

How to Trade When the Market *ZIGZAGS*

The e-learning Series for Traders

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How to Trade When the Market *ZIGZAGS*

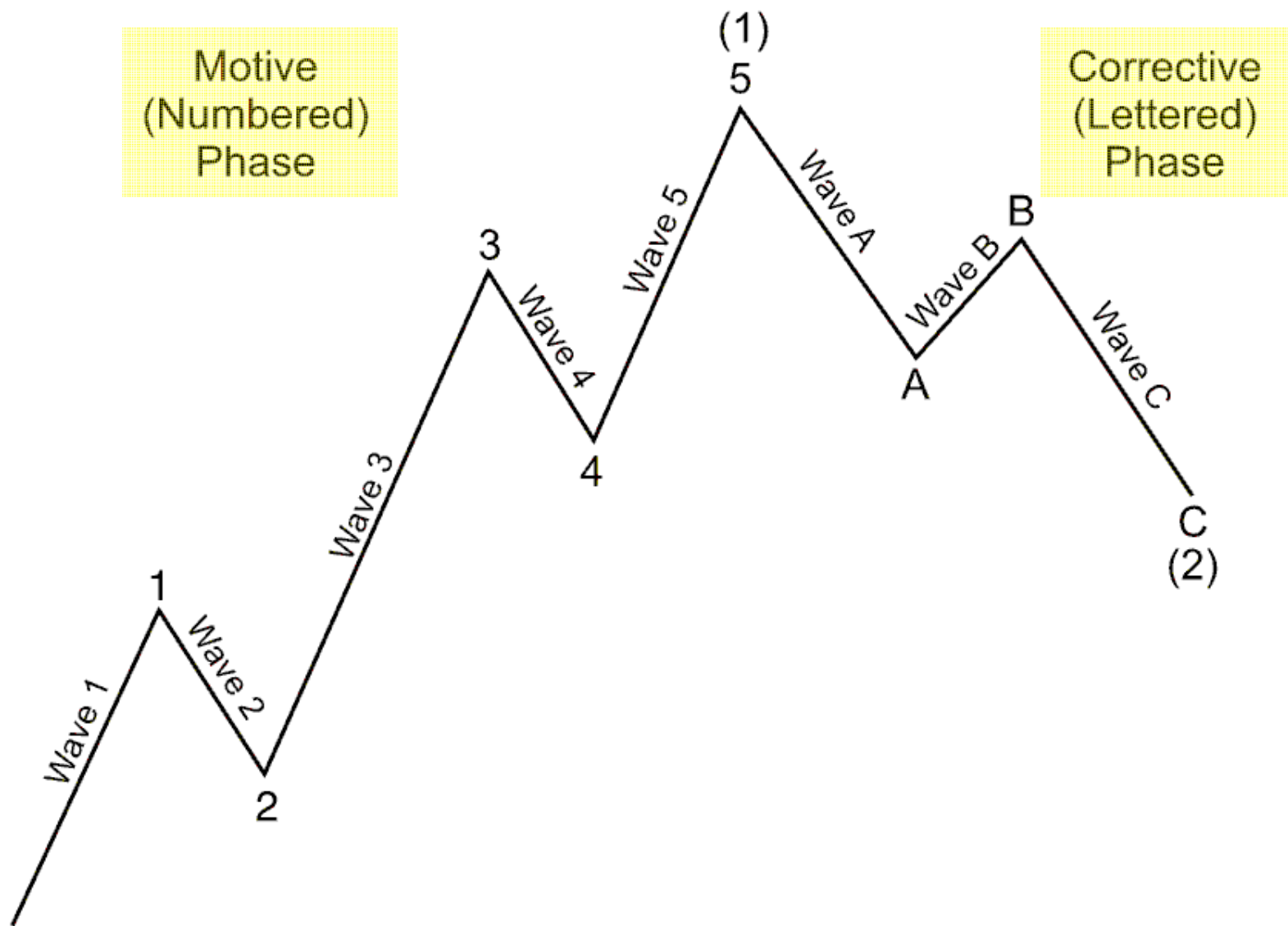
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Fibonacci Relationships**
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How to Trade When the Market *ZIGZAGS*

What You Will Learn

- Key structural characteristics of zigzags
- Actionary versus reactionary functions
- How to anticipate when zigzags will occur
- Rules, Guidelines, and Fibonacci ratios that govern subdivisions
- How to set entry, stop, price target and exit levels when trading zigzags



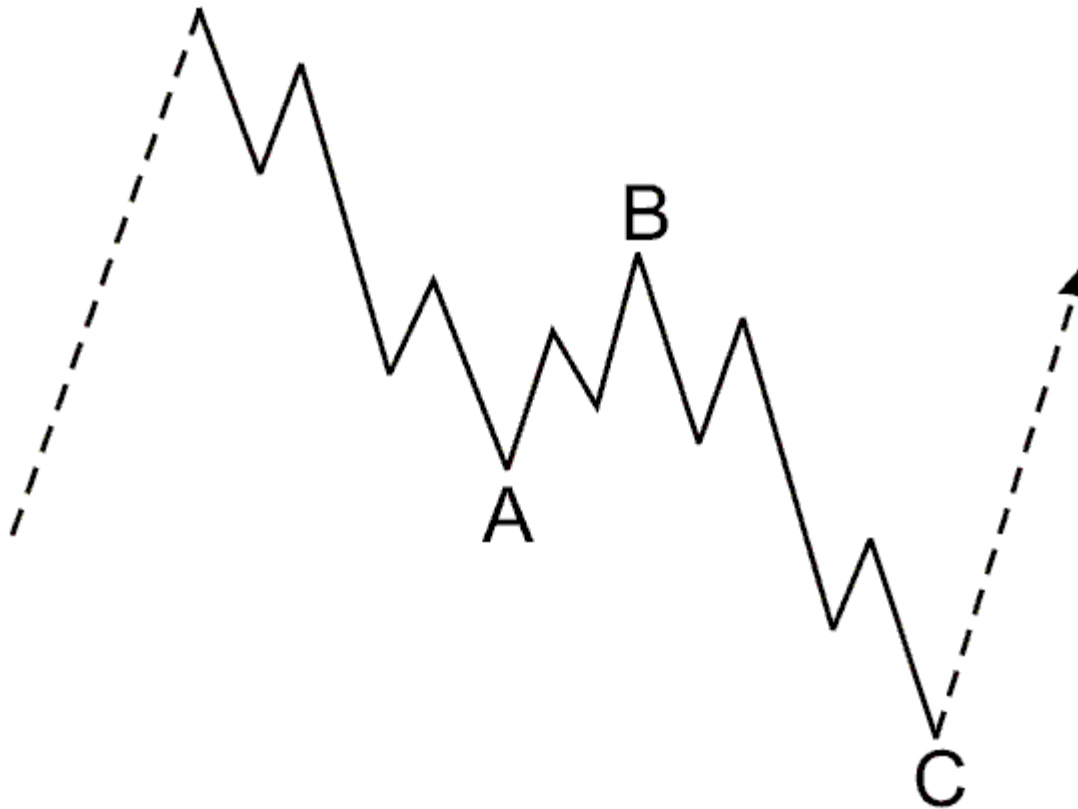
Corrective Waves Summary

	A	B	C	D	E	Shape	Normal Position
Zigzag	5	3	5			Sharp	Wave 2
Flat	3	3	5			Sideways	Wave 4
Triangle	3	3	3	3	3	Sideways	Wave 4
Combination		X wave				Sideways	Wave 4

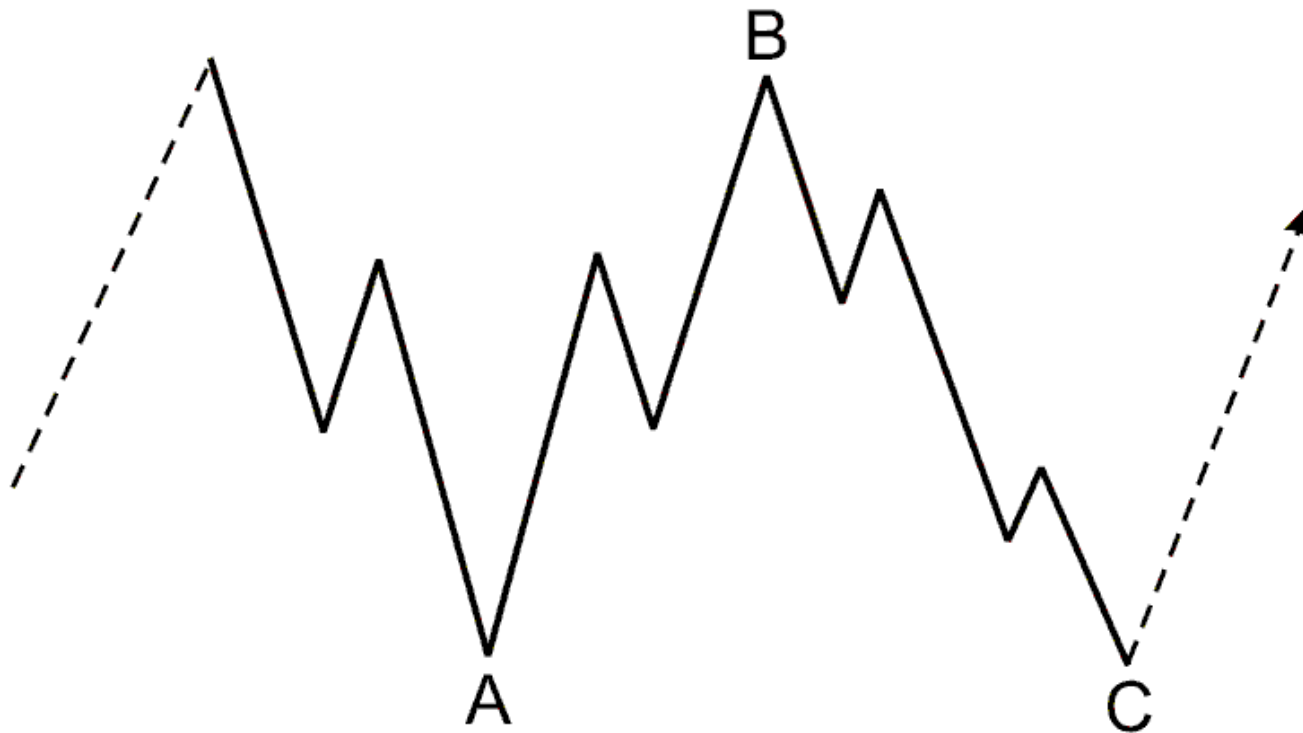
Zigzag (5–3–5)

Wave	A	B	C
Subdivisions	5	3	5
General Shape	“Sharp”		
Normal Wave Position	Second Wave		

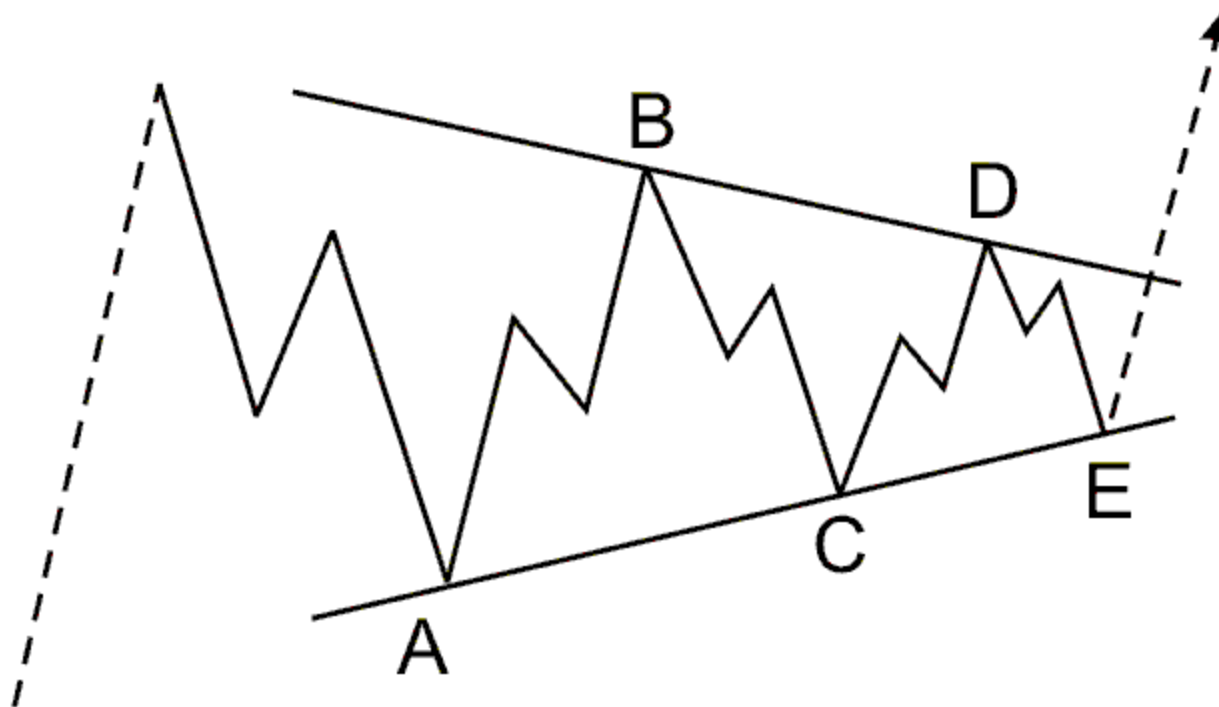
Zigzag



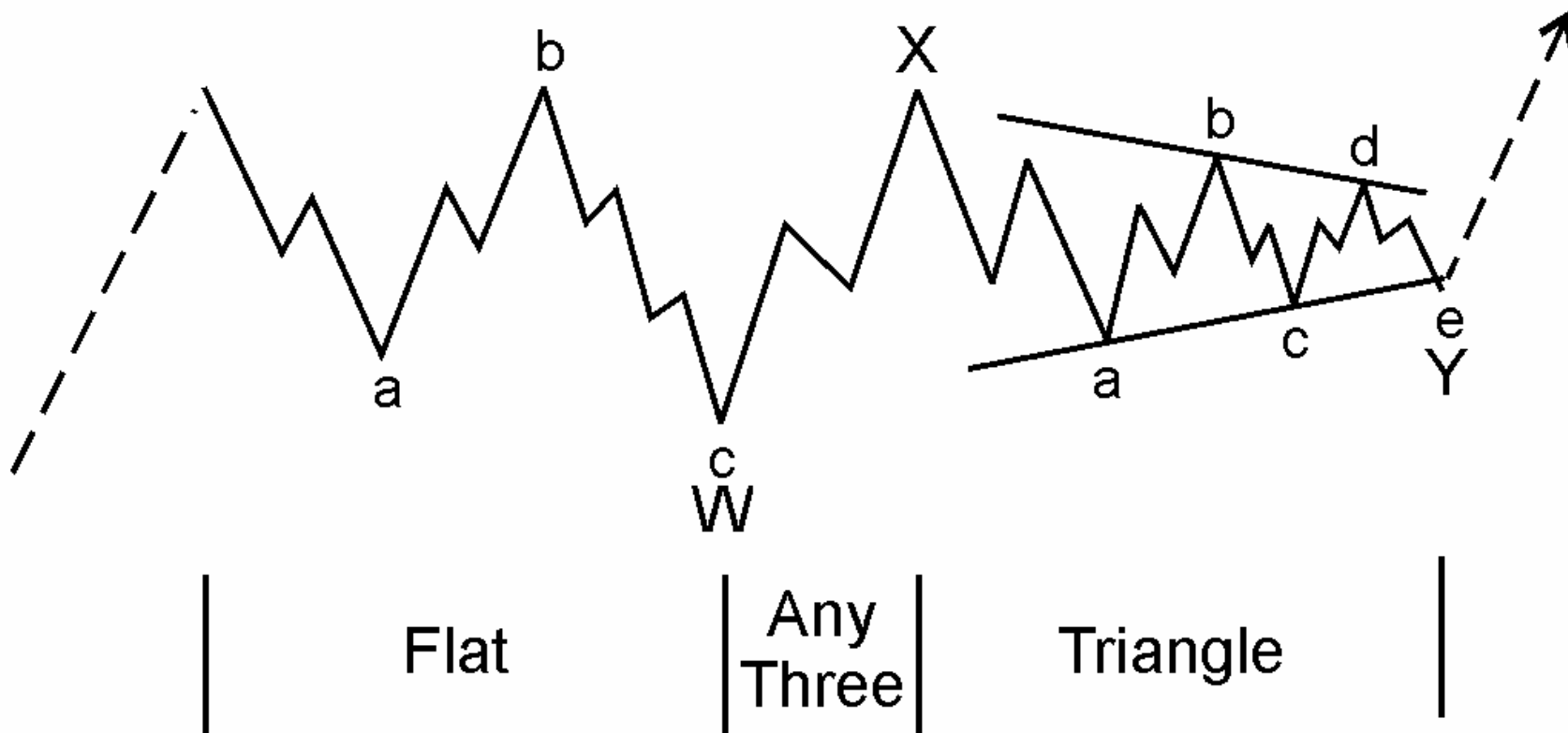
Flat



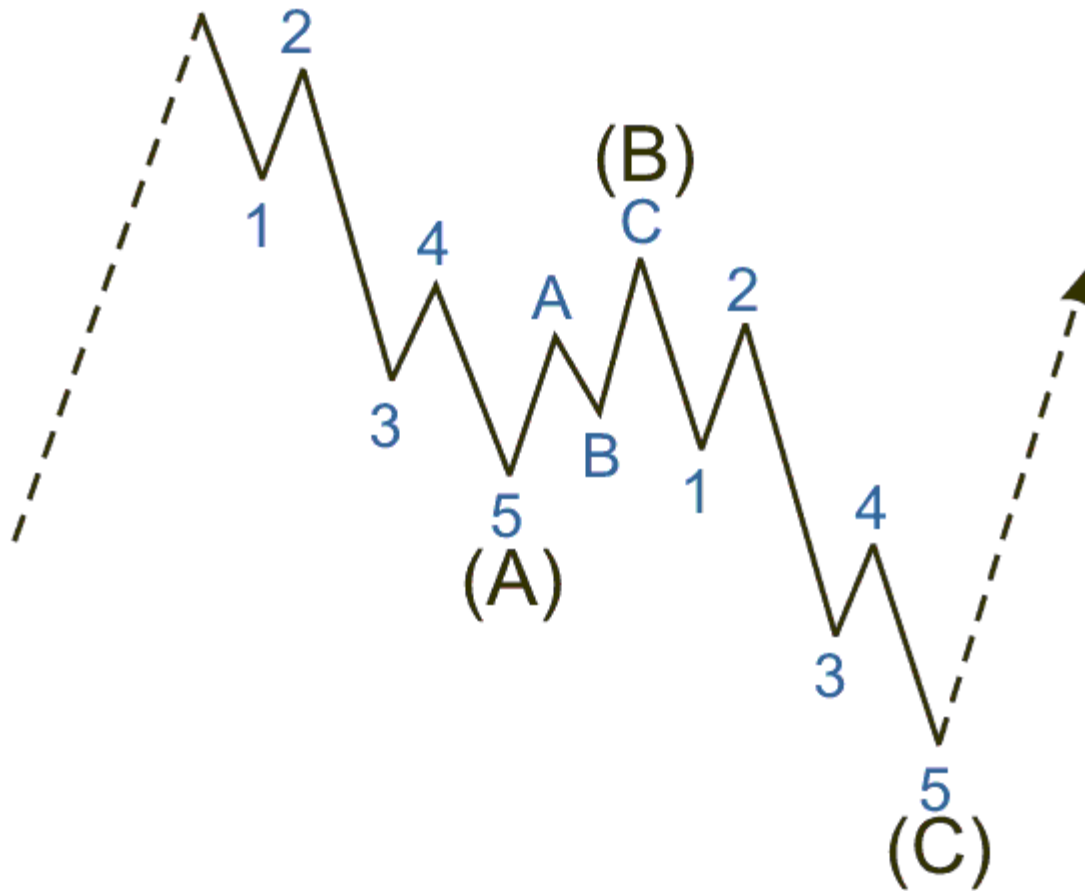
Triangle



Combination

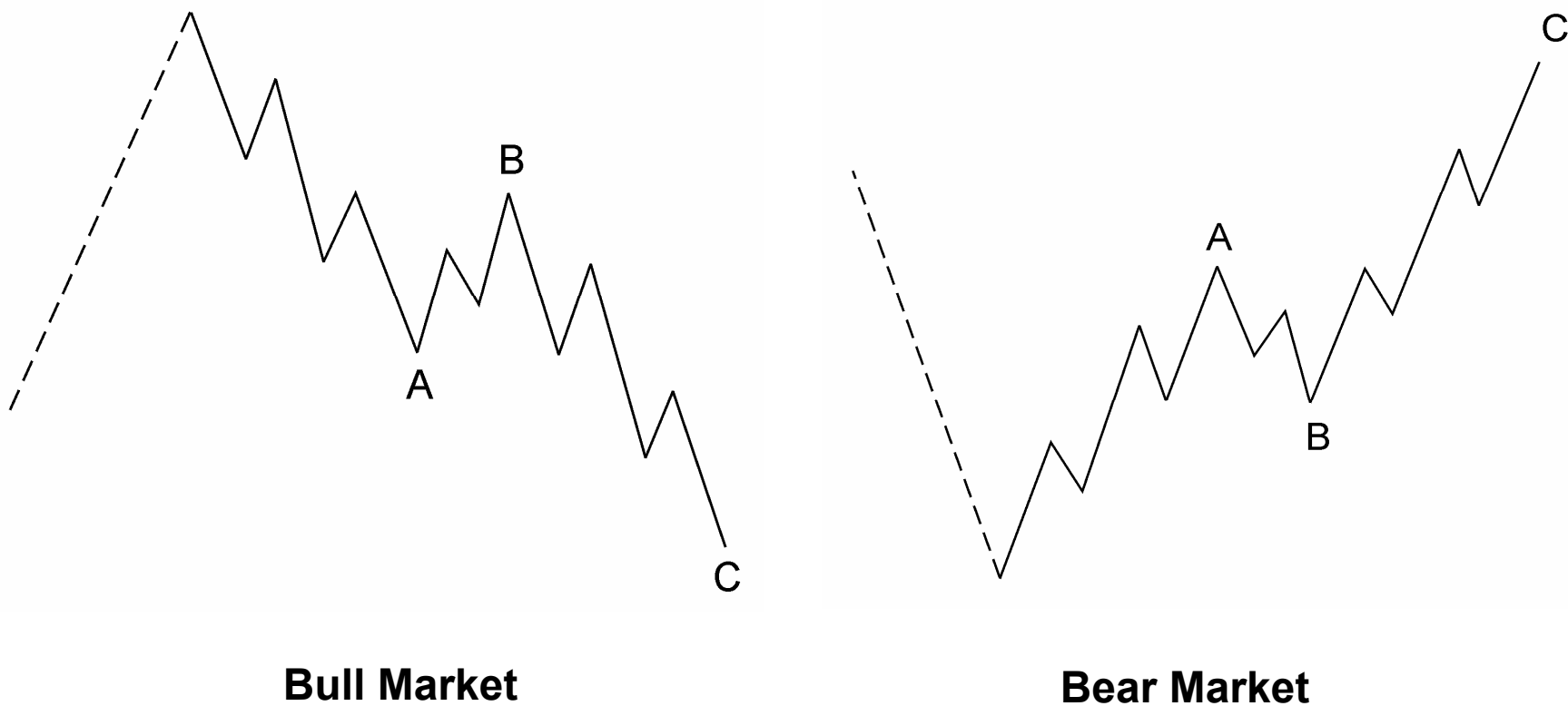


Zigzag

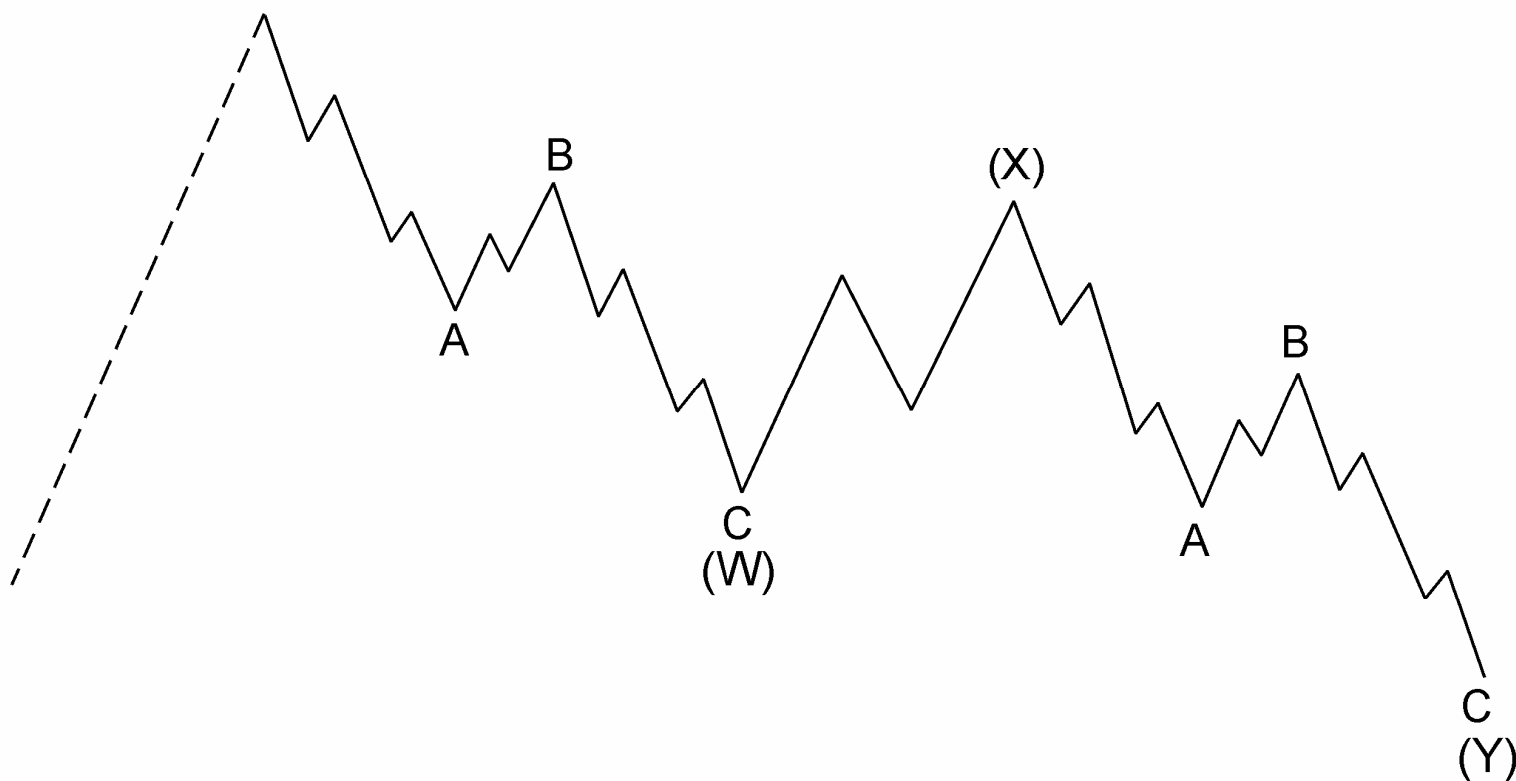


Characteristics of Zigzags

Single Zigzag

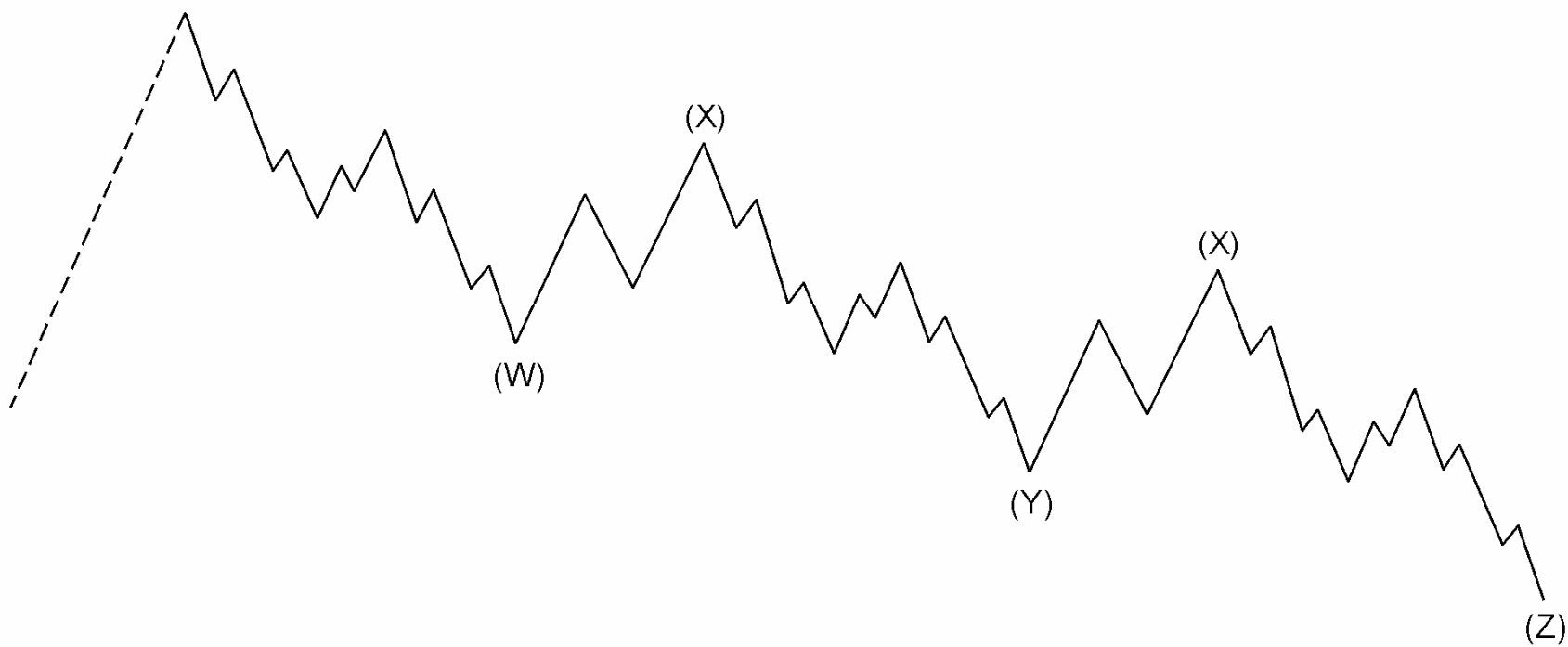


Double Zigzag



Bull Market

Triple Zigzag



Bull Market

MODE versus FUNCTION

Every wave has both a mode and a function.

MODE — Construction

- 1. Motive: Five-wave Structures
(Impulse, Diagonal Triangle)**

- 2. Corrective: Three-wave Structures
(Zigzag, Flat, Triangle, Combination)**

FUNCTION — Role, Purpose

Every wave either “advances the cause” of the wave at one larger degree of which it is a part, or interrupts it.

1. ACTIONARY (TREND): “Advance the Cause”

An actionary wave is any wave that trends in the same direction as the wave of one larger degree of which it is a part.

Wave labels are: 1, 3, 5, A, C, E, W, Y and Z

2. REACTIONARY (COUNTERTREND): Interrupts

A reactionary wave is any wave that trends in the opposite direction of the wave of one larger degree of which it is a part.

Wave labels are: 2, 4, B, D and X

Combining MODE and FUNCTION

- All waves that develop in motive mode are actionary waves.
Motive waves powerfully impel the market in the same direction as the wave of one larger degree of which it is a part.
- All reactionary waves develop in corrective mode.
These are corrective waves that interrupt the main trend by moving in the opposite direction as the wave of one larger degree of which it is a part.
- Not all actionary waves develop in motive mode.
- Not all waves that develop in corrective mode are reactionary.
- Some waves that develop in corrective mode are actionary and are called “actionary corrective.”

Best Example: Zigzags

ZIGZAG — Corrective Mode

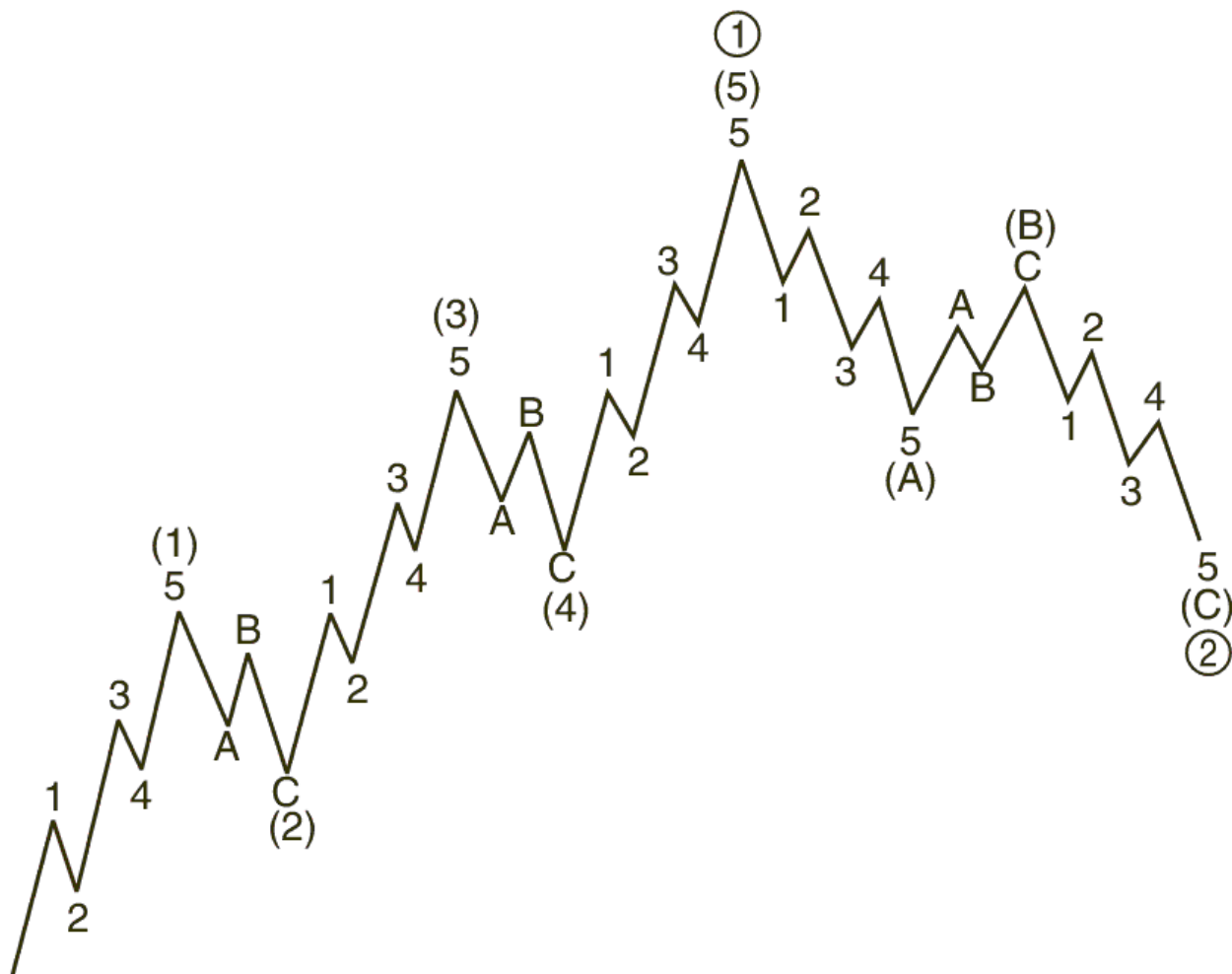
ACTIONARY FUNCTION:

- Waves 1, 3 and 5 in diagonal triangles
- Wave A of a flat correction
- Waves A, C and E of a triangle
- Waves W and Y of a double zigzag and double three
- Wave Z of a triple zigzag and triple three

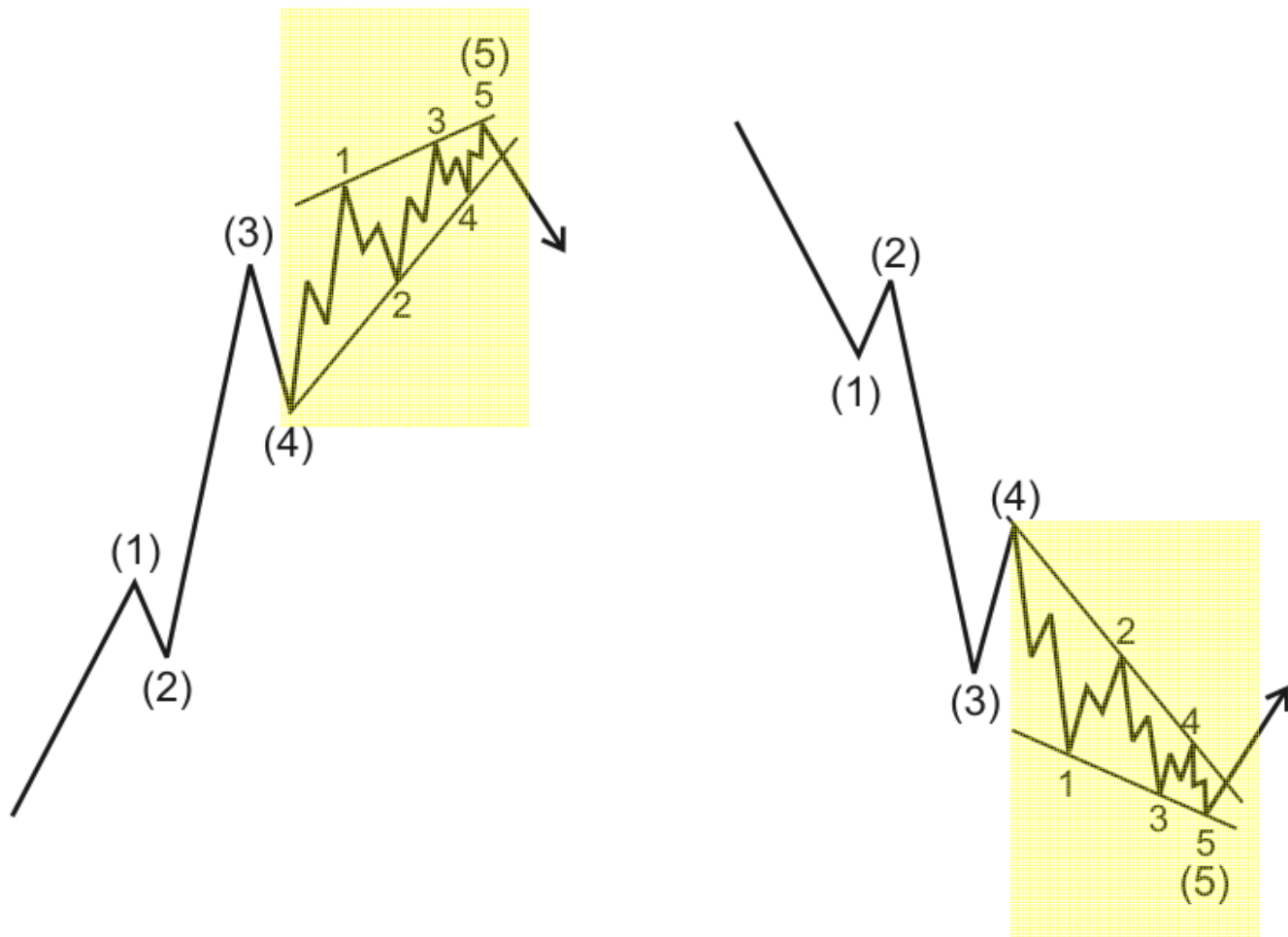
REACTIONARY FUNCTION:

- Waves 2, 4, B, D and X

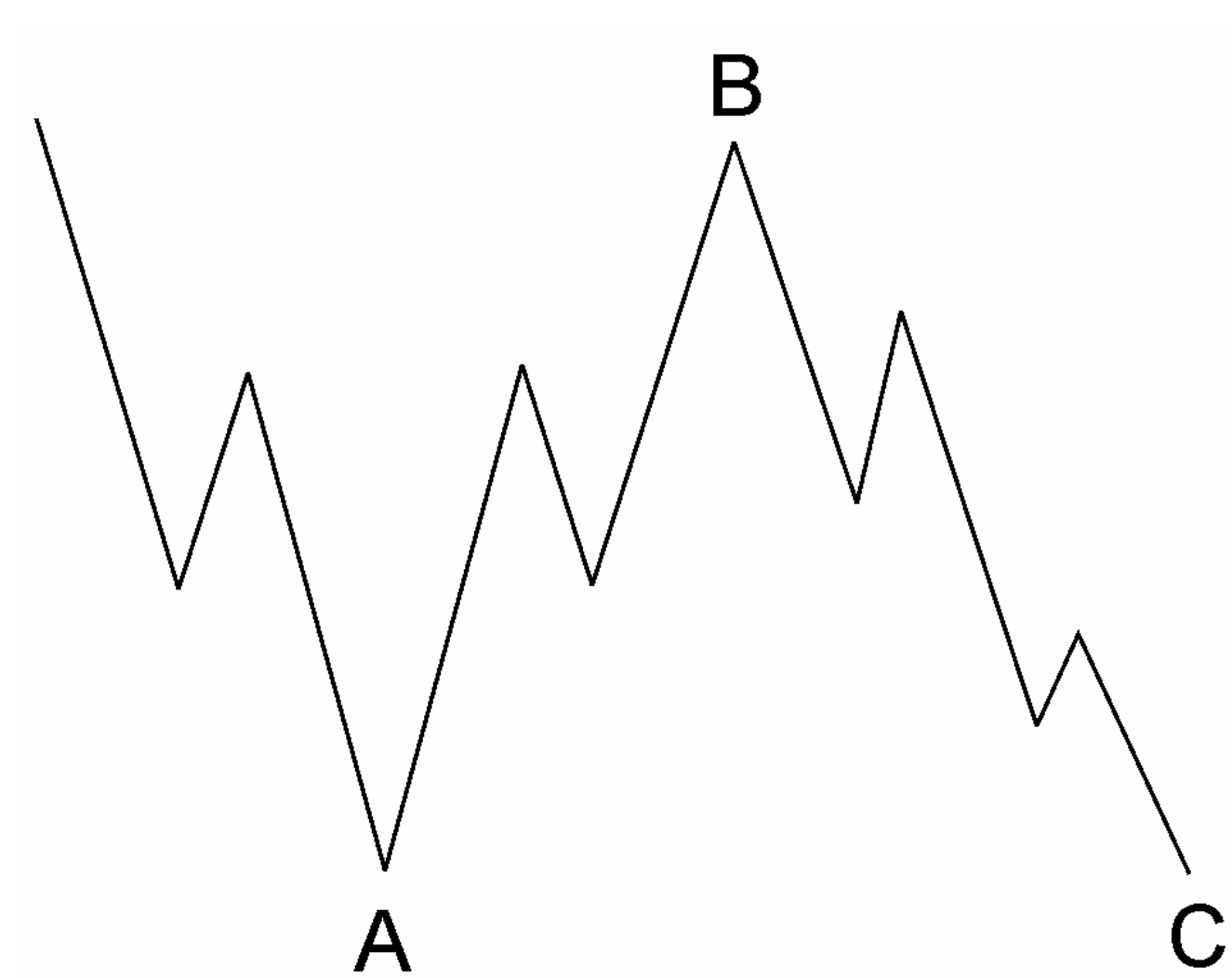
Impulse Waves



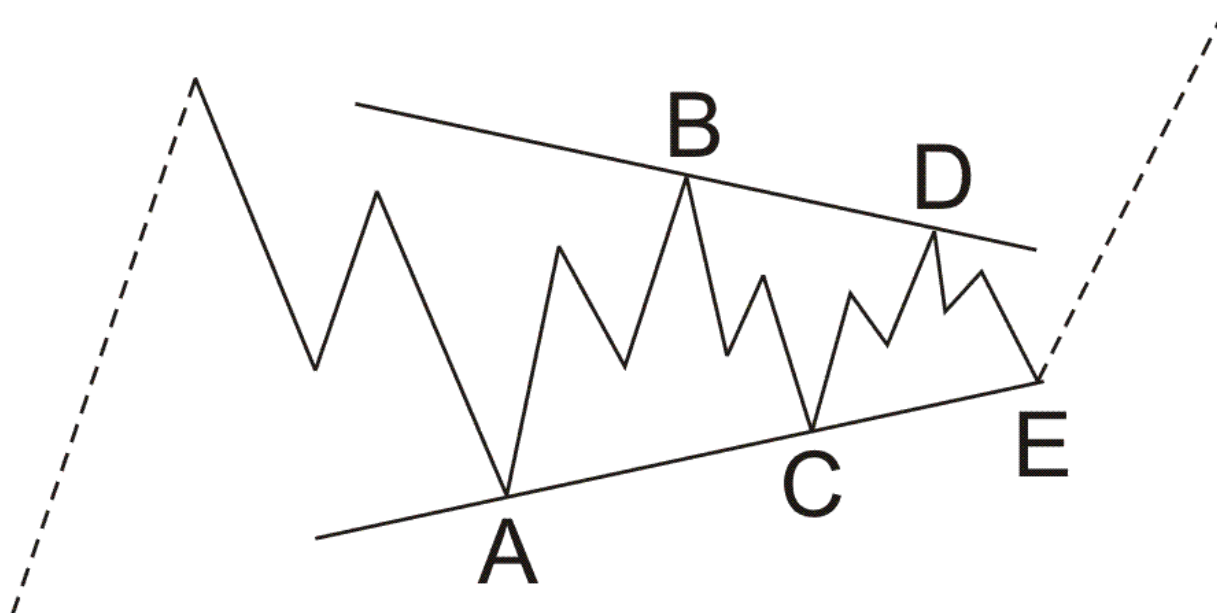
Diagonal Triangles



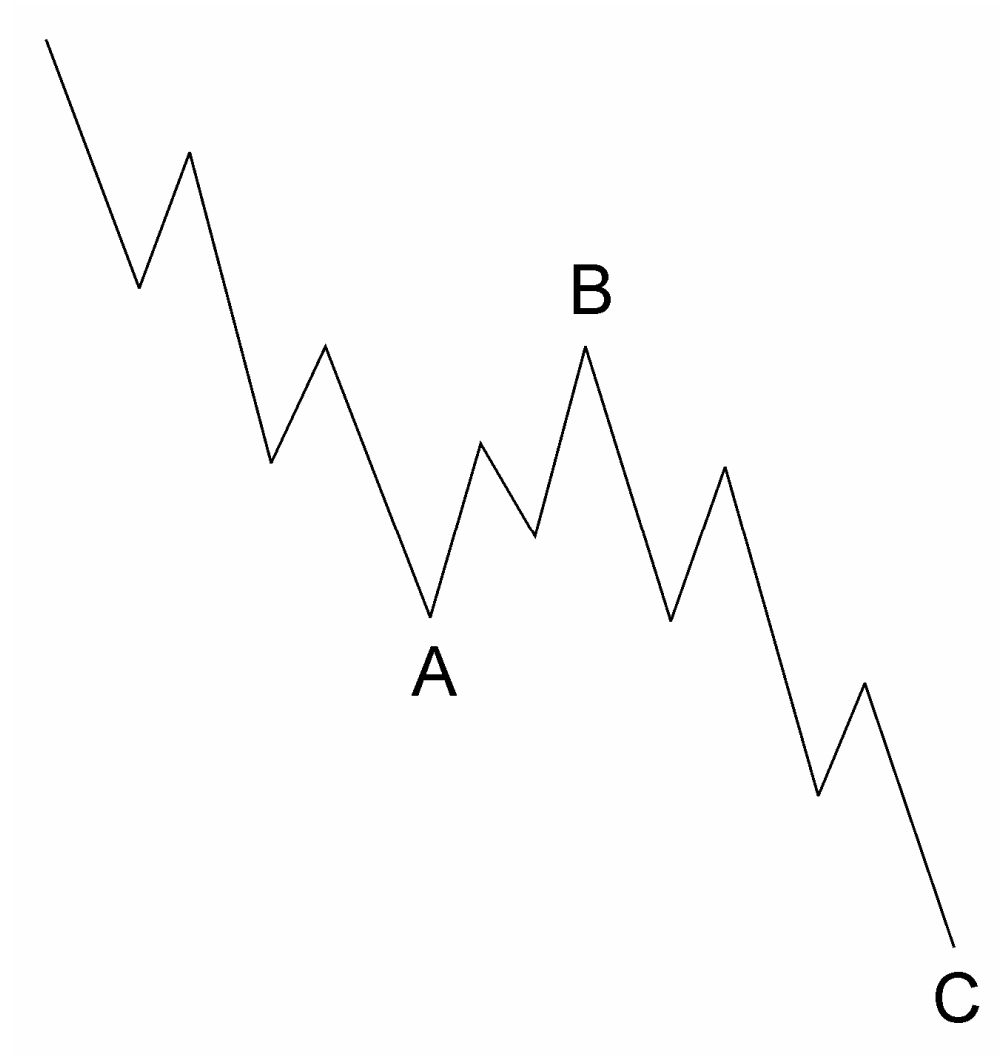
Flat



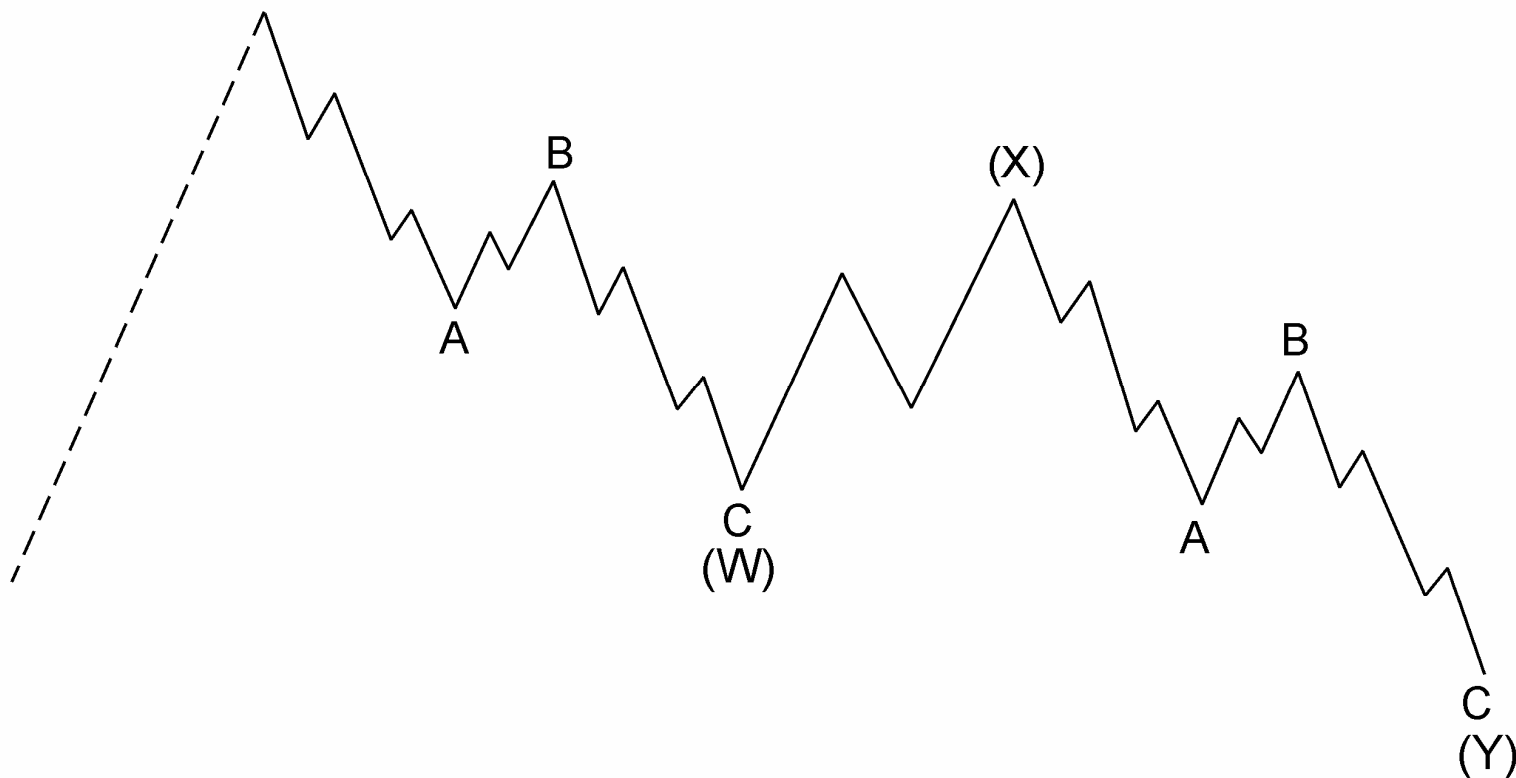
Triangle



Zigzag

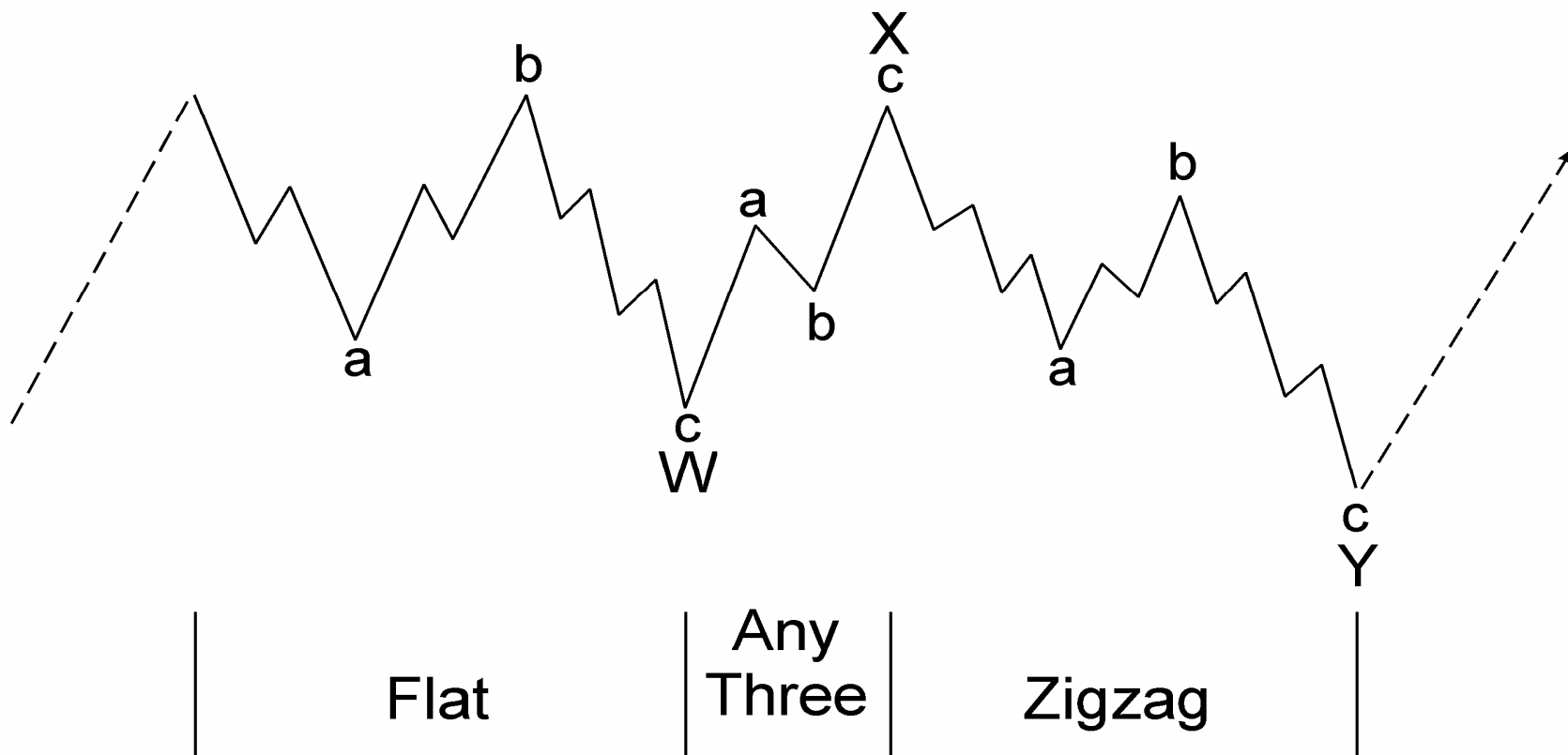


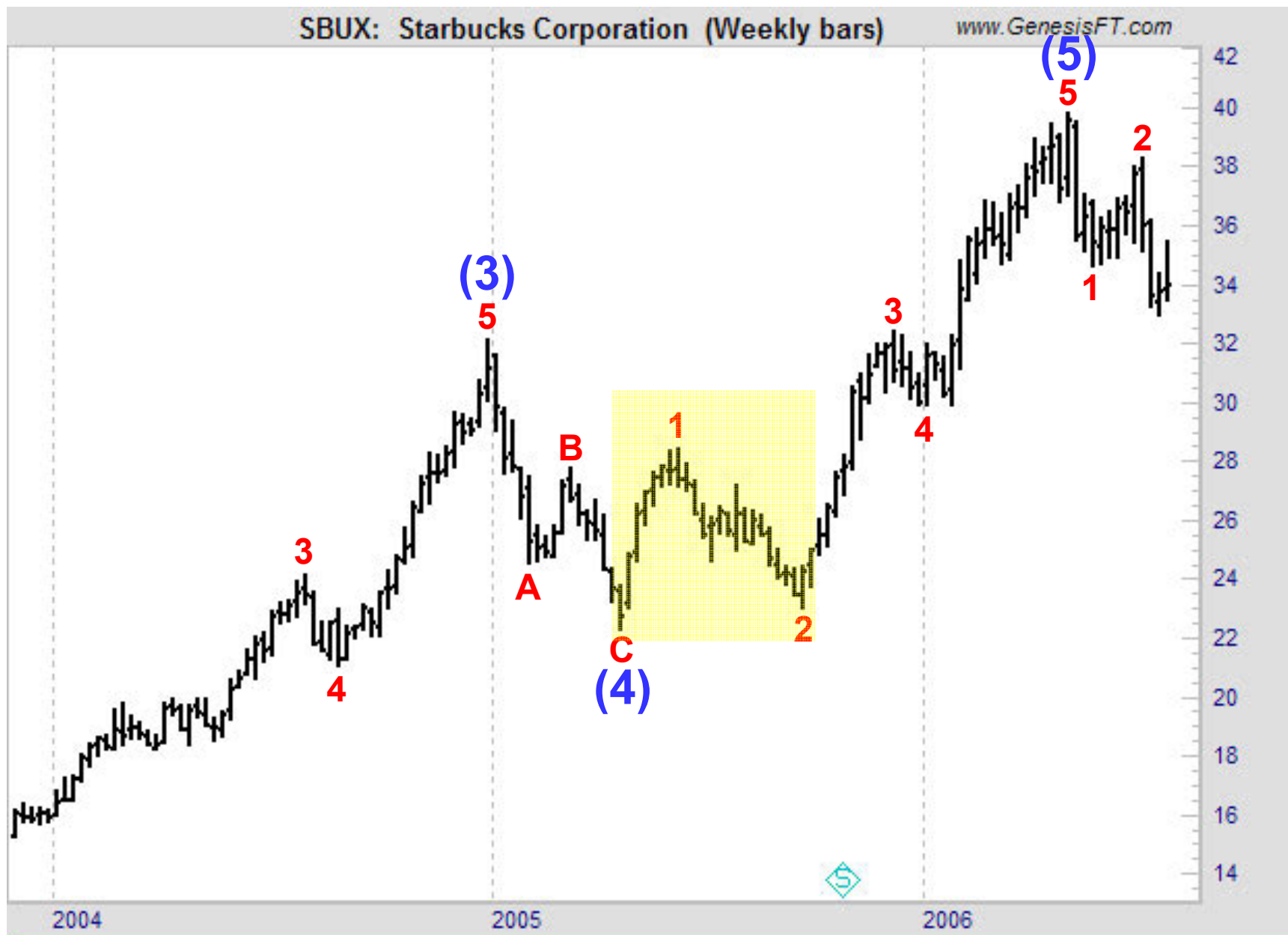
Double Zigzag

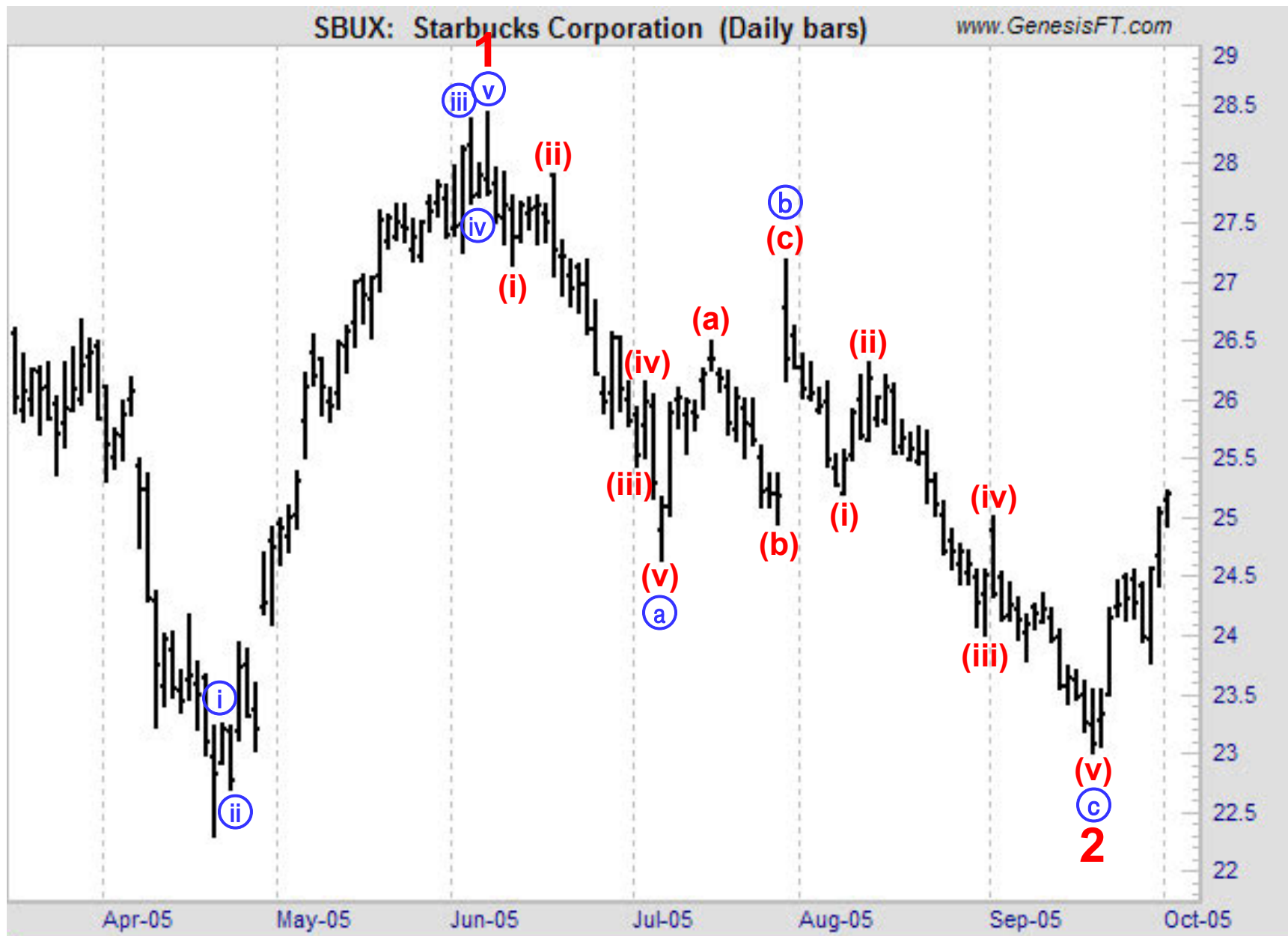


Bull Market

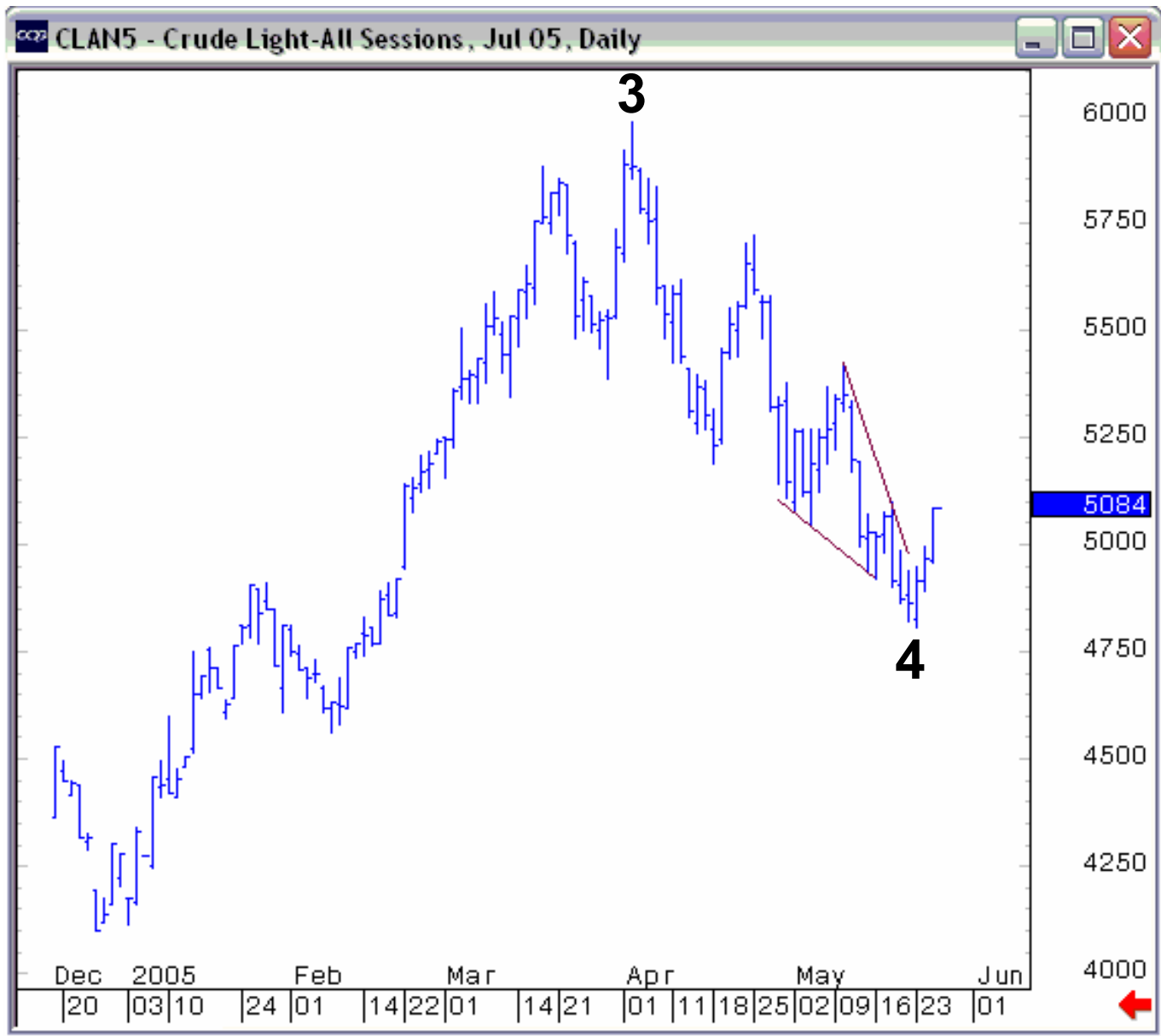
Combination





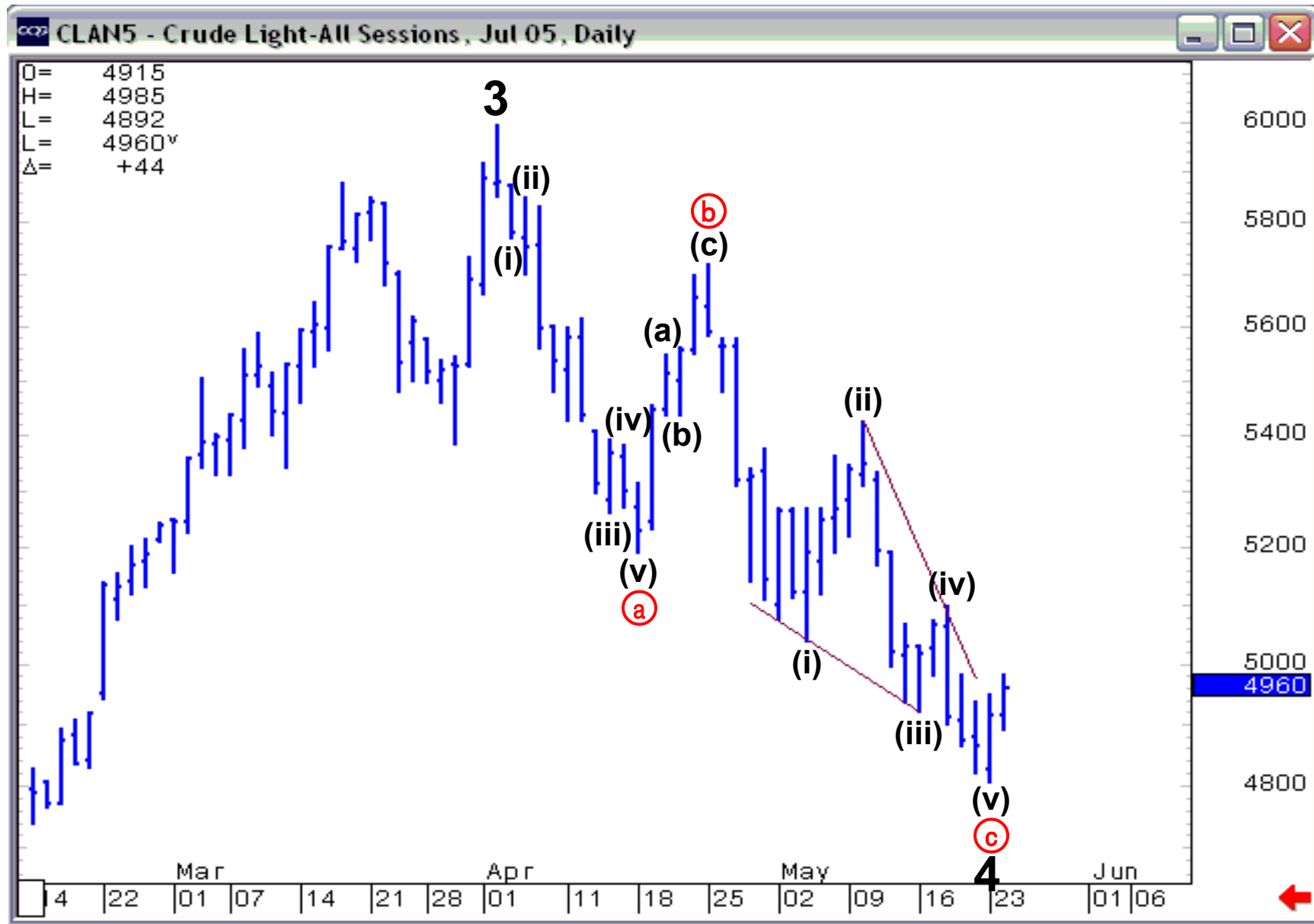


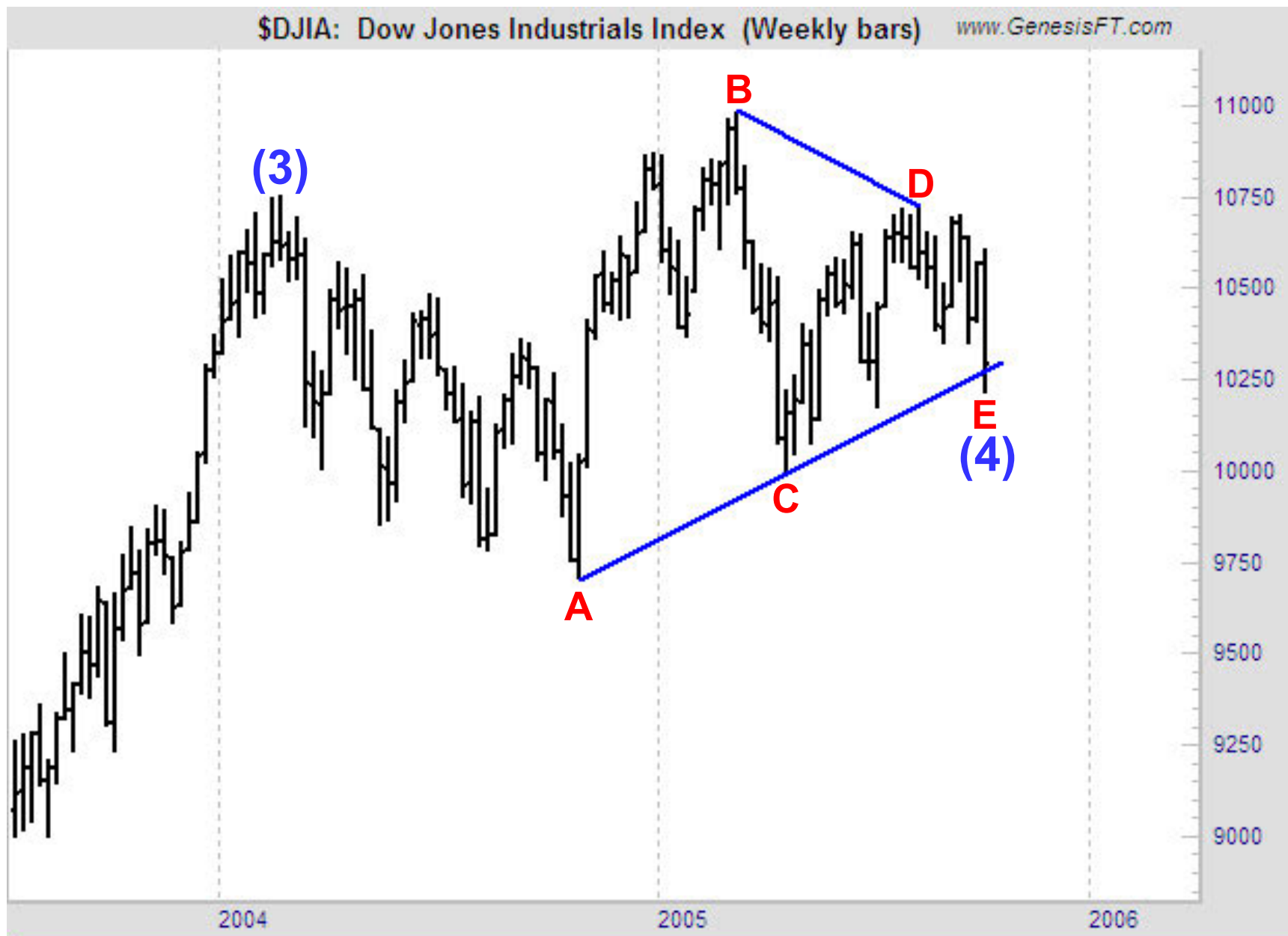


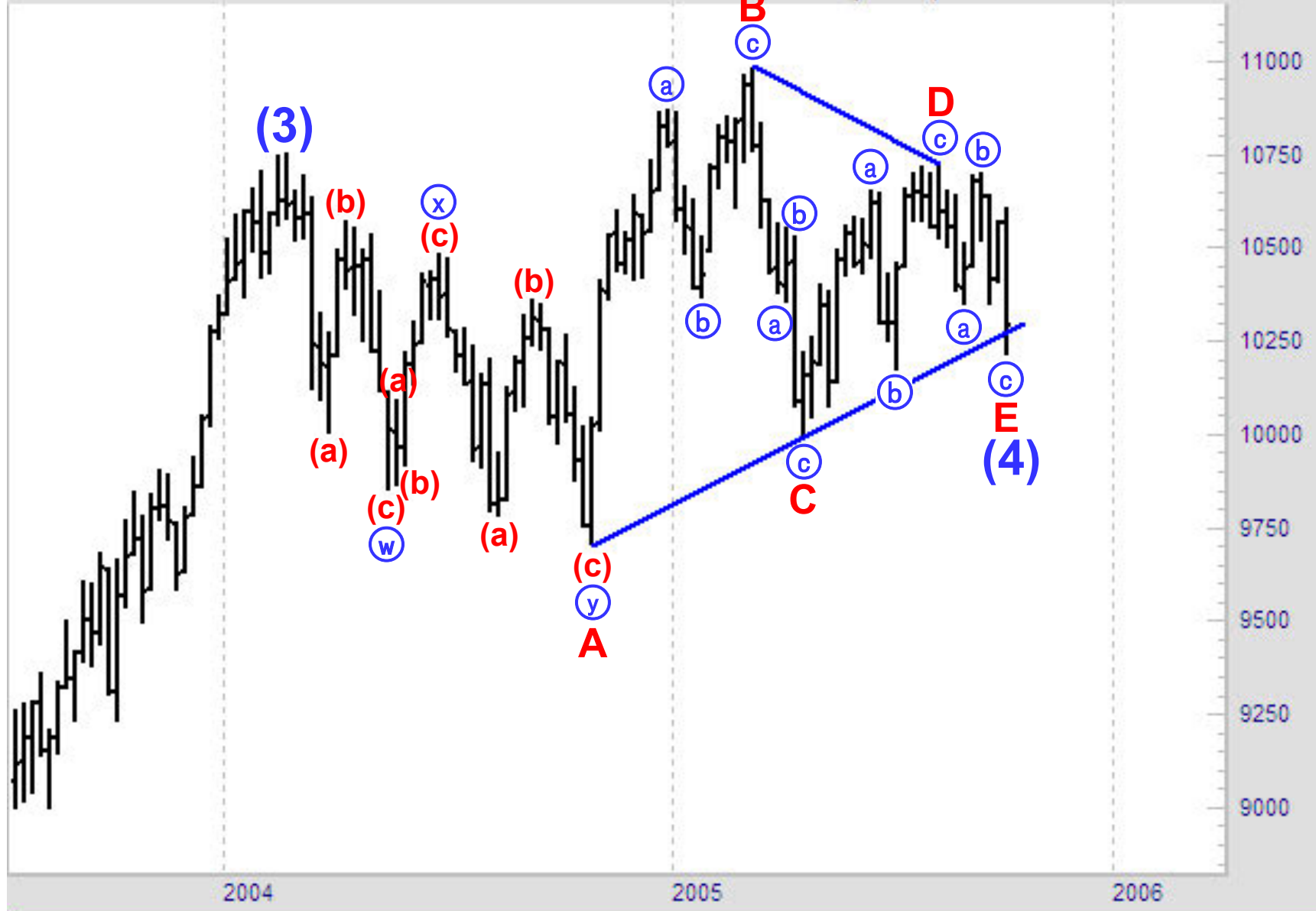


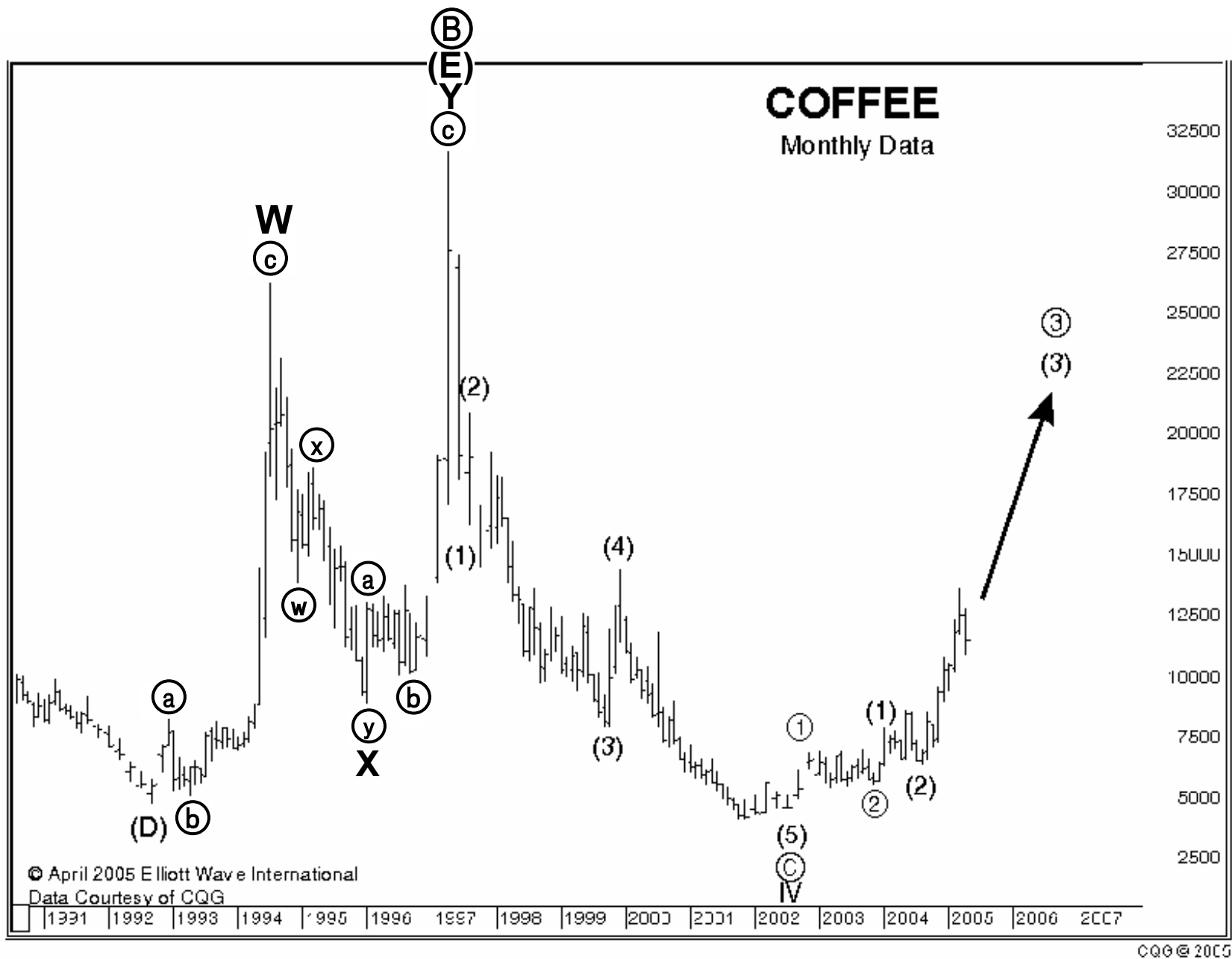
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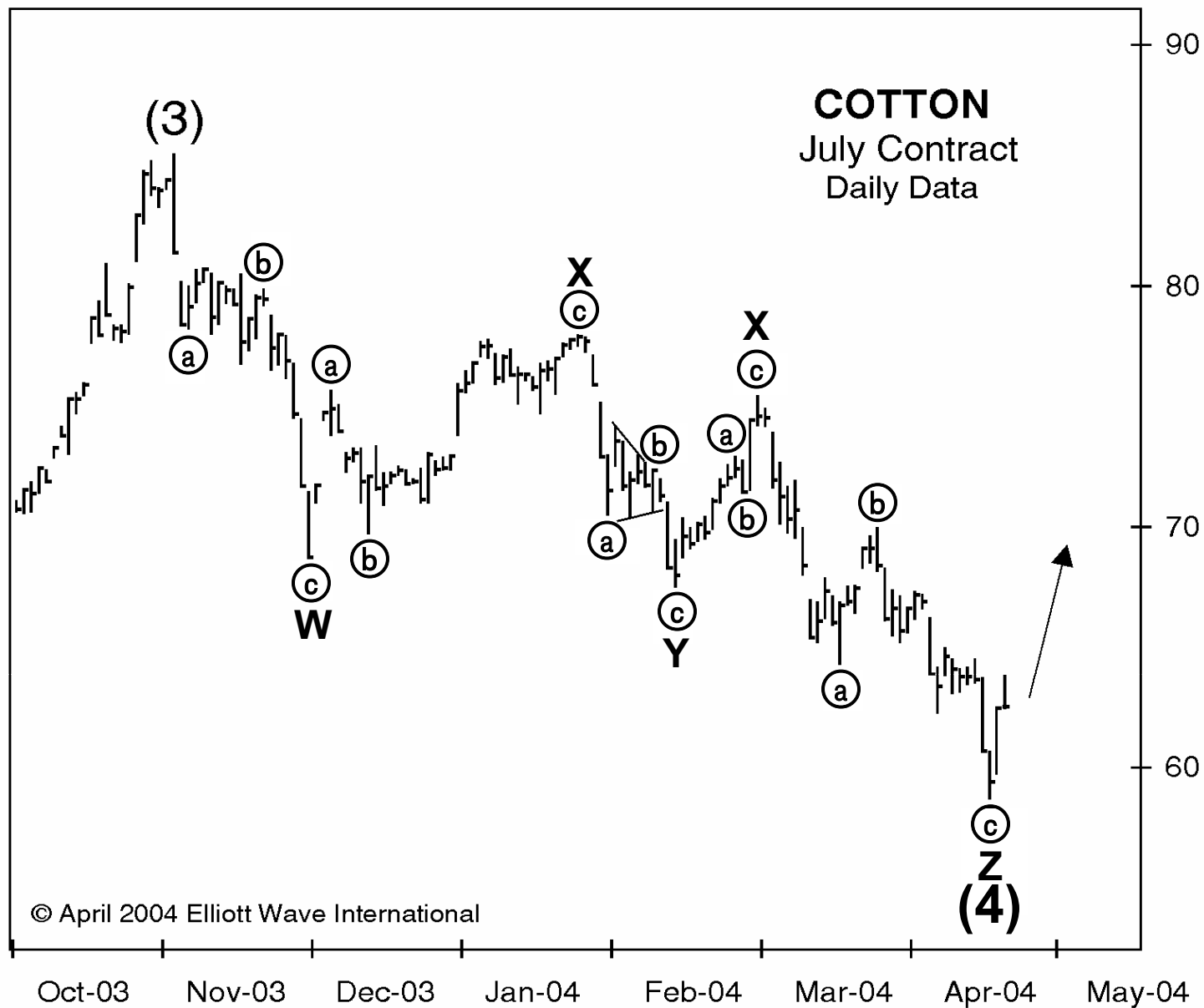
CQG © 2005









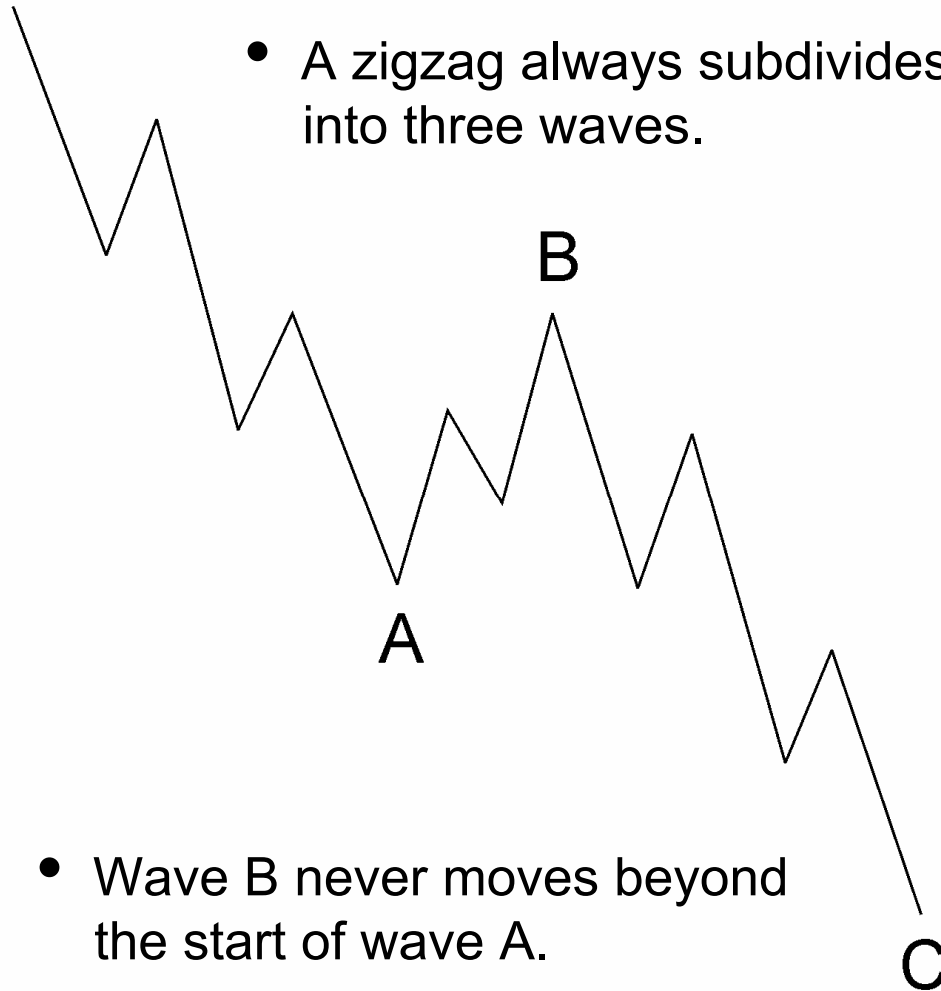




Rules, Guidelines, and Fibonacci Relationships for Zigzags

Rules

- A zigzag always subdivides into three waves.

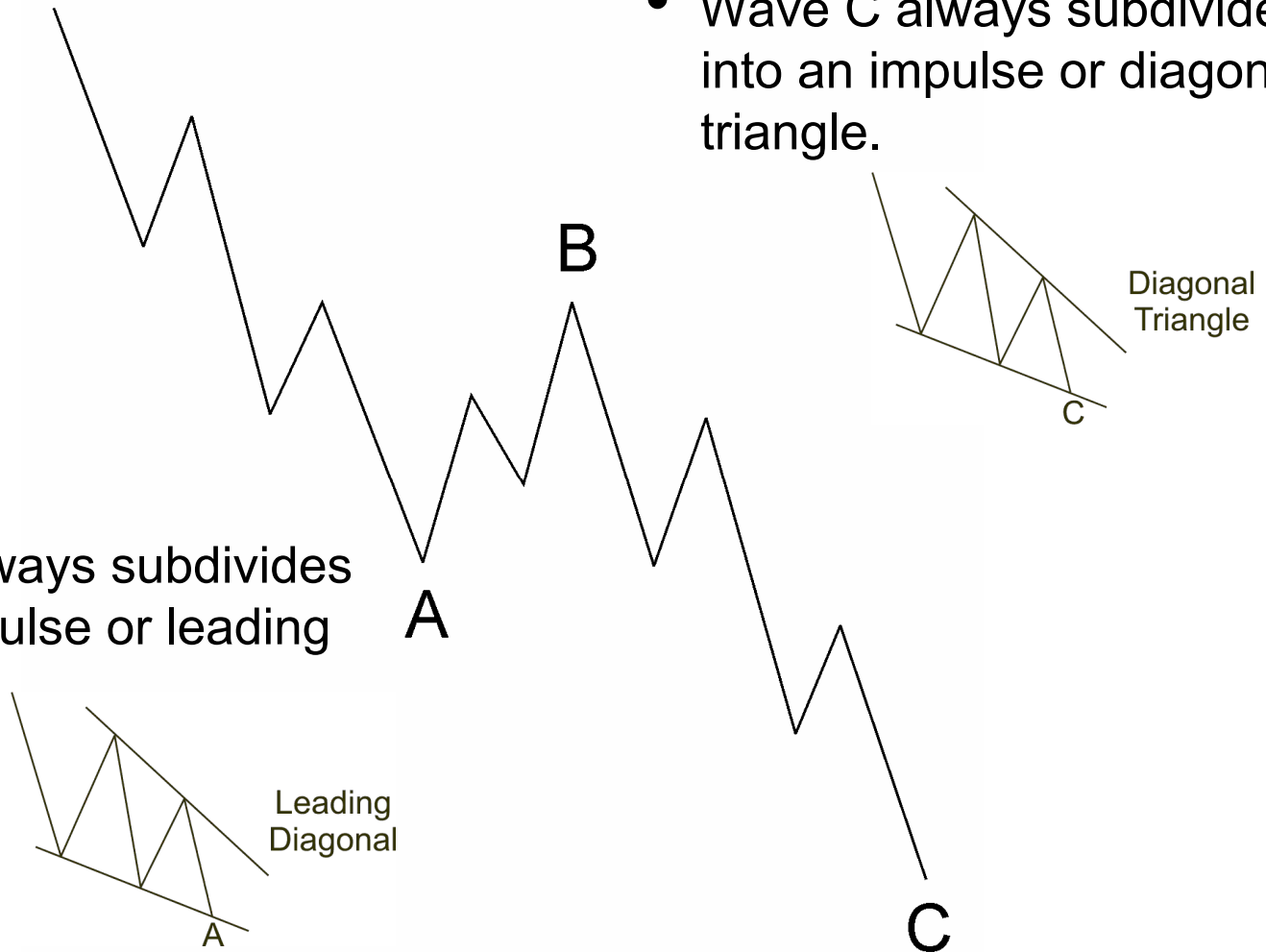


- Wave B never moves beyond the start of wave A.

Rules

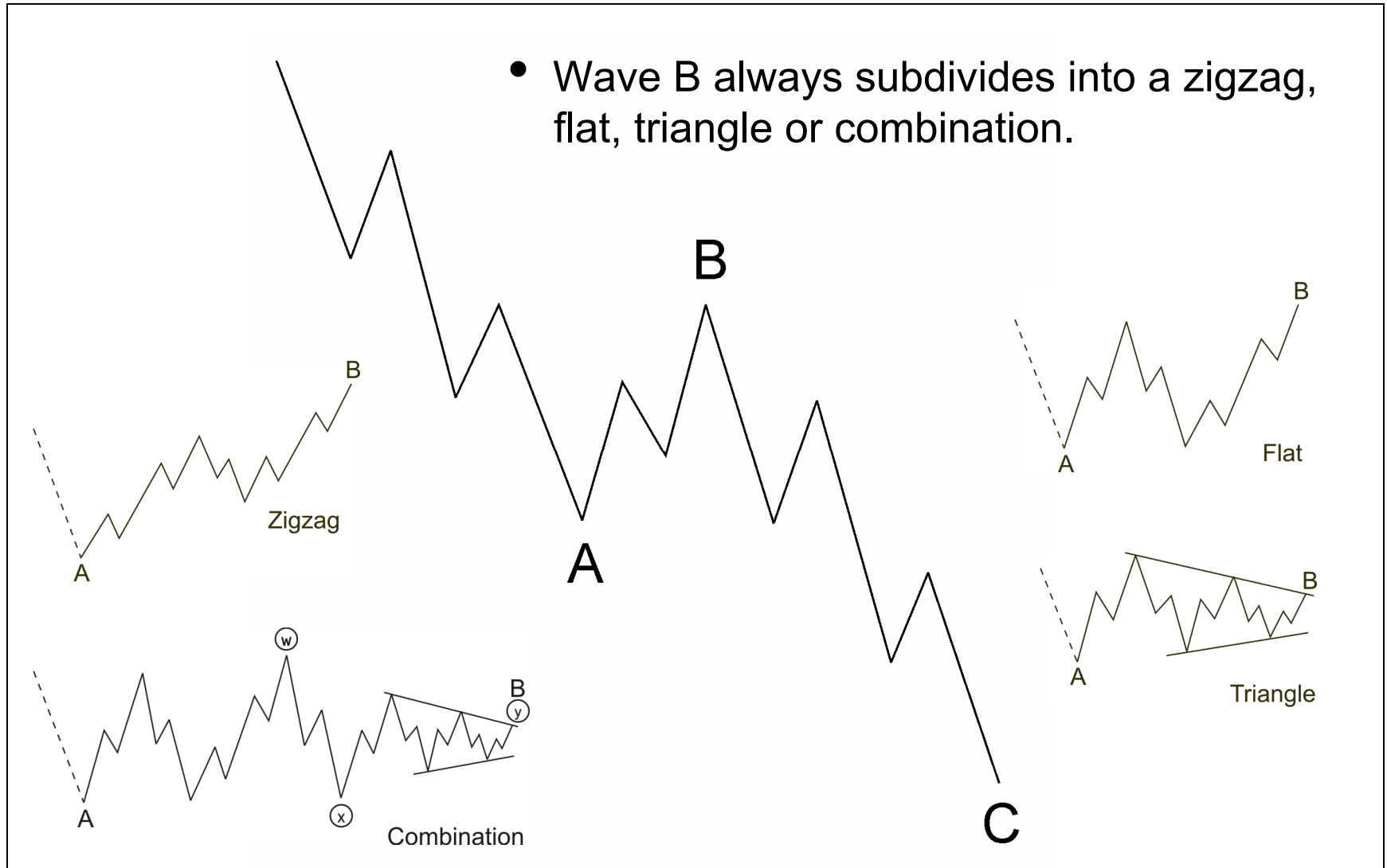
- Wave C always subdivides into an impulse or diagonal triangle.

- Wave A always subdivides into an impulse or leading diagonal.



Rules

- Wave B always subdivides into a zigzag, flat, triangle or combination.



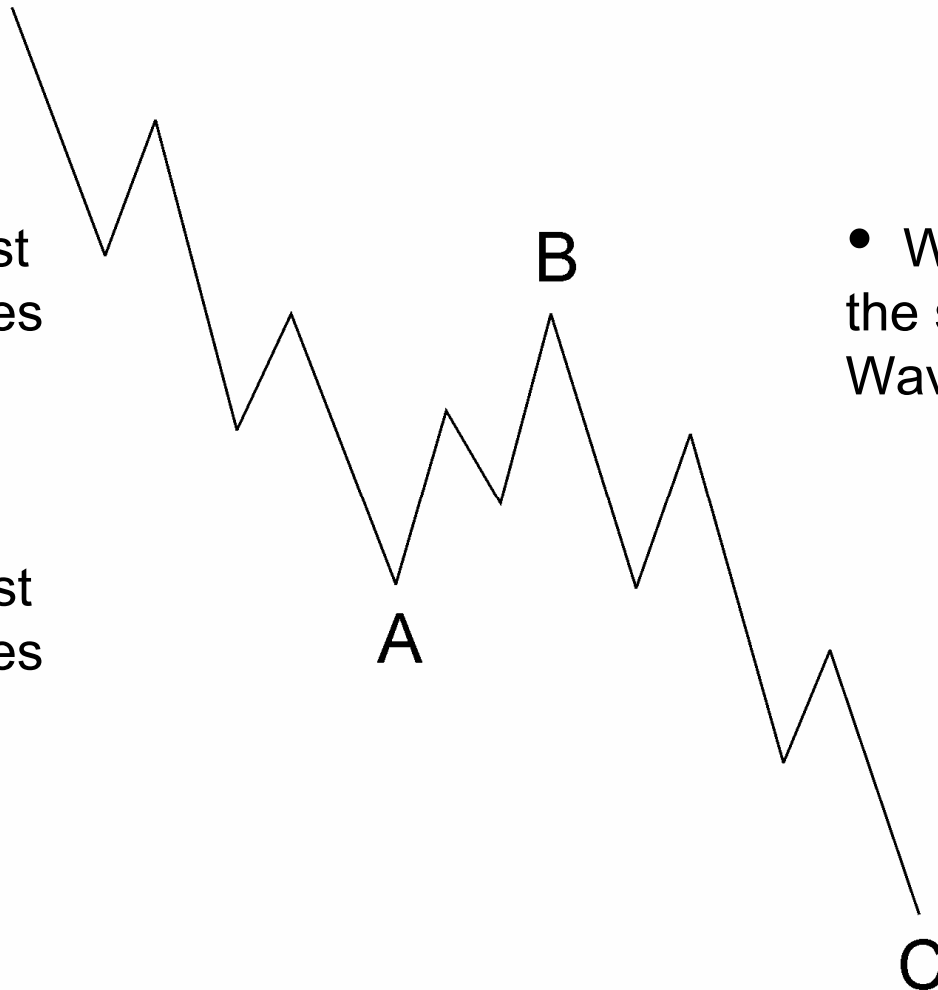
Guidelines

- Wave A almost always subdivides into an impulse.

- Wave C almost always subdivides into an impulse.

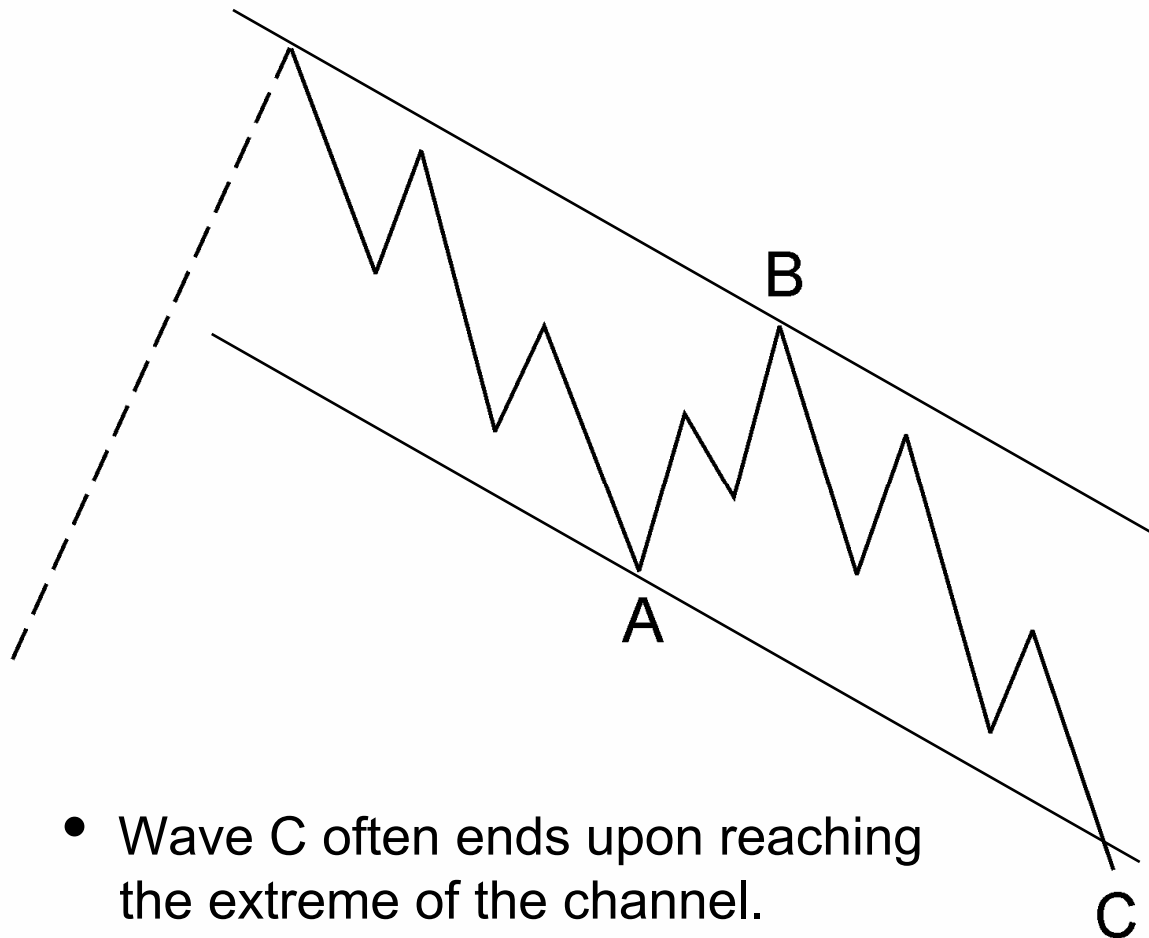
- Wave C is often the same length as Wave A.

- Wave C almost always ends beyond the end of wave A.



Guidelines

Channeling



- Wave C often ends upon reaching the extreme of the channel.

Guidelines for Typical Retracements of Wave A by Wave B in Zigzags

Wave B	Net Retracement (%)
Zigzag	50-79
Triangle	38-50
Running Triangle	10-40
Flat	38-79
Combination	38-50

Fibonacci Relationships

Single Zigzag

- Wave A = Wave C
- Wave C = .618 Wave A
- Wave C = 1.618 Wave A
- Wave C = .618 Wave A past Wave A

Double Zigzag

- Wave W = Wave Y
- Wave Y = .618 Wave W
- Wave Y = 1.618 Wave W
- Wave Y = .618 Wave W past Wave W

Triple Zigzag

- Equality for W, Y and Z
- Ratio of .618, i.e.
Wave Z = .618 Wave Y or Wave Y = .618 Wave W
- Wave Z = .618 Wave Y past Wave Y

Trading Scenarios

XAU Index

Part 1: Identifying Wave A





















Trading Scenarios

XAU Index

Part 2: Trading Wave B









































Trading Scenarios

XAU Index

Part 3: Trading Wave C







































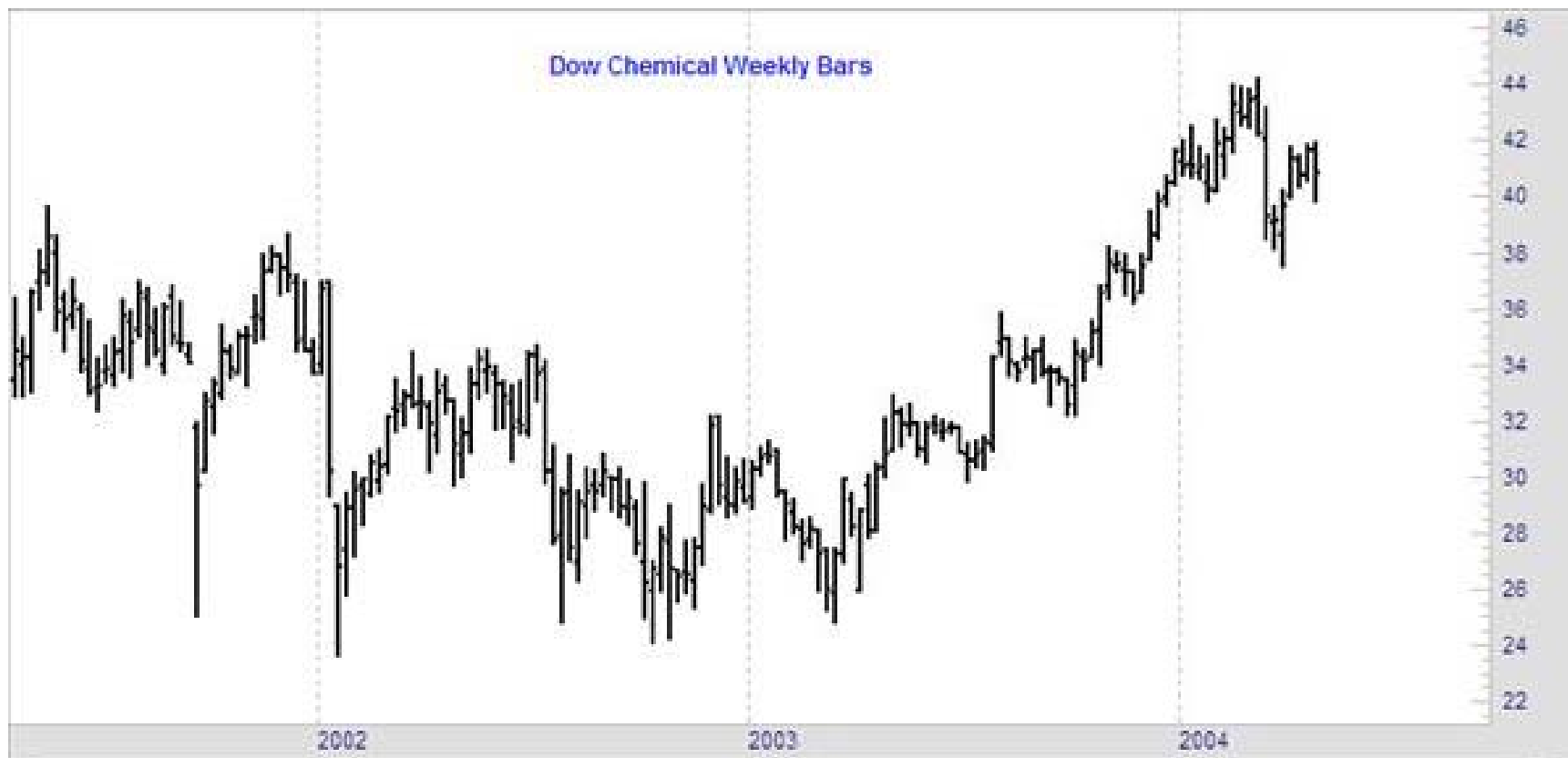


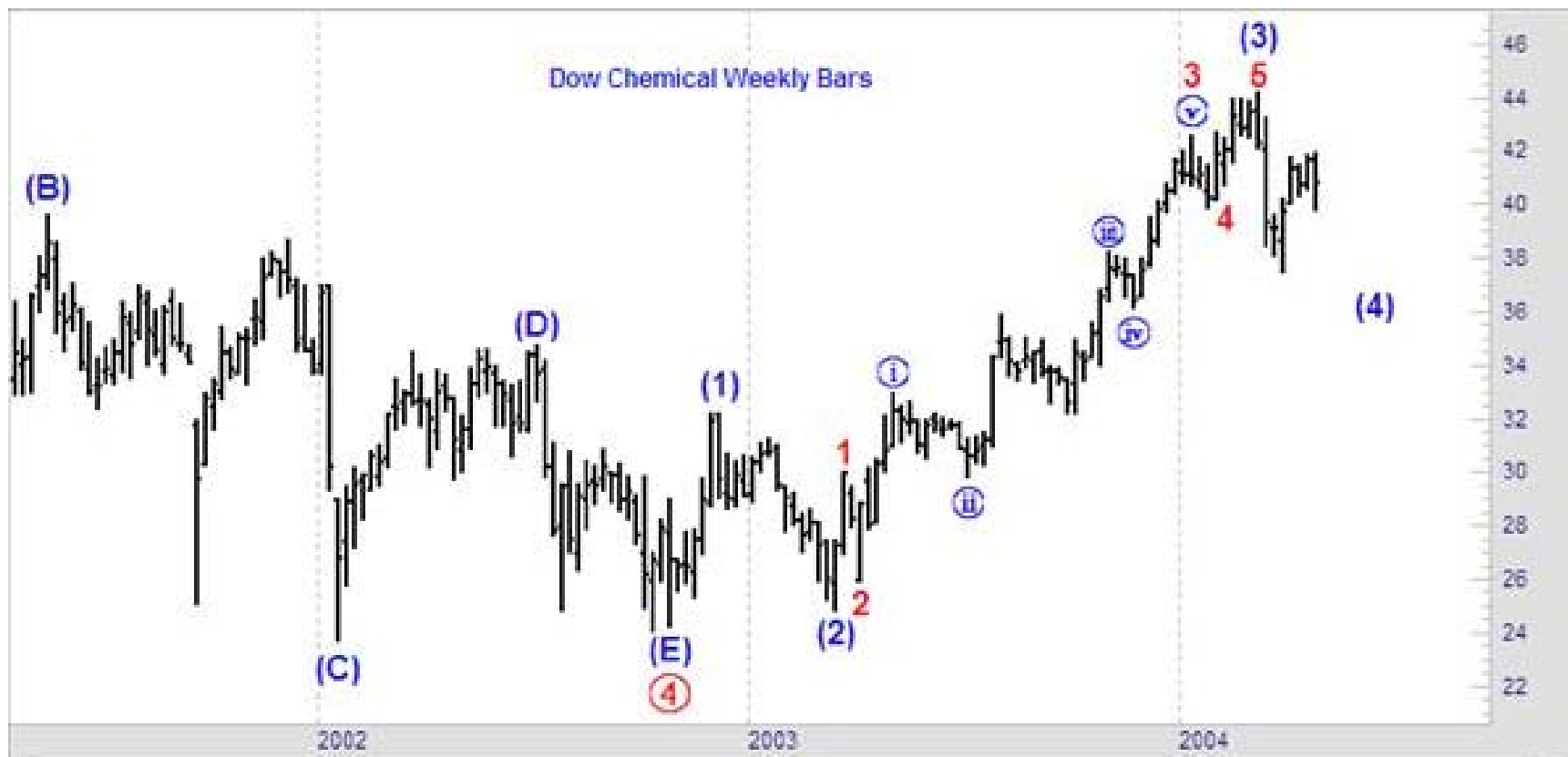




Trading Scenarios

Dow Chemical









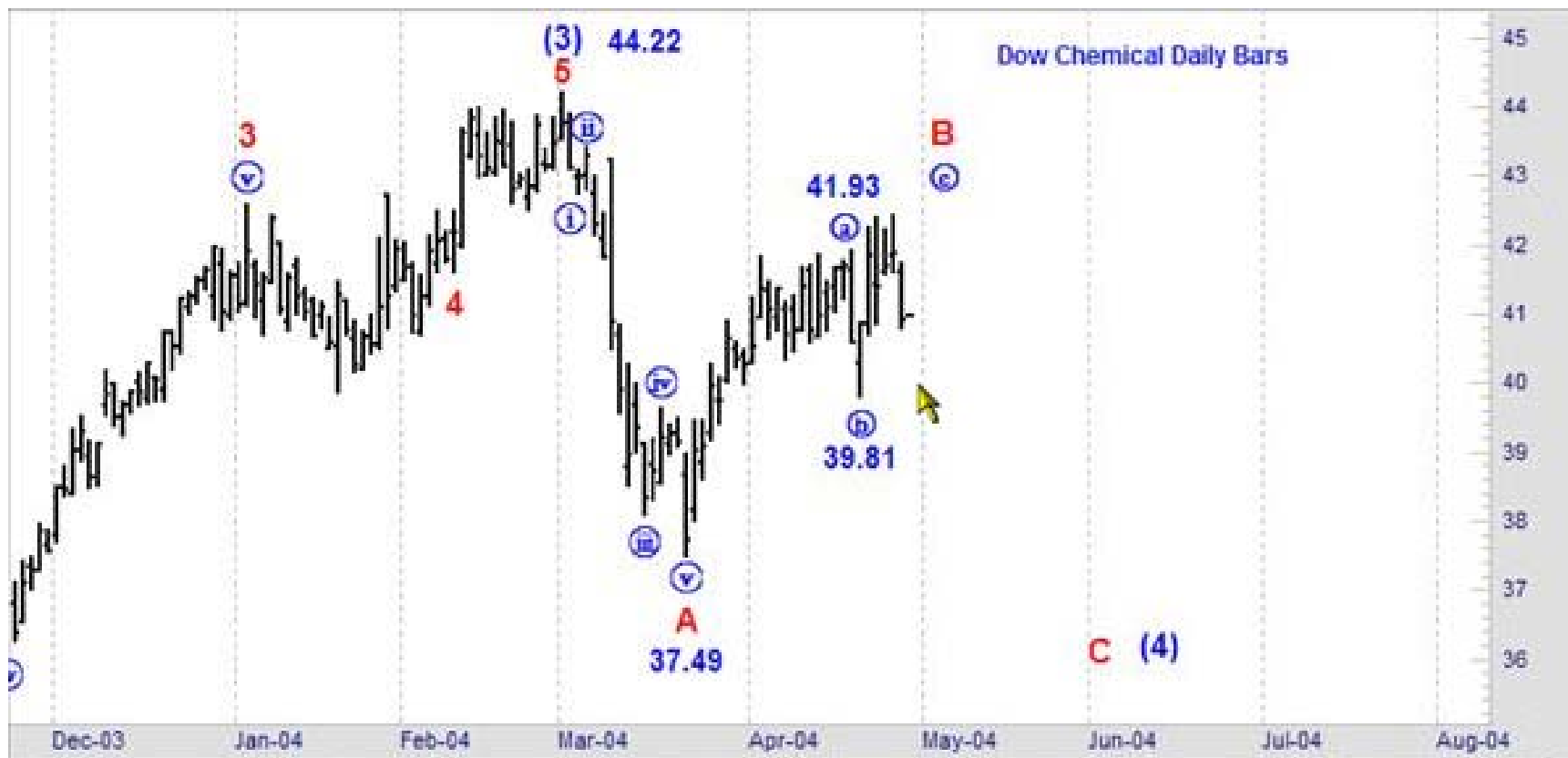












































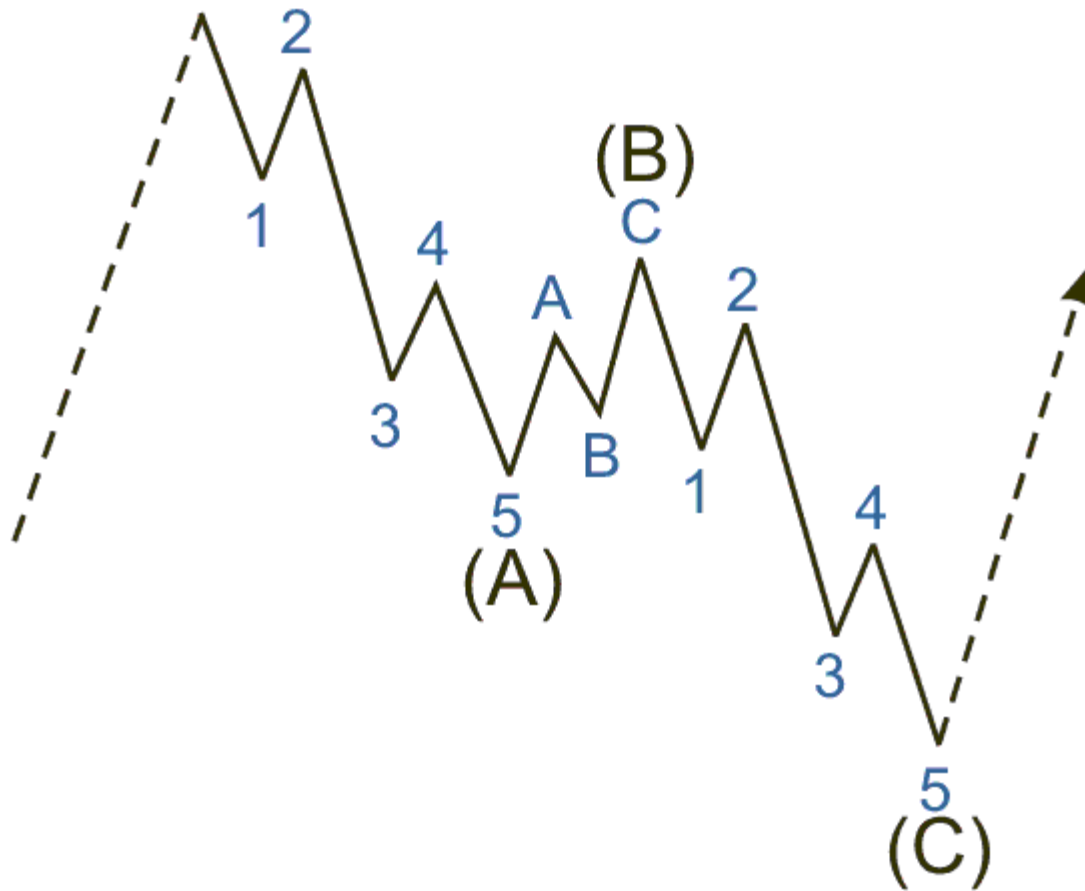




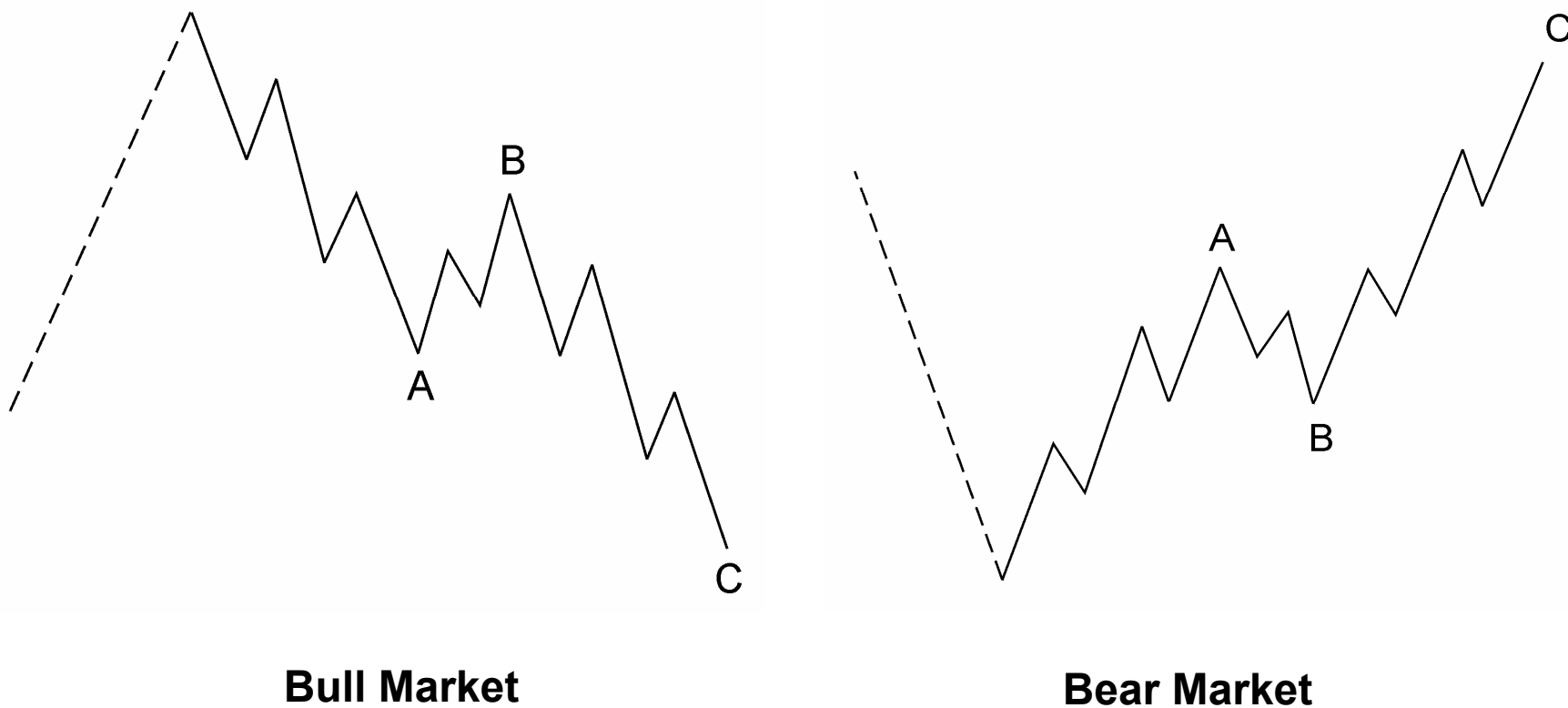
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Course Summary

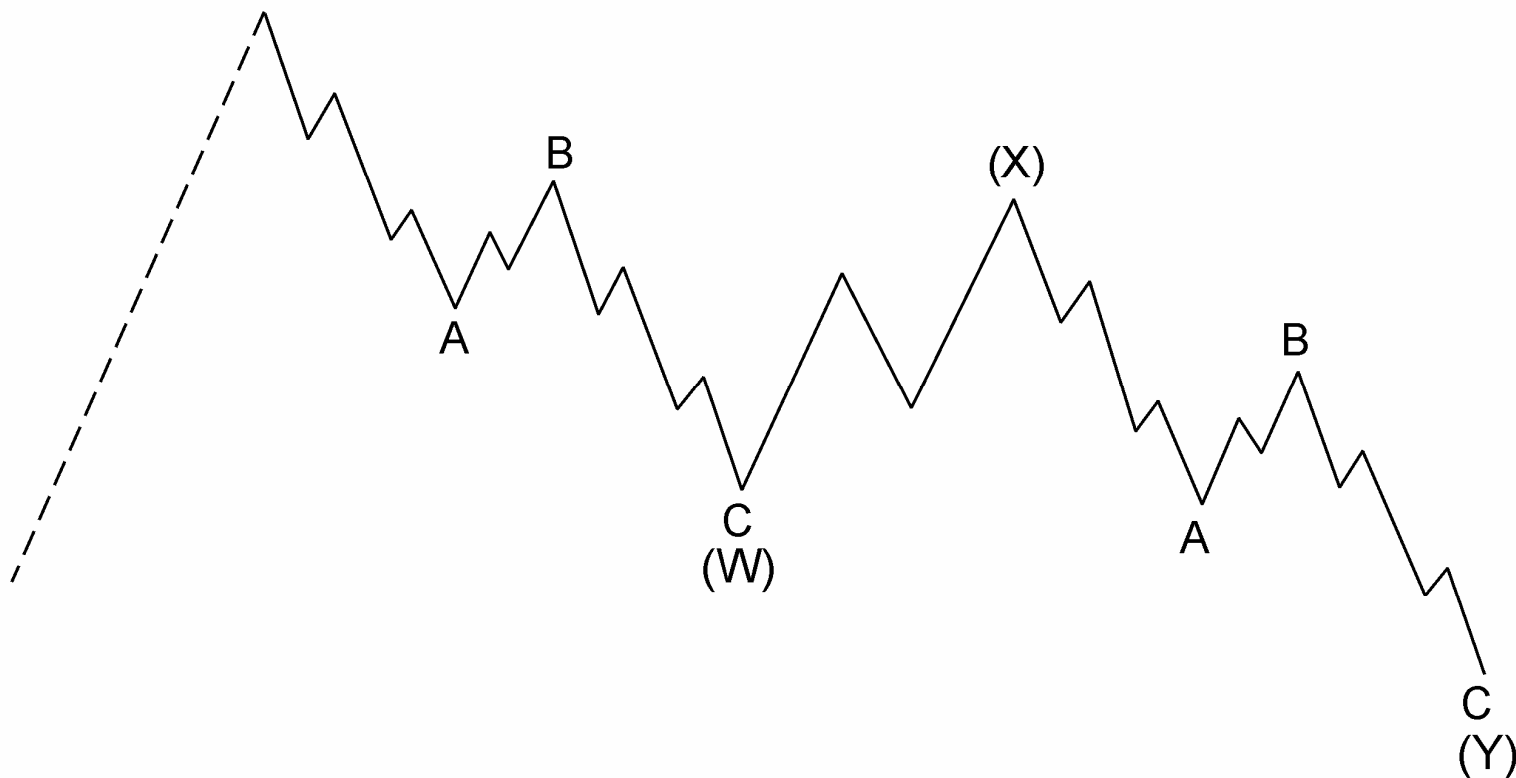
Zigzag



Single Zigzag

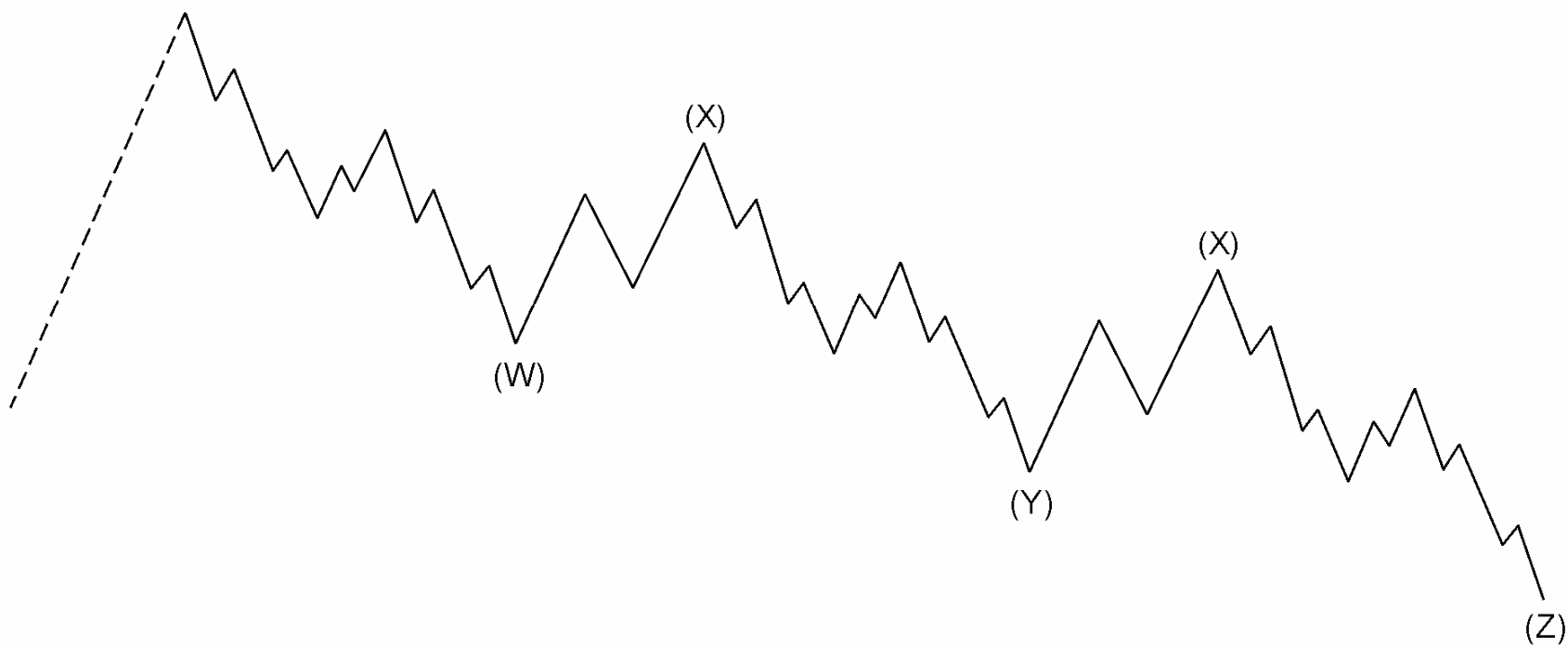


Double Zigzag



Bull Market

Triple Zigzag



Bull Market

ZIGZAG — Corrective Mode

ACTIONARY FUNCTION:

- Waves 1, 3 and 5 in diagonal triangles
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- Wave Z of a triple zigzag and triple three

REACTIONARY FUNCTION:

- Waves 2, 4, B, D and X

Trading Scenarios

- Corrections can never be 5s.
- If wave A has five waves, the corrective structure must be a zigzag.
- Wave B never moves beyond the start of wave A.
- Wave C almost always ends beyond the end of wave A.

Trading Scenarios

Fibonacci Relationships

Single Zigzag

- Wave A = Wave C
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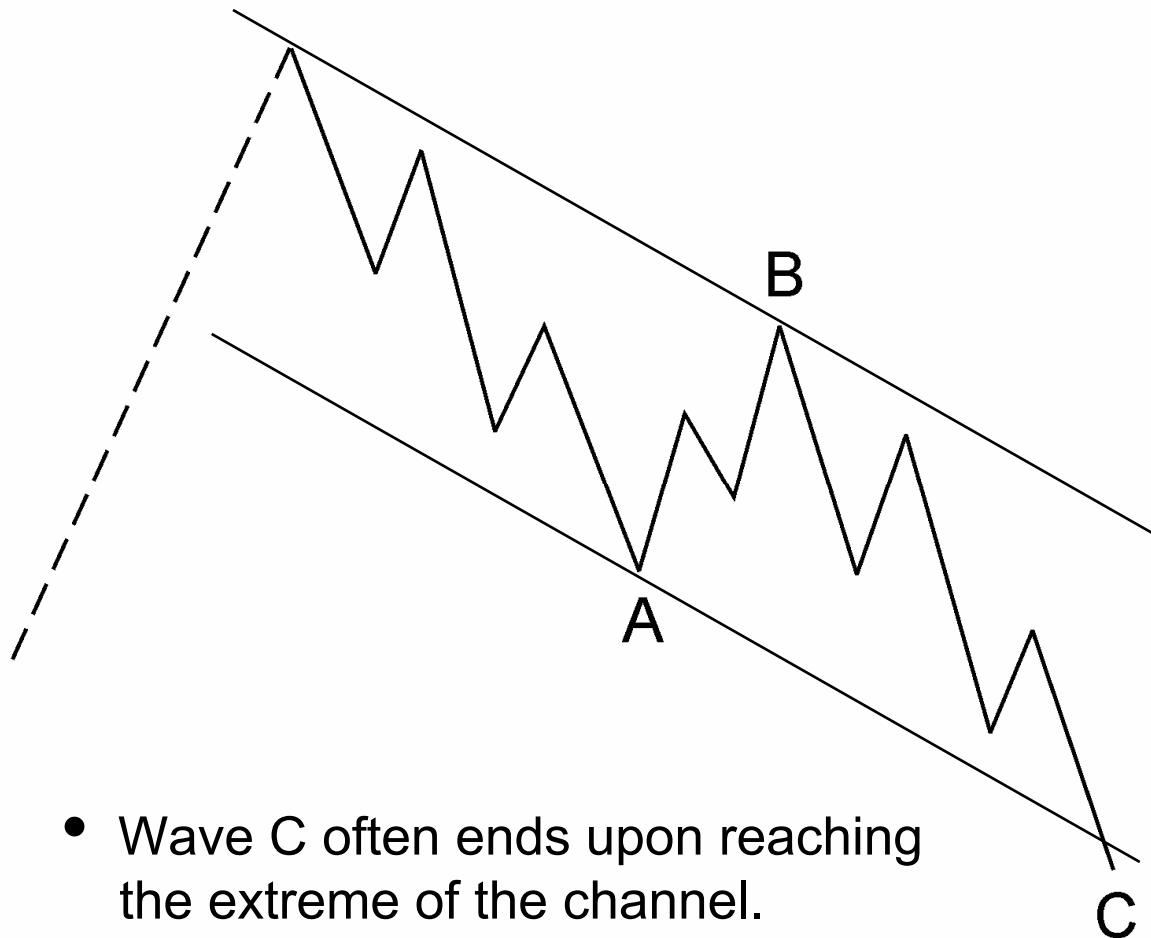
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Trading Scenarios

Channeling



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