



STEVE GRIFFITHS

Profiting from the simple (but highly effective) ABC correction

Steve Griffiths, the Managing Director of MTPredictor Ltd, explains a simple process to identifying profitable trading opportunities



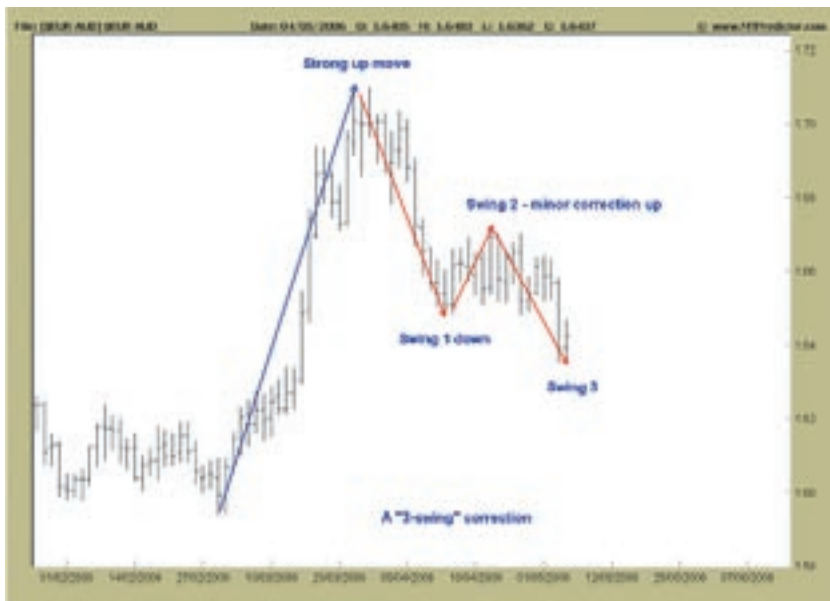


Figure 1 – EURAUD

Having been involved in the speculative markets for over 20 years, I have learnt many (normally expensive) lessons. However, by far the most important lesson - particularly in these days of ever more complicated and sophisticated analysis - is that a simple, disciplined approach to markets is often all that is needed to uncover great trade opportunities. One of the best trade set-ups in my weaponry is the simple *ABC correction*.

Although this is by no means a new pattern (featuring in R. N. Elliott's seminal *The Wave Principle* work nearly 70 years ago), its profit potential for traders has been largely overlooked by the mainstream for some time - arguably due to its very simplicity. In my experience, though, when used properly this pattern can help traders uncover low risk/high reward trading opportunities both quickly and easily.

First, however, let me explain what is meant by a simple *ABC correction*. In essence, it is a 3 swing correction against the main trend, where the 3rd swing exceeds the price extreme of the first swing. Please see the example in the Figure 1.

Figure 1 shows how the EURAUD (Euro v. Australian Dollar - forex pair) was in a strong, impulsive up trend. This was followed by a simple 3-swing correction, in which the 3rd swing exceeded the low (in this case) of the first corrective swing. The first swing down is normally labelled (A), the minor correction is normally labelled (B) and swing 3 (C). This is a classic ABC correction down against the main uptrend.

Why is the identification of such a simple ABC correction so important? Well, once such a correction is complete, the main trend normally resumes. If you look at this example a few months later, you can see how, once the 3-wave correction to the trend (as identified in Figure 1) was complete, the EURAUD resumed its main uptrend to new highs. Please see Figure 2.

It should be fairly clear that the end of this clearly-visible ABC correction represented an ideal place to look to enter the market to take advantage as the main trend resumes.

Having said this, the main difficulty in the past has been in identifying where the simple ABC correction was most likely to end. For decades, this proved to be either at worst pure guesswork or at best a very laborious manual task. However, it can be resolved by looking

at the price relationships of the individual swings within the ABC correction itself. This is where the time-honoured mathematics of the Italian mathematician Fibonacci help enormously.

The most common relationship is where the Wave C (3rd swing) is equal in price to the Wave A (1st swing). Although you need to look at *price clusters* from all the ratios from all these swings, the Wave C = 100% Wave A relationship is by far the most important and Wave C = 61.8% Wave A is the second most important. Armed with this knowledge the trader can now anticipate the most likely price area for the Wave C and, as a result, the entire ABC correction to end.

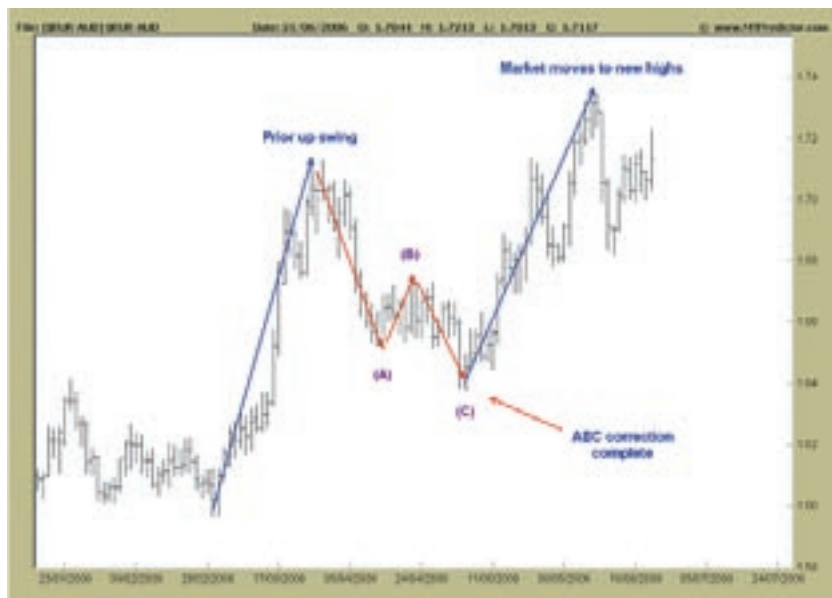


Figure 2 – EURAUD



Figure 3 - EURAUD

At www.mtpredictor.com the *price cluster* in which the Wave C = 100% Wave A relationship falls is called the typical Wave C WPT (Wave Price Target) and the *price cluster* in which the Wave C = 61.8% Wave A relationship falls the minimum Wave C WPT.

The chart shows how this particular simple ABC correction ended right in the minimum Wave C WPT support area (in orange). Knowing the most likely support areas for the entire ABC correction to end allows the trader to enter a trade with a very small initial risk – placing them in a very good position to take advantage as the main trend resumes.

This is vital for that very reason - because the end of the ABC correction can be used to enter trades with a small initial money risk. This, in turn, is crucial for a successful trading approach because it helps keep losses small and controlled relative to profits...one of the most important factors in a profitable trading approach. This itself is the fundamental basis of correct *position-sizing*, an immensely important topic.

In this example, correctly identifying the very end of the ABC correction allowed the trader to enter a trade with a very small initial (money) risk relative to the potential reward:

As you can see, the EURAUD rallied into the first projected Elliott wave profit target

(upper orange zone), where the long trade would have been stopped out for a very decent profit. But the most important point to note here is that not only was this a profitable trade but also the profit was far greater than the small initial risk. In fact, it was just over 6x larger – in other words, a risk/reward ratio above +6x.

Being able to identify trades where the profits are far in excess of the inevitable losses (initial risks) is absolutely vital to any successful trading approach (ask any professional trader). This is where the simple ABC correction can really help, as it allows you to find trade opportunities that can be entered with a small initial risk yet carrying a high profit potential.

This ABC pattern can be seen on all markets and all timeframes - as such, it is relevant for traders globally, whether on the National Stock Exchange (NSE) of India or the futures listed on the Singapore International Monetary Exchange (SIMEX).

Steve Griffiths is the Managing Director of MTPredictor Ltd. and developer of the MTPredictor™ software range, designed to automatically identify and risk-assess ABC corrections as well as other specific, tradable Elliott wave patterns. MTPredictor software uses the unique Isolation Approach™ to Elliott wave. For more information, please visit the MTPredictor Ltd website at www.MTPredictor.com

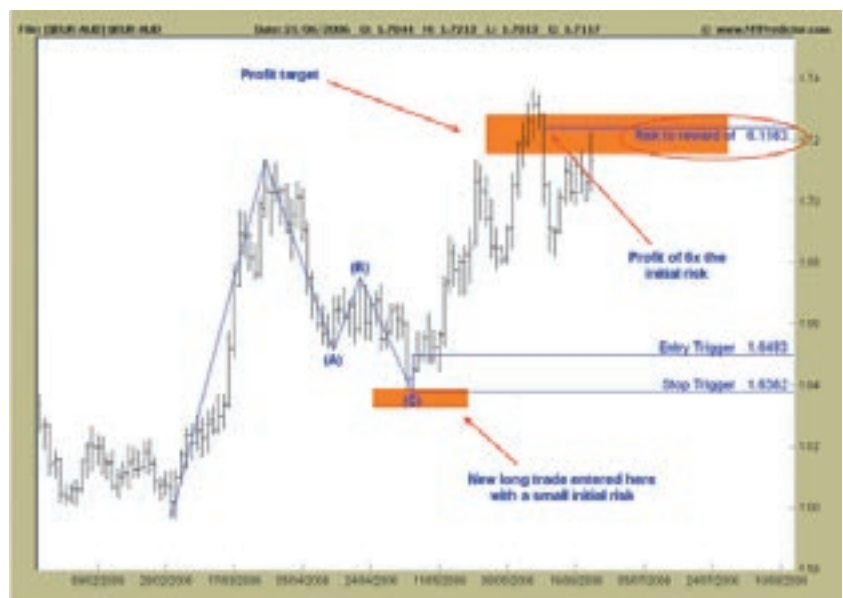


Figure 4 - EURAUD