

Module 3 Corrective Patterns

Learning Objects

Corrective Wave Structure

Characteristics of Zigzags, Flats, Triangles, and
Combinations

Rules and Guidelines of Corrective Waves

© 2012 FX Trader's EDGE™ All Rights Reserved



By now, we have completed Module 1 Elliott Basics and Module 2 Impulsive Patterns.

In this learning object, we will learn about:

Corrective Wave Structure

Characteristics of Zigzags, Flats, Triangles, and Combinations

Rules and Guidelines of Corrective Waves

REVIEW

Module 1

- ❖ Counting Waves
- ❖ Wave Personalities

Module 2

- ❖ Impulsive Wave Structures
- ❖ Impulsive Wave Extensions

This module

- ❖ Corrective Moves
- ❖ Continuation Chart Patterns

© 2012 FX Trader's EDGE™ All Rights Reserved



Let's review what we have learned in the previous two modules. In Module 1, we learned about counting waves and we talked about wave personalities. We have a good idea about the rhythm of the Elliott waves as well.

In Module 2, we focused on the impulsive wave structures such as the impulse waves and the diagonals. We also learned about wave extensions of the impulse waves.

In this Module, we will look at corrective moves and continuation chart patterns. Once we learn to identify certain types of chart patterns such as triangles and bull and bear flags, we will begin to identify with how the market moves during these sequences and be prepared for the next impulsive move.

How would you like to be able to recognize when the market has finished correcting, and is ready to make its next big move in the direction of the trend?

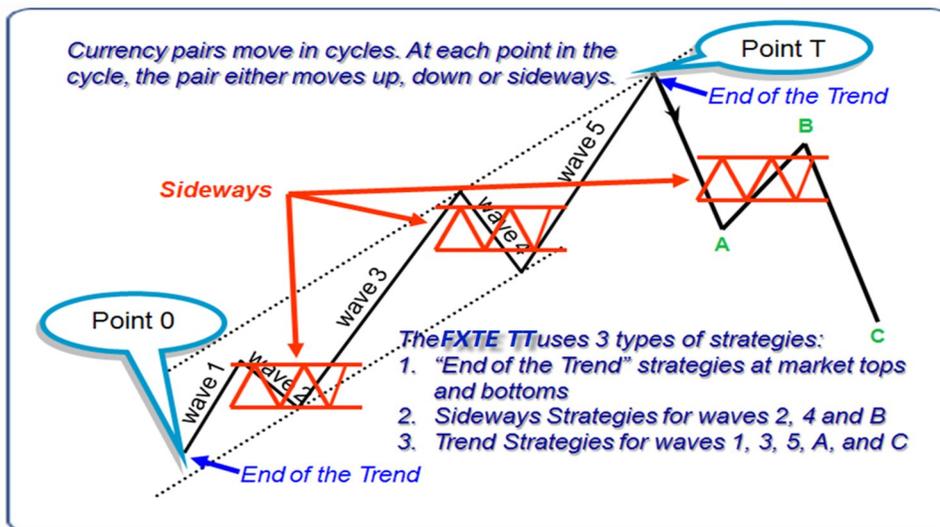


“And the day came when the risk it took to remain tight inside the bud was more painful than the risk it took to blossom.”

Anais Nin

Anais Nin, writer and diarist from Paris said, “And the day came when the risk it took to remain tight inside the bud was more painful than the risk it took to blossom.” Congratulations for taking the risk to learn skills required to become an intuitive master trader. Not everyone is ready for this step but you are, because you are here, now. The key to doing well in the market is to use the tools available to know when the next trend is about to start. We learn that by understanding how to apply corrective sequences.

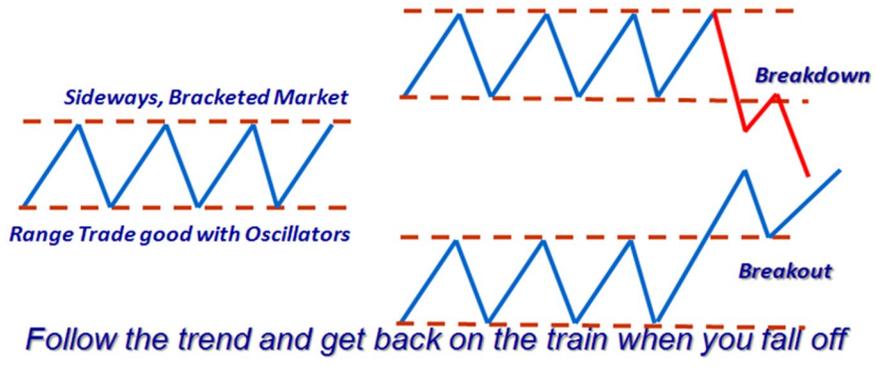
CORRECTIVE WAVE STRUCTURE



CORRECTIVE WAVE STRUCTURE

The FXTE TT uses tools to play pullbacks, breakouts and breakdowns during trend moves

The FXTE TT uses 3 types of strategies:
2. *Sideways Strategies for waves 2, 4 & B*
1. *Range trades*
2. *Look for Breakouts and Breakdowns*



CORRECTIVE WAVE STRUCTURE

Toolbox – Sideways Confirmations

Support and Resistance:

Manual Barriers and 00 Prices

Pivot Points

Fibonacci Retracements

Channel Tops and Bottoms

Trend Indicators:

Bollinger Band Support and Resistance

Moving Average Crossovers at tops and bottoms

Continuation Chart Patterns:

Sideways Triangles and Rectangles

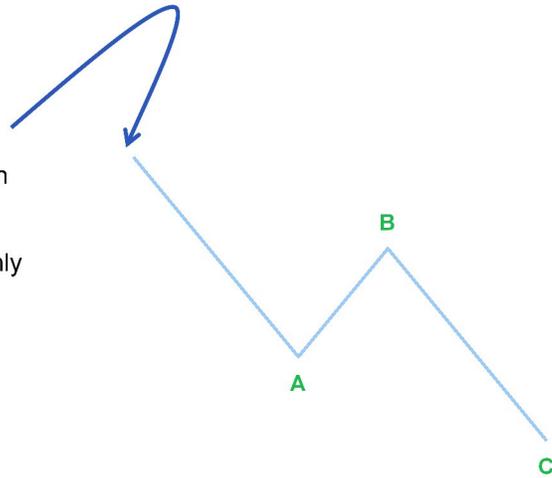
Oscillators:

MACD, Awesome Oscillator, RSI and Stochastics

CORRECTIVE WAVE STRUCTURE

End of wave 1, 3 or 5

- ❖ Market still bullish in an uptrend
- ❖ May be a correction only
- ❖ Look to buy dips



© 2012 FX Trader's EDGE™ All Rights Reserved



The Elliott Wave Principle attempts to provide order to the markets by providing a framework within which market moves occur.

Corrective wave structures follow any 5-wave move. Corrective waves can follow a wave 1, 3 or 5 and are usually denoted with letters. One certainty about corrective waves is that they always trade in 3-wave patterns, with the exception of a triangle.

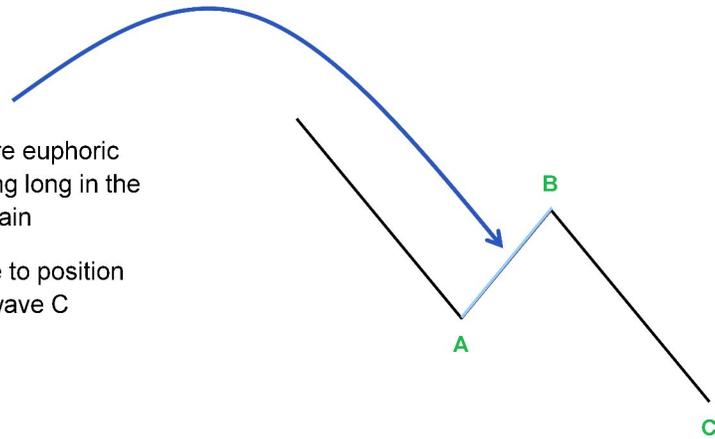
Usually, at the end of a wave 1, 3, or 5, the market is still bullish in the case of an uptrend. The corrective sequence as an ABC is a correction only, and is a way to position oneself to buy dips, especially after the completion of a wave 1 or 3.

In the case of a downtrend, the reverse is true. One would get ready to sell the rally.

CORRECTIVE WAVE STRUCTURE

Bull trap

- ❖ Traders are euphoric about going long in the market again
- ❖ Good time to position short for wave C



© 2012 FX Trader's EDGE™ All Rights Reserved



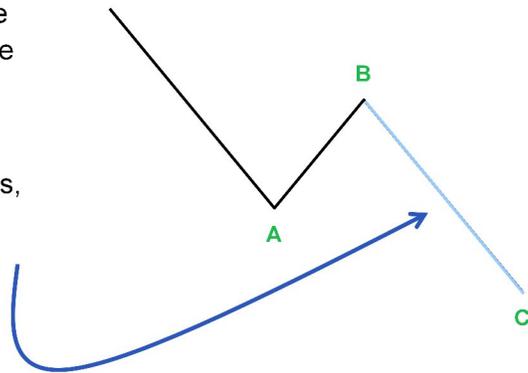
One word of caution. After a 5-wave sequence, Wave B of this 3-wave correction is what is known as the Bull trap in an ABC corrective sequence. At this point, traders are euphoric about going long in the market again, not realizing that Wave C is about to follow.

This is a good time to position short for wave C.

CORRECTIVE WAVE STRUCTURE

Bearish mode

- ❖ Wave C wipes out the long positions as price drops relentlessly
- ❖ Often an extended wave but when it ends, it ends, and then it is time to buy



© 2012 FX Trader's EDGE™ All Rights Reserved



Wave C wipes out the long positions as price drops relentlessly.
It is often an extended wave but when it ends, it ends, and then it is time to buy.

CORRECTIVE WAVE STRUCTURE

Corrective patterns are divided into 2 types:

1. **Sharp** – corrections that move sharply against the major trend.
2. **Sideways** – corrections that move against the major trend in a sideways movement.

© 2012 FX Trader's EDGE™ All Rights Reserved



Let's begin delving into this ABC corrective sequence a bit further.

Corrective patterns are divided into 2 types:

- Sharp** – corrections that move sharply against the major trend, and
- Sideways** – corrections that move against the major trend in a sideways movement.

CHARACTERISTICS OF ZIGZAGS, FLATS, AND TRIANGLES

1

Zigzag

- ❖ Simple sharp correction

2

Flat

- ❖ Simple sideways correction
- ❖ 3 variations

3

Triangle

- ❖ Simple sideways correction
- ❖ 4 variations

© 2012 FX Trader's EDGE™ All Rights Reserved



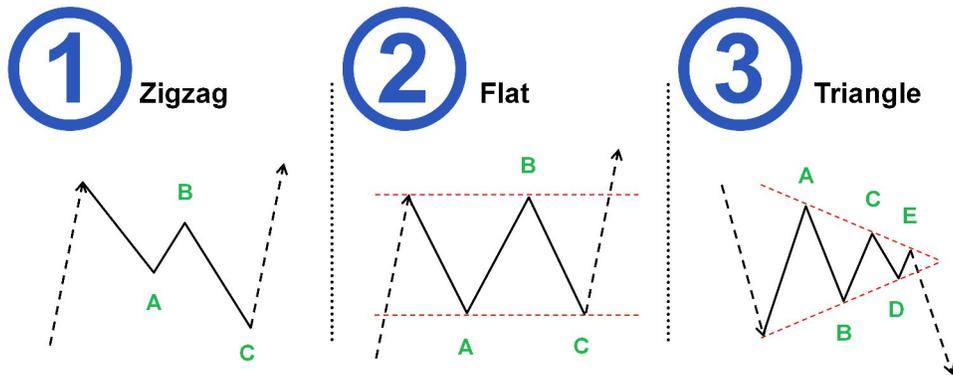
There are 3 types of corrective patterns – zigzags, flats and triangles.

Zigzags are characterized as simple, sharp corrections.

Flats are characterized as simple, sideways corrections. There are 3 variations.

Triangles are also described as simple sideways corrections. There are 4 variations.

CHARACTERISTICS OF ZIGZAGS, FLATS, AND TRIANGLES



© 2012 FX Trader's EDGE™ All Rights Reserved



Notice the simple sharp correction of the zigzag.

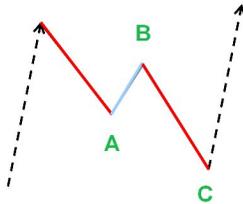
Notice the sideways movement of the flat.

Notice the sideways 5 leg sequence of the triangle.

How would you like to be able to identify these patterns in the market as they are unfolding?

CHARACTERISTICS OF ZIGZAGS

1 Zigzag



- ❖ In an uptrend or a downtrend, the zigzag correction moves against the predominate trend.
- ❖ Zigzags are part of the sharp family of corrective wave patterns.

© 2012 FX Trader's EDGE™ All Rights Reserved

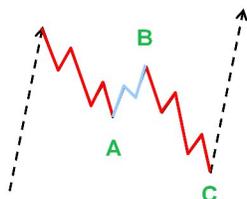


In an uptrend or a downtrend, the zigzag correction moves against the predominate trend.

Zigzags are considered to be part of the sharp family because the A wave trades against the trend, followed by a B wave which corrects A, and a final C wave which travels against the trend.

INTERNAL STRUCTURE OF ZIGZAGS

1 Zigzag



- ❖ 3-wave A-B-C form
 - + where A and C are both 5-wave forms
 - + separated by B, a 3-wave form
- ❖ Impulsive-corrective-impulsive

© 2012 FX Trader's EDGE™ All Rights Reserved



INTERNAL STRUCTURE OF ZIGZAGS

The zigzag has a 3-wave A-B-C form

where A and C are both 5-wave forms

separated by B, a 3-wave form

This corrective sequence trades as an Impulsive-Corrective-Impulsive sequence.

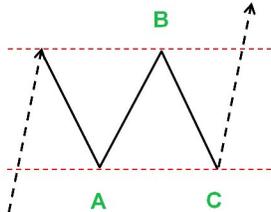
Wave A trades against the trend, wave B trades with the trend, and C trades against the trend.

The zigzag typically occurs in the wave 2 position as the market is still unaware that the trend has changed, and the correction is sharp, correcting most of the wave 1 move.

CHARACTERISTICS OF FLATS

2

Flat



❖ Flats are part of the sideways family of corrective wave patterns.

❖ Flats fall into 3 categories:

1. Regular flat
2. Irregular or expanded
3. Running flat

© 2012 FX Trader's EDGE™ All Rights Reserved



In an uptrend or downtrend, the flat correction moves sideways to the predominant trend.

Flats are part of the sideways family of corrective wave patterns.

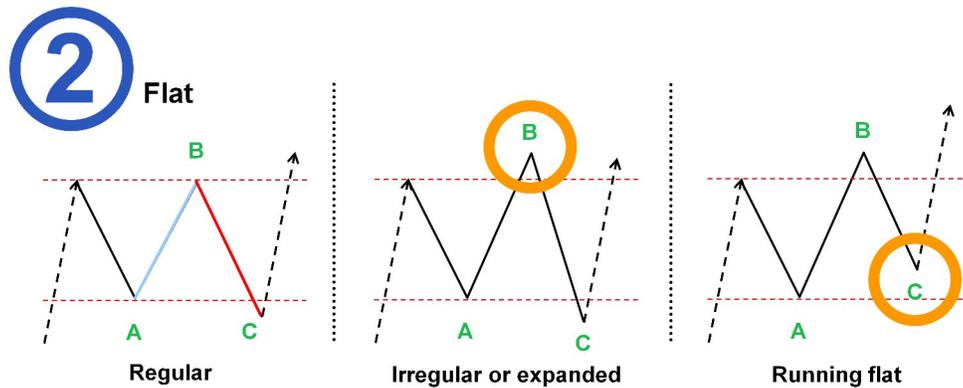
Flats fall into 3 categories:

Regular flat

Irregular or expanded

Running flat

CHARACTERISTICS OF FLATS



© 2012 FX Trader's EDGE™ All Rights Reserved



In flat corrections, the regular flat is the most common, followed by the irregular or expanded, followed by the running flat.

Subtle differences between the travel of waves B and C determine which flat correction it is.

For example, the regular flat is the most common, with B traveling back to the start of A, followed by the C wave which usually comes slightly below the end of wave A.

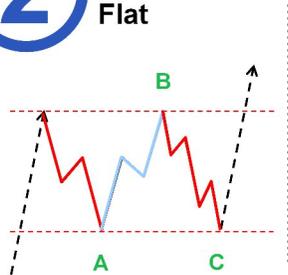
In an irregular or expanded flat, B always travels above the start of wave A.

In a Running flat, the trend is so strong, that C doesn't make it below the end of wave A. The market is too ready to take off in the direction of the trend which in this case, is up.

INTERNAL STRUCTURE OF FLATS

2

Flat



- ❖ 3-wave A-B-C form
 - + where A and B are both 3-wave forms
 - + C is a 5-wave form
- ❖ Corrective-corrective-impulsive

© 2012 FX Trader's EDGE™ All Rights Reserved



INTERNAL STRUCTURE OF FLATS

The Flat has a 3-wave A-B-C form

where A and B are both 3-wave forms

C is a 5-wave form

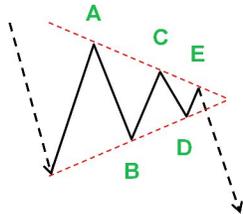
This corrective sequence trades as a Corrective-Corrective-Impulsive sequence.

Notice that the wave A in a zigzag is 5 waves but the wave A in a flat correction is only 3 waves.

The Flat correction typically occurs in the wave 4 position and is more of a sideways consolidation than a sharp correction, as the market looks for more strength in the wave 5 which follows.

CHARACTERISTICS OF TRIANGLES

3 Triangle



Top: Converging channel lines in a downward market

- ❖ Triangles are sideways patterns that move within either converging or diverging channel lines.
- ❖ Triangles are 5-wave structures in an A-B-C-D-E form that move against the trend in a corrective sideways manner.
- ❖ Triangles fall into 4 categories:
 - ❖ Contracting
 1. Symmetrical
 2. Ascending
 3. Descending
 - ❖ Expanding
 4. Reverse symmetrical

© 2012 FX Trader's EDGE™ All Rights Reserved



Characteristics of Triangles

In an uptrend or a downtrend, triangles are sideways patterns that move within either converging or diverging channel lines.

The example to the left shows converging channel lines in a downtrend market.

Triangles are 5-wave structures in an A-B-C-D-E form that move against the trend in a corrective sideways manner.

Triangles fall into 4 categories:

Contracting

Symmetrical

Ascending

Descending

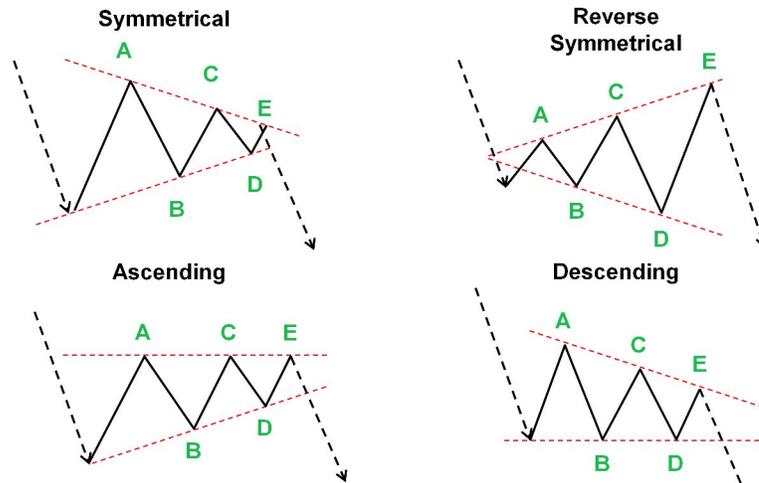
Expanding

Reverse symmetrical

CHARACTERISTICS OF TRIANGLES

3

Triangle



© 2012 FX Trader's EDGE™ All Rights Reserved



These are the four variations of triangles.

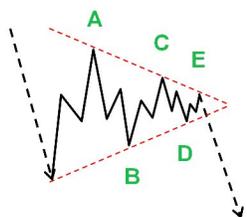
Triangles usually occur in 4th wave positions and are considered sideways consolidation patterns. They are also called continuation patterns as they precede the final move in the direction of the current trend.

Notice the difference between the symmetrical and reverse symmetrical triangle. The symmetrical triangle moves within converging channel lines. The reverse symmetrical triangle moves within diverging channel lines.

Notice the difference between the ascending and the descending triangle. The ascending triangle moves within converging channel lines with a flat top and upward sloping bottom. The descending triangle moves within converging channel lines with a flat bottom and downward sloping top.

INTERNAL STRUCTURE OF TRIANGLES

③ Triangle



❖ 5-wave A-B-C-D-E form

+ Where each of A, B, C, D and E are 3-wave forms

❖ Corrective-corrective-corrective-corrective-corrective

© 2012 FX Trader's EDGE™ All Rights Reserved



INTERNAL STRUCTURE OF TRIANGLES

The Triangle has a 5-wave A-B-C-D-E form

Where each of A, B, C, D and E legs are 3-wave forms

This corrective sequence trades as a Corrective-Corrective-Corrective-Corrective-Corrective sequence.

Triangles usually occur in 4th wave positions and are considered sideways consolidation patterns.

They are also continuation patterns as they precede the final move in the direction of the current trend.

SUMMARY

Types	Characteristics	Variations
Zigzag	<ul style="list-style-type: none"> + Sharp + 3-wave (A-B-C) 	<ul style="list-style-type: none"> + Single simple
Flat	<ul style="list-style-type: none"> + Simple sideways + 3-wave (A-B-C) + B and C position varies with variation 	<ul style="list-style-type: none"> + Regular + Irregular or expanded + Running
Triangle	<ul style="list-style-type: none"> + Simple sideways + 5-wave (A-B-C-D-E) 	<ul style="list-style-type: none"> + Symmetrical (contracting) + Reverse symmetrical (expanding) + Ascending (flat top, rising bottom) + Descending (declining top, flat bottom)

© 2012 FX Trader's EDGE™ All Rights Reserved



To summarize,

A Zigzag forms a sharp 3-wave ABC corrective move.

The Flat family is characterized as a simple sideways with a 3-wave ABC corrective move. It has 3 variations – regular, irregular, or running, with the B and C leg varying with each variation.

The Triangle family is characterized as a simple sideways correction which unfolds in a 5-wave ABCDE sequence. There are 4 types: symmetrical, which is contracting, reverse symmetrical, which is expanding, ascending, which has a flat top and a rising bottom, and a descending, which has a declining top and a flat bottom.

CHARACTERISTICS OF COMBINATIONS

Sharp (zigzag) corrections

1. **Double zigzag** – 2 zigzag patterns linked together
2. **Triple zigzag** – 3 zigzag patterns linked together

© 2012 FX Trader's EDGE™ All Rights Reserved



The fourth type of corrective sequence forms a combination of the basic corrective structures.

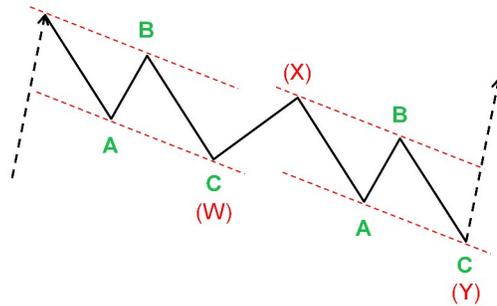
For example,

Sharp (zigzag) corrections can be single, double, or triple patterns

A Double zigzag is 2 zigzag patterns linked together

A Triple zigzag is 3 zigzag patterns linked together

CHARACTERISTICS OF COMBINATIONS



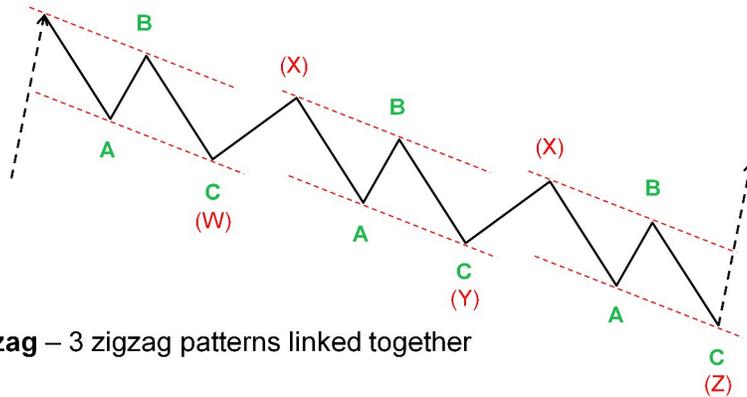
1. Double zigzag – 2 zigzag patterns linked together

- ❖ Moves sharply against trend
- ❖ Forms a W-X-Y form where both W and Y are zigzags and X is the link

The Double Zigzag moves sharply against the trend.

It forms a W-X-Y form where both W and Y are zigzags and X is the link

CHARACTERISTICS OF COMBINATIONS



2. Triple zigzag – 3 zigzag patterns linked together

- ❖ Moves sharply against trend
- ❖ Forms a W-X-Y-X-Z form where both W, Y and Z are zigzags and X is the link

© 2012 FX Trader's EDGE™ All Rights Reserved



The Triple Zigzag also moves sharply against trend.

It is 3 zigzag patterns linked together.

It forms a W-X-Y-X-Z form where W, Y and Z are zigzags and X is the link

CHARACTERISTICS OF COMBINATIONS

Sideways corrections

1. **Double three** – 2 corrective patterns linked together by a third corrective pattern (X), occurs in rising and falling markets
2. **Triple three** – 3 corrective patterns linked together by two corrective patterns (X), occurs in rising and falling markets

© 2012 FX Trader's EDGE™ All Rights Reserved



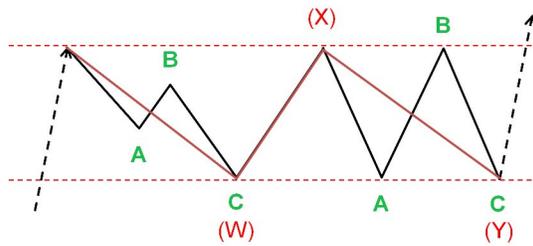
A second combined pattern combines the flat sideways family of corrections.

These Sideways corrections can unfold as double threes or triple threes.

A Double three is 2 corrective patterns linked together by a third corrective pattern (X). It occurs in both rising and falling markets

A Triple three is 3 corrective patterns linked together by two corrective patterns (X). It occurs in both rising and falling markets

CHARACTERISTICS OF COMBINATIONS



1. Double three

- ❖ Moves sideways against trend
- ❖ Forms a W-X-Y form where both W and Y are linked by X
- ❖ Example: W is an A-B-C zigzag and Y is an A-B-C flat.

© 2012 FX Trader's EDGE™ All Rights Reserved



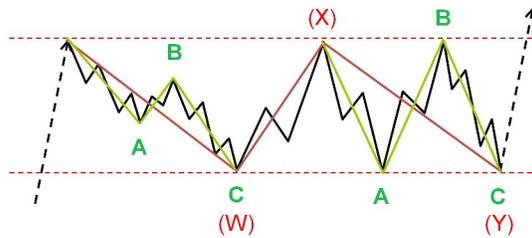
Let's review the Double Three.

The Double Three moves sideways against trend

It forms a W-X-Y form where both W and Y are linked by X.

In this example, W is an A-B-C zigzag and Y is an A-B-C flat.

INTERNAL STRUCTURE OF DOUBLE THREES



- ❖ In an uptrend or downtrend, double threes move sideways before resumption of predominant trend.
- ❖ Consist of 2 corrective patterns (W and Y) linked together by a third corrective pattern X.
- ❖ W-X-Y is corrective-corrective-corrective.
- ❖ Example: W is an A-B-C zigzag and Y is an A-B-C flat.

© 2012 FX Trader's EDGE™ All Rights Reserved



The Internal Structure of Double Threes.

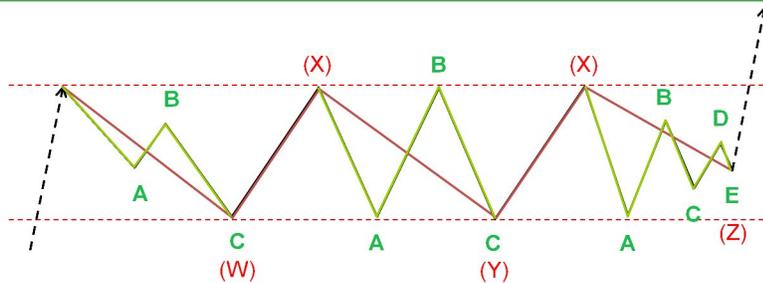
In an uptrend or downtrend, double threes move sideways before resumption of the predominant trend.

It consists of 2 corrective patterns (W and Y) linked together by a third corrective pattern X.

The WXY is Corrective-Corrective-Corrective, where (W) unfolds in three waves, (X) unfolds in three waves, and (Y) unfolds in three waves.

In this example, W is an A-B-C zigzag and Y is an A-B-C flat. The (X) link or connector is an ABC zigzag.

CHARACTERISTICS OF COMBINATIONS



2. Triple three

- ❖ Moves sideways against trend
- ❖ Forms a W-X-Y-X-Z form where both W, Y and Z are linked by X
- ❖ Example: W is an A-B-C zigzag, Y is an A-B-C flat, and Z is an A-B-C-D-E triangle.

© 2012 FX Trader's EDGE™ All Rights Reserved



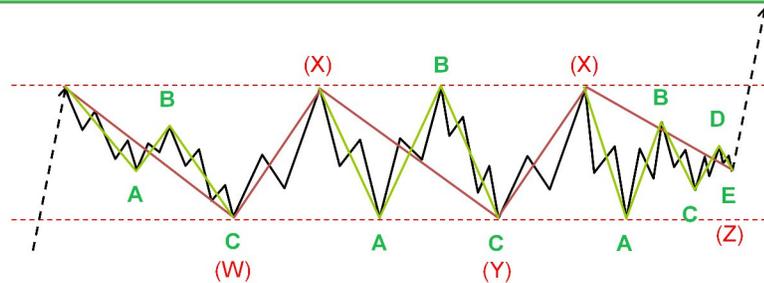
This is an example of a Triple three with 3 different corrective patterns linked together with X's.

It moves sideways against trend.

It forms in a W-X-Y-X-Z form where W, Y and Z are all linked by X.

In this example, W is an A-B-C zigzag, Y is an A-B-C flat, and Z is an A-B-C-D-E triangle.

INTERNAL STRUCTURE OF TRIPLE THREES



- ❖ In an uptrend or downtrend, triple threes move sideways before resumption of predominant trend. It is far less common than double threes.
- ❖ Consist of 3 corrective patterns (W, Y and Z) linked together by a third corrective pattern X.
- ❖ W-X-Y-X-Z is corrective-corrective-corrective-corrective-corrective.
- ❖ Example: W is an A-B-C zigzag, Y is an A-B-C flat, and Z is an A-B-C-D-E triangle.

© 2012 FX Trader's EDGE™ All Rights Reserved



- ❖ In an uptrend or downtrend, triple threes move sideways before resumption of predominant trend. It is far less common than double threes.
- ❖ Consists of 3 corrective patterns (W, Y and Z) linked together by a third corrective pattern X.
- ❖ The internal structure is W-X-Y-X-Z is corrective-corrective-corrective-corrective-corrective.
- ❖ Example: W is an A-B-C zigzag, Y is an A-B-C flat, and Z is an A-B-C-D-E triangle.
- ❖ All three patterns are connected by the X leg, which is also a 3-wave pattern.

SUMMARY

Types	Double Three	Triple Three
Zigzag	<ul style="list-style-type: none"> + Zigzag X Zigzag + Zigzag X Flat + Zigzag X Triangle 	<ul style="list-style-type: none"> + Zigzag X Zigzag X Zigzag + Zigzag X Flat X Flat + Zigzag X Flat X Triangle
Flat	<ul style="list-style-type: none"> + Flat X Flat + Flat X Zigzag + Flat X Triangle 	<ul style="list-style-type: none"> + Flat X Flat X Flat + Flat X Flat X Zigzag + Flat X Flat X Triangle + Flat X Zigzag X Flat + Flat X Zigzag X Triangle

© 2012 FX Trader's EDGE™ All Rights Reserved



This is a summary of the zigzag double and triple threes and flat double and triple threes.

A triangle can never begin a combination pattern, only a zigzag and a flat can.

Possible (zigzag) double three combinations are:

- Zigzag-Zigzag
- Zigzag-Flat, and
- Zigzag-Triangle

Possible flat double three combinations are:

- Flat-Flat
- Flat-Zigzag, and
- Flat-Triangle

Possible zigzag triple three combinations are:

- Zigzag-Zigzag-Zigzag
- Zigzag-Flat-Flat
- Zigzag-Flat-Triangle

Possible flat triple three combinations are:

- Flat-Flat-Flat
- Flat-Flat-Zigzag
- Flat-Flat-Triangle
- Flat-Zigzag-Flat
- Flat-Zigzag-Triangle

This is a good chart to keep in front of you when you are looking at corrective patterns. If a corrective pattern seems to go on and on, it is because of these combinations.

SUMMARY

Types	Double Three	Triple Three
Zigzag	<ul style="list-style-type: none"> + Zigzag X Zigzag + Zigzag X Flat + Zigzag X <u>Triangle</u> 	<ul style="list-style-type: none"> + Zigzag X Zigzag X Zigzag + Zigzag X Flat X Flat + Zigzag X Flat X <u>Triangle</u>
Flat	<ul style="list-style-type: none"> + Flat X Flat + Flat X Zigzag + Flat X <u>Triangle</u> 	<ul style="list-style-type: none"> + Flat X Flat X Flat + Flat X Flat X Zigzag + Flat X Flat X <u>Triangle</u> + Flat X Zigzag X Flat + Flat X Zigzag X <u>Triangle</u>

© 2012 FX Trader's EDGE™ All Rights Reserved



Triangles do occur in combinations. However, they always end the final wave in a double or a triple three.

Also, there is never more than one triangle in a combination.

These are examples of where triangles occur in combinations. A zigzag double three can start with a zigzag and end with a triangle. A flat double three can start with a flat and end with a triangle.

A zigzag triple three can have a zigzag, flat, triangle combination.

A flat triple three can form a flat, flat, triangle, or a flat, zigzag, triangle.

SUMMARY

Triangle

- ❖ Always the final wave in double or triple threes
 - + Y position in a double three
 - + Z position in a triple three
- ❖ There is never more than 1 triangle in a combination
- ❖ Occurs in wave 4 prior to wave 5 impulse move
- ❖ Occurs in wave B prior to final wave C
- ❖ Complex triangles can occur in wave E of a 9-wave form

To summarize about triangles, triangles are always the final wave in double or triple threes.

So for example, the Y position in a double three or the Z position in a triple three.

There is never more than 1 triangle in a combination.

A triangle occurs in wave 4 prior to wave 5 impulse move.

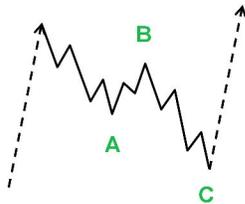
A triangle occurs in wave B prior to final wave C.

Complex triangles can occur in wave E of a 9-wave form

RULES AND GUIDELINES OF CORRECTIVE WAVES

Alternation

If wave 2 is a simple sharp correction...



Example: zigzag

Then wave 4 will be a:

- ❖ Simple sideways
 - + Flat
 - + Irregular flat
 - + Triangle
- ❖ Complex sideways correction with combined patterns
 - + Double three
 - + Triple three

© 2012 FX Trader's EDGE™ All Rights Reserved



Identifying and fitting corrections into particular patterns in advance is extremely difficult. This is because corrective waves have more variations than impulsive waves. Often a corrective pattern becomes apparent in retrospect, after the fact. But there is one guideline that is very helpful in anticipating corrective action. And that is the concept of Alternation.

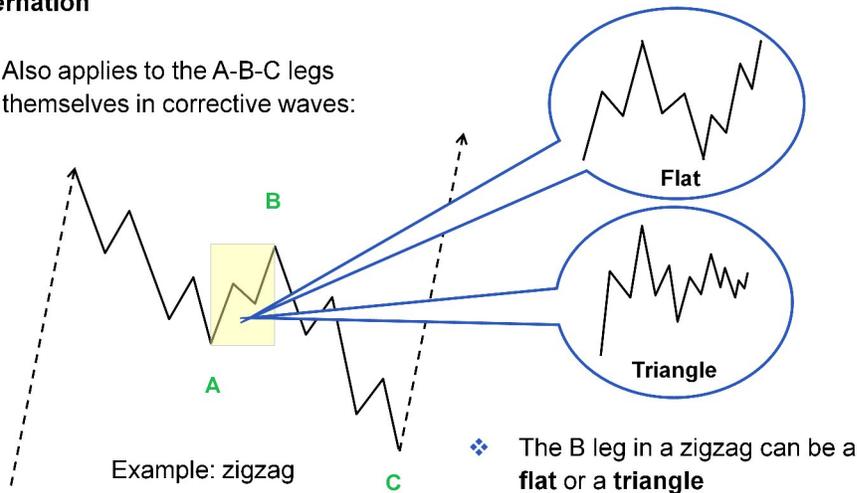
The Guideline of Alternation states that if wave 2 is a simple sharp correction, a zigzag, THEN...

Wave 4 will be a simple sideways (flat, irregular flat, or triangle) or a complex sideways correction with combined patterns (such as double or triple threes.)

RULES AND GUIDELINES OF CORRECTIVE WAVES

Alternation

Also applies to the A-B-C legs themselves in corrective waves:



© 2012 FX Trader's EDGE™ All Rights Reserved



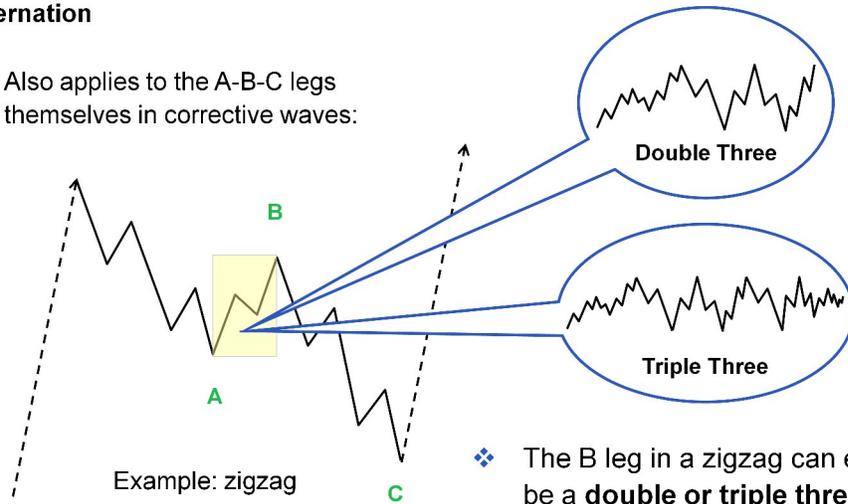
Alternation also applies to the ABC legs themselves in corrective waves:

For example, the B leg in a zigzag can be a zigzag itself, as in this diagram. Or, the B leg can be a flat or a triangle.

RULES AND GUIDELINES OF CORRECTIVE WAVES

Alternation

Also applies to the A-B-C legs themselves in corrective waves:



© 2012 FX Trader's EDGE™ All Rights Reserved



The B leg in a zigzag can even be a double or triple three!

RULES AND GUIDELINES OF CORRECTIVE WAVES

Alternation in Corrective Waves		
1. 5 waves 1-2-3-4-5	+ Flat A-B-C	+ 5 waves 1-2-3-4-5
2. 5 waves 1-2-3-4-5	+ Triangle A-B-C-D-E	+ 5 waves 1-2-3-4-5
3. Zigzag A-B-C	+ Flat A-B-C	+ 5 waves 1-2-3-4-5
4. Zigzag A-B-C	+ Triangle A-B-C-D-E	+ 5 waves 1-2-3-4-5
5. Flat A-B-C	+ Zigzag A-B-C	+ 5 waves 1-2-3-4-5
6. 5 waves 1-2-3-4-5	+ Double threes (flat and triangle W-X-Y) <small>Alternation can occur within triangles themselves X wave connector can also be flats, zigzags and triangles</small>	+ 5 waves 1-2-3-4-5
Wave A	Wave B	Wave C

© 2012 FX Trader's EDGE™ All Rights Reserved



Alternation in Corrective Waves.

We spoke about alternation between waves 2 and 4 in an impulsive 5-wave move up or down. Recall if Wave 2 is simple and sharp, then wave 4 will be complex and sideways. Alternation also applies to the ABC legs in Corrective Waves. Alternation can apply in any ABC sequence, and it can also apply in an ABCDE triangle situation.

Let's take an example of an ABC corrective sequence in a wave 4. An ABC can be a 5-3-5 sequence like in example 1: A is a 5-wave sequence, B is three waves in an ABC flat, and C is a 5-wave sequence. In example 2, A is a 5-wave sequence, B is a triangle, and C is a 5-wave sequence. Both patterns would look like the ABC zigzag pattern.

Example 3 is a little bit more complex. A forms an ABC zigzag so in itself, it looks like the correction is done. Right? ABC 535 correction – it looks done. One would expect at this point for wave 5 to follow. But what you see instead is another correction in the form of an ABC flat. That forms the B, followed by the 5-wave C leg.

Example 4 is an ABC correction with a zigzag, followed by a triangle, followed by a wave C. Notice that most of the time the wave C is a 5-wave impulse wave known as the killer wave, with the same characteristics as wave 3.

Example 5 begins with a flat ABC pattern followed by a zigzag followed by a wave C. This would look like a complex sideways pattern rather than a zigzag.

Example 6 is a double 3 combination. Wave A starts off with 5 waves, Wave B is a double 3 with a flat and a triangle and wave C is 5 waves. Don't forget that within the triangle itself, there can be alternation. Also, in the double 3 combination, the x wave connector can also be a combination of flats, zigzags and triangles.

This is the summary slide. Notice from this slide that this list is not exhaustive. In other words, there are more patterns that can be substituted. Just keep an open mind that not all corrective sequences will be a simple ABC three wave sequence. For example, combined zigzag patterns are often found in the wave A position. Combined patterns with a triangle at the end are usually found in the wave B position. What do all of these combinations have in common? What are the 4 patterns that repeat themselves over and over again in these corrections?

You would be correct if you said zigzags, flats, triangles, and combinations.

RULES AND GUIDELINES OF CORRECTIVE WAVES

Zigzag Rules	Flat Rules
<ul style="list-style-type: none"> ❖ Zigzag unfolds into 3 waves: <ul style="list-style-type: none"> + Wave A subdivides into an impulse wave or a leading diagonal. + Wave B subdivides into a zigzag, flat, triangle, or combination pattern. + Wave C subdivides into an impulse wave or ending diagonal. ❖ Wave B never moves beyond the beginning of wave A. ❖ Internal structure is impulsive-corrective-impulsive. 	<ul style="list-style-type: none"> ❖ Flat unfolds into 3 waves. <ul style="list-style-type: none"> + Wave A is never a triangle. + Wave C subdivides into an impulse wave or an ending diagonal. + Wave B always retraces at least 90% of wave A. ❖ Internal structure is corrective-corrective-impulsive.

© 2012 FX Trader's EDGE™ All Rights Reserved



Here is a summary slide for Rules and Guidelines of Corrective Waves.

First we'll do the Zigzag rules.

Zigzag unfolds into 3 waves:

- Wave A subdivides into an impulse wave or a leading diagonal.
- Wave B subdivides into a zigzag, flat, triangle, or combination pattern.
- Wave C subdivides into an impulse wave or ending diagonal.

Wave B never moves beyond the beginning of wave A.

The Internal structure is impulsive-corrective-impulsive.

And now on to the Flat rules:

The Flat unfolds into 3 waves:

- Wave A is never a triangle.
- Wave C subdivides into an impulse wave or an ending diagonal.
- Wave B always retraces at least 90% of wave A

And the internal structure is corrective-corrective-impulsive.

RULES AND GUIDELINES OF CORRECTIVE WAVES

Triangle Rules	Combination Rules
<ul style="list-style-type: none"> ❖ Triangle always subdivides into 5 waves. ❖ At least 4 of the A-B-C-D-E waves unfold into a zigzag or zigzag combination. ❖ A line connecting the ends of waves B and D converges with a line connecting the ends of waves A and C. ❖ A triangle never has more than 1 complex sub-wave. ❖ The complex sub-wave is always a zigzag combination or a triangle. 	<ul style="list-style-type: none"> ❖ Combinations are double or triple threes connected by a third wave X in the opposite direction forming a W-X-Y or a W-X-Y-X-Z pattern. ❖ A double or triple zigzag consists of 2 or 3 zigzags connected by wave X. ❖ A double three flat correction consists of a zigzag-flat, flat-zigzag, flat-flat, zigzag-triangle, or flat-triangle. ❖ Double and triple three corrections take the place of flats and triangles

© 2012 FX Trader's EDGE™ All Rights Reserved



And now a summary slide of the Rules and Guidelines of Corrective Waves.

Triangle Rules and Combination Rules.

First the Triangle Rules:

- Triangle always subdivides into 5 waves
- At least 4 of the A-B-C-D-E waves unfold into a zigzag or zigzag combination.
- A line connecting the ends of waves B and D converges with a line connecting the ends of waves A and C.
- A triangle never has more than 1 complex sub-wave.
- The complex sub-wave is always a zigzag combination or a triangle.

And now for the Combination Rules:

- Combinations are double or triple threes connected by a third wave X in the opposite direction forming a W-X-Y or a W-X-Y-X-Z pattern.
- A double or triple zigzag consists of 2 or 3 zigzags connected by the X wave.
- A double three flat correction consists of a zigzag-flat, flat-zigzag, flat-flat, zigzag-triangle, or flat-triangle.
- Double and triple three corrections take the place of flats and triangles.

End of Learning Object
Continue on to the Quiz

© 2012 FX Trader's EDGE™ All Rights Reserved



This is the conclusion of the Learning Object in this Module. Please continue on to the Quiz.

Module 3 Learning Object 1 Quiz

The last pattern in a combination correction is never a triangle.

- a) True
- b) False

A zigzag correction consists of wave A, B and C, where waves A and C are ____ wave structures. Choose one answer.

- a) Doesn't matter
- b) 5
- c) infinite
- d) 1
- e) 3

1. b)
2. b)

Module 3 Learning Object 1 Quiz

Triangles can be found in a wave 2 or wave 4.

- a) True
- b) False

Corrective patterns are divided into two types. What are they called?
Choose one answer.

- a) Sharp and sideways
- b) None of these
- c) Rhythmic and sporadic
- d) Sharp and smooth
- e) Sideways and vertical

- 3. b)
- 4. a)

Module 3 Learning Object 1 Quiz

If you count A, B, C (W), (X), A, B, C (Y), (X), A, B, C (Z), what have you just identified? Choose at least one answer.

- a) Double zigzag
- b) The magnets on the refrigerator door
- c) Triple three
- d) Double three
- e) Triple zigzag

Which wave in an A-B-C structure, which appears after a 5-wave sequence, is considered the bull trap? Choose one answer.

- a) This is a trick question because bulls can't be trapped
- b) Any wave can be bull trap
- c) Wave A
- d) Wave C
- e) Wave B

© 2012 FX Trader's EDGE™ All Rights Reserved



5. c) e)

6. e)

Module 3 Learning Object 1 Quiz

A corrective wave pattern can be: Choose one answer.

- a) None of these
- b) A-B-C-X-A-B-C
- c) A-B-C
- d) All of these
- e) W-X-Y-X-Z

Which corrective pattern count is not valid? Choose one answer.

- a) 3-5-3
- b) 3-3-5
- c) All of these
- d) 5-3-5
- e) 3-3-3-3-3

© 2012 FX Trader's EDGE™ All Rights Reserved



- 7. d)
- 8. a)

Module 3 Learning Object 1 Quiz

When is corrective wave structure observed? Choose one answer.

- a) Only after a wave 5
- b) After a government passes a very strict fiscal policy
- c) After a wave 2 or 4
- d) After a wave 1, 3, or 5
- e) After the stock brokers on Wall Street have had one-too-many martinis

Which type(s) of triangle(s) are valid? Choose at least one answer.

- a) Descending
- b) Ascending
- c) Symmetrical
- d) Reverse expanding
- e) Reverse symmetrical

© 2012 FX Trader's EDGE™ All Rights Reserved



9. d)

10. a) b) c) e)

Module 3 Learning Object 1 Quiz

Which is/are (a) valid flat correction(s)? Choose one answer.

- a) Regular
- b) Running
- c) Expanding
- d) Irregular
- e) All of these

© 2012 FX Trader's EDGE™ All Rights Reserved



11. e)