

# "The science of probability" "Market Analysis"

13

Market action provides the structure, we use structure knowledge to find opportunity. ☺

Wave principle does not explain event based volatility from economic indicator news such as GDP, Non-farm payroll, trade balance, CPI/PPPI

However, when we have parabolic price movements, we expect a return to at least the origination area.

ex.

↙ too steep,  
Should go back  
↗ no speed bumps.

Impulse rules: always 5 wave subdivision

wave 1: impulse (rarely diagonal)

wave 3: impulse

wave 5: impulse (rarely diagonal)

\*

(impulse if)

1 3 5 never all extension, wave 2 never moves beyond the start of wave 1.  
wave 3 is never the shortest, wave 4 never moves into wave 1 area.

Center of wave 3 is usually the steepest, if wave 3 is extension then wave 1 and wave 5 will have a Fibonacci relationship.

wave 1 extended will have fibonacci relationship to the rest of the impulse from waves 3 through 5.

If wave 1 is a diagonal, then wave 3 is likely to be an extension.

If wave 3 is not extension, then wave 5 is likely a diagonal...  
(to work its way out ☺)

When counting waves, these guidelines can help . . . .

\* ? extension, alteration, overlapping, channeling? \*

Deductive reasoning ☺ "its fun"

☺ Motive or correction structure?

"cyclical analysis"

Identify market lows (buy area)

Identify market highs (sell area)

we can practice our analysis and setting targets .

Stage one is for learning . . . .

Stage two : conquering emotions into consistent rule based trading .

All 3 motive waves will have a Fibonacci relationship .

61.8% or 38.2%

adjacent waves are supposed to be related by Fibonacci ratio . ☺ hmmm . . .

O.K. now on to corrective stuff ☺

yes grasshopper . . . - grasshoppers for life . . .  
and grasshoppers know things too . . .

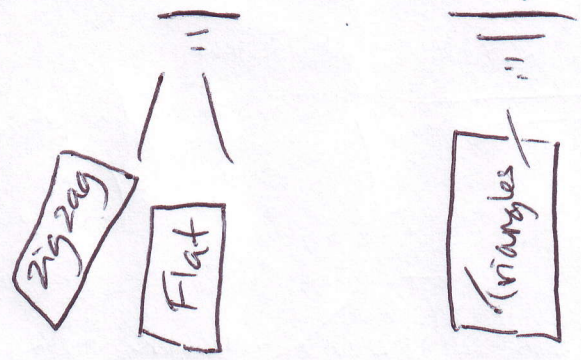
attitude of gratitude, pray to stay in the moment  
and we pass the test in God's book . . . ☺

# Corrective waves have numerous variations

(our knowledge of structure and supply and demand is our leverage)

Corrective waves can be divided into 3's and triangles ...

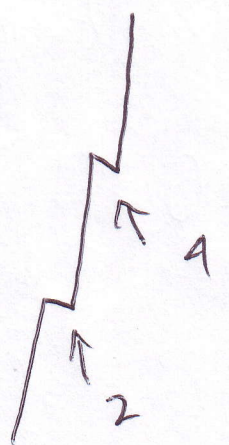
"Corrective" waves are there to deal with the motive wave that moved with varied degrees of optimism or pessimism ...



So a b c is corrective 1 3 5 ... we can view it this way in the 1 hour charts ... wow! Natures balance through humans 😊

3's and triangles can also string together to form "combined corrections"

(lets not say the word complex because we are keeping it simple 😊)



2 and 4 are our corrections to 1 3 5 😊

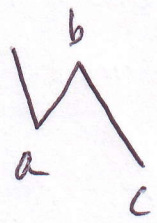
an example would be Zigzag in wave 2 and triangle in wave 4.

\* 2 and 4 tend to alternate correction types

Corrective waves can be more difficult to recognize than motive waves ...  
A 5 wave movement against the trend is never the end of a correction ...  
we have ① sharp corrections and ② sideways correction

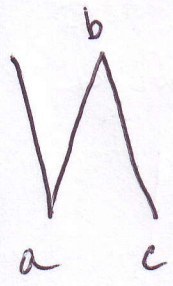
- ||
- 3 main corrective patterns
- ① zigzag correction
  - ② Flat
  - ③ Triangle

Zigzag

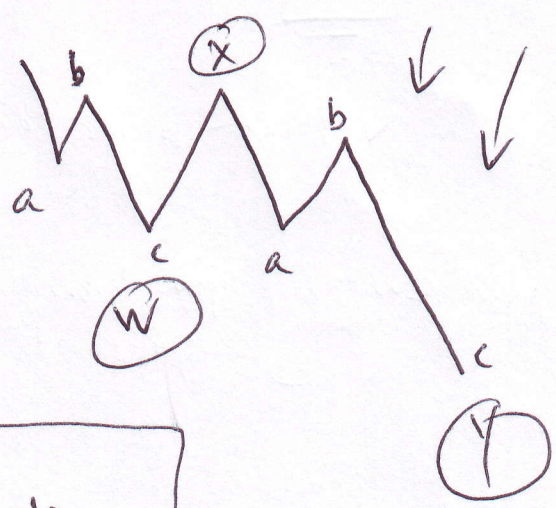


if the target has not been reached we get a double zigzag ...

Flat correction



terminates near the start of a  
(b bounces back from lack of A momentum)

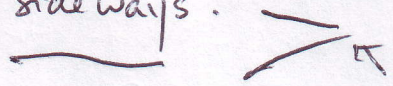


The more powerful the trend .. we get flats ...  
That's why B pushes back ... 4th waves tend to be flats ... (impulse)

WXY is larger degree

- Regular flat: wave B terminates where A started.
- Expanded flat: wave B terminates beyond start of A. and C goes beyond A.
- Running flat: "correction" 5 waves instead of 3 (rare) (running triangle is more common)

Triangle Correction

triangles take their time and like to go sideways.  convergence points are key price turns...

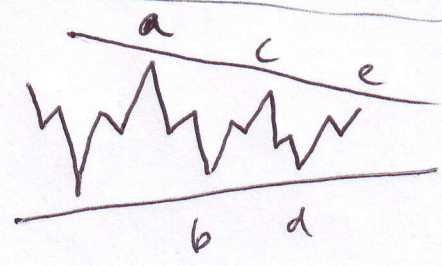
often occurs before the last impulse wave in next larger degree.

ex: wave 4 or wave B rarely in 2nd wave

3's 

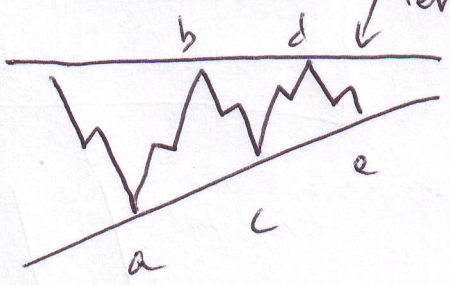
"Sideways movement"

Contracting triangle

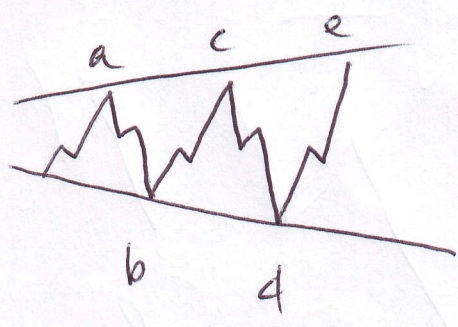


Barrier triangle

relatively level



Expanding triangle



Sometimes a "double three" or "triple three" occurs. (for price retracement to occur) "adequate retracement"

Most common is a flat and zigzag or triangle. Horizontal in nature and alternates between patterns... (though at times zigzags are not so horizontal)

When counting ... Impulse : 5 waves (with extensions 9 or 13 waves)

Corrective : 3 waves (7 or 11 waves)

Knowing the requirements of a wave helps us ...

We can expect alternation with correction ... ex: 2 sharp correction wave

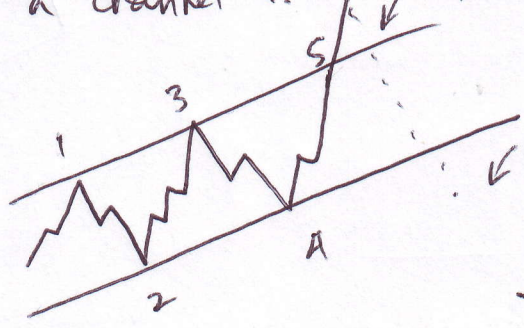
When a large correction begins with a simple a-b-c, then the larger next degree B wave will stretch out 5-3-5 (complex stuff ... so anyway ...)

wave A - sideways (and vice versa)

~~will stretch out 5-3-5 (complex stuff ... so anyway ...)~~

Don't worry about this one ... but what was that ... if large correction begins with simple a b c ... well we will check it out some other time

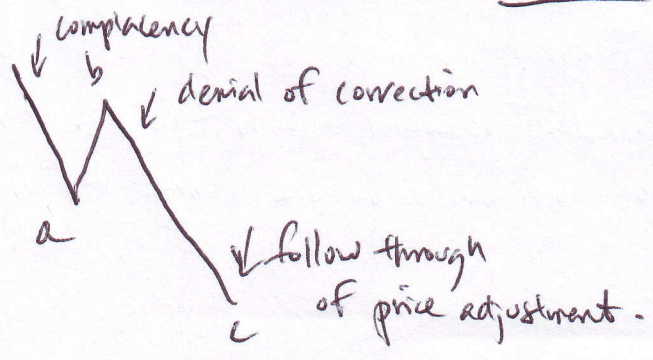
When in a channel ... "throwover" ? corrective channel? hmmm ...



parallel channel = lets wait for recognizable structures to unfold.

~~For our abc correction ...~~ A waves : traders think its just a pullback.

Corrective



5 waves in a indicate a zigzag for b.  
3 waves a indicates a flat or triangle.

B waves are usually completely retraced by C.

C waves : extreme price movements, they have wave 3 properties.

a C wave may occur for years making people think we have a new trend ... yet still correcting .. ☹

D waves : similar to B wave.

E waves : like 5<sup>th</sup> waves --- ending waves.

wave 4 usually ends in the price range of subwave 4 of 3<sup>rd</sup> wave.

wave 4 is a key juncture for the motive Fibonacci relationship.  
(time and price)

Zigzag rules  
guidelines

always subdivides into 3 waves.

wave A : impulse or leading diagonal.

wave B : flat, zigzag or triangle (or combination)

wave C : often the same length as A.

Flat rules  
guidelines

Always 3 waves.

wave A is never a triangle.

wave B retraces at least 90% of wave A.

wave C is impulse or diagonal.

**Flat guidelines:**

wave B retraces 100% and 138% of wave A.  
wave C is usually 100% and 165% of wave A.  
wave C ends beyond wave A.

**Expanded flat:**

<sup>wave</sup> B is more than 105% as long as wave A, and wave C beyond A.

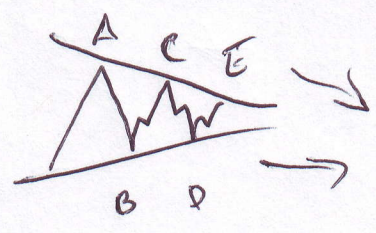
**Running flat:**

<sup>wave</sup> B is more than 100% of A, wave C does not end past wave A.

(is this like a corrective channel?) ↴

**Contracting Triangle**

a triangle is in 5 waves. ABCDE  
A waves will be a zigzag or combination



next wave doesn't move beyond each other. ↴

<sup>wave</sup> C is usually a zigzag, <sup>wave</sup> CD or E will be a contracting or barrier triangle.  
Sometimes B will pass A ("running triangle") 60% of time

**Barrier triangle**

: remember that B and D are at same level.

**Expanding triangle**

: opposite of contracting triangle.



Wow! How does the hourly chart structure go along ed subdivisions in 1 min? (21)

!!  
☺

~~And~~ And in a particular place, is the structure a motive or corrective....?

**Corrective continued**

: 2 or 3 corrective patterns separated by one or two corrective patterns in the opposite direction.

**Zig zags**

= 2 or 3 zigzags ("double or triple")

**"Double three" flat combination**

: ① zigzag / flat ② flat / zigzag  
③ flat / flat ④ zigzag / triangle  
⑤ flat / triangle

triple flat is 3 flats.

(these combinations sometimes replace flats and triangles)

If a zigzag or flat seems too small, it's probably part of a combination.

As we learn ratio analysis, we will notice the ratio relationships.

ex: wave 2 tends to correct sharply 68% or 50%  
(or wave B of 1 hr zigzag)

!!  
☺

- or leading diagonal for wave 1 maybe zigzag of 78.6%.

- sideways corrections tend to retrace 38.2% of previous wave (ex: wave 4)

**Alternate wave relationships are very important**

relationships cont.

when wave 1 is extended, wave 2 will establish the division into the "golden section"



(just like wave 4 does too when 1 is not extended)

wow!

Wave 1 is an extension or not

an extension, that is the question!

ex: 38.2% remainder

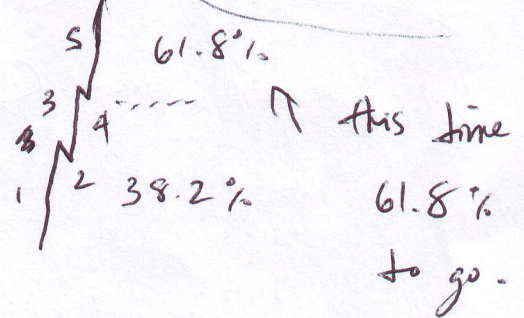
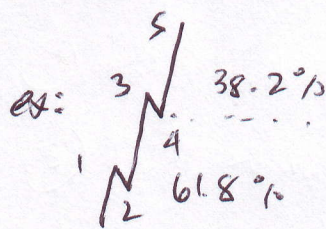
to be completed.

"To be or not to be" ... da da da ... have fun enjoy the discovery Be ... be still ... leave well enough alone n' don't rush ...

Shakespeare

we have to learn to enjoy the process, and things that cost less ...

Wave 4 end point will vary



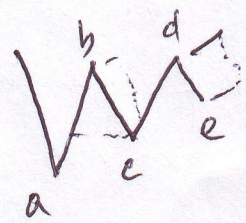
Relationship cont.

In a zigzag -- wave A is usually equal to wave A. (or 61.8% of A rarely)

In a regular flat A, B, and C are usually equal (approximate)

In expanded flat B may be 38.2% beyond A.

In a triangle, at least two of the alternating waves are related by 61.8%.



e is 61.8% of c ...

How bout that ...