Trader Education Tutorial

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Simple ABC Corrections – End-of-Wave Projections

Once a correction begins, our assumption is always that the correction will at least take the form of an ABC. It may end up being more complex but we must begin with some assumption in order to have a framework from where to make a trading decision.

Pattern

Let's start by looking at a recent ABC correction in the **(Dec) S&P** to demonstrate what an ideal completed ABC **Pattern** looks like and how an ABC typically subdivides:

Simple ABC corrections (also called zigzags) are normally made up of 3 sections, where 2 sections are in the direction of the correction, Wave (C) and Wave (A), where:

- **Wave (A)** can sub-divide into _5 or 3_ waves _of lesser degree_ and
- **Wave (C)** _typically_ sub-divides into _5 waves_ _of lesser degree_.

These 2 waves are connected by a _corrective wave_ (correction within a correction) which is Wave (B) where

- **Wave (B)** _typically_ sub-divides into a simple ABC _of lesser degree._

The objective is to identify the high-probability termination of an ABC correction to enter a trade in the direction of the main trend. So our objective is to identify the end of the Wave (C). Hence all our **Price** and **Time** calculations will focus on trying to identify, *in advance*, the potential termination of the (C) Wave.
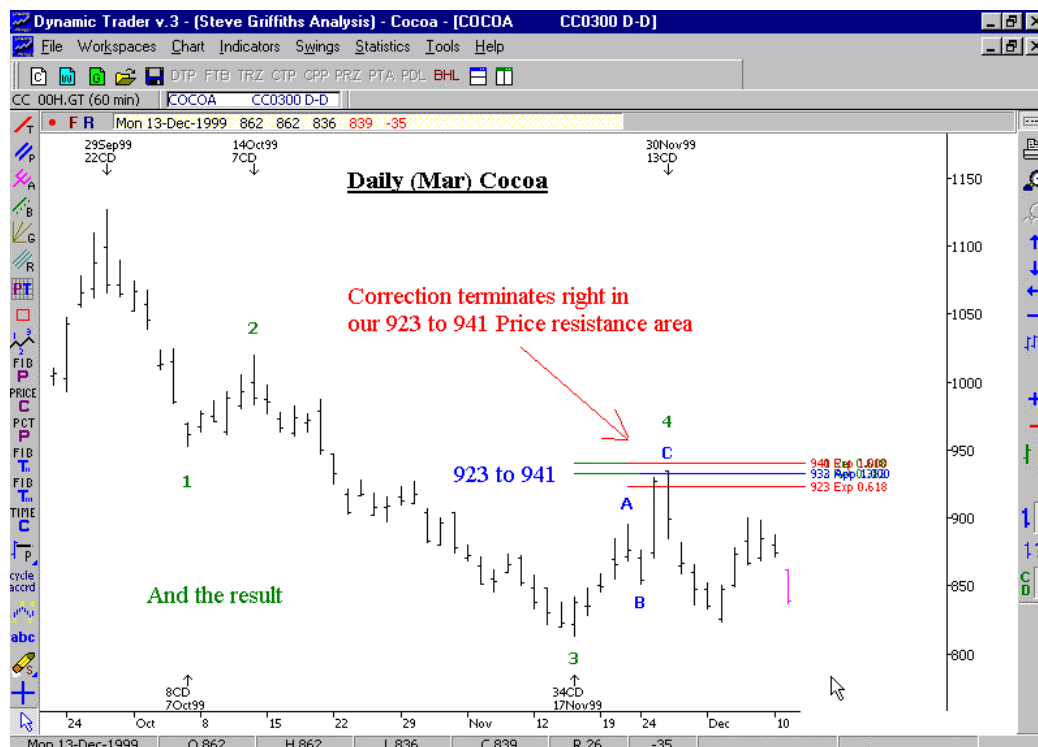
Price.

Ideally, Wave (C) terminates at a *cluster* of **Price** projections from *both* the Wave (A) and (B) and retracements of the prior trend.

Let's first look at the **Price** projections using Waves A and B where we include -

- **Wave (C)** = 0.618%, 100% or 1.618% **Wave (A),** and
- **Wave (C)** = 1.272% or 1.618% external Ret of **Wave (B)**

- Then we add the **Price** retracements of the prior trend or trends.

Now we can start to look for areas where **Price** relationships from these different calculations are *clustering* together in a relatively tight range. Let's have a look at a recent example on (Mar) Cocoa

Potential Wave C Price Target: 923-941 The End-of-Wave-C price projections fall so close together that they are difficult to read on the chart below because they overlap each other.

The **Price** resistance area is made up of the cluster of:

1. Wave C = 100% Wave A
2. Wave C = 1.618% Wave B
3. 61.8% Retracement of the Prior swing, Wave (3)
4. 38.2% Retracement of the Prior two swings, Waves (1) – (3)

Time .

The time projections are done in the same manner as the price projections except we use time units instead of price units. Ideally, Wave C terminates at a *cluster* of **Time** projections from *both* the Wave A and B and retracements of the prior trend.

Let's first look at the **Time** projections using Waves A and B:

*   **Wave C** = 0.618%, 100% or 1.618% **Wave A,** and
*   **Wave C** = 0.618%, 100% or 1.618% **Wave B**

*   Next we add the **Time** retracements of the prior trend or trends.

As with **Price**, we will start to look for areas where these different **Time** ratios are *clustering* together in a relatively tight range. As with **Price**, the most important of these is where **Wave C = 100% Wave A.** Let's have a look at a recent example on a 60min chart of (Feb) Heating Oil.

Potential Wave C Time Target: 12:50 on 10th Dec – 12:50 on 13th Dec

This time range is actually less than one trading day as it falls from mid-day on a Friday to mid-day on Monday.

The **Time** resistance area is made up of the cluster of:

1. Wave C = 100% Wave A
2. Wave C = 100% Wave B
3. 38.2% Prior two swings, Waves (1) – (3)

Trading Lessons

1. We always assume a correction will at least take the form of an ABC zigzag so we have a framework from where to do the analysis and consider a trading strategy.

2. The high probability time and price targets for the End-of-Wave-C or any other wave for that matter may be calculated *in advance*.

3. If the market reaches the coincidence of time and price projections for the End-of-Wave, we use *trend-reversal trade-entry strategies* to enter a trade with minimum capital exposure.

The *Dynamic Trading* book includes a table of the End-of-Wave price and time projections for every pattern set-up. The Trade Management chapter of the *Dynamic Trading* book describes several low-risk trend-reversal and trend-continuation entry strategies.