

Module 3 Corrective Patterns

Learning Objects

Mathematical Applications
Retracements and Targets

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By now, we have completed our first Learning Object of Module 3 Corrective Patterns and learned about:

Corrective Wave Structure

Characteristics of Zigzags, Flats, Triangles and Combinations, and

Rules and Guidelines of Corrective Waves

In this Learning Object, we will learn about:

Mathematical Applications

Retracements and Targets

What if I told you that at the end of this Learning Object, you will be able to target each corrective wave using Fibonacci ratios? That's right – actually project the end of the corrective waves! Do you think that might improve your entry and exit strategy?

"If you hear a voice within you say 'you cannot paint,' then by all means paint, and that voice will be silenced."



Vincent van Gogh

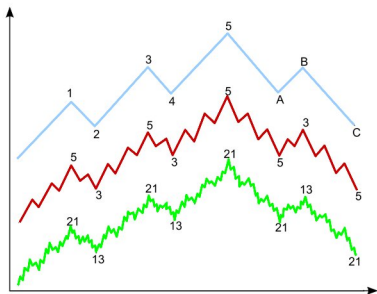
Vincent van Gogh once said, "If you hear a voice within you say 'you cannot paint,' then by all means paint, and that voice will be silenced."

This is the Learning Object where you might just hear that little voice saying, "this is too complicated for me to follow!" or "I can't do it!". Just do the work and that voice will be silenced. Practice enough and you will become a master at this Learning Object!

MATHEMATICAL APPLICATIONS

Wave Form:

Fibonacci numbers are found in Elliott's wave form.



1, 2, 3, 4, 5, A, B, C = **8 waves**

i ii iii iv v a b c etc. = **34 waves**

89 + 55 = **144 waves**

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Let's journey back in time again to Fibonacci!

We learned that Fibonacci numbers are found in Elliott's wave form.

We've also learned that waves unfold in every time frame in more or less the same way as a result of the fractal nature of the market.

For example, the basic 5-wave impulse and 3-wave corrective always subdivides into Fibonacci numbers. One complete cycle has 8 waves, and subdividing further, the next cycle has 34 waves, followed by 144 waves.

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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In addition to wave form, Fibonacci ratios are the most important use of the sequence.

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

For example, proportional relationships exist between the different waves. As such, Fibonacci ratios are used to target the ends of moves. These ratios help to determine price objectives in both impulse and corrective waves. Fibonacci ratios are the primary determinant of the extent of price movements in the market, so they are an important adjunct to the Elliott Wave Principle.

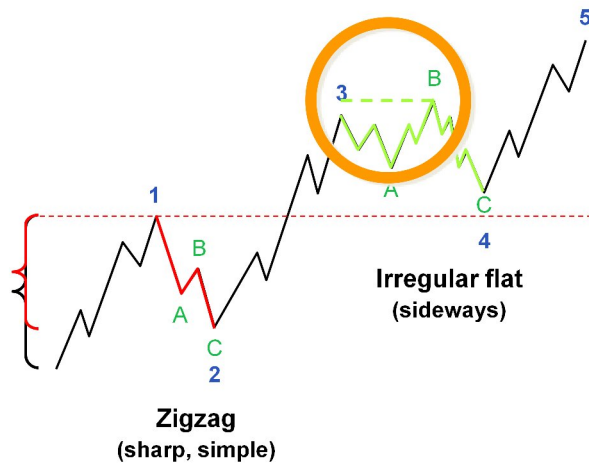
Markets retrace in accordance with these ratios.

The most common retracements for corrective waves 2 and 4 are 38.2%, 50% and 61.8%.

Projections or extensions have to do with projecting the impulsive waves 1, 3, and 5.

Common wave extensions are 161.8%, 261.8% and 423.6%, which is the least common and only occurs in extended waves.

RETRACEMENTS AND TARGETS



Wave 4 can also be a triangle or a complex combo

Guideline 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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Take a look at this 5 wave sequence labeled 1 abc (2) 3 abc (4) and 5. First, a comment about that sequence. We just learned all about corrections and the forms they may take. Here we have a wave 2 correction which is a zigzag, and very typical of wave 2's. The wave 4 correction is very different, as it takes the shape of an irregular Flat, where the B wave travels above the top of the previous impulse wave before making its way down in a C wave to complete the correction.

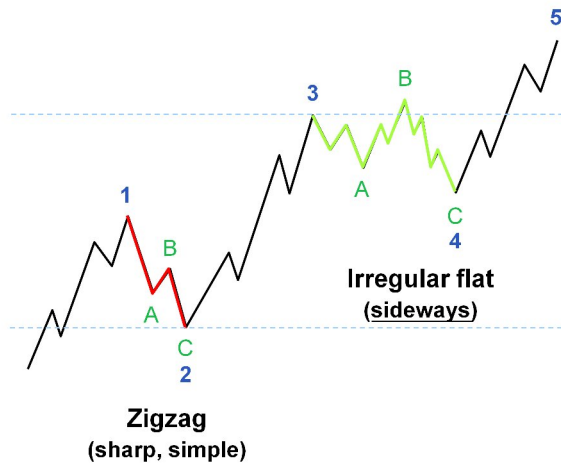
Note the wave 4 correction can also be a triangle or one of the complex combos that were described such as double and triple threes combinations.

The Guideline of Alternation also applies, since wave 2 is a sharp, simple zigzag correction and wave 4 is a sideways, irregular Flat correction.

Let's review the personality of wave 2. Wave 2 moves are usually sharp, correcting most of wave 1. Traders still think the wave 1 is a correction in a downtrend so traders haven't caught on to the possibility that the trend has changed. Therefore, wave 2 usually retraces between 50 and 61.8% of wave 1, not to exceed 100% of wave 1.

How do you trade the wave 2? When it appears that a 5-wave move up is complete in the wave 1, run the Fibonacci tool to project potential retracements for the wave 2. Then, either position yourself immediately short with a stop loss above the top of wave 1, or wait for the A down, B up, and sell there for the wave C down. Once the C wave has completed, you can place a buy with a stop below the start of wave 1. This is a low risk trade entry for the wave 3 move.

RETRACEMENTS AND TARGETS



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

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The Guideline of Alternation dictates that wave 4 is a sideways correction of wave 3 because wave 2 is a zigzag correction in this example of course.

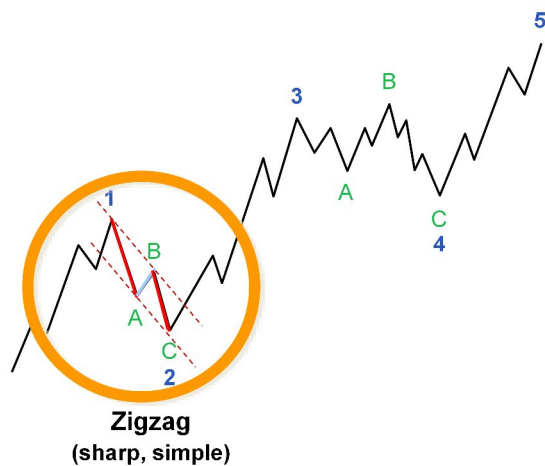
Wave 4 targets are:

- 0.236 times wave 3
- 0.382 times wave 3, and
- 0.50 times wave 3

When wave 3 is complete, use the Fibonacci tool to find the retracement levels for wave 4.

Wave 4 is a bit different from wave 2 in its retracement. Because its corrections are usually sideways and not sharp, it means that the corrections are usually between 38.2% and 50% of the wave 3 move. Again, the wave 4 personality is such that for those traders that missed the wave 3 opportunity to buy, they are looking to buy this wave 4 retracement for the wave 5 move up. Similarly, for those traders that bought the wave 3, they might look to take profits at this level. Regardless, because new buyers are coming into the market, wave 4 doesn't retrace as much as wave 2. In fact, sometimes the uptrend is so strong that wave 4 only retraces 23.6% of wave 3.

RETRACEMENTS AND TARGETS



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

- ❖ Zigzag B
(50 – 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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Corrective wave targets vary by pattern. Zigzags travel in 3 waves as in this example and both the wave B and C segments have their own targets.

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

For example, if B is a Zigzag, B will retrace between 50 and 79% of A

If B is a Running triangle, B will retrace 10 and 40% of A

Finally, if B is a Triangle, B will retrace 38.2 and 50% of A

The Wave C targets are as follows:

0.618 times wave A

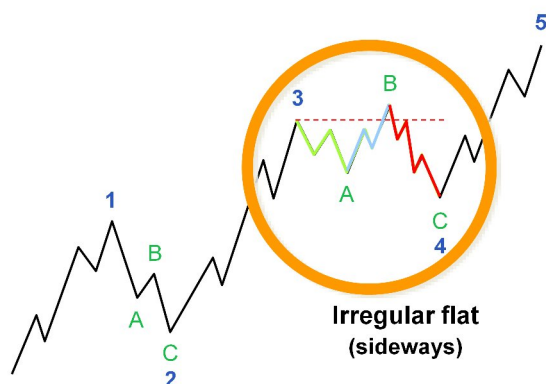
1 times wave A

1.618 times wave A

The most common wave C target is 1 times wave A, followed by 1.618 times wave A.

A second point worth mentioning is that of channeling a zigzag correction. A line connecting the beginning of wave A and the end of wave B is often parallel to a line connecting the ends of waves A and C. For forecasting the end of wave C, it often ends on a parallel line off of the end of wave A.

RETRACEMENTS AND TARGETS



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

This wave 4 example is that of an irregular flat.

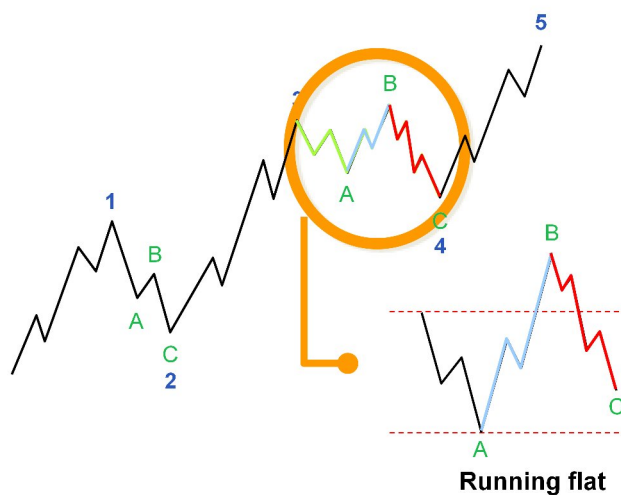
If however, wave 4 is a regular flat, where wave B does not go above the start of wave A, usually waves A, B and C are equal. Wave B always retraces to at least 90% of A.

If wave 4 is an irregular or expanded flat, as in this example, then:

Wave B is usually 1.236 times wave A or 1.382 times wave A

Wave C is usually 1.618 times wave A or 2.618 times wave A

RETRACEMENTS AND TARGETS



If wave 4 is a running 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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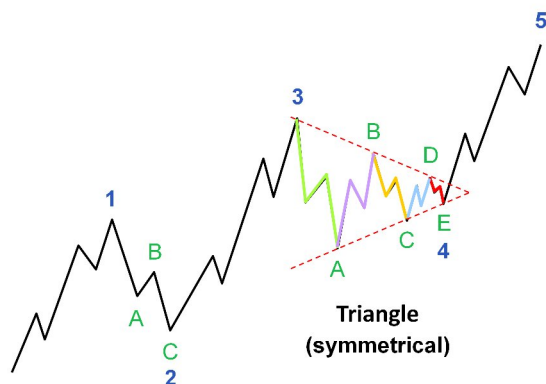


If wave 4 is a running flat, then:

Wave B is usually more than 1 times wave A, and
Wave C does not extend beyond the end of wave A

The characteristic of a running flat is that the trend is very strong and wave C falls short of the typical move one can expect.

RETRACEMENTS AND TARGETS



If wave 4 is a 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 B

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Triangles have their own wave targets.

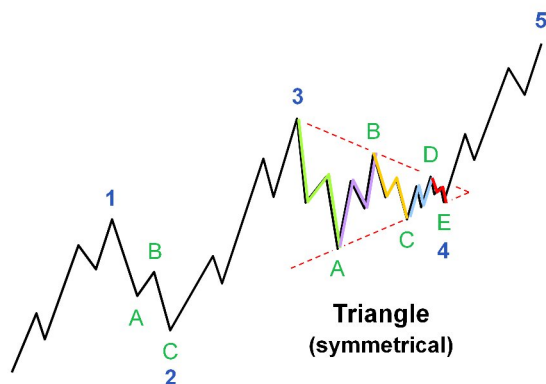
If wave 4 is a symmetrical, ascending or descending triangle, most commonly, each sub-wave is 0.618 times the length of the previous alternate sub-wave:

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

Wave C is 0.618 times wave A, and

Wave D is 0.618 times wave B

RETRACEMENTS AND TARGETS



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

For example, wave E is:

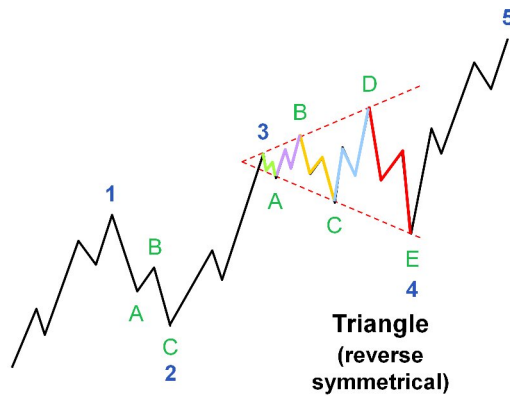
- ❖ 0.618 times wave D
- ❖ 0.382 times wave C
- ❖ 0.236 times wave B
- ❖ 0.146 times wave A

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

Wave E is:

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

RETRACEMENTS AND TARGETS



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

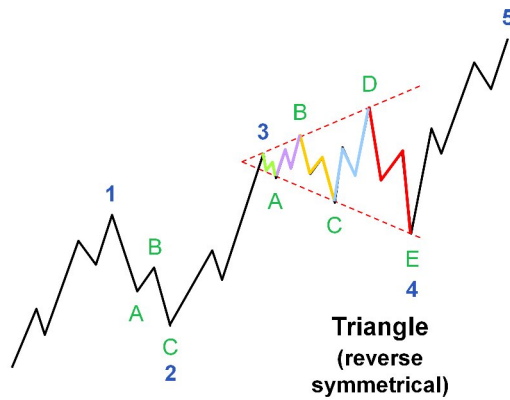
- ❖ Wave E is 1.618 times wave C
- ❖ Wave D is 1.618 times wave B
- ❖ Wave C is 1.618 times wave A

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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

RETRACEMENTS AND TARGETS



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

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The next most common relationship is 1.618 times the previous adjacent subwave.
Wave E is:

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

End of Learning Object
Continue on to the Quiz

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This is the conclusion of the learning object. Please continue on to the quiz.

Module 3 Learning Object 2 Quiz

True or false: When wave 2 is an A-B-C zigzag, wave B retracement of wave A depends on what pattern wave B is comprised of.

- ☐ a) True
- ☐ b) False

When wave 4 is an irregular flat, the targets of wave 4 are: Choose at least one answer.

- ☐ a) 0.382 times waves 3
- ☐ b) 0.236 times waves 3
- ☐ c) 2.618 times waves 3
- ☐ d) 0.50 times wave 3
- ☐ e) 1.618 times wave 3

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1. a)
2. a) b) d)

Module 3 Learning Object 2 Quiz

If wave 4 is a triangle, how should we count the waves? Choose one answer.

- ☐ a) i, ii, iii (A), I, ii, iii, iv, v (B), i, ii, iii (C), i, ii, iii, iv, v (D), i, ii, iii (E)
- ☐ b) You lost me at, "if wave 4 is a triangle."
- ☐ c) i, ii, iii (A), i, ii, iii, (B), i, ii, iii (C), i, ii, iii (D), i, ii, iii (E)
- ☐ d) i, ii, iii, iv, v (A), i, ii, iii (B), i, ii, iii, iv, v (C), i, ii, iii (D), i, ii, iii, iv, v (E)
- ☐ e) i, ii, iii, iv, v (A), i, ii, iii, iv, v (B), i, ii, iii, iv, v (C), i, ii, iii, iv, v (D), i, ii, iii, iv, v (E)

Wave 4 retracements (of wave 3) are typically: Choose atleast one answer.

- ☐ a) 38.2%
- ☐ b) 88.5%
- ☐ c) 50.0%
- ☐ d) 13.2%
- ☐ e) 66.6%

3. e)

4. a) c)

Module 3 Learning Object 2 Quiz

True or false: Ratio analysis is used to target corrective waves.

- ☐ a) True
- ☐ b) False

True or false: If wave 2 is a sharp zigzag, then wave 4 will always be an A-B-C-X-A-B-C combination.

- ☐ a) True
- ☐ b) False

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- 5. a)
- 6. b)

Module 3 Learning Object 2 Quiz

True or false: If wave 4 is a symmetrical triangle, each sub-wave is most commonly 0.618 times the length of a previous alternate sub-wave.

- ☐ a) True
- ☐ b) False

What does it mean if wave 4 is an A-B-C running flat? Choose at least one answer.

- ☐ a) Wave A is more than 1 times wave B
- ☐ b) Wave 4 is likely to run away from the dominant trend
- ☐ c) Wave B is more than 1 times wave A
- ☐ d) Wave C does not extend beyond the end of the wave A
- ☐ e) Wave C is likely more than 1 times wave A

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- 7. a)
- 8. d)

Module 3 Learning Object 2 Quiz

Wave 2 retracements (of wave 1) are typically: Choose atleast one answer.

- ☐ a) 61.8%
- ☐ b) 33.3%
- ☐ c) All of these
- ☐ d) 161.8%
- ☐ e) 50%

Bonus question! Fill in the blanks 5, __, __, 21, __, __, 89, __, Choose one answer.

- ☐ a) None of these
- ☐ b) 8, 13, 34, 55, 144
- ☐ c) 7, 11, 29, 45, 123
- ☐ d) 6, 20, 22, 88, 90
- ☐ e) 10, 19, 25, 48, 125

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- 9. a) e)
- 10. b)

Module 3 Learning Object 2 Quiz

The Guideline of Alternation dictates that if wave 2 is an A-B-C zigzag correction, wave 4 will likely be a _____. Choose one answer.

- ☐ a) Rhythmic correction
- ☐ b) Smooth correction
- ☐ c) Sharp correction
- ☐ d) Sideways correction
- ☐ e) Any of these

True or false: If wave 4 is a reverse symmetrical triangle, each sub-wave is most commonly 0.618 time the length of previous alternative sub-wave.

- ☐ a) True
- ☐ b) False

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11. d)

12. b)