Levels like a Pro

STEP 3 What to do on the daily chart

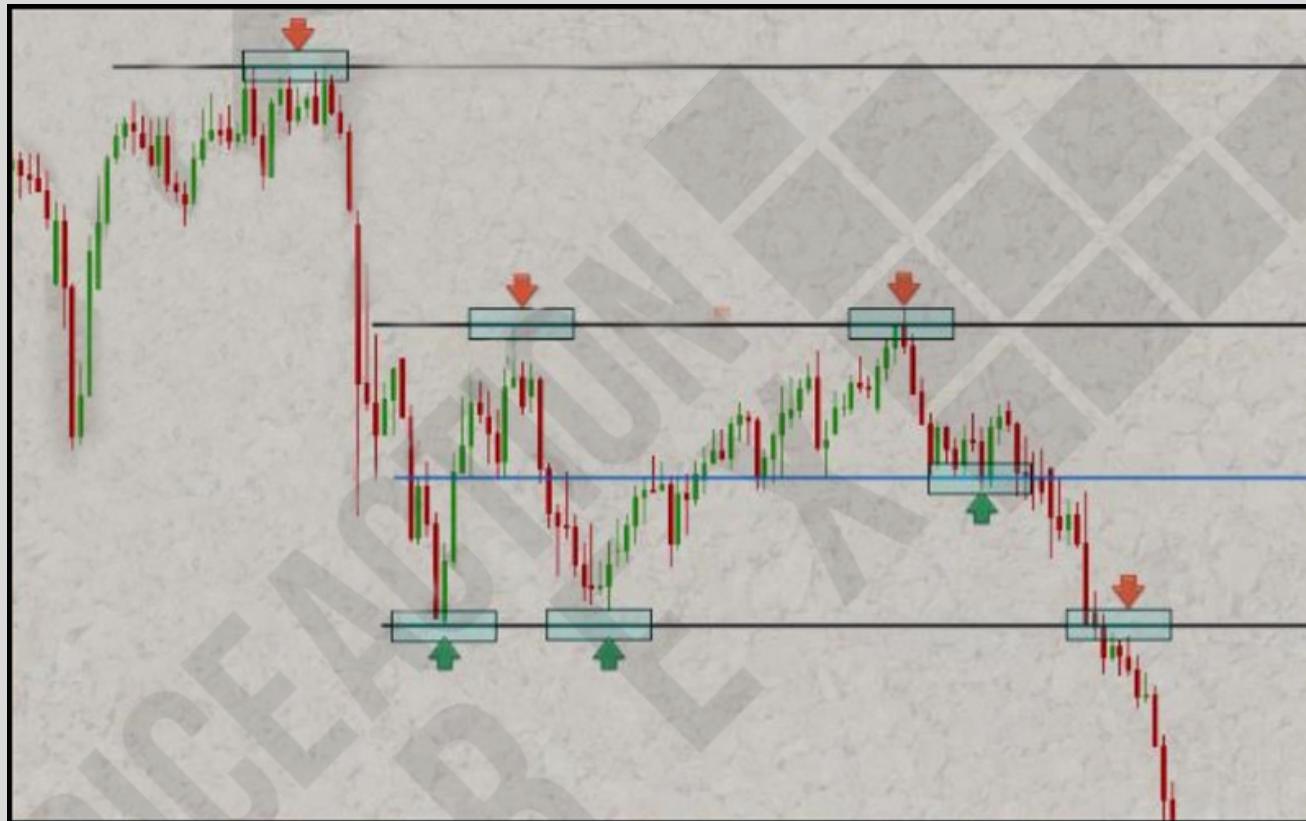
After you've identified and drawn in the key long-term levels on the weekly chart time frame, it's time to drop down to what I consider the most important time frame; the daily chart.

At this point, you are now looking for any obvious key levels that weren't clearly visible on the weekly chart and that you may have over-looked. You are also going to draw in any obvious closer / near-term levels. These near-term levels are more likely to come into play than the further out key levels, so they are important to identify and draw in.

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Drawing Support and Resistance Levels like a Pro



Notice on the daily chart, I've drawn in a new level at 184.22, I consider this a near-term level and notice it was not obvious to me on the weekly, but clearly it's an important level so I drew it on the daily.

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Drawing Support and Resistance Levels like a Pro

Also notice I've adjusted the key support and resistance levels that we drew on the weekly up or down slightly. I did this because after viewing them on the daily chart it made sense to me, based on the position of the level relative to the bar highs/lows, to adjust the level slightly. This is totally fine and you will find that as you view weekly levels on a daily chart you sometimes will see a reason to adjust them slightly as I did in the example. I am not talking 'big' adjustments; if you notice I adjusted mine by about 20/30 pips or so.

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Drawing Support and Resistance Levels like a Pro

STEP 4 What to do on the intraday (4 hour and 1 hour charts)

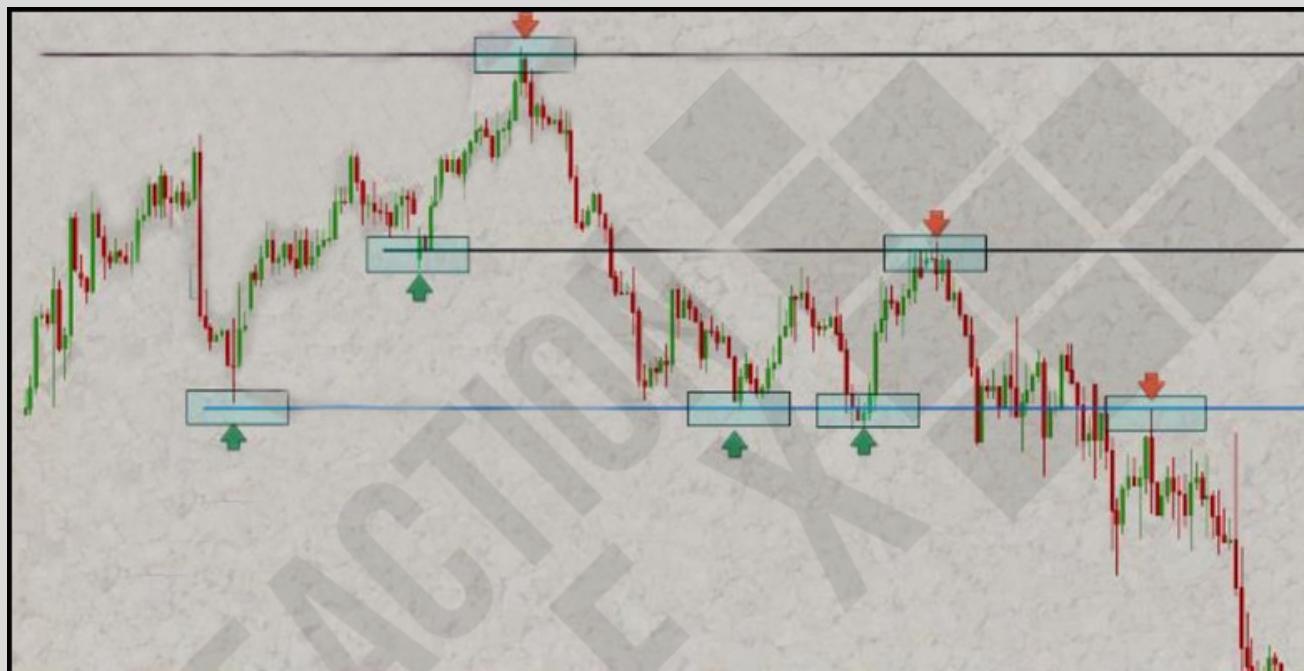
The 4 hour and 1 hour charts are going to be mostly for 'review' purposes. Meaning you will review where the key weekly daily and any daily near-term levels are at, because these levels are very important on the intraday time frames.

Most of the time, I am focusing on daily chart levels as I look at the 4 hour or 1 hour time frames, rarely do I find myself believing I need to draw in any further levels on these intraday charts. But, on occasion, there will be a level or two you want to draw in, more likely on the 4 hour than 1 hour.

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Drawing Support and Resistance Levels like a Pro



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Drawing Support and Resistance Levels like a Pro

STEP 5 The difference between 'key levels' and 'near-term levels'!

You will notice in step 3 and 4, I labeled some of the daily chart levels 'near-term levels'. These differ from the 'key levels' primarily because they aren't obvious on the weekly chart and they are closer or 'nearer' to the current market price.

A key chart level will typically be obvious on a weekly chart and a large or significant move will have occurred from it, either up or down. Key levels are the most important levels to watch for signals at and to look to trade from, but near-term levels are important as well.

There are obviously some subtleties involved with drawing in support and resistance levels, and this

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Drawing Support and Resistance Levels like a Pro

difference between key and near-term levels is certainly one of them. You will need to use some discretion, and you will improve at determining which levels are 'key' and which are 'near-term' through training, time and experience.

STEP 6 How far back should I look for levels?

One question that many traders ask is "how far back should I draw my levels?"

It's a valid question, and one that is easily answered by simply looking at the example charts. Notice on the weekly chart I went back about two to three years, and on the daily about six months to one year, the 4 hour and 1 hour will typically be about 3 months of data or less. Keep in mind, these are only estimates, but

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Drawing Support and Resistance Levels like a Pro

generally speaking, you don't need to get back extremely far in time.

I believe that generally speaking, the further back in time you go the less relevant the levels become, so I put more focus on levels over the last 3 to 6 months than over the last 1 to 2 years for example.

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Drawing Support and Resistance Levels like a Pro

STEP 7 Don't cloud up your charts with levels!

I sometimes see traders with charts so full of lines that it looks like a 3 year old scribbled all over it. You don't need to draw in every single little level you see on your charts, you only need to focus on the key levels and the most obvious near-term levels, as I showed you in the examples above.

Generally speaking, less is more in trading and that applies to levels as well. If you draw in too many support and resistance levels, you will begin over-analysing the market, confusing yourself and getting 'analysis paralysis'. Learning to draw only the most important chart levels, both key and near-term levels, isn't too difficult and is something you'll improve at through education/training, time and experience.

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Drawing Support and Resistance Levels like a Pro

STEP 8 You won't always be able to draw the lines exactly at highs or lows!

Remember that you don't always need to draw the line perfectly touching the highs or lows of each bar, nor will you be able to in many cases. Your lines can and often should intersect the body or middle of the tails of some of the price bars they connect.

At the end of the day, you need to use your discretion to determine where the most logical place to draw the level is. It might mean you hit a couple bar highs exactly and a couple are intersected through the candle's body; this is OK.

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Drawing Support and Resistance Levels like a Pro

STEP 9 Support and resistance levels vs. zones

Another key point to remember about support and resistance, is that they often are not 'exact' levels. Often, you will want to draw in more of a 'zone' of support or resistance, you can think of these as 'value' areas on a chart; where price preferred to trade recently and consolidated or stayed at for some time.



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Channel Trading in Forex

Price channels are a trading concept that is borrowed from the traditional trend line concept. Instead of plotting a simple trend line, the price channels comprise of two trend lines, upper and lower trend lines. Trade signals are taken when price breaks out of the upper or lower trend lines or the price channel. When combined with support/resistance methods and candlestick patterns trading price channels offers a great way to trade the markets. It is worth mentioning however that price channels trading requires quite a bit of practice and analyzing the market structure.

There are many different forms of channels that can be used. The most common price channel tools are:

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Channel Trading in Forex

- Fibonacci Channels
- Linear Regression Channels
- Equidistant Channels
- Standard Deviation Channels

Types of channels

- Ascending channel (higher highs and higher lows)
- Descending channel (lower highs and lower lows)
- Horizontal channel (ranging)

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How to trade using Channels

Channel Trading in Forex allows a better perspective of the market structure compared to merely trading with trend lines. Long and short positions are initiated at the top and bottom ends of the channels, depending on the slope of the channel itself. Alternatively, traders can also be initiated when the channel is broken and successfully retested for support or resistance.

Channels are nothing support and resistance levels plotted in a slope. The chart on the next page explains this in detail. Here, we notice that after using the High/Low/High swing points a down slope or a down trend channel is plotted. Notice how the swing points shows a confluence with past horizontal support and resistance levels.

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As price action unfolds, we notice further down the channel of a small retracement towards the upper end of the channel. This offers a good sell opportunity with target booked at the previous support level.

Within the same chart, we also notice how breaks out of the channel only to drop a bit further down to take support from the upper end of the channel. This is a classic channel break out pattern, where a retest of the channel takes place before a new uptrend is established.



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This chart gives another example of how the channel break out pattern plays out with a retest of the channel before resuming the uptrend.



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Channel Trading Strategy

It is probably best to trade break outs from channels rather than trading within the channel.

To trade the Channel break out, the following criteria is used.

- Plot a channel connecting high/low/high or low/high/low.
- Wait for price to break out of the channel and to retest the channel.
- Set stops at the low of the channel with entry at the break out price.
- Set target to support/resistance levels formed within the channel.

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SUPPORT & RESISTANCE

This is an example on EURUSD - "Posted on instagram"



Another example on GBPCHF



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CANDLESTICK PATTERNS

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CANDLESTICK PATTERNS

In technical analysis, a candlestick pattern is a movement in prices shown graphically on a candlestick chart that some believe can predict a particular market movement. The recognition of the pattern is subjective and programs that are used for charting have to rely on predefined rules to match the pattern. There are 42 recognized patterns that can be split into simple and complex patterns.

Formation of candlestick

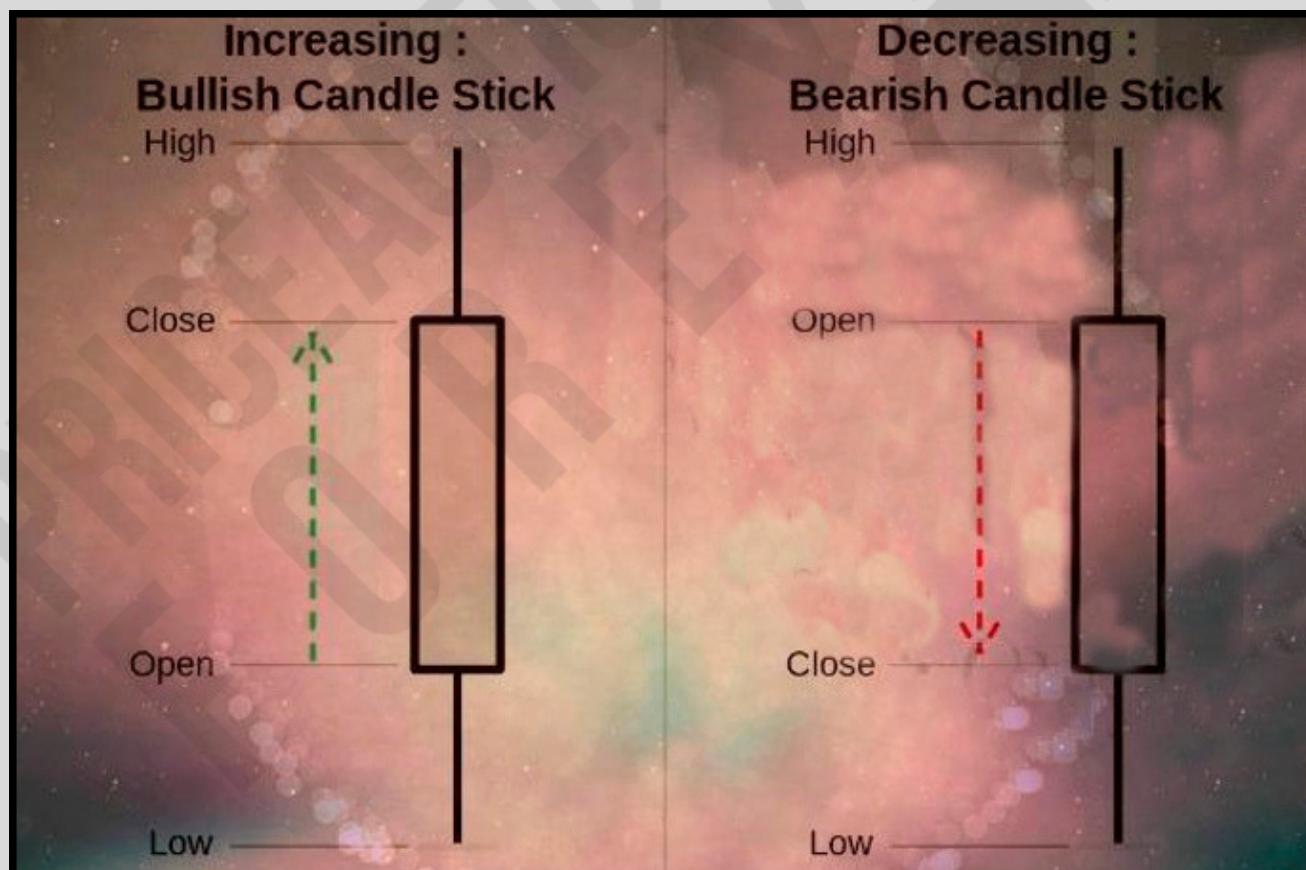
Candlesticks are graphical representations of price movements for a given period of time. They are commonly formed by the opening, high, low, and closing prices of a financial instrument.

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CANDLESTICK PATTERNS

1. If the opening price is above the closing price then a filled (normally red or black) candlestick is bearish.
2. If the closing price is above the opening price, then normally a green or a hollow candlestick (white with black outline) is bullish.

Formation of candlestick



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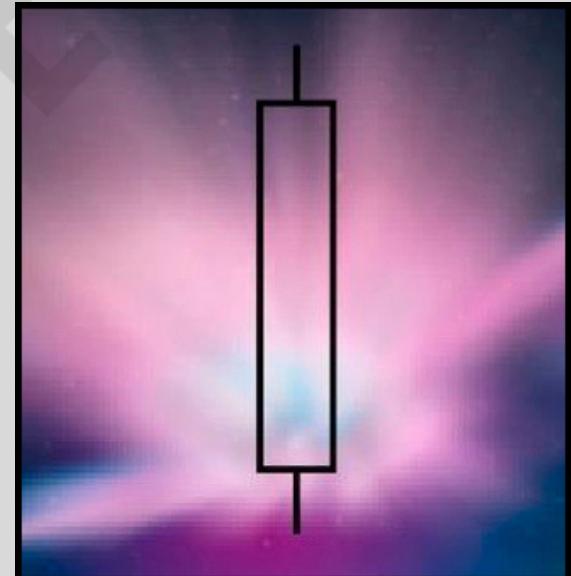
CANDLESTICK PATTERNS

Simple Patterns

Big Black Candle has an unusually long black body with a wide range between high and low. Prices open near the high and close near the low. Considered a bearish pattern.



Big White Candle has an unusually long white body with a wide range between high and low of the day. Prices open near the low and close near the high. Considered a bullish pattern.

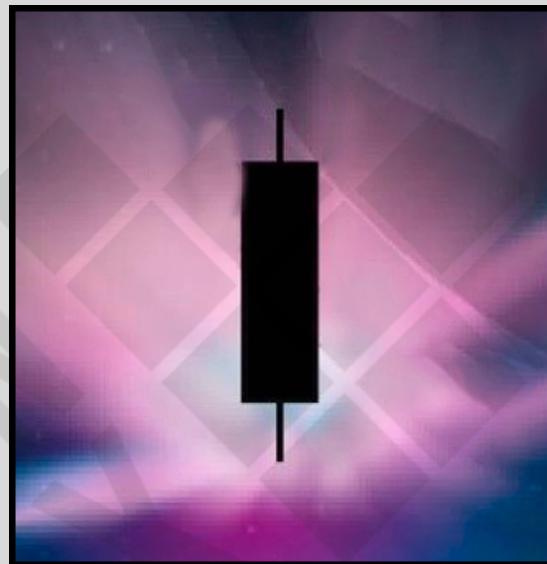


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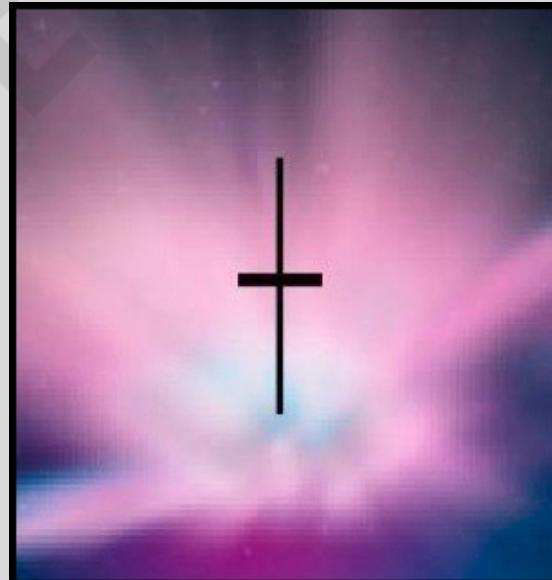
CANDLESTICK PATTERNS

Simple Patterns

Black Body formed when the opening price is higher than the closing price. Considered to be a bearish signal.



Doji formed when opening and closing prices are virtually the same. The lengths of shadows can vary.



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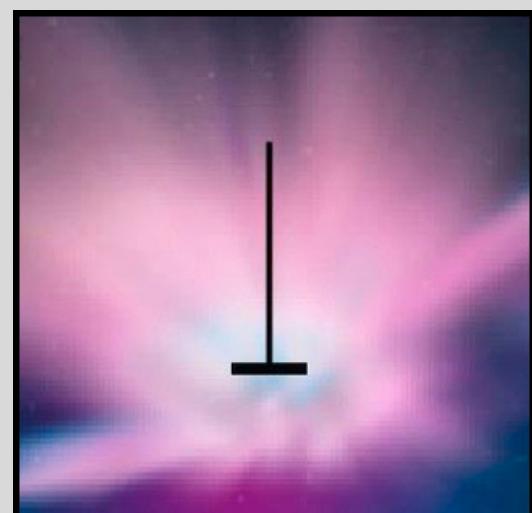
CANDLESTICK PATTERNS

Simple Patterns

Dragonfly Doji formed when the opening and the closing prices are at the highest of the day. If it has a longer lower shadow it signals a more bullish trend. When appearing at market bottoms it is considered to be a reversal signal.



Gravestone Doji formed when the opening and closing prices are at the lowest of the day. If it has a longer upper shadow it signals a bearish trend. When it appears at market top it is considered a reversal signal.



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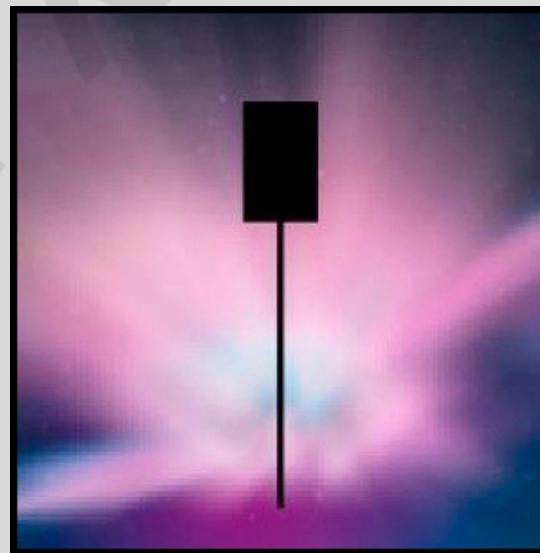
CANDLESTICK PATTERNS

Simple Patterns

Long-Legged Doji Consists of a Doji with very long upper and lower shadows. Indicates strong forces balanced in opposition.



Hanging Man a black or a white candlestick that consists of a small body near the high with a little or no upper shadow and a long lower tail. The lower tail should be two or three times the height of the body. Considered a bearish pattern during an uptrend.

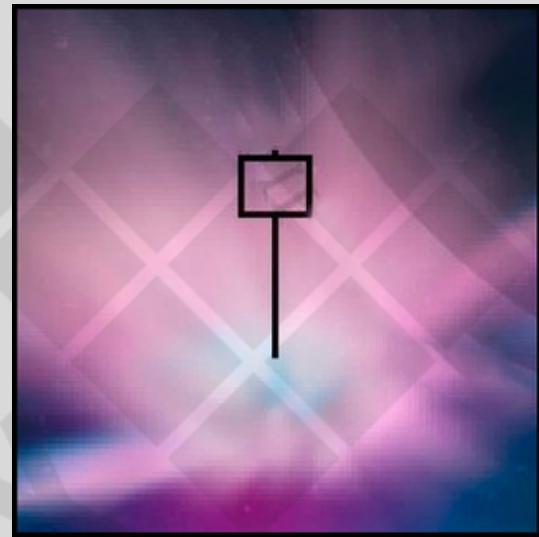


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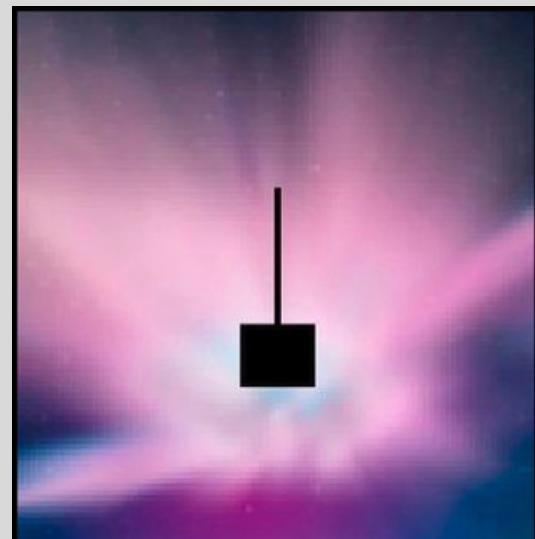
CANDLESTICK PATTERNS

Simple Patterns

Hammer a black or a white candlestick that consists of a small body near the high with a little or no upper shadow and a long lower tail. Considered a bullish pattern during a downtrend.



Inverted Black Hammer a black body in an upside-down hammer position. Usually considered a bottom reversal signal.

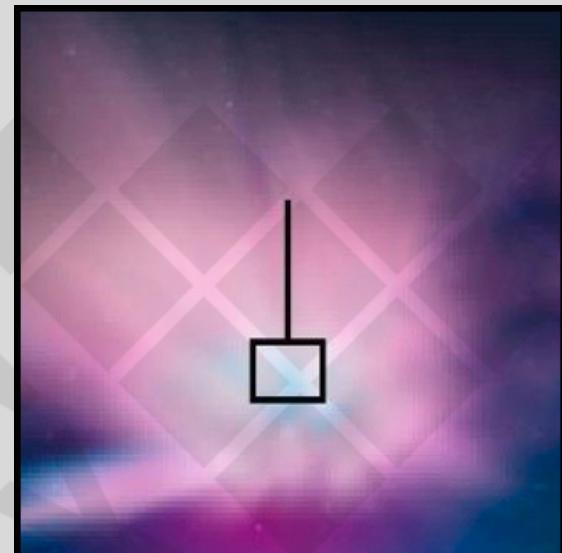


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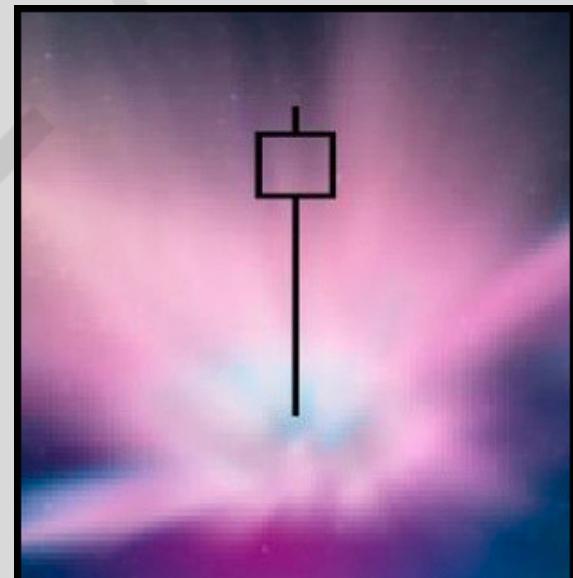
CANDLESTICK PATTERNS

Simple Patterns

Inverted Hammer a black or a white candlestick in an upside-down hammer position.



Long Lower Shadow a black or a white candlestick is formed with a lower tail that has a length of 2/3 or more of the total range of the candlestick. Normally considered a bullish signal when it appears around price support levels.



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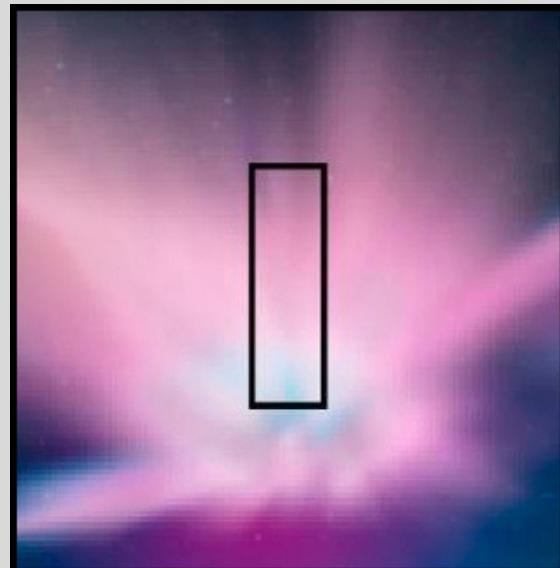
CANDLESTICK PATTERNS

Simple Patterns

Long Upper Shadow a black or a white candlestick with an upper shadow that has a length of 2/3 or more of the total range of the candlestick. Normally considered a bearish signal when it appears around price resistance levels.



Marubozu a long or a normal candlestick (black or white) with no shadow or tail. The high and the lows represent the opening and the closing prices. Considered a continuation pattern.



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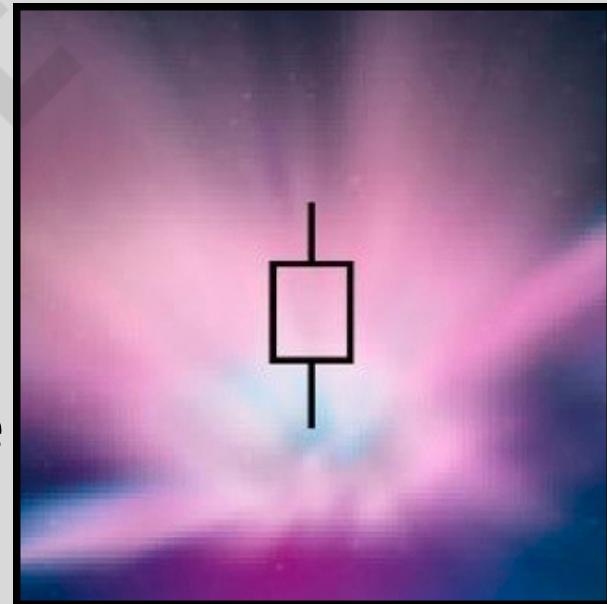
CANDLESTICK PATTERNS

Simple Patterns

Shooting Star a black or a white candlestick that has a small body, a long upper shadow and a little or no lower tail. Considered a bearish pattern in an uptrend.



Spinning Top a black or a white candlestick with a small body. The size of shadows can vary. Interpreted as a neutral pattern but gains importance when it is part of other formation.

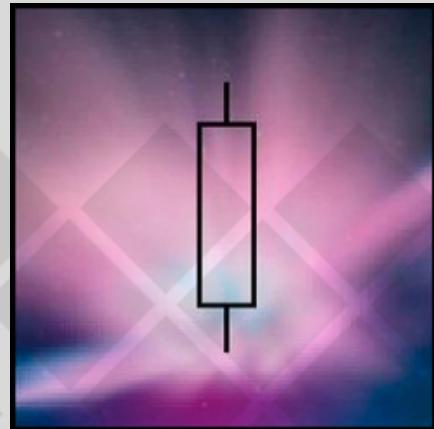


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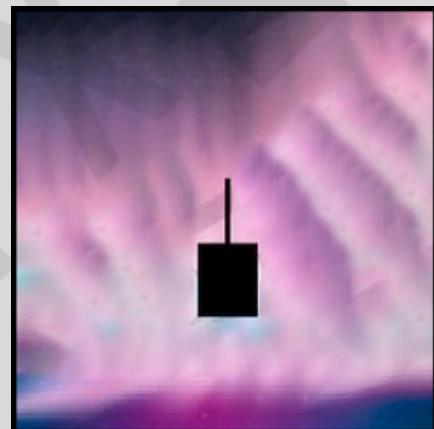
CANDLESTICK PATTERNS

Simple Patterns

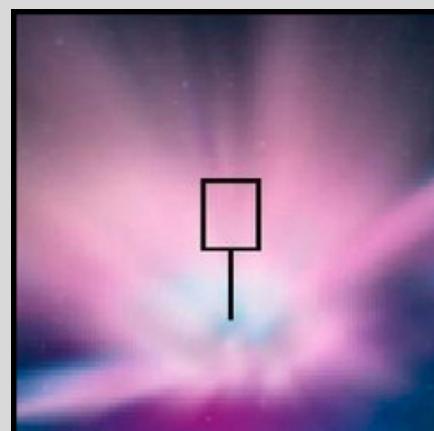
White Body formed when the closing price is higher than the opening price and considered a bullish signal.



Shaven Bottom a black or a white candlestick with no lower tail.



Shaven Head a black or a white candlestick with no lower tail.

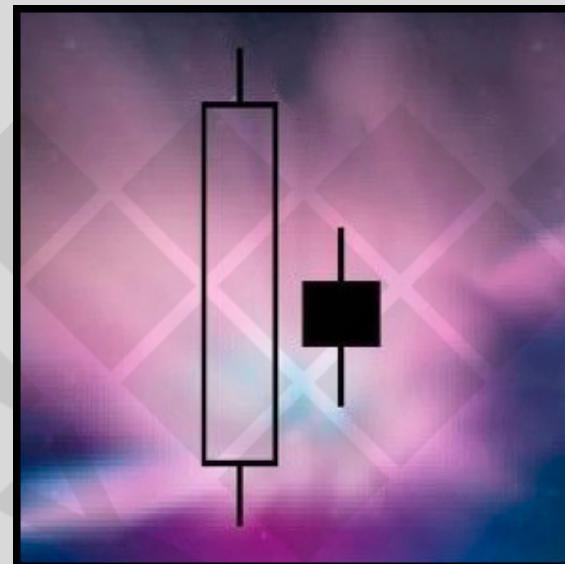


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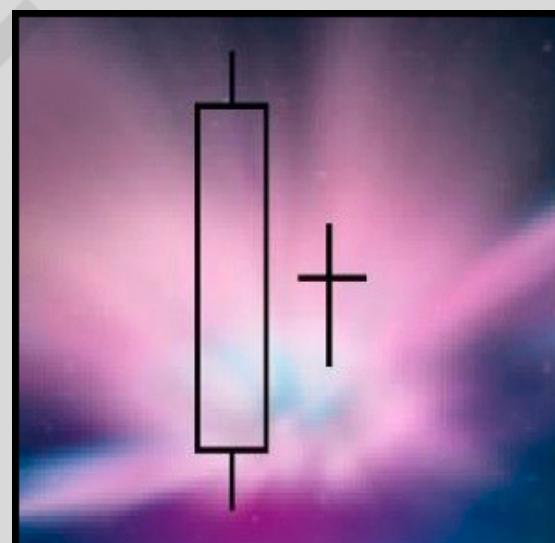
CANDLESTICK PATTERNS

Complex patterns

Bearish Harami consists of an unusually large white body followed by a small black body (contained within large white body). It is considered as a bearish pattern when preceded by an uptrend.



Bearish Harami Cross large white body followed by a Doji. Considered as a reversal signal when it appears at the top.

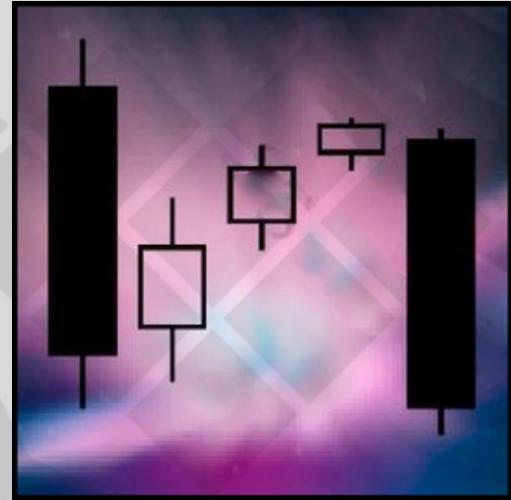


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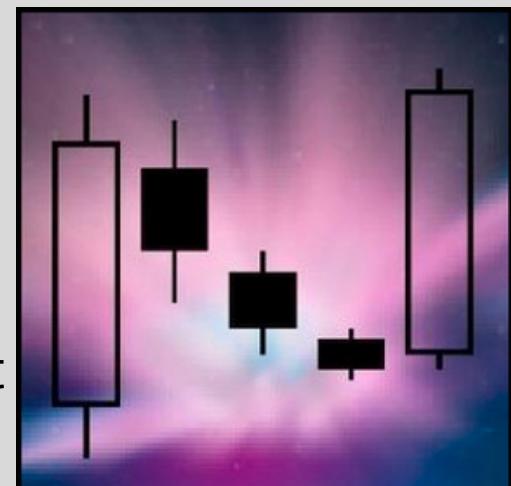
CANDLESTICK PATTERNS

Complex patterns

Bearish 3-Method Formation consists of a long black body followed by three small bodies (normally white) and a long black body. The three white bodies are contained within the range of first black body. This is considered as a bearish continuation pattern.



Bullish 3-Method Formation consists of a long white body followed by three small bodies (normally black) and a long white body. The three black bodies are contained within the range of first white body. This is considered as a bullish continuation pattern.

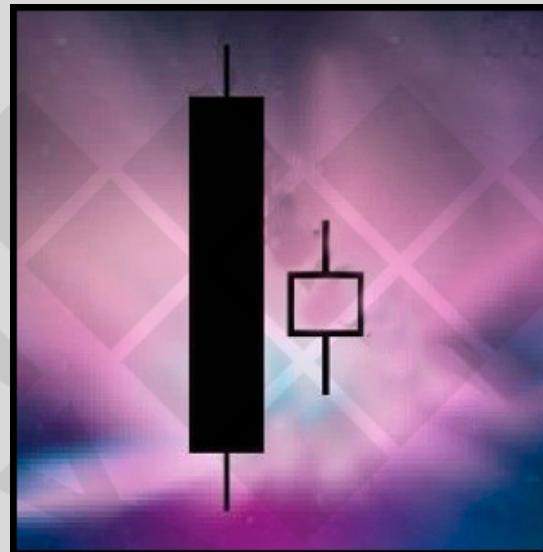


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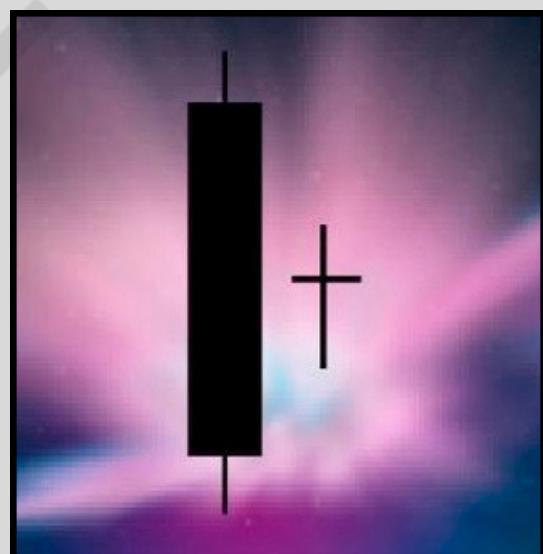
CANDLESTICK PATTERNS

Complex patterns

Bullish Harami consists of an unusually large black body followed by a small white body (contained within large black body). It is considered as a bullish pattern when preceded by a downtrend.



Bullish Harami Cross a large black body followed by a Doji. It is considered as a reversal signal when it appears at the bottom.

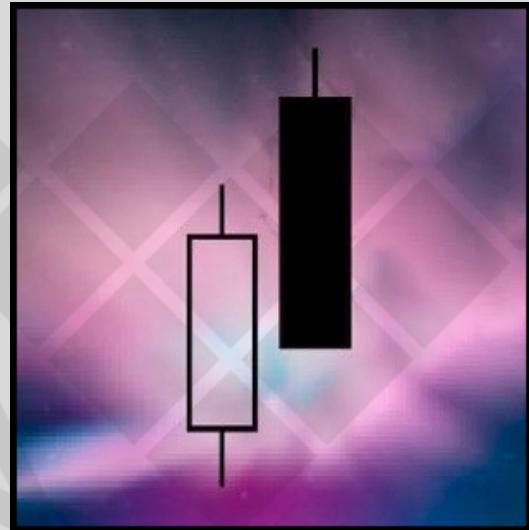


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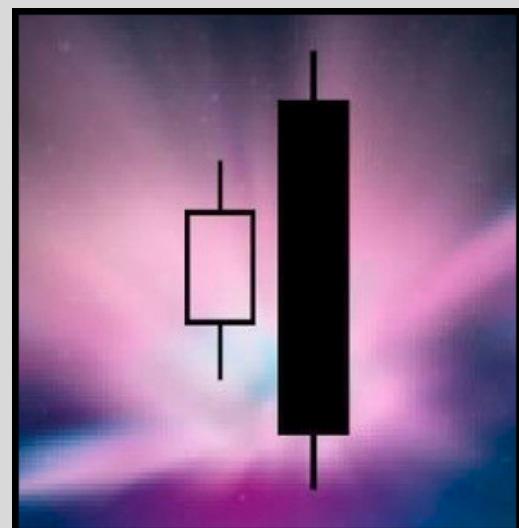
CANDLESTICK PATTERNS

Complex patterns

Dark Cloud Cover Consists of a long white candlestick followed by a black candlestick that opens above the high of the white candlestick and closes well into the body of the white candlestick. It is considered as a bearish reversal signal during an uptrend.



Engulfing Bearish Line Consists of a small white body that is contained within the followed large black candlestick. When it appears at top it is considered as a major reversal signal.

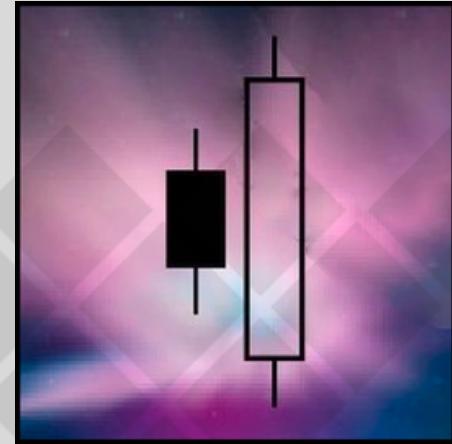


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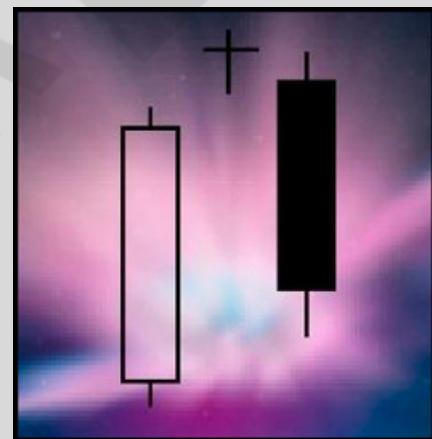
CANDLESTICK PATTERNS

Complex patterns

Engulfing Bullish Line consists of a small black body that is contained within the followed large white candlestick. When it appears at bottom it is interpreted as a major reversal signal.



Evening Doji Star consists of three candlesticks. First is a large white body candlestick followed by a Doji that gap above the white body. The third candlestick is a black body that closes well into the white body. When it appears at the top it is considered as a reversal signal. It signals more bearish trend than the evening star pattern because of the doji that has appeared between the two bodies.

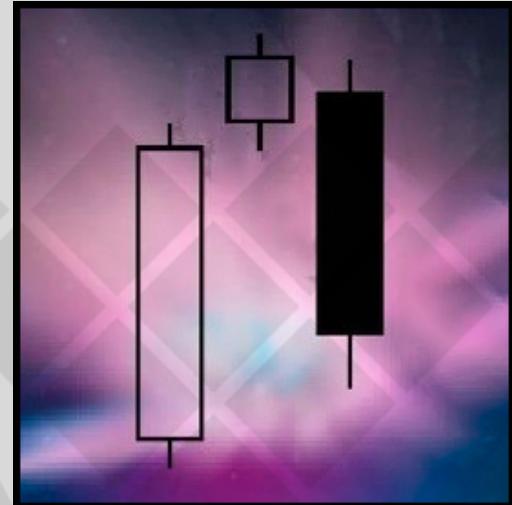


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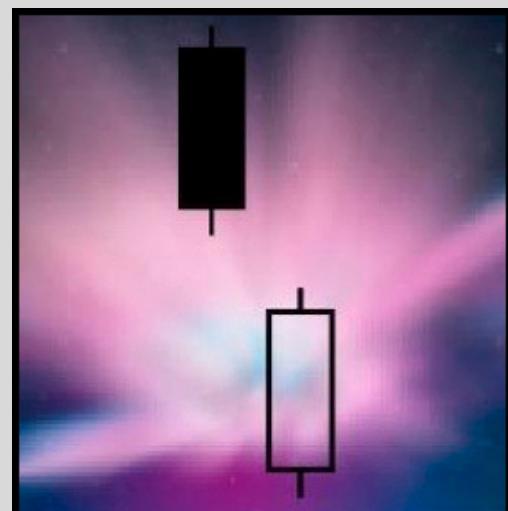
CANDLESTICK PATTERNS

Complex patterns

Evening Star consists of a large white body candlestick followed by a small body candlestick (black or white) that gaps above the previous. The third is a black body candlestick that closes well within the large white body. It is considered as a reversal signal when it appears at top level.



Falling Window a window (gap) is created when the high of the second candlestick is below the low of the preceding candlestick. It is considered that the window should be filled with a probable resistance.

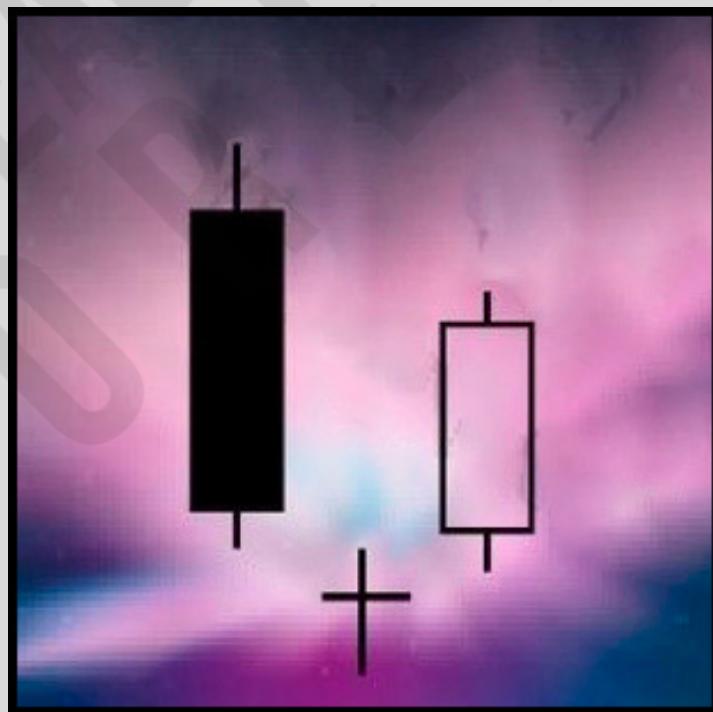


MODULE 1 - CHAPTER 2

CANDLESTICK PATTERNS

Complex patterns

Morning Doji Star consists of a large black body candlestick followed by a Doji that occurred below the preceding candlestick. On the following day, a third white body candlestick is formed that closed well into the black body candlestick which appeared before the Doji. It is considered as a major reversal signal that is more bullish than the regular morning star pattern because of the existence of the Doji.

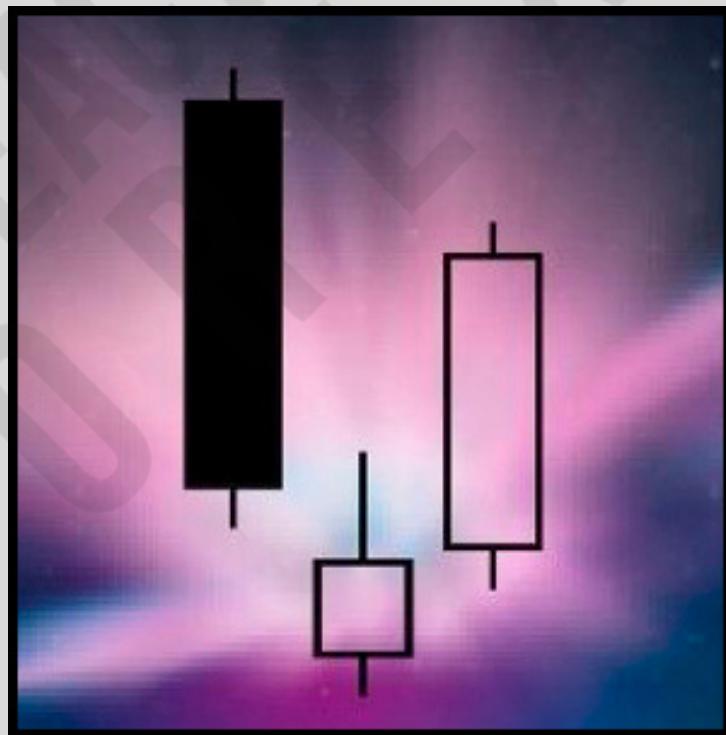


MODULE 1 - CHAPTER 2

CANDLESTICK PATTERNS

Complex patterns

Morning Star consists of a large black body candlestick followed by a small body (black or white) that occurred below the large black body candlestick. On the following day, a third white body candlestick is formed that closed well into the black body candlestick. It is considered as a major reversal signal when it appears at bottom.

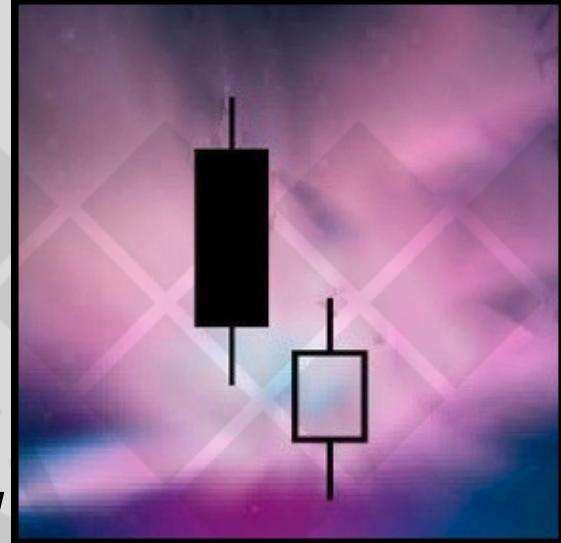


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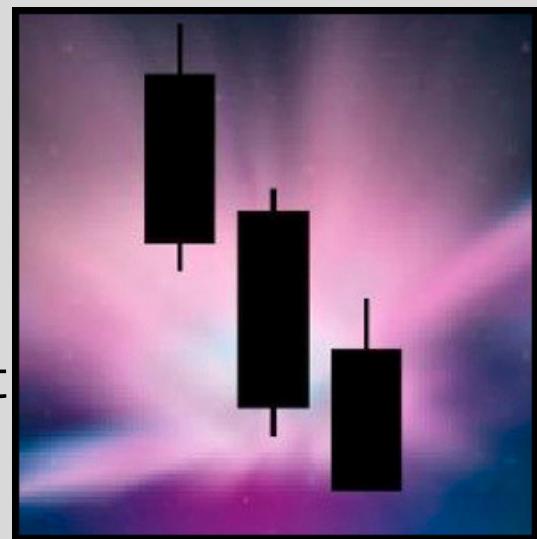
CANDLESTICK PATTERNS

Complex patterns

On Neckline In a downtrend, Consists of a black candlestick followed by a small body white candlestick with its close near the low of the preceding black candlestick. It is considered as a bearish pattern when the low of the white candlestick is penetrated.



Three Black Crows Consists of three long black candlesticks with consecutively lower closes. The closing prices are near to or at their lows. When it appears at top it is considered as a top reversal signal.

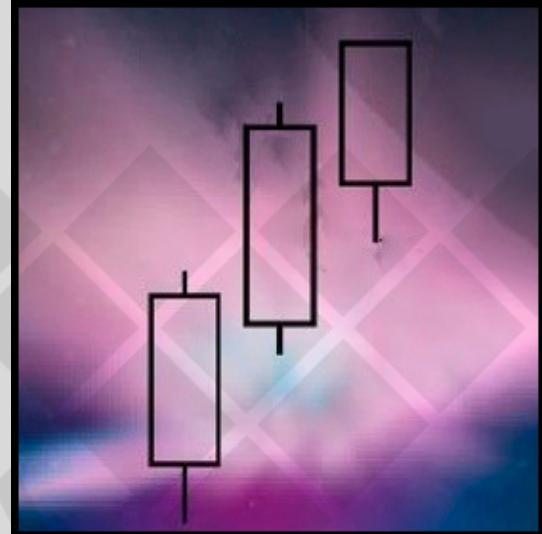


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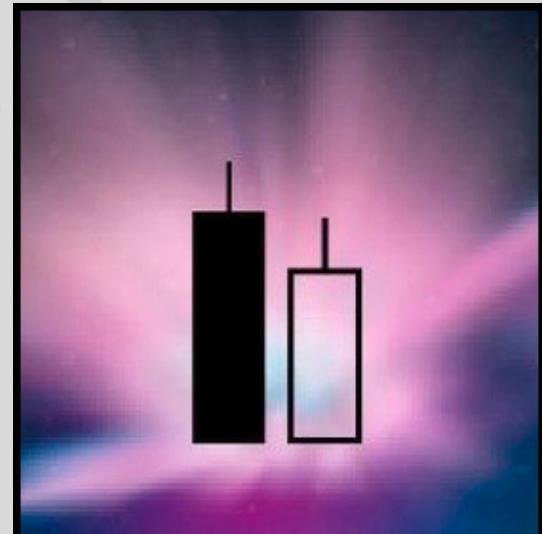
CANDLESTICK PATTERNS

Complex patterns

Three White Soldiers consists of three long white candlesticks with consecutively higher closes. The closing prices are near to or at their highs. When it appears at bottom it is interpreted as a bottom reversal signal.



Tweezer Bottoms consists of two or more candlesticks with matching bottoms. The candlesticks may or may not be consecutive and the sizes or the colours can vary. It is considered as a minor reversal signal that becomes more important when the candlesticks form another pattern.

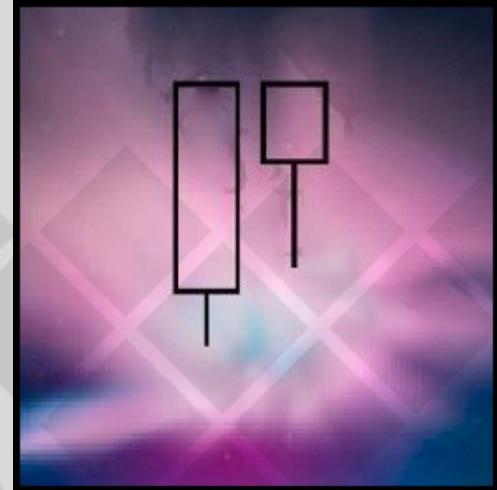


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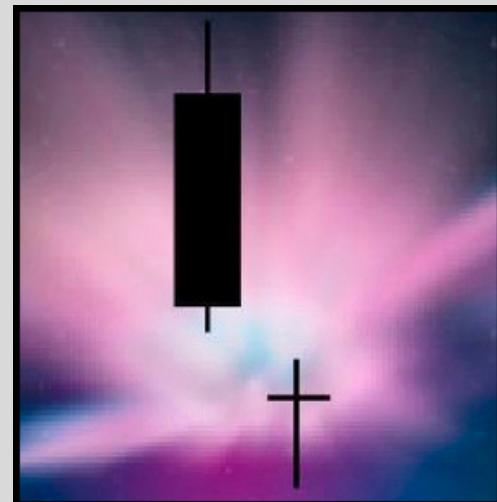
CANDLESTICK PATTERNS

Complex patterns

Tweezer Tops Consists of two or more candlesticks with matching tops. The candlesticks may or may not be consecutive and the sizes or the colours can vary. It is considered as a minor reversal signal that becomes more important when the candlesticks form another pattern.



Doji Star Consists of a black or a white candlestick followed by a Doji that gap above or below these. It is considered as a reversal signal with confirmation during the next trading day

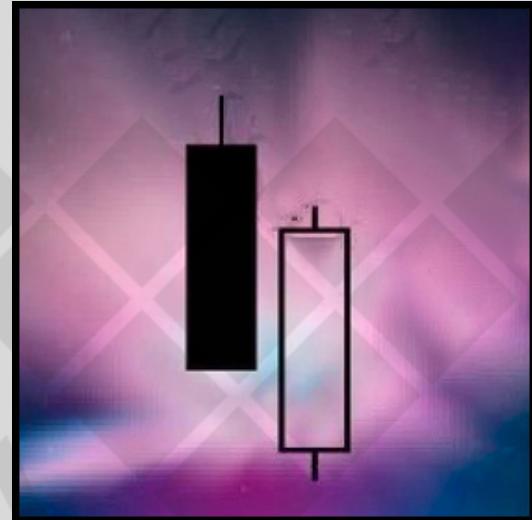


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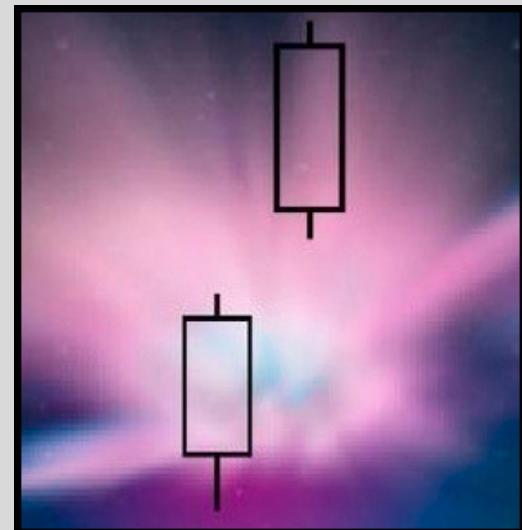
CANDLESTICK PATTERNS

Complex patterns

Piercing Line Consists of a black candlestick followed by a white candlestick that opens lower than the low of preceding but closes more than halfway into black body candlestick. It is considered as reversal signal when it appears at bottom.



Rising Window A window (gap) is created when the low of the second candlestick is above the high of the preceding candlestick. It is considered that the window should provide support to the selling pressure.



MODULE 1 - CHAPTER 2

CANDLESTICK PATTERNS

In Conclusion

Now you should have a basic understanding of how to find reversals using advanced candlestick patterns, gaps and volume.

Candlestick charts offer a more vivid depiction of price action than what a standard bar chart can provide. Candlestick patterns in and of themselves are useful, however there are many different names and interpretations of candlestick patterns which often can induce confusion and can be hard to keep track of.

A chart pattern or price pattern is a pattern within a chart when prices are graphed. Chart pattern studies play a large role during technical analysis. When data is plotted there is usually a pattern which naturally occurs and repeats over a period. Chart patterns are used as either reversal or continuation signals.

MODULE 1 - CHAPTER 3

CHART PATTERNS

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MODULE 1 - CHAPTER 3

CHART PATTERNS

Here's the list of chart patterns that we're going to cover:

1. Triangles Pattern
2. Flag Pattern
3. Cup And Handle Pattern
4. Wedge Pattern
5. Pullback Pattern!
6. Double Bottom/Top Chart
7. Triple Bottom/Top Chart
8. Head And Shoulders Pattern
9. Inverted Head And Shoulders Pattern
10. Pennant Pattern
11. Channels

MODULE 1 - CHAPTER 3

CHART PATTERNS

1. Triangle Patterns

Triangles are believed to be the most essential and frequently emerged chart patterns in termed as the holy grail of day trading because of their reliability and effectiveness.

Types of Triangle Patterns

1. Symmetrical Triangle
2. Ascending Triangle
3. Descending Triangle

MODULE 1 - CHAPTER 3

CHART PATTERNS

Symmetrical Triangle

Symmetrical Triangle "bullish"

Definition:

A Symmetrical Triangle Breakout pattern is identified by the distinct shape created by two converging trendlines symmetrical in nature. The pattern is formed by two trendlines that connect a series of sequentially higher swing/pivot lows and a series of sequentially lower swing/pivot highs. Price action is largely contained within the triangle formation and traders typically look for buying opportunities once the price breaks out above the upper trendline of the triangle.

MODULE 1 - CHAPTER 3

CHART PATTERNS

Symmetrical Triangle

Definition:

Put another way, when price action forms a series of lower swing/pivot highs and higher swing/pivot lows a Symmetrical Triangle is created. Symmetrical Triangles can breakout in either direction since this consolidating pattern has equal sentiment driving the formation.

Within an uptrend, the possibility of a breakout to the upside can increase due to the overall momentum of bullish sentiment supported by the potentially significant amount of underlying support in the chart.

Practical Use:

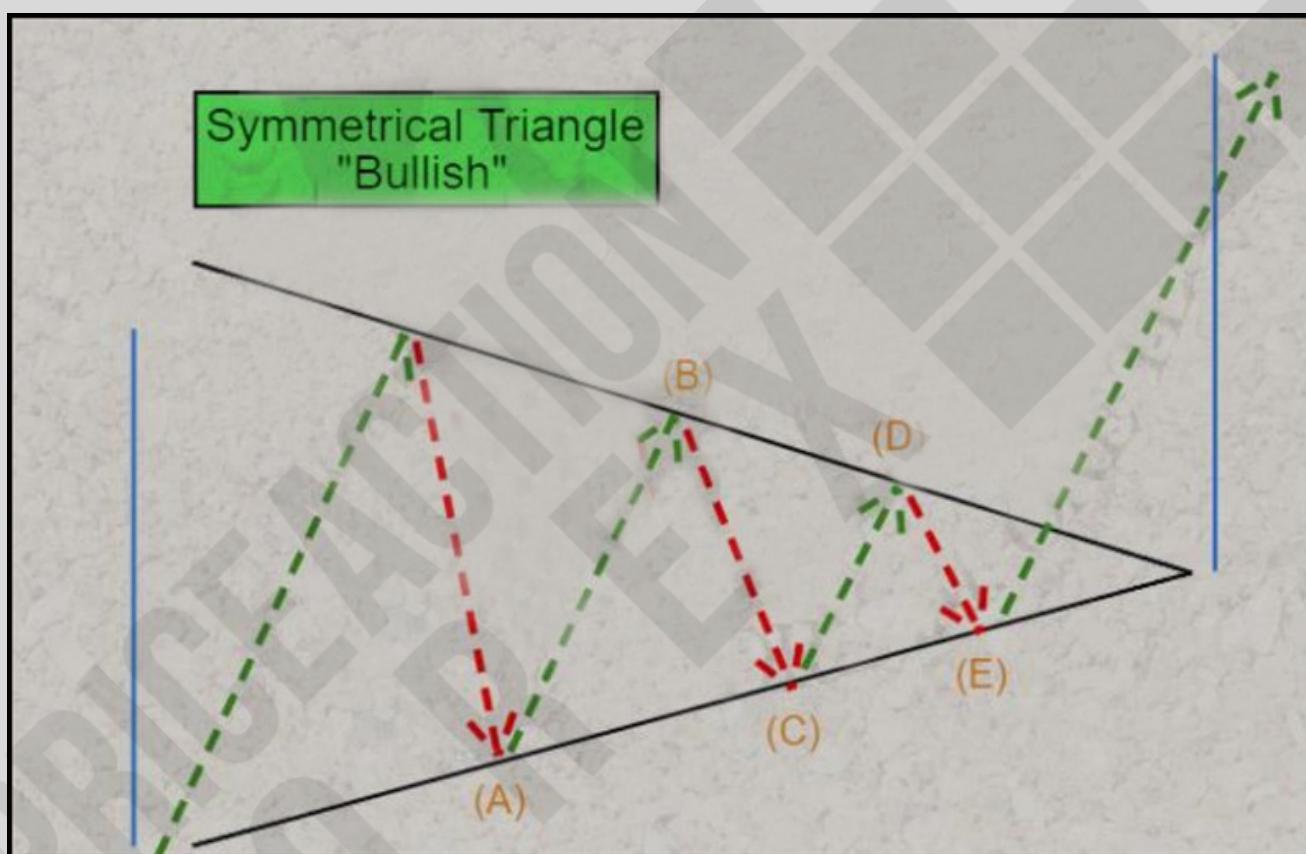
As with any patterns, Symmetrical Triangle Breakouts are carefully assessed by the technical analyst because of their ability to produce subsequent upside or downside price action. Analysts will use other charting cues to place the odds in their favor of the upside price movement.

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CHART PATTERNS

Symmetrical Triangle

Symmetrical Triangle "bullish"

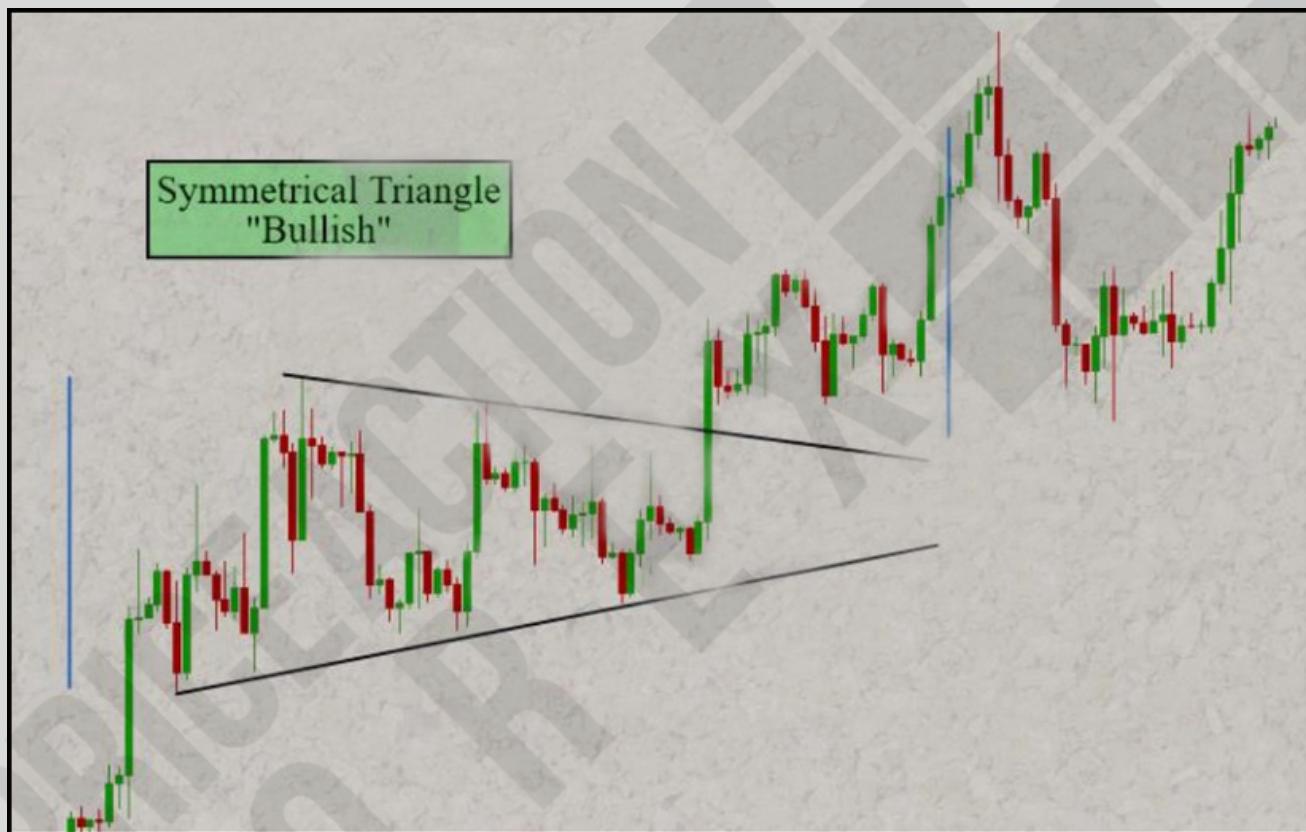


MODULE 1 - CHAPTER 3

CHART PATTERNS

Symmetrical Triangle

Real-life Example



MODULE 1 - CHAPTER 3

CHART PATTERNS

Symmetrical Triangle

Symmetrical Triangle "Bearish"

Definition:

A Symmetrical Triangle Breakout pattern is identified by the distinct shape created by two converging trendlines symmetrical in nature. The pattern is formed by two trendlines that connect a series of sequentially higher swing/pivot lows and a series of sequentially lower swing/pivot highs. Price action is largely contained within the triangle formation and traders typically look for buying opportunities once the price breaks out above the upper trendline of the triangle.

MODULE 1 - CHAPTER 3

CHART PATTERNS

Symmetrical Triangle

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Practical Use:

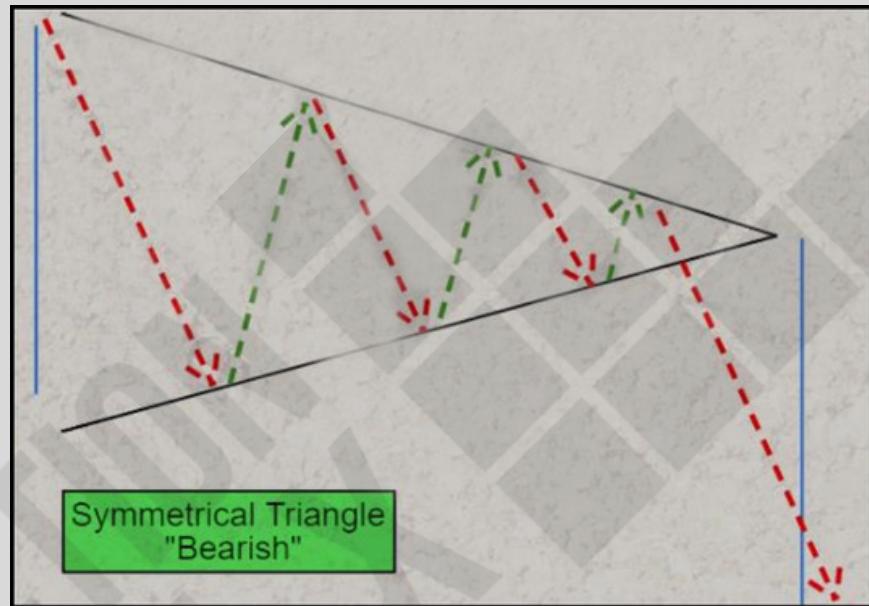
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MODULE 1 - CHAPTER 3

CHART PATTERNS

Symmetrical Triangle

Symmetrical
Triangle "Bearish"



Real-life Chart
Example



MODULE 1 - CHAPTER 3

CHART PATTERNS

Ascending Triangle

Definition:

An Ascending Triangle is a bullish chart pattern that consists of two trendlines:

1. A horizontal trendline at a level of resistance defined with no fewer than two swing highs
2. An upward slanting trendline connecting a series of higher swing or pivot lows.

MODULE 1 - CHAPTER 3

CHART PATTERNS

Background:

The pattern starts to form when price action traces an orderly price decline from a swing high, much like a pullback buy. The price then rallies up to the prior swing high and stalls. A second pullback occurs as overhead resistance is decreased and the stock then forms a higher swing low. This occurs over and over again until a series of equal swing highs and higher swing lows are formed. The power of an Ascending Triangle can be greater after a powerful upside move due to the possible increase of underlying support.

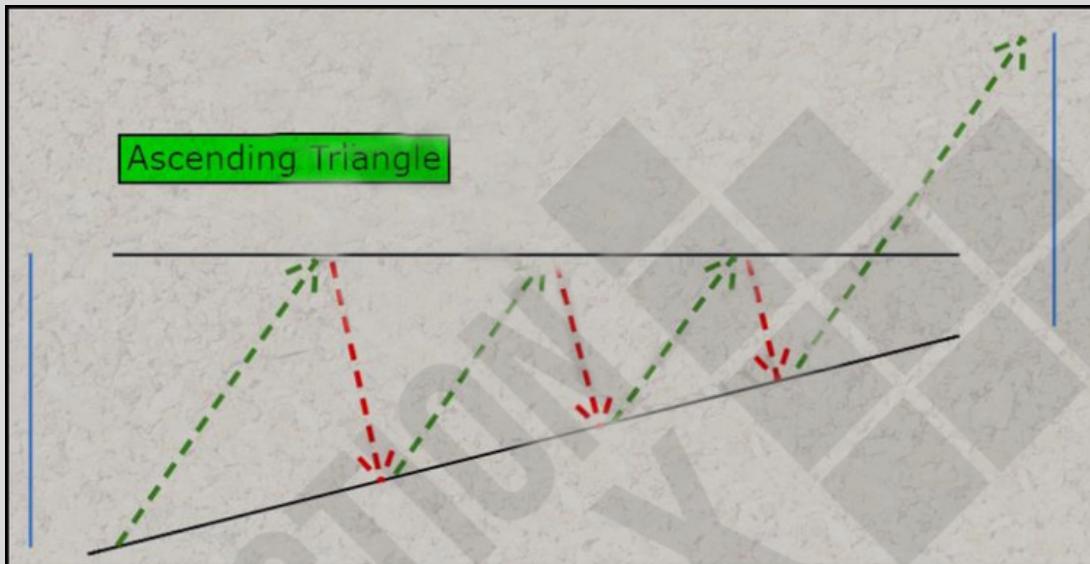
Practical Use:

Technical analysts realize that Ascending Triangles can be stronger when the swing high that begins the pattern is also at an all time high due to the possible lack of future overhead resistance. Traders typically work into long positions when the price of the asset breaks above the upper resistance.

MODULE 1 - CHAPTER 3

CHART PATTERNS

Ascending Triangle



Real-life Chart Example



MODULE 1 - CHAPTER 3

CHART PATTERNS

Descending Triangle

Definition:

A Descending Triangle is a bearish chart pattern that consists of two trendlines:

1. A horizontal trendline at a level of support defined with no fewer than two swing lows.
2. A downward slanting trendline connecting a series of lower swing or pivot highs.

MODULE 1 - CHAPTER 3

CHART PATTERNS

Background:

The pattern starts to form when price action traces an orderly price rise from a swing low much like a pullback sell. The price then declines down to the prior swing low and stalls. A second rally occurs as underlying support is decreased and the stock then forms a lower swing high. This occurs over and over again until a series of equal swing lows and lower swing highs are formed. The power of a Descending Triangle can be greater after a powerful downside move due to the possible decrease of overhead resistance.

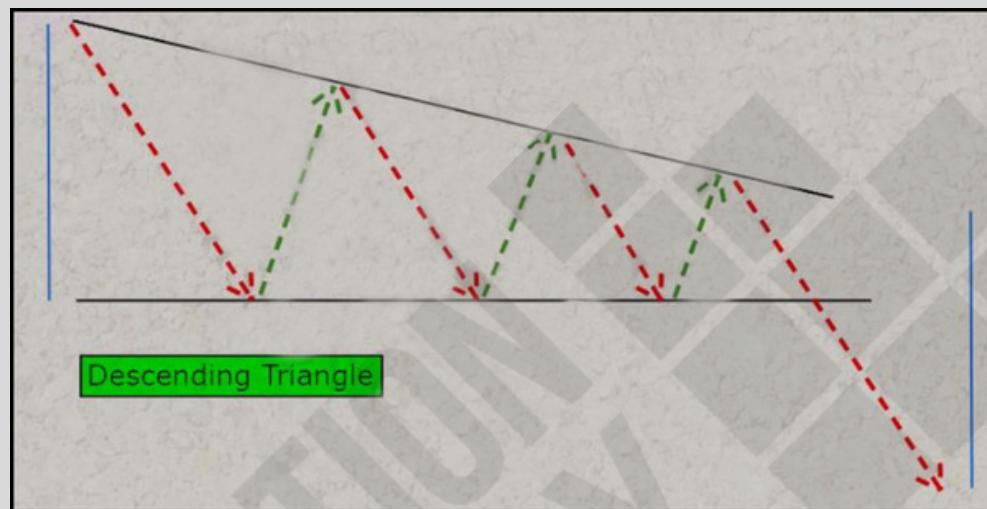
Practical Use:

Technical analysts realize that Descending Triangles can be stronger when the swing low that begins the pattern is also an all time low due to the possible lack of future underlying support. Traders typically work into short positions when the price of the asset breaks below the bottom support.

MODULE 1 - CHAPTER 3

CHART PATTERNS

Descending Triangle



Real-life Chart Example



MODULE 1 - CHAPTER 3

CHART PATTERNS

2. Flag Pattern

Bull Flag Trading Pattern

Definition:

A Bull Flag is a price action within the context of an uptrend that produces an orderly price decline consisting of a narrow trend range comprised of lower swing/pivot highs and lower swing/pivot lows.

Background:

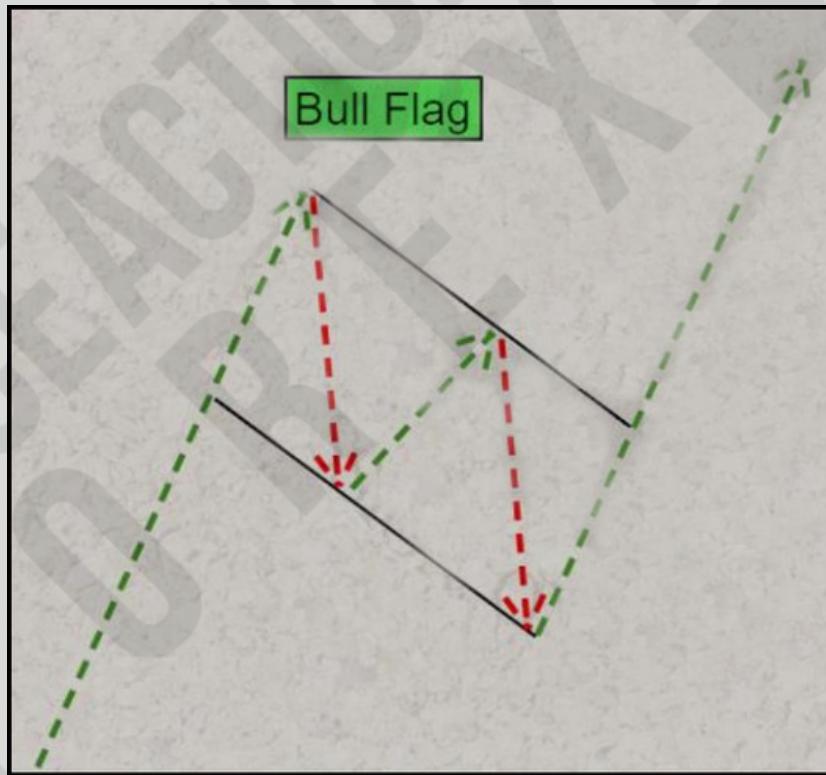
The success of a Bull Flag can be greater after a significant upside move due to the possible increase of underlying support. Bull Flags can be stronger when the swing high that begins the pattern is also an all time high due to the possible lack of future overhead resistance.

MODULE 1 - CHAPTER 3

CHART PATTERNS

Practical Use:

Traders interested in gaining additional confirmation by watching the sentiment read of a chart will often seek out Bull Flag patterns due to their ability to "prove" the lack of selling interest during the time frame in question.



MODULE 1 - CHAPTER 3

CHART PATTERNS

2. Flag Pattern

Real-life Bull Flag Example



MODULE 1 - CHAPTER 3

CHART PATTERNS

2. Flag Pattern

Bear Flag Trading Pattern

Definition:

A Bear Flag is a price action within the context of a downtrend that produces an orderly price increase consisting of a narrow trend range comprised of higher swing/pivot highs and higher swing/pivot lows.

Background:

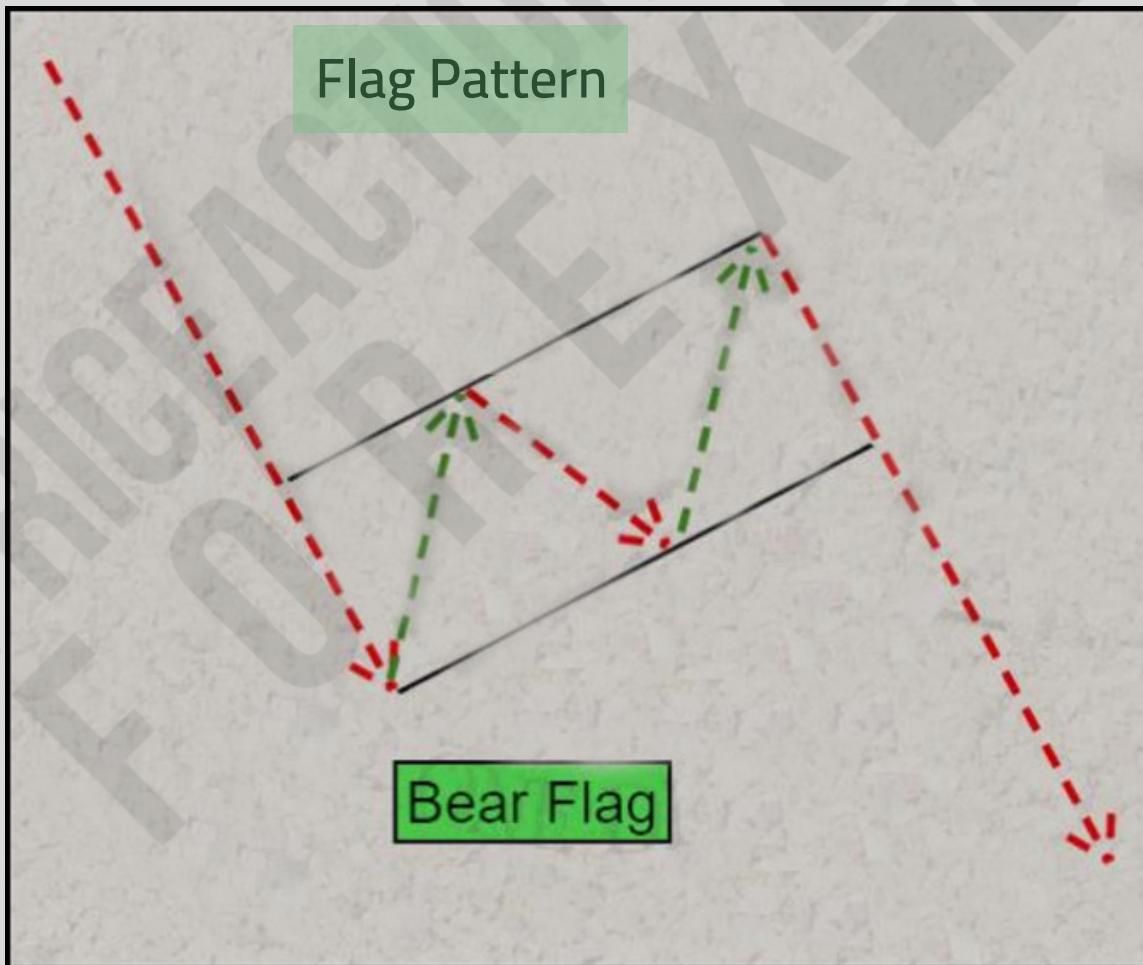
The success of a Bear Flag can be greater after a significant downside move due to the possible increase of overhead resistance. Bear Flags can be stronger when the swing low that begins the pattern is also an all time low due to the possible lack of underlying support.

MODULE 1 - CHAPTER 3

CHART PATTERNS

Practical Use:

Traders interested in gaining additional confirmation by watching the sentiment read of a chart, will often seek out Bear Flag patterns due to their ability to "prove" the lack of buying interest during the time frame in question.

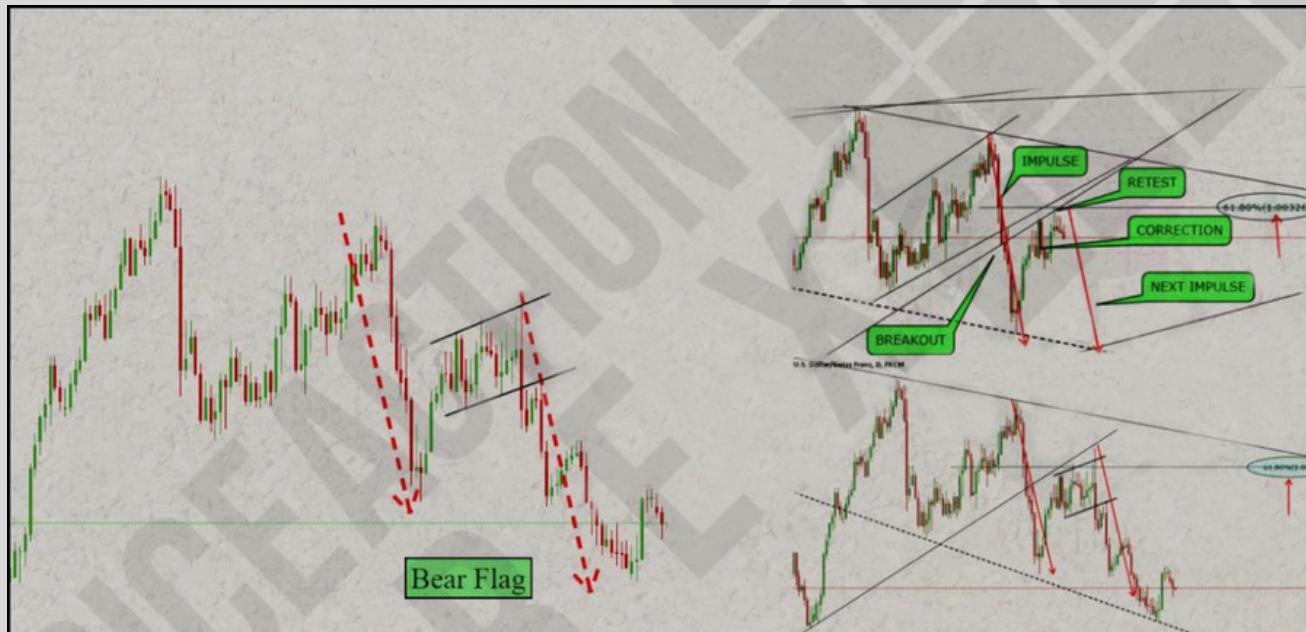


MODULE 1 - CHAPTER 3

CHART PATTERNS

Flag Pattern

Real-life Bear Flag Example



MODULE 1 - CHAPTER 3

CHART PATTERNS

3. Cup and Handle Trading Pattern

Definition:

A Cup and Handle pattern is formed after a pullback from a swing high rallies back strongly to the prior swing high and stalls due to overhead resistance. The price action then stalls much like a bull flag with slight downward pressure before breaking out of overhead resistance.

Background:

The power of a Cup and Handle lies in the fact that after hitting overhead resistance from the prior swing high, a very minor correction is put in. The price then breaks out past resistance which can be a sign that demand for the security may be increasing. Cup and Handle patterns can be stronger when the next logical place of resistance on the chart after the breakout is a considerable distance away.

MODULE 1 - CHAPTER 3

CHART PATTERNS

Practical Use:

Technical analysts often use Cup and Handle patterns as buying opportunities because of their ability to 'prove' the lack of selling pressure during the time frame being assessed.

Real-life Cup and Handle Example



MODULE 1 - CHAPTER 3

CHART PATTERNS

4. Wedge Pattern

Rising Wedge Trading Pattern

Definition:

A Rising Wedge is a chart pattern within the context of an uptrend composed of two upward sloping and converging trendlines connecting a series of higher swing/pivot highs and higher swing/pivot lows.

Background:

The power of a Rising Wedge can be greater after a moderate upside move due to the possible decrease of underlying support as the pattern is formed. Rising Wedges can be stronger when the series of higher swing highs and higher swing lows that formed the pattern narrow down into a point/apex as bulls become less interested in buying.

MODULE 1 - CHAPTER 3

CHART PATTERNS

Practical Use:

Technical analysts will use Rising Wedge patterns as the beginning of selling opportunities, especially when in context with other tradable sell short setups. In addition, traders will often simply avoid further buying opportunities when they occur in the context of a rising wedge.



MODULE 1 - CHAPTER 3

CHART PATTERNS

4. Wedge Pattern

Real-life Chart Example



MODULE 1 - CHAPTER 3

CHART PATTERNS

4. Wedge Pattern

Falling Wedge Trading Pattern

Definition:

A Falling Wedge is a chart pattern within the context of a downtrend composed of two downward sloping and converging trendlines connecting a series of lower swing/pivot highs and lower swing/pivot lows.

Background:

The power of a Falling Wedge can be greater after a moderate downside move due to the possible decrease of overhead resistance as the pattern is formed.

Falling Wedges can be stronger when the series of lower swing/pivot highs and lower swing/pivot lows that formed the pattern narrow down into a point/apex as bears become less interested in selling.

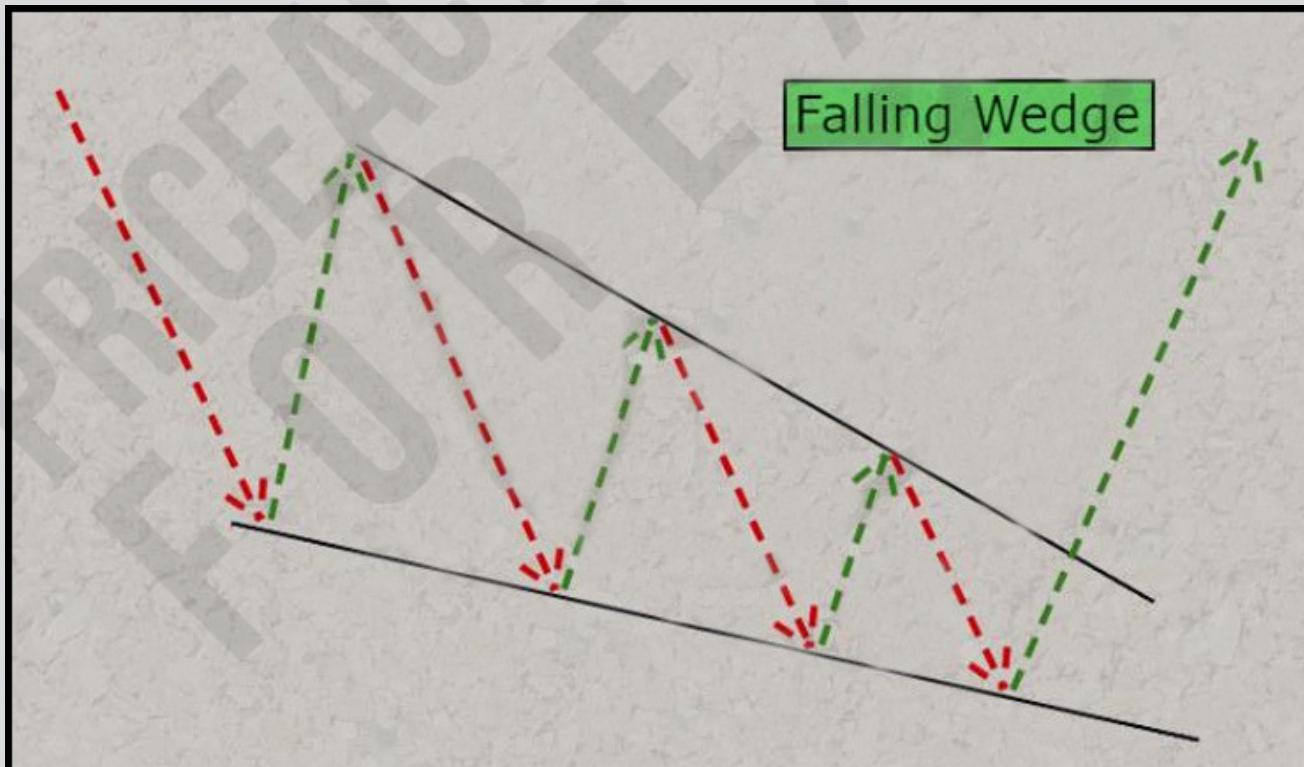
MODULE 1 - CHAPTER 3

CHART PATTERNS

4. Wedge Pattern

Practical Use:

Technical analysts will use Falling Wedge patterns as the beginning of buying opportunities, especially when in context with other tradable buy setups. In addition, traders will often simply avoid further shorting opportunities when they occur in the context of a Falling Wedge.



MODULE 1 - CHAPTER 3
CHART PATTERNS

4. Wedge Pattern

Real-life Falling Wedge Examples



MODULE 1 - CHAPTER 3

CHART PATTERNS

5. Pullback Trading Pattern

Bull Pullback Trading Pattern

Definition:

A Bull Pullback is when a price action within the context of an uptrend traces an orderly price decline/retracement/correction from the peak of an up leg. Also called a Pullback Buy.

Background:

The power of an upside move after a retracement can be greater after a strong and steady uptrend due to the possible increase of underlying support.

A Bull Pullback can be stronger when the most recent swing high is also an all time high due to the potential lack of future overhead resistance.

MODULE 1 - CHAPTER 3

CHART PATTERNS

5. Pullback Trading Pattern

Practical Use:

Technical analysts will often use the Bull Pullback pattern to begin looking for buy entries as the asset reaches support or "wholesale" areas.



MODULE 1 - CHAPTER 3

CHART PATTERNS

5. Pullback Trading Pattern

Bear Pullback Trading Pattern

Definition:

A Bear Pullback is when a price action within the context of a downtrend traces an orderly price increase/retracement/correction from a low of a down leg. Also called a "Pullback Sell."

Background:

The power of a downside move after a retracement can be greater after a strong and steady downtrend due to the possible increase in overhead resistance. They can be stronger to the downside when the most recent swing low is also an all time low due to the potential lack of future underlying support.

MODULE 1 - CHAPTER 3

CHART PATTERNS

5. Pullback Trading Pattern

Practical Use:

Technical analysts will often use the Bear Pullback pattern to begin looking for sell short entries as the asset reaches resistance or "retail" areas.



MODULE 1 - CHAPTER 3

CHART PATTERNS

6. Double Bottom/Top Chart

Double Bottom

Definition:

Double Bottom is when the price action within the context of a downtrend has the most recent swing/pivot low equal or nearly equal to the previous swing/pivot low.

Background:

The Double Bottom pattern can be formed when the sentiment that was formerly producing the downtrend is now possibly shifting and selling pressure is not strong enough to produce a lower swing high to keep the downtrend intact.

Double Bottoms can be a stronger upward reversal pattern after further confirmation when the next swing low that is produced is even higher.

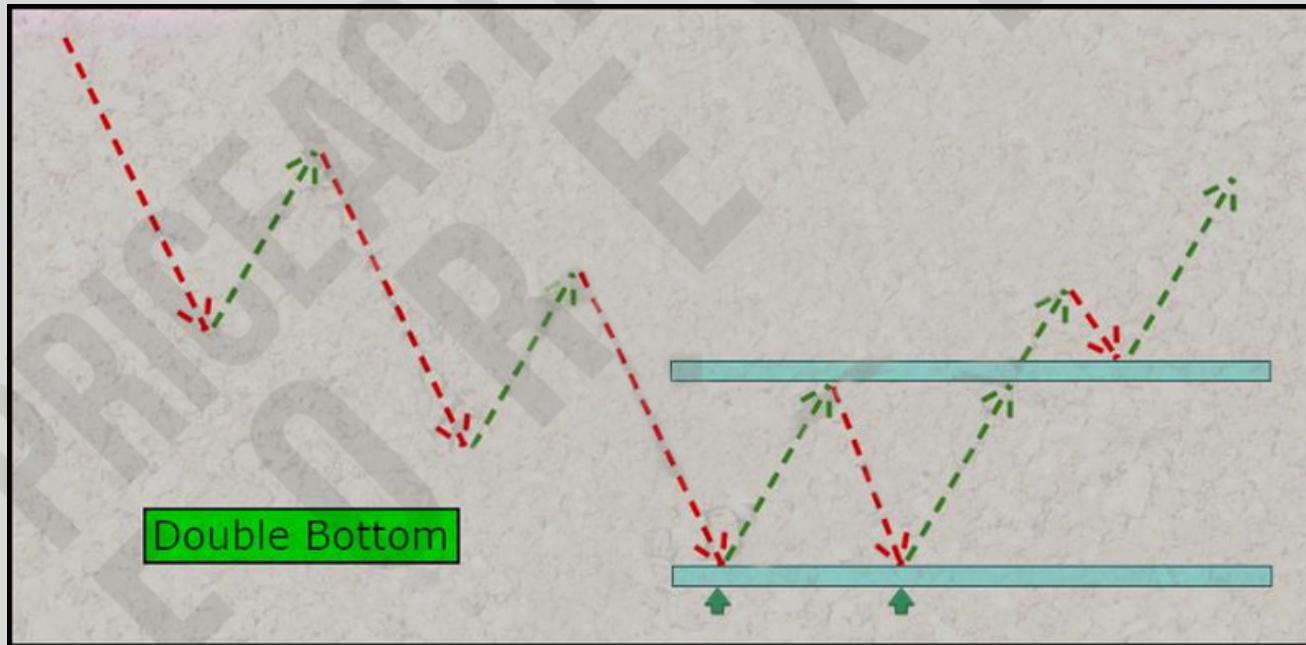
MODULE 1 - CHAPTER 3

CHART PATTERNS

6. Double Bottom/Top Chart

Practical Use:

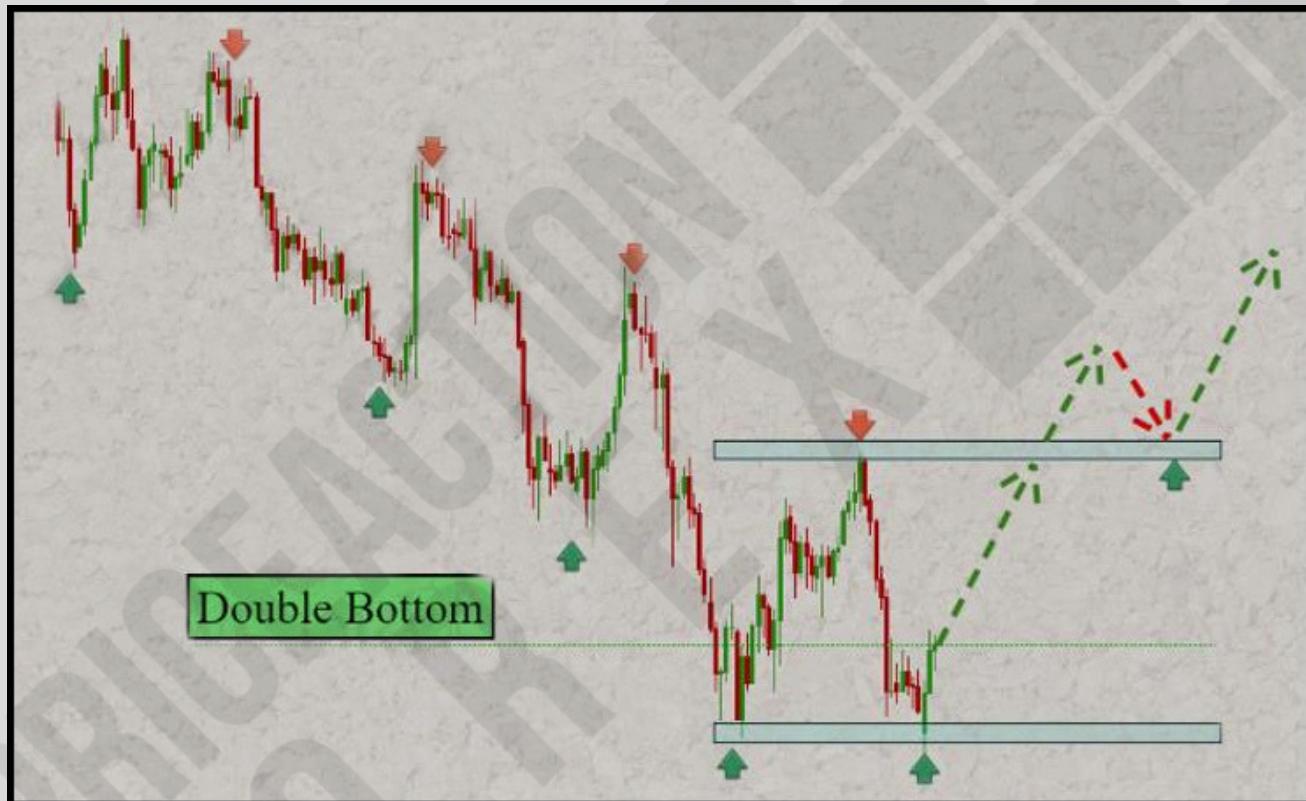
Technical analysts will use Double Bottoms to begin trying to find new buying opportunities as well as to avoid selling the asset until a new short setup is formed.



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CHART PATTERNS

6. Double Bottom/Top Chart

Real-life Double Bottom Example



MODULE 1 - CHAPTER 3

CHART PATTERNS

6. Double Bottom/Top Chart

Double Top

Definition:

Security within the context of an uptrend has the most recent swing high equal or nearly equal to the previous swing high.

Background:

The Double Top pattern can be formed because the sentiment that was formerly producing the uptrend is now possibly shifting and buying pressure is not strong enough to produce a higher swing high to keep the uptrend intact.

Double Tops can be a stronger downward reversal pattern after further confirmation when the next swing high that is produced is even lower.

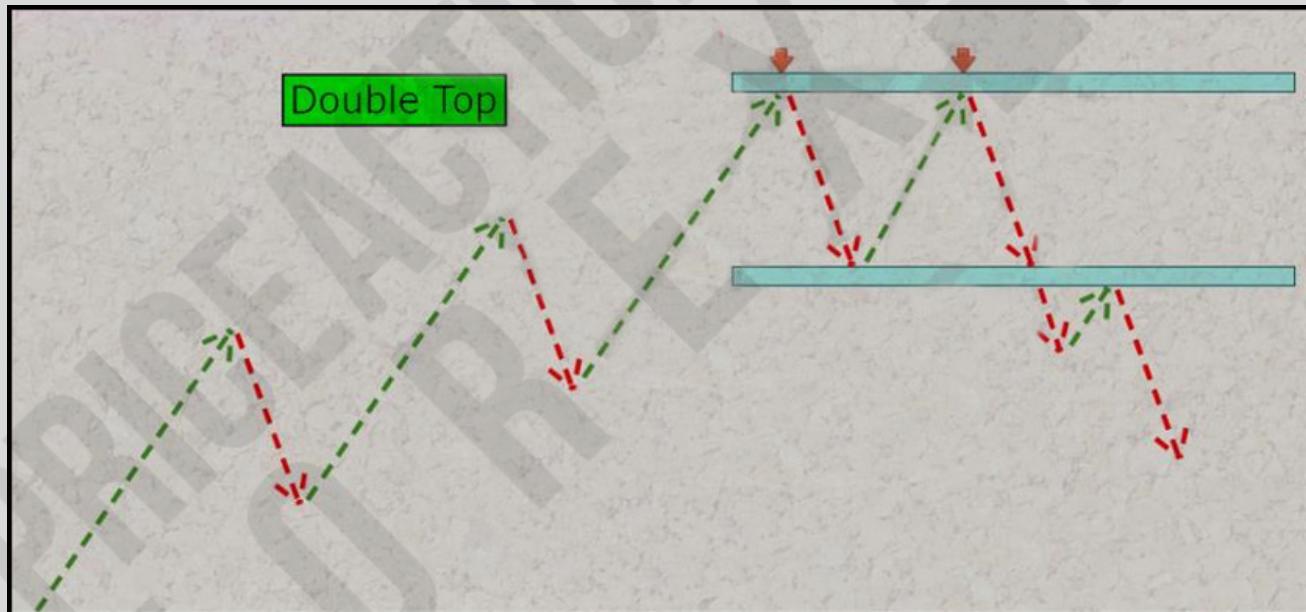
MODULE 1 - CHAPTER 3

CHART PATTERNS

6. Double Bottom/Top Chart

Practical Use:

Technical analysts will use Double Tops to begin trying to find new selling opportunities as well as avoid buying the asset until a new buy setup is formed.



MODULE 1 - CHAPTER 3

CHART PATTERNS

6. Double Bottom/Top Chart

Real-life Double Top Example



MODULE 1 - CHAPTER 3

CHART PATTERNS

7. Triple Bottom/Top Chart

Triple Bottom

Definition:

A Triple Bottom is a typically longer term pattern where price action, within the context of a downtrend, has the most recent swing/pivot low being equal or nearly equal in price to the previous two swing/pivot lows that are also equal or nearly equal in price.

Background:

The Triple Bottom pattern can be formed when the sentiment that was formerly producing the downtrend is now possibly shifting and selling pressure is not strong enough to produce a lower swing/pivot low to keep the downtrend intact.

Triple Bottoms can be a stronger bullish reversal pattern after further confirmation when the next swing/pivot low that is produced is even higher.

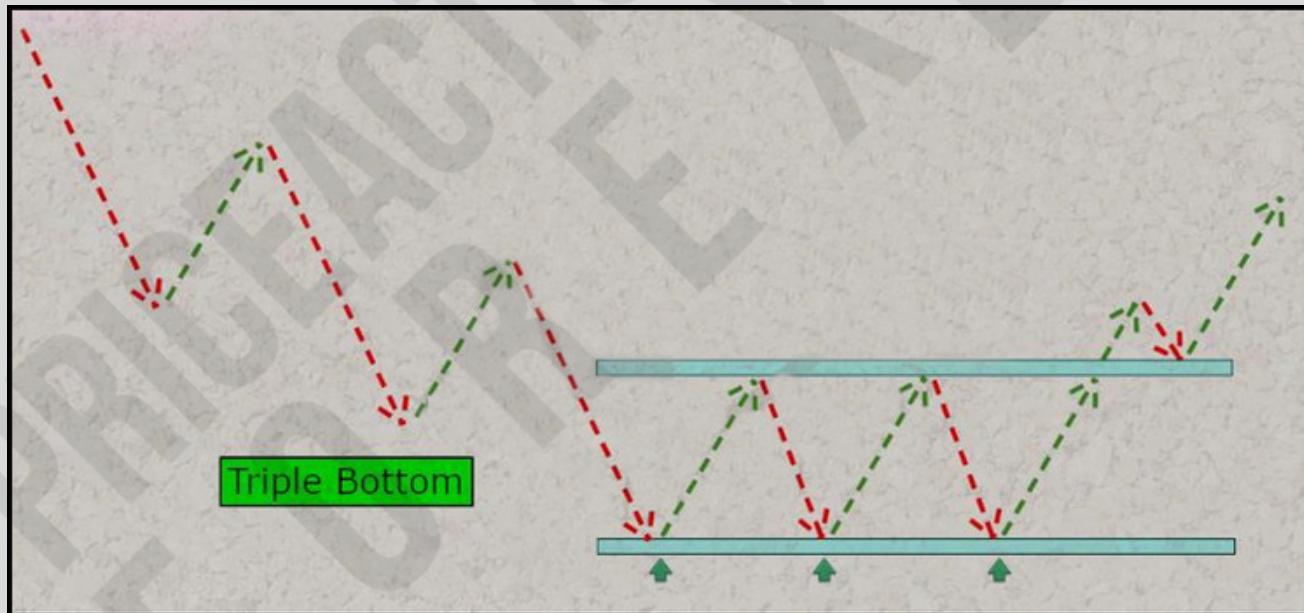
MODULE 1 - CHAPTER 3

CHART PATTERNS

7. Triple Bottom/Top Chart

Practical Use:

Much like a Double Bottom pattern, technical analysts will use triple bottoms to begin trying to find new buying opportunities as well as to avoid selling the asset until a new sell setup is formed.



MODULE 1 - CHAPTER 3

CHART PATTERNS

7. Triple Bottom/Top Chart

Real-life Chart Example



MODULE 1 - CHAPTER 3

CHART PATTERNS

7. Triple Bottom/Top Chart

Triple Top

Definition:

A Triple Top is a typically longer term pattern where price action, within the context of an uptrend, has the most recent swing/pivot high being equal or nearly equal in price to the previous two swing/pivot highs that are also equal or nearly equal in price.

Background:

The Triple Top pattern can be formed because the sentiment that was formerly producing the uptrend is now possibly shifting and buying pressure is not strong enough to produce a higher swing high to keep the uptrend intact.

Triple Tops can be a stronger bearish reversal pattern after further confirmation when the next swing/pivot high that is produced is even lower.

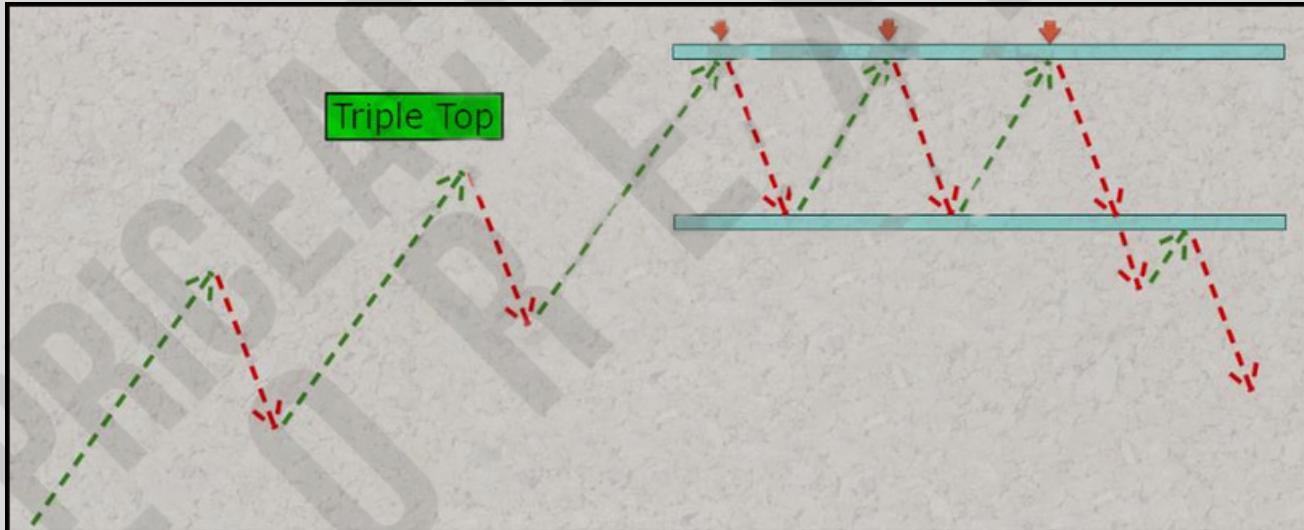
MODULE 1 - CHAPTER 3

CHART PATTERNS

7. Triple Bottom/Top Chart

Practical Use:

Much like a double top pattern, technical analysts will use Triple Tops to begin trying to find new selling opportunities as well as to avoid buying the asset until a new buy setup is formed.



MODULE 1 - CHAPTER 3

CHART PATTERNS

7. Triple Bottom/Top Chart

Real-life Chart Example



MODULE 1 - CHAPTER 3

CHART PATTERNS

8. Head and Shoulders Trading Pattern

Definition:

Also referred to as a lower swing high trend reversal, a Head and Shoulders pattern is formed when price action within an uptrend traces a lower swing high than the previous one.

Background:

The Head and Shoulders pattern is probable because the sentiment that was formerly producing the uptrend is now possibly shifting and buying pressure is decreasing.

Head and Shoulders patterns can be stronger when the price breaks below the "neckline", which is a trendline connecting the swing/pivot lows that created the shoulders.

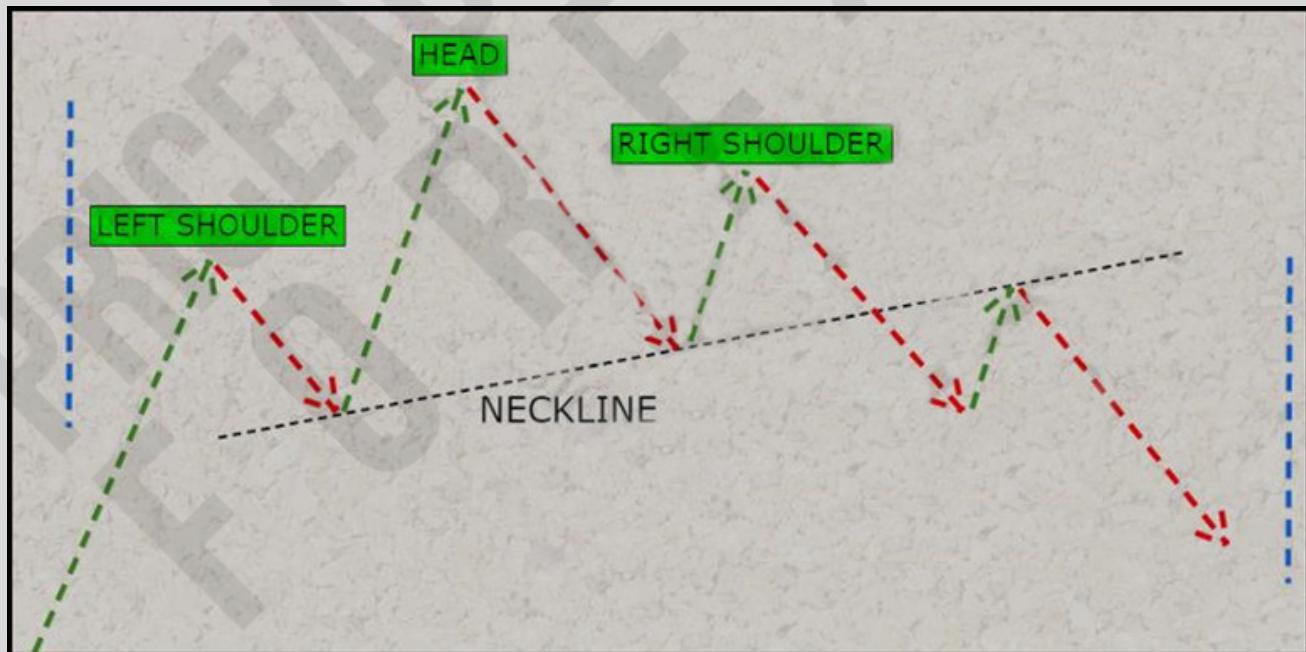
MODULE 1 - CHAPTER 3

CHART PATTERNS

8. Head and Shoulders Trading Pattern

Practical Use:

Traders will often seek out opportunities to sell short when confirmation in the form of a 'neck-line break' occurs. A neck-line break for a Head and Shoulders pattern is the failure of a support area drawn from the two previous swing lows on the chart.



MODULE 1 - CHAPTER 3

CHART PATTERNS

8. Head and Shoulders Trading Pattern

Real-life Chart Examples



MODULE 1 - CHAPTER 3

CHART PATTERNS

9. Inverted Head and Shoulders Trading Pattern

Definition:

Also called a higher swing low trend reversal, an Inverted Head and Shoulders pattern is formed when price action within a downtrend traces a higher swing/pivot low than the previous one.

Background:

The Inverted Head and Shoulders pattern can be formed because the sentiment that was formerly producing the downtrend is now possibly shifting and selling pressure is decreasing.

Inverted Head and Shoulders patterns can be stronger when the price breaks above the "neckline", which is a trendline connecting the swing/pivot highs that created the inverse shoulders.

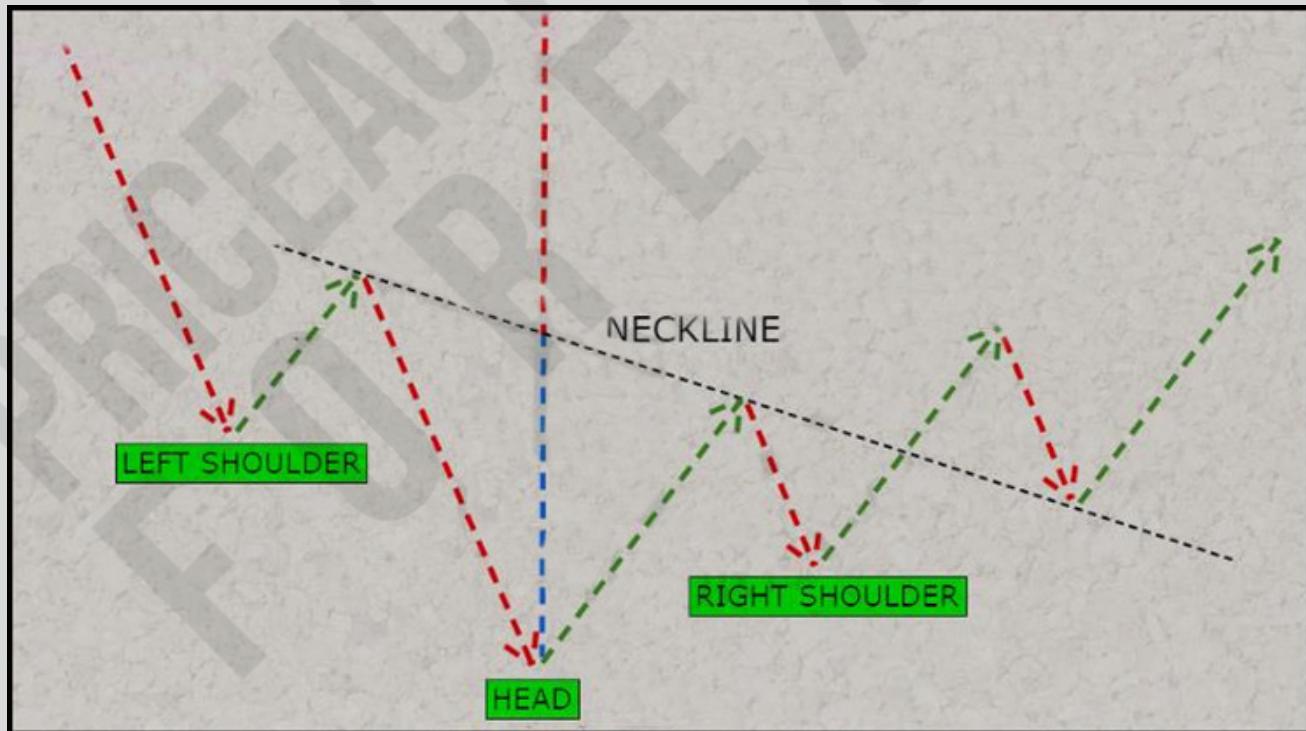
MODULE 1 - CHAPTER 3

CHART PATTERNS

9. Inverted Head and Shoulders Trading Pattern

Practical Use:

Traders will often seek out opportunities to buy when confirmation in the form of a "neck-line break" occurs. A neck-line break for an Inverted Head and Shoulders pattern is the failure of a resistance area drawn from the two previous swing highs on the chart.



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CHART PATTERNS

9. Inverted Head and Shoulders Trading Pattern

Real-life Inverted Head and Shoulders Examples



MODULE 1 - CHAPTER 3

CHART PATTERNS

10. Pennant Pattern

Definition:

The pennant closely looks like to the symmetrical triangle, but its characteristics are not the same. The pennant has the shape of a wedge of consolidation. It usually appeared after a sudden upward or downward movement. The life of a pennant is short according to the timeframe used.

Background:

The pennant is a continuation pattern. The side of the exit of a pennant depends on the movement that preceded it: The formation of the pennant can intervene in a bullish or bearish trend. Most often, this break occurs halfway the movement.

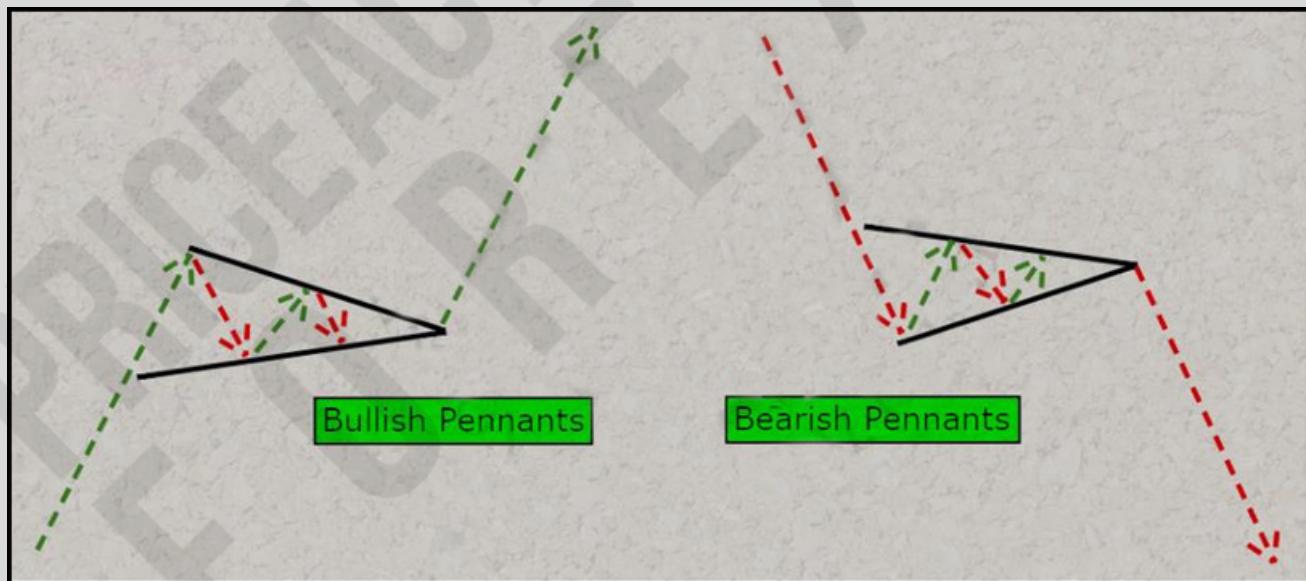
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CHART PATTERNS

10. Pennant Pattern

Practical Use:

The target calculation is compared to the previous trend. We calculate the height of the whole movement, up or down prior to the formation of the pennant and then extended that high on the last low / high point of the pattern.



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CHART PATTERNS

10. Pennant Pattern

Real-life Chart Examples



MODULE 1 - CHAPTER 3

CHART PATTERNS

11. Channels

Bullish Channel

The horizontal channel is a pattern that underlines an investor's indecisiveness. It is formed by two parallel lines that frame the upward price trend. To validate a line, there must have been at least two points of contact with the price. More contact point it has, more the trend line is stronger and more their breakout will give a strong sell signal. The bullish channel one of the most used chart pattern. You can find it in every timeframe.

Bearish Channel

The bearish channel is a continuing trend pattern. The bearish channel is formed by two parallel lines that frame the downward price trend. To validate a line, there must have been at least two points of contact with the price. More contact point it has, more the trend line is stronger and more their breakout will give

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CHART PATTERNS

11. Channels

a strong buy signal. The bearish channel one of the most used chart pattern. You can find it in every timeframe.

Horizontal Channel

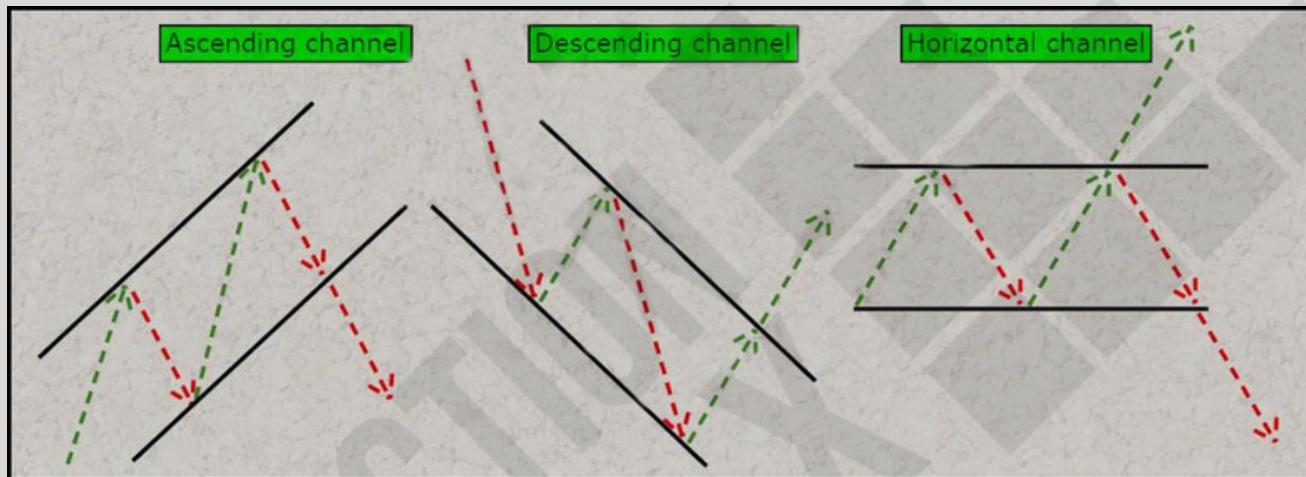
The horizontal channel is a pattern that underlines an investor's indecisiveness. The horizontal channel is formed by two horizontal and parallel lines that frame the evolution of the price. To validate a line, there must have been at least two points of contact with the price. More contact point it will have, more these will be strong and their breakout will give an important buy/sell signal.

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CHART PATTERNS

11. Channels

Types of Channels



Real-life Chart Examples



MODULE 2 - CHAPTER 1

HARMONIC PATTERNS

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HARMONIC PATTERNS

ADVANCED PATTERNS

1. ABCD PATTERN
2. GARTLEY PATTERN
3. BAT PATTERN
4. CYpher PAttern
5. BUTTERFLY PAttern
6. CRAB PAttern
7. SHARK PAttern
8. THE THREE DRIVES PAttern

MODULE 2 - CHAPTER 1

HARMONIC PATTERNS

HARMONIC PATTERN RATIOS

	BAT	CYPHER	CRAB	SHARK	GARTLEY	BUTTERFLY
Point B	50% (must close below 50%)	At least 38.2% (must close below 61.8%)	At least 61.8% (must close below 78.6%)	61.8% (at or close to 61.8%)	At least 61.8% (must close below 78.6%)	At least 78.6% (must close below 88.6%)
Point C	At least 61.8% (must close below 88.6%)	At least 127% XA (must close below 141.4%)	At least 50% (must close below 61.8%)	At least 113% XA (must close below 161%)	61.8% (at or close to 78.6%)	At least 38.2% (must close below 50%)
Point D	161% AB (88.6% XA confluence)	78.6%	161% XA	161%<>224% ext BC Or 88%<>113% XC	127% AB (78.6% XA confluence)	127% XA (161% AB confluence)
Take Profit	38.2& AD 61.8% AD	38.2& CD 61.8% CD	38.2& AD 61.8% AD	38.2& XC 61.8% XC	38.2& AD 61.8% AD	38.2& AD 61.8% AD

HARMONIC PATTERNS

1. ABCD PATTERN

AB=CD

The AB=CD pattern is found in all markets and all time frames. This pattern is the foundation for the Gartley buy and sell patterns. It is also an integral part of the Butterfly pattern and also forms a part of the Three Drives pattern. The pattern is a measured move where the CD leg is similar in Length to the AB leg. It should be noted though, that the CD leg can extend and will not always be exactly equal to the AB leg.

There are three legs that form this pattern:

The first leg of the pattern is labeled AB. After the completion of the first leg a retracement or correction occurs that will usually find support or resistance at one of these Fibonacci levels .382, 50, .618 or .786. This correction or retracement is labeled BC and is the second leg of the pattern. (Note Strongly trending markets will usually see only a retracement to the .382 level.)

HARMONIC PATTERNS

1. ABCD PATTERN

When price resumes in the same direction as the AB leg, the CD leg then begins to form. Once we identify the CD leg forming, we can project the potential pattern completion and devise a trading strategy.

As the CD leg forms and completes we monitor the final leg for any warning signs that would alert us to a change in market conditions that may signal us to possibly pass on the trade or wait for further confirmation before entering the trade.

Once the price exceeds B, we make an assumption that the price will reach pattern completion at point D.

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HARMONIC PATTERNS

1. ABCD PATTERN

Three items that would invalidate the AB=CD pattern:

1. BC cannot exceed the AB leg meaning the retracement of AB cannot exceed 1.00.
2. BC can be a 1.00 retracement of the AB leg; this is a rare pattern and a double top or bottom. but it is a valid pattern.
3. D must exceed B in order for the pattern to complete at point D and be a valid AB=CD pattern.

About 40 percent of the time. the AB=CD pattern will be perfectly symmetrical. meaning AB equals CD. The other 60 percent of the time variations of the pattern will be present. What this means is that after the AB leg has formed and the retracement leg. BC. has completed. the CD leg will be different from the AB leg. The two legs may or may not be perfectly symmetrical.

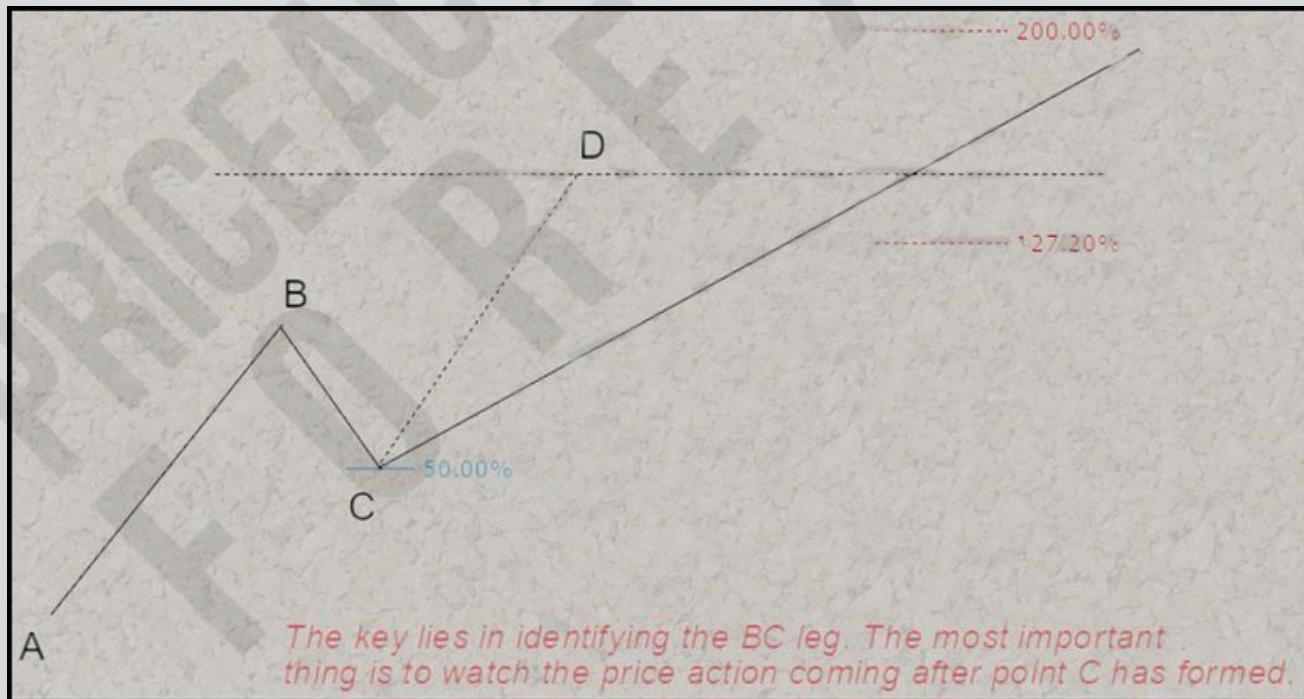
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HARMONIC PATTERNS

1. ABCD PATTERN

Some of the ways the CD leg can vary from the AB leg include:

- The CD leg is an extension of AB anywhere from 1.27 to 2.00 (or greater).
- The CD leg has a slope or angle steeper or wider than AB.



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HARMONIC PATTERNS

1. ABCD PATTERN

CD LEG VARIATIONS (described in four ways)

1. If after point C has occurred a gap exists in the direction of point D this usually indicates that the CD leg will be much greater than the AB leg-1.272. 1.618. or more.
2. A wide range bar (twice normal size) at point C is another indication that the CD leg could become extended.
3. Ideally. AB=CD moves are symmetrical in price and time For example. if the AB leg is six bars up. then the CD leg will be six bars up.
4. The time to form the two legs is symmetrical.

HARMONIC PATTERNS

1. ABCD PATTERN

SLOPE AND TIME FRAMES

The slope or time frame of the BC move can also be helpful in determining the pattern.

BC legs generally correct to one of the Fibonacci ratios: .382, .50, .618, or .786.

The slope of this BC leg is usually a good indication of what the next CD leg will be.

For example, assume that the AB leg took 15 trading bars to reach point B, and now the BC leg has taken 8 bars but has retraced only .382 percent of the AB leg.

This is a sign of the market absorbing a lot of selling at a high price. It is a shallow retracement, and the price has not been able to retrace to .50, .618, or .786 percent. We would assume that prices would go much higher and possibly quite rapidly once the selling slows.

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HARMONIC PATTERNS

1. ABCD PATTERN

However, if the market retraces to a .618 or .786 retracement the CD leg will most probably be a normal move equaling AB=CD.

The number of bars in the AB=CD pattern will usually range from five to eight bars. When the CD leg is extending beyond eight bars in an up or down move the probability is for a price extension where CD will be 1.272, 1.618 or greater of the AB swing.

Keep in mind that these patterns are only probabilities; they are not certainties

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HARMONIC PATTERNS

1. ABCD PATTERN

PSYCHOLOGY OF THE AB=CD PATTERN

Classic crowd psychology also forms the legs of the AB=CD pattern. There are two mechanisms that make the market move up and down-more buyers or more sellers: this is the ultimate greed barometer.

Since fear is a stronger emotion than greed, markets tend to go down faster than they go up.

Price action in any actively traded market can be broken down into three steps:

1. Up moves.
2. Down moves.
3. Sideways moves.

The AB=CD pattern contains all three of these movements in a simple geometric form. Its trading value comes from its repetitive nature. It measures buying enthusiasm and selling climaxes.

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HARMONIC PATTERNS

1. ABCD PATTERN

AB=CD sell pattern

As the price begins to rise in the AB leg it catches the interest of those wanting to be in early. This could be early buying from large money sources such as mutual funds, pensions, and so on. As the price continues to rise, speculators may take note and climb on board, causing the price to rise further into the AB leg.

Toward the top of the AB leg, individual investors (the general public) may start buying, not wanting to miss the move. There may be some news items on the individual stock or market, further drawing attention to the price rise. It is usually the case that this is toward the end of the first leg. Once the first leg is complete, some profit taking occurs and the price begins down. Those who bought near the top of this leg are now at a loss and some fear begins to set in, which can increase the selling.

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HARMONIC PATTERNS

1. ABCD PATTERN

As the price declines toward the Fibonacci retracement levels. those who may have missed the first move up begin to step in to buy the dip. Institutional investors may add to their positions. and speculators also may step in to buy a higher low, providing price support.

The selling subsides and the price finds support as more new buyers come into the stock or market and the price begins to resume its rise (CD leg). At this point, some investors who rode out the loss from buying near the top of the AB leg may sell as the price approaches their breakeven point on the retracements back up from the BC leg.

Some who missed getting out at a profit near the top of the AB leg now take profits as the price is close to those levels again. The CD leg now begins to repeat the cycle of buyers, and as the price rises further those

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HARMONIC PATTERNS

1. ABCD PATTERN

who realized they sold too soon may jump back in. A new surge of buying (or selling) will then push the price through the B point to complete the pattern at D.

PLAN YOUR TRADE, TRADE YOUR PLAN

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HARMONIC PATTERNS

1. ABCD PATTERN

TRADING THE AB=CD PATTERN

The bearish AB=CD pattern can be found and traded in any time frame.

1. A limit order would be used go short Just below the completion point at D.
2. Once the order is filled a stop-loss buy order is placed 5 points above the entry

FIRST EXIT

The first exit is above the .618 retracement of the AD swing. Occasionally the market may trade just at but not through the price, and it will be up to the individual trader's discretion how to handle these situations.

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HARMONIC PATTERNS

1. ABCD PATTERN

Risk-Free Trade

Once a profit is realized in the first part the stop-loss order is then moved to the breakeven point.

This accomplishes two very important things:

1. Reduces the risk in the trade

2. Books a profit

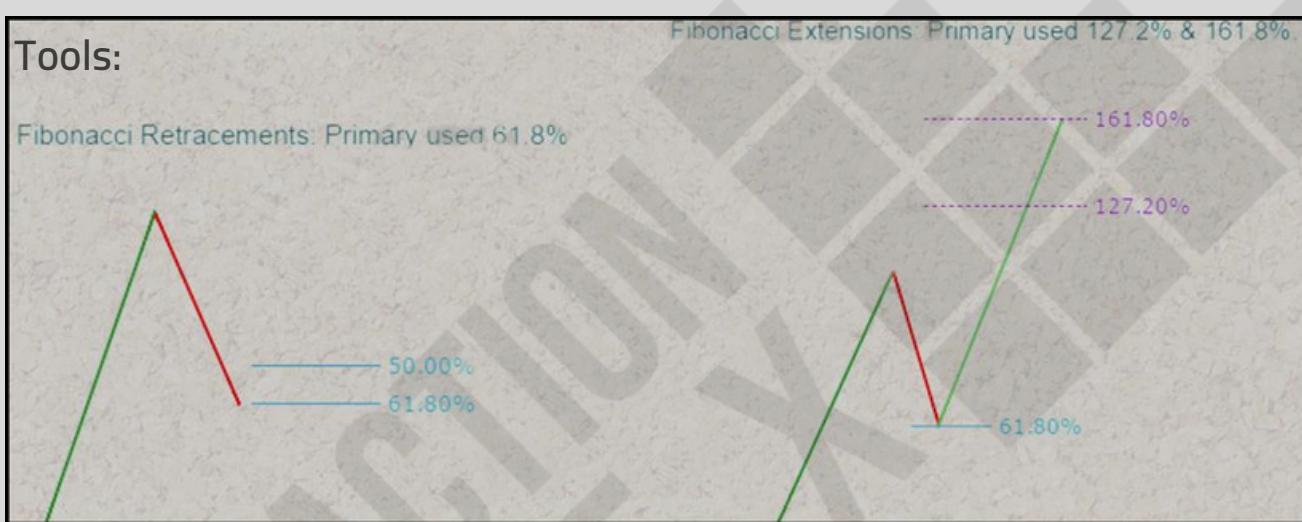
At this point, our stop has been moved to the breakeven point. Our second profit objective is at the .786 retracement level from the A-D swing. We place a limit order to exit the second contract just above the .786 retracement level.

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HARMONIC PATTERNS

1. ABCD PATTERN

DETAILS



Timeframes:

The ABCD Pattern was designed as a day/swing trading strategy. It can be identified on any timeframe and can be seen information of other advanced patterns.

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HARMONIC PATTERNS

1. ABCD PATTERN

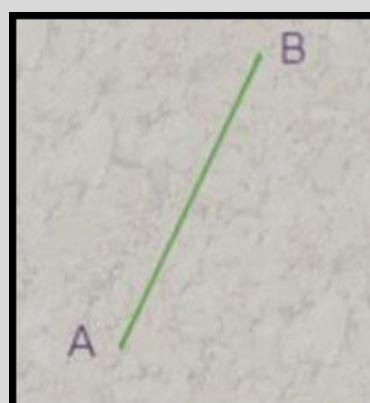
DETAILS

Rules of Engagement:

The ABCD Pattern begins with a market movement/impulse leg that establishes our A and B points. Once the A and B points have been identified we then look for our first criteria.

Tactics:

The tactics for the ABCD Pattern are very similar to other well known advanced patterns. We seek to identify 3 market moves and 2 major Fibonacci zones. The combination of these moves forms the 4 points (A.B.C.D) that fulfill the pattern.



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HARMONIC PATTERNS

1. ABCD PATTERN

DETAILS

Criteria 1:

The market forms the (C) completion point by fulfilling at least a 61.8% retracement of the AB leg.



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HARMONIC PATTERNS

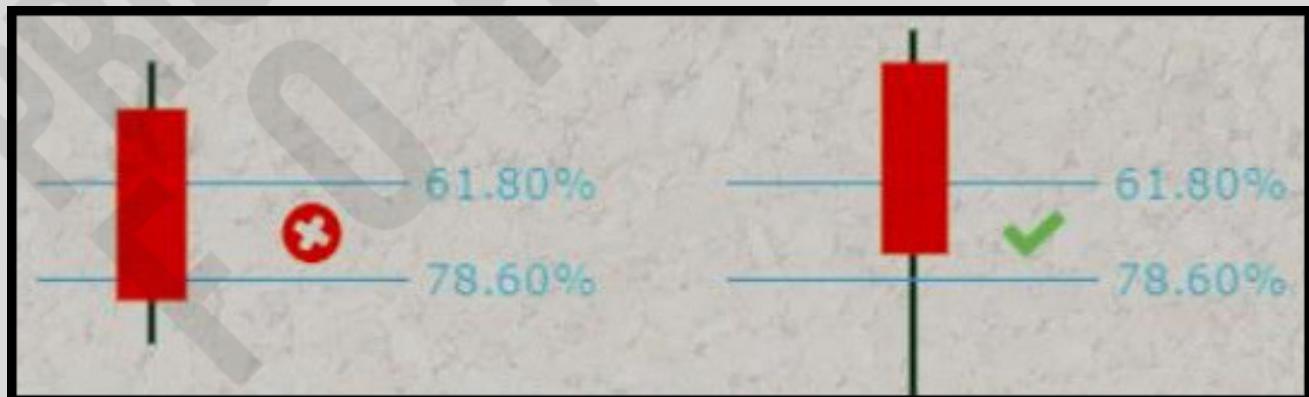
1. ABCD PATTERN

DETAILS

NOTES:

Tie BC moves remains valid as long as there is at least a 61.8% retracement of AB and there is not a candle close beyond the 78.6% retracement of AB.

The C completion point (candle wick) can extend beyond the 61.8% retracement of AB as long as the candle does not does not close beyond the 78.6% retracement of AB.



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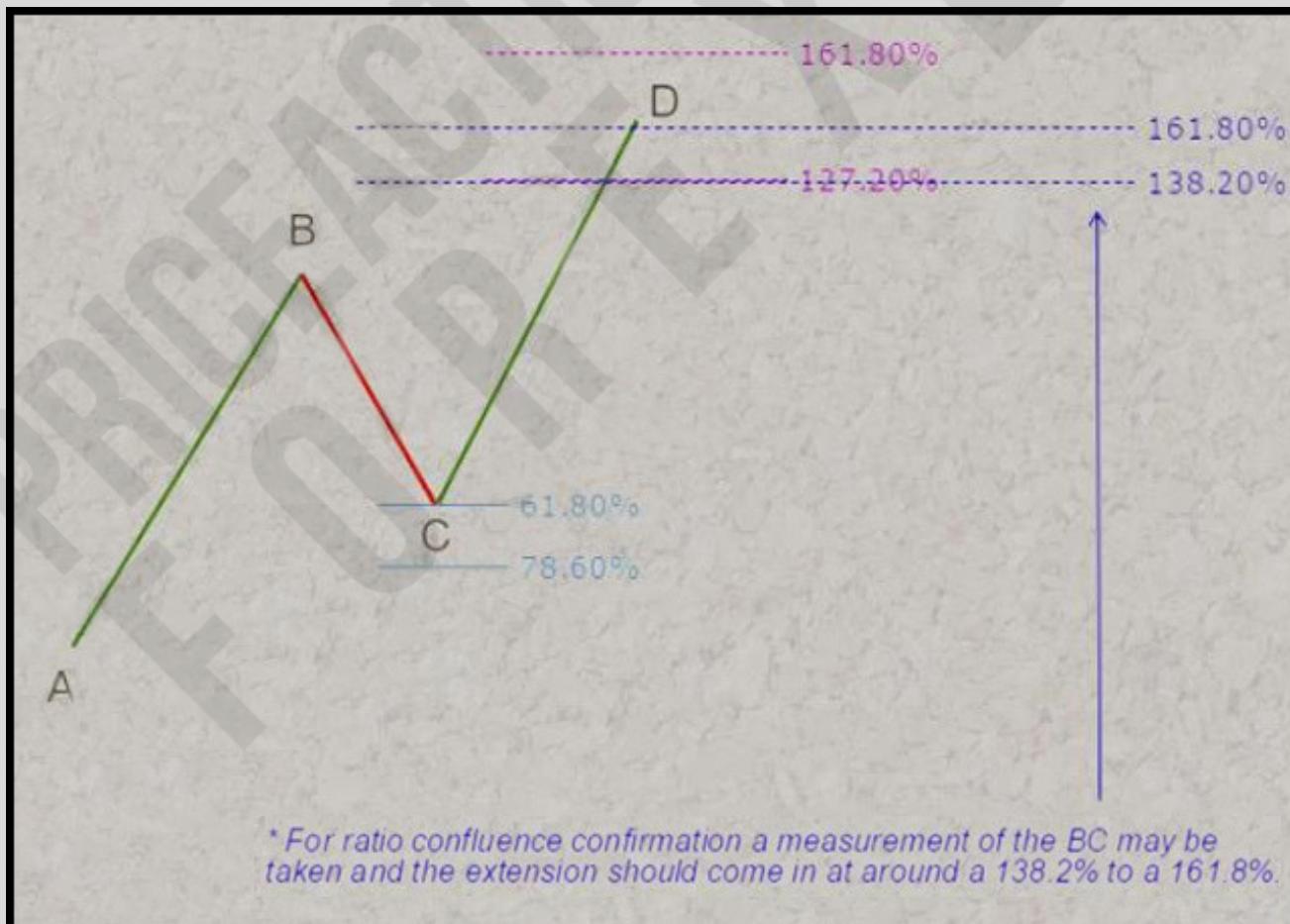
HARMONIC PATTERNS

1. ABCD PATTERN

DETAILS

Criteria 2:

If criteria 1 has been met, then look for criteria 2.
The market forms the (D) completion point by fulfilling at least a one to one harmonic move of the AB leg coming in at a 127.2% extension of AB.



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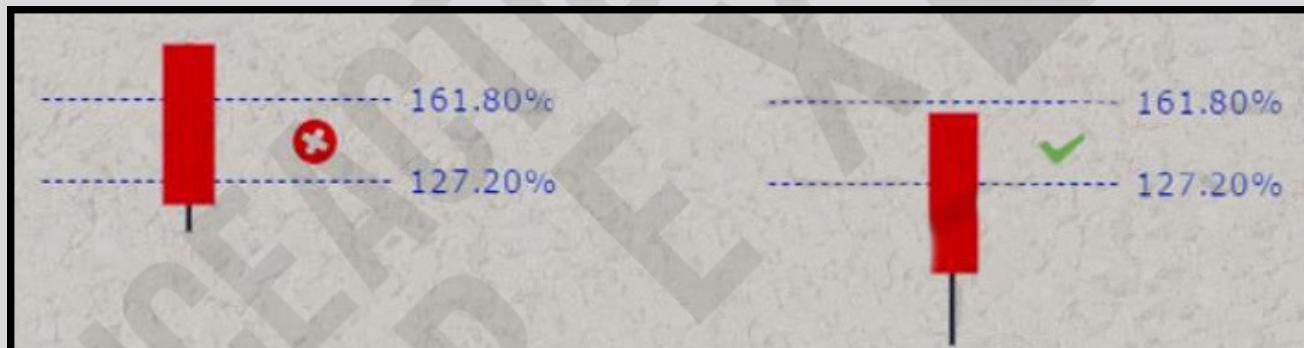
HARMONIC PATTERNS

1. ABCD PATTERN

DETAILS

NOTES

The D point remains valid as long as there is at least a 127.2% extension of AB there is not a candle close beyond the 161.8% of AB.



In a valid CD move, there must be at least a 127.2%. Failure to achieve a 127.2% invalidates the pattern.

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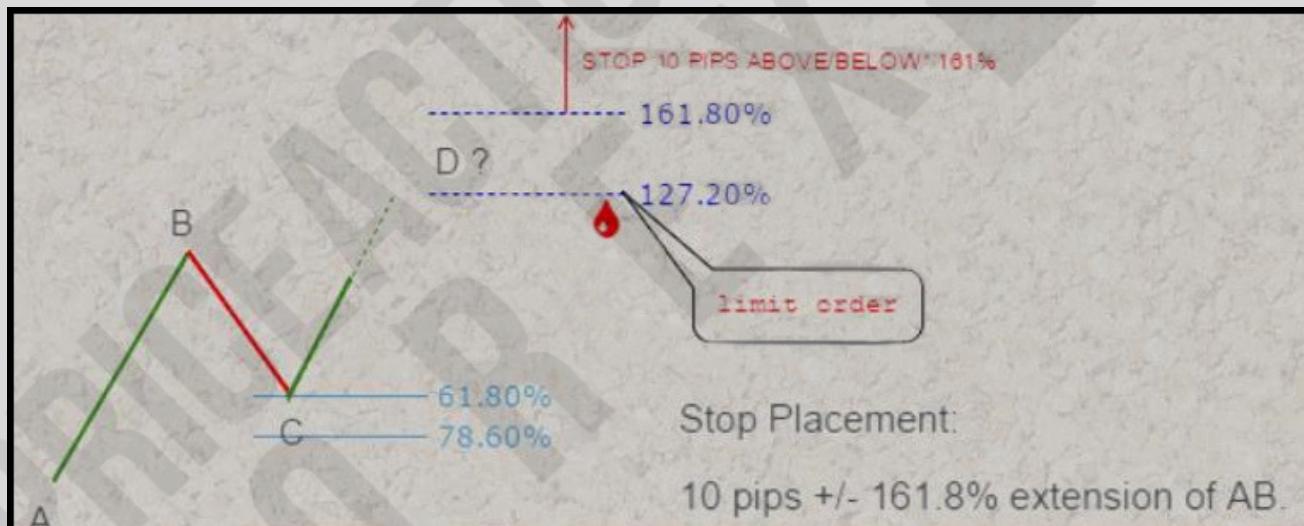
HARMONIC PATTERNS

1. ABCD PATTERN

DETAILS

Trade management: Entry, Stops. & Targets

Entry: Limit order placed at the D completion point
(172.2% of AB)



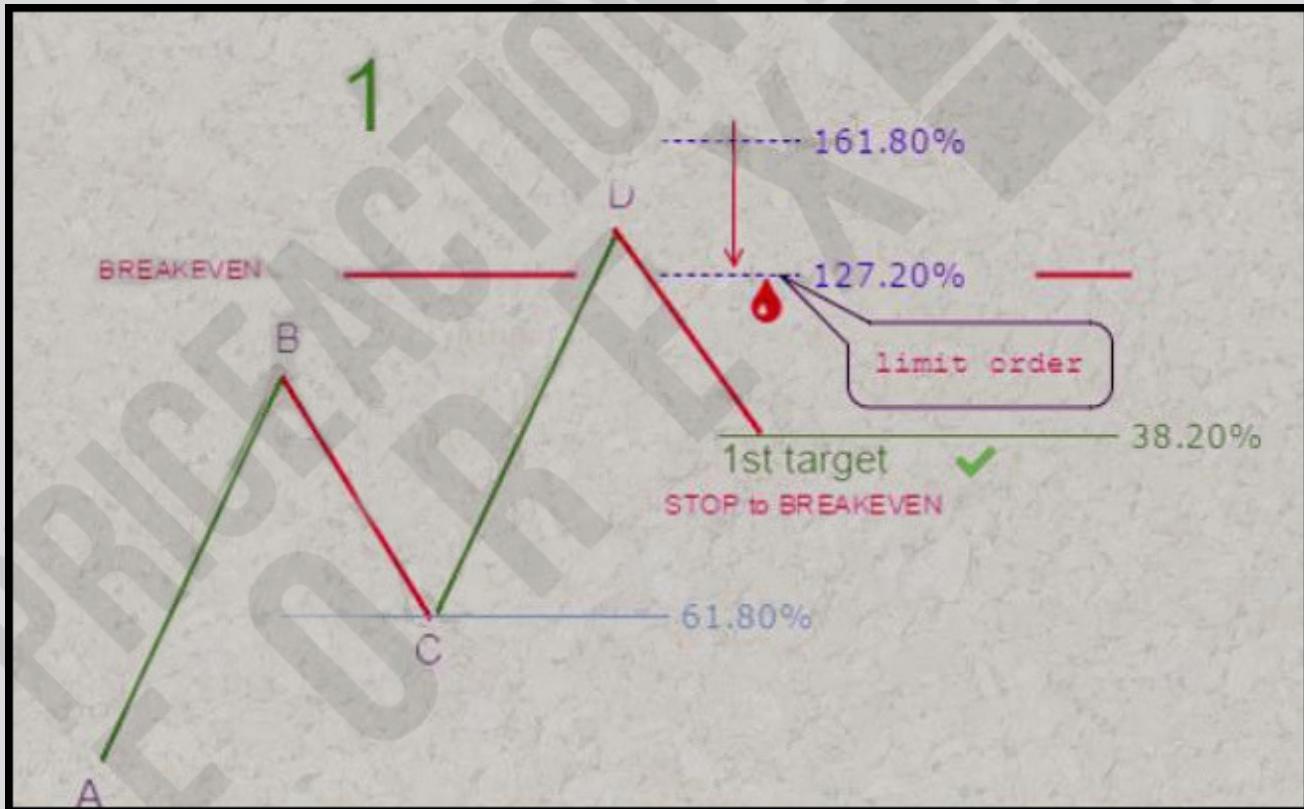
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HARMONIC PATTERNS

1. ABCD PATTERN

DETAILS

Target 1: 38.2% retracement of AD move. When attained move stops to breakeven.



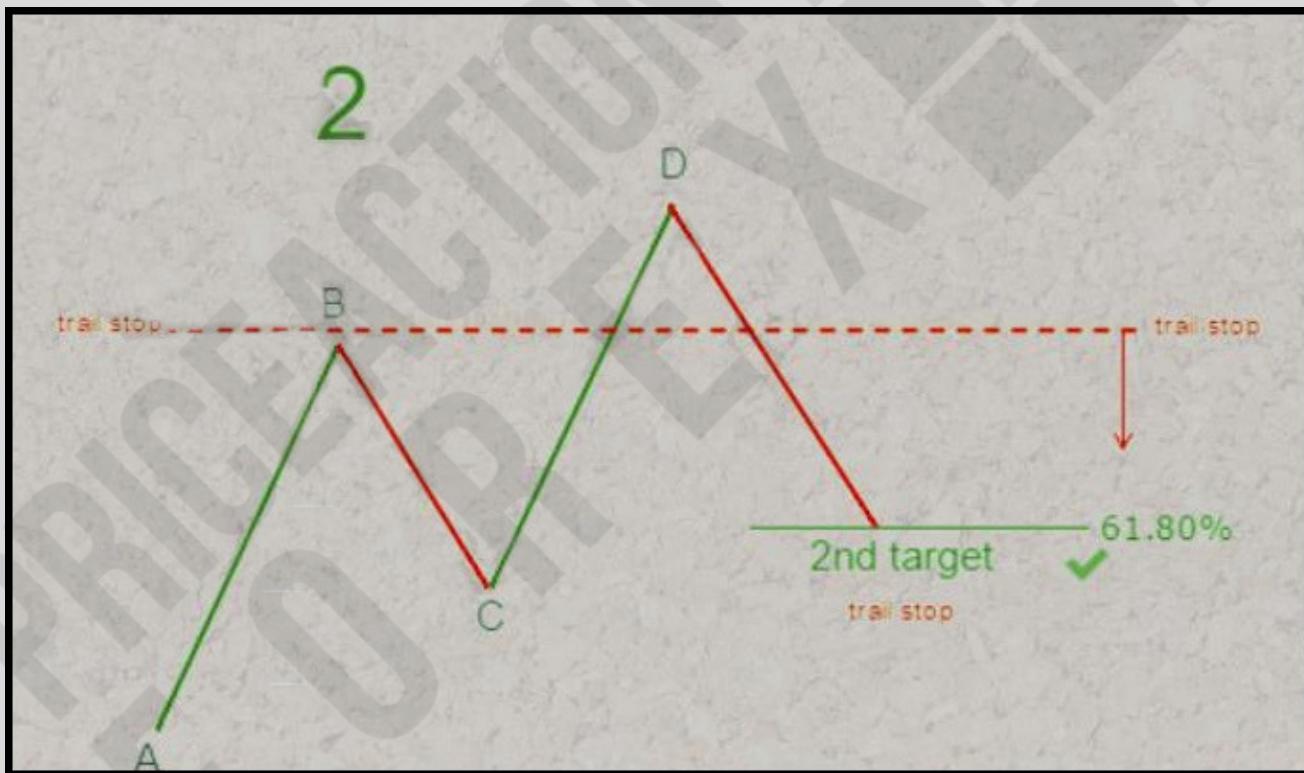
MODULE 2 - CHAPTER 1

HARMONIC PATTERNS

1. ABCD PATTERN

DETAILS

Target 2: 61.8% retracement of AD move. When attained, trail stop to structure +/- 10 pips.



HARMONIC PATTERNS

2. GARTLEY PATTERN

The Gartley - "222" Pattern

The Gartley 222° pattern is certainly one of the classic retracement patterns. It offers the trader early entry with minimum risk into a potential longer-term trend reversal. For short-term day traders, the pattern can be used effectively to buy and sell tests of highs and lows on an intraday basis. Gartley said to buy or sell the first AB=CD pattern in a new bear or bull market, and that is what this pattern can achieve along with entries into an already established trend. A major reversal may not always follow with this pattern, but even so the trader can still gain profits using good trade management skills (assuming the pattern is not a failure pattern).

HARMONIC PATTERNS

2. GARTLEY PATTERN

GARTLEY "222" PATTERN STRUCTURE

The structure of the Gartley u222n pattern IS almost identical to the AB=CD pattern with one main difference. It has one added leg that anchors the AB=CD. Whereas the AB=CD pattern is formed with three legs, the Gartley pattern is formed with four legs.

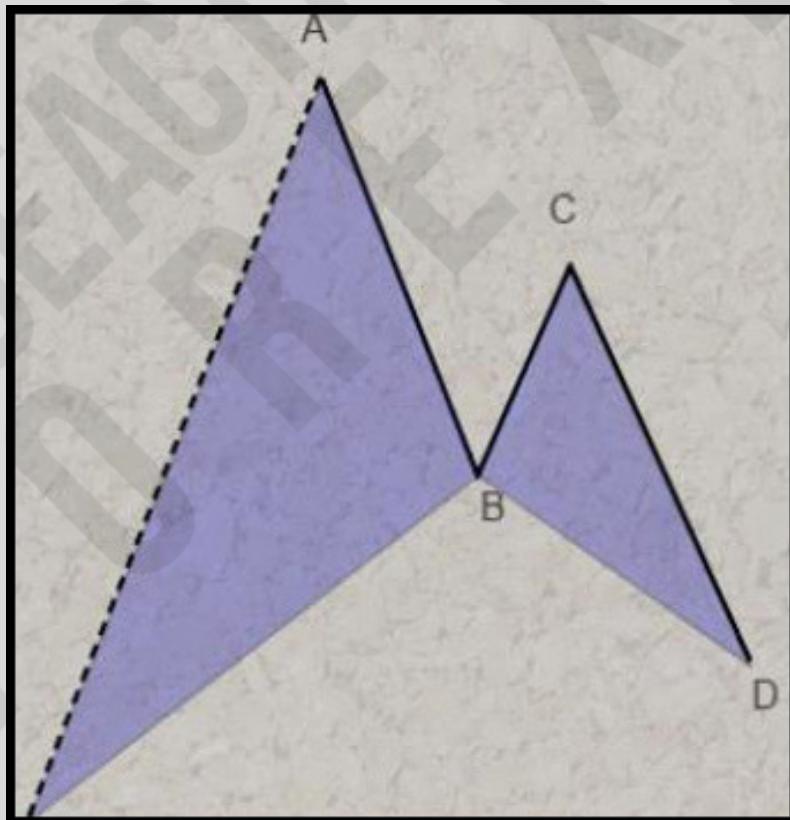
The Gartley pattern must contain an AB=CD m order for rt to be a valid Gartley pattern. The pattern is labeled from its initiation with an "X" ... Once this leg is complete, the high or low from "X" begins the AB=CD formation.

MODULE 2 - CHAPTER 1

HARMONIC PATTERNS

2. GARTLEY PATTERN

As with the AB=CD pattern the Gartley pattern is also found in all time frames and in all markets. The pattern is a retest of a high or low price and offers the trader an entry into a trade in the direction of the trend. The same rules apply to the AB=CD within the Gartley pattern.



HARMONIC PATTERNS

2. GARTLEY PATTERN

What invalidates the Gartley "22211 patterns. Here are three items that invalidate the pattern

1. The D completion point cannot exceed X.
2. The C point cannot exceed AC can be a 1.00 or double top or double bottom of X though this is a rare pattern but it is valid.
- 3 The B point cannot exceed X.

The same warning signs apply to the Gartley pattern as to the AB=CD pattern gaps in the CD leg near the completion point, wide range bars, and tail closes

MODULE 2 - CHAPTER 1

HARMONIC PATTERNS

2. GARTLEY PATTERN

IMPORTANT CHARACTERISTICS OF THE GARTLEY "222" PATTERN

The Gartley pattern can be broken down into four segments that relate to the labeling of the swings. Point X is the high or low point of the swing and is the starting point of the pattern. The X can be found on longer time frames at major highs or lows. However, the X can also sometimes be found as a top or bottom within a larger trend; in other words, the pattern can form within a larger swing or leg without the X being a major top or bottom.

The X point becomes the fulcrum or anchor price that all technical traders watch daily. After point X is formed and the market begins to move in one direction, the XA leg starts to form; at this stage it is impossible to determine where the completion of the XA leg may be.

HARMONIC PATTERNS

2. GARTLEY PATTERN

There are certain characteristics of how this first swing embarks that give clues to the length and thrust of the XA leg: If there are gaps, wide range bars, and tail closes in the direction of the trend, it may be sometime before a correction takes place As this first leg accelerates it will take out old support or resistance levels from past chart data The only way to visually know that the XA leg is complete is by the formation of the second leg, labeled AB Near the completion of A.

Once it has been determined that the XA leg is complete, then the next step is to watch the formation of the AB leg. This leg is the first reaction up or down from the initial impulse wave from X. T.

The key items to watch in this formation are:

- The Fibonacci retracement ratio to which the market corrects

HARMONIC PATTERNS

2. GARTLEY PATTERN

- The number of bars that form the leg.
- The similarities in slope and thrust

For example, if the AB leg takes a considerable amount of time (more than 8 to 10 bars) to form, then we would assume that the market is heading for a larger correction, potentially to .618, .786, or further. As the price begins to turn down or up from B, it is important to note that the pattern would be invalid if the BC leg exceeded X. It is possible for the completion point of this leg at C to be an exact double bottom or top of the X point, and that is still a valid pattern. But if the price at C exceeds X the pattern is then invalid: it would potentially be forming a Butterfly Extension pattern.

MODULE 2 - CHAPTER 1

HARMONIC PATTERNS

2. GARTLEY PATTERN

PSYCHOLOGY OF THE GARTLEY "222" PATTERN

Same as AB=CD pattern, it is formed by fear and greed levels of the market participants. When the Gartley pattern forms at a major top, the initial move from the top finds support at the A point.

Using Bearish Pattern as an example:

Markets rarely go straight up or down without any correction. This point in the pattern is formed when enough market participants view this area as a buying opportunity and the price can rally from there.

This is also true from the C point of the pattern. Since there are always buyers and sellers in a market, as the price forms the B and D points, sellers step in, seeing these as areas either to exit the market or to initiate

MODULE 2 - CHAPTER 1

HARMONIC PATTERNS

2. GARTLEY PATTERN

short positions.

The D point of the pattern is the moment of truth to determine if the buyers or the sellers will be the winners. A price decline will reward the sellers, and a price above the X point will deem the pattern a failure.

If the pattern is successful, the price can accelerate to the downside if it exceeds the A point. At this point many previous support areas are being broken and all traders or market participants who bought above the A point are now at a loss on the positions.

It is true to human nature that a few are quick to get out with minimum losses while many others are waiting for the price to come back up to their entry price—which may or may not occur. As the price continues to decline, more market participants who

HARMONIC PATTERNS

2. GARTLEY PATTERN

are experiencing larger losses are forced to liquidate at undesirable price levels. There is usually some type of selling climax that signals the bottom. And support is found as new buyers step in.

TRADING THE GARTLEY "222" PATTERN

This particular pattern eliminates the need to pick tops and bottoms, as it is a retest of the recent high or low. By definition, it is buying a higher low or selling a lower high which is ideal for trading with the trend. The trend is defined by higher highs and higher lows in an uptrend and lower highs and lower lows in a downtrend.

A limit order just above the .786 would be used on this trade with an initial stop-loss order below the 1.00 (X) level, but this will sometimes be too large for the

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HARMONIC PATTERNS

2. GARTLEY PATTERN

amount of dollars risked and a dollar amount will be calculated for the stop-loss order instead.

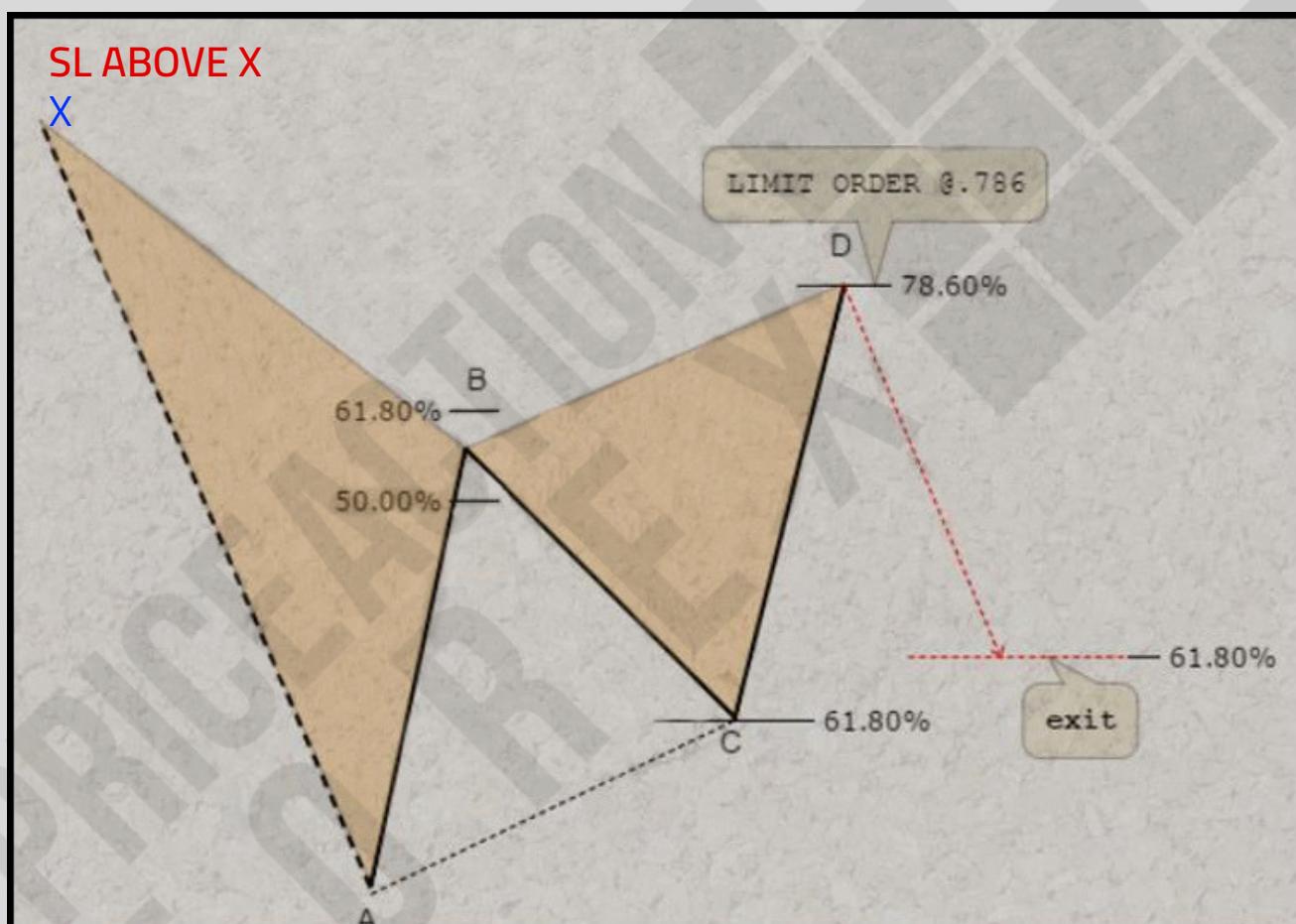
Always look at the amount of risk and where the stop must be placed in any trade. If the trader cannot find an acceptable stop level according to the trader's money management plan. then the trade should be dropped and another trade with acceptable risk should be found.

We can always reenter a trade that is stopped out if the pattern is still intact. These are the types of decisions that traders must make continually.

A limit order just above the .786, stop just below the 1.00 (X) level. The first profit objective is equal to the amount of risk in the trade, once this is filled. move the stop to breakeven. The second exit in this trade is at the .618

MODULE 2 - CHAPTER 1
HARMONIC PATTERNS

2. GARTLEY PATTERN

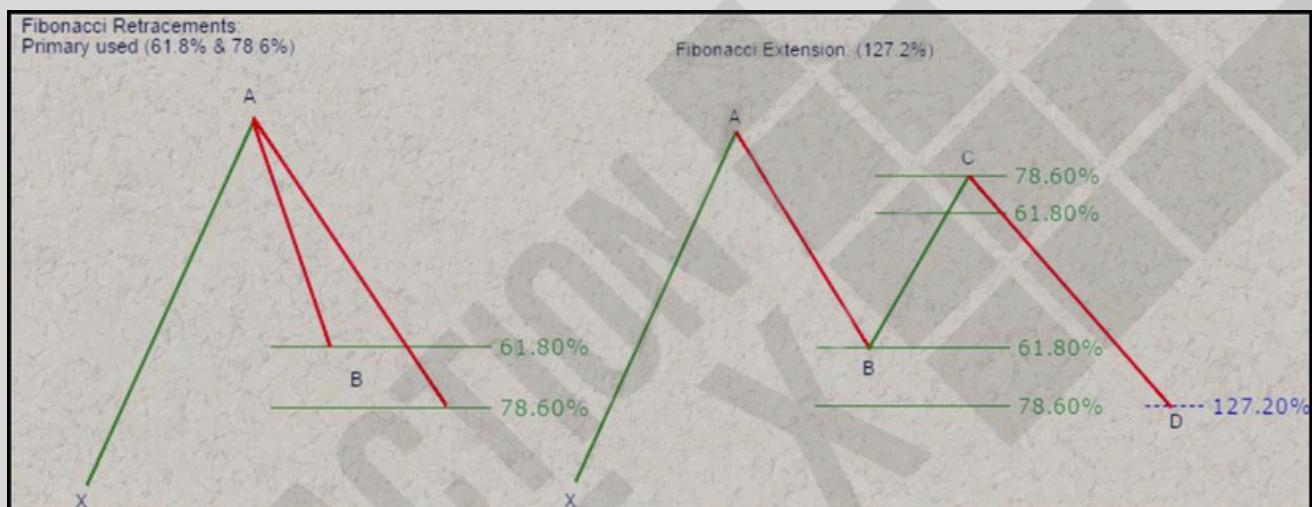


MODULE 2 - CHAPTER 1

HARMONIC PATTERNS

2. GARTLEY PATTERN

DETAILS



Timeframes:

The Gartley Pattern was designed as a swing I position trading strategy. It was originally discovered by H.M Gartley in 1935. This pattern can be identified on virtually any timeframe.

Tactics:

The tactics for the Gartley Pattern are very similar to other well known advanced patterns like the Bat or

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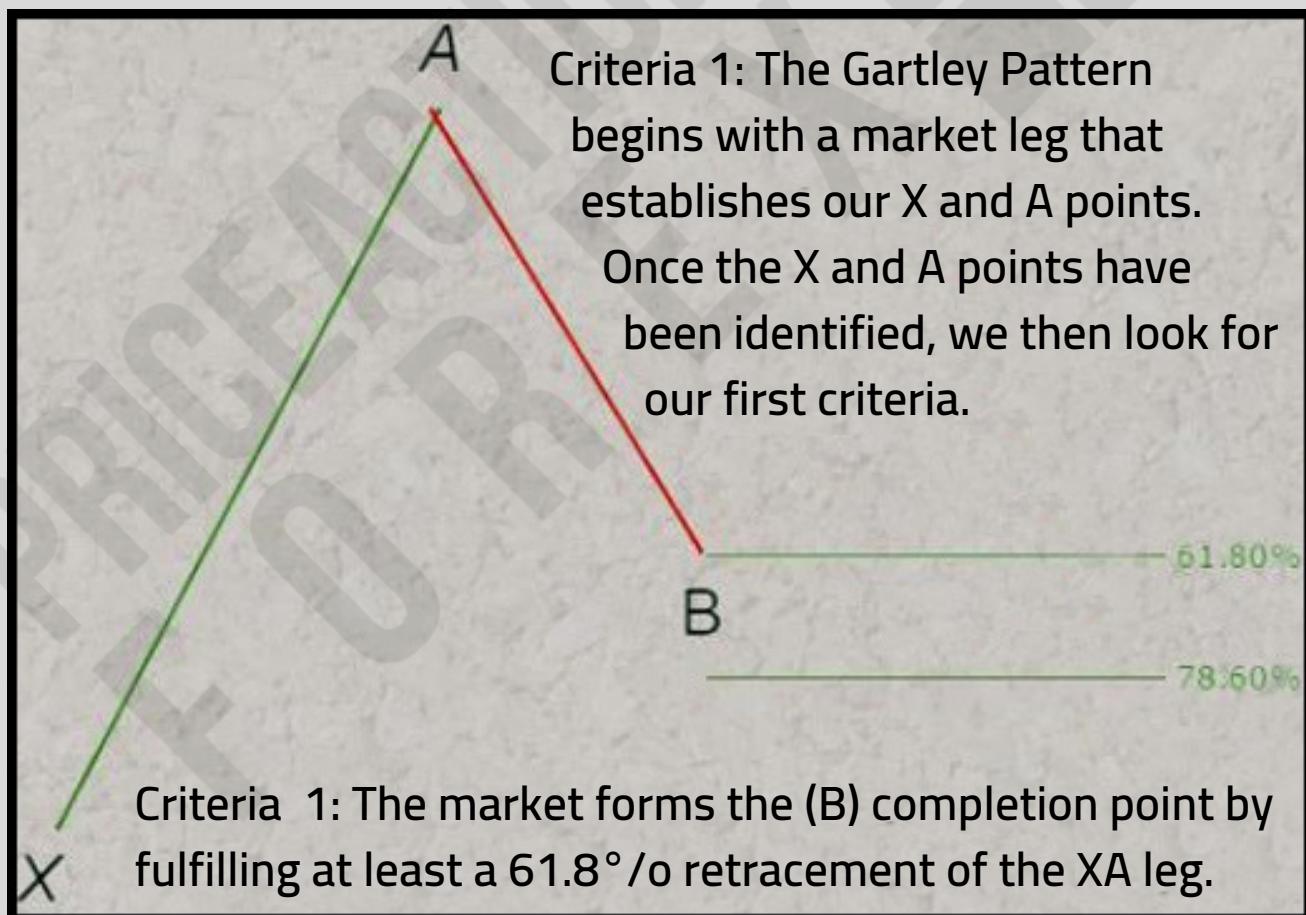
HARMONIC PATTERNS

2. GARTLEY PATTERN

DETAILS

Butterfly. With the Gartley Pattern, we seek to identify 4 market moves and 3 major Fibonacci zones.

Rules of Engagement:



MODULE 2 - CHAPTER 1

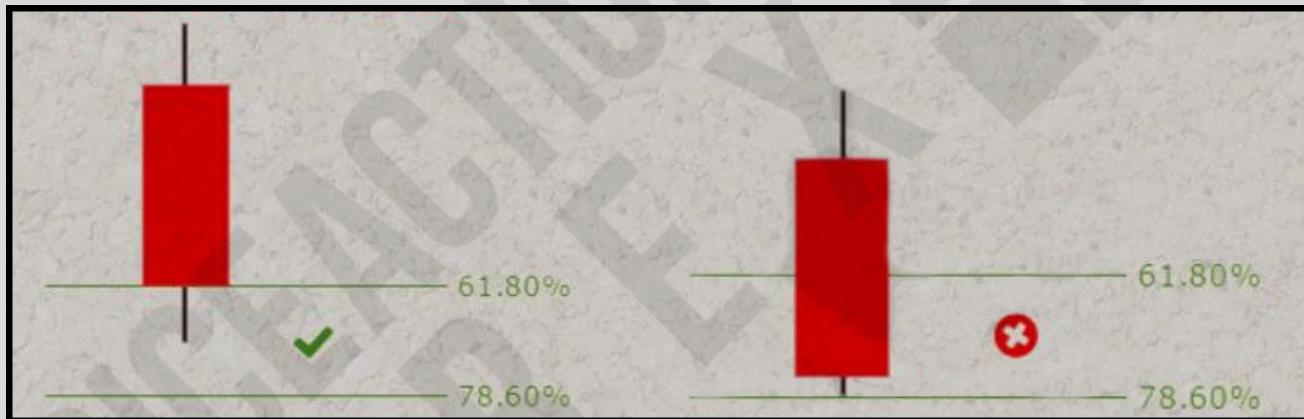
HARMONIC PATTERNS

2. GARTLEY PATTERN

DETAILS

NOTES:

The AB move remains valid as long as there is at least a 61.8% retracement of XA and that it does not touch or come close to the 78.6% retracement of XA.



The B completion point (candle wick) can extend and close beyond the 61.8% retracement of XA as long as the candle does not touch or close beyond the 78.6 retracements of XA.

MODULE 2 - CHAPTER 1

HARMONIC PATTERNS

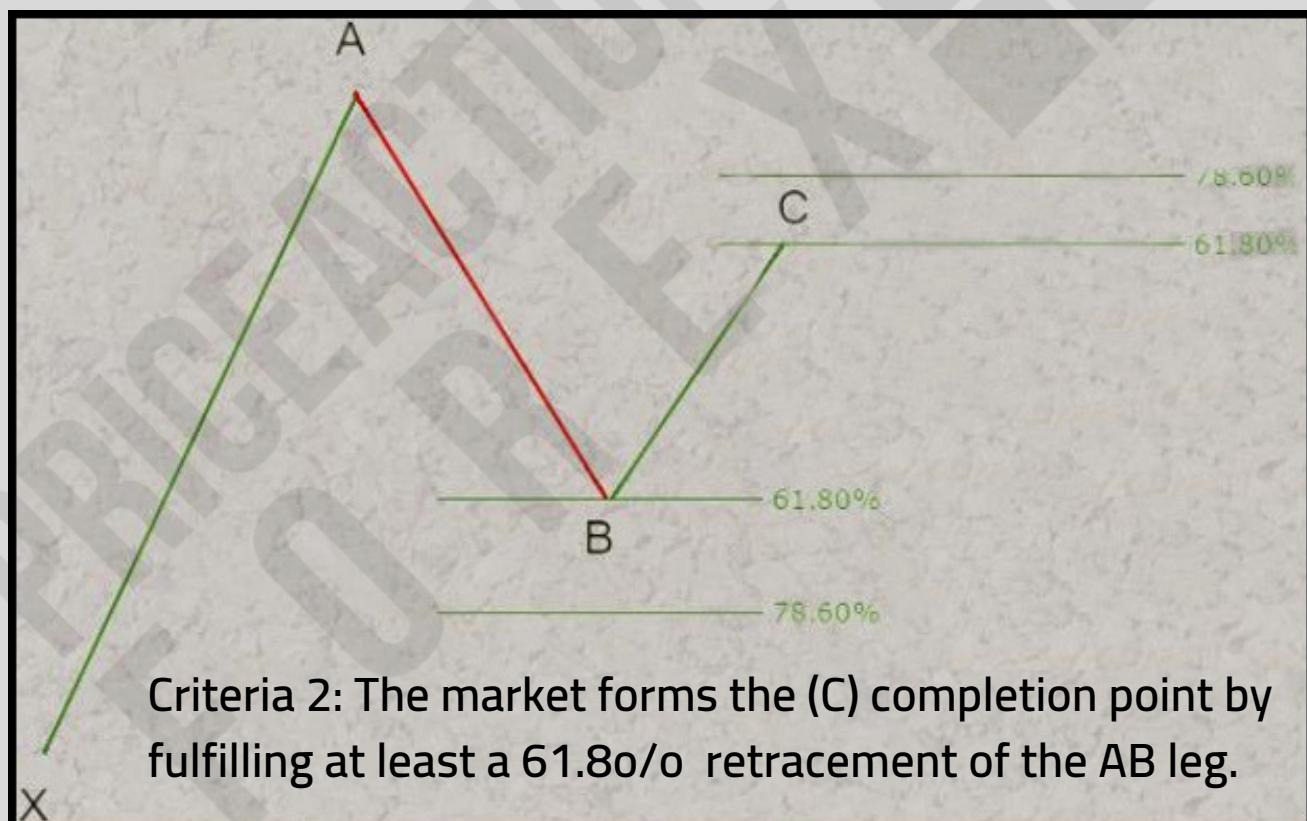
2. GARTLEY PATTERN

DETAILS

Rules of Engagement:

Criteria 2:

If criteria 1 has been met, then look for criteria 2.



MODULE 2 - CHAPTER 1

HARMONIC PATTERNS

2. GARTLEY PATTERN

DETAILS

NOTES:

The C point remains valid as long as there is at least a 61.8% retracement of AB and there is not a candle close at or beyond the 78.6% retracement of AB.



In a valid BC move, there must be a candle close beyond the 61.8% value. Failure to achieve a candle close beyond the 61.8% invalidates the move (this would be considered a Fibonacci failure which has no relevance to this pattern).

MODULE 2 - CHAPTER 1

HARMONIC PATTERNS

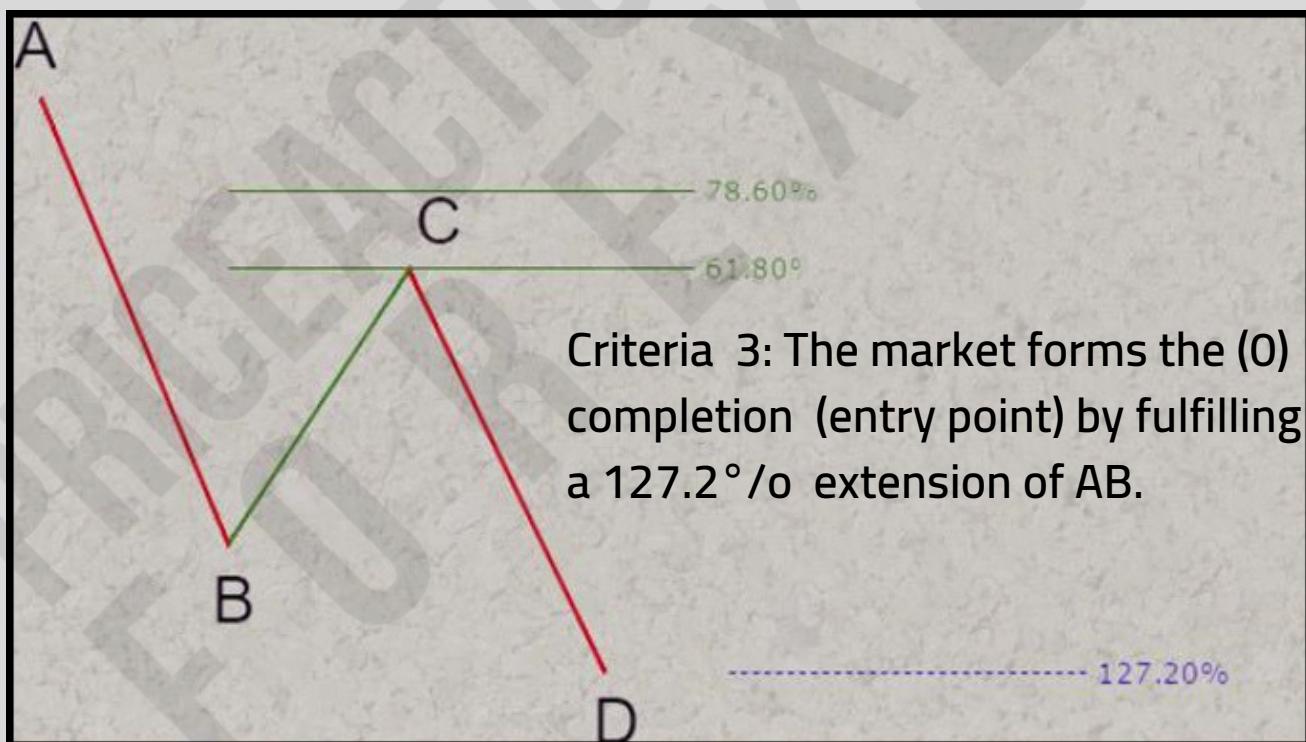
2. GARTLEY PATTERN

DETAILS

Rules of Engagement:

Criteria 3:

If criteria 1 and 2 have been met, then look for criteria 3.

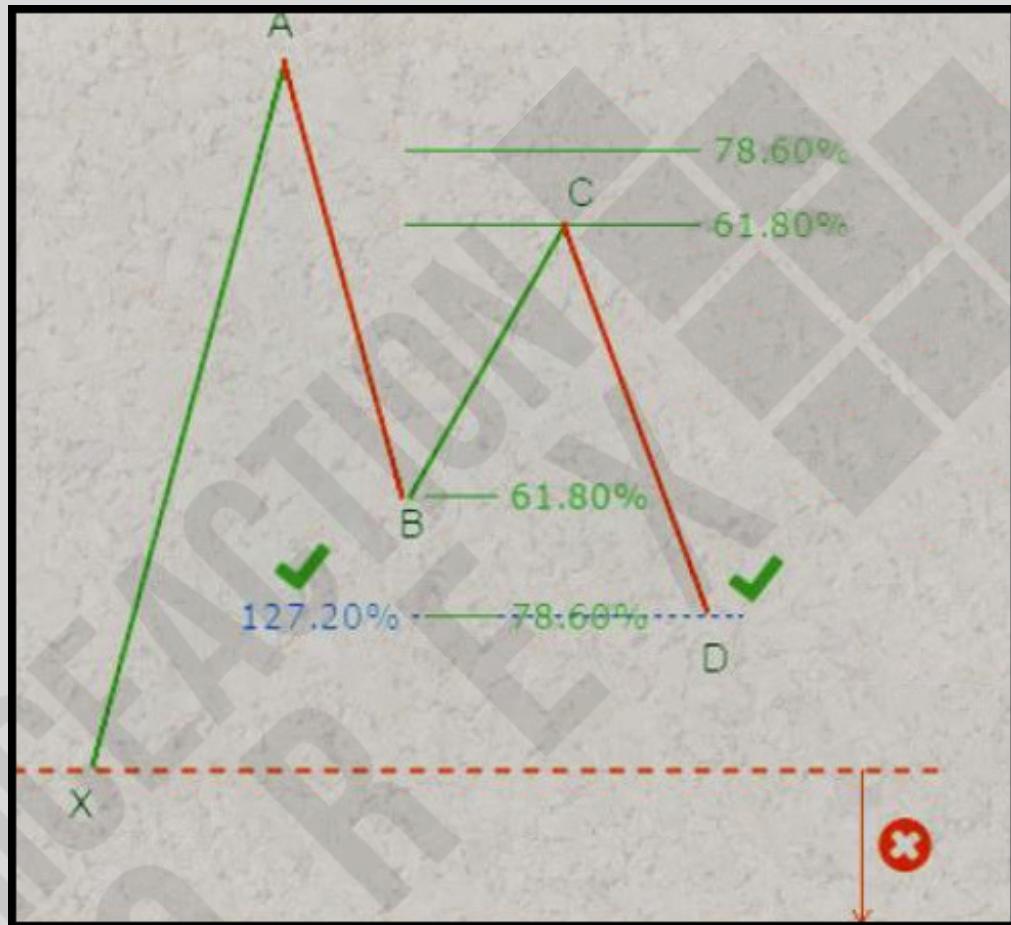


MODULE 2 - CHAPTER 1

HARMONIC PATTERNS

2. GARTLEY PATTERN

DETAILS



NOTES:

In a valid CD move, the 78.6 retrace of XA (D completion point) shows ratio confluence with the 127.2% of AB. The D completion point cannot extend past X, this invalidates the pattern.

HARMONIC PATTERNS

2. GARTLEY PATTERN DETAILS

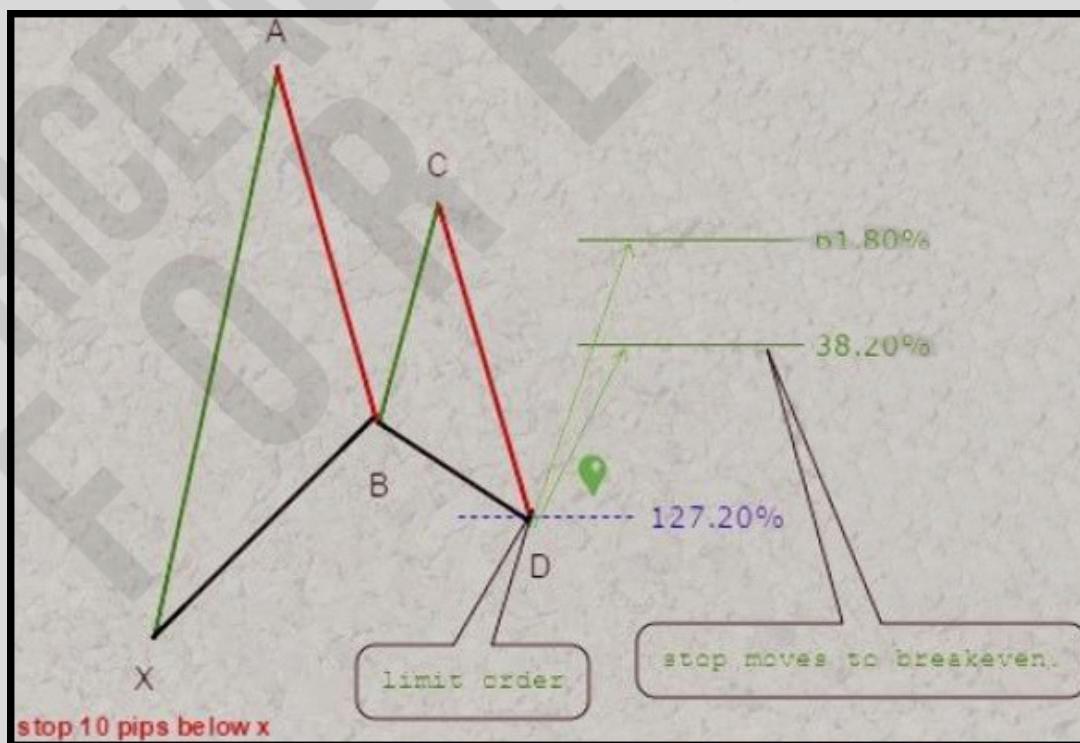
Trade Management: Entry, Stops, & Targets

Entry: Limit order placed at D completion point (127.2% of AB).

Stop Placement: 10 pips+/- X

Target 1: 38.2% retracement of AD leg. When attained, stop moves to breakeven.

Target 2: 61.8% retracement of AD leg.



HARMONIC PATTERNS

3. BAT PATTERN

Timeframes

The Bat Pattern was designed as a swing/position trading strategy. It was originally discovered by Scott Carney. This pattern can be identified on virtually any timeframe.

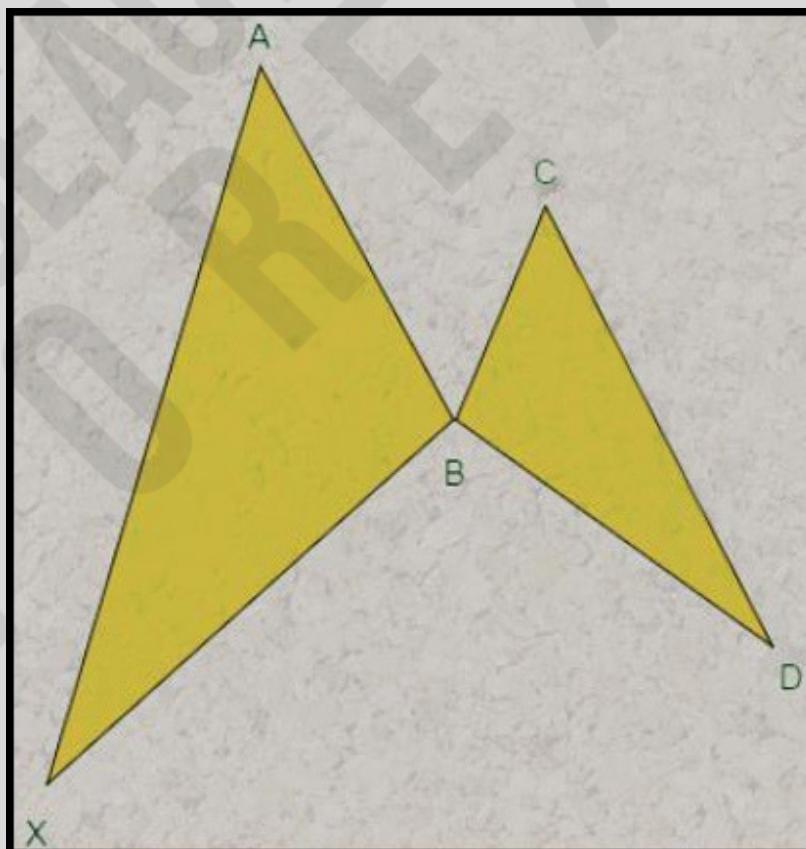


HARMONIC PATTERNS

3. BAT PATTERN

Tactics

The tactics for the Bat Pattern are very similar to other well known advanced patterns like the Gartley or Butterfly. With the Bat Pattern we seek to identify 4 market moves and 3 major Fibonacci zones. The combination of these moves forms the points (X,A,B,C,D) that fulfill the pattern.



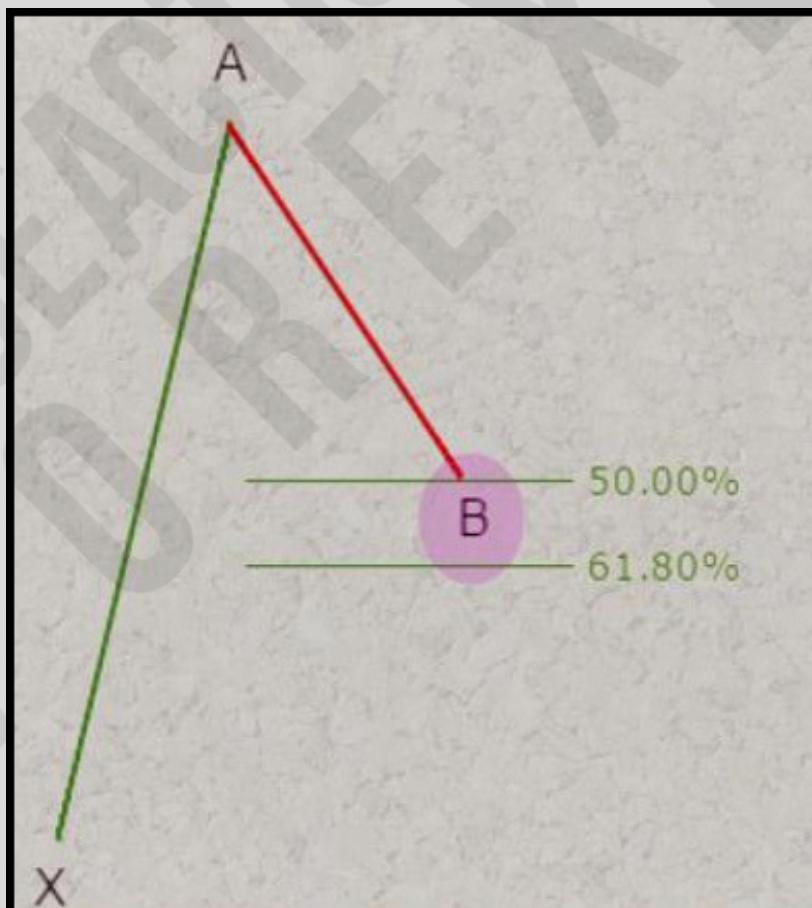
HARMONIC PATTERNS

3. BAT PATTERN

Rules of Engagement

Criteria 1

The Bat Pattern begins with a market movement I impulse leg that establishes our X and A points. Once the X and A points have been identified, we then look for our first criteria.



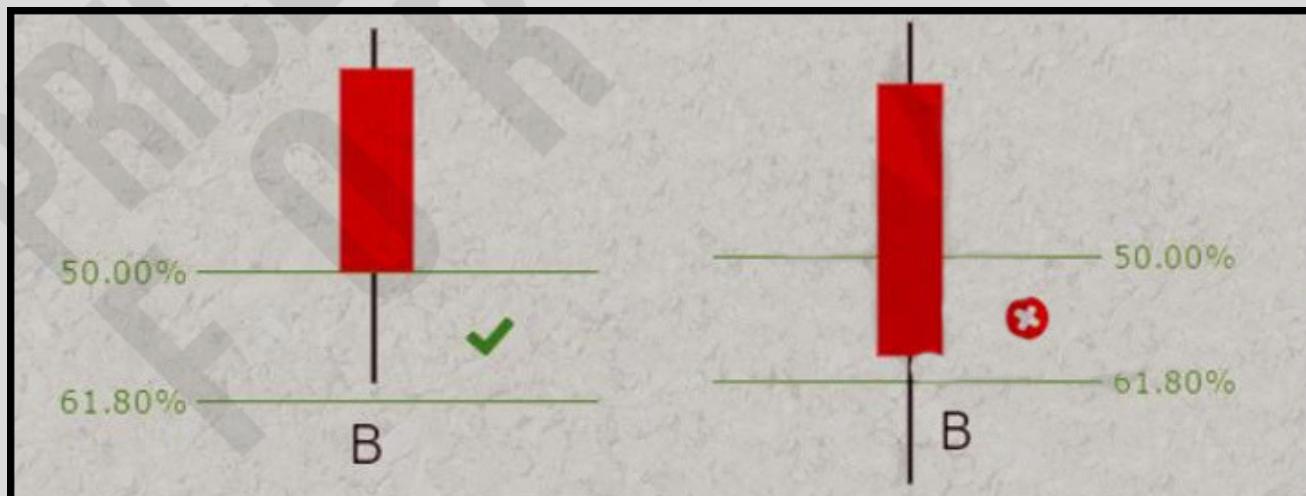
HARMONIC PATTERNS

3. BAT PATTERN

NOTES

The AB move remains valid as long as there is at least a 50% retracement of XA and that it does not close above the 50% retracement of XA .

The B completion point (candle wick) can extend beyond the 50% retracement of XA as long as the candle does not close beyond the 50% retracement of XA.



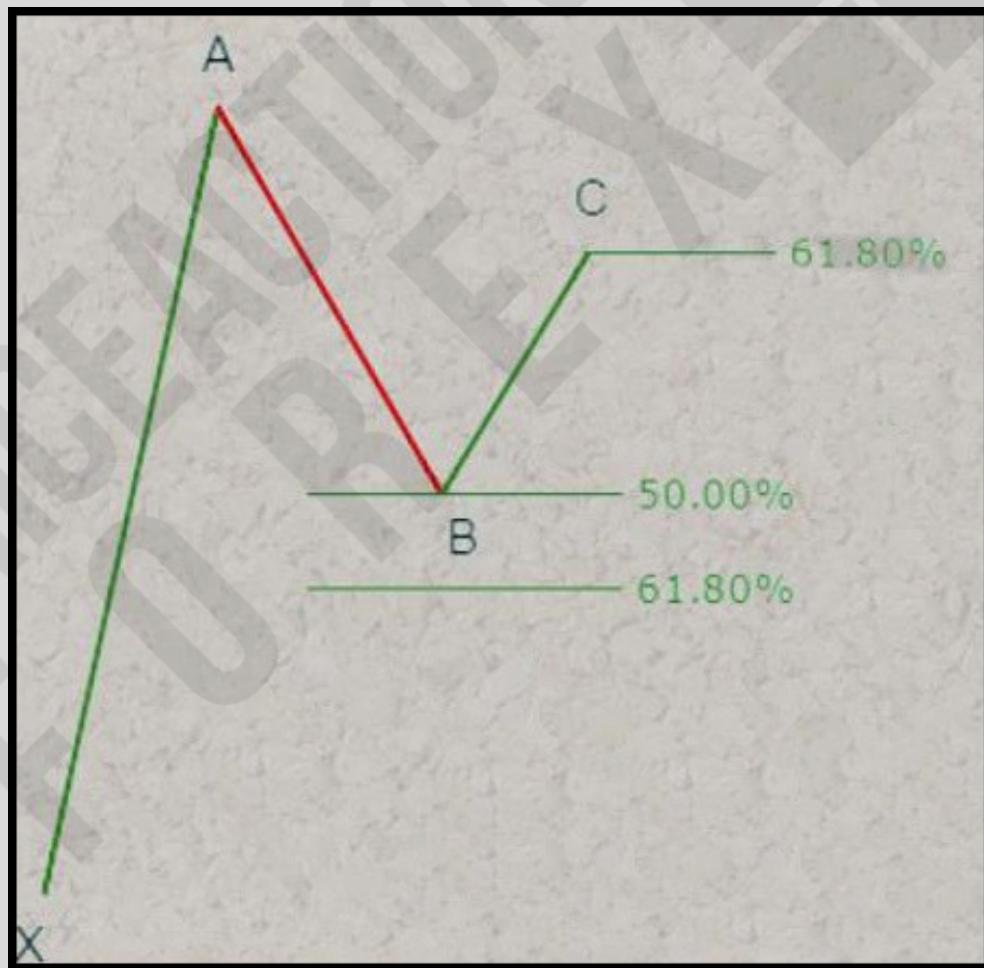
HARMONIC PATTERNS

3. BAT PATTERN

Criteria 2

If criteria 1 has been meet, then look for criteria 2.

The market forms the (C) completion point by fulfilling at least a 61.8% retracement of the AB leg.



HARMONIC PATTERNS

3. BAT PATTERN

NOTES

The C point remains valid as long as there is at least a 61.8% retracement of AB and there is not a candle close at or beyond the 88.6% retracement of AB. In a valid BC move, there must be a candle close beyond the 61.8% value. Failure to achieve a candle close beyond the 61.8% invalidates the move (this would be considered a Fibonacci failure which has no relevance to this pattern).

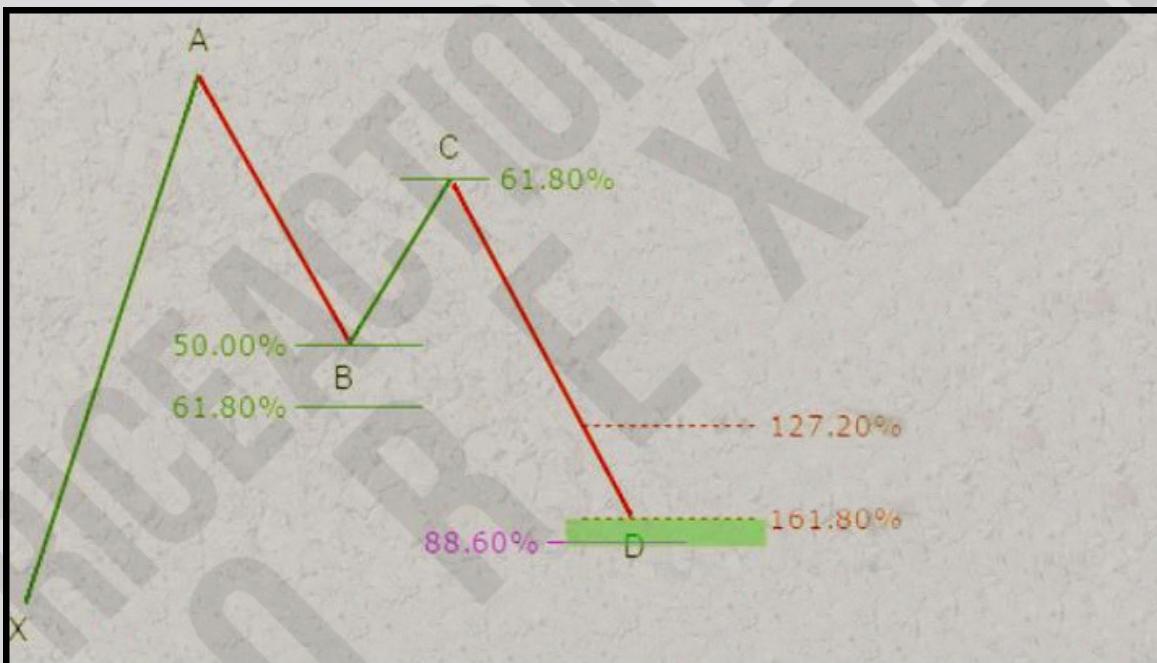


HARMONIC PATTERNS

3. BAT PATTERN

Criteria 3

If criteria 1 and 2 have been met, then look for criteria 3. The market forms the (D) completion (entry point) by fulfilling a 161.8% extension of AB.



NOTES

In a valid CD move, the 88.6 retrace of XA (0 completion point) shows ratio confluence with the 161.8% of AB. The D completion point cannot extend past X, this invalidates the pattern.

HARMONIC PATTERNS

3. BAT PATTERN

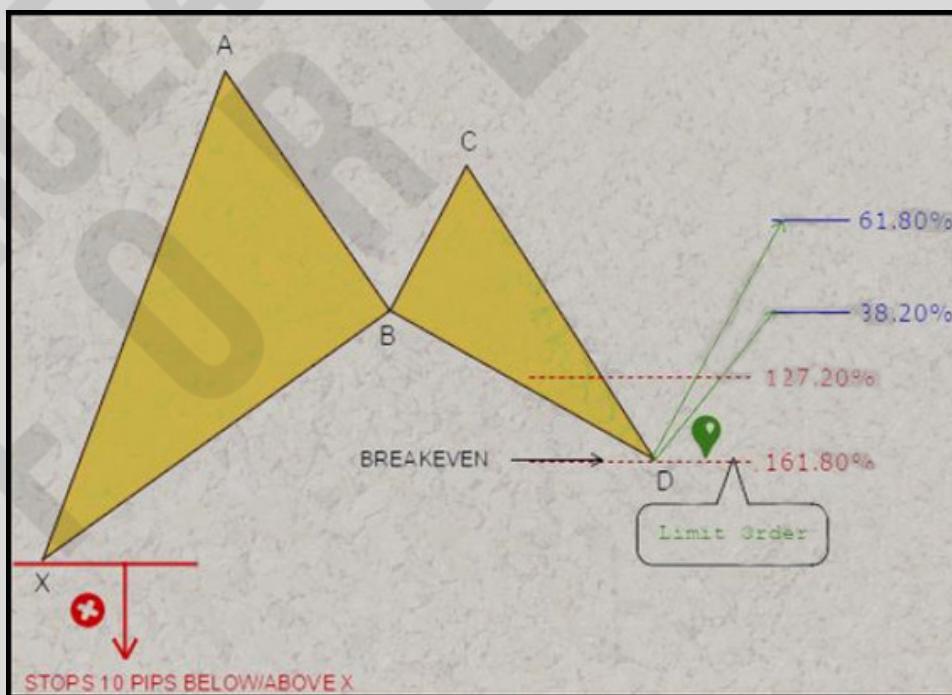
Trade Management: Entry, Stops, & Targets I

Entry: Limit order placed at D completion point (161.8% of AB).

Stop Placement: 10 pips +/- X

Target 1: 38.2% retracement of AD leg. When attained, stop moves to breakeven.

Target 2: 61.8% retracement of AD leg.



HARMONIC PATTERNS

4. CYpher PAttern

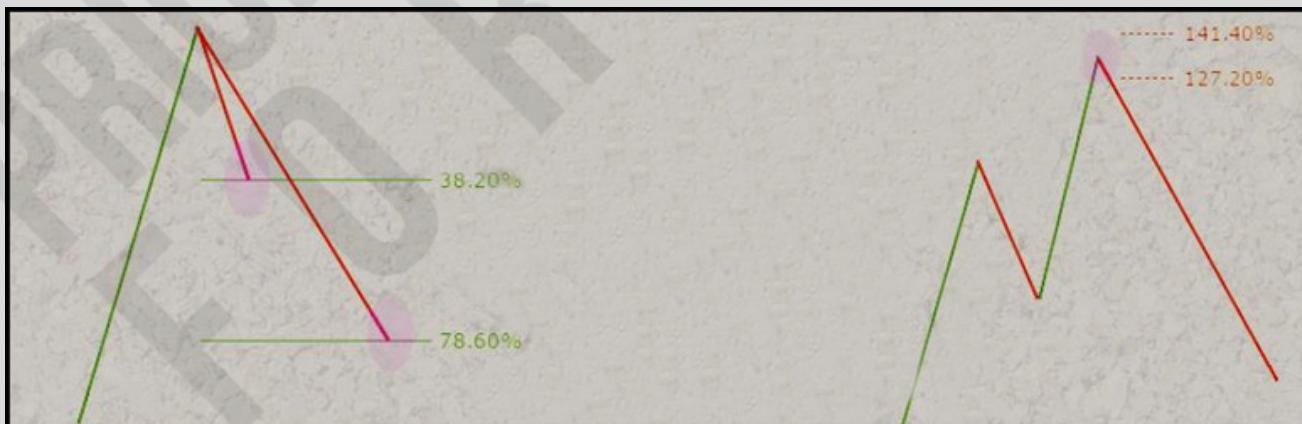
Tools

Fibonacci Retracements Penalties Used (38.2 & 78.6)

Fibonacci Extensions Furnaces Used (127.2 & 141.4)

Timeframes

The Cypher pattern was designed as a day/swing trading strategy. It was originally discovered on a 60 min chart and has since been identified on virtually any timeframe.

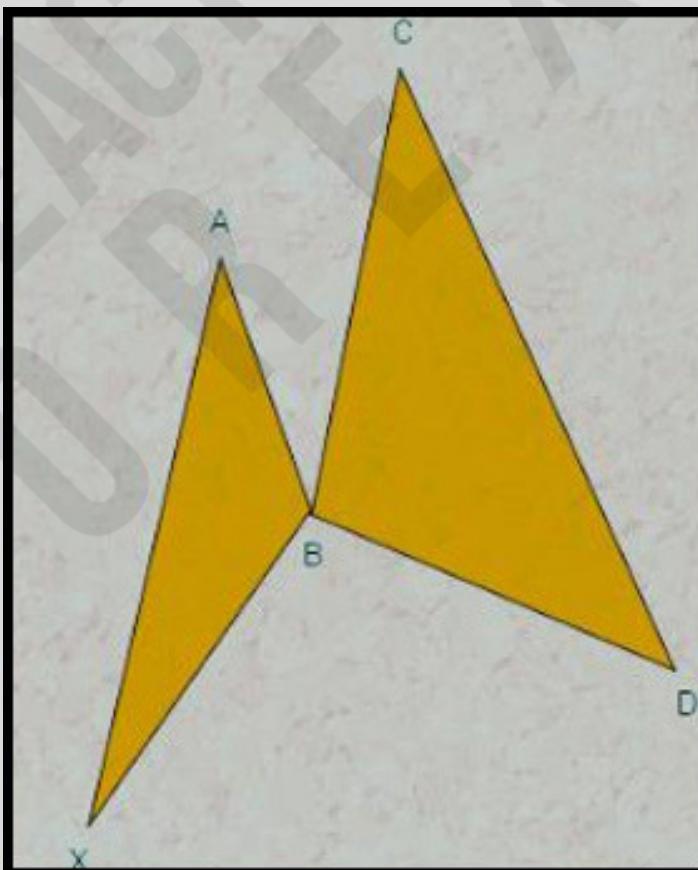


HARMONIC PATTERNS

4. CYpher PAttern

Tactics

The tactics for the Cypher pattern are very similar to other well-known advance patterns like the Gartley or Butterfly. With the Cypher pattern we seek to identify 4 market moves and 3 major Fibonacci zones. The combination of these moves forms the 5 points (X,A,B,C,D) that fulfill the pattern.



HARMONIC PATTERNS

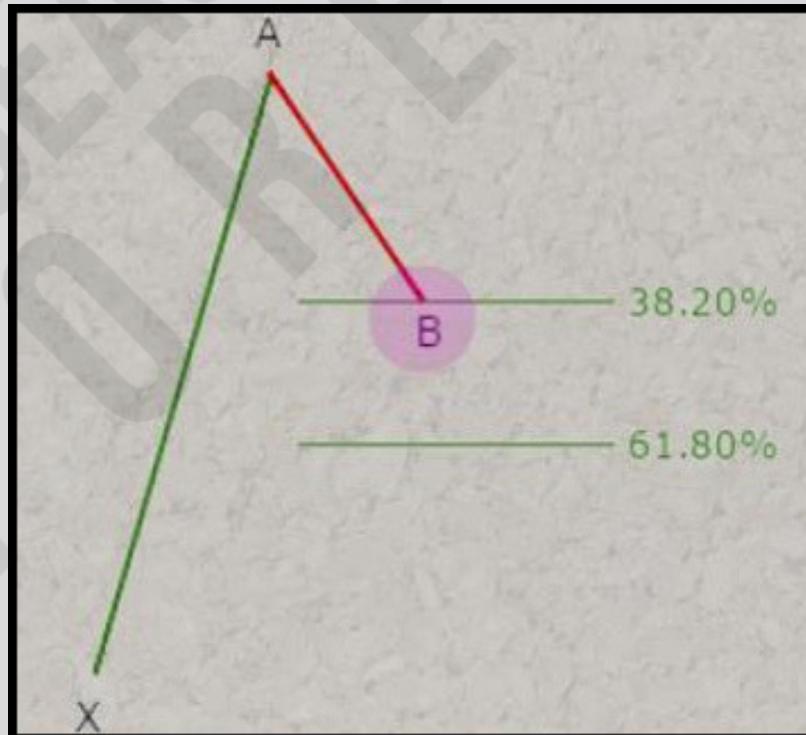
4. CYpher PAttern

Rules of Engagement

Criteria 1

The Cypher pattern begins with a market movement I impulse leg that establishes our X and A points. Once the X and A points have been identified. we then look for our first criteria.

The market forms the (B) completion point by fulfilling at least a 38.2 retracement of the XA leg.



HARMONIC PATTERNS

4. CYpher PAttern

NOTES

The AB move remains valid as long as there is at least a 38.2 retracement of XA and there is not a candle close beyond the 61.8 retracement of XA.

The B completion point (candle wick) can extend beyond the 61.8 retracement of XA as long as the candle does not close beyond the 61.8 retracement of XA.



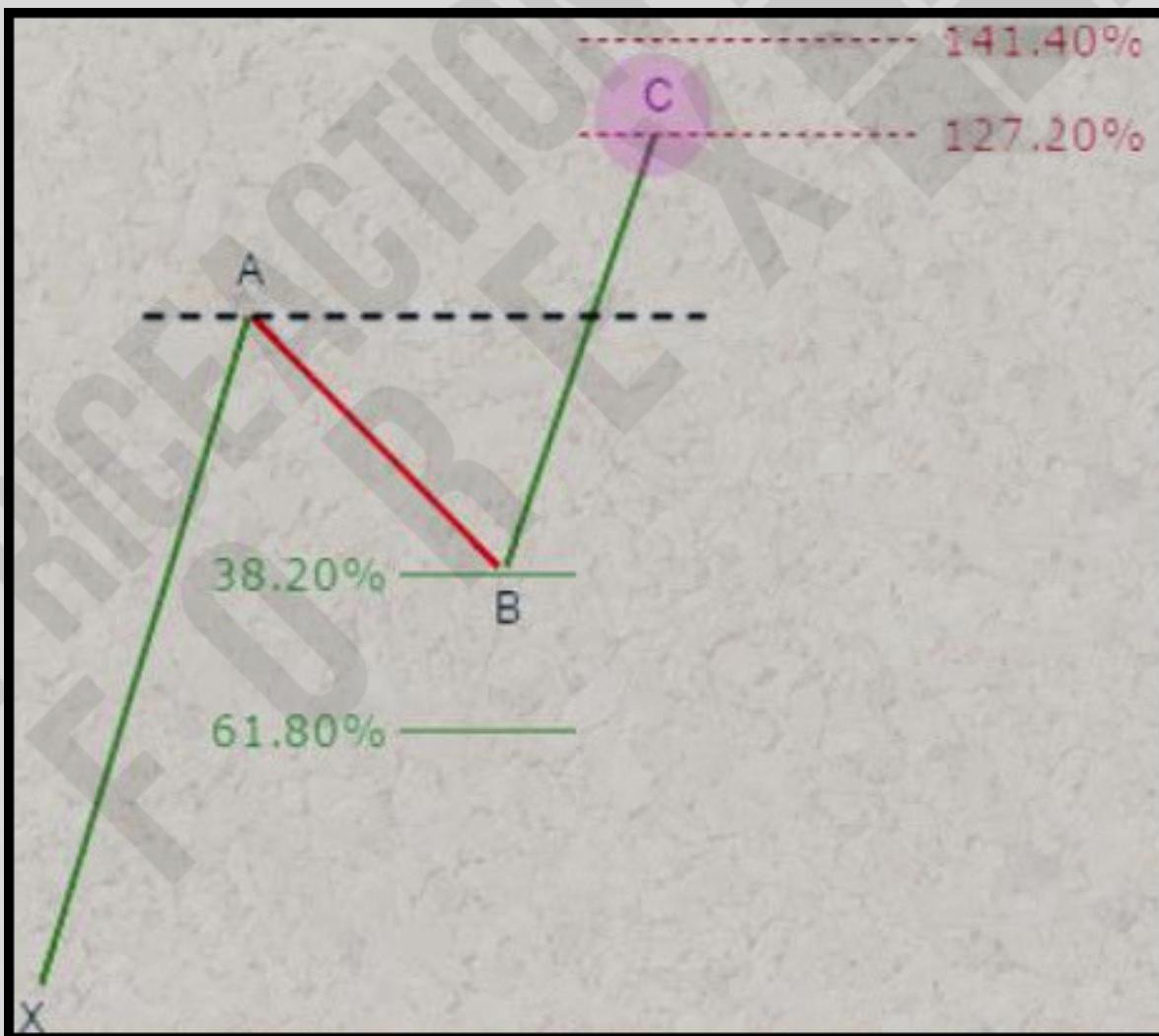
HARMONIC PATTERNS

4. CYPHER PATTERN

Criteria 2

If criteria 1 has been met, then look for criteria 2.

The market forms the (C) completion point by fulfilling at least a 127.2 extension of the XA leg.



HARMONIC PATTERNS

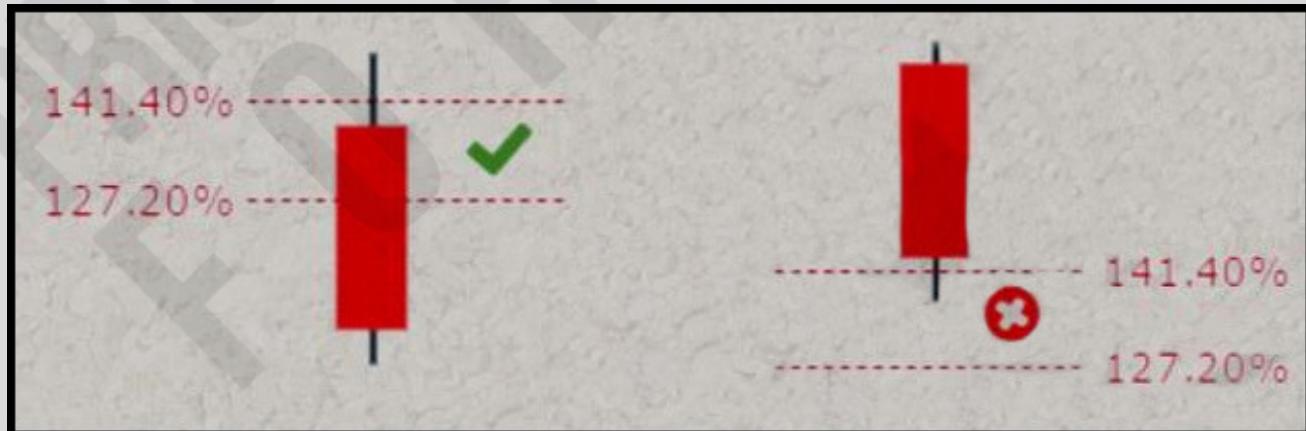
4. CYpher PATTERN

NOTES

The C point remains valid as long as there is at least a 127.2 extension of XA

and there is not a candle close beyond the 141.4 extension of XA .

In a valid BC move. there must be a candle close beyond the A value. Failure to achieve a candle close beyond A invalidates the move (this would be considered a double top / bottom which has no relevance to this pattern).



HARMONIC PATTERNS

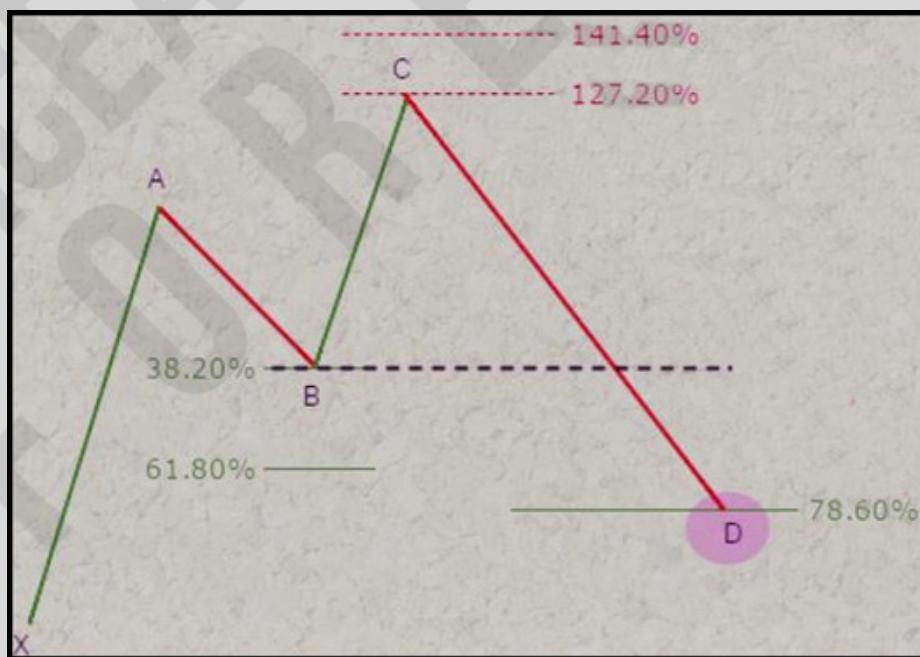
4. CYpher PAttern

Criteria 3

If criteria 1 and 2 has been met. then look for criteria 3.
The market forms the (0) completion (entry point) by fulfilling a 78.6 retracement of the distance XC.

NOTE

In a valid BC move. the 78.6 retracement of XC (0 completion point) must exceed the distance of CB.



HARMONIC PATTERNS

4. CYpher PATTERN

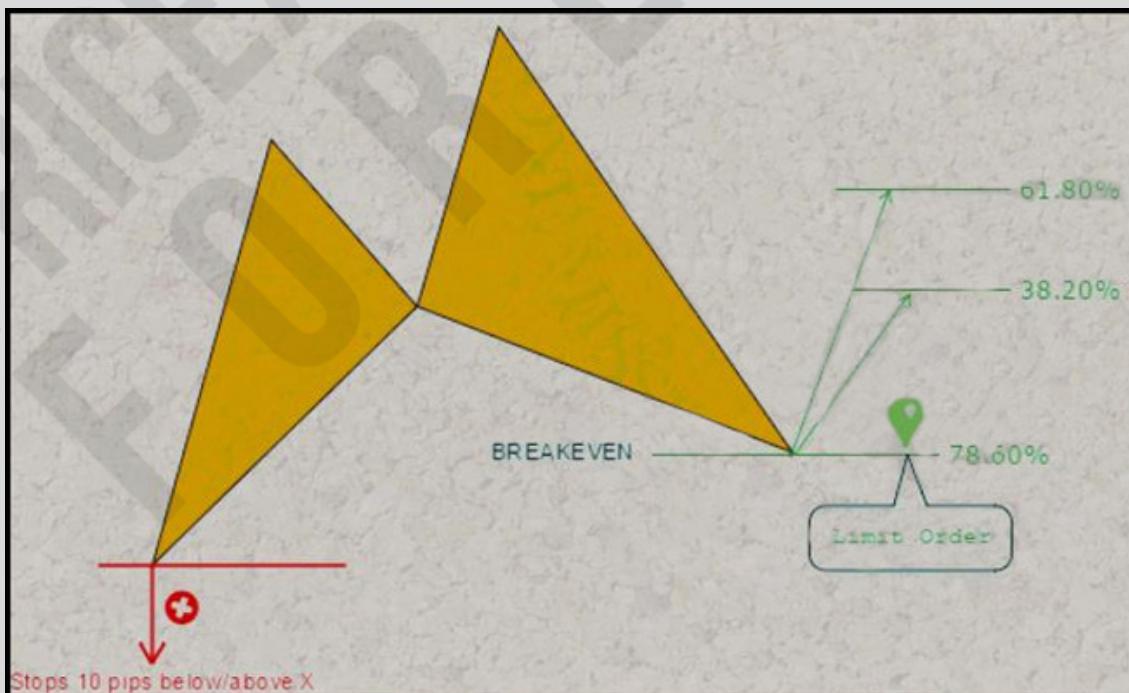
Trade Management: Entry, Stops, & Targets

Entry: Limit order placed at the D completion point (78.6 of XC).

Stop Placement: 10 pips +/- X.

Target 1: 38.2 retracement of CD leg. When attained, stops move to break-even.

Target 2: 61.8 retracement of CD leg.

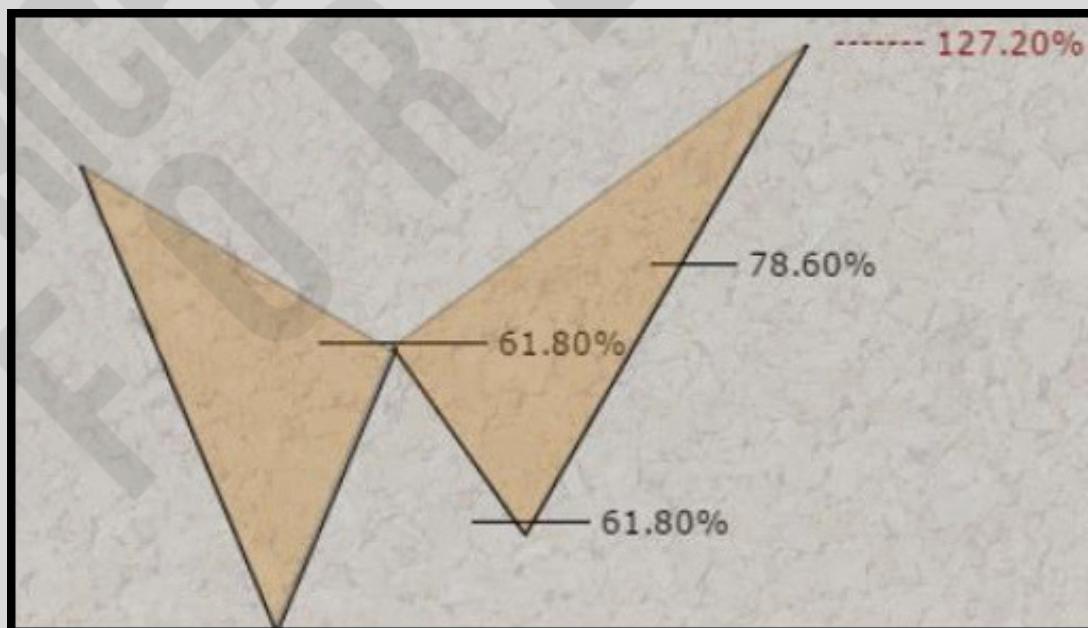


HARMONIC PATTERNS

5. BUTTERFLY PATTERN

The Butterfly Pattern

The Butterfly pattern is certainly one of the favorite extension patterns. This particular setup is one that attempts to trade highs and lows at market reversal points. The formations and completions tend to occur at major tops and bottoms, and they can also be seen on all time frames. It is not uncommon to see more than one Butterfly pattern on multiple time frames completing at the same price area.



HARMONIC PATTERNS

5. BUTTERFLY PATTERN

The risk/reward profile is very favorable with this pattern. The best patterns tend to turn immediately at or near the completion point. It is one of the few patterns that can truly find tops and bottoms. This pattern is not 100 percent though, and stop-loss orders must be used;

When this one fails it usually fails in a big way.

Almost two decades and thousands of Butterfly patterns later, it can be said that it is one of the most profitable trading patterns with the proper use of stop-loss orders.

HARMONIC PATTERNS

5. BUTTERFLY PATTERN

BUTTERFLY PATTERN DESCRIPTION

The Butterfly pattern is best described as an extension pattern.

It is also a failed Gartley pattern where the D completion point completes above the X. Remember that a Gartley pattern is considered a failed pattern if this occurs, but with this failure a Butterfly pattern may be forming.

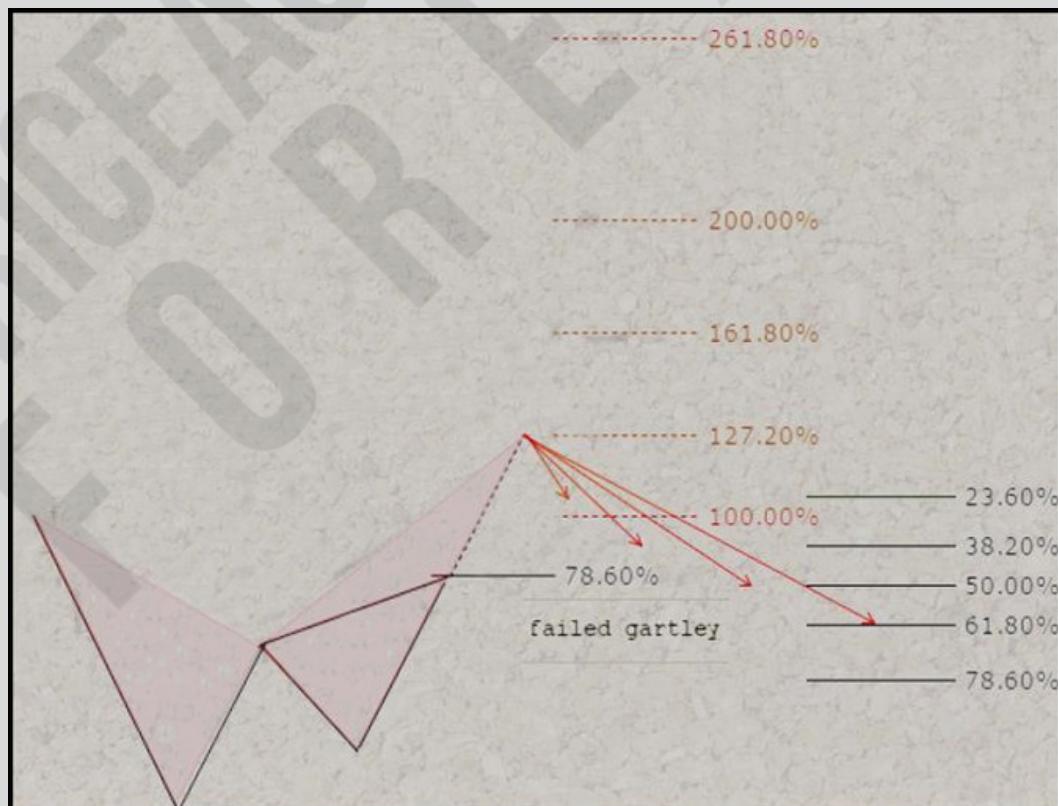
The extension of the AD swing and the CD leg can be thought of as a stretched rubber band. It is at these points that the market becomes overbought or oversold and a reversal can occur. Even if a full reversal does not take place, the trader can still profit on this pattern by exiting on retracements of the CD leg or the AD swing.

HARMONIC PATTERNS

5. Butterfly Pattern

Beyond 2.618 the pattern is considered negated and the trend most likely will continue. In most cases the maximum risk is at the 1.618 level.

The pattern is formed by two right triangles coming together at one point. It is this formation that gives the pattern its appearance as a Butterfly. the completion points can be calculated by using Fibonacci ratios above 1:00,such as 1.272, 1.618, 2.00 and 2.618



HARMONIC PATTERNS

5. BUTTERFLY PATTERN

BUTTERFLY PATTERN STRUCTURE

The Butterfly pattern should be a very symmetrical pattern in its formation and structure. As with the Gartley "222" pattern, the Butterfly pattern is formed with four legs. The difference is that the last leg (the CD leg) of the Butterfly pattern will extend beyond the X point and will move toward the 1.272 or 1.618 expansion of XA.

The BC leg will also be an extension, but the completion point is generally determined by the XA swing.

HARMONIC PATTERNS

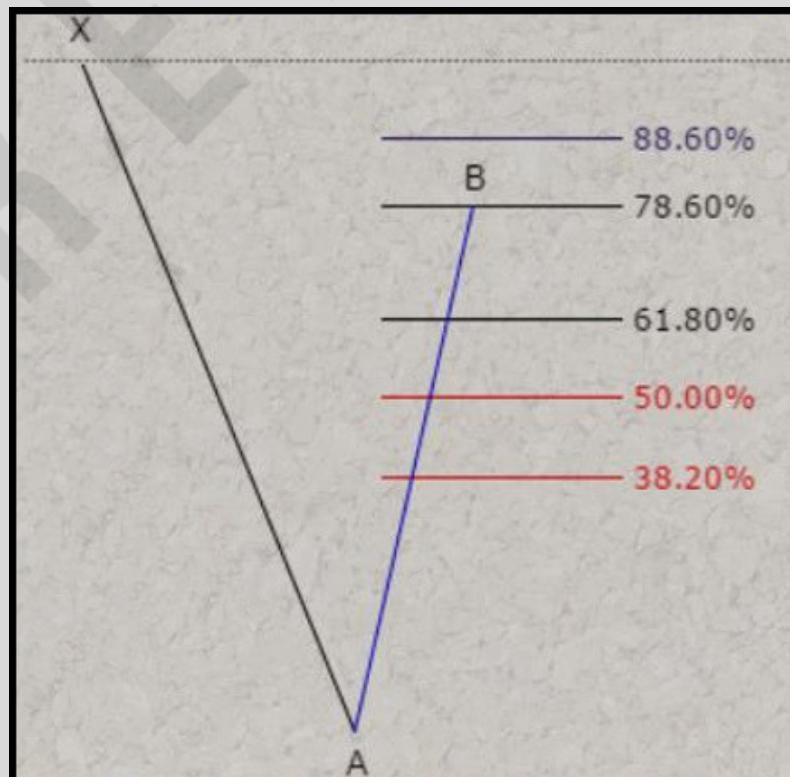
5. BUTTERFLY PATTERN

The AB leg of the pattern will usually be at the .618 or the .786 retracement levels.

The pattern also is valid if this retracement is at the .382 or .50. This retracement of the AB leg can go further than the .786...

One clue that a Butterfly pattern may be forming is if the first retracement, the AB. goes to the . 786 retracement level or further.

but the pattern will be negated if it goes beyond X



HARMONIC PATTERNS

5. BUTTERFLY PATTERN

What invalidates this pattern:

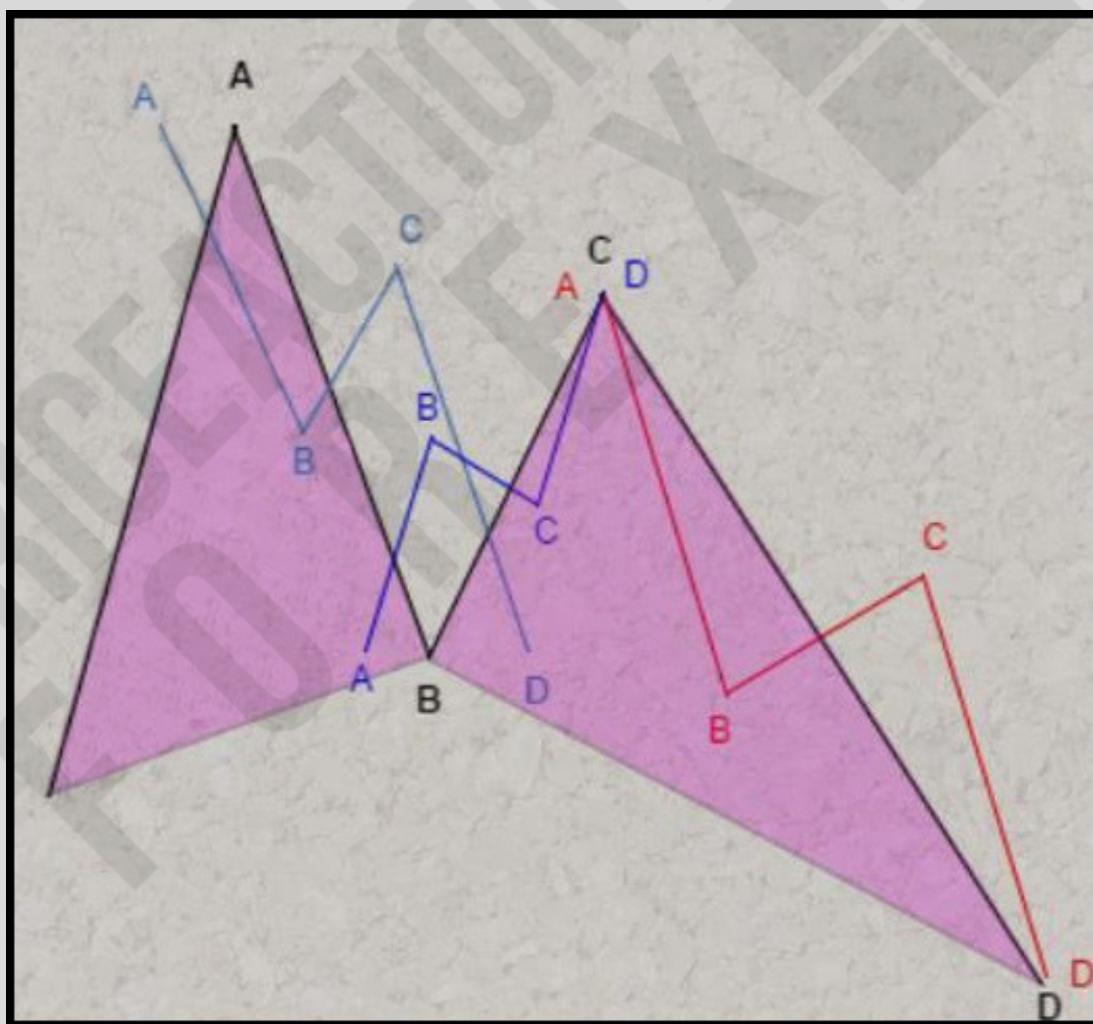
1. Absence of an AB=CD within the AD swing. This pattern must contain an AB=CD.
2. An extension move beyond the 2.618 of XA. The 1.618 expansion is generally the maximum risk.
3. B point above (for a sell pattern) or below the X point (for a buy pattern).
4. C above or below the A point.
5. Failure of D to extend beyond X: D must extend beyond X to be a Butterfly pattern.

PLAN YOUR TRADE, TRADE YOUR PLAN

HARMONIC PATTERNS

5. BUTTERFLY PATTERN

It is not unusual to see smaller "ab=cd" patterns within one of the main legs; for example, a small ab=cd may be seen within the larger AB=CD formation of the AD swing;



HARMONIC PATTERNS

5. BUTTERFLY PATTERN

Important Characteristics of The Butterfly Pattern

There are several characteristics that should be studied when learning this pattern that will help the trader to identify acceptable risk to reward setups and valid patterns

Risk-Free Trade

The first exit on this trade is at the .618 level of the AD;

After taking the first exit, the stop-loss order is moved up to break-even.

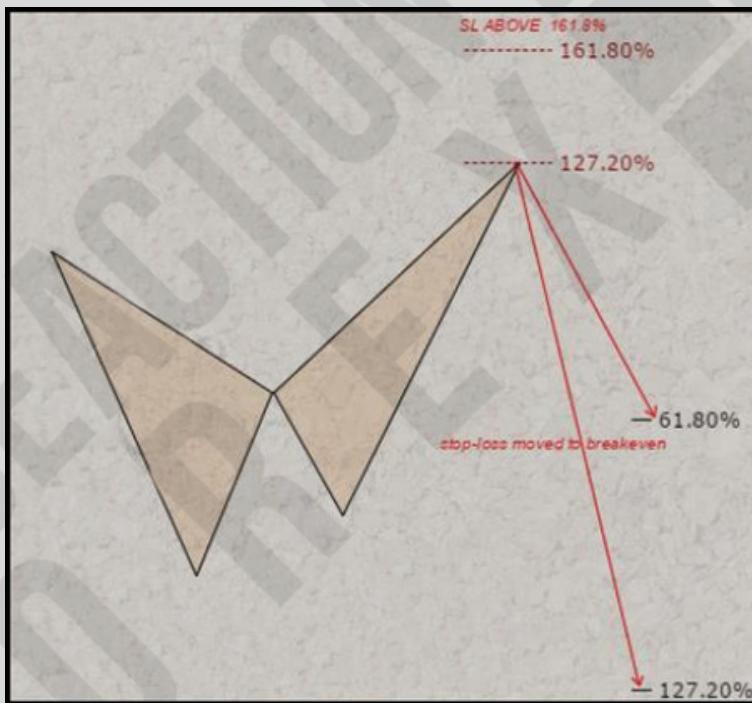
The second exit in this trade is at the 1.272 extension of the AD.

HARMONIC PATTERNS

5. BUTTERFLY PATTERN

Trading the Butterfly Pattern

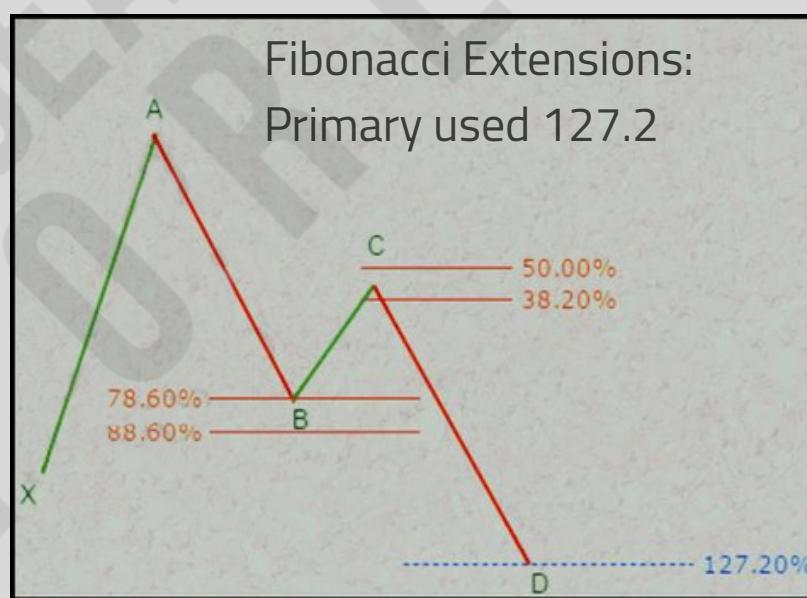
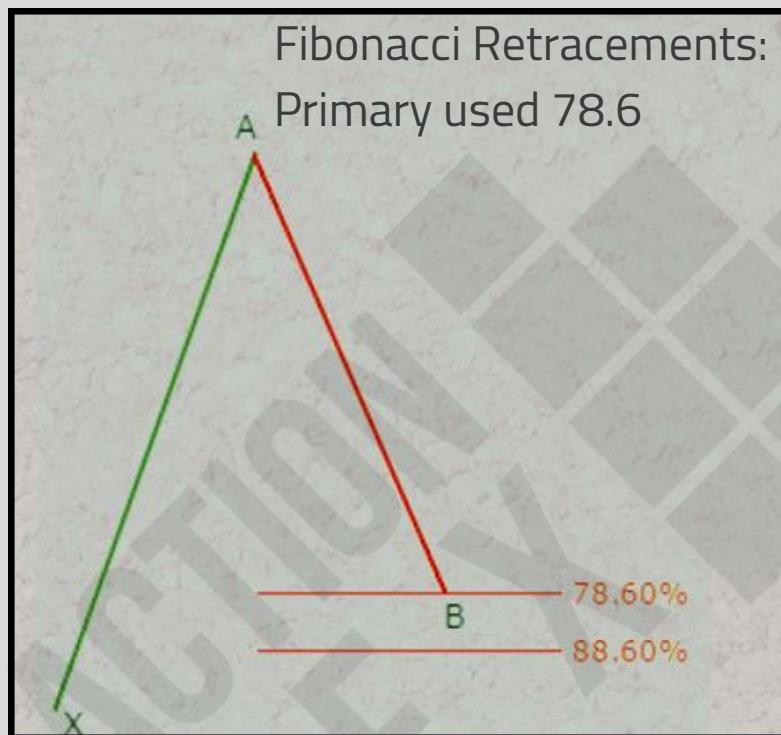
This Butterfly sell pattern completes at the 1.272 Stop placed below the estimated 1.618 range of XA



When trading any pattern, the risk in the trade must always be acceptable. If it is not, the trader must pass on the trade and find a setup that is acceptable in terms of risk.

HARMONIC PATTERNS

5. BUTTERFLY PATTERN DETAILS



HARMONIC PATTERNS

5. BUTTERFLY PATTERN DETAILS

Time Frame

The Butterfly Pattern was discovered by Bryce Gilmore as a swing I position trading strategy. It can be identified on virtually any time frame.

Tactics

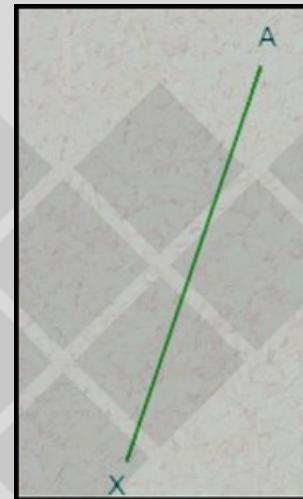
The tactics for the Butterfly Pattern are very similar to other well known advanced patterns like the Bat or Crab. With the Butterfly Pattern we seek to identify 4 market moves and 3 major Fibonacci zones. The combination of these moves forms the points (X,A,B,C,D) that fulfill the pattern.

HARMONIC PATTERNS

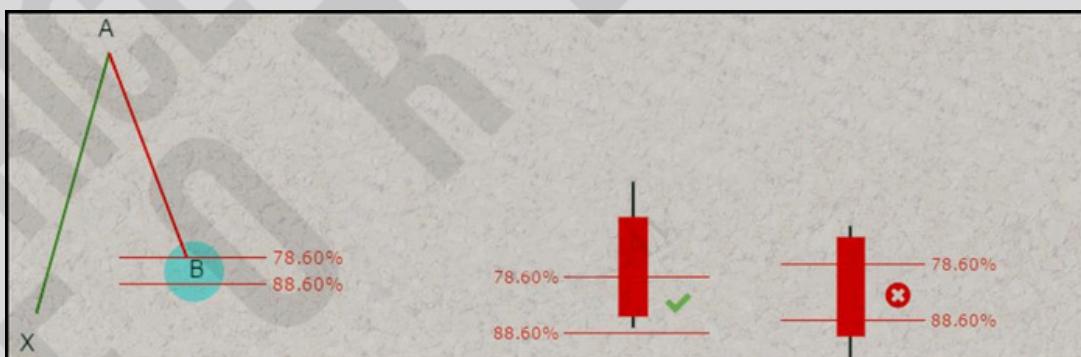
5. BUTTERFLY PATTERN DETAILS

Rules of Engagement Criteria 1

The Butterfly Pattern begins with a market move I impulse leg that A establishes our X and A points. Once the X and A points have been identified, we then look for our first criteria.



The market forms (B) completion point by fulfilling at least a 78.6% retracement of the XA leg.



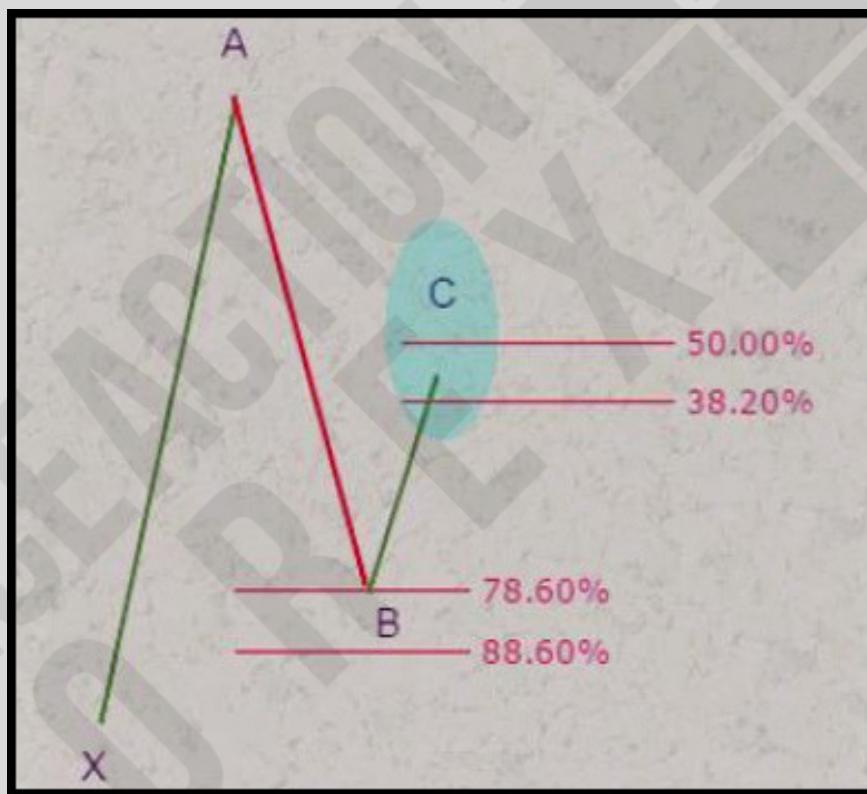
NOTE: The AB move remains valid as long as there is at least a 78.6% retracement of XA and that it does not close below/above the 88.6%.

HARMONIC PATTERNS

5. BUTTERFLY PATTERN DETAILS

Rules of Engagement

The market forms the (C) completion point by fulfilling at least a 38.2% retracement of the AB leg.



Criteria 2

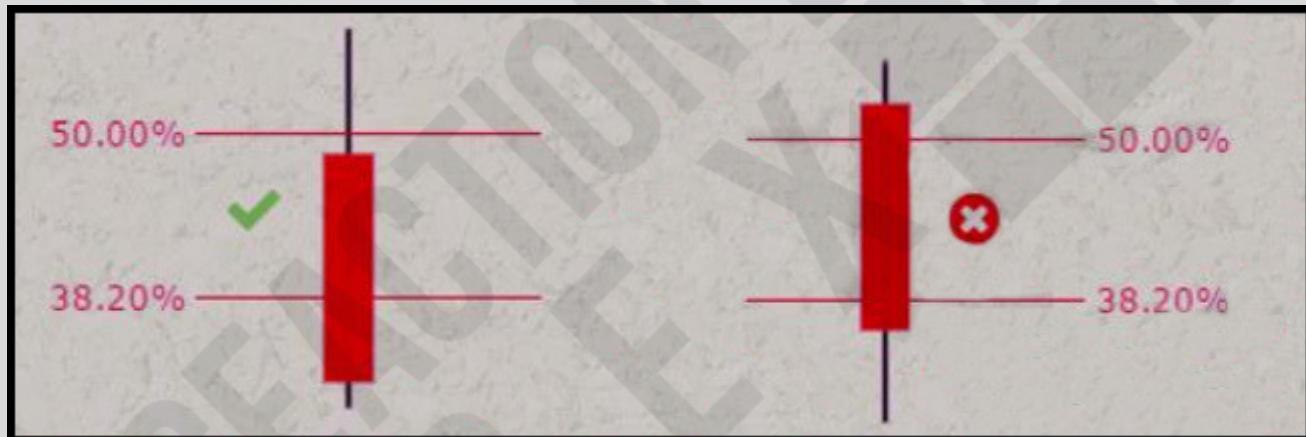
If criteria 1 has been met, then look for criteria 2.

HARMONIC PATTERNS

5. BUTTERFLY PATTERN DETAILS

NOTES

The C point remains valid as long as there is at least a 38. 2% retracement of AB and there is not a candle close at or beyond the 50% retracement of AB.



In a valid BC move, there must be a candle close beyond the 38. 2% value. Failure to achieve a candle close beyond the 38. 2% invalidates the move (this would be considered a Fibonacci failure which has no relevance to this pattern).

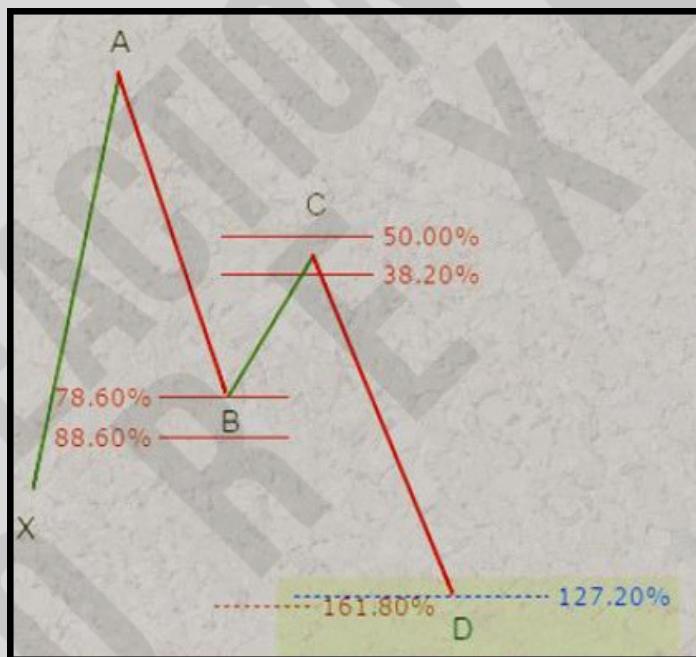
HARMONIC PATTERNS

5. BUTTERFLY PATTERN DETAILS

Rules of Engagement Criteria 3

If criteria 1 and 2 have been met, then look for criteria 3.

The market forms the (D) completion (entry point) by fulfilling a 127.2% extension of XA.



In a valid CD move, the 127.2% retracement of XA (D completion point) shows ratio confluence with the 161.8% of B.

The D completion point must extend past X.

HARMONIC PATTERNS

5. BUTTERFLY PATTERN DETAILS

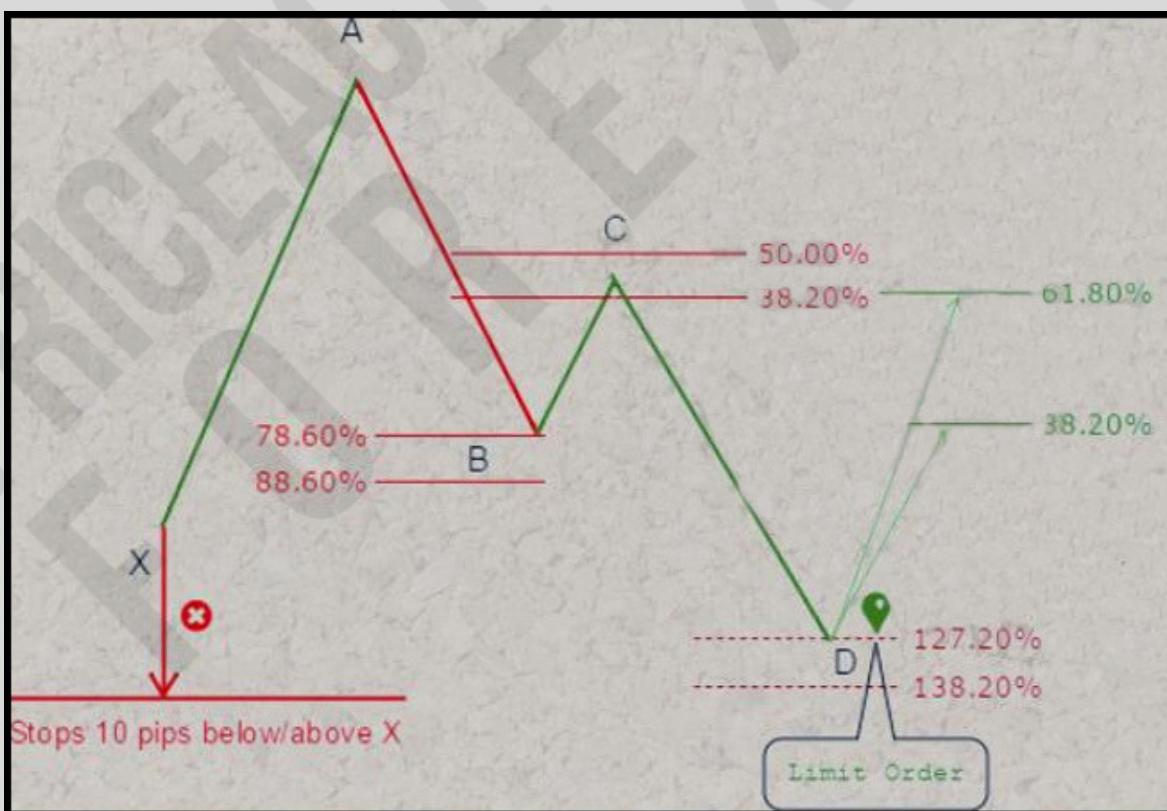
Trade Management: Entry, Stops, & Targets

Entry: Limit order placed at D completion point (127.2% of XA).

Stop Placement: 10 pips +/- 138 .2% of XA

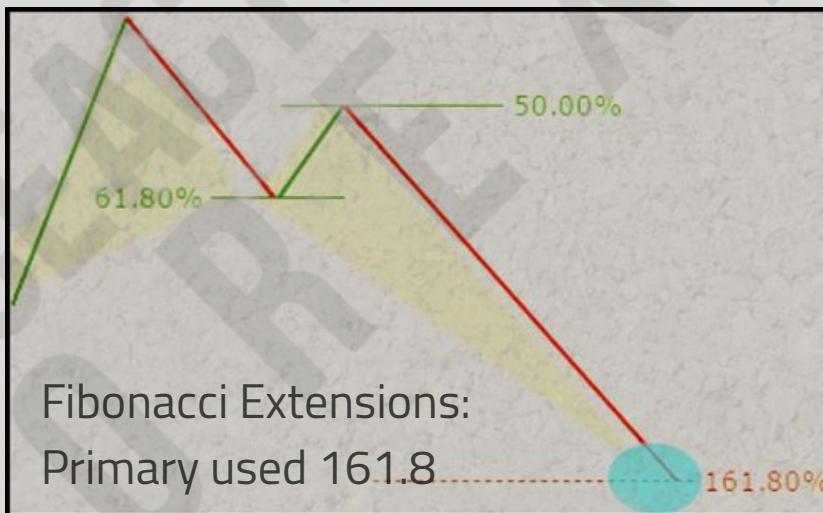
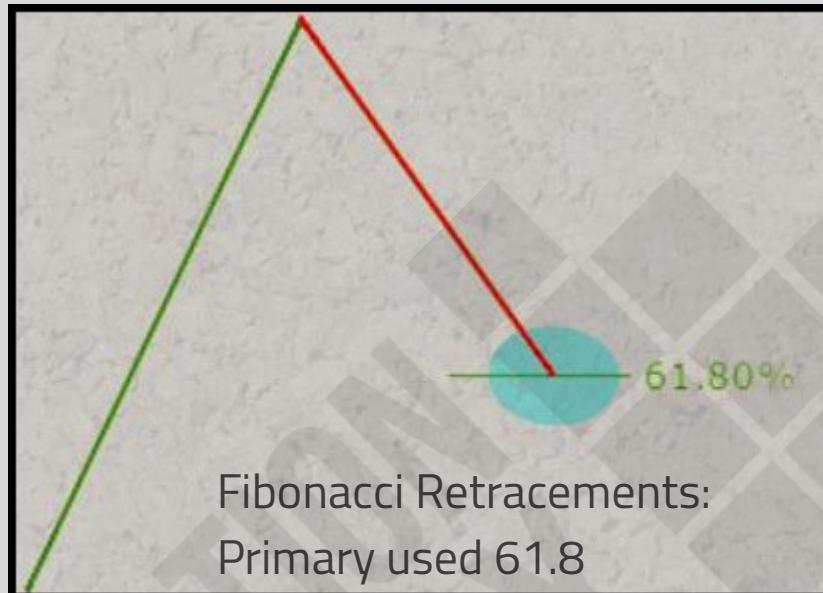
Target 1: 38.2% retracement of AD leg. When attained, stop moves to break-even.

Target 2: 61.8% retracement of AD leg.



HARMONIC PATTERNS

6. CRAB PATTERN



Time Frame

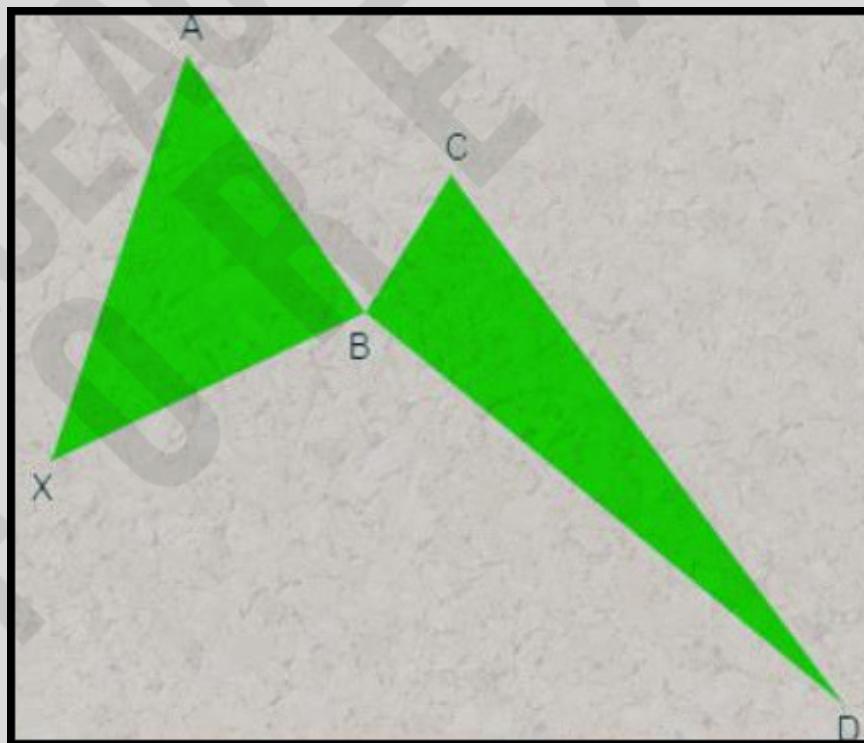
The Crab Pattern was discovered by Scott Carney as a swing/position trading strategy. It can be identified on virtually any time frame.

HARMONIC PATTERNS

6. CRAB PATTERN

Tactics

The tactics for the Crab Pattern are very similar to other well-known advanced patterns like the Bat or Butterfly. With the Crab Pattern we seek to identify 4 market moves and 3 major Fibonacci zones. The combination of these moves forms the points (X.A.B.C.D) that fulfill the pattern.



HARMONIC PATTERNS

6. CRAB PATTERN

Rules of Engagement

Criteria 1

The Crab Pattern begins with a market move I impulse leg that establishes our X and A points. Once the X and A points have been identified, we then look for our first criteria.



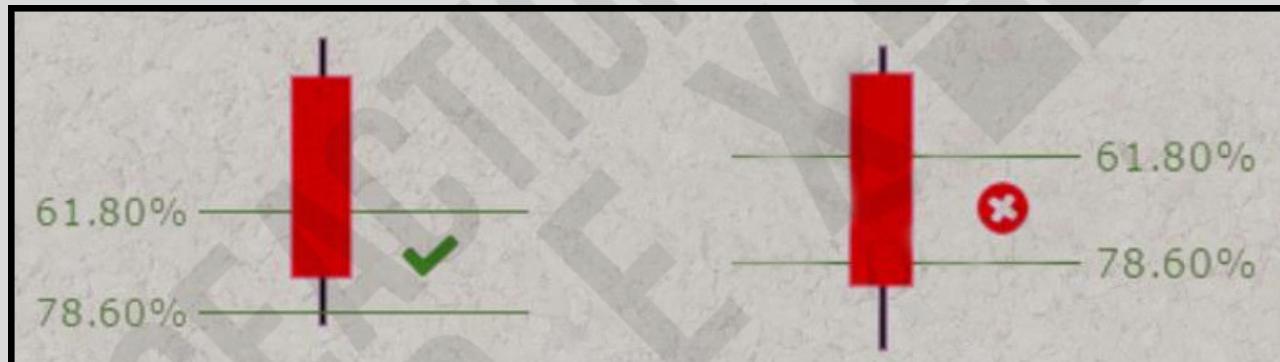
The market forms (8) completion point by fulfilling at least a 61 .8 % retracement of the XA leg.

HARMONIC PATTERNS

6. CRAB PATTERN

NOTES:

The AB move remains valid as long as there is at least a 61.8% retracement of XA and that it does not close above/below the 78.6%.



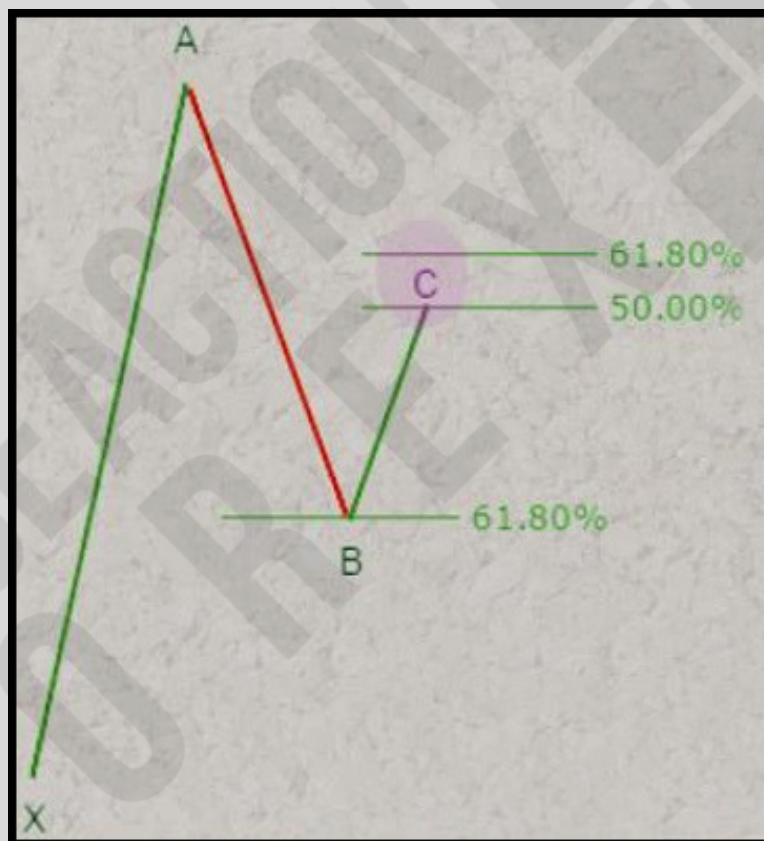
HARMONIC PATTERNS

6. CRAB PATTERN

Rules of Engagement

Criteria 2

If criteria 1 has been meet, then look for criteria 2.



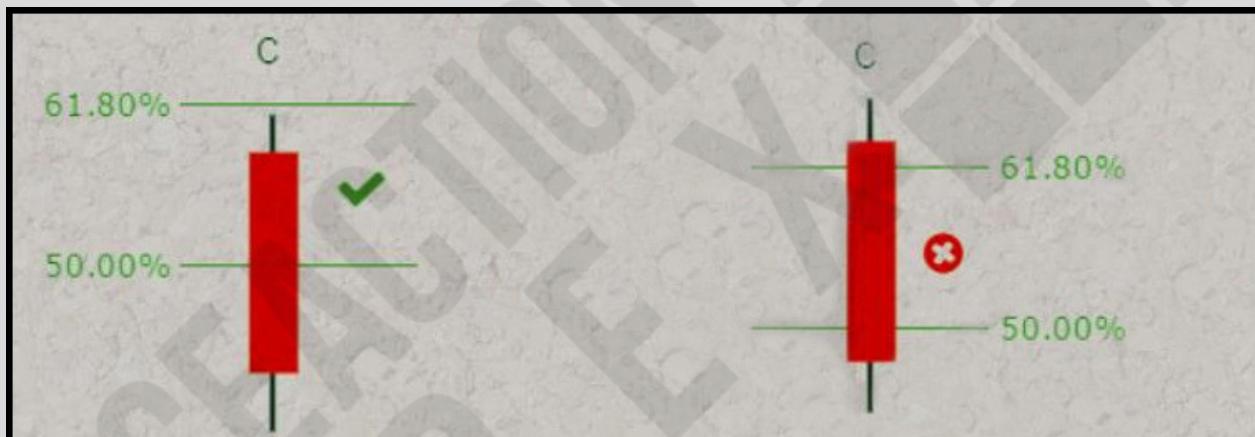
The market forms the (C) completion point by fulfilling at least a 50% retracement of the AB leg.

HARMONIC PATTERNS

6. CRAB PATTERN

NOTES:

The C point remains valid as long as there is at least a 50% retracement of AB and there is not a candle close at or beyond the 61.8% retrace of AB.



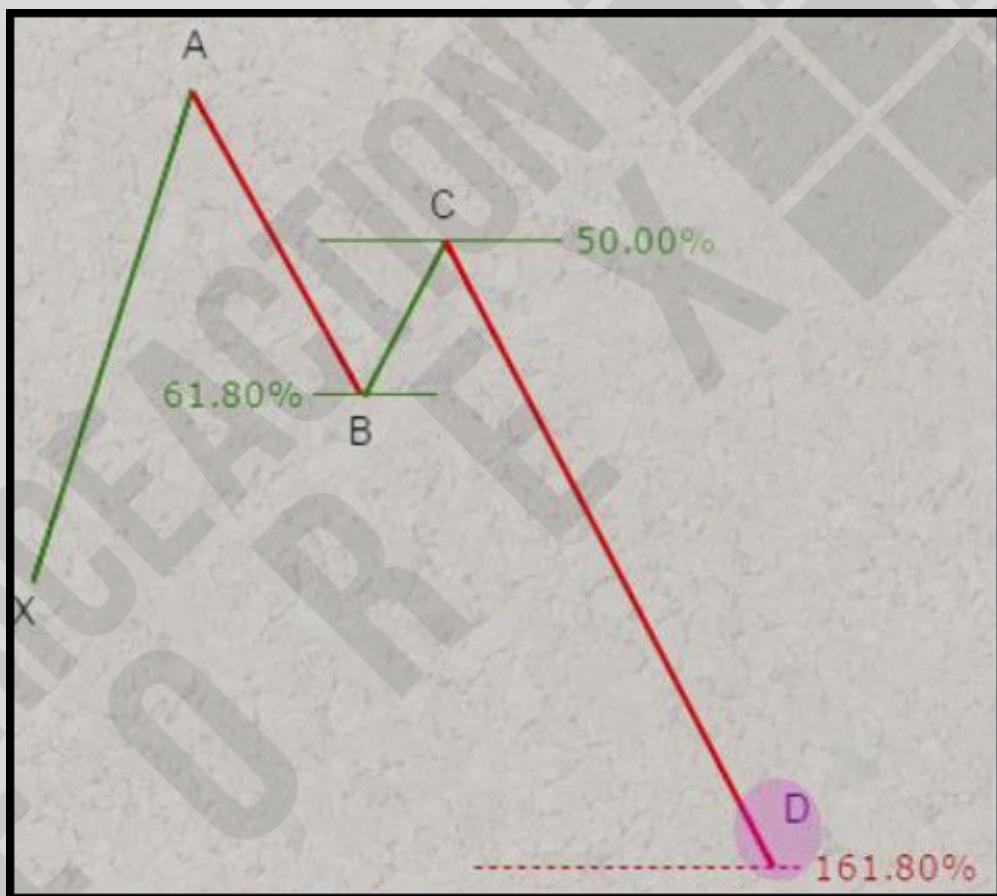
In a valid BC move, there must be a candle close beyond the 50% value. Failure to achieve a candle close beyond the 50% invalidates the move (this would be considered a Fibonacci failure which has no relevance to this pattern).

HARMONIC PATTERNS

6. CRAB PATTERN

Criteria 3

If criteria 1 and 2 have been met, then look for criteria 3.



The market forms the (D) completion (entry point) by fulfilling a 161.8% extension of XA.

HARMONIC PATTERNS

6. CRAB PATTERN

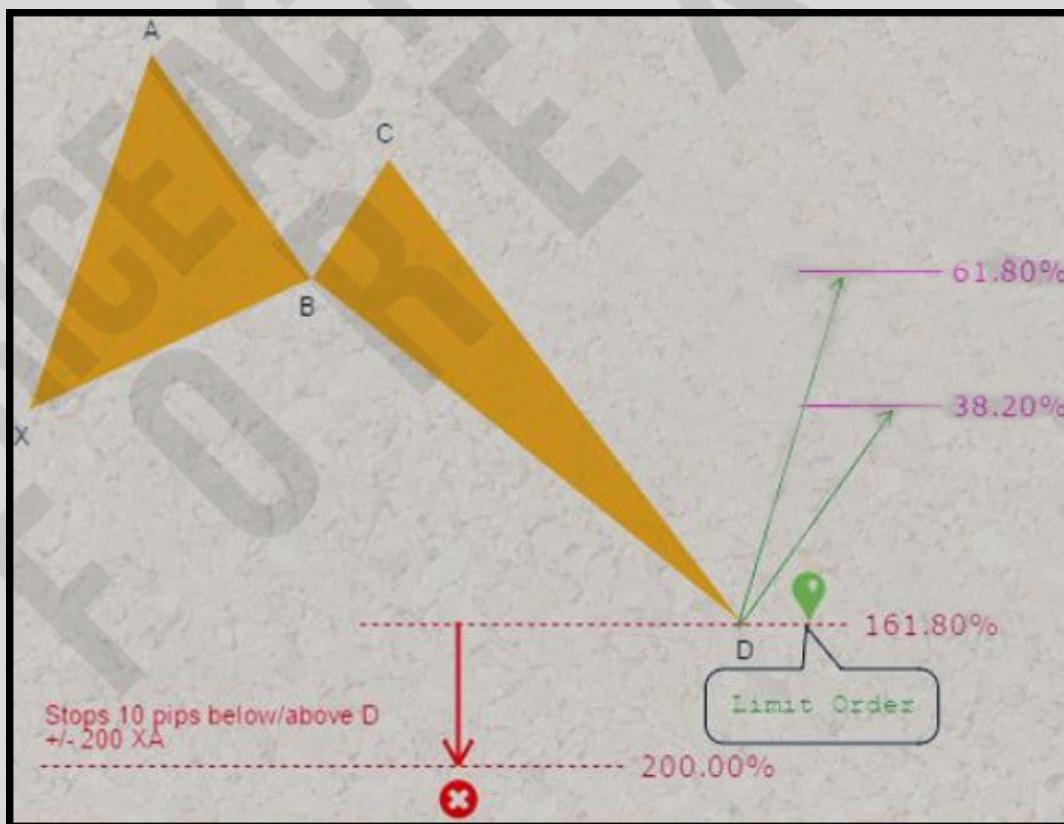
Trade Management: Entry, Stops, & Targets

Entry: Limit order placed at D completion point (127.2% of XA).

Stop Placement: 10 pips +/- 200% of XA.

Target 1: 38.2% retracement of AD leg. When attained, stop moves to break-even.

Target 2: 61.8% retracement of AD leg.



HARMONIC PATTERNS

7. THE SHARK PATTERN

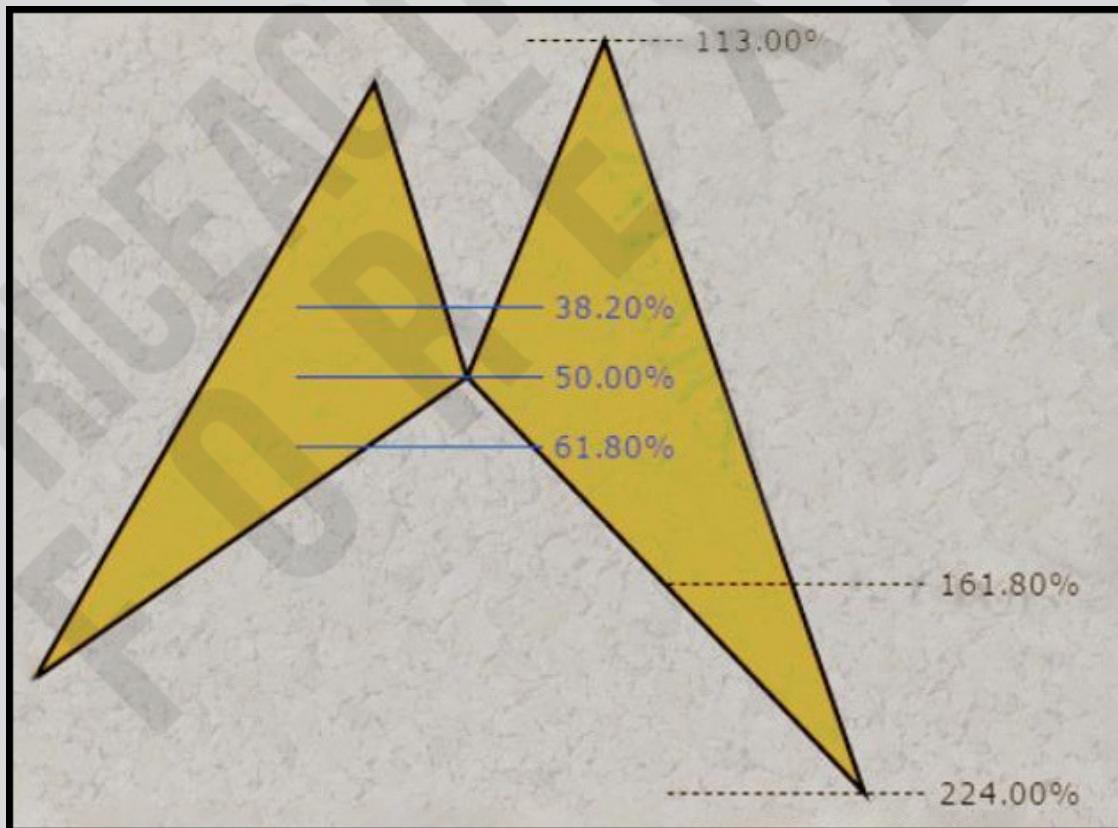
Tools

Fibonacci Retracements: Primary used 50 and 61.8

Fibonacci Extensions: Primary used 113, 161 and 224

Time Frame

It can be identified on virtually on any time frame.

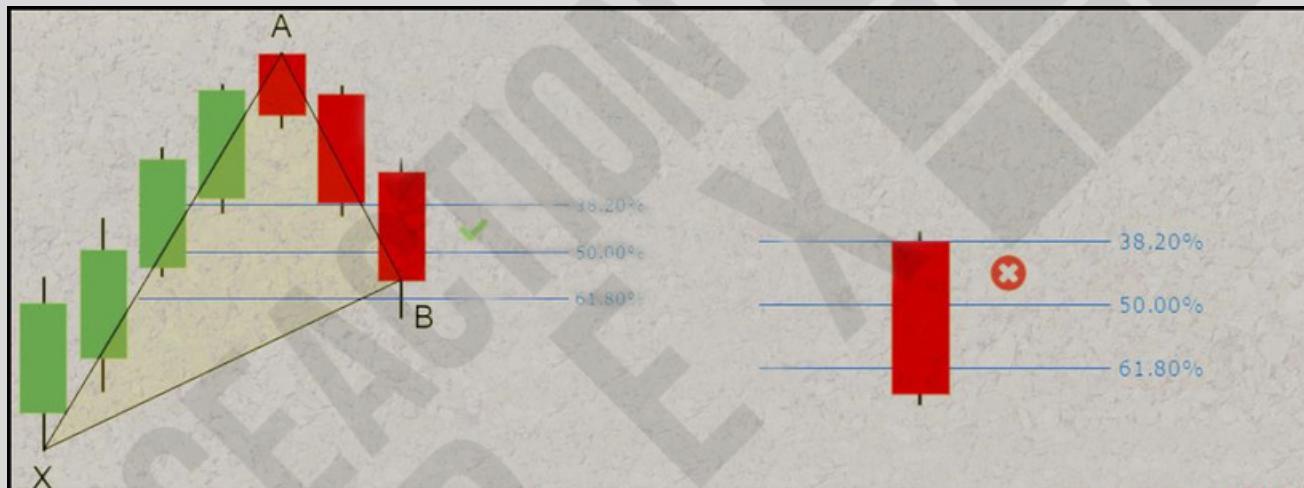


HARMONIC PATTERNS

7. THE SHARK PATTERN

Rules of Engagement: Criteria 1

The market forms (B) completion point by fulfilling at least a 50% retracement of the XA leg.



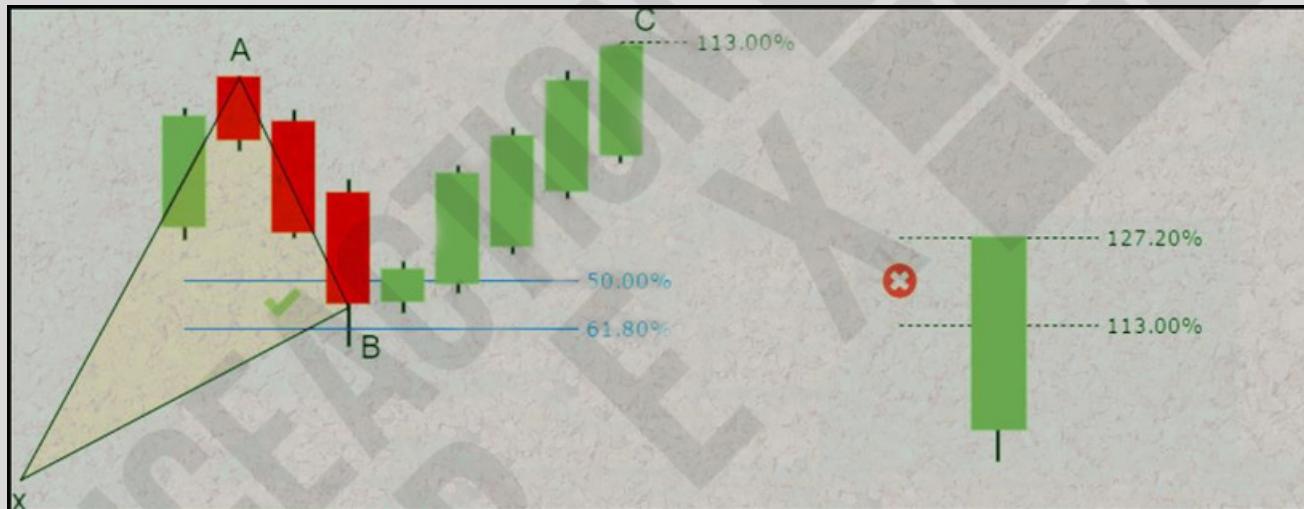
The AB move remains valid as long as it does not close above/below the 61.8%.

HARMONIC PATTERNS

7. THE SHARK PATTERN

Rules of Engagement: Criteria 2

The market forms the (C) completion point by fulfilling at least a 113% retracement of the AB leg.



The AB move remains valid as long as it does not close above/below the 127%.

HARMONIC PATTERNS

7. THE SHARK PATTERN

Rules of Engagement: Criteria 3

The market forms the (D) completion point by fulfilling at least a 161% Extension of the BC leg.



The CD move remains valid as long as it does not close above/below the 224% ext.

HARMONIC PATTERNS

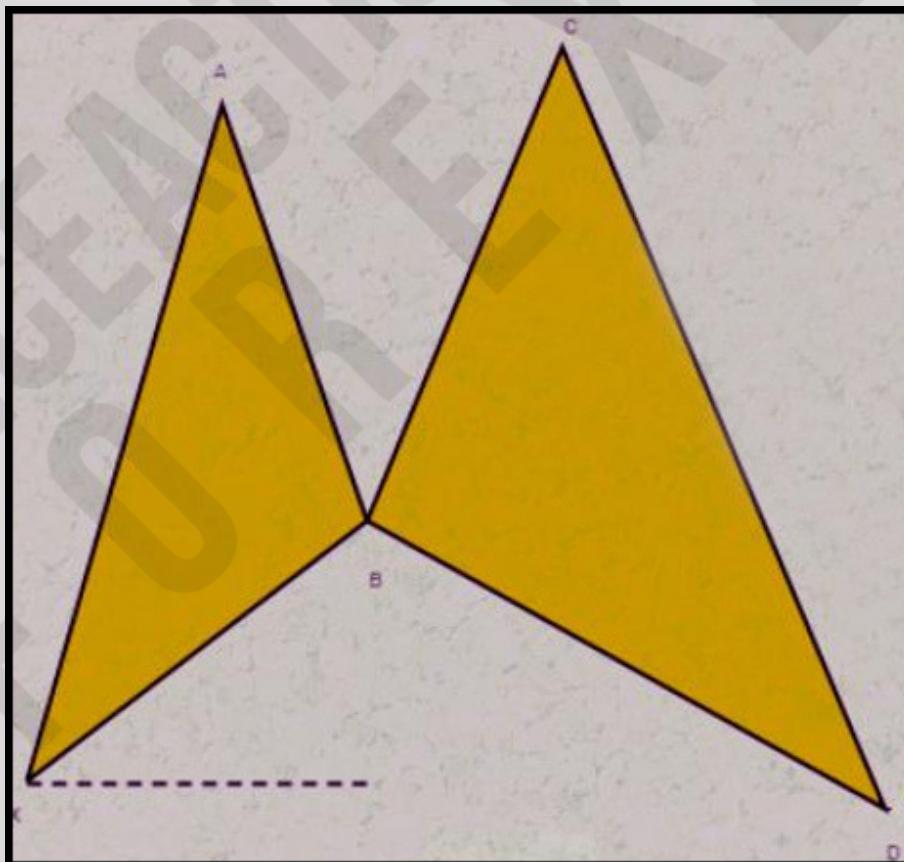
7. THE SHARK PATTERN

Trade Management: Entry, Stops, & Targets

Entry: Limit order placed at D completion point at 161% extension.

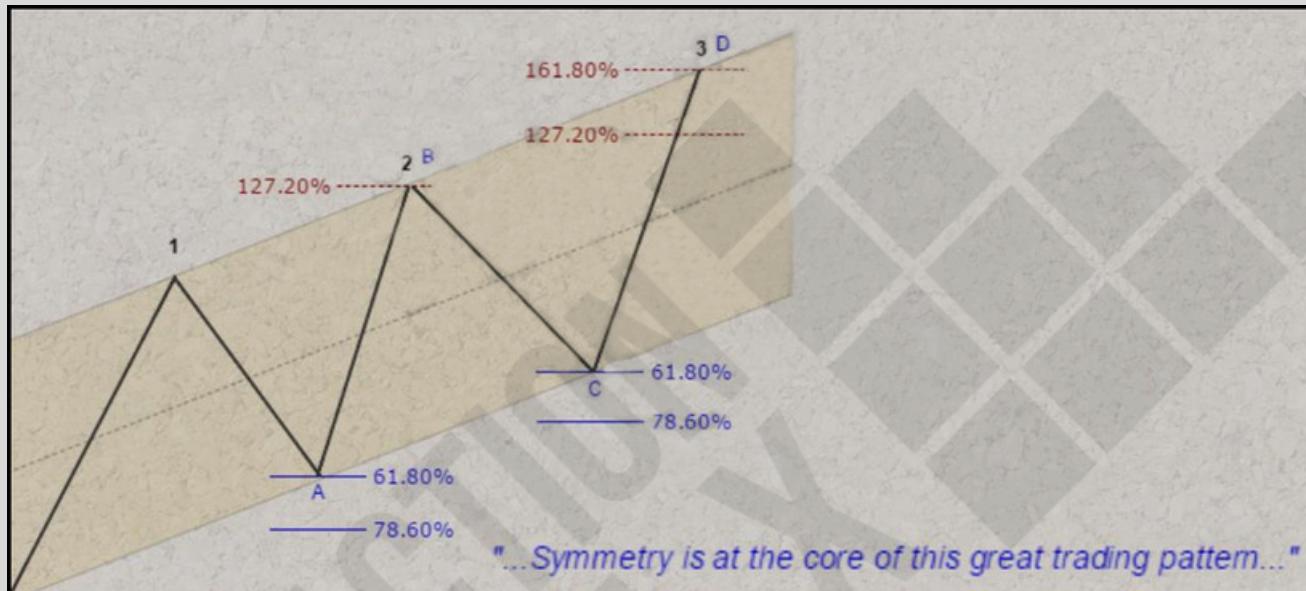
Stop Placement: +/- 10 pips below the 224%

Target 1: Target 2: Target 3:
50% CD 61.8%CD 100%CD



HARMONIC PATTERNS

8. THE THREE DRIVES PATTERN



The Three Drives pattern is simple in its structure and should be easy to visually identify on a chart in any time frame. It consists of three evenly spaced tops in an uptrend or three evenly spaced bottoms in a downtrend.

HARMONIC PATTERNS

8. THE THREE DRIVES PATTERN

The Three Drives pattern also contains an AB=CD. It is generally found at tops or bottoms and is the final push up or down before a reversal takes place. It should also be noted that the pattern does not always signal a major reversal-it may be the end of a swing in the trend and a correction will take place rather than full reversal.

If it is a correction, it is likely that an AB=CD pattern or retracement pattern will form following the third drive. It is important to watch the reaction of the correction pattern for clues.

If the correction pattern fails, then the trader may suspect the trend is over. It is not uncommon with reversals to see very sharp moves up or down from this pattern.

HARMONIC PATTERNS

8. THE THREE DRIVES PATTERN

THREE DRIVES PATTERN STRUCTURE

The drives (tops and bottoms) of the pattern are numbered 1, 2, and 3. Each drive is consecutively higher or lower than the last-consecutively higher in a Three Drives to the top pattern and consecutively lower in a Three Drives to the bottom pattern.

The distance from the top or bottom of drive 1 to the top or bottom of drive

2 should be a 1.272 or 1.618 extension, and it is the same for the top or bottom of drive 2 to drive 3.

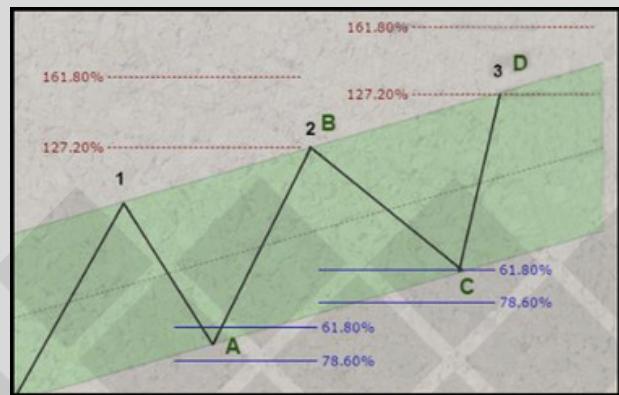
It is important to remember that the market may fall a bit short of these levels or may go just a bit farther.

The important thing is to watch for a symmetrical pattern to form.

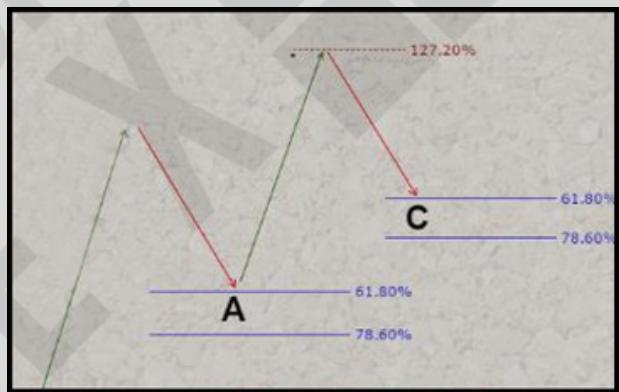
HARMONIC PATTERNS

8. THE THREE DRIVES PATTERN

There may also be an extension number of 1.272 or 1.618 measuring from drive 1 to A and completing at drive 3.



The retracements at points A and C, which form the AB=CD, should be a Fibonacci retracement, ideally at the .618 or the .786, ..



If a retrace at the .382 is formed, it is again a sign of a strong trend.

These drives should appear symmetrical to the eye and jump out. If the trader has to force the pattern, it is probably not a Three Drivers pattern.

HARMONIC PATTERNS

8. THE THREE DRIVES PATTERN

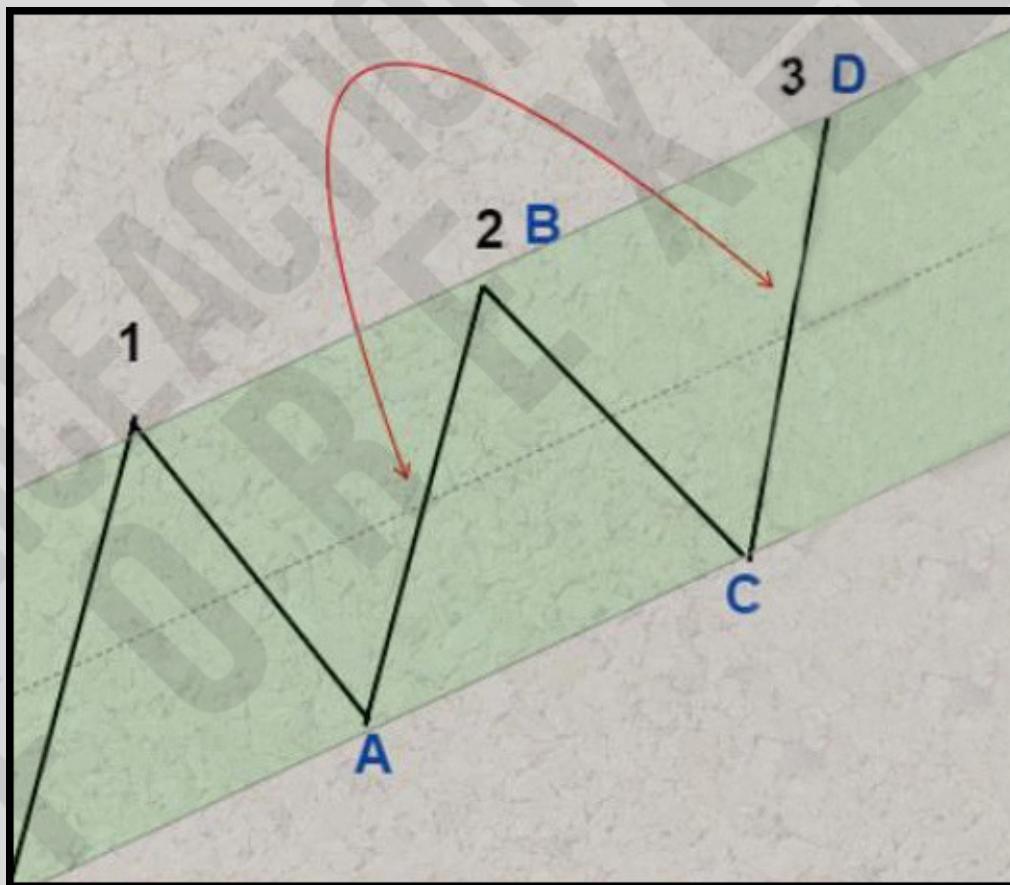
Five items to watch for that would invalidate this pattern are:

1. Drive 1 above or below drive 2 (above in a sell pattern or below in a buy pattern).
2. Drive 2 above or below drive 3 (above in a sell pattern or below in a buy pattern).
3. C below A (for a sell pattern) or above A (for a buy pattern). B should not be above D (for a sell pattern) or below D (for a buy pattern).
4. Extensions that extend past the 1.618 as the Three Drives pattern is forming will usually result in a failed pattern.
5. Large price gaps that appear as this pattern is forming in the direction of the established trend, especially toward the completion of drive 3, are a sign that the pattern is not valid and the trader should wait for further confirmation of a top or bottom or the formation of another pattern.

HARMONIC PATTERNS

8. THE THREE DRIVES PATTERN

There should also be time symmetry from point A to drive 2 and from point C to drive 3, in that it should take each of these legs approximately the same number of time bars to form.



HARMONIC PATTERNS

8. THE THREE DRIVES PATTERN

IMPORTANT CHARACTERISTICS OF THE THREE DRIVES PATTERN

The Three Drives pattern is similar to the Butterfly pattern in that it is very symmetrical. There are three areas of symmetry to study and learn to identify and trade this pattern successfully.

1. Price symmetry. Symmetry of price should be equal in the formation of the legs from A to drive 2 and from C to drive 3.
2. Time symmetry. The Three Drives pattern will have near-perfect symmetry where the upswings or downswings consist of close to the same number of time bars. If the time bars are not exactly the same, they should be close to a Fibonacci ratio that can be calculated by dividing the number of time bars in each leg—for example, five time bars in the AB and eight time bars in the CD ($5 + 8 = .625$).

HARMONIC PATTERNS

8 . THE THREE DRIVERS PATTERN

3. Visual symmetry. The pattern should be aesthetically pleasing to the eye. Three Drives patterns that are asymmetrical or that are forced should be viewed with suspicion. By force, we are referring to the market technician trying to force the pattern where it does not exist based on the elements outlined in the pattern structure section of this chapter. If it doesn't look symmetrical, it is probably not valid.

PSYCHOLOGY OF THE THREE DRIVES PATTERN

All patterns are formed by crowd psychology, and it is interesting and educational to study what forms any particular pattern. The Three Drives pattern is slightly different in its psychology, as it has three tops or bottoms that must form to complete the pattern, compared to most patterns with one (or occasionally two in the cases of double bottoms and tops).

HARMONIC PATTERNS

8. THE THREE DRIVES PATTERN

It is a natural phenomenon that bulls are the most bullish at the tops of markets and bears the most bearish at the bottom. When this occurs there is typically an unusual amount of news that accompanies these tops and bottoms in favor of the excess bullishness or bearishness. The Three Drives pattern goes through an extended process of bringing in new buyers or short sellers too early at tops with successive waves and new sellers at lows or new buyers who are too early. The pattern generally makes the final wave as the last buyer has bought at the top and the last seller has sold at the bottom.

This is the time when the market will appear absolutely the most bullish or most bearish. The last push up or down to form the last gasp in the market is almost like a game of hot potato, and the market has just passed the last hot potato to the last market participant before

HARMONIC PATTERNS

8. THE THREE DRIVES PATTERN

it changes direction. As the market then changes direction, each new low below the latest swing low in an uptrend now has more bulls trapped. Conversely, each new high above the previous swing low has more bears trapped. This in itself can add fuel to a rally or decline.

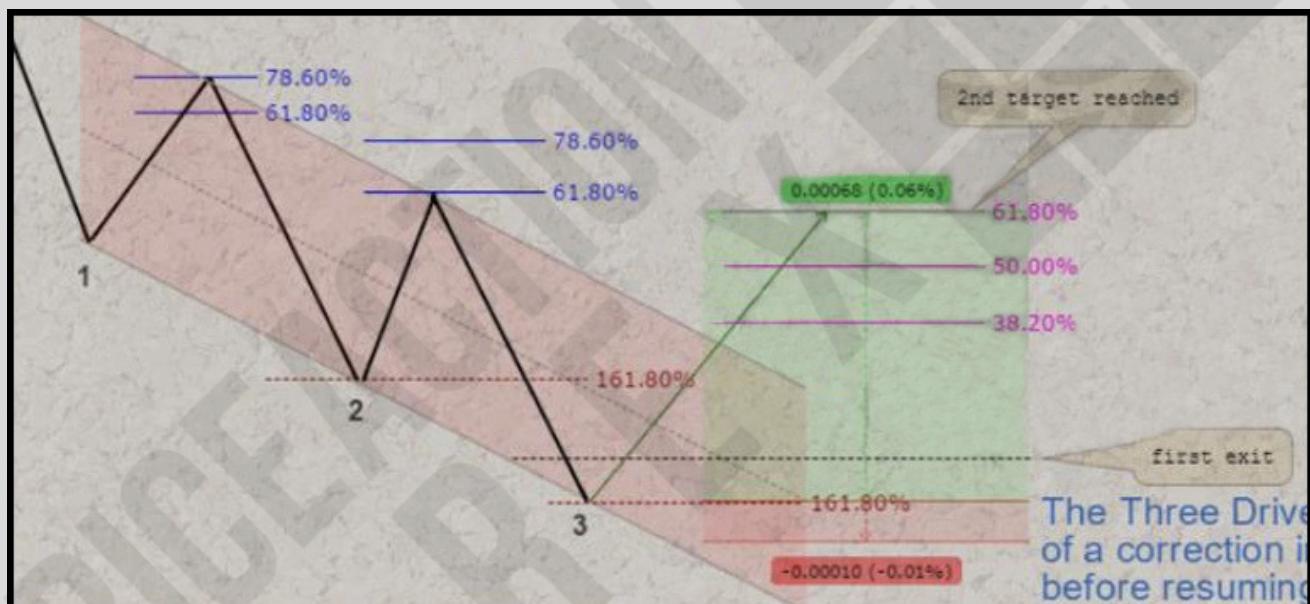
Usually it is not until a new trend is well under way that the news media will also change direction.

HARMONIC PATTERNS

8. THE THREE DRIVERS PATTERN

TRADING THE THREE DRIVERS PATTERN

1. Trade setup a three drivers buy pattern that is a correction in a trend:



The Three Drivers pattern can be either a reversal or part of a correction in a trend, where the market is pausing before resuming the original direction of the trend.

HARMONIC PATTERNS

8. THE THREE DRIVERS PATTERN

The completion point on the Three Drives buy pattern shown is at the 1.618 level.

Risk-Free Trade

This was determined by the previous 1.618 from drive 1 to drive 2, which is repeated from drive 2 to drive 3

The first profit target is equal to the risk, and the stop can be moved up to just below the most recent swing low.

The assumption is that with the stop just below the most recent low, the market would be telling us that this pattern is a failed pattern at that point.

2. Trade setup a Three Drives buy pattern that is a reversal:

Risk-Free Trade

The first profit objective is equal to the initial risk:

The initial stop-loss is moved to one tick above the swing

HARMONIC PATTERNS

8. THE THREE DRIVERS PATTERN

low once the first exit is reached; The second profit objective is at the 618 retracement (Once this objective is reached the stop can be trailed to protect profits); The trader at this point wants to monitor the market for further upside and to determine the best level for the third exit.

MODULE 2 -Chapter 2

ELLIOTT WAVE THEORY

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ELLIOTT WAVE THEORY

ELLIOTT BASICS

Learning Objects:

Foundation of Elliott Wave Theory

- Basic Wave Patterns
- Wave Characteristics
- Introduction of Mathematical Applications
- Three Essential Rules
- Labeling of Waves
- Quiz
- OTR Support

ELLIOTT WAVE THEORY

FOUNDATION OF ELLIOTT WAVE THEORY

Ralph Nelson Elliott developed the Elliott Wave Theory in the 1930's by studying various market indices spanning over a 75-year period. He discovered that stock markets, thought to behave in a somewhat chaotic manner, in fact, did not.

They traded in repetitive cycles, which he discovered were the emotions of investors as a cause if outside influences, or predominant psychology of the masses at the time.

Elliott stated that the upward and downward swings of the mass psychology always showed up in the same repetitive patterns, which were then divided into patterns he termed "waves".

Subsequently, many other Elliott Wave theorists have applied his principles to markets other than stocks, such as Forex and commodities, with great success. This is to say that the theory is transferable to virtually all traded markets.

ELLIOTT WAVE THEORY

- **The Wave Principle (1938)**

- Also known as the Elliott Wave Principle

- Tied collective human behavior pattern to the Fibonacci sequence or golden ratio

- **Elliott Wave Supplement (1953)**

- By a. Hamilton Bolton

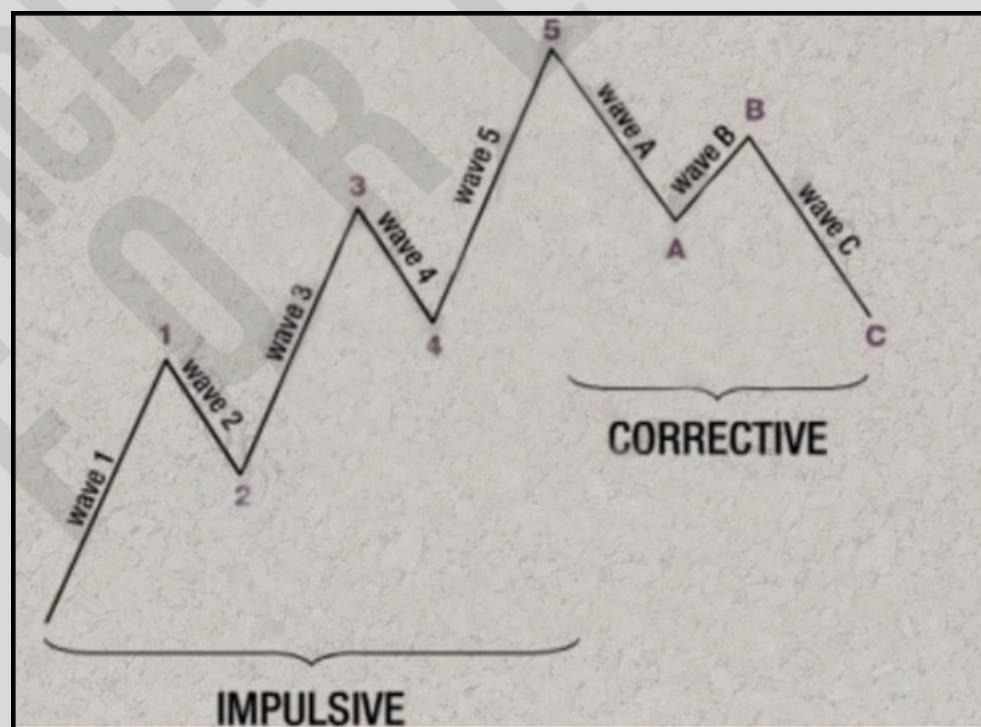
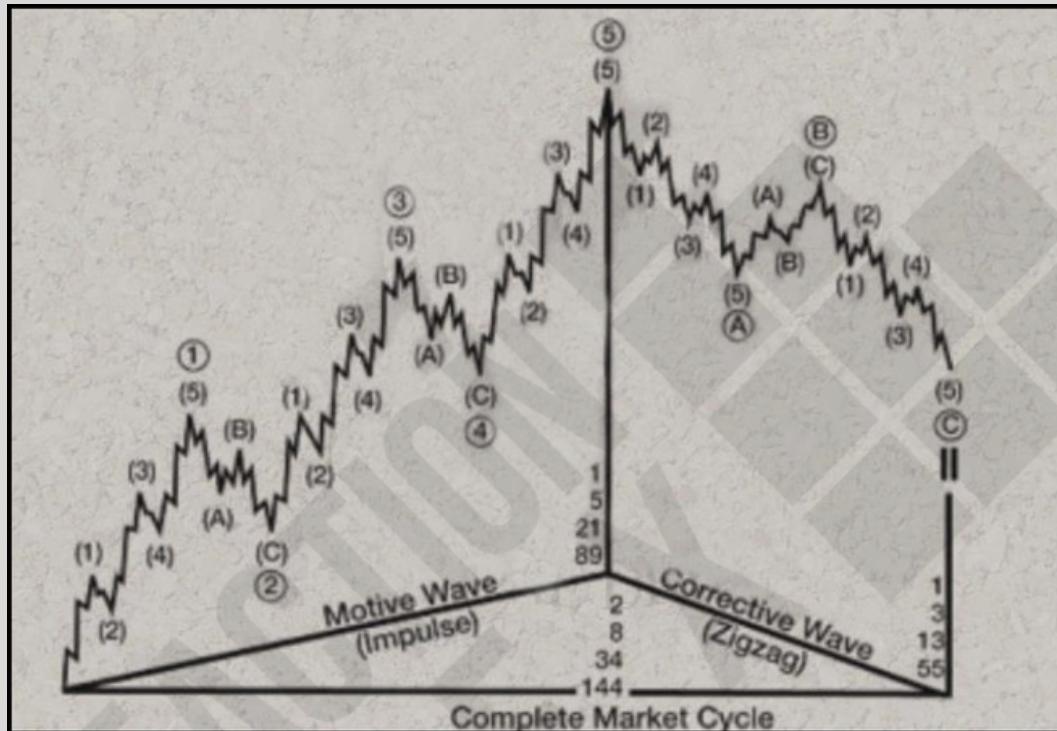
- **Elliott Wave Principle (1978)**

- By A.J. Frost and Richard Prechter

MODULE 2 -Chapter 2

ELLIOTT WAVE THEORY

MARKET CYCLE



ELLIOTT WAVE THEORY

Fractals

Noun. Self-similar patterns composed of smaller copies of themselves ad infinitum.

- Often associated with recursive operations
- Repeating the process indefinitely

FOUNDATION OF ELLIOTT WAVE THEORY

Market movements reflect mass human psychology. These movements form patterns that predict market behavior.

When market behavior looks similar to various scales of resolution. it is said to be fractal.

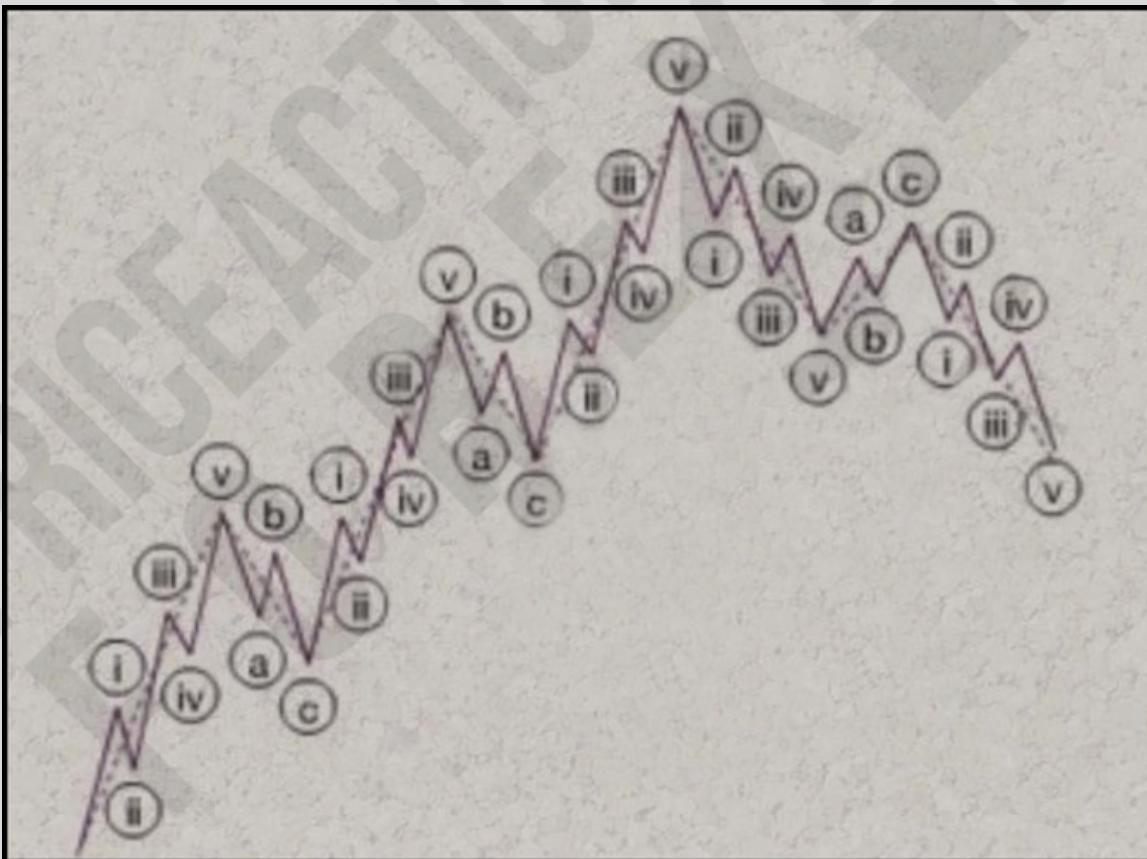
Elliott Waves are fractal with waves embedded within waves. within waves. within waves, etc.

ELLIOTT WAVE THEORY

FRACTAL NATURE OF WAVES

The fractal nature of markets means that patterns repeat themselves in different time frames.

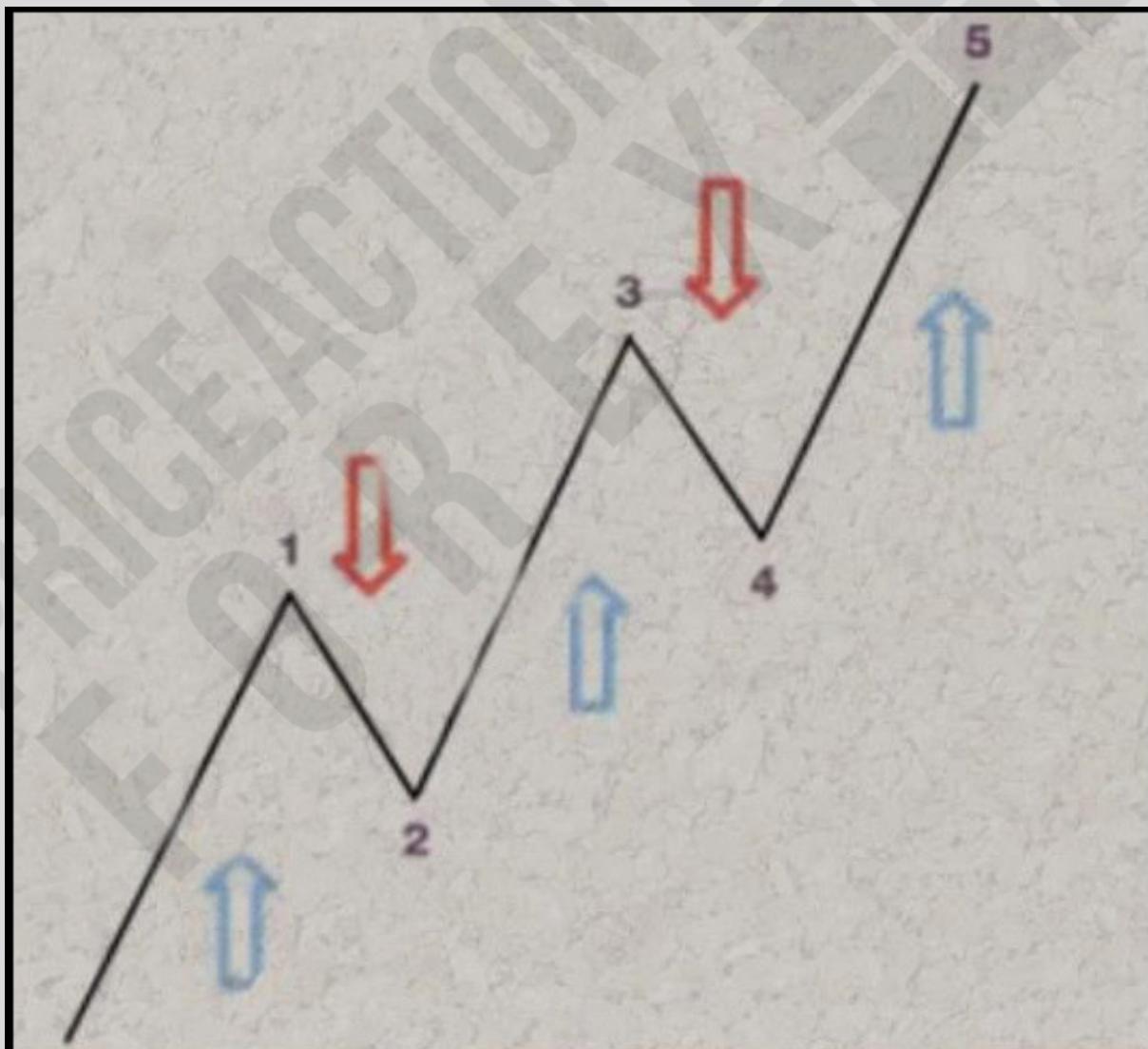
Waves of any degree in any series are made up of waves of a lesser degree.



ELLIOTT WAVE THEORY

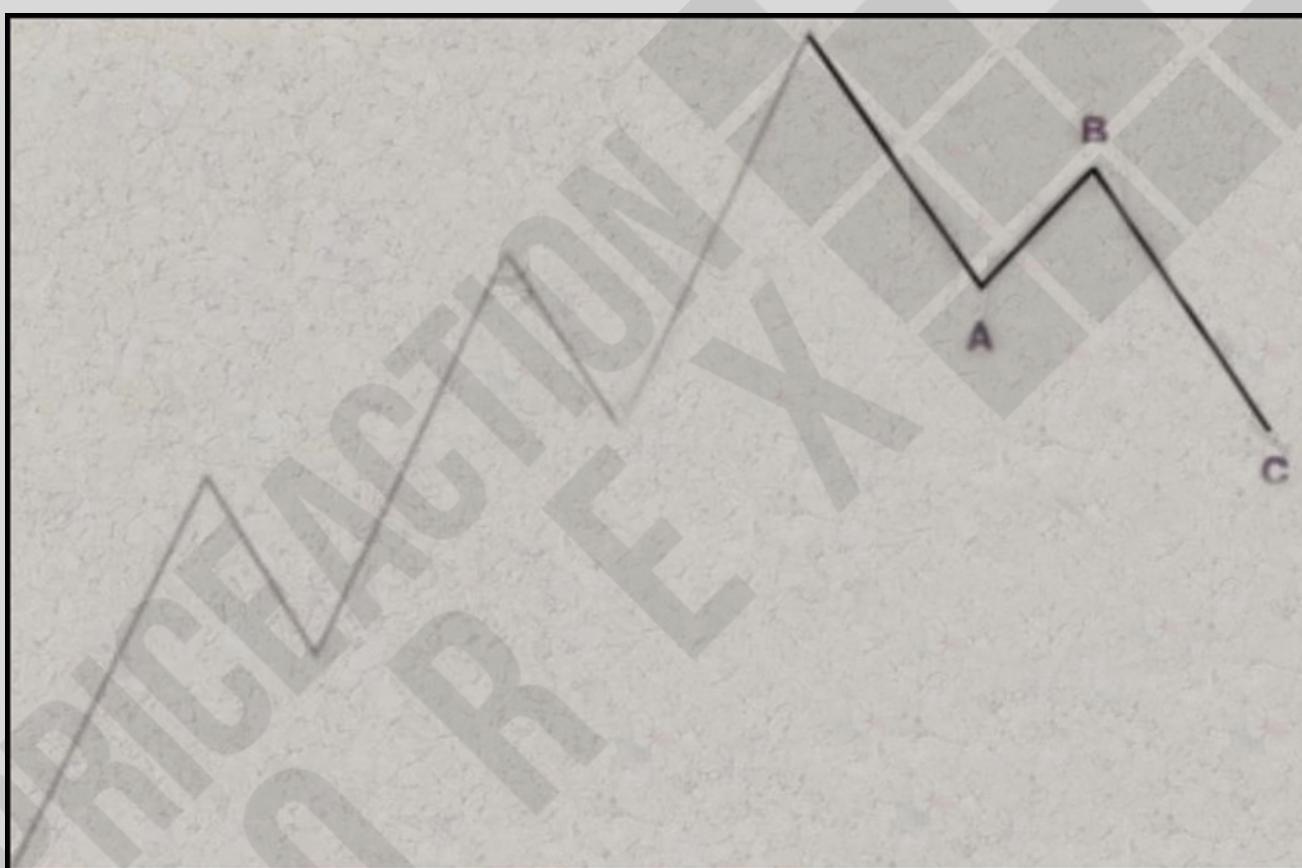
BASIC WAVE PATTERNS

The basic 5-wave structure in a rising market or uptrend consists of three upward movements that are intermediated by two downward movements, termed "impulsive" or "motive."



ELLIOTT WAVE THEORY

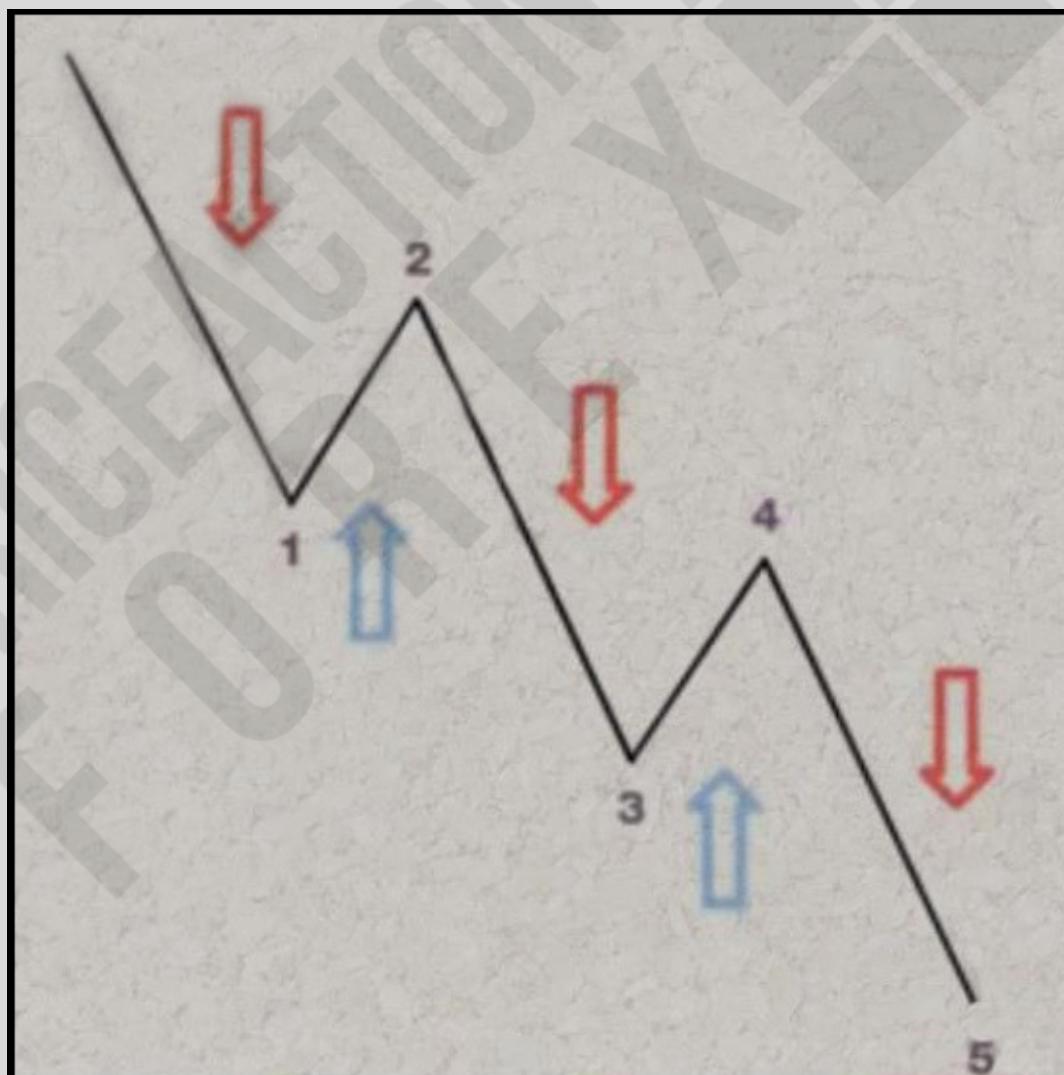
Then followed by the basic 3-wave structure consisting of two downward movements that are intermediately by one upward movement, termed "corrective"



ELLIOTT WAVE THEORY

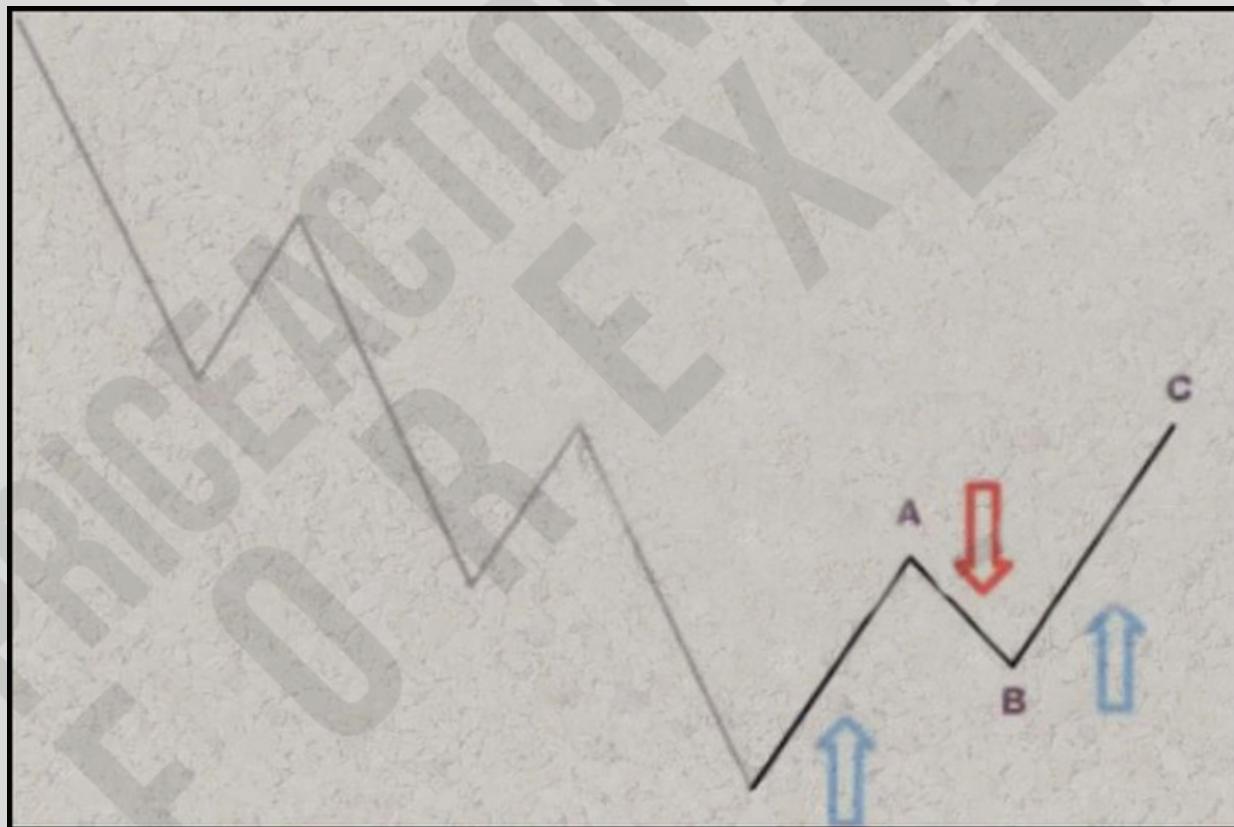
BASIC WAVE PATTERNS:

The basic 5-wave structure in a falling market or downtrend consists of three downward movements that are intermediated by two upward movements, termed "impulsive" or "motive."



ELLIOTT WAVE THEORY

Then followed by the basic 3 -wave structure consisting of two upward movements that is intermediated by one downward movement, termed "corrective".

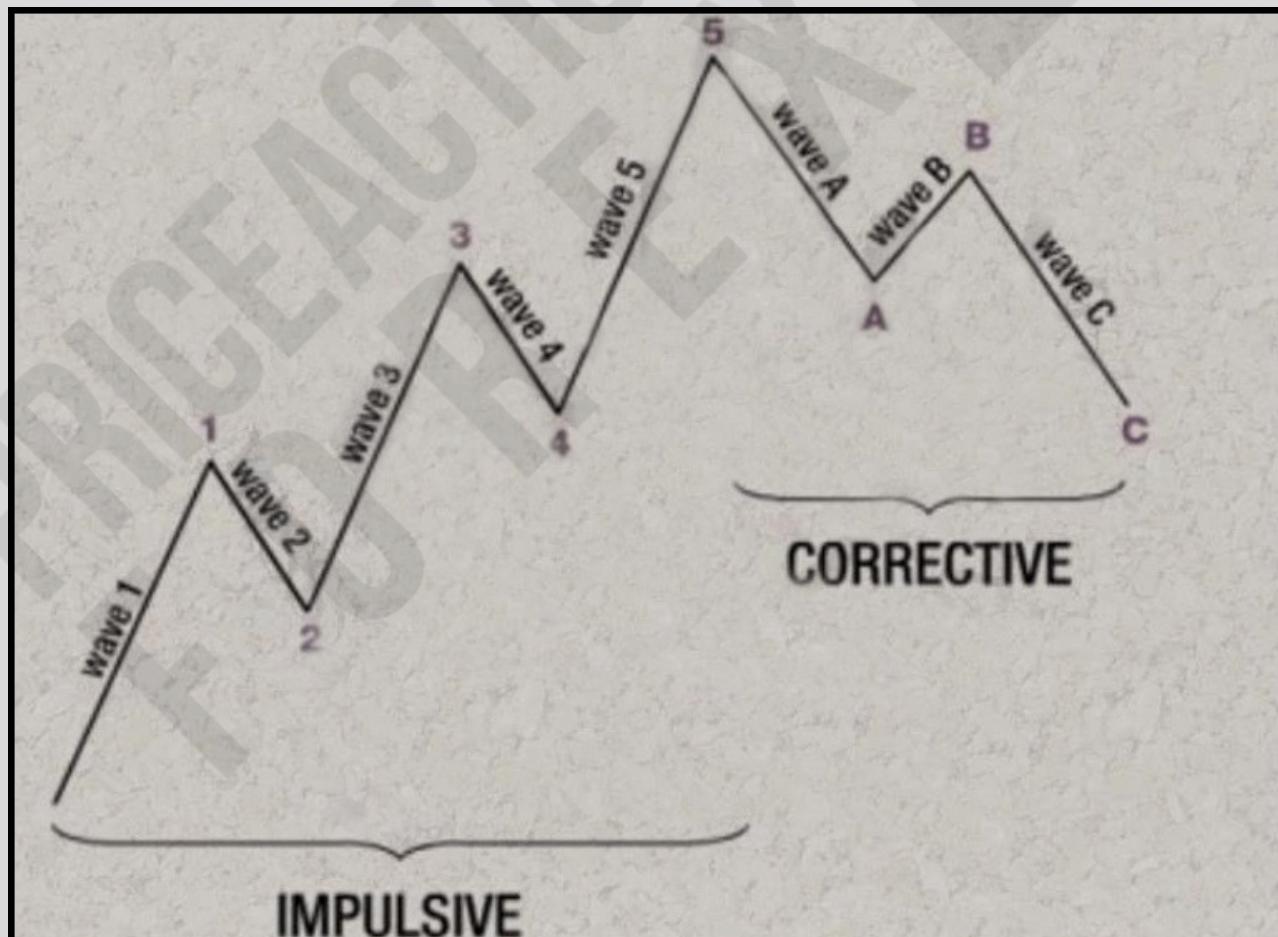


ELLIOTT WAVE THEORY

THE COMPLETE WAVE CYCLE

In an uptrend or rising market:

- The impulsive wave moves with the predominant uptrend.
- The corrective wave moves against the predominant uptrend.

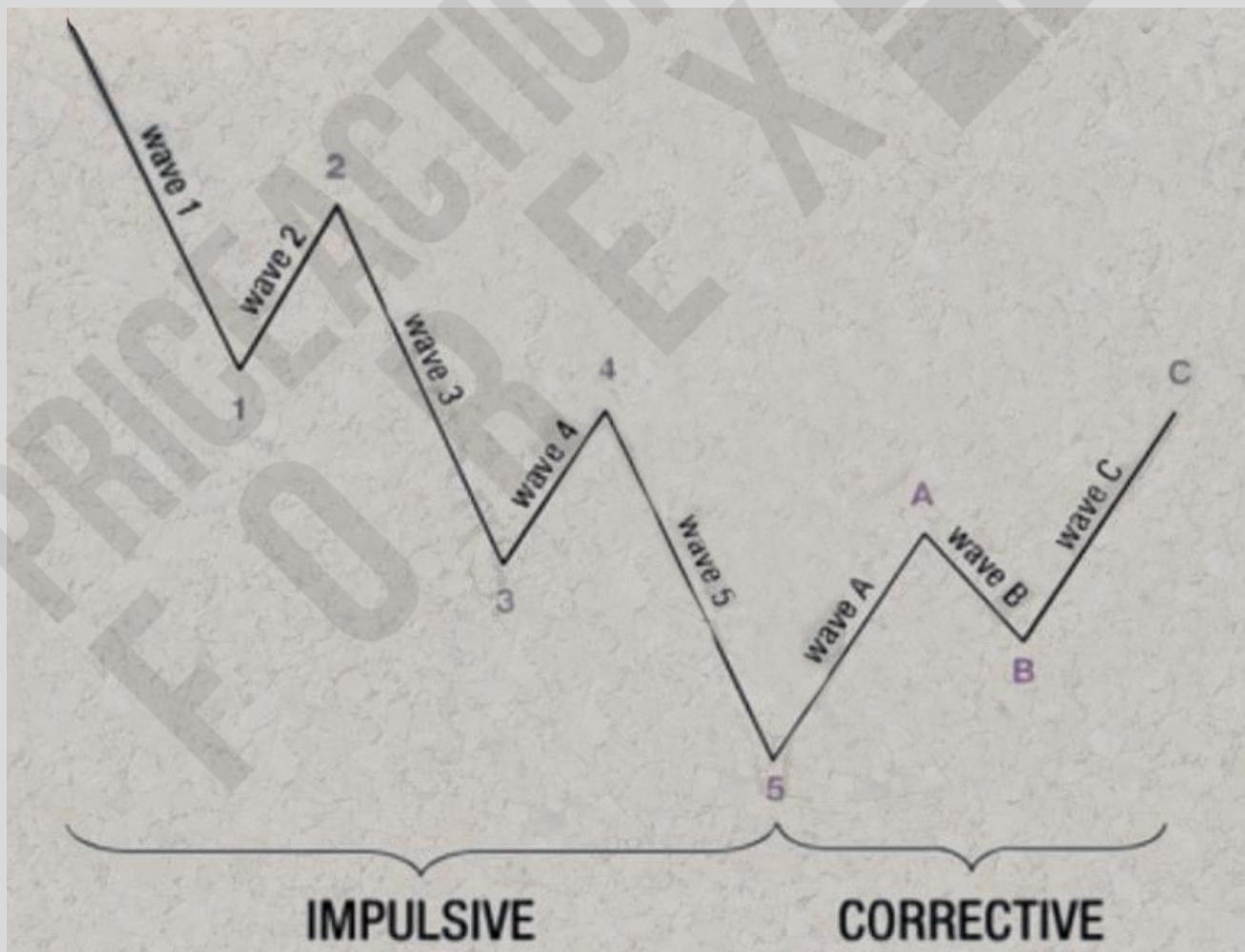


ELLIOTT WAVE THEORY

THE COMPLETE WAVE CYCLE

In a downtrend or falling market:

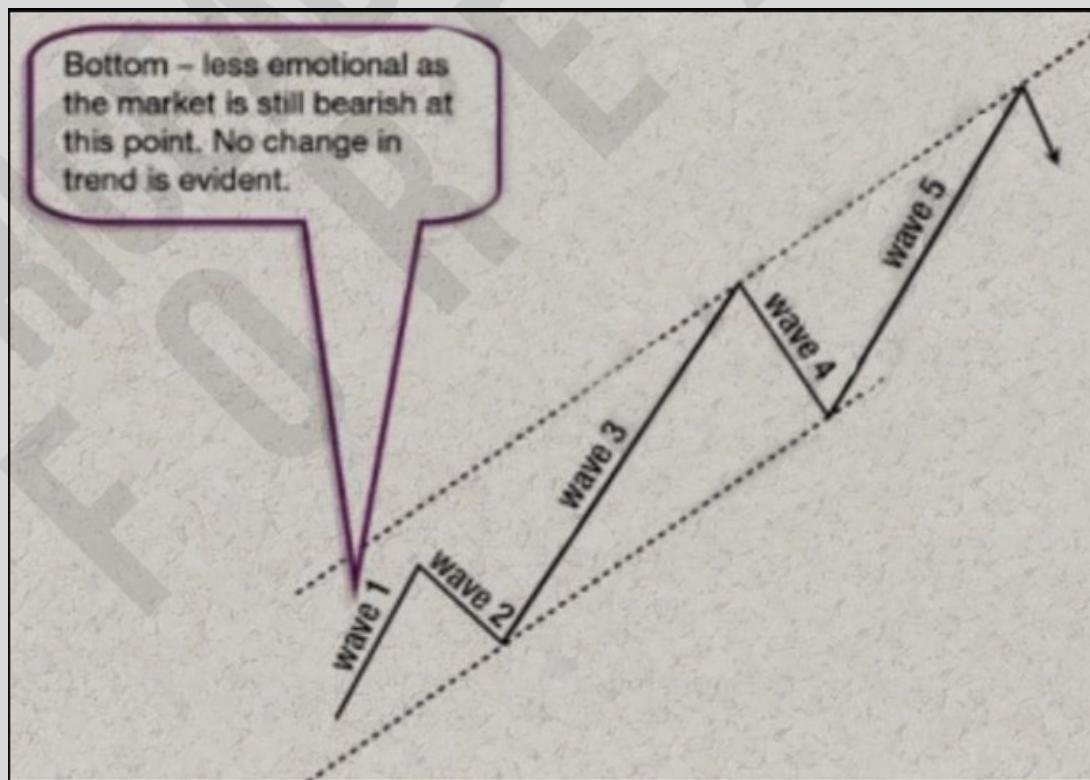
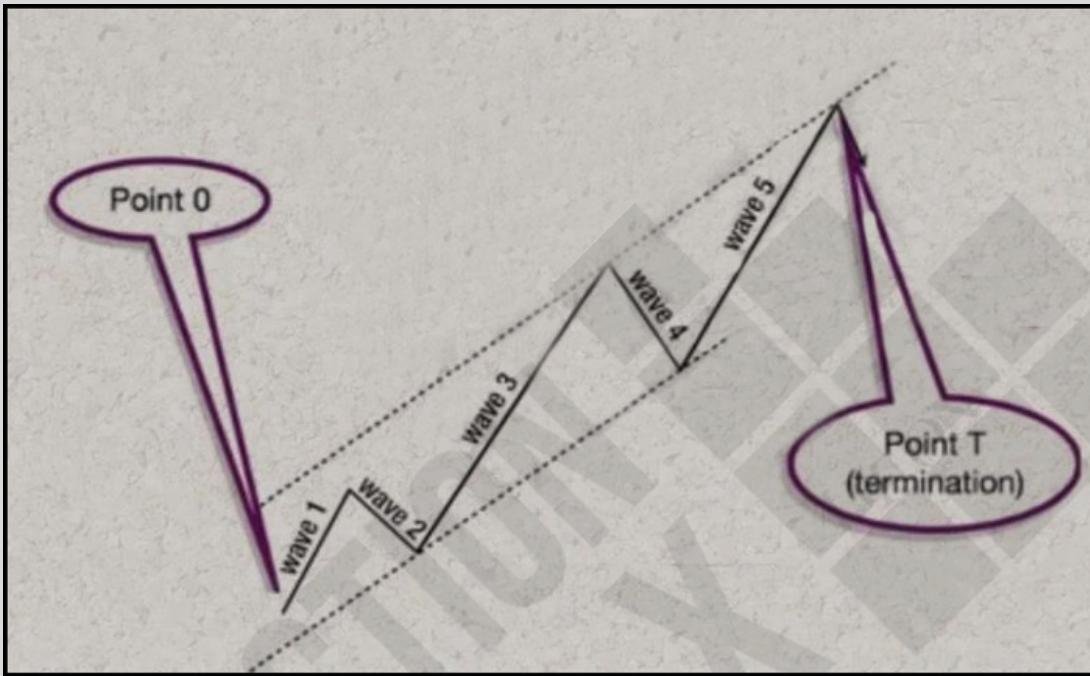
- The impulsive wave moves with the predominant downtrend.
- The corrective wave moves against the predominant downtrend.



MODULE 2 -Chapter 2

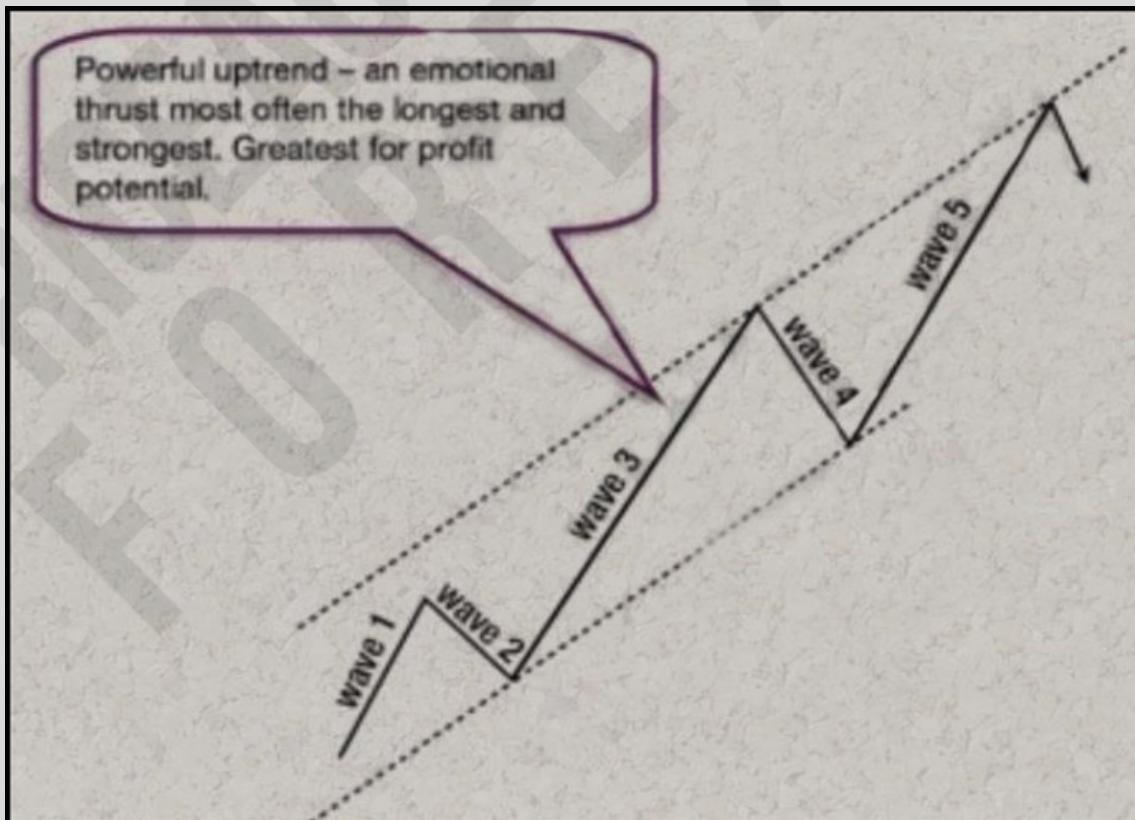
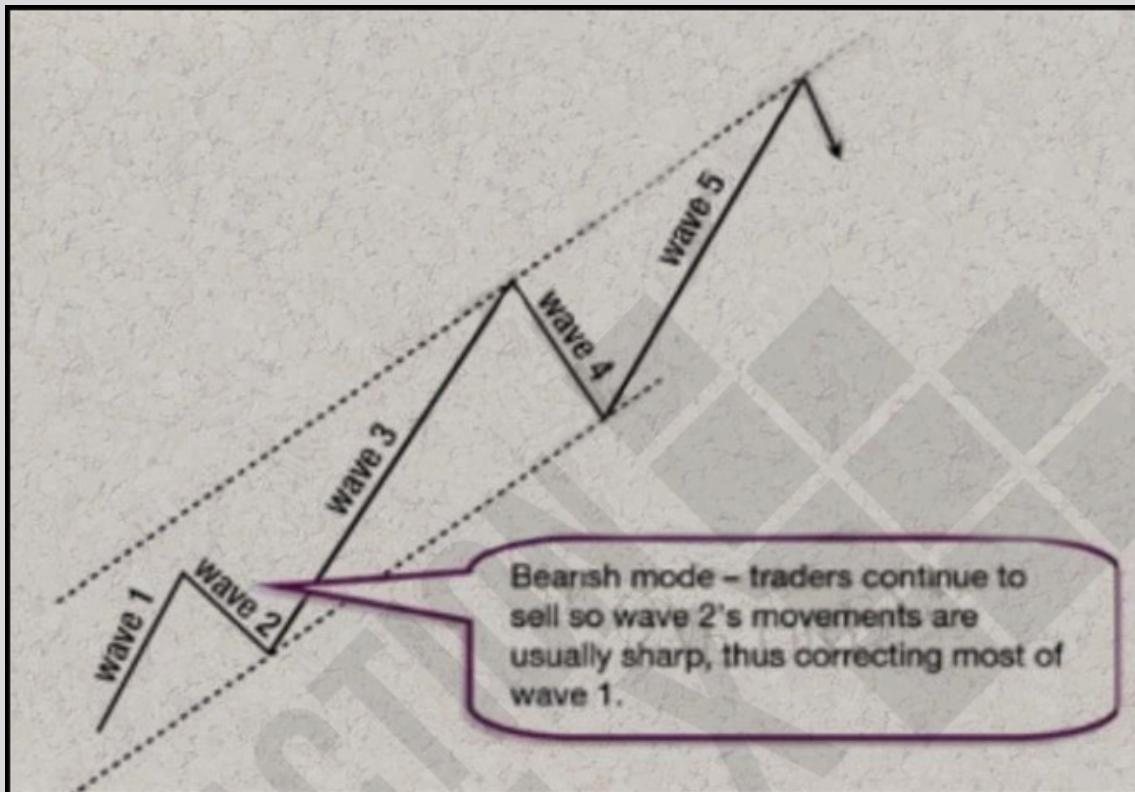
ELLIOTT WAVE THEORY

WAVE CHARACTERISTICS



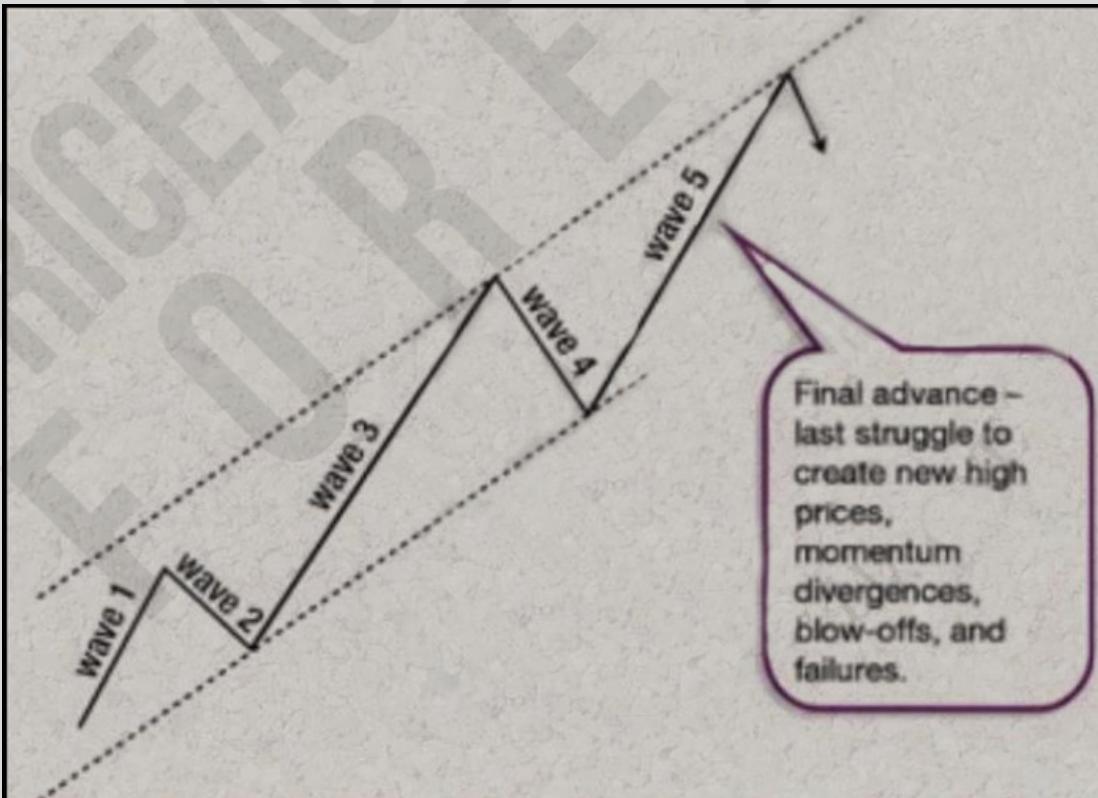
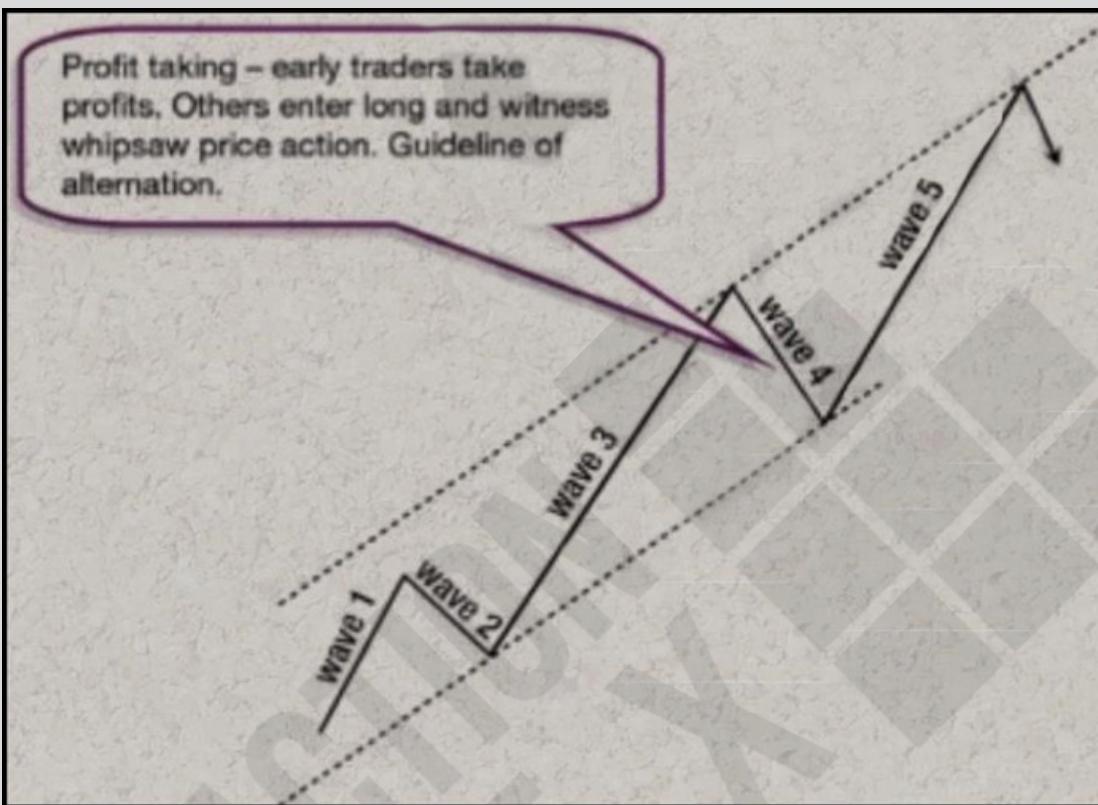
MODULE 2 -Chapter 2

ELLIOTT WAVE THEORY



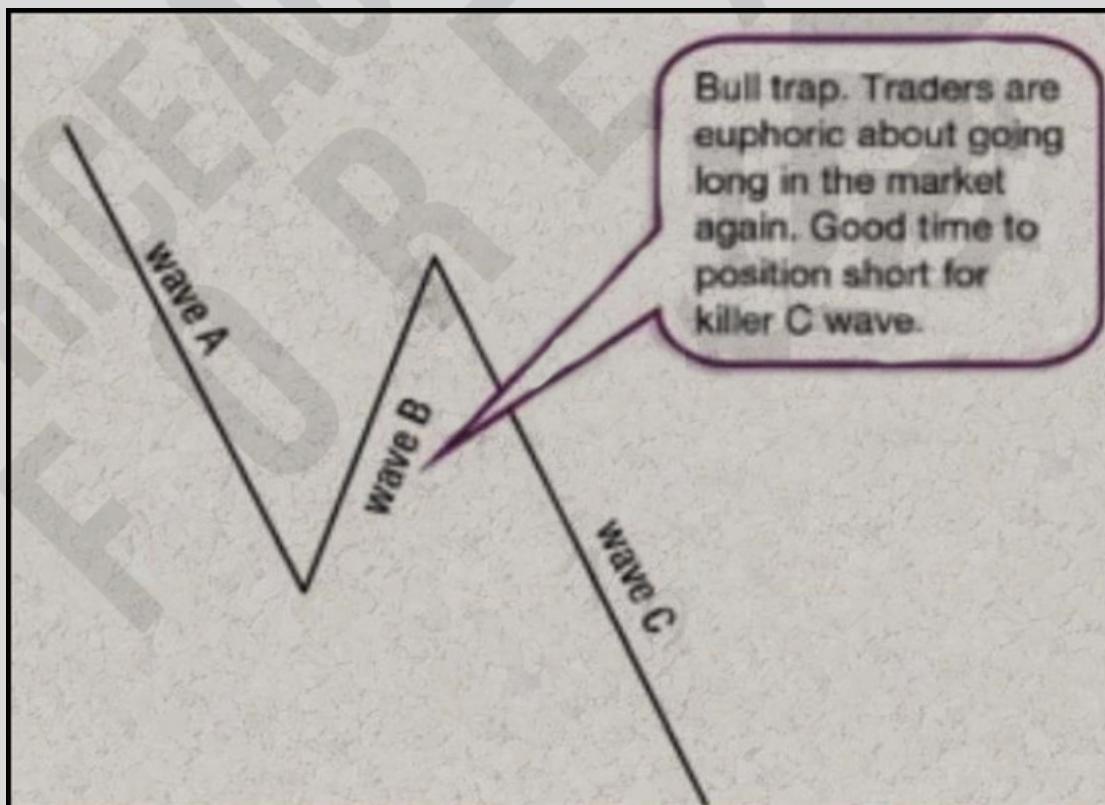
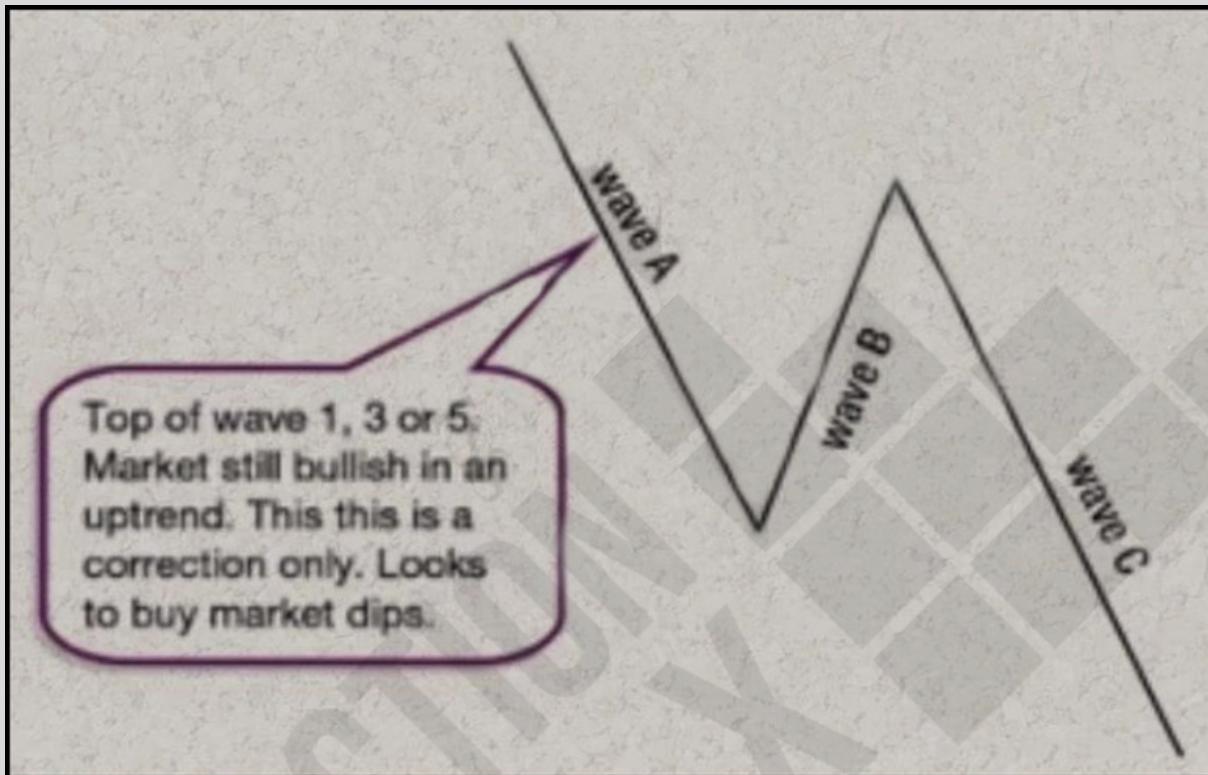
MODULE 2 -Chapter 2

ELLIOTT WAVE THEORY



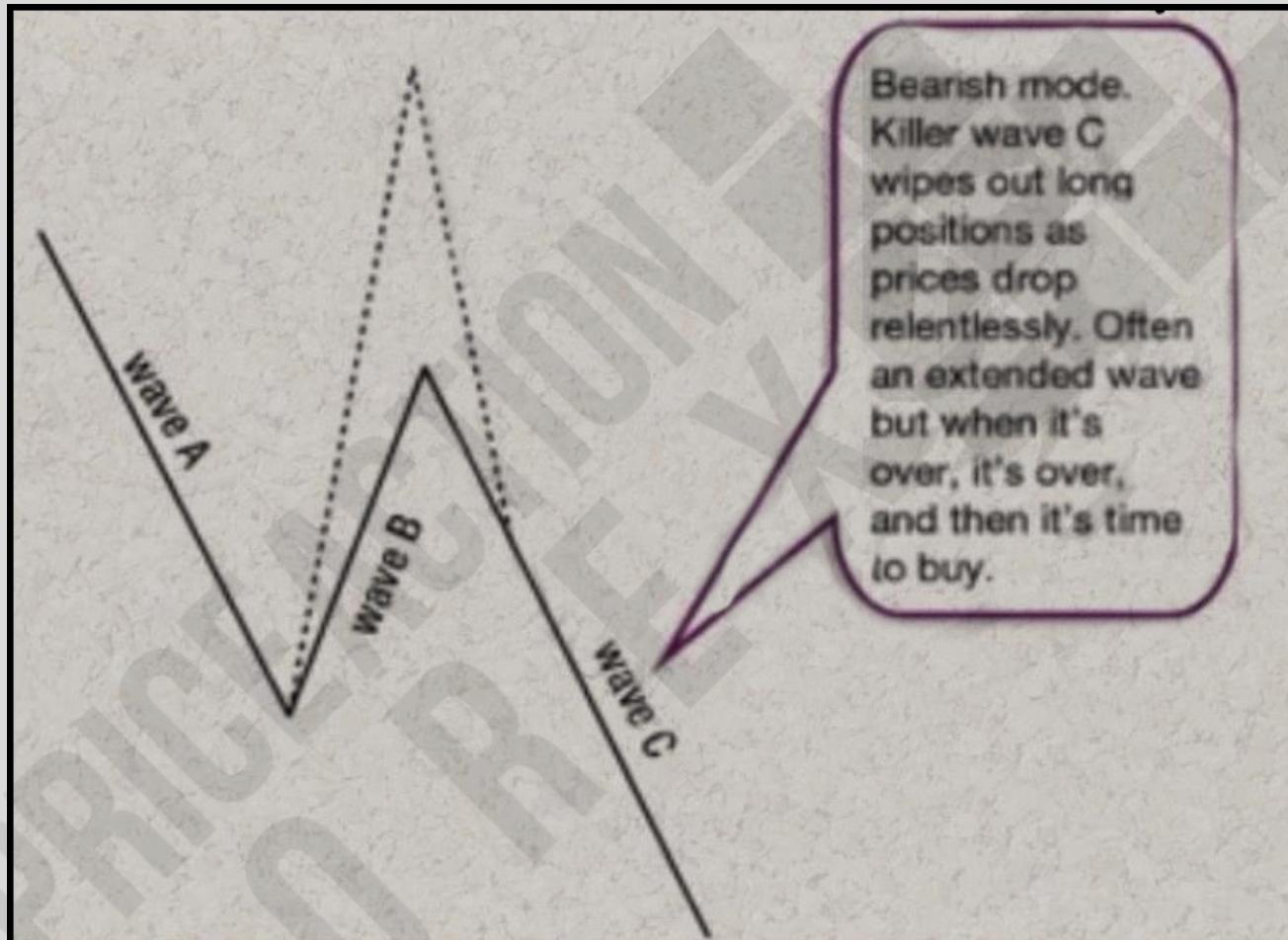
MODULE 2 -Chapter 2

ELLIOTT WAVE THEORY



MODULE 2 -Chapter 2

ELLIOTT WAVE THEORY



ELLIOTT WAVE THEORY

INTRODUCTION TO MATHEMATICAL APPLICATIONS

Leonardo Fibonacci was an Italian mathematician born in the 12th century.

He is known to have discovered the Fibonacci sequence of numbers.

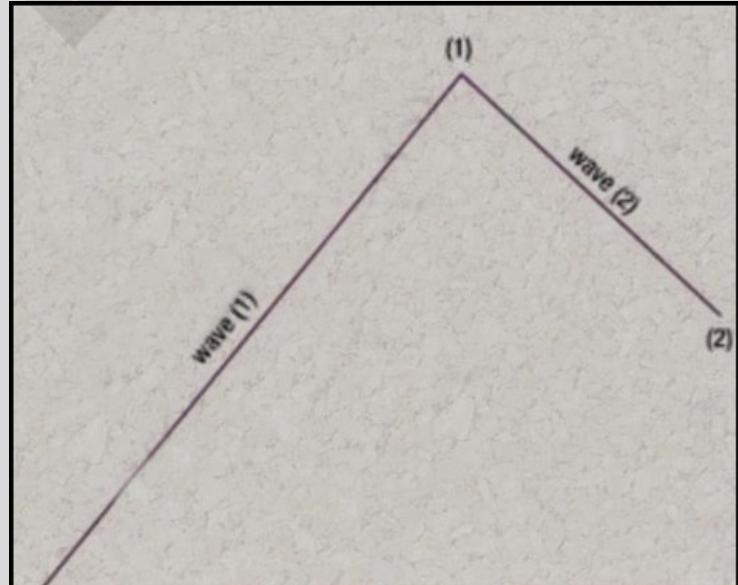
Fibonacci sequence of numbers

A sequence of numbers after zero and one, where each successive number is the sum of the two previous numbers.

FIBONACCI NUMBERS

Fibonacci numbers appear when counting Elliot Waves.

1, 1, 2, 3, 5, 8, 13,
21, 34, 55, 89, 144...
(1) and (2) = 2 waves



ELLIOTT WAVE THEORY

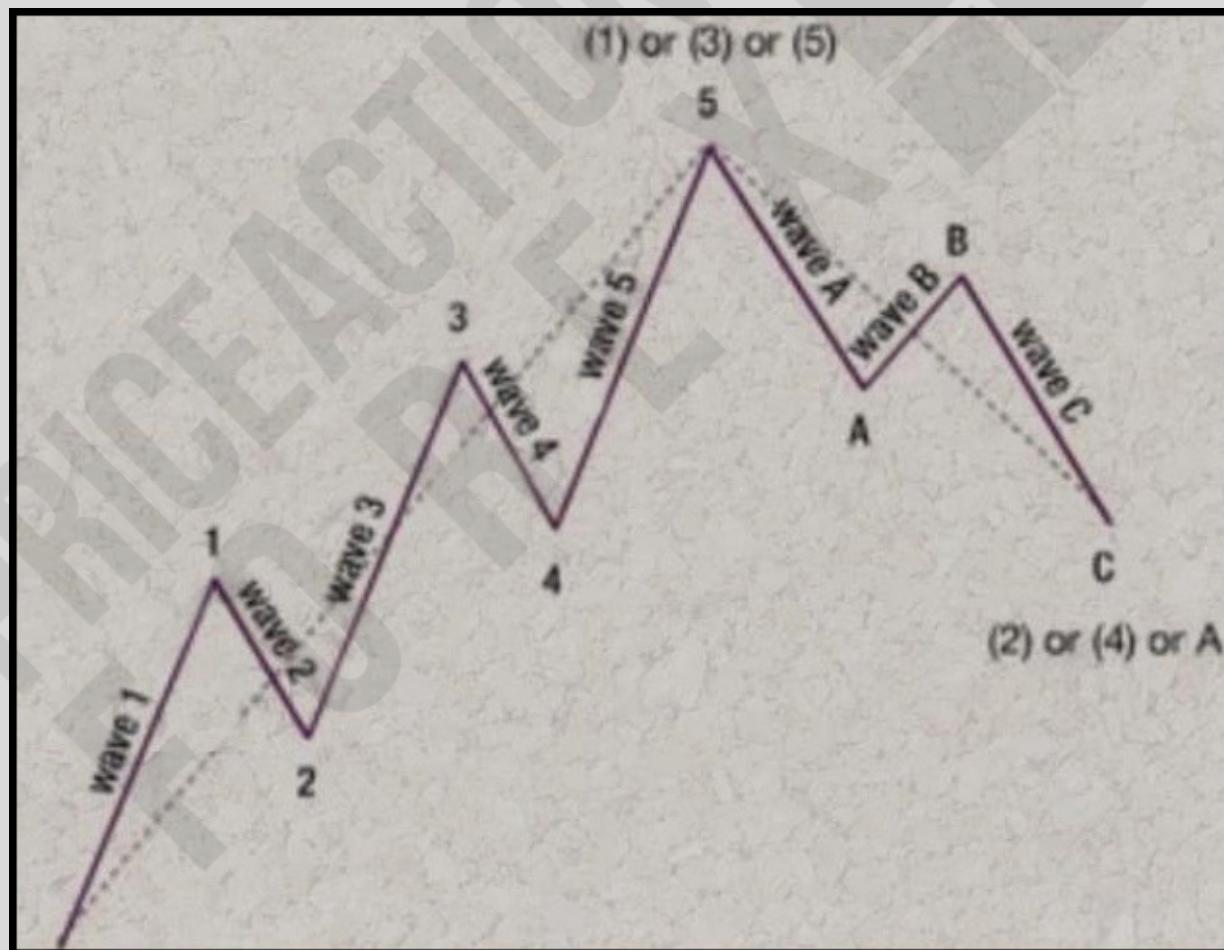
FIBONACCI NUMBERS

Fibonacci numbers appear when counting Elliott Waves.

1. 1.2, 3.5, 8. 13, 21.34, 55.89, 144...

(1) and (2) = 2 waves

1.2, 3, a, 5, A, B.C = 8 waves



ELLIOTT WAVE THEORY

FIBONACCI NUMBERS

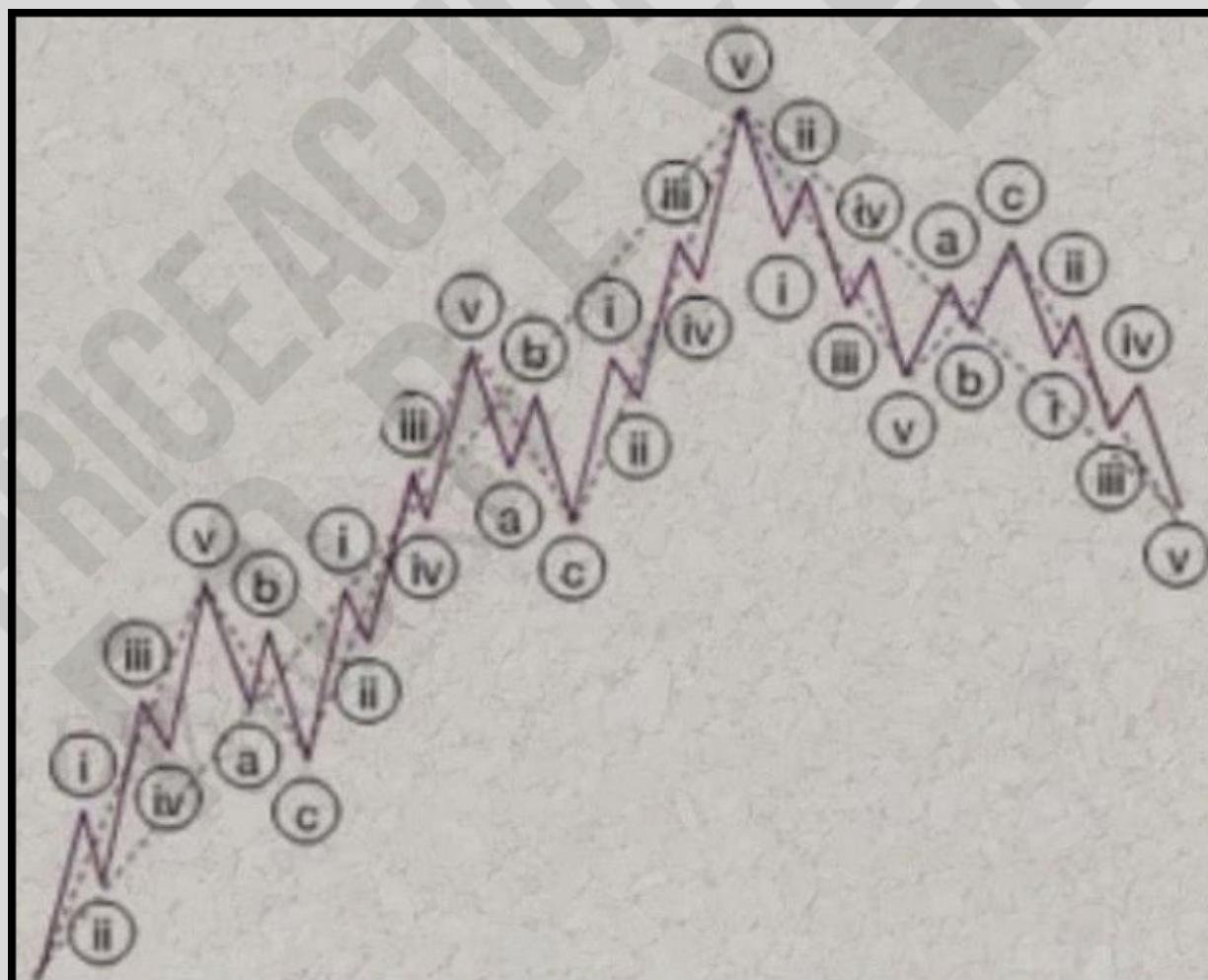
Fibonacci numbers appear when counting Elliott Waves.

1. 1.2.3.5, 8, 13, 21, 34, 55.89, 144...

(1) and (2) = 2 waves

2, 3, 5, A. B.C = 8 waves

I II III IV U A B C = 34 waves



ELLIOTT WAVE THEORY

THE GOLDEN SECTION

A special value, related to the Fibonacci numbers, is called the Golden Section.

Also called the divine proportion, the Golden Section is regarded as the reason for aesthetically pleasing, harmonious proportions in nature, architecture, art, and music.

NUMBER	DIVIDED BY	RATIO
8	13	0.615
13	21	0.619
21	34	0.618
34	55	0.618
55	89	0.618
89	144	0.618

Denoted by the Greek Letter phi $\Phi = \sim 0.618$

Inverse of phi

$1 / \Phi: 1.618$

+ Also calculated by taking the ratio of any Fibonacci number to its next lower number

ELLIOTT WAVE THEORY

THE GOLDEN SECTION

Or by finding the ratio between every second value in the Fibonacci series of numbers.

1, 1, 2, 3, 5, 8, 13, 21, 34, 55, 89, 144, 233, 377...

NUMBER	DIVIDED BY	RATIO
34	144	0.236
55	233	0.236
89	377	0.236
89	21	4.238
144	34	4.235
233	55	4.236

THREE ESSENTIAL RULES

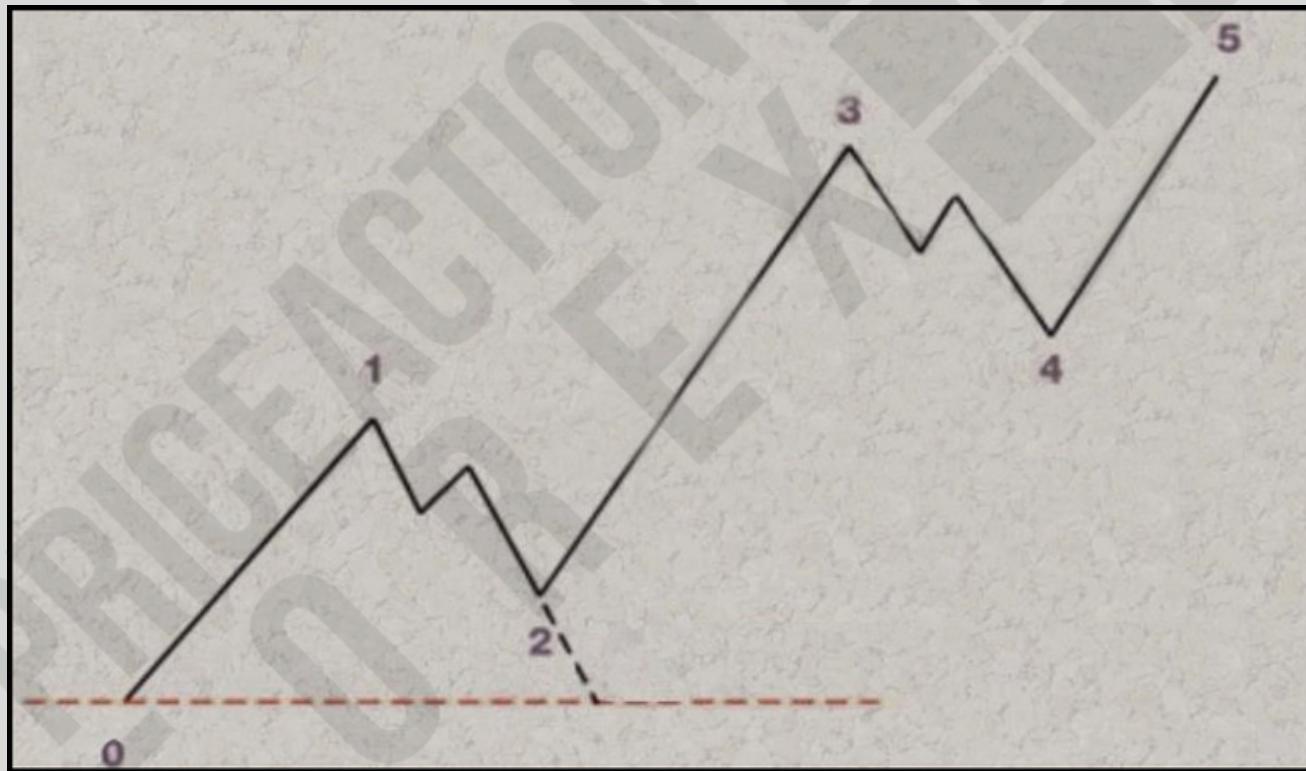
The rules that should not be broken:

- Wave 2 never retraces more than 100% of wave 1.
- Wave 3 is never the shortest wave.
- Wave 4 does not enter into the same price territory as wave 1.

ELLIOTT WAVE THEORY

#1 Wave 2 never retraces more than 100% of wave 1

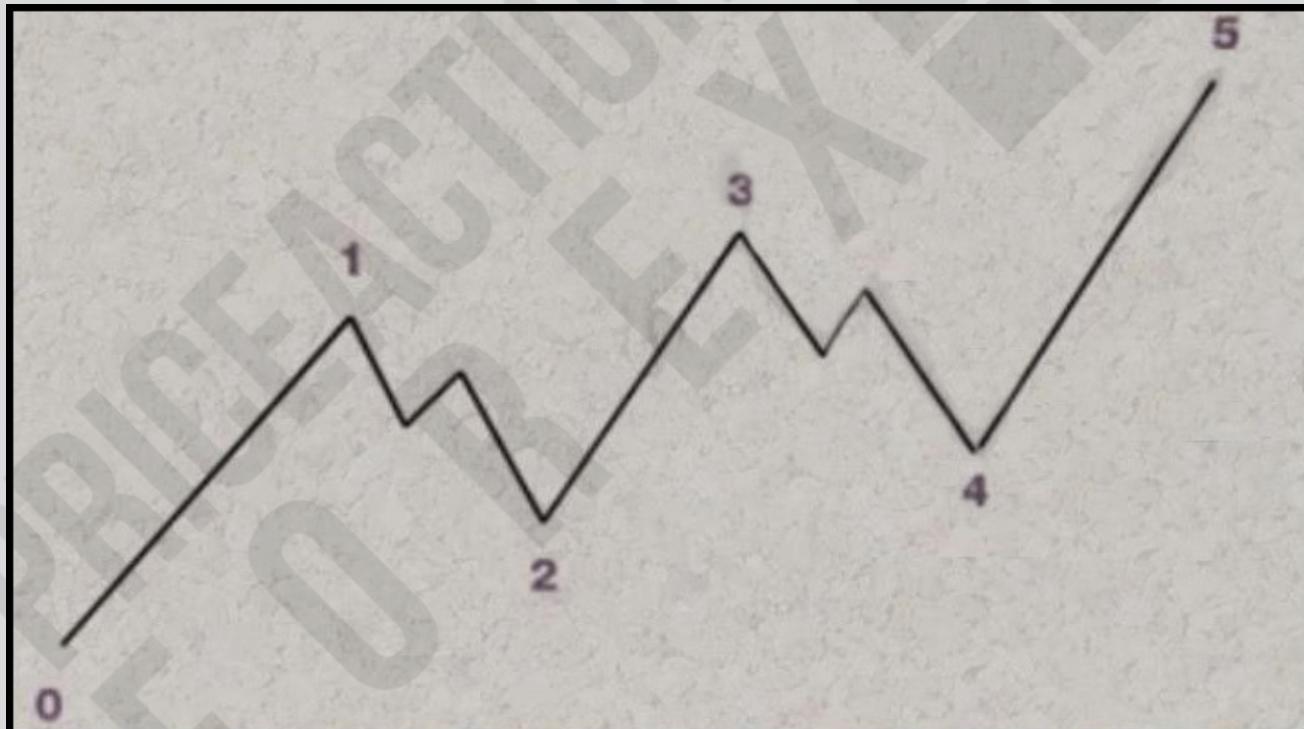
Wave 2 never goes below point 0, the starting point



ELLIOTT WAVE THEORY

#2 Wave 3 is never the shortest wave.

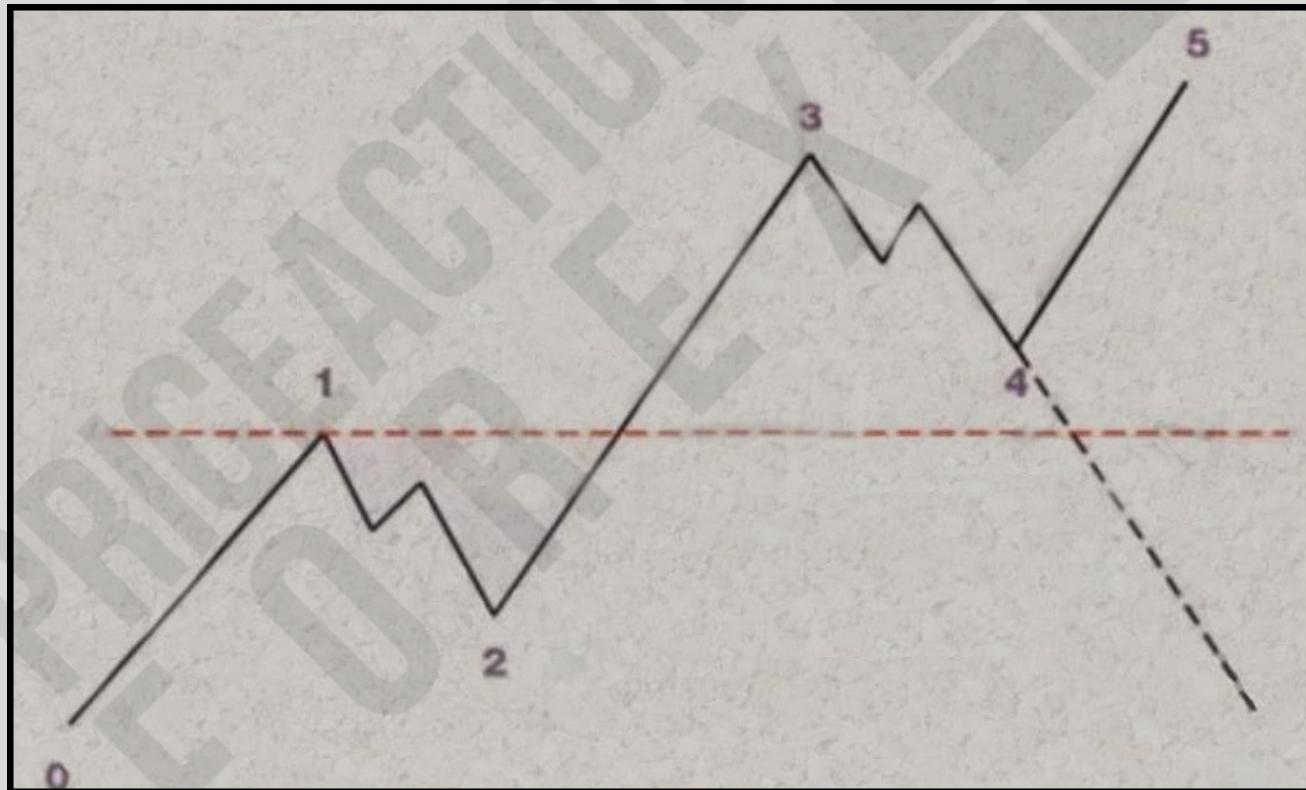
When wave 3 is the shortest wave, another count may be in order.



ELLIOTT WAVE THEORY

#3 Wave 4 does not enter into the same price territory as wave 1.

When buying in wave 4, Make sure it doesn't go below the top of wave 1.



MODULE 2 -Chapter 2

ELLIOTT WAVE THEORY

LABELING OF WAVES

Naming conventions:

-Primary wave degrees in monthly charts

1 2 3 4 5 A B C

-Intermediate wave degrees in weekly charts

(1) (2) (3) (4) (5) (A) (B) (C)

-Minor wave degrees in daily charts

1 2 3 4 5 A B C

-Minute wave degrees in hourly charts

I ii iii iv v a b c

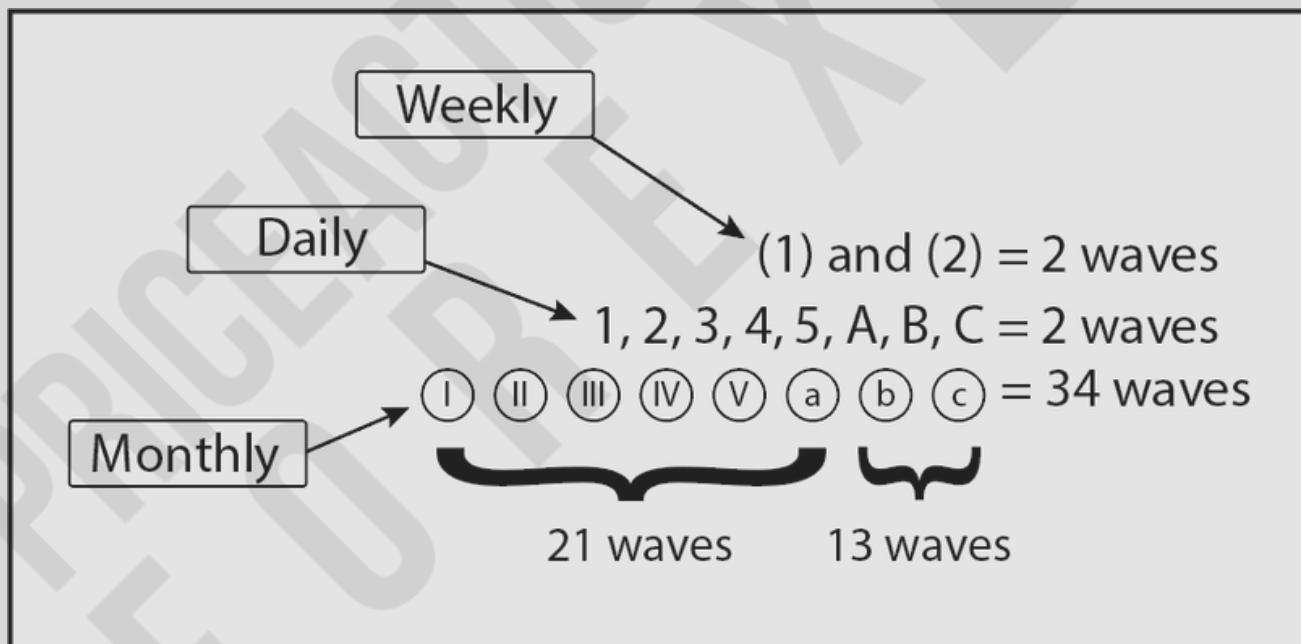
Wave Degree	5-Wave Impulsive	3-Wave Corrective	Time Frame
Grand Super Cycle Super Cycle Cycle	(I) (II) (III) (IV) (V) (I) (II) (III) (IV) (V) I II III IV V	(a) (b) (c) (a) (b) (c) a b c	Annual Quarterly
Primary Intermediate Minor	(1) (2) (3) (4) (5) (1) (2) (3) (4) (5) 1 2 3 4 5	(A) (B) (C) (A) (B) (C) A B C	Monthly Weekly Daily
Minute Minuette Subminuette	(I) (II) (III) (IV) (V) (I) (II) (III) (IV) (V) I II III IV V	(a) (b) (c) (a) (b) (c) a b c	Hourly 15-Minute 5-Minute

ELLIOTT WAVE THEORY

FIBONACCI NUMBERS

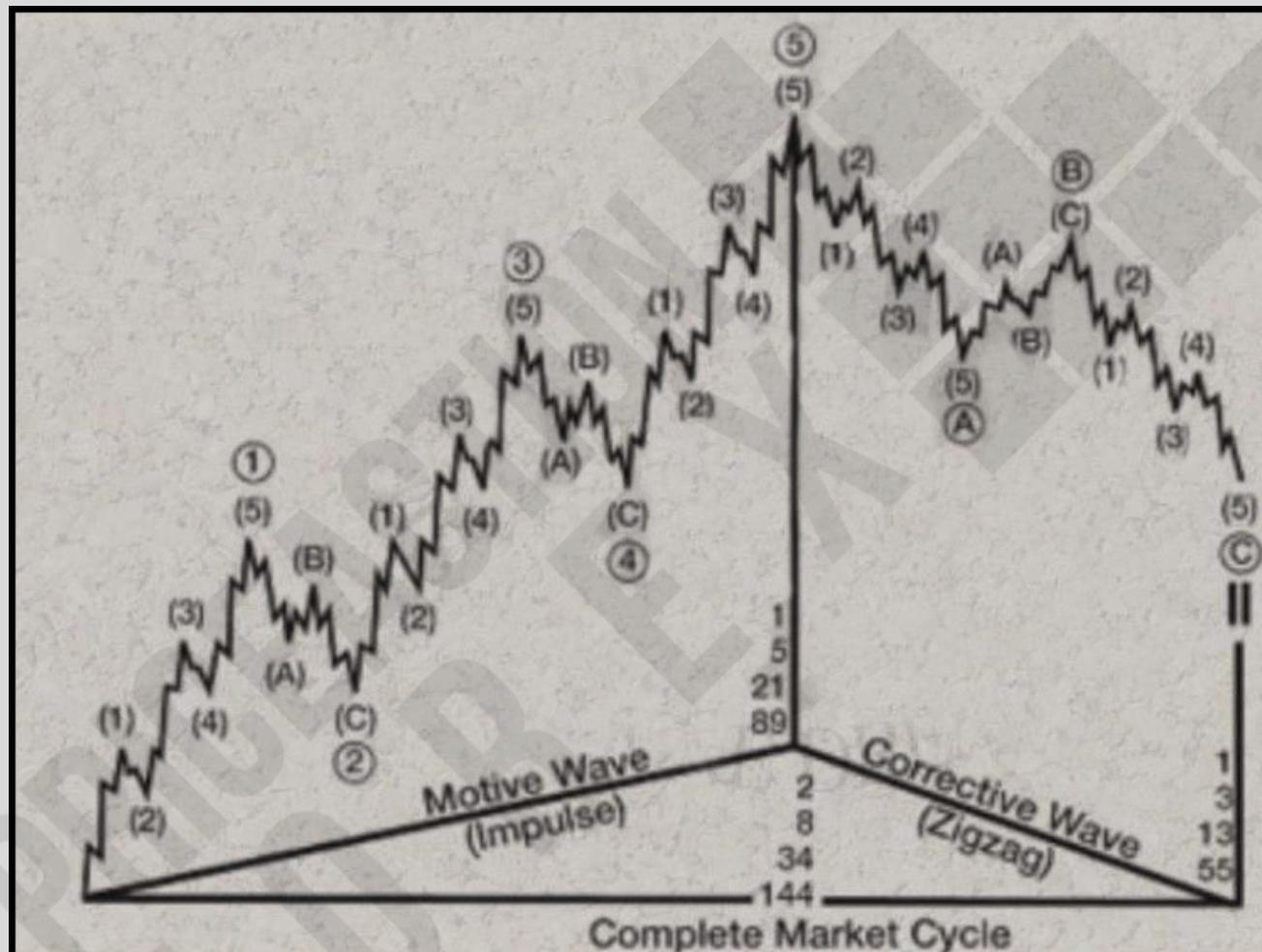
Look at a shorter time frame and suddenly 2 waves turns into 8 waves.

On a smaller time frame, 8 waves break down into 34 waves.



ELLIOTT WAVE THEORY

MARKET CYCLE



ELLIOTT WAVE THEORY

EXAMPLE 1



EXAMPLE-2



- 1- Wave 3 is never the shortest wave.
- 2- Wave 2 never retraces more than 100% of wave 1
- 3- Wave 4 does not enter into the same price territory as wave 1

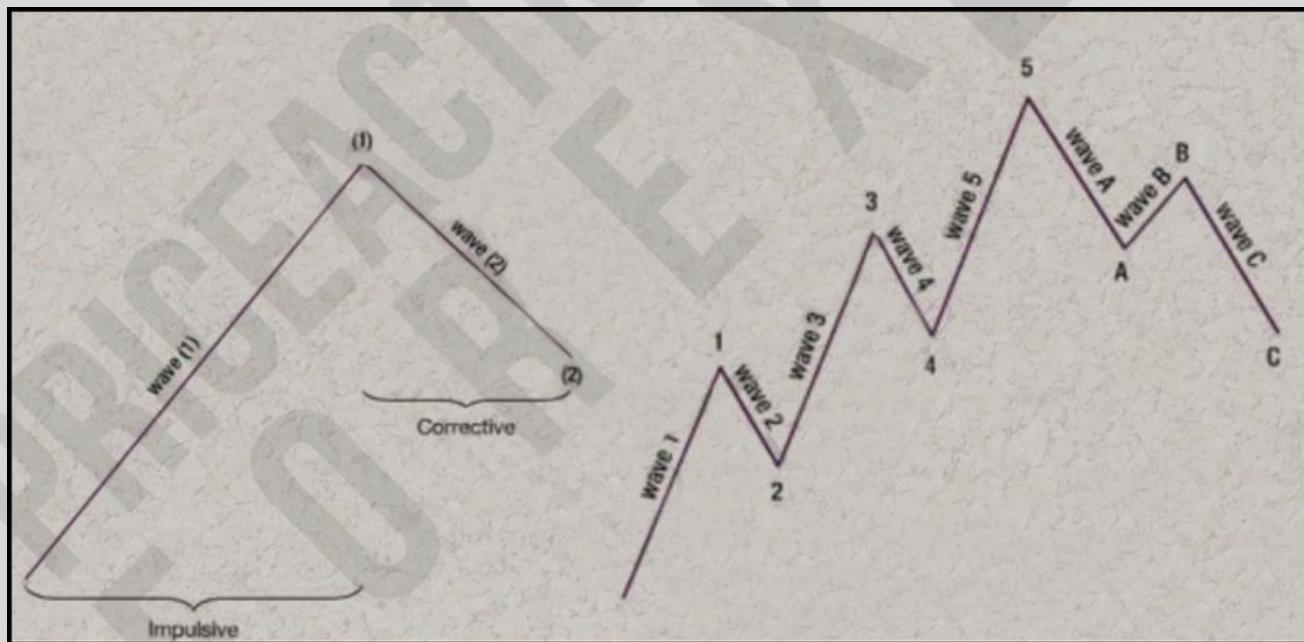
ELLIOTT WAVE THEORY

IMPULSIVE PATTERNS

- Learning Objects
- Impulsive Wave Structure
 - Impulse and Diagonal Wave Characteristics
 - Rules and Guidelines of Impulsive Waves

IMPULSIVE WAVE STRUCTURE

Elliott Waves are fractal with waves embedded within waves, within waves. within waves, etc.

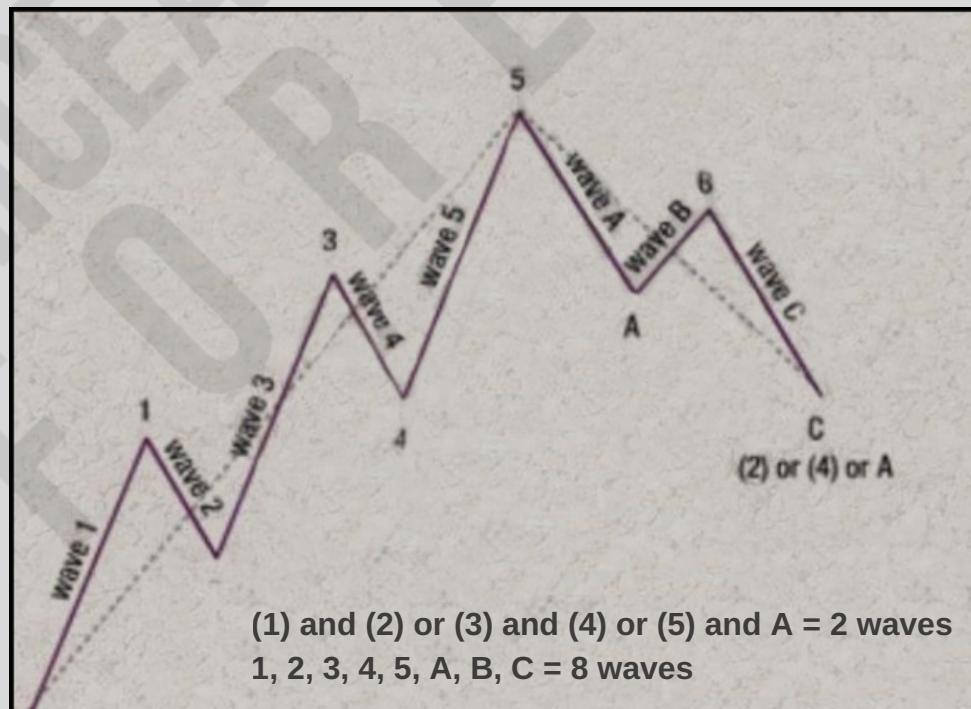
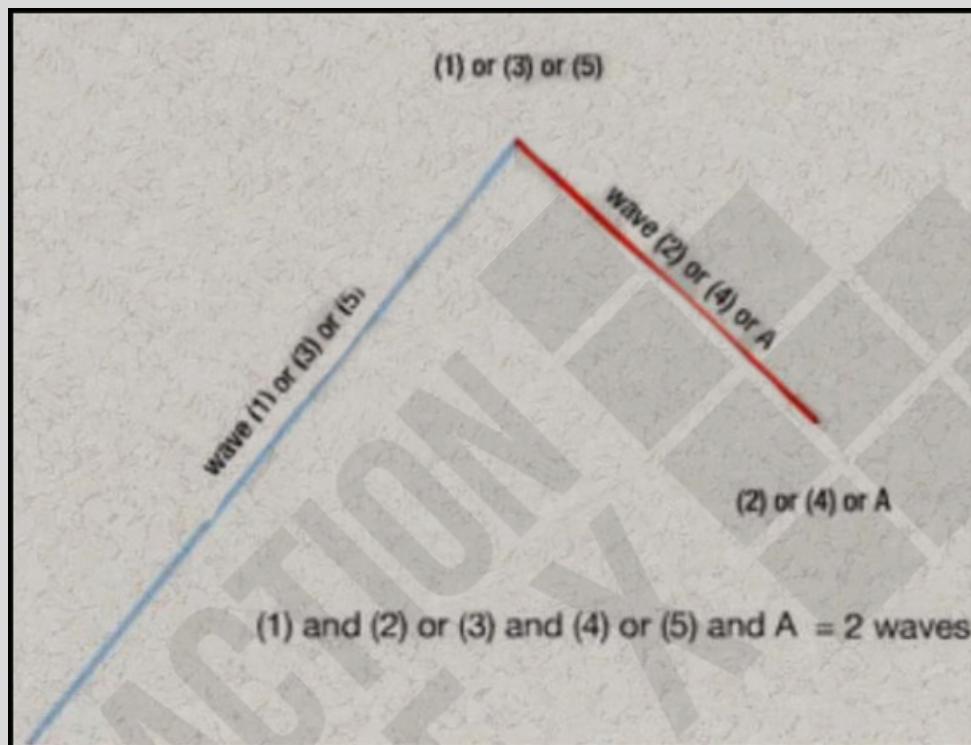


Waves of any degree in any series are made up of waves of a lesser degree,

MODULE 2 -Chapter 2

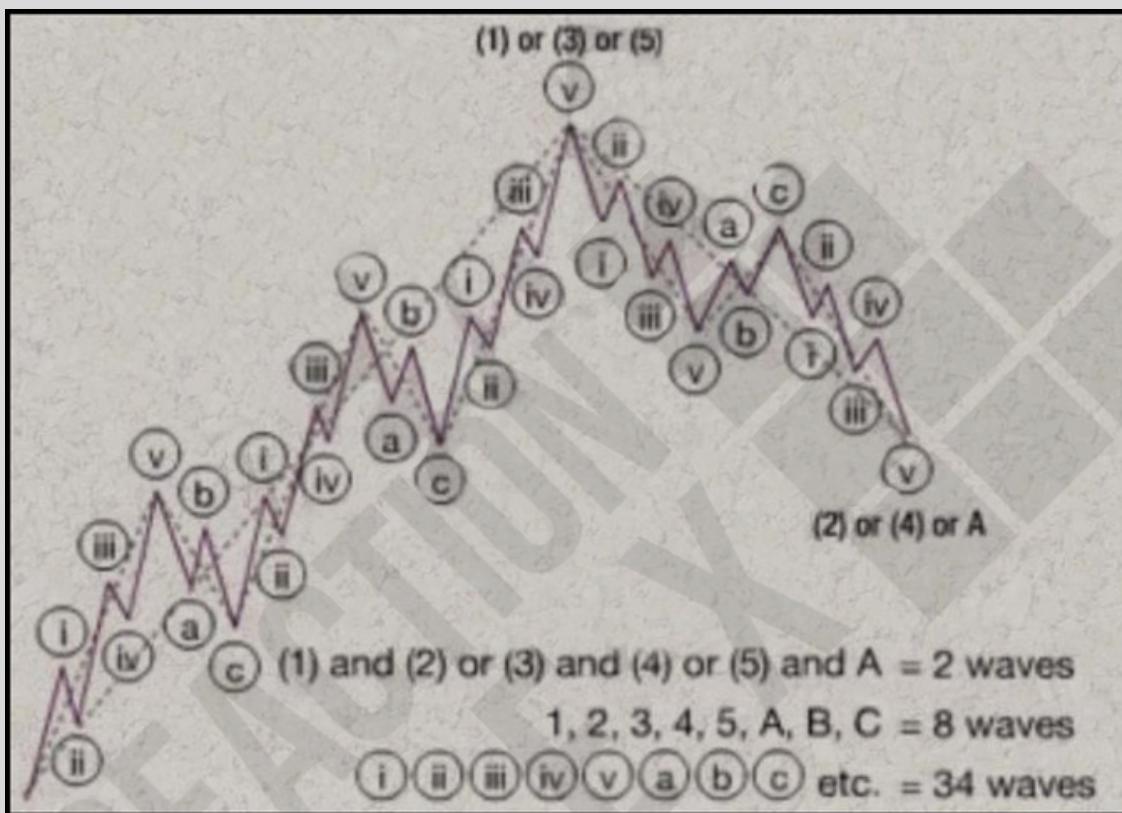
ELLIOTT WAVE THEORY

IMPULSIVE WAVE STRUCTURE



ELLIOTT WAVE THEORY

IMPULSIVE WAVE STRUCTURE



Three types of impulsive waves:

1. Impulse
2. Leading Diagonal
3. Ending Diagonal

ELLIOTT WAVE THEORY

1. Impulse

-Most Common

-Consists of 5 separate movements

1 in direction of a predominant trend

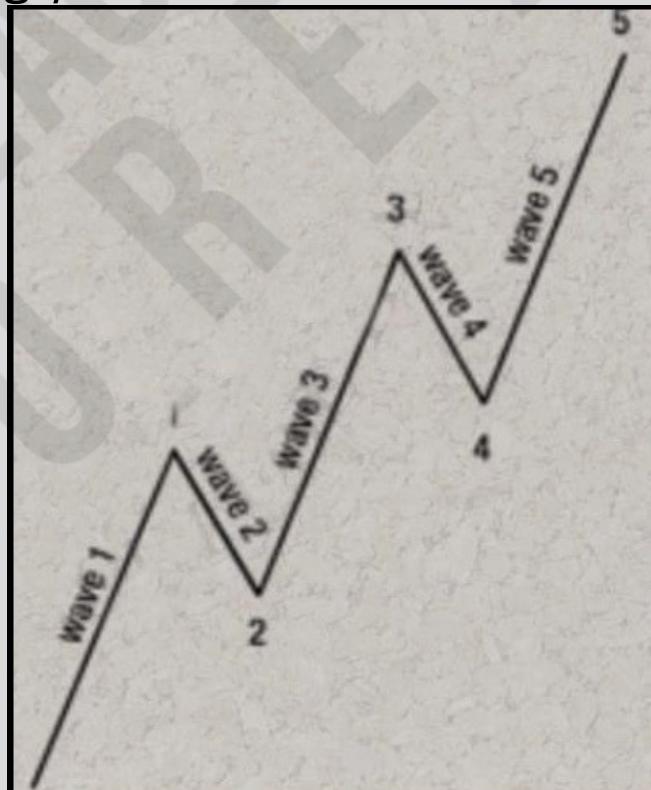
2 as a retracement

3 as a strong movement in a direction of predominant trend

4 as a retracement

5 as a final move toward a direction of predominant trend

-Moves strongly in the direction of a trend



ELLIOTT WAVE THEORY

DIAGONAL WAVE CHARACTERISTICS

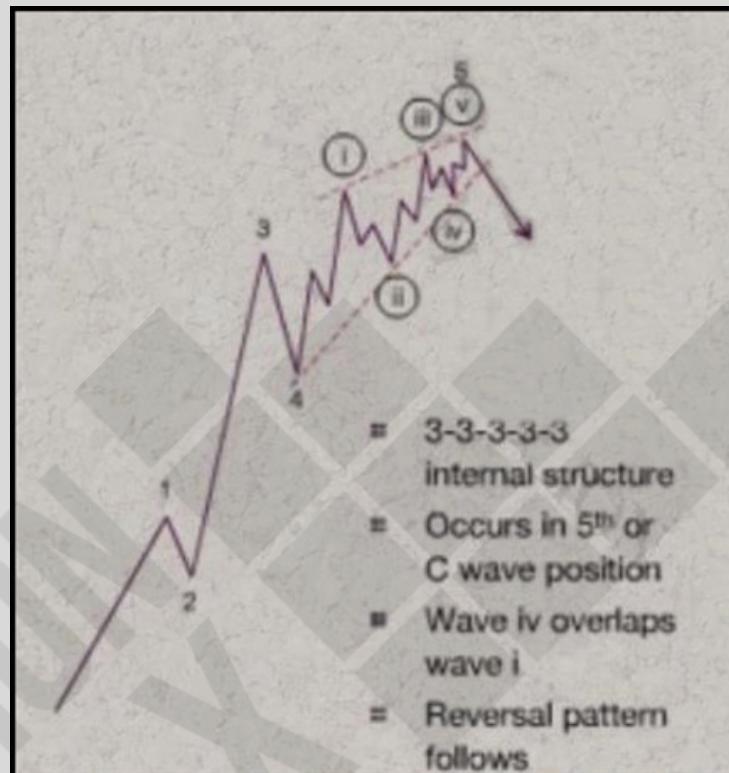
- Diagonals move weakly in the direction of the trend.
- Diagonals move within converging trend (or channel) lines.
- Diagonals are a 5-wave structure where wave 4 always moves into the price territory of wave 1.



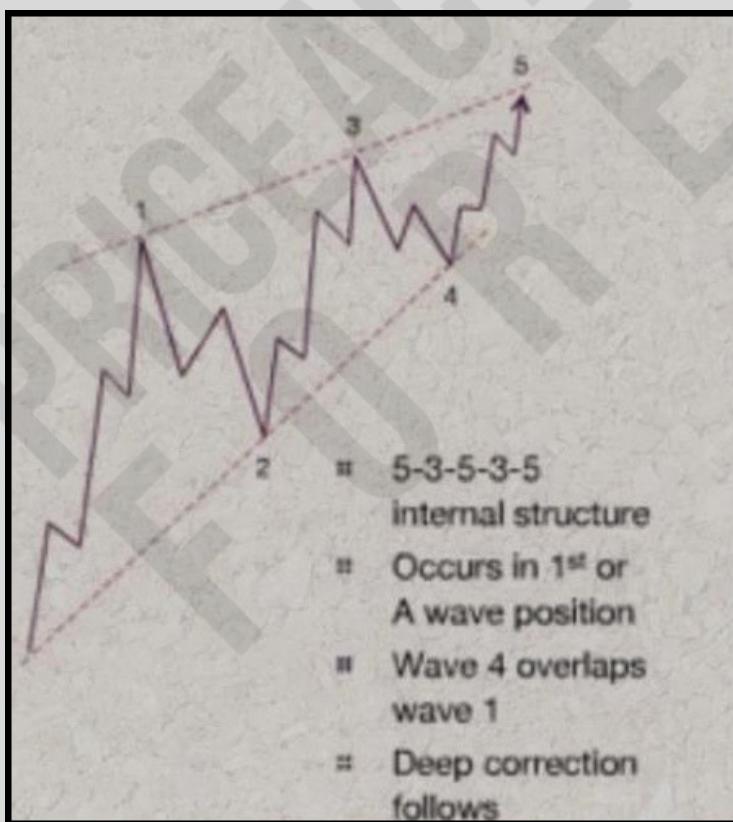
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ELLIOTT WAVE THEORY

Ending Diagonal

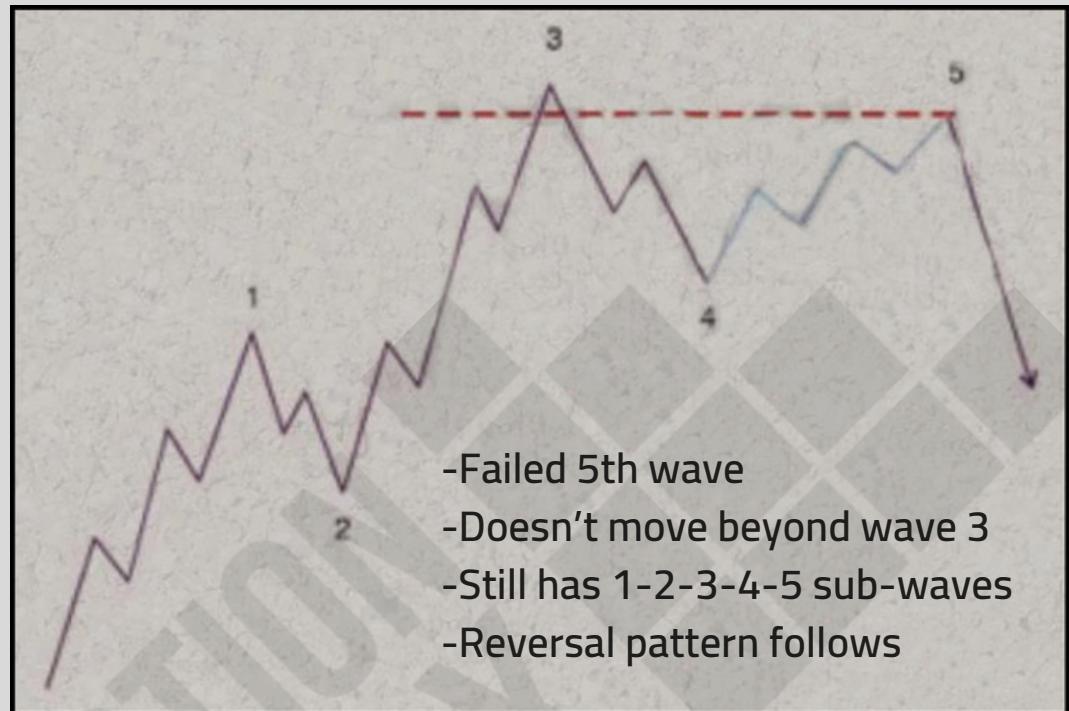


Leading Diagonal



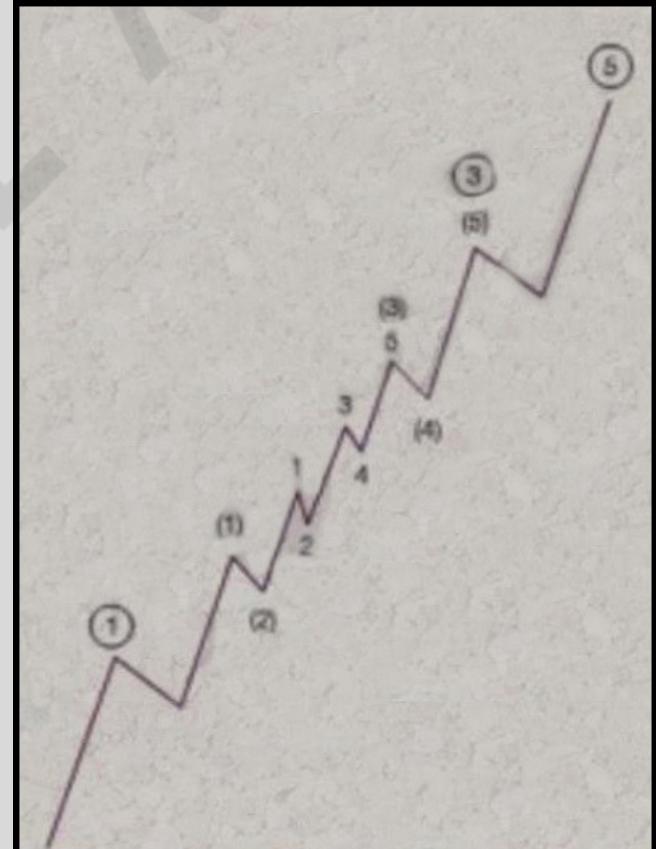
ELLIOTT WAVE THEORY

Truncation in
a 5th wave



WAVE EXTENSIONS

- Extensions are elongated impulses with exaggerated subdivisions.
- Extensions can appear in any one of the three impulse waves (1, 3 or 5).
- Wave 3 extensions are most common.



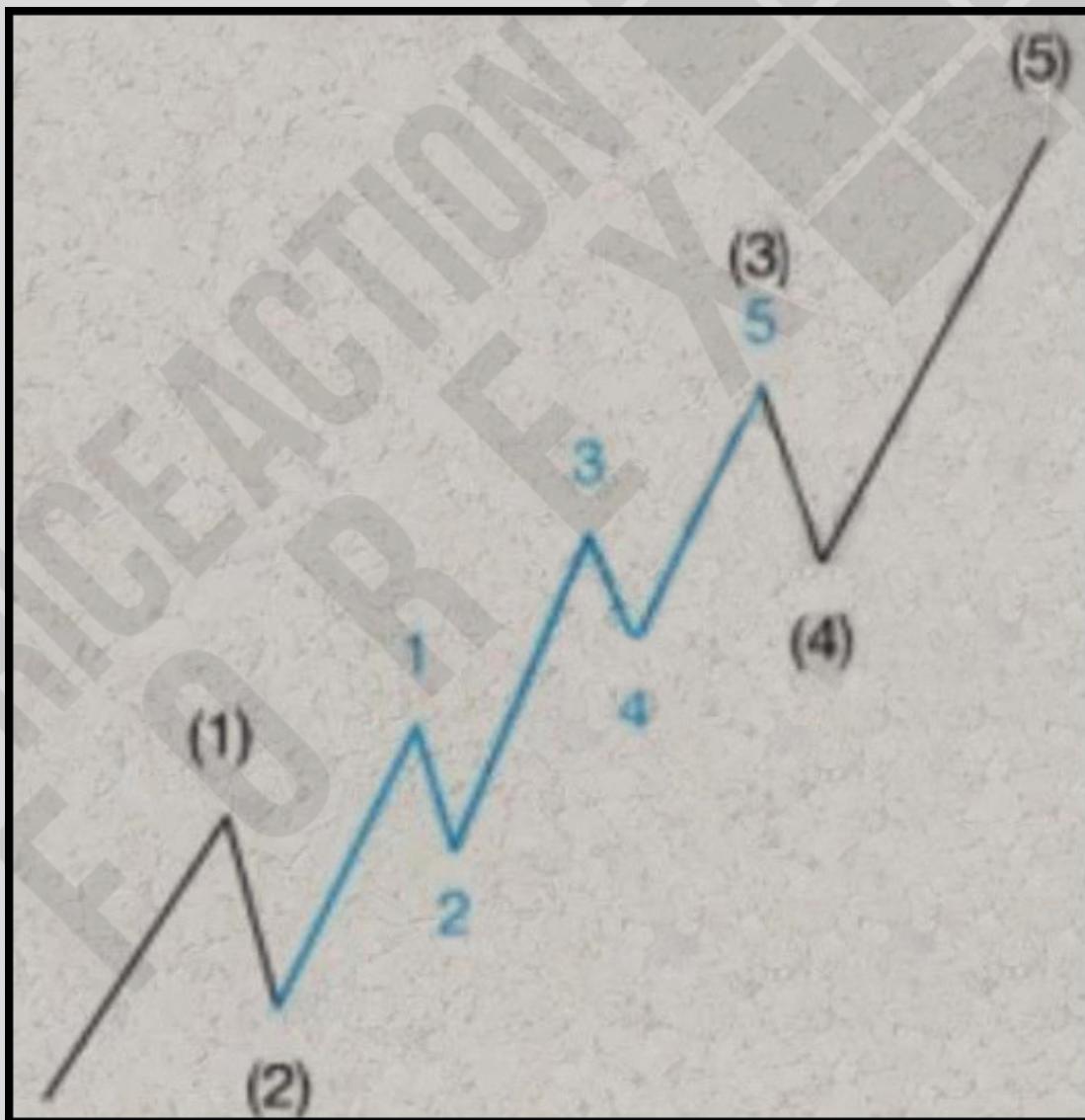
ELLIOTT WAVE THEORY

3rd wave extension

(1), (2), (4) and (5) = 4 waves

1, 2, 3. 4. and 5 = 5 waves

Total = 9 waves



ELLIOTT WAVE THEORY

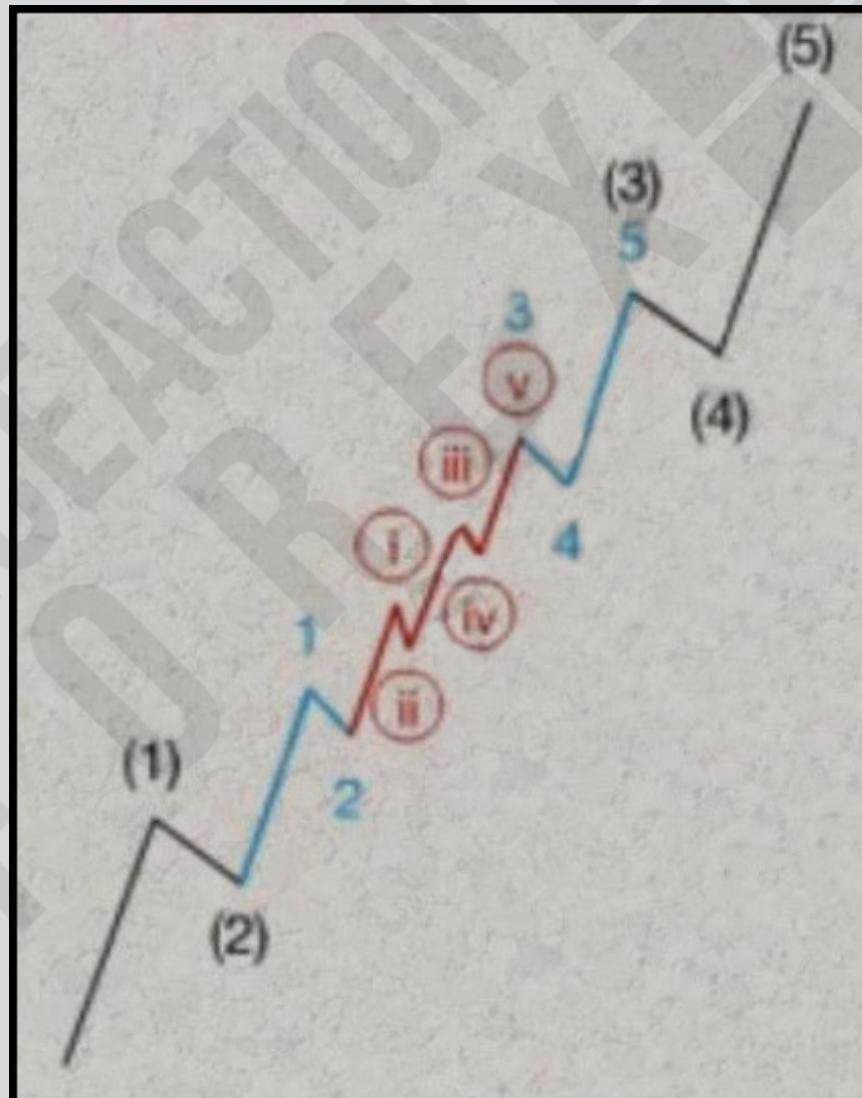
3rd wave extension of 3rd wave extension

(1), (2), (4) and (5) = 4 waves

1, 2, 4. and 5 = 4 waves

I, ii, iii, iv, v = 5 waves

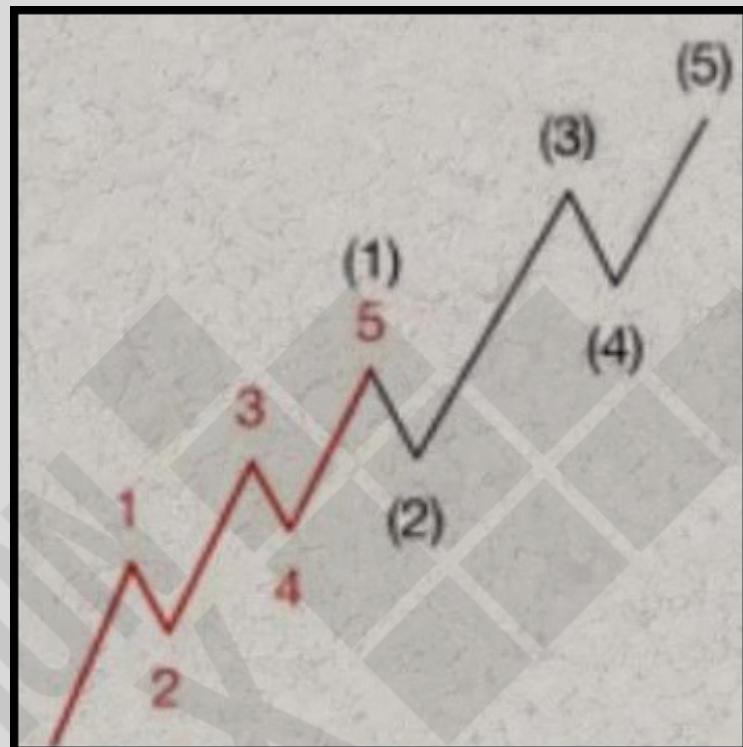
Total = 13 waves



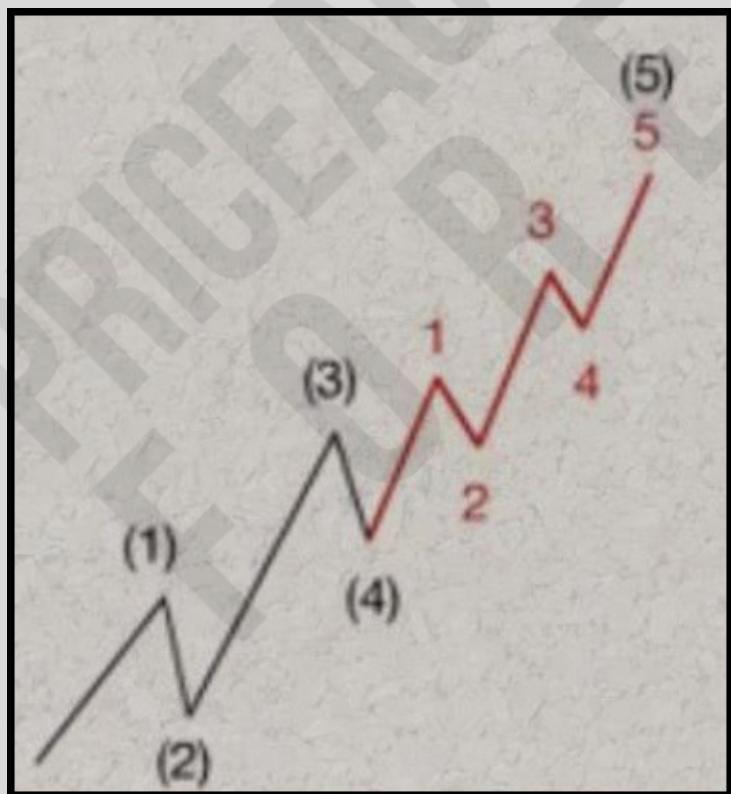
MODULE 2 -Chapter 2

ELLIOTT WAVE THEORY

1st wave extension
9-wave sequence

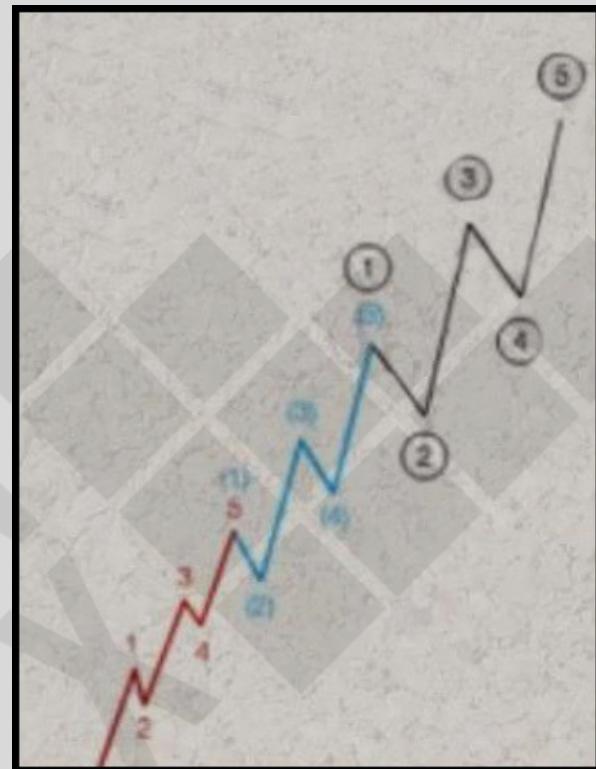


5th wave extension
9-wave sequence



ELLIOTT WAVE THEORY

1st wave extension of
1st wave extension
-13-wave sequence



5th wave extension of
5th wave extension
-13-wave sequence

MODULE 2 -Chapter 2

ELLIOTT WAVE THEORY



MODULE 2 -Chapter 2

ELLIOTT WAVE THEORY

Rules

Impulse waves 1, 3. and 5 always subdivide into five waves.

The wave must be an impulse or a leading diagonal pattern.

Wave 2 never goes beyond the start of wave 1.

Wave 3 is never the shortest impulse wave.

Wave 3 must be an impulse.

Wan 4 never moves beyond the end of wave 1.

Wave 5 must be an Impulse an ending diagonal pattern.

Was 1,3 and 5 can never all be extended.

Guidelines

Sometimes wave 5 does not man beyond the end of wave 3 - called truncation.

Wave 5 often ends or slightly exceeds a trend hie drawn off wave 3 parallel to a trend line drawn connecting the ends of waves 2 and 4.

Wan 1.3 a 5 is usually extended where the corrective waves are small compared to the impulse waves.

Wave 3 is usually the sleepiest and longest wave.

Usually, either wave 3 or 5 is extended.

Wave 4 usually ends in the vicinity of sub-wave 4 of wave 3.

Fibonacci percentages are used to calculate retracements for waves 2 and 4.

Fibonacci ratios are used to target the end of waves 3 and 5.

MODULE 2 -Chapter 2

ELLIOTT WAVE THEORY

Rules

A diagonal triangle subdivides onto 5 waves.

A leading diagonal occurs in wave 1 of an impulse or wave A of an A-B-C correction.

An ending diagonal always subdivide into 3-waves for each of the 5-wave sequence.

An ending diagonal occurs in wave 5 of an Impulse or wave C of an A-B-C correction.

Wave 2 never goes beyond the origin of wave 1.

Wave 3 always goes beyond the end of wave 1.

Waves 4 and 1 overlap.

Wave 5 always ends beyond the end of wave 3 in a leading diagonal.

In a contracting diagonal, waves 1, 3, and 5 and waves 2 and 4 decreases in size consecutively.

In an expanding diagonal, waves 1, 3, and 5 waves and waves 2 and 4 increases in size consecutively.

Guidelines

A leading diagonal away subdivides into 5-3-5-3-5 for waves 1, 2, 3, 4, and 5, and sometimes subdivides onto 3-3-3-3-3 corrective patterns.

If wave 1 is a leading diagonal triangle, then wave 3 is usually extended.

If wave 5 is an ending diagonal triangle, then wave 3 is usually extended.

A contracting diagonal can have a failed 5th wave.

In a contracting diagonal, wave 5 usually ends at or slightly beyond (throw over) a trend line that connects the ends of waves 1 and 3.

In an expanding diagonal, wave 5 usually ends slightly before the trend line that connects the ends of waves 1 and 3.

ELLIOTT WAVE THEORY

Learning Objects

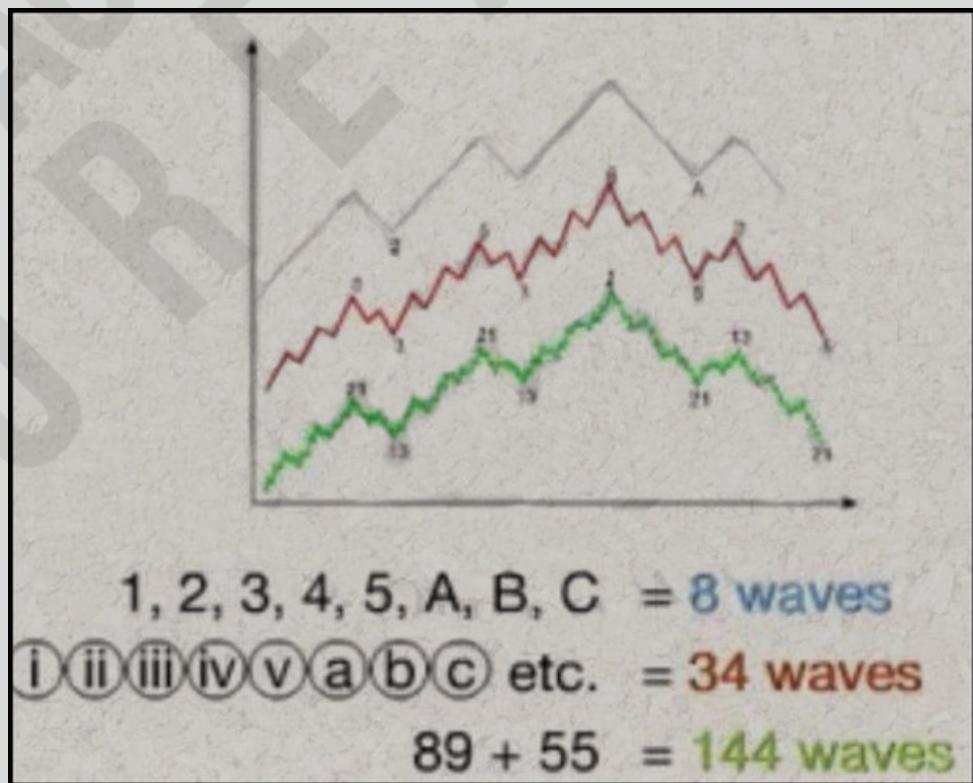
- Mathematical Applications
- Projections and Targets

MATHEMATICAL APPLICATIONS:

The three mathematical applications on Elliott Wave Theory are:

- Waveform
- Ratio
- Time

WAVEFORM



MODULE 2 -Chapter 2

ELLIOTT WAVE THEORY

RATIO ANALYSIS

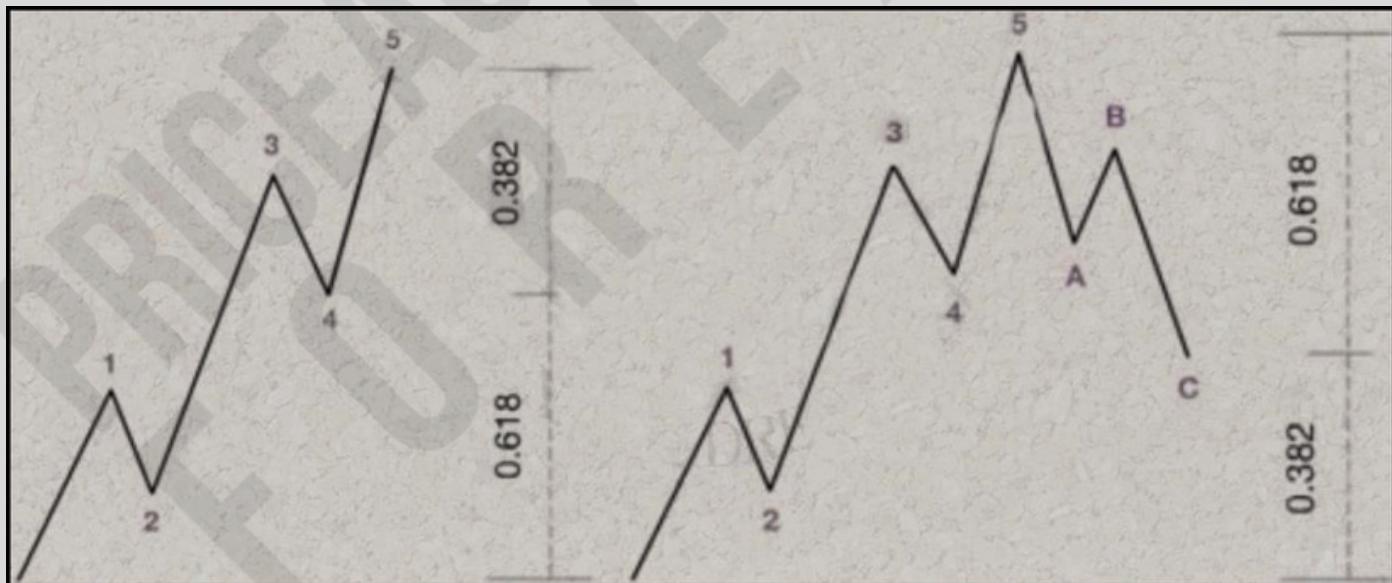
-The interrelationship of the numbers in Fibonacci sequence produce three important ratios:

+ 0.618

+ 0.382

+ 0.500 (halfway between 0.618 and 0.382)

-The rule of divine proportion suggests that the market reacts in accordance to this law of nature.

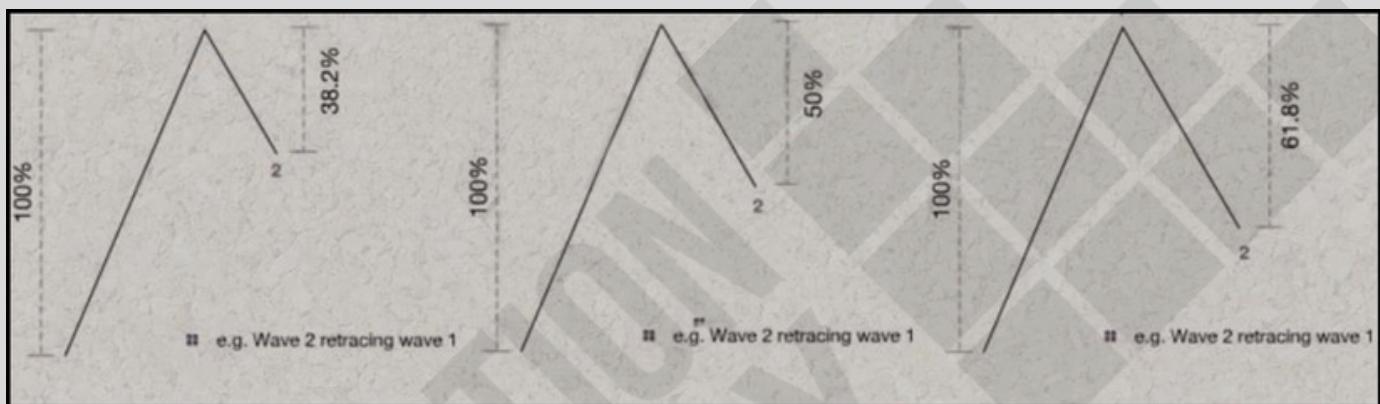


MODULE 2 -Chapter 2

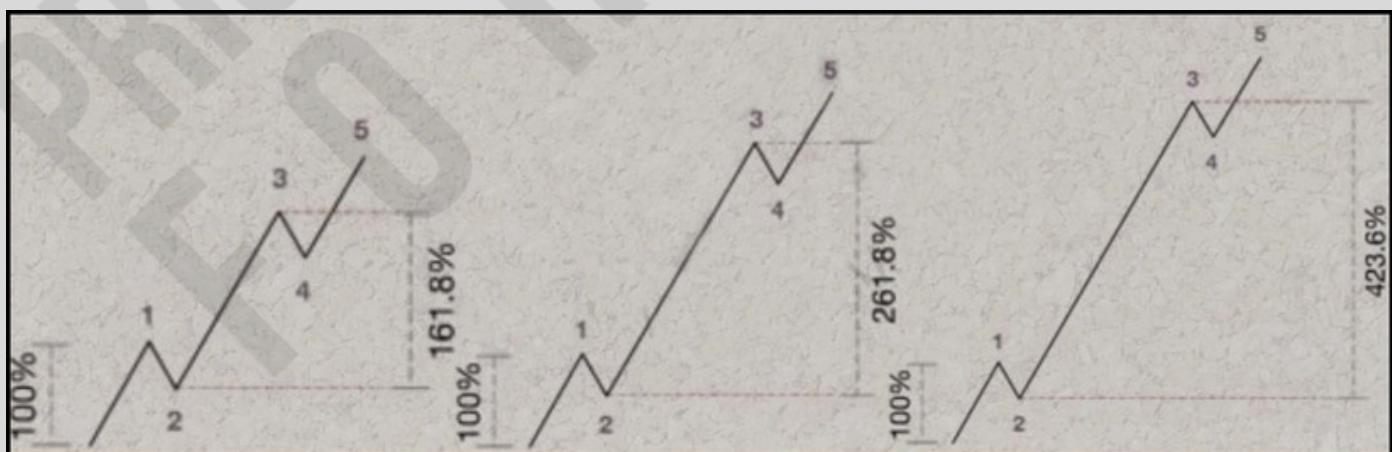
ELLIOTT WAVE THEORY

RATIO ANALYSIS

Use the three Fibonacci ratios to predict the end of a retracement



Use the three Fibonacci ratios to predict the end of a extensions



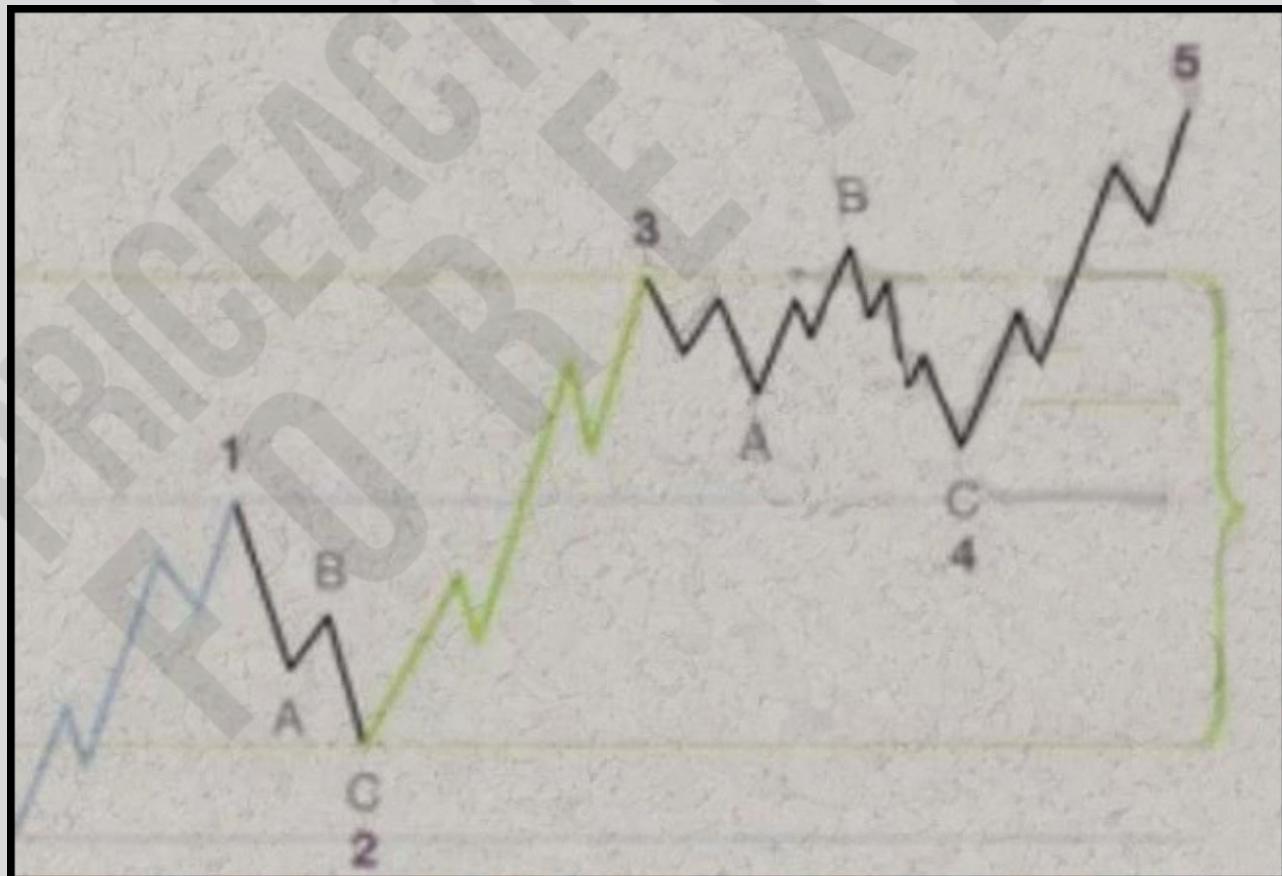
ELLIOTT WAVE THEORY

PROJECTIONS AND TARGETS

Wave 3 is a multiple of wave 1.

Wave 3 targets are either:

- 1 time wave 1
- 1.618 times wave
- 2.618 times wave 1
- 4.236 times wave 1

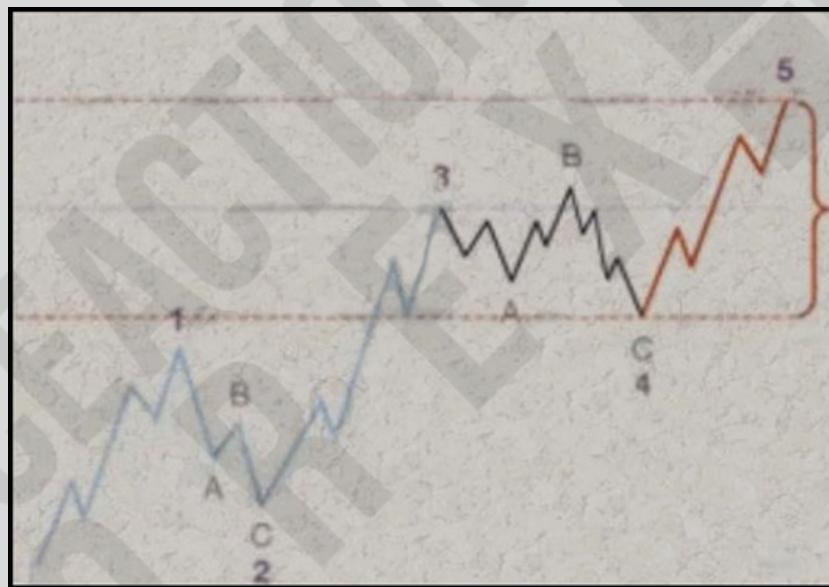


ELLIOTT WAVE THEORY

Wave 5 is a multiple of wave 1 or the difference between the start of wave 1 and the end of wave 3.

Wave 5 targets when wave 3 is extended:

- 1-time wave 1 (equality)
- 0.618 times wave 1
- 1.618 times wave 1
- 0.618 times wave 1 to wave 3



Wave 5 is a multiple of wave 1 or the difference between the start of wave 1 and the end of wave 3.

Wave 5 targets when wave 3 is extended:

- 1-time wave 1 to wave 3
- 1.618 times wave 1 to wave 3

MODULE 2 -Chapter 2

ELLIOTT WAVE THEORY

PROJECTIONS AND TARGETS

Ratio	# of days in cycle			
X	25	30	35	40
1	25	30	35	40
1.272	32	38	45	51
1.618	40	49	57	65
2.618	65	79	92	105
4.236	106	127	148	169

MODULE 2 - CHAPTER 2

ELLIOTT WAVE THEORY

PROJECTIONS AND TARGETS

Common Ratios for Retracements

- 0.236
- 0.382
- 0.5
- 0.618

$$0.786 = \sqrt{0.618}$$

Common Ratios for Wave Extensions

- $1.618 = 1/\sqrt{0.618}$
- $2.618 = 1/\sqrt{0.382}$
- $4.236 = 1/\sqrt{0.236}$

$$1.272 = \sqrt{1.618}$$

IMPULSIVE PATTERNS

Learning Objects

- Determining the End of a Trend
- Reversal Patterns

MODULE 2 - CHAPTER 2

ELLIOTT WAVE THEORY

DETERMINING THE END OF A TREND

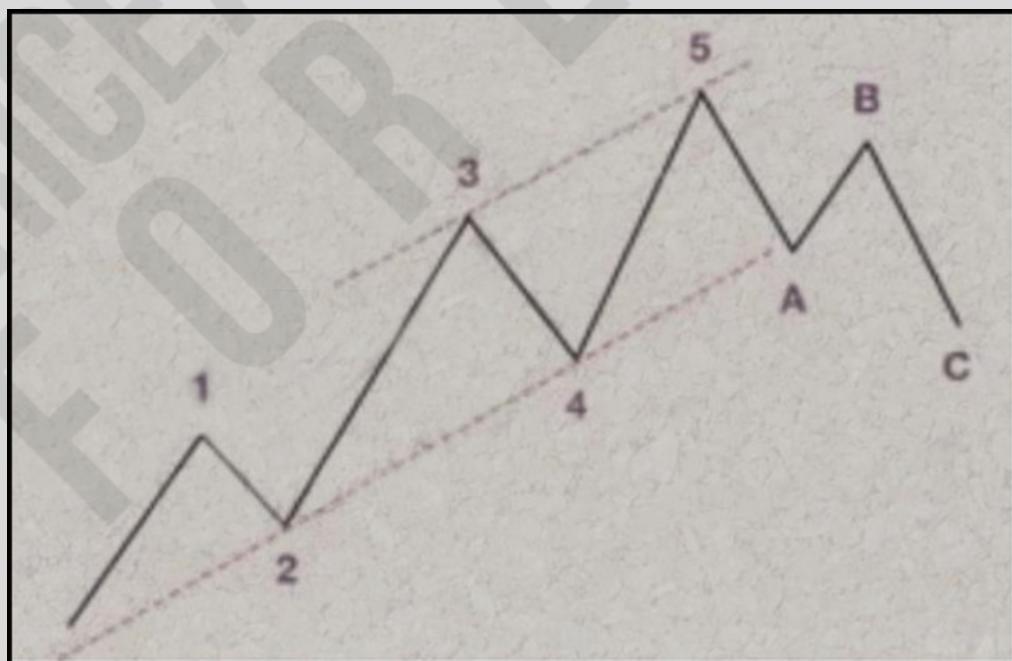
1. Channeling to target wave 5.
2. Projected price in the target zone for 5-wave sequence and internal sub-wave 5.
3. Divergence between waves 3 and 5 and a change in direction of the current momentum.
4. Reversal chart patterns
 - rising or falling wedge (diagonal triangle)
 - broken trendlines
 - double or triple tops and bottoms
 - 1-2-3 top or bottom
5. 8, 13, 21, and 34-day Fibonacci EMA filter
6. Candlestick reversal patterns

MODULE 2 - CHAPTER 2
ELLIOTT WAVE THEORY

DETERMINING THE END OF A TREND

1. Channeling to Target Wave 5

1. Connect the bottoms of waves 2 and 4.
2. Draw a parallel line from the top of wave 3 to project wave 5.
3. If wave 3 is extended, draw the parallel line from the top of wave 1.



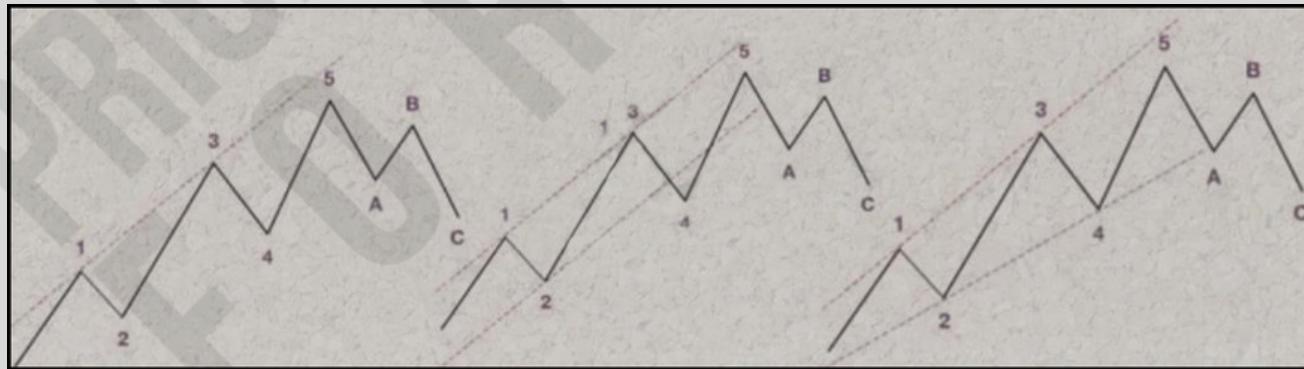
MODULE 2 - CHAPTER 2

ELLIOTT WAVE THEORY

DETERMINING THE END OF A TREND

1. Channeling to Target Wave 5

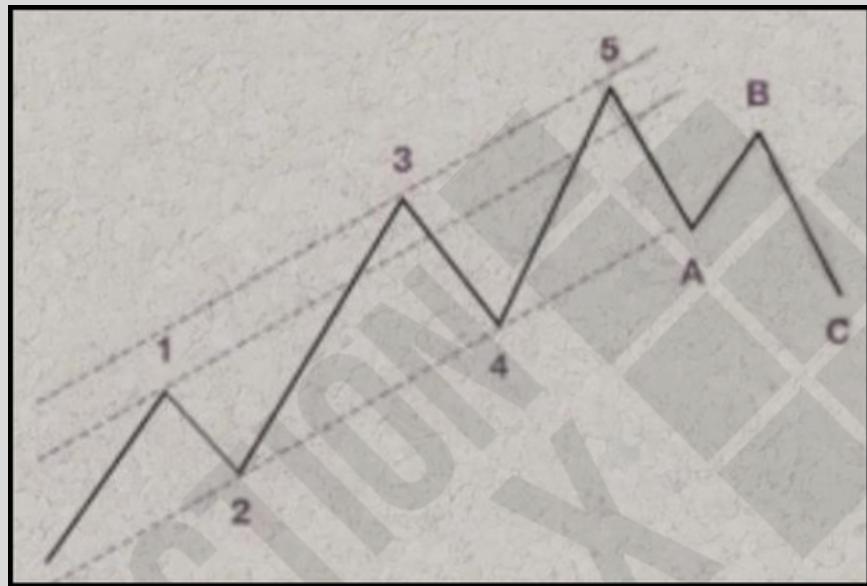
1. Connect tops of waves 1 and 3.
2. Draw a parallel line from the bottom of wave 2 to project wave 4 (providing initial wave 4 boundary).
3. When wave 4 ends. redraw channel to connect the bottoms of waves 2 and 4.



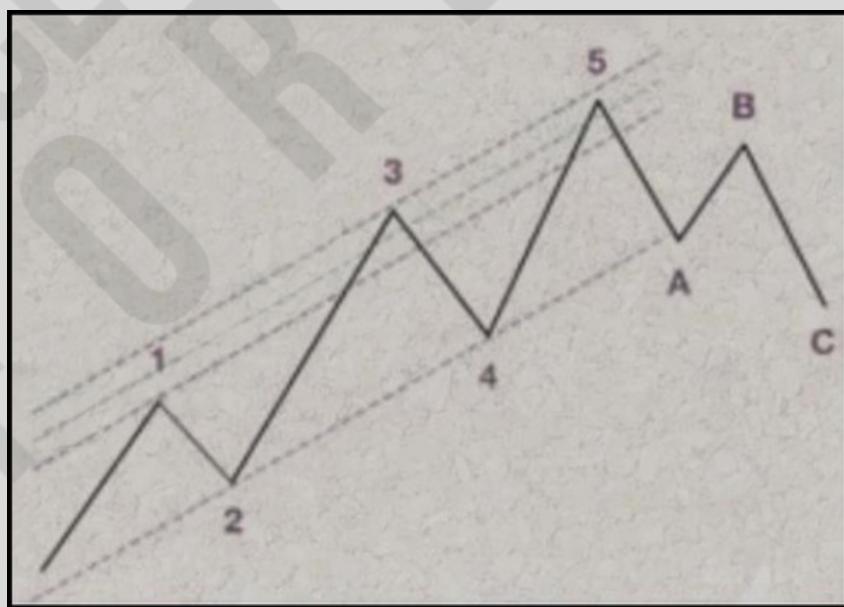
MODULE 2 - CHAPTER 2

ELLIOTT WAVE THEORY

4. Draw separate parallel lines from the Of waves and 3 to target wave 5.



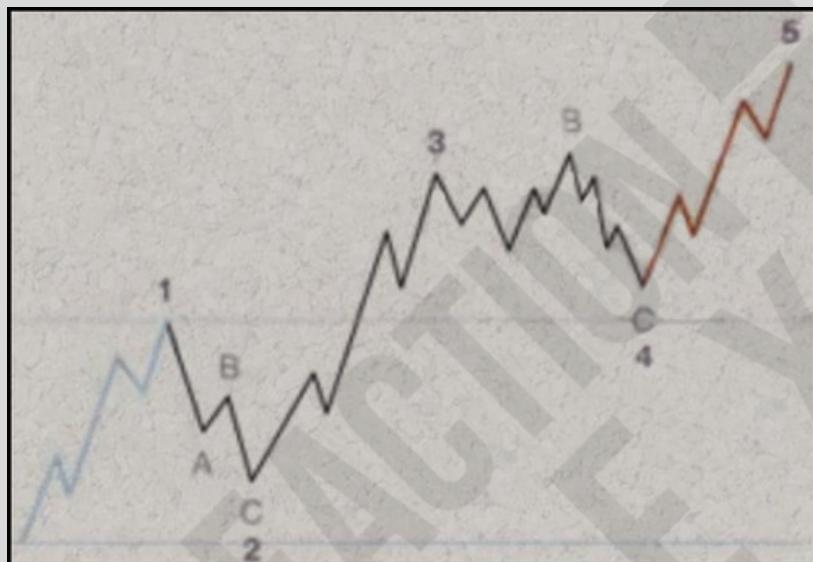
5. Draw a 50% trendline between lines drawn in step 4.



ELLIOTT WAVE THEORY

DETERMINING THE END OF A TREND

2. Projected price in the target zone for 5-wave sequence



Protected price in the target zone for 5-wave sequence and internal wave 5:

Impulse wave 5 is a multiple of wave 1 or start Of wave 1 to end of wave 3.

Wave 5 targets when wave 3 is extended:

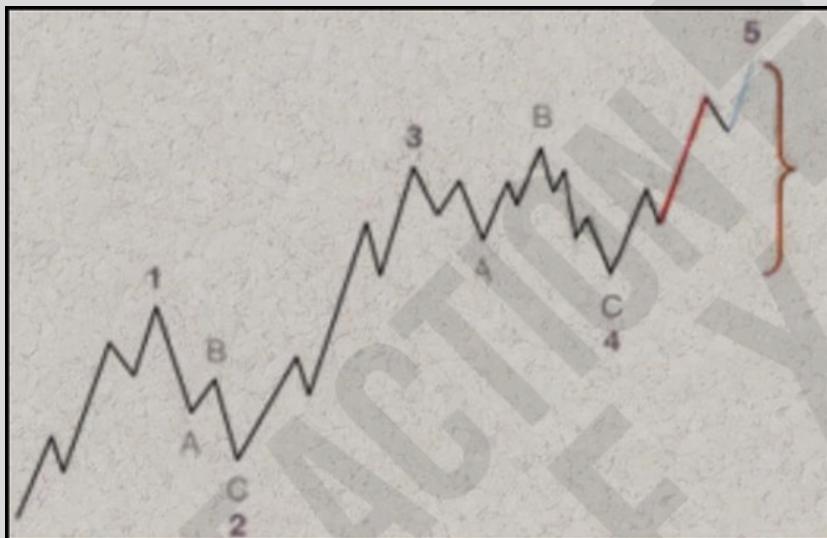
- 1 times wave 1 (equality)
- 0.618 times wave 1
- 1.618 times wave 1
- 0.618 times wave 1 to wave 3

MODULE 2 - CHAPTER 2

ELLIOTT WAVE THEORY

DETERMINING THE END OF A TREND

2. Projected price in the target zone for Internal sub-wave 5



Internal wave 5
target zone:

Impulse wave 5 is a multiple of wave 1 or wave 1 to wave 3.

Wave 5 targets when wave 3 is extended:

- 1 time wave 1 (equality)
- 0.618 times wave 1
- 1.618 times wave 1
- 0.618 times wave 1 to wave 3

MODULE 2 - CHAPTER 2

ELLIOTT WAVE THEORY

DETERMINING THE END OF A TREND

Three ways to target wave 5 move:

1. Project wave 5 of the 5-wave sequence using ratios
 2. Project interval wave 5 of 5 using ratios
 3. Combine with channeling technique and begin to narrow in on the end of the 5-wave sequence
-
3. Divergence between waves 3 and 5 and a change in direction of the current momentum
 - 5/34/5 MACD, also known as the Awesome Oscillator, is a momentum indicator that takes a 5-bar and 34-bar simple moving average, plotted in a histogram of 100 bars and a maximum of 140 bars on the screen.
 - Can also use 12/2619 or a 5/34/5 MACD.

MODULE 2 - CHAPTER 2

ELLIOTT WAVE THEORY

DETERMINING THE END OF A TREND

- **Uses:**
 1. Identifies the top or bottom of wave 3.
 2. Determines the end of wave 4, or when the minimum requirements have been met.
 3. Indicates the end of a trend and top or bottom of wave 5 with oscillator divergence.
 4. Signals change in direction of current momentum.

REVERSAL CHART PATTERNS

Chart Pattern	Elliott Wave Pattern
Rising or falling wedge	Diagonal triangle
Head and Shoulder	Waves 3-4-5-A-B-C
Double tops and bottom	Failed 5th or 1-2
Triple tops and bottoms	1-2-1-2
1-2-3 pattern	New trend: waves 1-2-3 or a-b-c

MODULE 2 - CHAPTER 2

ELLIOTT WAVE THEORY

DETERMINING THE END OF A TREND

Observations:

- When a candle pierces the 8-period EMA, it serves as a warning of pause in the trend.
- If the candle closes above the 21- and 34-period EMA's, it is a signal that an eventual pullback or reversal may be imminent.
- At the end of wave 1, 3, and 5. the price action moves away from the averages and it is no longer of value to enter a new trend position.
- A price consolidation or pullback that hugs the 8-period EMA without piercing it indicates another move in the direction of the trend is pending.

ELLIOTT WAVE THEORY

DETERMINING THE END OF A TREND

6. Candlestick Reversal Patterns

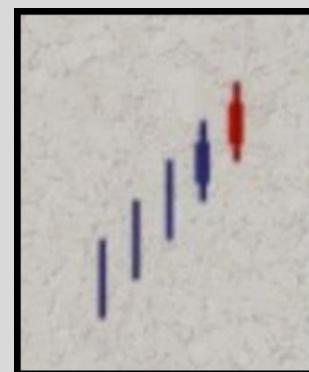
Bullish Patterns

- Piercing Line: a downtrend followed by a reversal with a lower open than previous day's close.
- Engulfing Pattern: a downtrend followed by a reversal where the 74 candle completely engulfs the previous day's body.



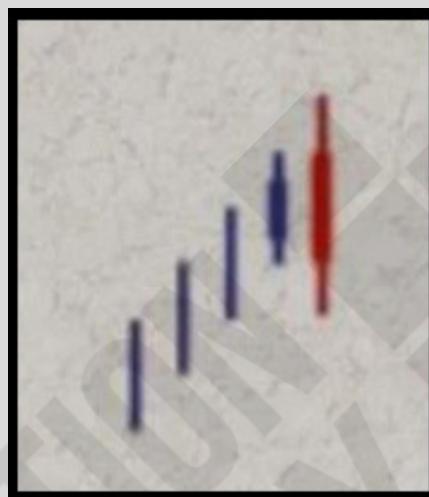
Bearish Patterns

- Doric Cloud: an uptrend followed by a reversal with a higher open than previous day's close.



ELLIOTT WAVE THEORY

- Doric Cloud: an uptrend followed by a reversal with a higher open than previous day's close.



Bullish Patterns

- Hammer
- Inverted hammer
- Bullish Harami
- Doji star
- Morning star
- Abandoned baby
- Tri-star
- Kicking
- Harami cross

Bearish Patterns

- Hanging man
- Shooting star
- Bearish Harami
- Doji star
- Evening star
- Abandoned baby
- Tri-star
- Kicking
- Harami cross

MODULE 2 - CHAPTER 2

ELLIOTT WAVE THEORY

DETERMINING THE END OF A TREND

1. Channeling to target wave 5
2. Projected price in the target zone for 5-wave sequence and internal sub-wave 5
3. Divergence between waves 3 and 5 and a change in direction of the current momentum
4. Reversal chart patterns
 - rising or falling wedge (diagonal triangle)
 - broken trendlines
 - double or triple tops and bottoms
 - 1-2-3 top or bottom
5. 8, 13, 21, and 34-day Fibonacci EMA filter
6. Candlestick reversal patterns

ELLIOTT WAVE THEORY

CORRECTIVE PATTERNS

Learning Objects

- Corrective Wave Structure
- Characteristics of Zigzags, Flats, Triangles, and Combinations
- Rules and Guidelines of Corrective Waves

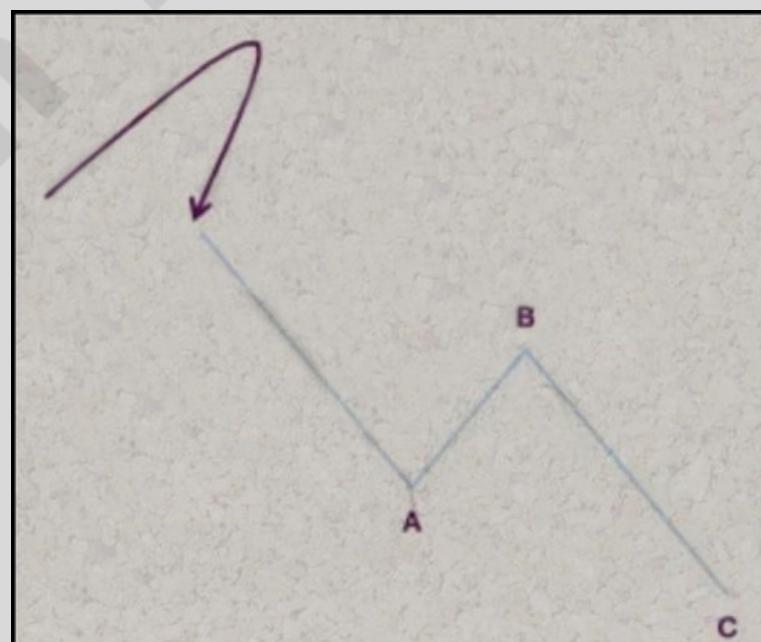
Corrective Moves

Continuation Chart Patterns

CORRECTIVE WAVE STRUCTURE

End of wave 1, 3 or 5

- Market still bullish in an uptrend
- May be a correction only
- Look to buy dips

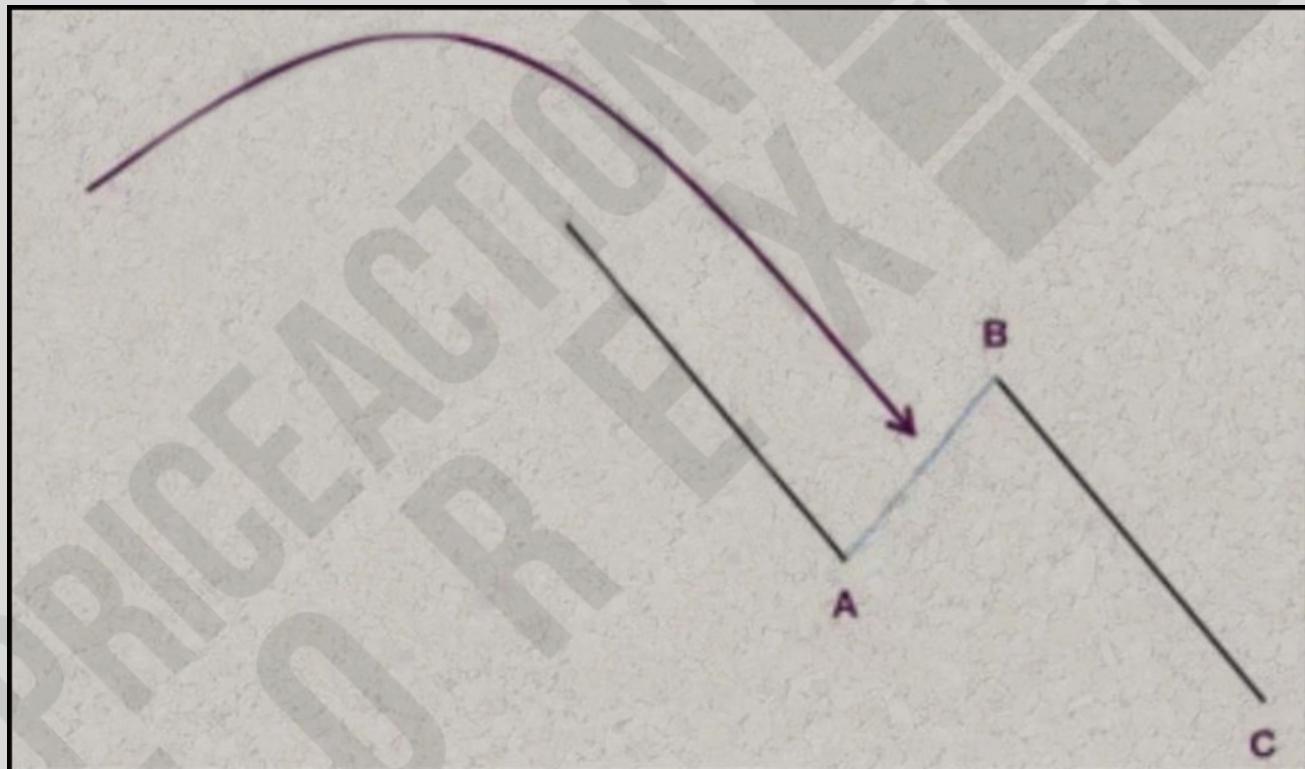


MODULE 2 - CHAPTER 2

ELLIOTT WAVE THEORY

Bull Trap

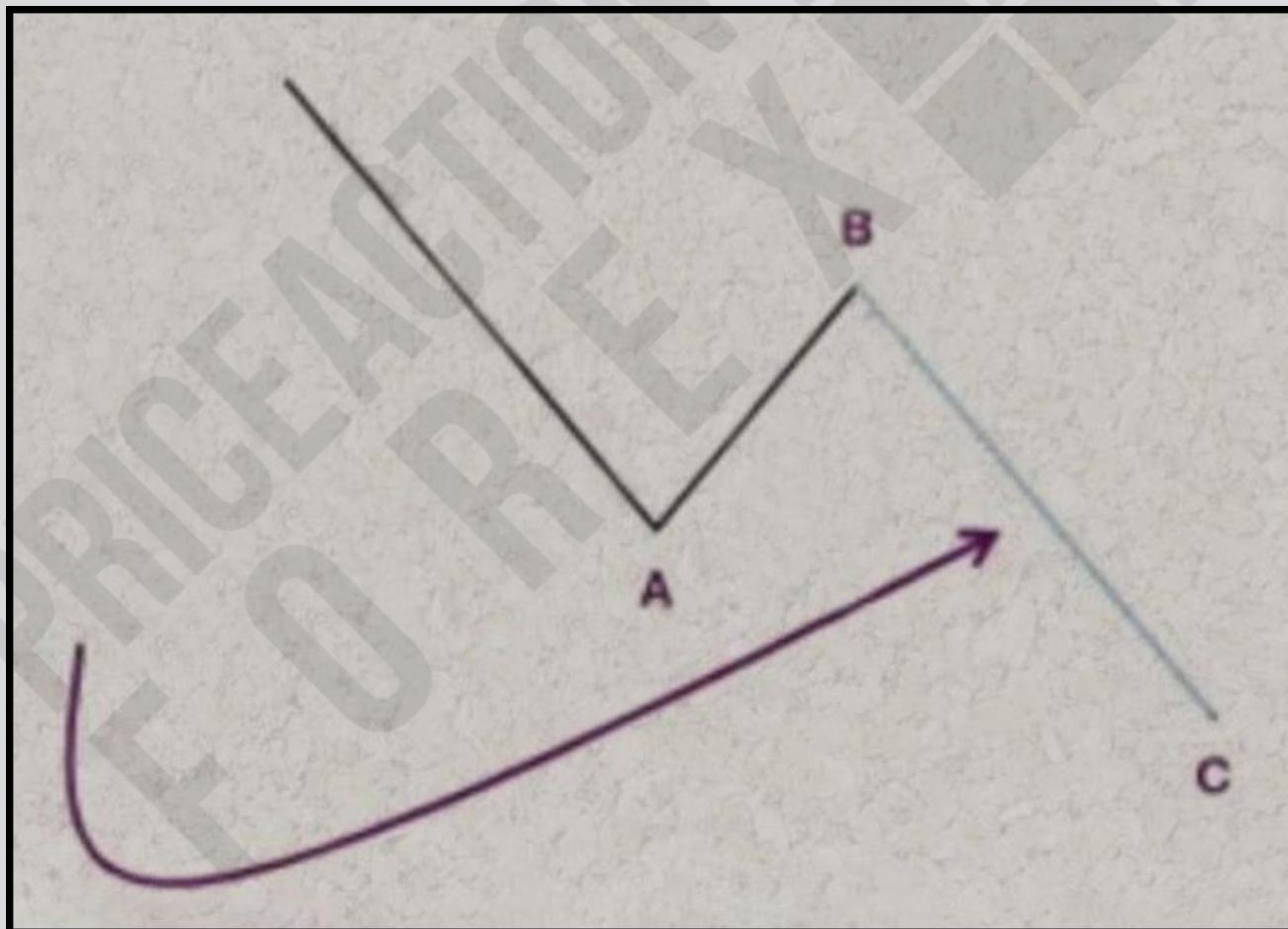
- Traders are euphoric about going long in the market again
- Good time to position short for wave C



ELLIOTT WAVE THEORY

Bearish Mode

- Wave C wipes out the long positions as price drops relentlessly
- Often an extended wave but when it ends, it ends, and then it is time to buy



MODULE 2 - CHAPTER 2

ELLIOTT WAVE THEORY

Corrective patterns are divided into 2 types:

1. Sharp - corrections that move sharply against the major trend.
2. Sideways - corrections that move against the major trend in a sideways movement.

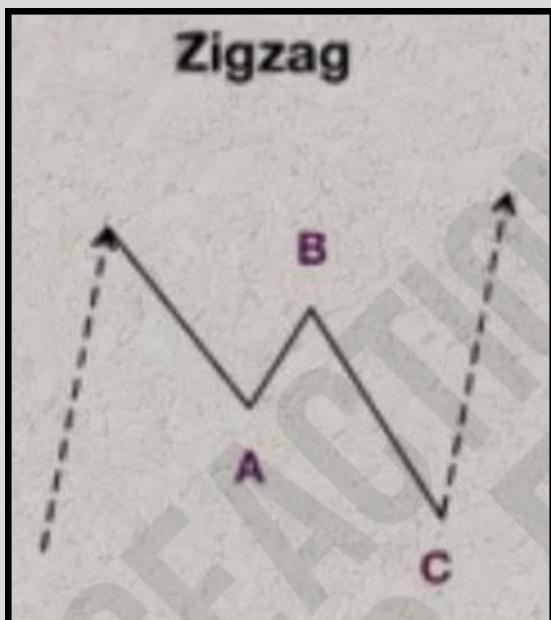
CHARACTERISTICS OF ZIGZAGS, FLATS, AND TRIANGLES

- | 1. Zigzag | 2. Flat | 3. Triangle |
|---|---|---|
| <ul style="list-style-type: none">• Simple sharp correction | <ul style="list-style-type: none">• Simple sideways correction• 3 variations | <ul style="list-style-type: none">• Simple sideways correction• 4 Variations |

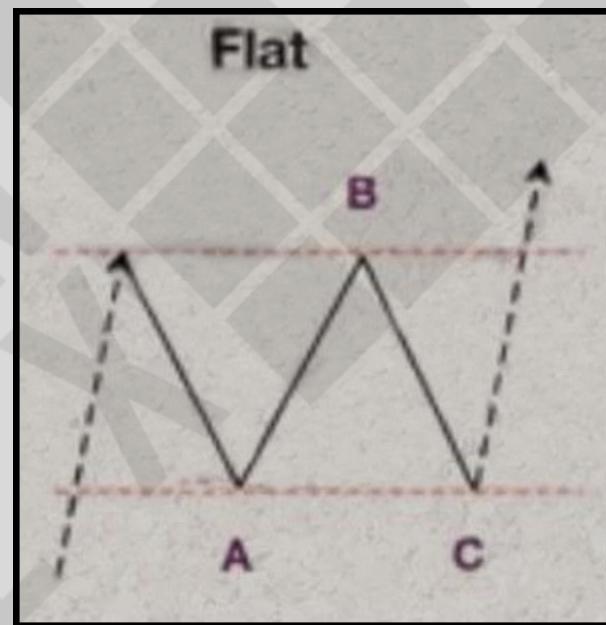
MODULE 2 - CHAPTER 2
ELLIOTT WAVE THEORY

CHARACTERISTICS OF ZIGZAGS, FLATS, AND TRIANGLES

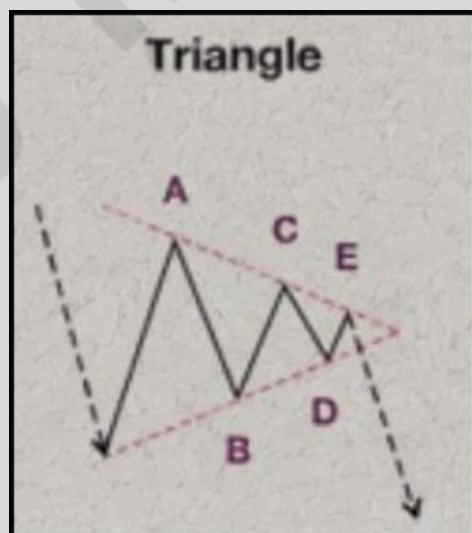
1. Zigzag



2. Flat



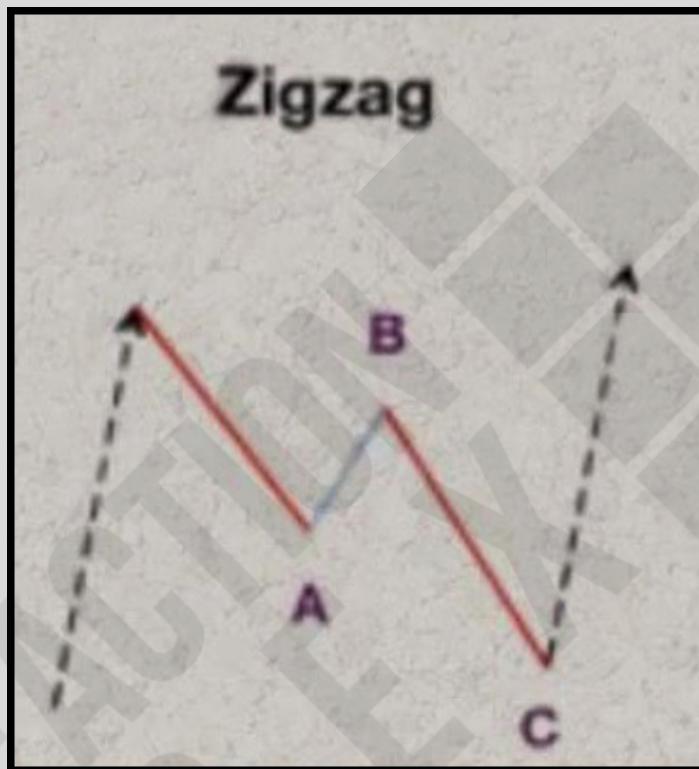
3. Triangle



MODULE 2 - CHAPTER 2

ELLIOTT WAVE THEORY

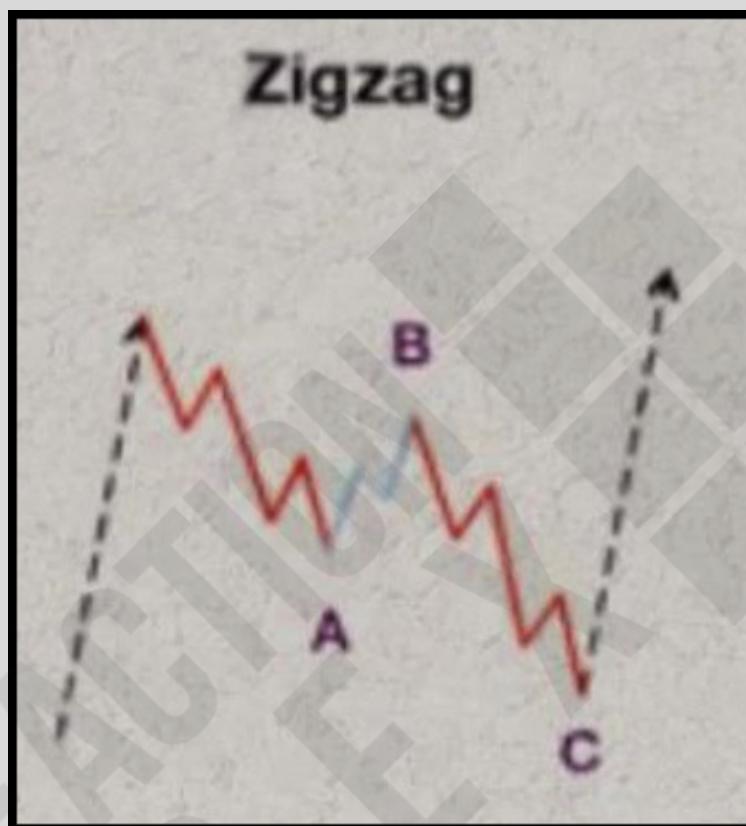
CHARACTERISTICS OF ZIGZAGS



- In an uptrend or a downtrend, the zigzag correction moves against the predominate trend.
- Zigzags are part of the sharp family of corrective wave patterns.

ELLIOTT WAVE THEORY

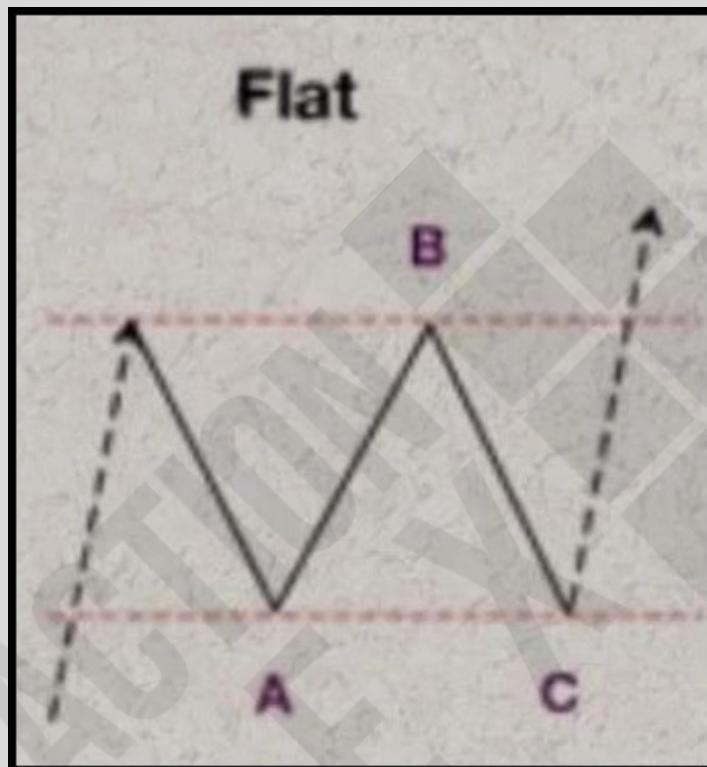
INTERNAL STRUCTURE OF ZIGZAGS



- 3-wave A-B-C form
 - # where A and C are both 5-wave forms
 - # separated by B, a 3-wave form
- Impulsive-corrective-impulsive

ELLIOTT WAVE THEORY

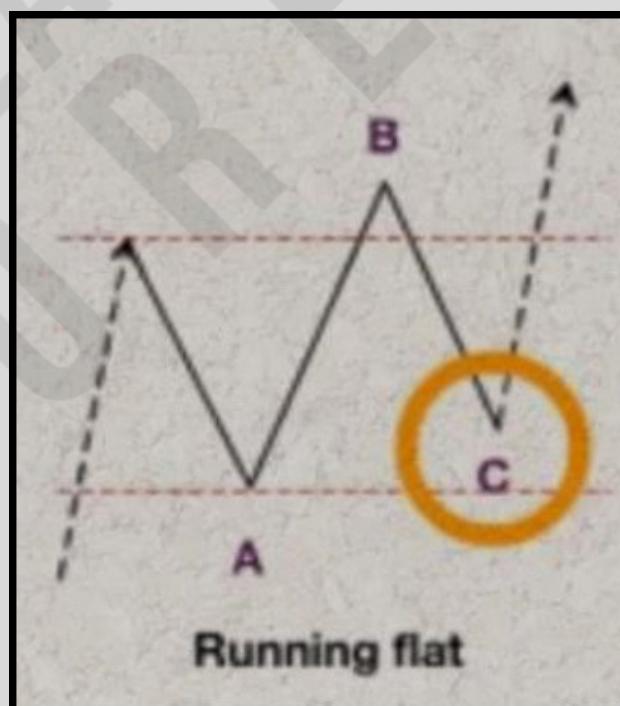
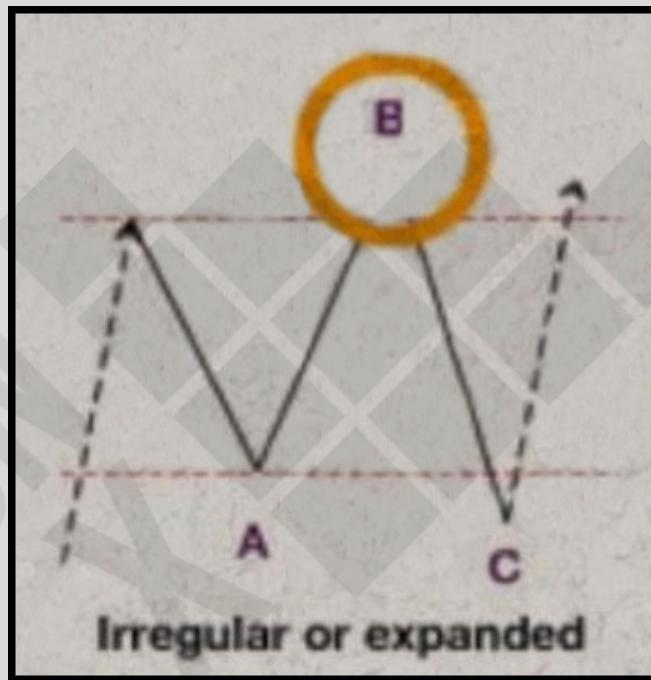
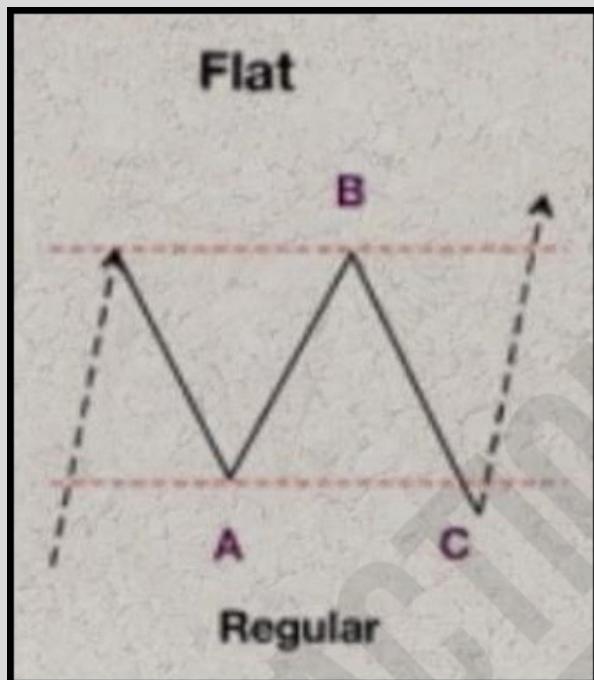
CHARACTERISTICS OF FLATS



- Flats are part of the sideways family of corrective wave patterns.
- Flats fall into 3 categories:
 1. Regular flat
 2. Irregular or expanded
 3. Running flat

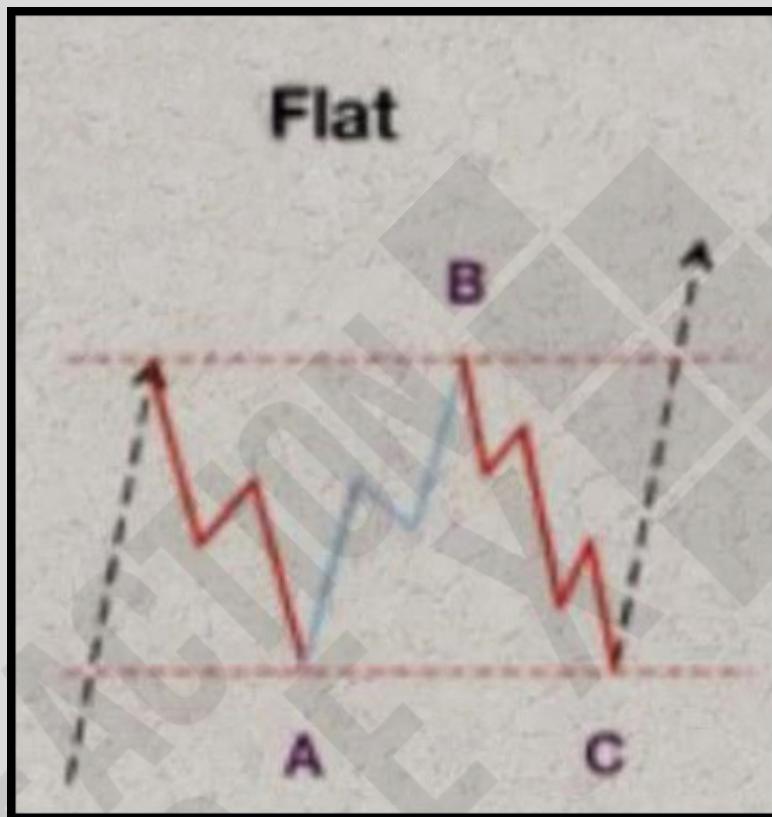
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ELLIOTT WAVE THEORY

CHARACTERISTICS OF FLATS



ELLIOTT WAVE THEORY

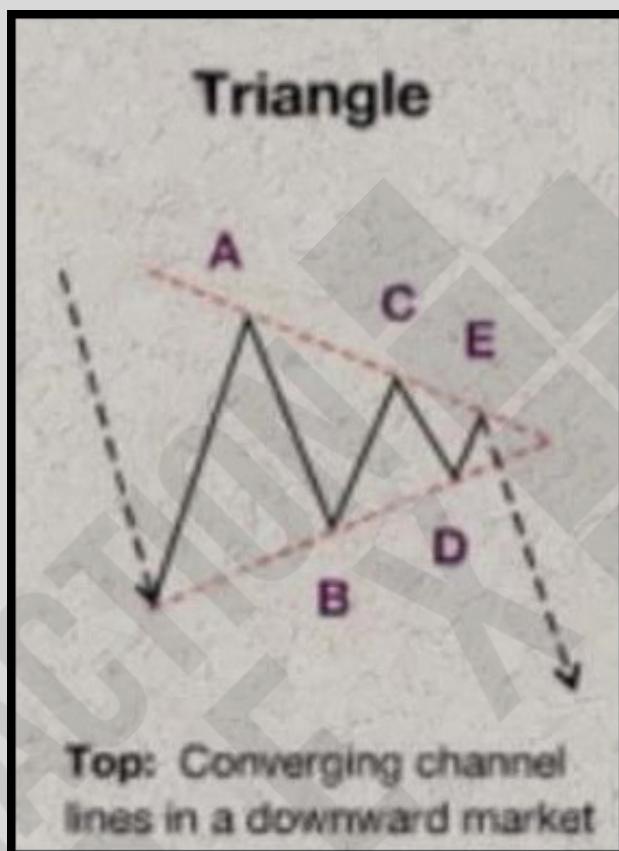
INTERNAL STRUCTURE OF FLATS



- 3-wave A-B-C form
 - # where A and C are both 3-wave forms
 - # C is a 5-wave form
- Corrective-corrective-impulsive

ELLIOTT WAVE THEORY

CHARACTERISTICS OF TRIANGLES



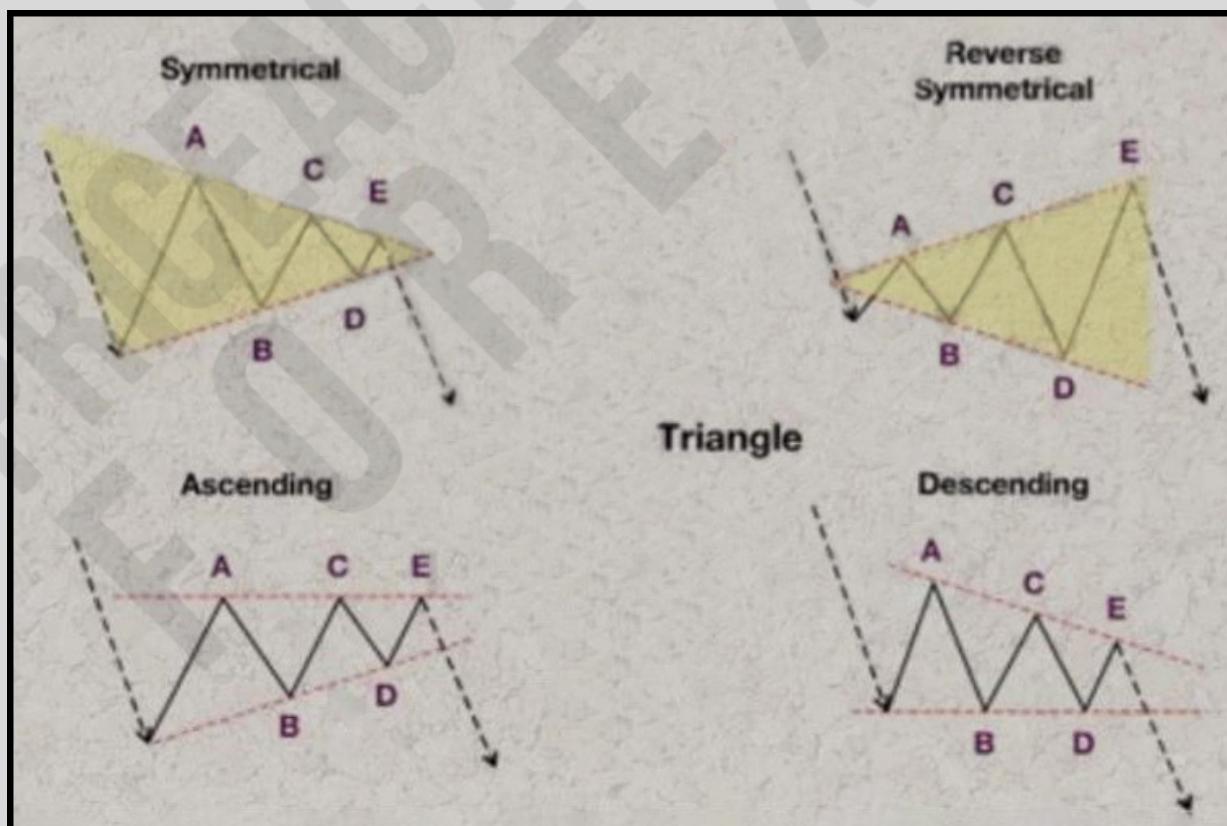
- Triangles are sideways patterns that move within either converging or diverging channel lines.
- Triangles are 5-wave structures in an A-B-C-D-E form that move against the trend in a corrective sideways manner.

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ELLIOTT WAVE THEORY

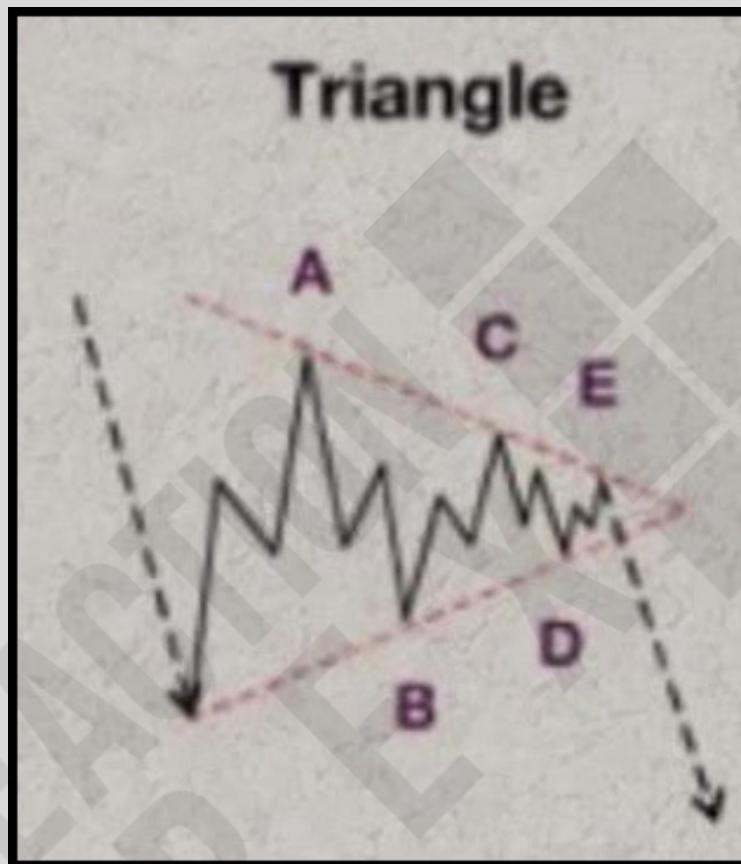
CHARACTERISTICS OF TRIANGLES

- Triangles fall into 4 categories:
 - Contracting
 - 1. Symmetrical
 - 2. Ascending
 - 3. Descending
- Expanding
- 4. Reverse symmetrical



ELLIOTT WAVE THEORY

INTERNAL STRUCTURE OF TRIANGLES



- 5-wave A-B-C-D-E form
 - # Where each of A, B, C, D and E are 3-wave forms
- Corrective-corrective-corrective-corrective-corrective

MODULE 2 - CHAPTER 2

ELLIOTT WAVE THEORY

SUMMARY

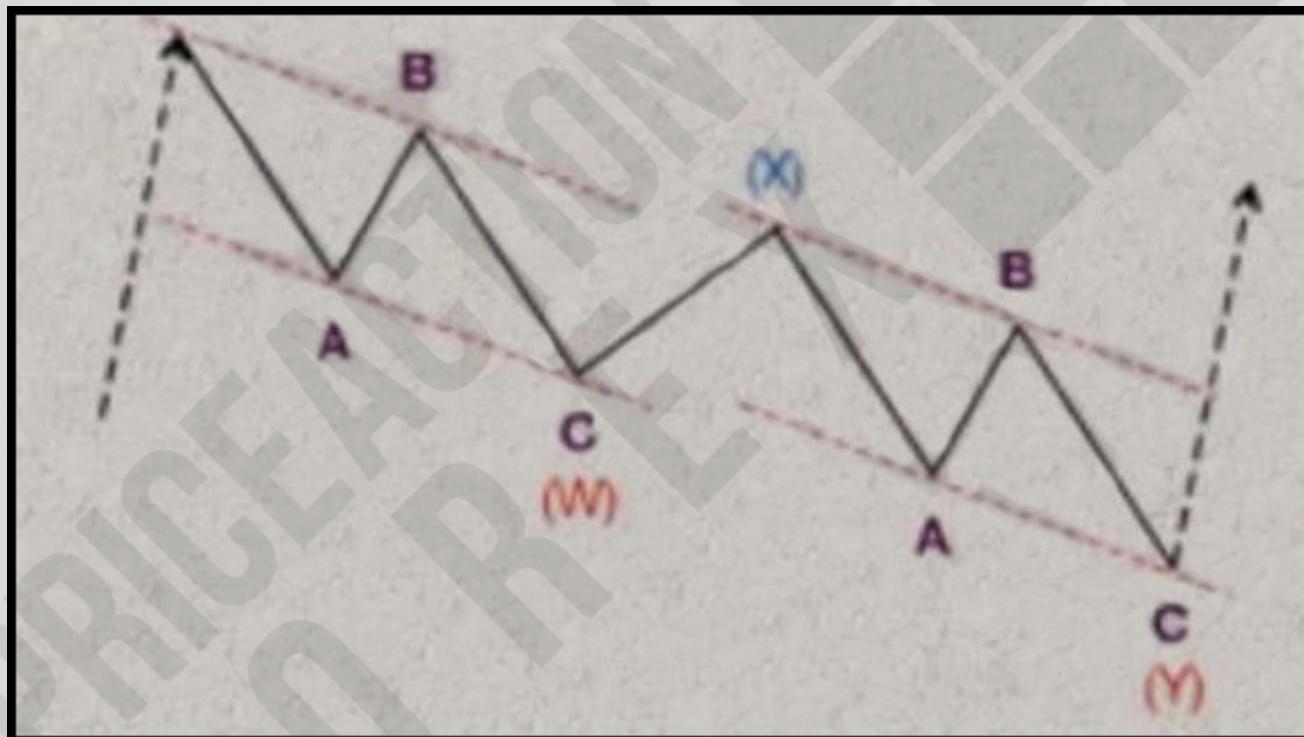
Types	Characteristics	Variations
Zigzag	<ul style="list-style-type: none"> ❖ Sharp ❖ 3-wave (A-B-C) 	<ul style="list-style-type: none"> ❖ Single simple
Flat	<ul style="list-style-type: none"> ❖ Simple Sideways ❖ 3-wave (A-B-C) ❖ B and C position varies with variation 	<ul style="list-style-type: none"> ❖ Regular ❖ Irregular or expanded ❖ Running
Triangle	<ul style="list-style-type: none"> ❖ Simple Sideways ❖ 5-wave (A-B-C-D-E) 	<ul style="list-style-type: none"> ❖ Symmetrical (Contracting) ❖ Reverse symmetrical (expanding) ❖ Ascending (flat top, rising bottom) ❖ Descending (declining top, flat bottom)

ELLIOTT WAVE THEORY

CHARACTERISTICS OF COMBINATIONS

Sharp (zigzag) corrections

1. Double zigzag - 2 zigzag patterns linked together
2. Triple zigzag - 3 zigzag patterns linked together

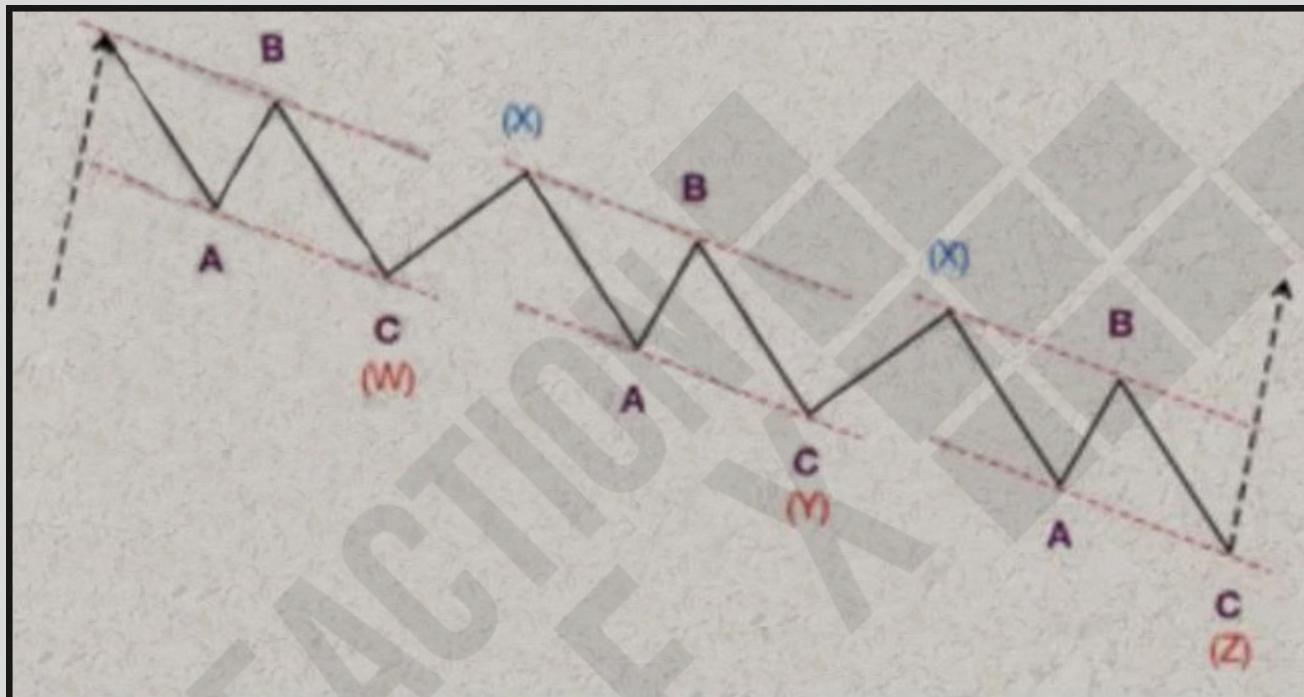


1. Double zigzag - 2 zigzag patterns linked together

- Moves sharply against the trend
- Forms a W-X-Y from where both W and Y are zigzags and X is the link

MODULE 2 - CHAPTER 2
ELLIOTT WAVE THEORY

CHARACTERISTICS OF COMBINATIONS



2. Triple zigzag - 3 zigzag patterns linked together

- Moves sharply against trend
- Forms a W-X-Y-X-Z from where both W, Y and Z are zigzags and X is the link

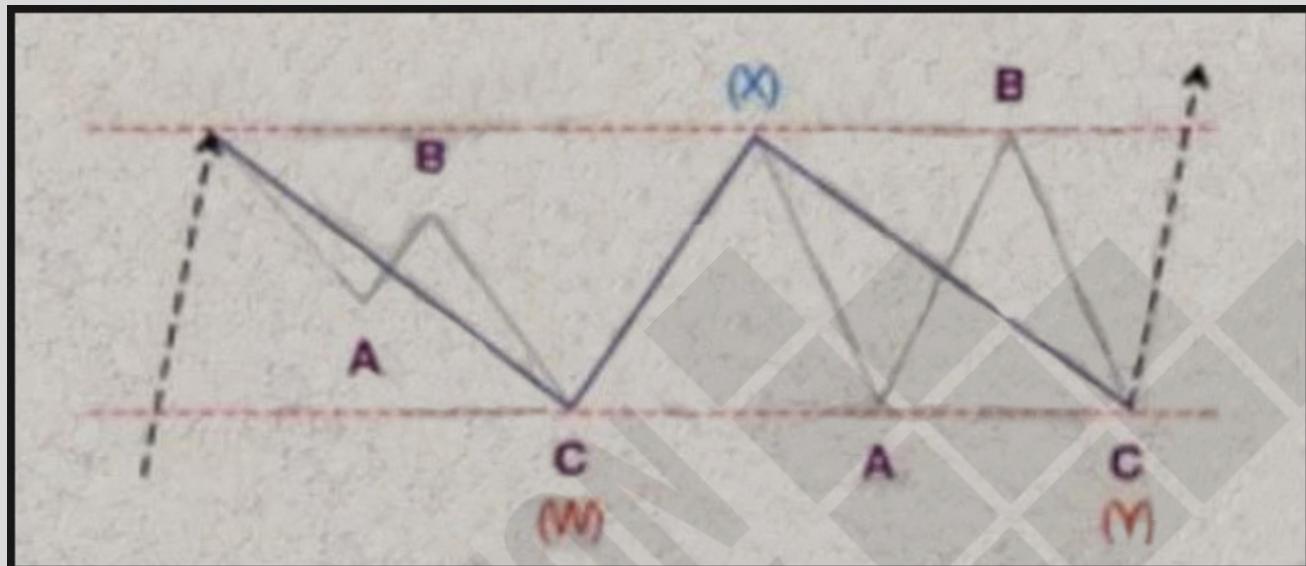
ELLIOTT WAVE THEORY

CHARACTERISTICS OF COMBINATIONS

Sideways corrections

1. Double three - 2 corrective patterns linked together by a third corrective pattern (X), occurs in rising and falling markets.
2. Triple three - 3 corrective patterns linked together by two corrective patterns (X), occurs in rising and falling markets.

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ELLIOTT WAVE THEORY

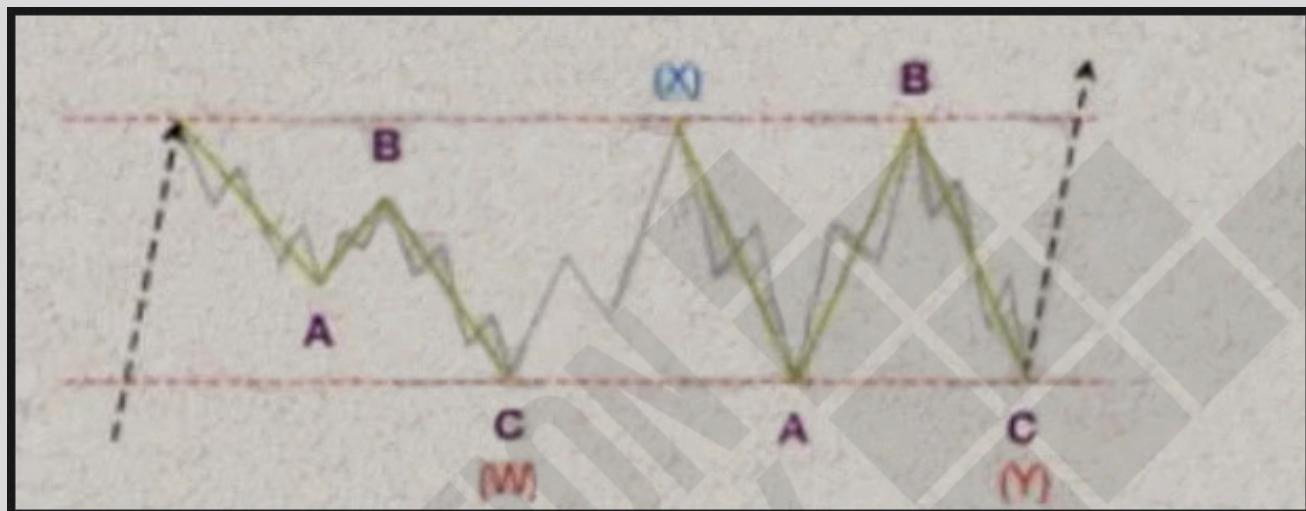


1. Double three

- Moves sideways against the trend
- Forms a W-X-Y form where both W and Y are linked by X
- Example: W is an A-B-C zigzag and Y is an A-B-C flat.

ELLIOTT WAVE THEORY

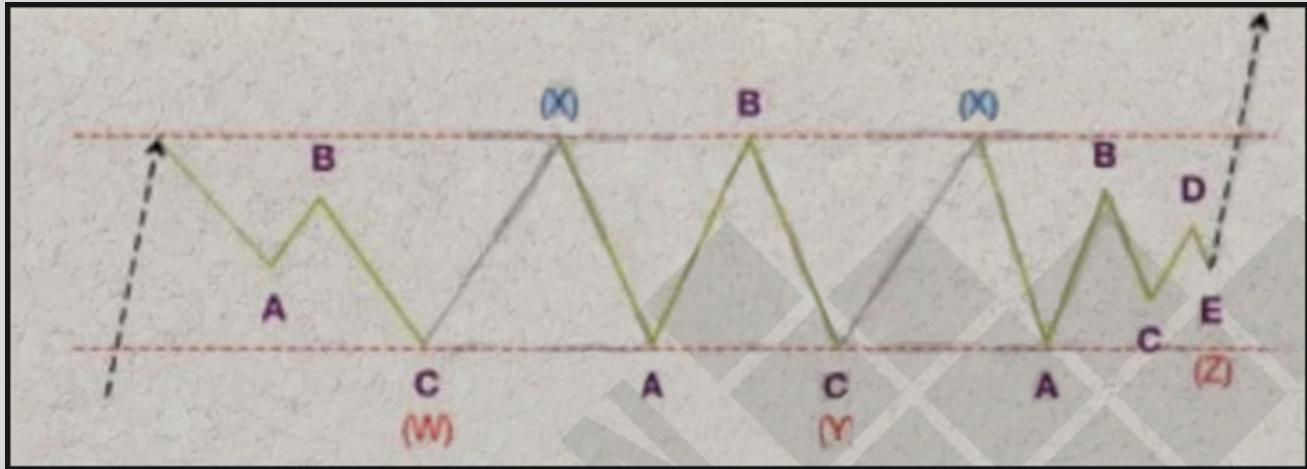
INTERNAL STRUCTURE OF DOUBLE THREES



- In an uptrend or downtrend, double threes move sideways before the resumption of predominant trend.
- Consist of 2 corrective patterns (W and Y) linked together by a third corrective pattern X.
- W- X-Y is corrective-corrective-corrective.
- Example: W is an A-B-C zigzag and Y is an A-B-C flat.

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ELLIOTT WAVE THEORY

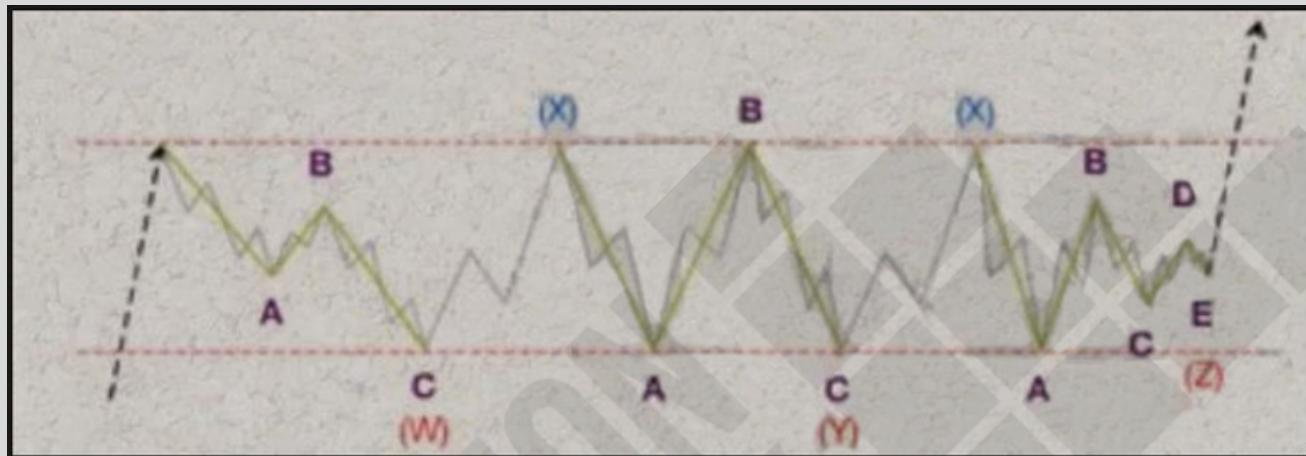


2. Triple three

- Moves sideways against the trend
- Forms a W-X-Y-X-Z form where both W, Y and Z are linked by X
- Example: W is an A-B-C zigzag, Y is an A-B-C flat, and Z is an A-B-C-D-E triangle.

ELLIOTT WAVE THEORY

INTERNAL STRUCTURE Of TRIPLE THREES



- In an uptrend or downtrend, triple threes move sideways before the resumption of predominant trend. It is far less common than double threes.
- Consist of 3 corrective patterns NV. Y and Z linked together by a third corrective pattern X.
- W-X-Y-X-I is corrective-corrective-corrective-corrective-corrective
- Example: W Is an A-B-C zigzag, Y is an A-B-C flat, and Z is an A-B-C-D-E Mangle

MODULE 2 - CHAPTER 2

ELLIOTT WAVE THEORY

SUMMARY

Types	Double Three	Triple Three
Zigzag	<ul style="list-style-type: none"> ❖ Zigzag X Zigzag ❖ Zigzag X Flat ❖ Zigzag X Triangle 	<ul style="list-style-type: none"> ❖ Zigzag X Zigzag X Zigzag ❖ Zigzag X Flat X Flat ❖ Zigzag X Triangle X Triangle
Flat	<ul style="list-style-type: none"> ❖ Flat X Flat ❖ Flat X Zigzag ❖ Flat X Triangle 	<ul style="list-style-type: none"> ❖ Flat X Flat X Flat ❖ Flat X Flat X Zigzag ❖ Flat X Flat X Triangle ❖ Flat X Zigzag X Flat ❖ Flat X Zigzag X Triangle

Triangle

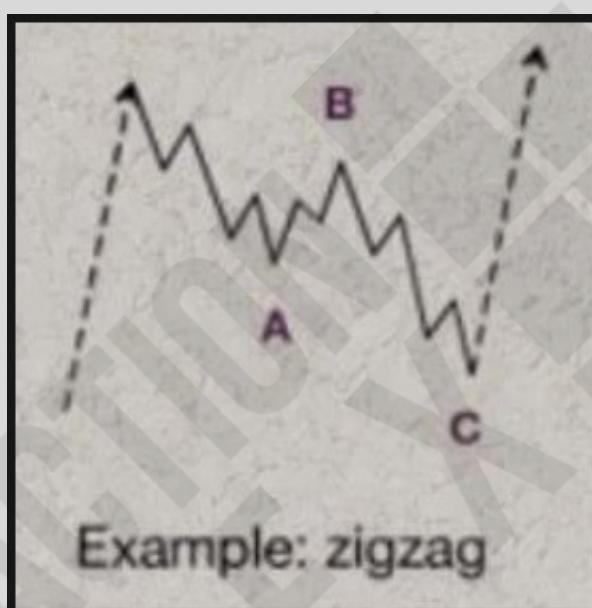
- ❖ Always the final wave in double or triple threes
 - Y position in a double three
 - Y position in a double three
- ❖ There is never more than 1 triangle in a combination
- ❖ Occurs in wave 4 prior to wave 5 impulsive move
- ❖ Occurs in wave B prior to final wave C
- ❖ Complex triangles can occur in wave E of a 9-wave form

ELLIOTT WAVE THEORY

RULES AND GUIDELINES OF CORRECTIVE WAVES

Alternation

If wave 2 is a simple sharp correction...



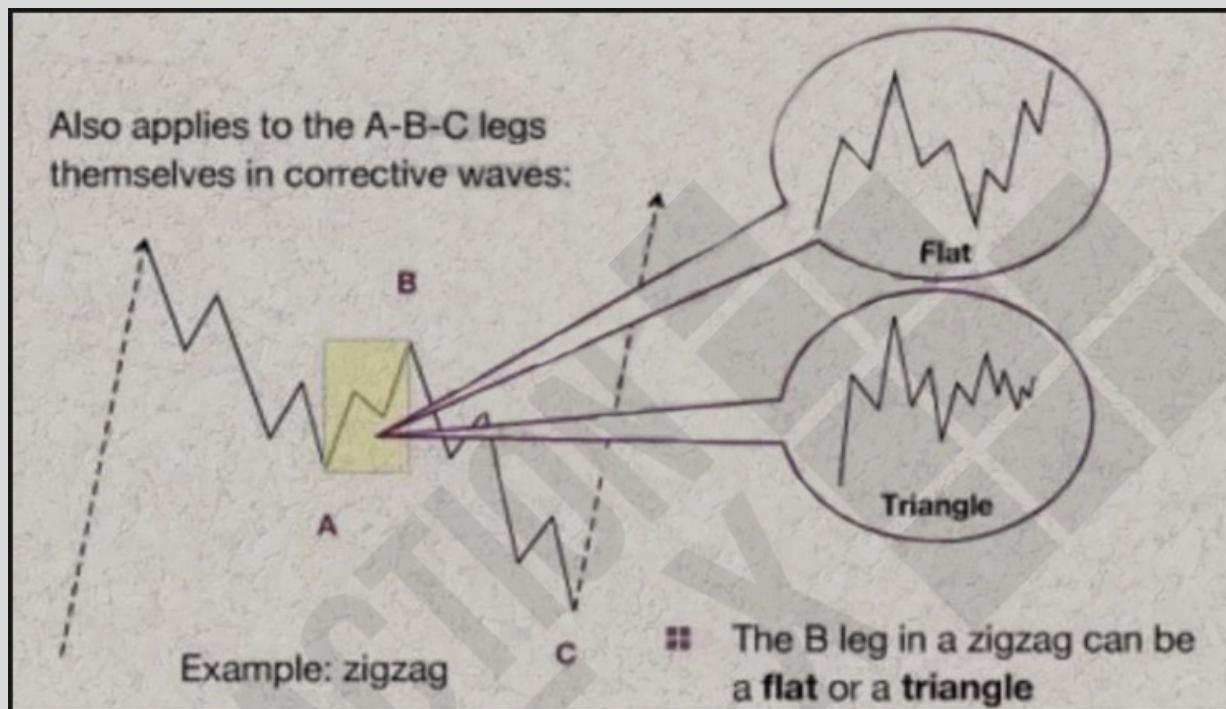
Then wave 4 will be a:

- Simple sideways
 - # Flat
 - # Irregular flat
 - # Triangle
- Complex sideways correction with combined patterns
 - # Double three
 - # Triple three

MODULE 2 - CHAPTER 2

ELLIOTT WAVE THEORY

Alteration



Alternation in Corrective Waves		
Wave A	Wave B	Wave C
1. 5 waves 1-2-3-4-5	❖ Flat A-B-C	❖ 5 waves 1-2-3-4-5
2. 5 waves 1-2-3-4-5	❖ Triangle A-B-C-D-E	❖ 5 waves 1-2-3-4-5
3. Zigzag A-B-C	❖ Flat A-B-C	❖ 5 waves 1-2-3-4-5
4. Zigzag A-B-C	❖ Triangle A-B-C-D-E	❖ 5 waves 1-2-3-4-5
5. Flat A-B-C	❖ Zigzag A-B-C	❖ 5 waves 1-2-3-4-5
6. waves 1-2-3-4-5	❖ Double threes (flat and triangle W-X-Y)	❖ 5 waves 1-2-3-4-5

MODULE 2 - CHAPTER 2

ELLIOTT WAVE THEORY

Zigzag Rules

- ❖ Zigzag unfolds into 3 waves:
 - Wave A subdivides into an impulsive wave or a leading diagonal
 - Wave B subdivides into a zigzag, flat, triangle or combination pattern.
 - Wave C subdivides into an impulsive wave or an ending diagonal
- ❖ Wave V never moves beyond the beginning of wave A
- ❖ Internal structure is impulsive-corrective-impulsive

Flat Rules

- ❖ Flat unfolds into 3 waves:
 - Wave A is never a triangle
 - Wave C subdivides into an impulsive wave or an ending diagonal
 - Wave B always retraces at least 90% of wave A
- ❖ Internal structure is corrective-corrective-impulsive

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ELLIOTT WAVE THEORY

Triangle Rules

- ❖ Triangle always subdivides into 5 waves
- ❖ At least 4 of the A-B-C-D-E waves unfolds into a zigzag or zigzag combination
- ❖ A line connecting the ends of waves B and D converges with a line connecting the ends of waves A and C
- ❖ A triangle never has more than 1 complex sub-wave
- ❖ The complex sub-wave is always a zigzag combination or a triangle

Combination Rules

- ❖ Combinations are double or triple threes connected by a third wave X in the opposite direction forming a W-X-Y or a W-X-Y-Z pattern
- ❖ A double or triple zigzag consist of 2 or 3 zigzags connected by wave X
- ❖ A double three flat correction consists of zigzag-flat, flat-zigzag, flat-flat, zigzag-triangle or flat-triangle.
- ❖ Double and triple three corrections take the place of flats and triangles.

ELLIOTT WAVE THEORY

CORRECTIVE PATTERNS

Learning Objects

- Mathematical Applications
- Retracement and Targets

MATHEMATICAL APPLICATIONS

Ratio Analysis:

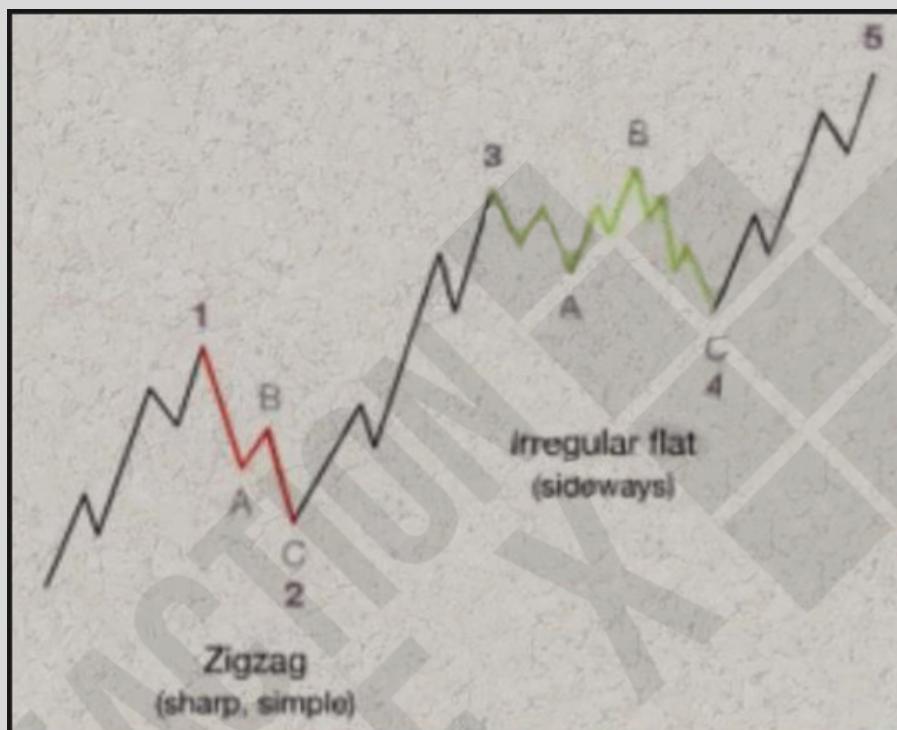
- The rule of divine proportion suggests that the market reacts in accordance to the ratios calculated from the numbers in the Fibonacci sequence.

Retracements	Extensions
(Waves 2 and 4)	(Waves 1,3 and 5)
38.2%	161.8%
50.0%	261.8%
61.8%	423.6%

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ELLIOTT WAVE THEORY

RETRACEMENTS AND TARGETS

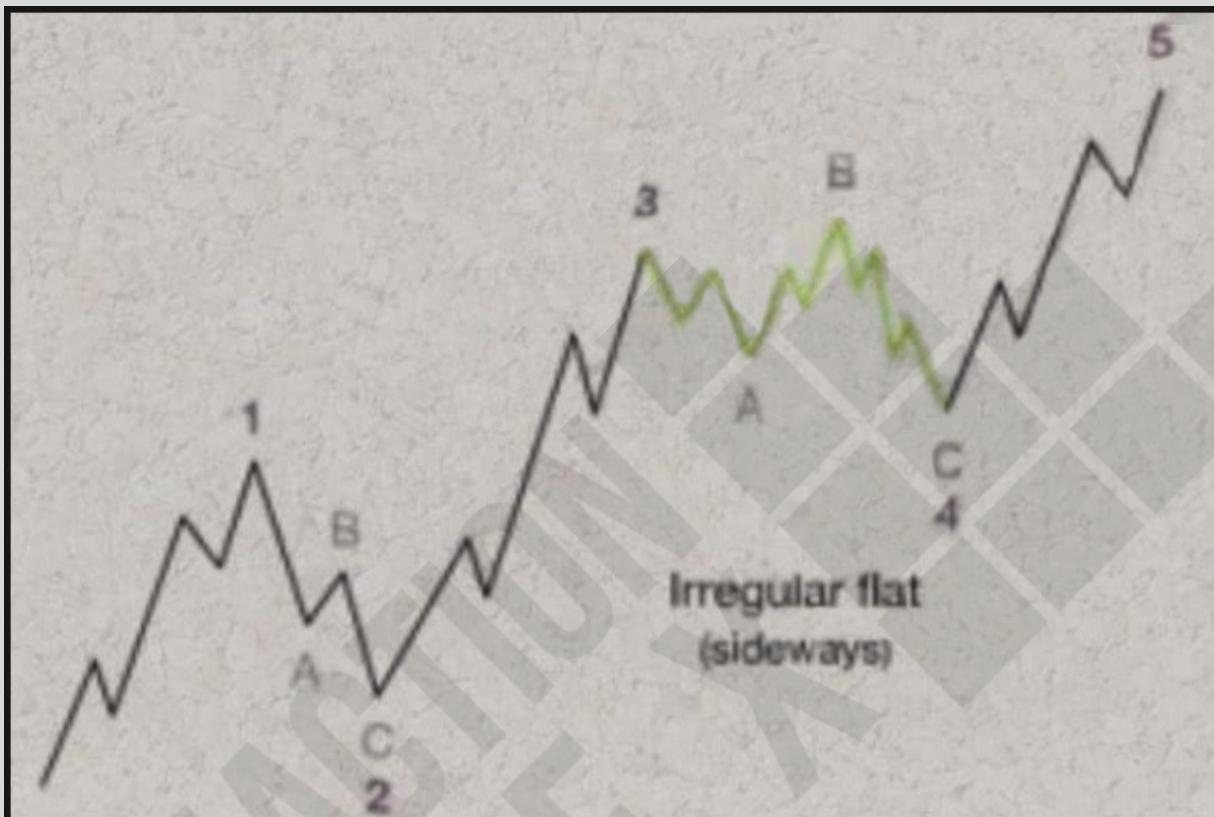


Wave 4 can also be a triangle or a complex combo.
Guidelines of Alternation applies to this example

Wave 2 targets:

- 0.50 times wave 1
- 0.618 times wave 1
- 1 times wave 1
- Does not exceed 1 times wave 1

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ELLIOTT WAVE THEORY



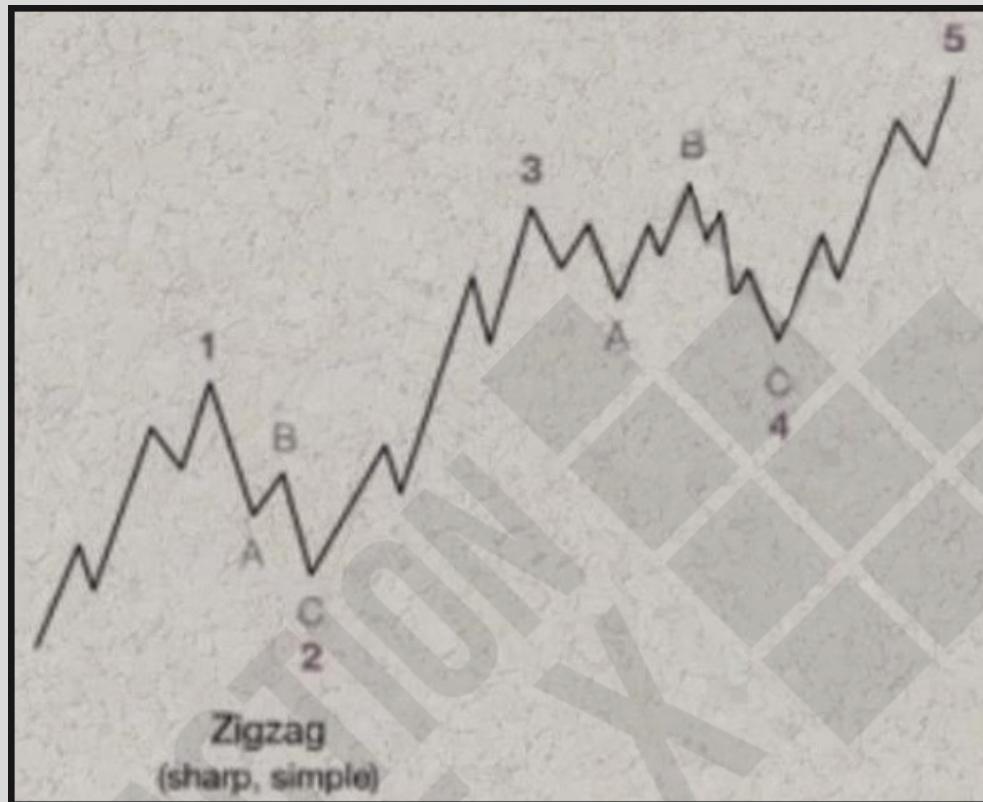
Guideline of Alternation dictates that wave 4 is a sideways correction of wave 3 because wave 2 is a zigzag correction.

Wave 4 targets:

- 0.236 times wave 3
- 0.382 times wave 3
- 0.50 times wave 3

MODULE 2 - CHAPTER 2

ELLIOTT WAVE THEORY



In zigzag wave 2, wave B retracement depends on the pattern of wave B:

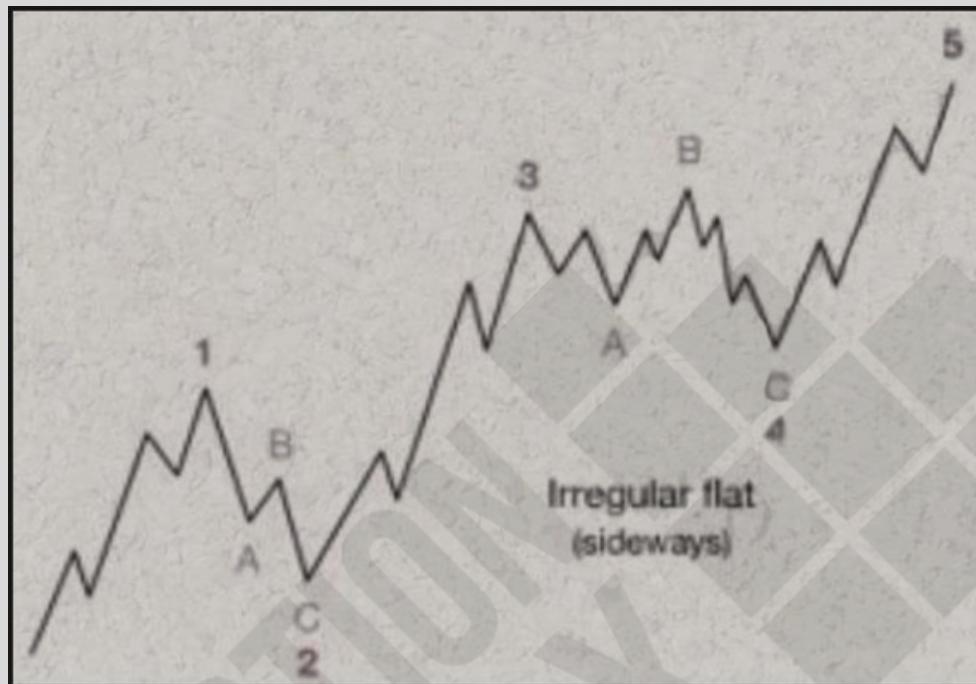
- Zigzag B 150 - 79% of A)
- Running triangle B (10 - 40% of A)
- Triangle B (38.2 - 50% of A)

Wave C targets:

- 0.618 times wave A
- 1 times wave A
- 1.618 times wave A

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ELLIOTT WAVE THEORY

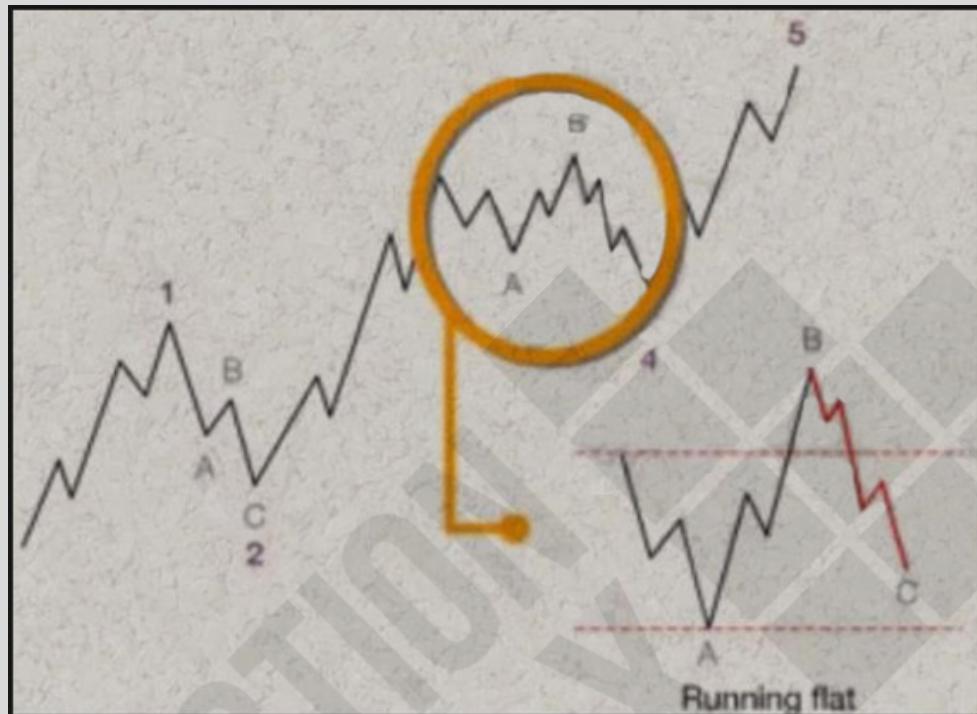


If wave 4 is a regular flat, usually waves A, B and C are equal.

If wave 4 is an irregular or expanded flat, then:

- Wave B is 1.236 times wave A or 1.382 times wave A
- Wave C is 1.618 times wave A or 2.618 times wave A

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ELLIOTT WAVE THEORY

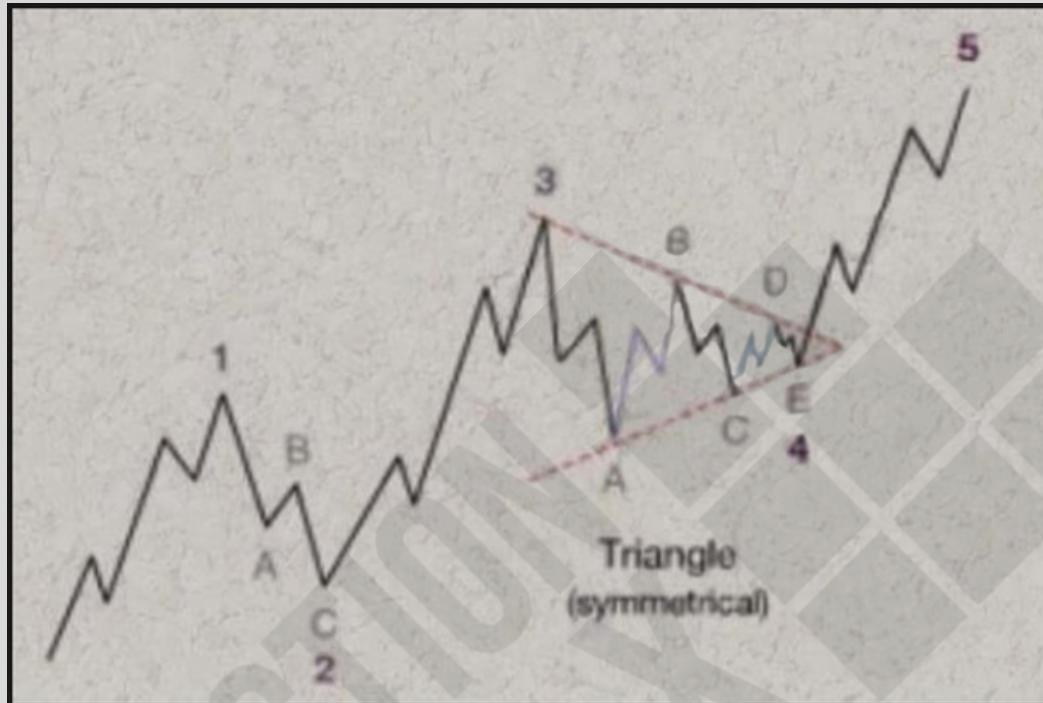


If wave 4 is a funning flat, then:

- Wave B Is usually more than 1 times wave A
- Wave C does not extend beyond the end of Wave A

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ELLIOTT WAVE THEORY

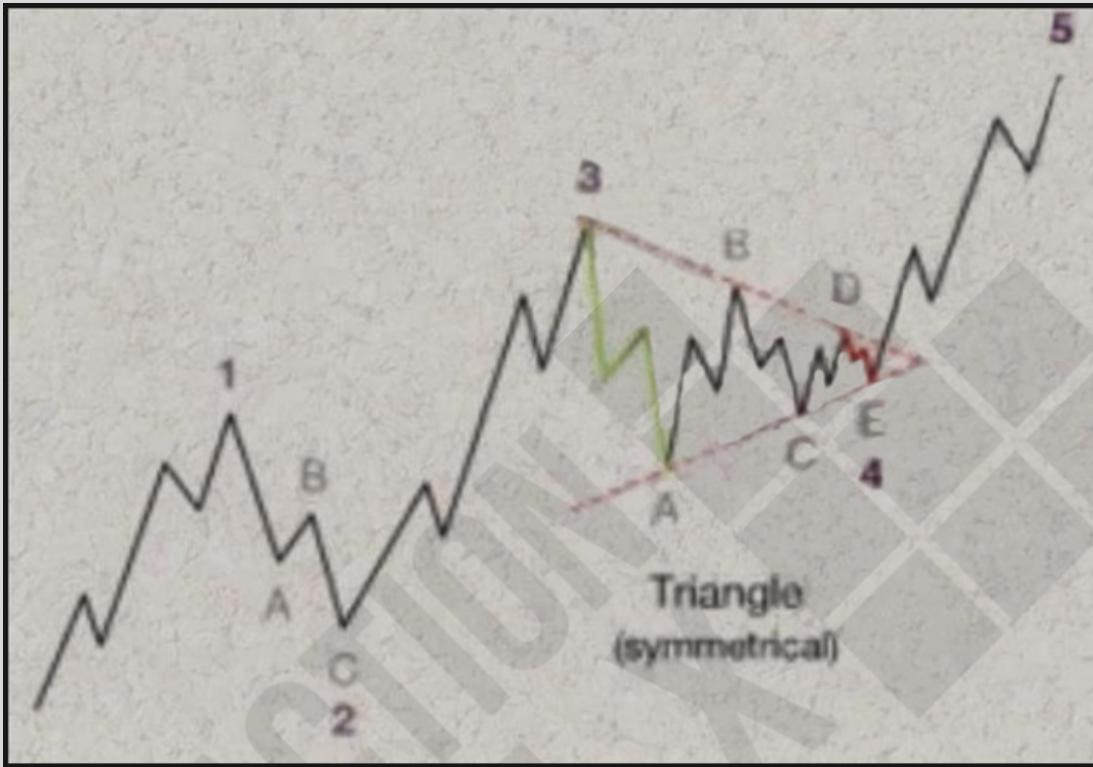


If wave 4 is symmetrical, ascending or descending triangle, most commonly, each sub-wave is 0.618 times the length of the previous alternate sub-wave:

- Wave E is 0.618 times wave C and 0.382 times wave A
- Wave C is 0.618 times wave A
- Wave D is 0.618 times wave

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ELLIOTT WAVE THEORY

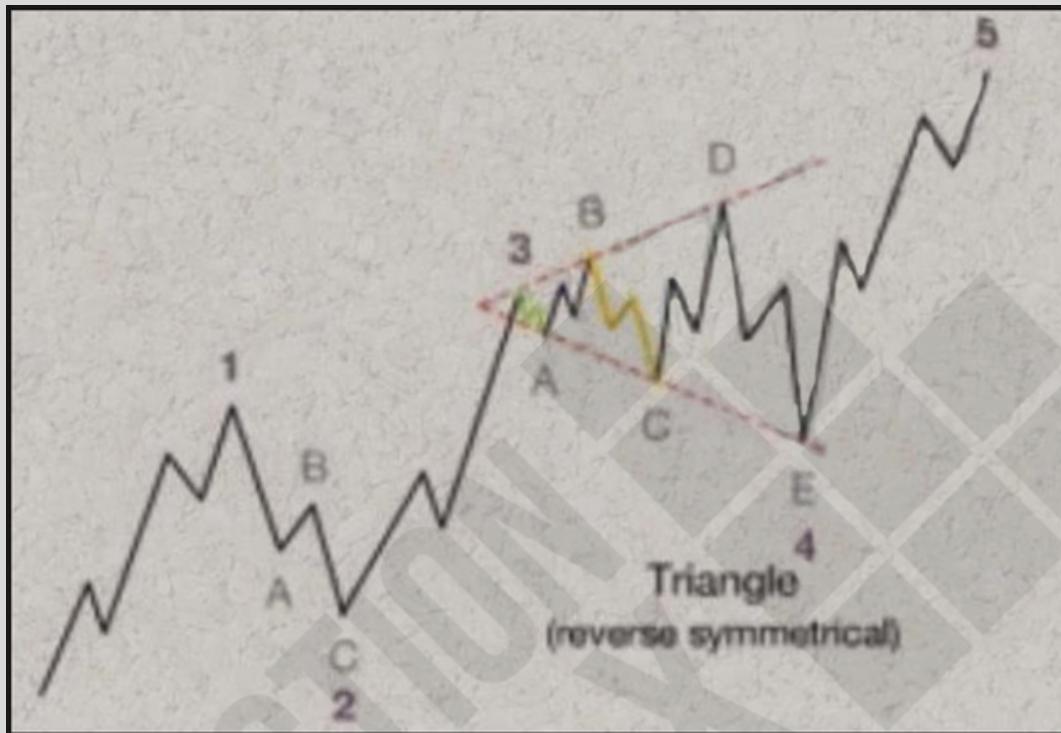


Next most common relationship is each sub-wave is 0.618 times the previous adjacent sub-wave.

For example, wave E:

- 0.618 times wave D
- 0.382 times wave C
- 0.236 times wave B
- 0.146 times wave A

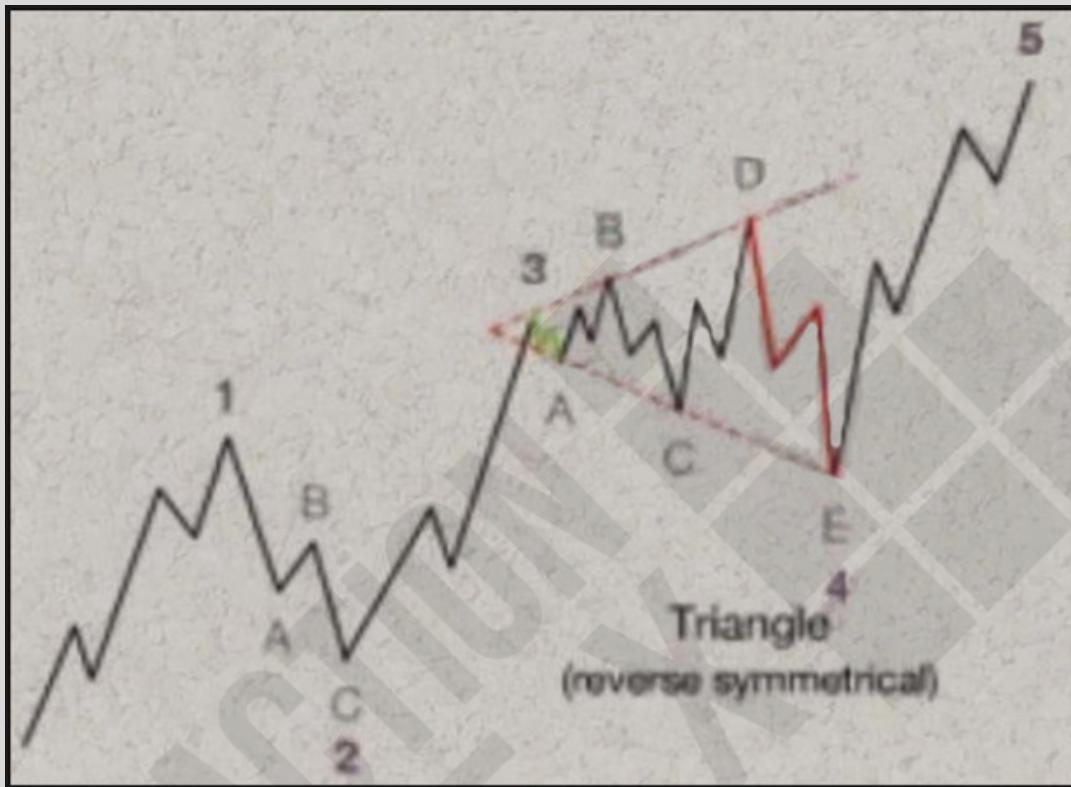
MODULE 2 - CHAPTER 2
ELLIOTT WAVE THEORY



If wave 4 is a reverse symmetrical (expanding) triangle, then:

- Wave E is 1.618 times wave C
- Wave D is 1.618 times wave B
- Wave C is 1.618 times wave A

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ELLIOTT WAVE THEORY



If wave 4 is a reverse symmetrical (expanding) triangle, then: The next most common relationship is 1.618 times the previous adjacent subwave.

For example, wave E is:

- 1.618 times wave D
- 2.618 times wave C
- 4.236 times wave B
- 6.854 times wave A

MODULE 2 - CHAPTER 2

ELLIOTT WAVE THEORY

Learning Objects

- Continuation Patterns

ELLIOT WAVE PATTERN

- Look for chart patterns in price data
- Understand they can be explained by Elliot Wave

Chart Pattern	Elliott Wave Pattern
Bull or bear flag/pennant	Zigzag A-B-C pattern
Triangles (symmetrical, ascending, descending, expanding)	A-B-C-D 4 th wave consolidation (sometimes wave 2)
Rectangle formation	Flat corrective wave