

The first Trade @ the formation of this setup

Down Trend. Notice how market is making a LL, LH, LL

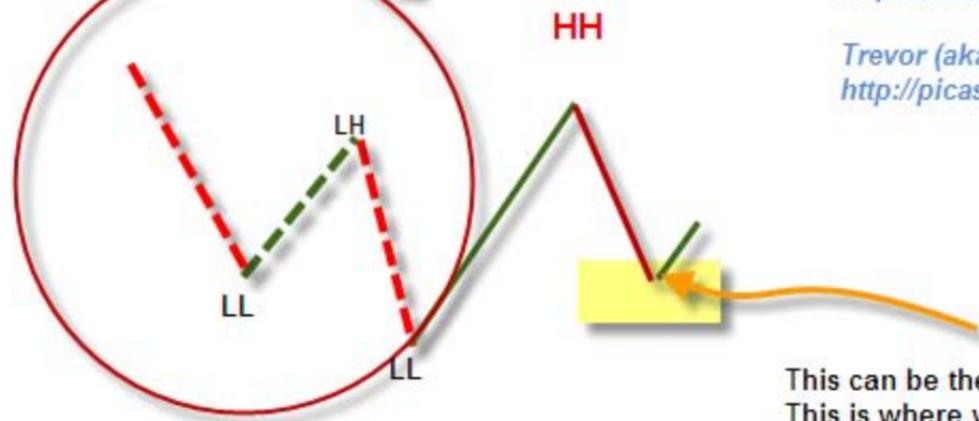
Traders,

I've tried to highlight the basic pattern the way I see it. Wait for market to show you one wave after the other and you build the pattern and the trades as you go along.

Hope this helps.

Trevor (aka Ben / AV)

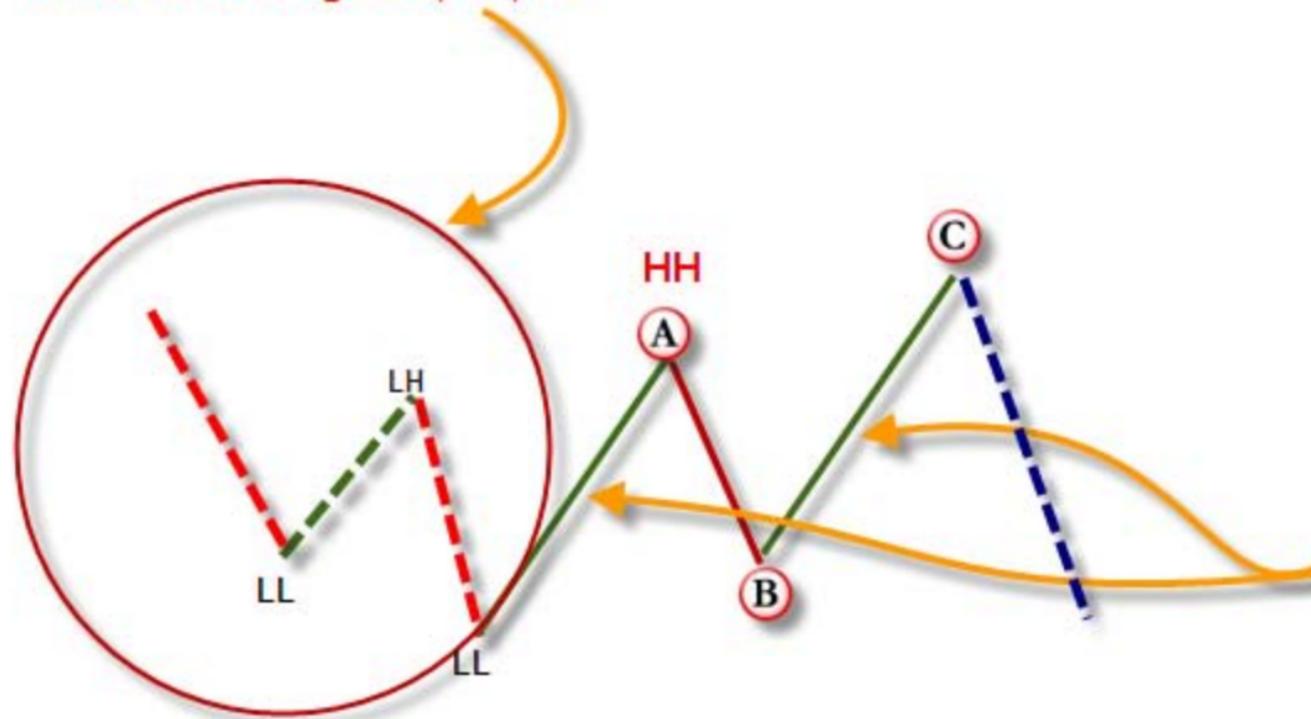
<http://picasaweb.google.com/shalomav>



This can be the BZ or 50% retracement area. This is where we go long. Let's say we go long 2 contracts, stop below the HL that just formed.

When Wave C = Wave A (Close to 100%, +/- a few points) (a.k.a Measured Move / ABC)

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When we go long after Wave B or the HL, we don't know if the market is going to form an ABC or 12345. So it is premature to mark it as AB or 12 etc.

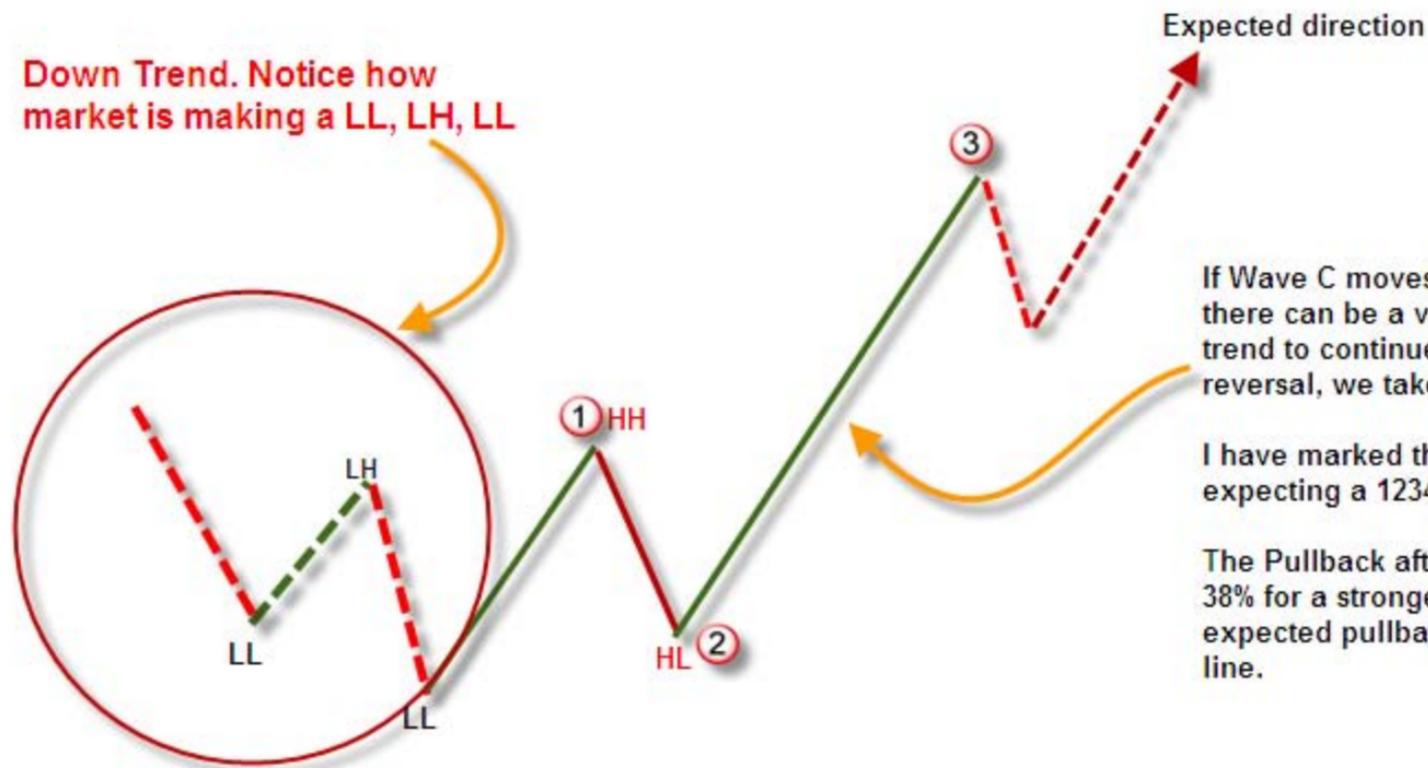
If the move that Wave C makes equals Wave 1 and reverses, we then know that an ABC is possible. We take out the 2 lots at the first sign of reversal and look to reverse. Target being the wave marked as Wave B (down move from Wave C back to Wave B. Blue dotted line).

This completes an ABC pattern, what happens after price pullsback to Wave B decides the rest of the Trade strategy



A 12345 forming. Identifying a minor pullback / full reversal

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If Wave C moves 168% of Wave A (not exact, there can be a variance), we can expect this trend to continue another Leg. The first sign of reversal, we take out 1 lot. Hold on to the other.

I have marked the Waves as 123 because I am expecting a 12345 now

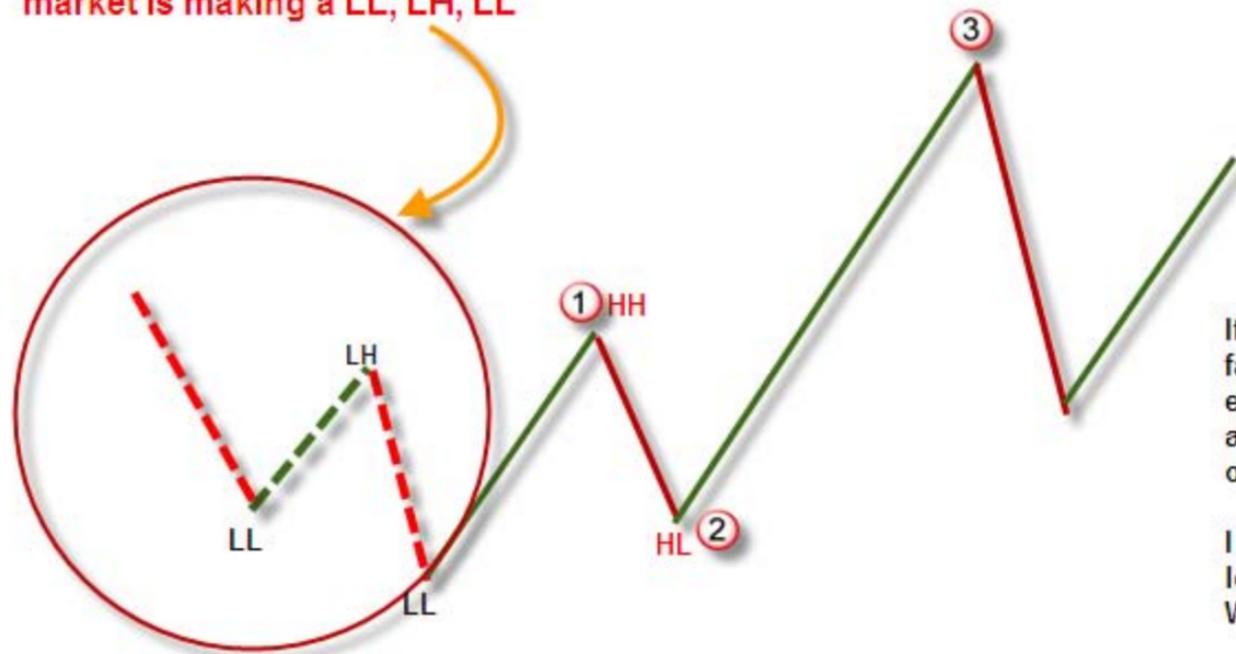
The Pullback after Wave 3 or C must not exceed 38% for a stronger up move (Wave 5). The expected pullback is marked in a Red dotted line.

**A Non-Overlapping Wedge, w/ Price retracing to W4.
Enter on LTP.**



A 12345 forming. What to do if W4 does not hold

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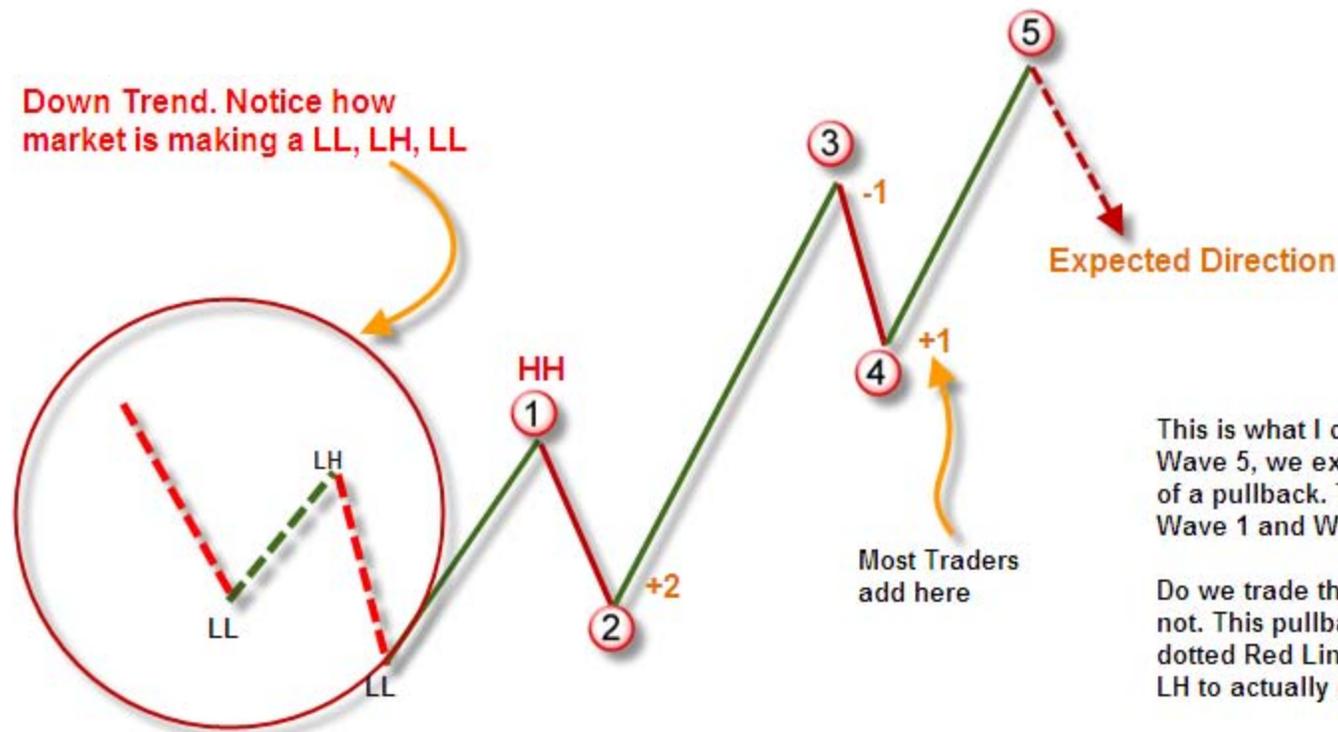


If W4 does a major pullback, it is a pattern failure. See if you can hold on to the 1 lot and exit @ the next LH or =H or HH. You should atleast move your stop to break-even +1 on the other lot.

I will not mark these wave any further as it has lost it's symmetry. This does not conform to a Wedge or Channel anymore.

A full 12345 cycle

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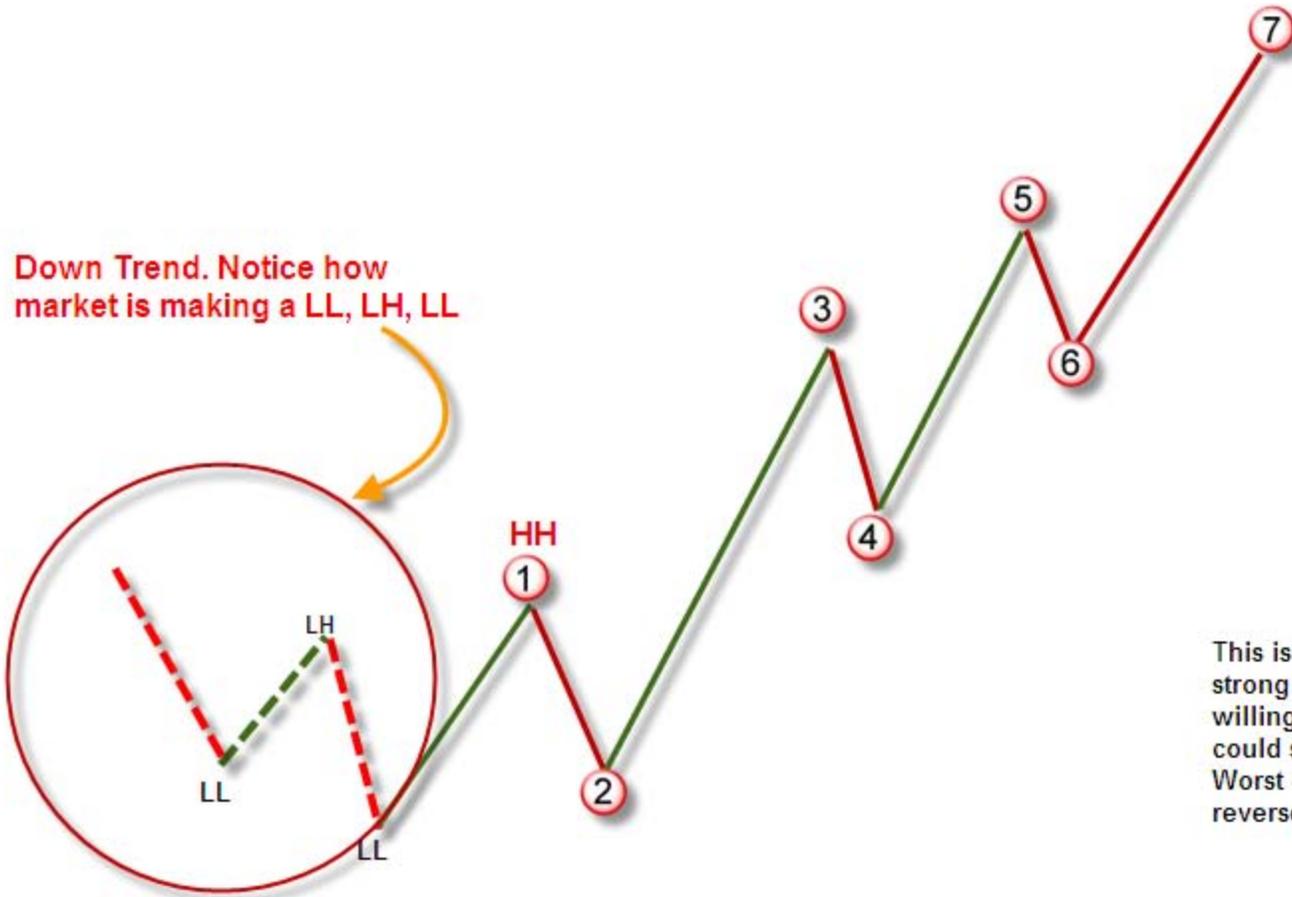


This is what I call a full cycle. After Wave 5, we expect a pullback. How big of a pullback. That depends on where Wave 1 and Wave 4 ended.

Do we trade the first pullback. Mostly not. This pullback is represented by the dotted Red Line after W5. We wait for a LH to actually go short.

What happens if market keeps moving higher after a 12345

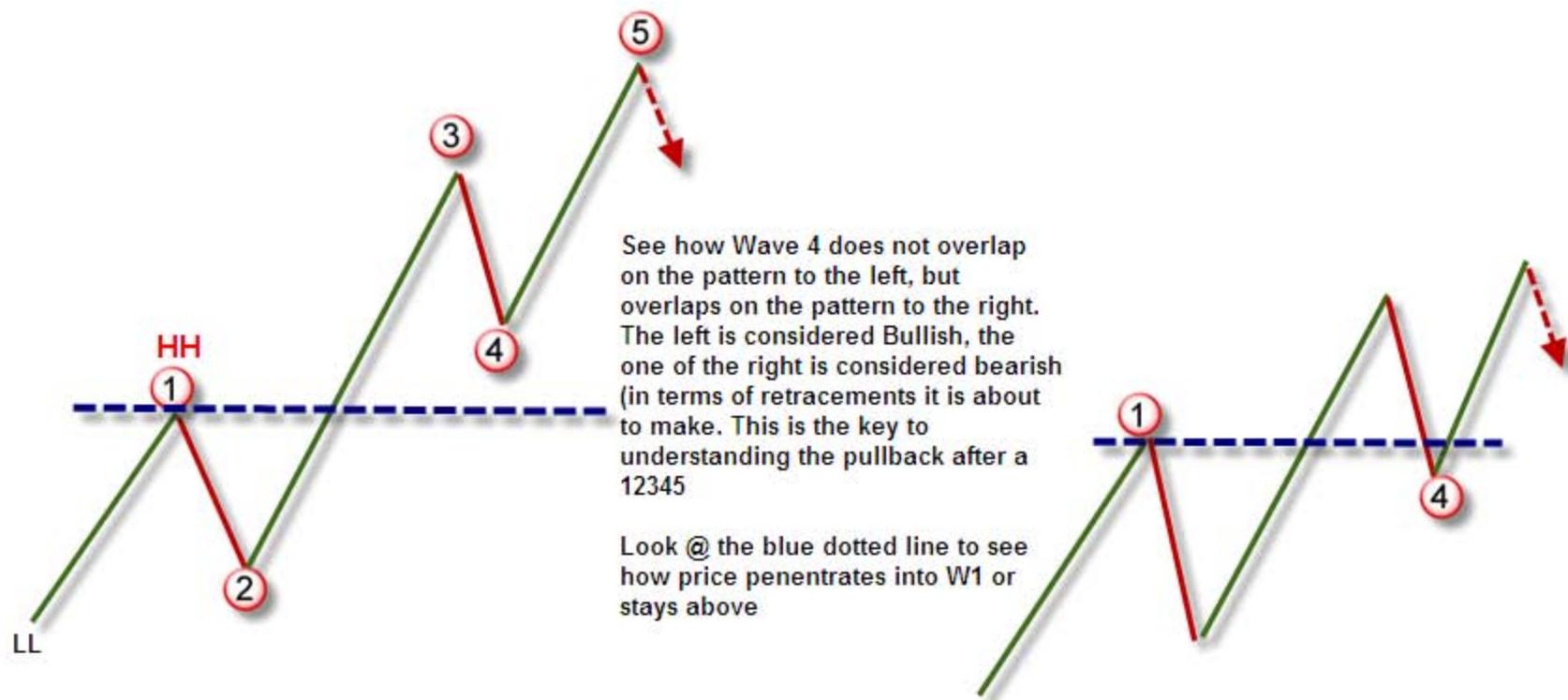
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This is also a possibility in a strong trending market. If you are willing to risk the last lot, you could stay in the trade to see. Worst case exit at a LH and reverse.

What happens after a 12345

We may get an ABC or another 12345 after a 5 wave Wedge or Channel. This is what happens close to 75% of the time. This is the expectation, but let's see what drives this expectation



What happens after a 12345

Depending on the overlap between W4 and W1, the pullback could either go to W4 and continue moving up or go to the BZ as shown to the right. This is a typical pattern.

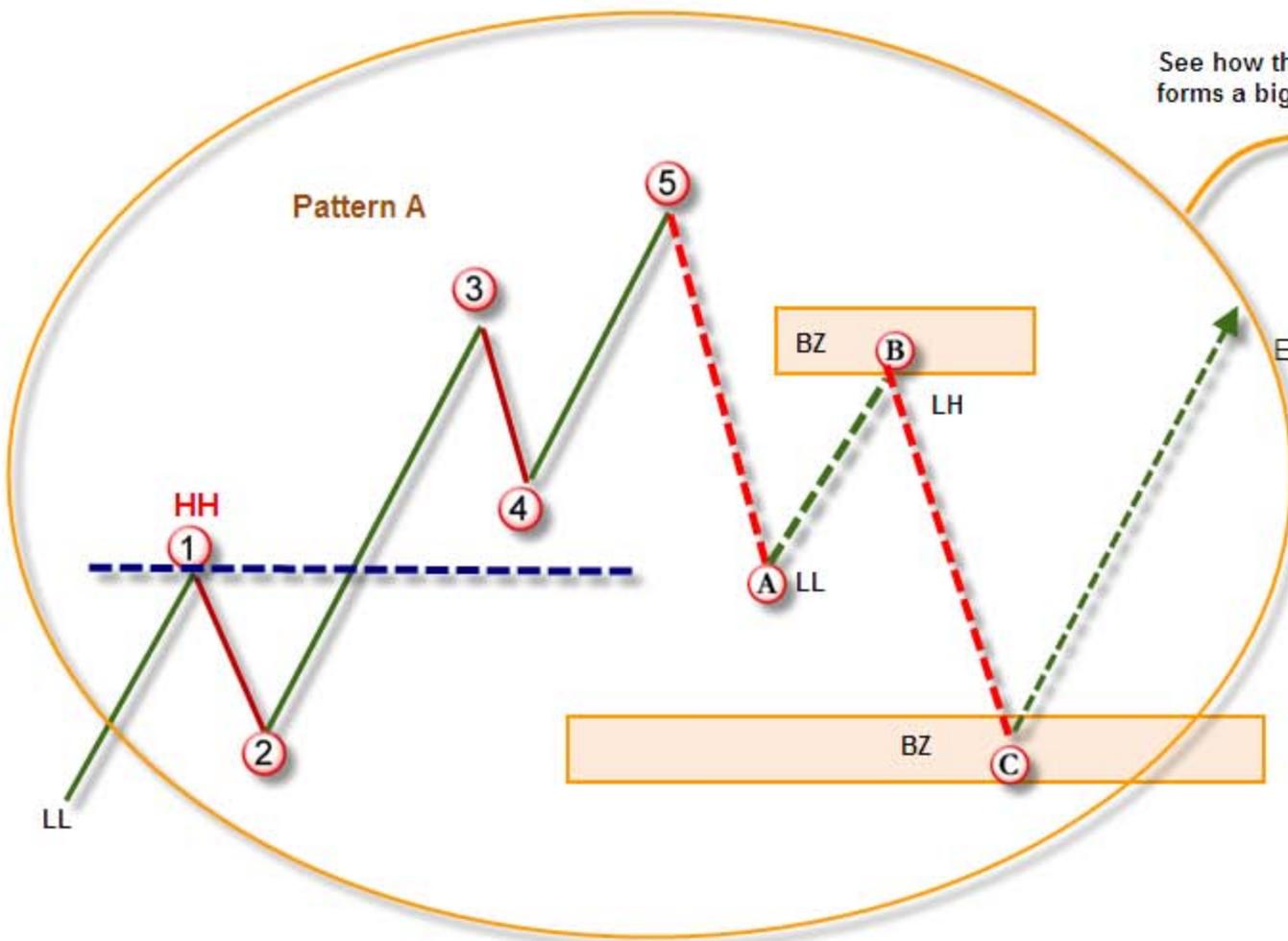
The exception are when the pullback on the pattern A goes to BZ and pullback on pattern B goes to W4 only. All this depends on how the players interact at the moment in time, but you can see what to expect and make a trading decision if you see the pattern. Anticipation is the key



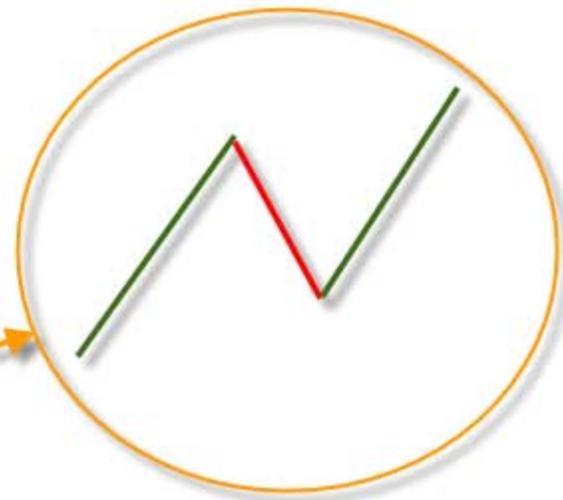
12:56:28 C:1539.25 H:1539.75 L:1539.00 O:1539.75 V:6,539 I:110 S:1544.05 10-26-07 M:0 67%



What happens if we get a pullback to the BZ after a 12345



See how the smaller pattern forms a bigger pattern



Expected direction

If we get an ABC after a 5 wave Wedge with a pullback to the BZ, the direction is now up.

Now treat the 12345 as a bigger Wave A, the pullback as Wave B and the green dotted line as a possible Wave C

So you see how a smaller pattern forms into a bigger pattern and one pattern leads to another and so on. When market loses symmetry, wait for direction. A sense of market direction is critical to success.

These are not how the market behaves always. What I have illustrated is a higher probability pattern and what to watch for. It does not over everything. Basic EW theory applies, but adding it all together takes time. Keep marking on charts at the end of the day and everything will become second nature as your progress

In general, a "long" wave up, with be followed by a "short" wave down and then another "long" wave up. The trick is finding the end of the short wave. It will tend to end where there's support usually BZ support, which is usually at w2 or 38% supp, which is usually at w4.

The end of one wave is the start of the next wave. Look for w2 to end at previous w2 sup, w4 sup or w1 sup (in that order)

When price is trying to find support, it will hesitate, consolidate, which gives the stochastic time to enter the buy zone, then if price moves up, it will pull the stochastic up out of its buy zone

This is the principle: 12345->4

Price doesn't just fall to the middle of nowhere, it falls to a recognizable support where buyers may enter. If price sup holds, then res. will be tested. In this case, the res = w5@1553

It's an endless game of testing res and sup.

-ZT

