

Trader Education Tutorial

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ABC Contracting Triangle Corrections

Once a correction begins, our minimum assumption for the pattern of the correction is always it will at least take the form of an ABC. Normally this is a simple ABC also called a zigzag where the Wave-C extends past the Price extreme of Wave-A. But sometimes the correction unfolds in a more complex manner. This week I would like to look at one of these more complex variations, the contracting Triangle. This pattern is most commonly found in Wave 4's while Wave-2's are more commonly a simple ABC.

Most corrections terminate at **Time** and **Price** clusters, so our aim is to identify, *in advance*, the most likely areas in both **Time** and **Price**, where we should be particularly alert for a change in trend.

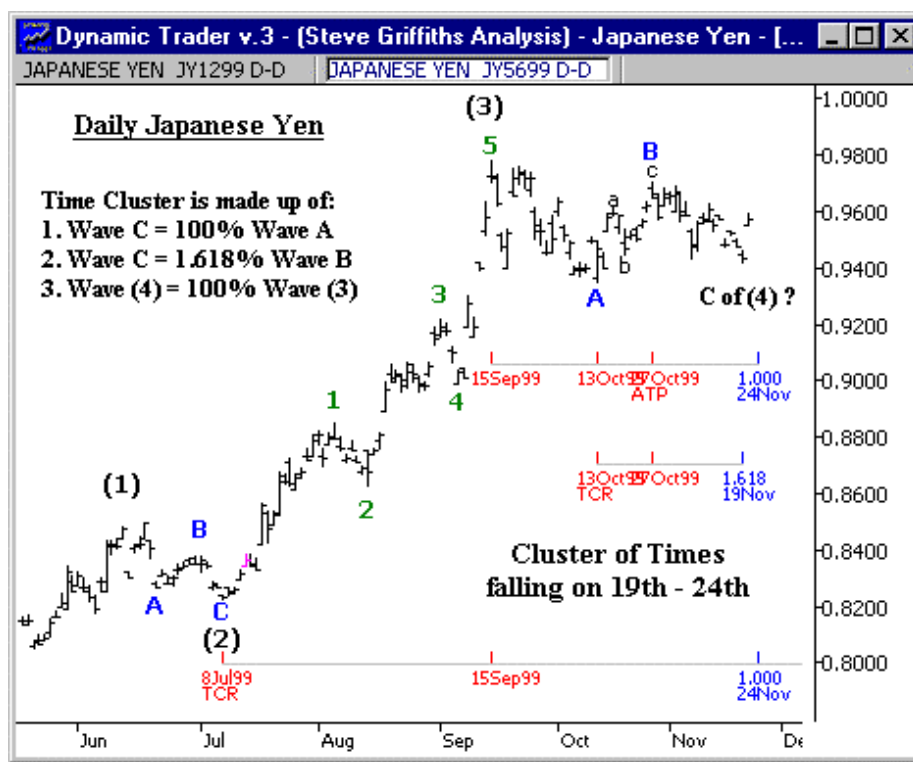
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Time

As with all our **Time** calculations, we are looking for a place where *different Time* relationships from *different* swings and *different* degrees of swing are *clustering* together in a *relatively tight range*.

To build up this **Time** cluster we start to add *one by one* some of our **Time** relationships for a Wave C that I went through last week paying particular attention to the Wave C = 100% Wave A relationship. Last week's tutorial may be downloaded from the Traders Education Archives. See the link at the end of this article.

We then continue to add in some of the **Time** relationships for a Potential Wave (4), (as this correction appears to be making up part of a wave 4) again, keeping things really simple, concentrating on the main Fib ratios. Let's take a look at a Daily Chart of the Japanese Yen -



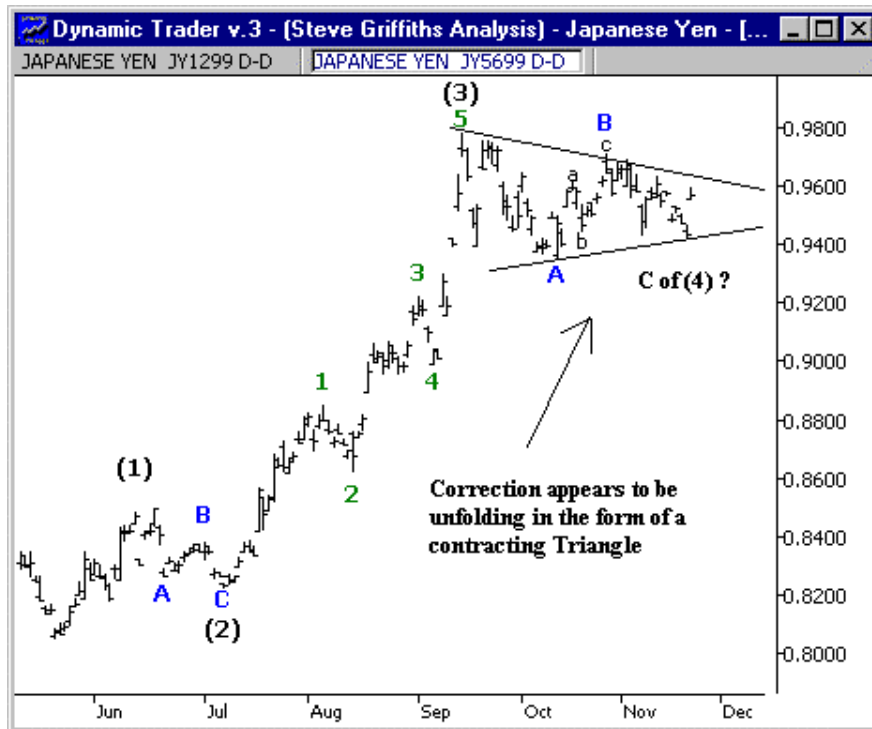
Where a *cluster* of **Time** relationships is starting to unfold:

- Wave C = 100% Wave A on the 24th Nov.
- Wave C = 1.618% Wave B on the 19th Nov
- Wave (4) = 100% Wave (3) on the 24th Nov

All these are *clustering together* in a relatively tight range of 19th – 24th Nov. Hence this is *when* we should be particularly alert for this ABC triangle and hence the Wave (4) correction to complete.

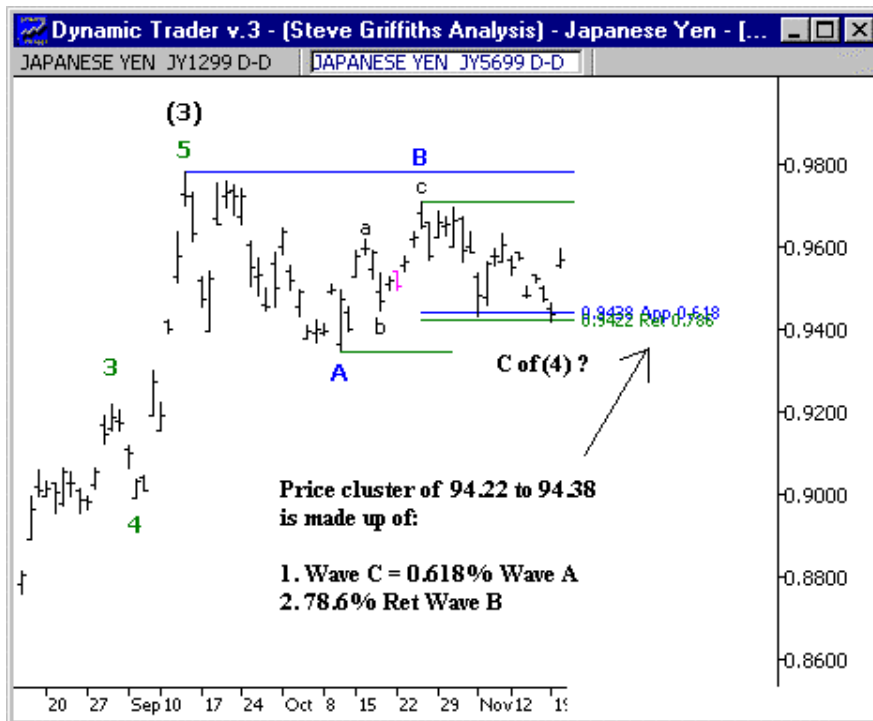
Pattern

The yen appears to be tracing out the form of a triangle on your chart, with the correction compressing into a narrower and narrower range. This is normally where the market is pausing, in a period of indecision, before a new piece of news sends the market on its way again. These types of corrections may contain either three (ABC) or five (ABCDE) waves. In both cases, the termination of the correction at the C or E wave will normally terminate at a cluster of Fib retracements of the prior swing and a Fib alternate Price Projection



Price

As with our **Time** calculations, we look for a place where different **Price** relationships from different swings are *clustering* together in a relatively tight range.

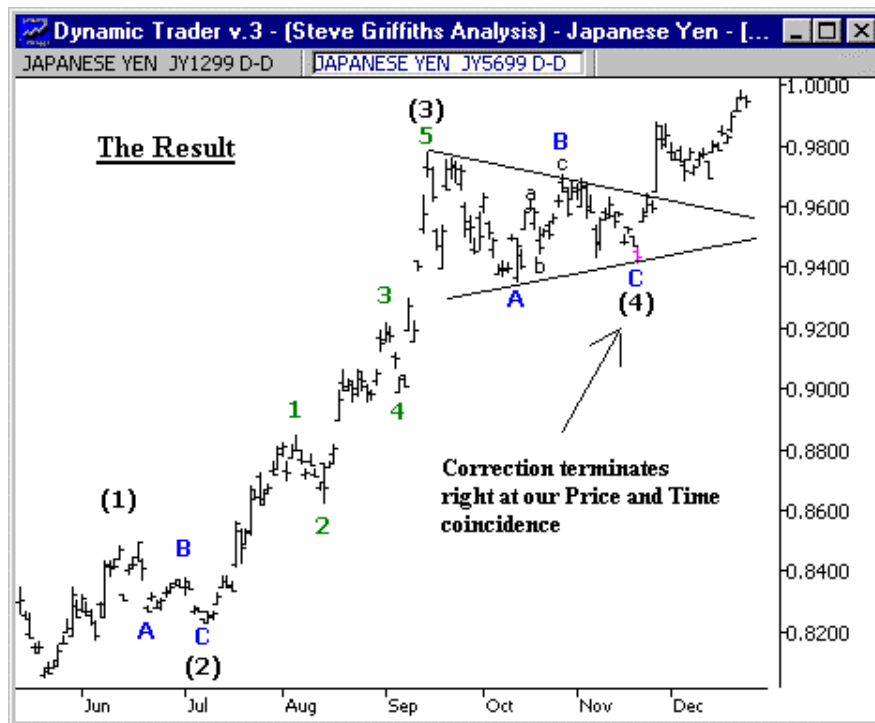


Here we have a cluster of **Price** relationships in a relatively tight range of 94.22 to 94.38

- Wave C = 0.618% Wave A at 94.38 (Alternate Price Projection)
- 78.6% Ret of Wave B at 94.22 (Retracement of prior swing)

When Price and Time Coincide – Change Is Inevitable

This is where the Dynamic Trading approach to the markets gives us the advantage above standard Technical analysis, which usually only looks at Price. Dynamic Traders know that when **Price** and **Time coincide** a market turn is likely. From our analysis we have a **Time** period of 19th – 24th Nov and a **Price** Support area of 94.22 to 94.38 to be alert for the potential termination of this correction.



As we can see from the chart, the correction terminated right at our **Price** and **Time** coincidence, making a low of 94.11 on the 19th Nov. **When Price and Time Coincide – Change Is Inevitable**

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