PATTERNS

The Three Drives Pattern

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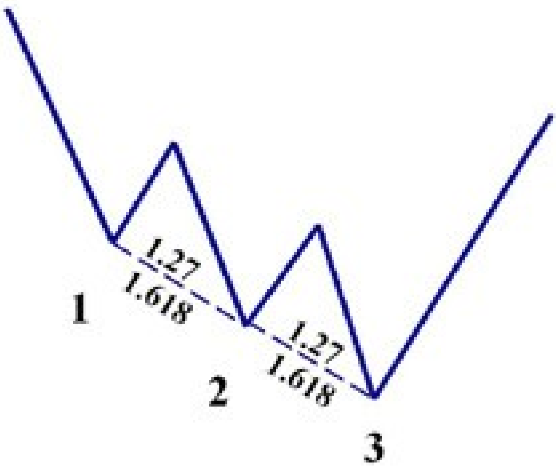

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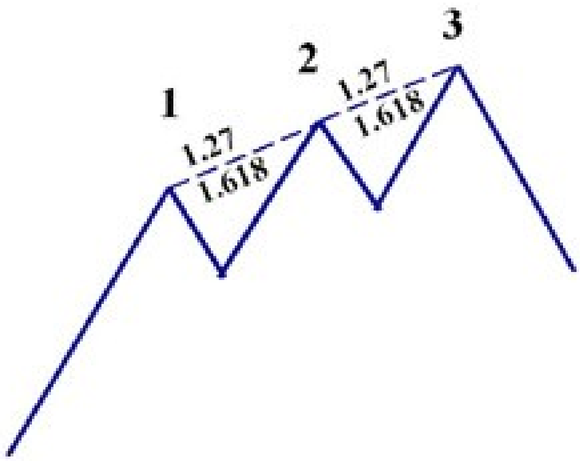
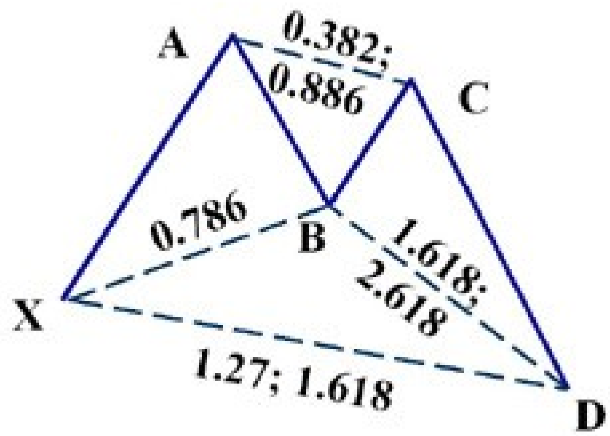


Although it was not specifically identified, one of the first references to a Three Drives pattern was outlined in Robert Prechter's book, "Elliot Wave Principle." He described the general nature of price action that possessed either a three-wave or a five-wave structure. Adapted from this principle, symmetrical price movements that possess identical Fibonacci projections in a 5- wave price structure constitute a Three Drives pattern. The critical aspect of this pattern is that each drive completes at either a 1.27 or a 1.618. Also, the price legs should possess clear symmetry with each drive forming over equivalent time periods.

Butterfly pattern

BULLISH



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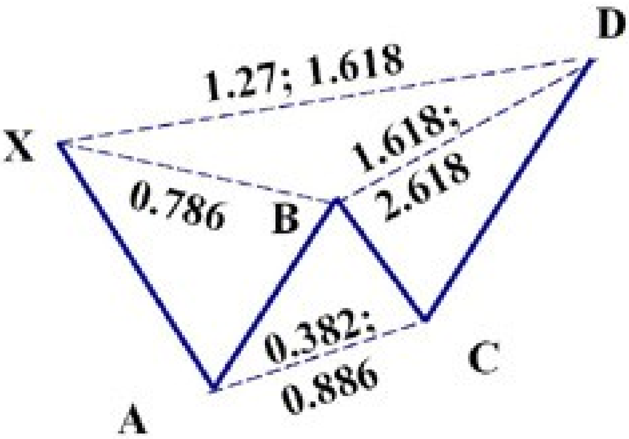

The structure of the Butterfly pattern was discovered by Bryce Gilmore. In my experience, I believe an Ideal Butterfly Pattern, which requires specific Fibonacci in the structure - including a mandatory 0.786 retracement of the XA leg as the B point - offers more precise Potential Reversal Zones (PRZ). Also, the Butterfly pattern must include an AB=CD pattern to be a valid signal. Frequently, the AB=CD pattern will possess an extended CD leg that is 1.27 or 1.618 of the AB leg. Although this is an important requirement for a valid trade signal, the most critical number in the pattern is the 1.27 XA leg. The XA calculation is usually complemented by an extreme (2.00, 2.24, 2.618) BC projection. These numbers create a specific Potential Reversal Zone (PRZ) that can yield powerful reversals, especially when the pattern is in all-time (new highs/new lows) price levels.

The AB=CD pattern

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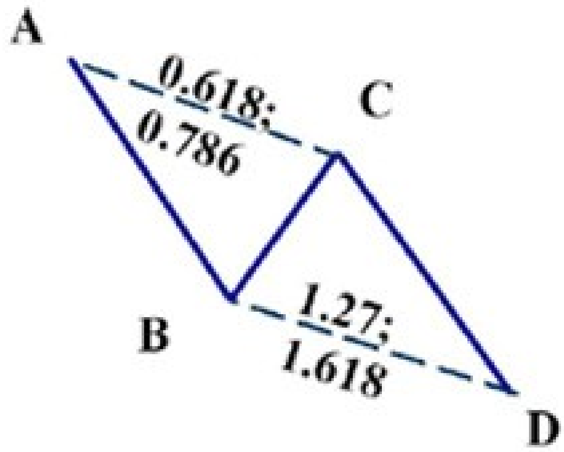

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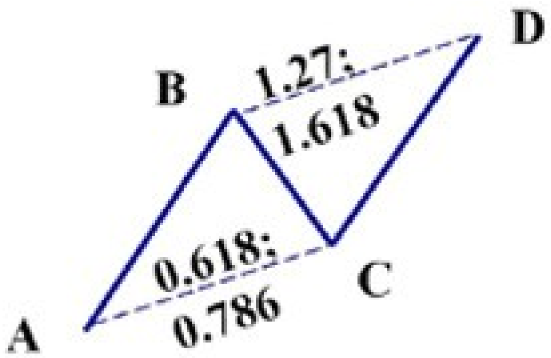
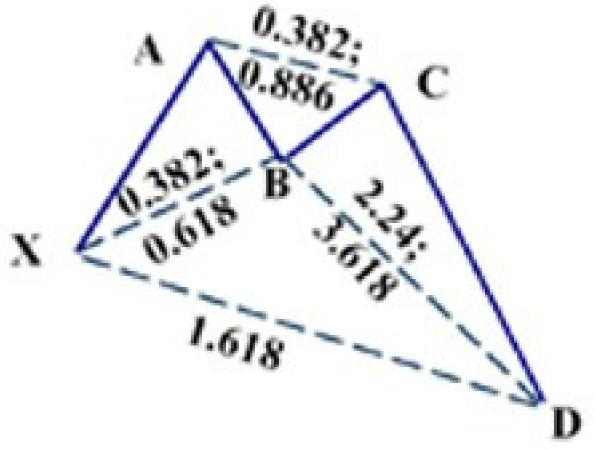


The AB=CD pattern is a price structure where each price leg is equivalent. The Fibonacci numbers in the pattern must occur at specific points. In an ideal AB=CD, the C point must retrace to either a 0.618 or 0.786. This retracement sets up the BC projection that should converge at the completion of the AB=CD and be either a 1.27 or 1.618. It is important to note that a .618 retracement at the C point will result in a 1.618 BC projection. A .786 retracement at the C point will result in a 1.27 projection. The most important consideration to remember is that the BC projection should converge closely with the completion of the AB=CD.

The Crab pattern

BULLISH



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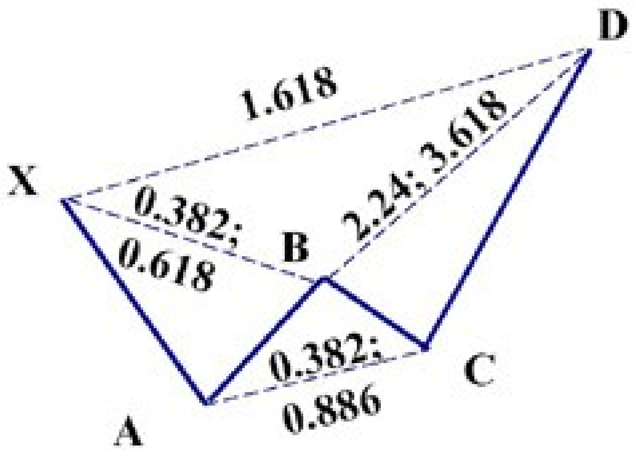

The Crab is a Harmonic pattern discovered by Scott Carney in 2000. This pattern is one of the most precise of all the Harmonic patterns. The critical aspect of this pattern is the tight Potential Reversal Zone created by the 1.618 of the XA leg and an extreme (2.24, 2.618, 3.14, 3.618) projection of the BC leg. The pattern requires a very small stop loss and usually provides an almost exact reversal in the Potential Reversal Zone.

The Gartley pattern

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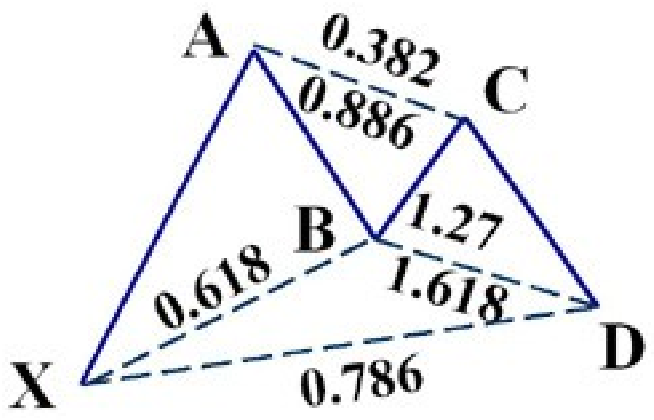

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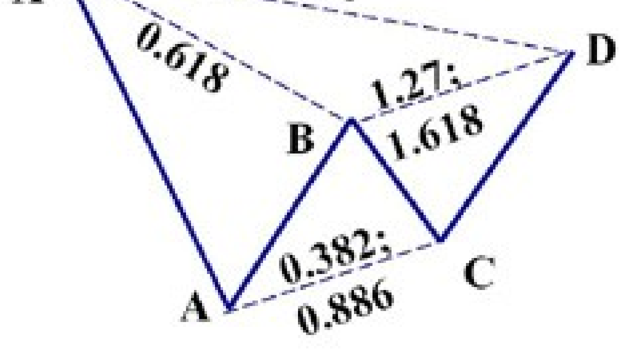

The Gartley pattern was outlined by H.M. Gartley in his book ***Profits in the Stock Market***, published in 1935. Although the pattern is named "The Gartley," the book did not discuss specific Fibonacci retracements! It was not until "The Harmonic Trader" was released that the specific retracements of the B point at a .618 and the D point at a .786 were assigned to the pattern. There are others who have assigned Fibonacci retracements to this framework. However, they use a variety of Fibonacci numbers at the B and D points. Despite these variations, the Fibonacci retracements that yield the most reliable reversals are the .618 at the B point and the .786 at the D point. Furthermore, the pattern should possess a distinct AB=CD pattern that converges in the same area as the 0.786 XA retracement and the BC projection (either 1.27 or 1.618). The most critical aspect of the Gartley is the B point retracement, which must be at a 0.618 of the XA leg.

The Bat pattern

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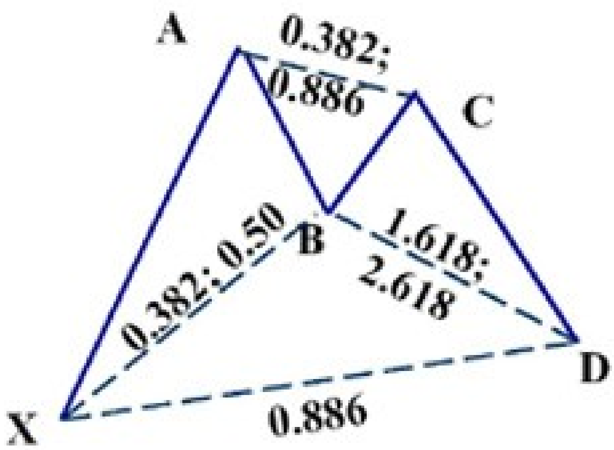

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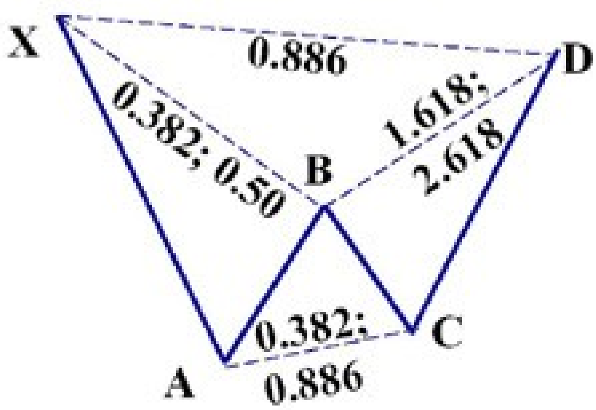

The Bat pattern is a precise harmonic pattern discovered by Scott Carney in 2001. The pattern incorporates the 0.886XA retracement, as the defining element in the Potential Reversal Zone (PRZ). The B point retracement must be less than a 0.618, preferably a 0.50 or 0.382 of the XA leg. The Bat utilizes a minimum 1.618BC projection. In addition, the AB=CD pattern within the Bat is extended and usually requires a 1.27AB=CD calculation. It is an incredibly accurate pattern and requires a smaller stop loss than most patterns.

EXAMPLES

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RSH 29-NOV-02
Daily
EMA13 38.58
EMA20 38.14
EMA50 35.29
SMA50 34.77
SMA200 27.35
Bollinger(20,2.0)
A
C
B
X
D
0.5AB
0.5XA
2.618BC @ $38.594
0.886XA @ $39.562
1.27AB=CD @ $40.910
1.27AB=CD @ $40.910
0.886XA @ $39.562
2.618BC @ $38.594
60.00
57.50
55.00
52.50
50.00
47.50
45.00
42.50
40.00
37.50
35.00
24 1 7 14 21 28 6 12 19 26 2 9 16 23 30 7 13 20 27 4 11 18 25 1
Jun Jly Aug Sep Oct
The Harmonic Analyzer (TM) : RSH
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