

Trader Education Tutorial

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Wave 2 or B Corrections

A Wave 2 or Wave B is the *first* correction off the *first* move off a major Top or Bottom, and as such offer some of the best trading opportunities, as they give you the chance to enter a new trend very close to its beginning.

Time, Price and Pattern of a Wave 2 or Wave B

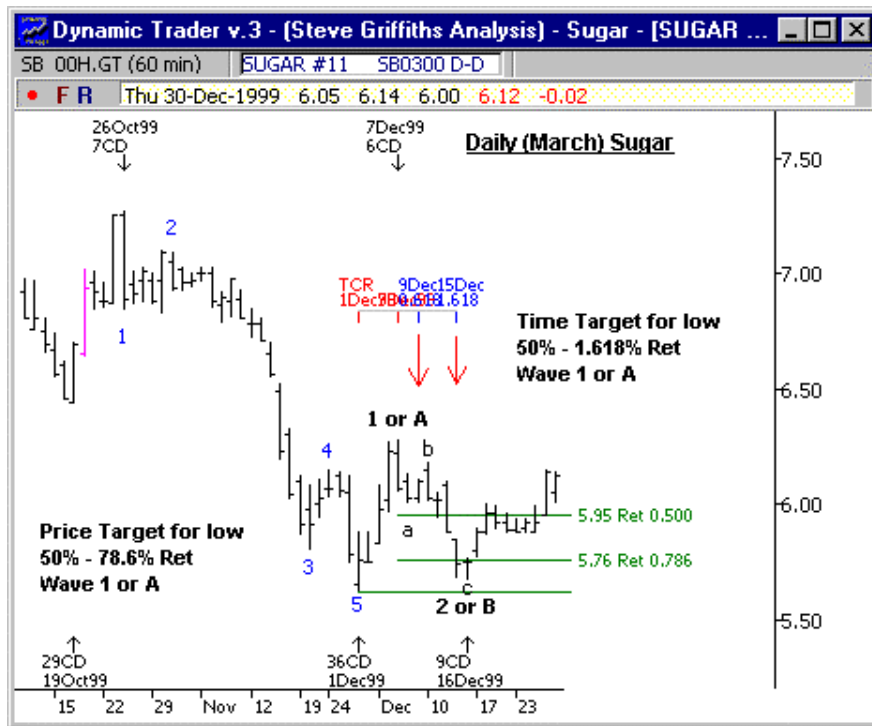
Let's start by summarizing the *minimum*, *typical* and *maximum* **Price**, **Time** and **Pattern** characteristics of a Wave 2 or Wave B:

Pattern: Normally make in a simple ABC pattern, also called a zigzag.

Time: Normally terminate between in the 50% to 1.618% **Time** retracement of the first swing (Wave 1 or A) and *typically* at or near either a 0.618% or 100% **Time** retracement.

Price: Normally terminate in the 50% to 78.6% **Price** retracement range of the first swing (Wave 1 or A) and *typically* at or very near the 50% or 61.8% **Price** retracement.

Let's have a look at a recent example for Sugar from the Dynamic Trader Report.



Sugar made an important low on 1st December and then rallied into the 7th December high. This was the *first* rally off a potentially *important* bottom and can be considered

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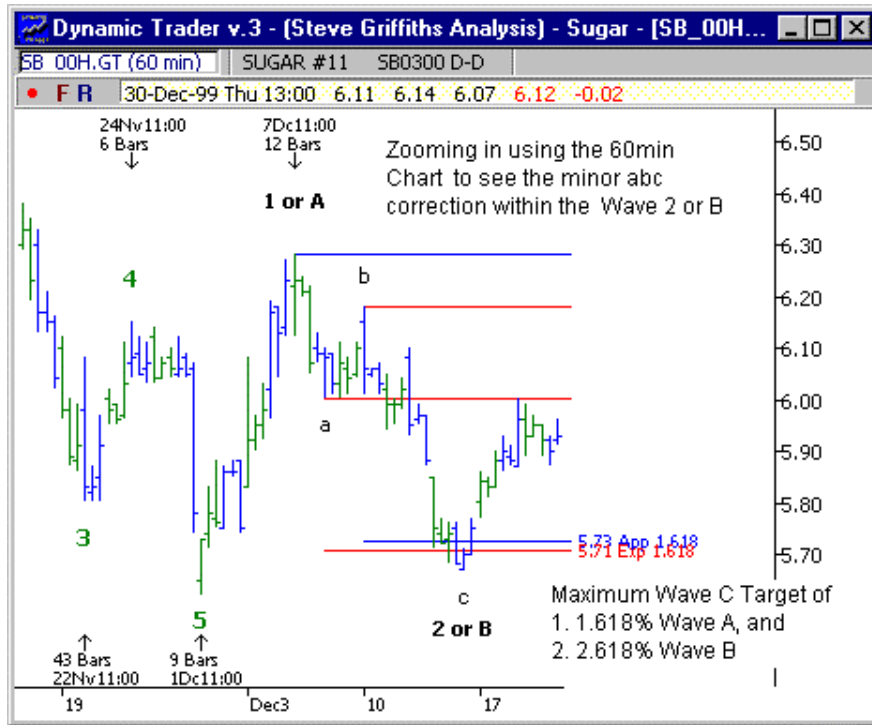
a potential Wave 1 or A. Our task now is to identify *in advance*, the areas in **Price** and **Time** where what we anticipate to be the Wave 2 or B low is likely to terminate.

- **Time Target** The 50% - 1.618% time retracement of the 1st Dec – 7th Dec rally falls on 9th – 15th December.
- **Price Target:** The 50% - 78.6% price retracement of the 1st Dec – 7th Dec rally falls at 5.95 – 5.76.

These are the broad time and price zones where we need to be alert for the termination of a Wave 2 or B low.

As the correction unfolds, we will monitor the minor **Pattern** which *typically* will take the form of a simple abc. We can then use this minor abc to narrow down our initial **Price** and **Time** targets for Wave 2 or B to get a better idea of when and where we anticipate the Wave C or 2 or B low could terminate.

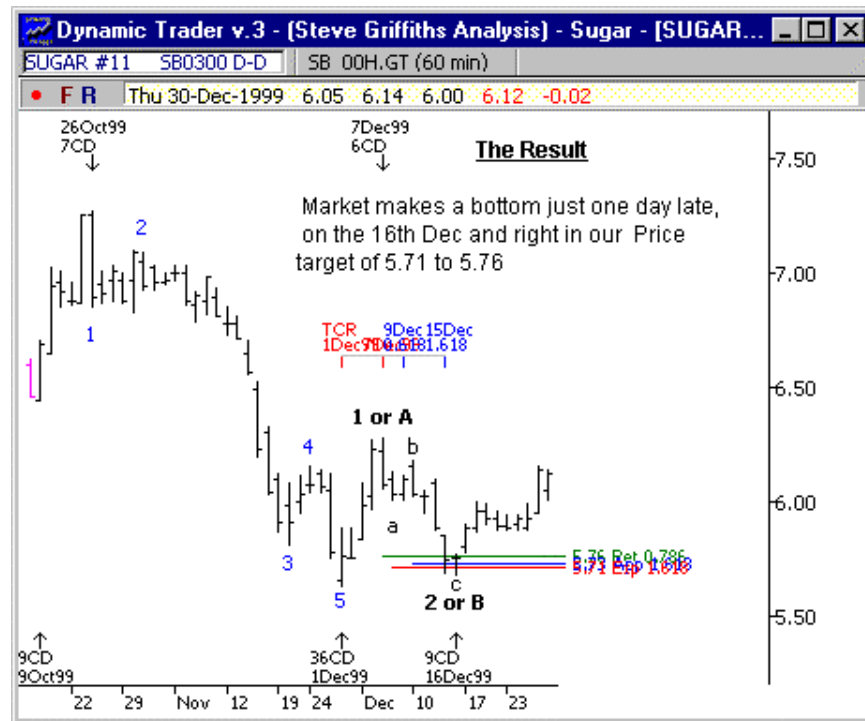
Let's now zoom in using a 60min Chart to see the detail of this abc correction:



The *maximum Price* target for the termination of a Wave C is 1.618% Wave A at 5.73 and 1.618% Wave B at 5.71, both fall in the *same area* as the *maximum Price* retracement anticipated for Wave 2 or B at the 78.6% Wave 1 or A at 5.76. In other words we have a *cluster of different* relationships from *different* swings and *different* degrees of swing all falling in the same narrow price area.

The maximum price target for a Wave 2 or B corrective low now becomes the coincidence of the maximum targets for Waves 2 or B *and* the maximum targets for Wave C or 2 or B which is 5.76-5.71.

Let's see how this looks on the chart:



Sugar made a bottom right in our **Price Target Zone** of 5.76 – 5.71 on Dec. 16, just one day past the 162% Time Retracement. All these calculations were performed *in advance* of this bottom forming. Sugar has continued to rally since this low.

When Price, Time and Pattern coincide, change is inevitable.

Lessons Learned

1. The price and time targets for any wave structure may be projected *in advance*.
2. If we can identify the subdivisions of any pattern structure, we can make much more narrow price and time projections.
3. The most reliable price and time projections for the termination of a trend or counter-trend is when the projections from at least two degrees overlap.

More On Price and Time Projections

The Dynamic Trading book provides an easy to use table with the high-probability price and time projections for any market structure. *Dynamic Trading* was named the 1999 Trading Book of the Year by the Supertraders Almanac.

For complete information on Robert Miner's *Dynamic Trading* including a complete table of contents, go to our web site at www.dynamictraders.com.