



ORPHEUS CAPITALS

GLOBAL ALTERNATIVE RESEARCH

TICKS.IND

Primers

Anticipated and Happened cases

The Ending Diagonal

An ending diagonal is one of the thirteen Elliott patterns and it occurs generally at termination points of larger patterns (often in the fifth wave of an impulse and sometimes in C waves). It indicates an exhaustion of the previous larger movement.

The ending diagonal is made of five waves, each subdividing into 3 waves, this way having an overall structure of 3-3-3-3-3. These waves usually take a wedge shape between two converging lines, but these lines can also be diverging, causing the wedge shape to be expanding rather than contracting. In this latter case the formation is called expanding diagonal.

We illustrated here an ending diagonal in the case of SENSEX. On 5th June 2009 we highlighted a potential ending diagonal pattern, saying that "Sensex seems to be making an ENDING DIAGONAL TERMINAL pattern. We remain on high alert for a turn around. Key levels to watch lie at 15,200."



What happened was that the ending diagonal completed and prices pushed lower till near psychological 15,000 levels, as you can see in the next chart.



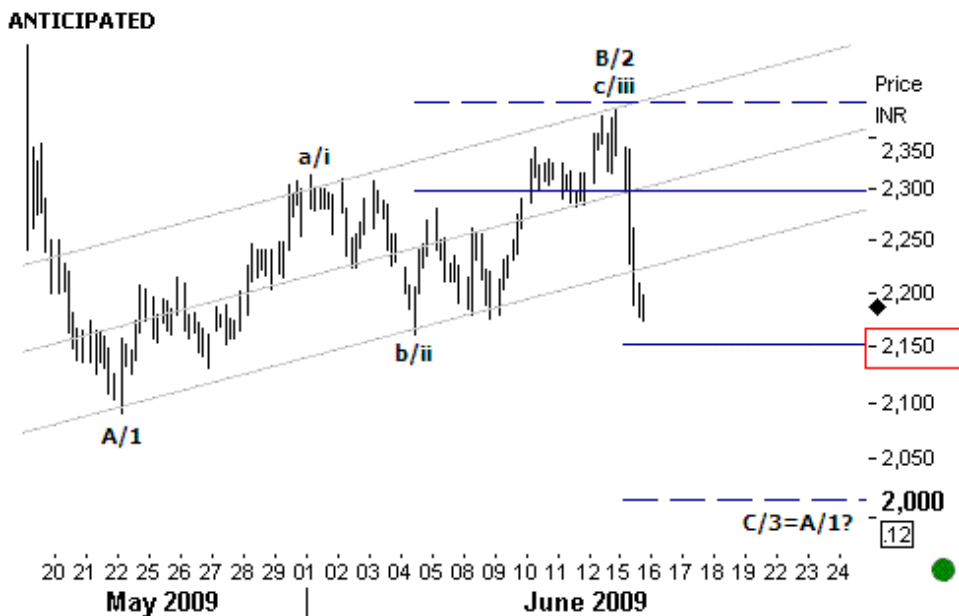
The C Wave

C waves occur as final legs of a corrective structure. They are often very impulsive and are made of five waves. The C wave is similar to the third wave of an impulsive structure and it has most of the properties of the third wave. C waves are persistent and bold.

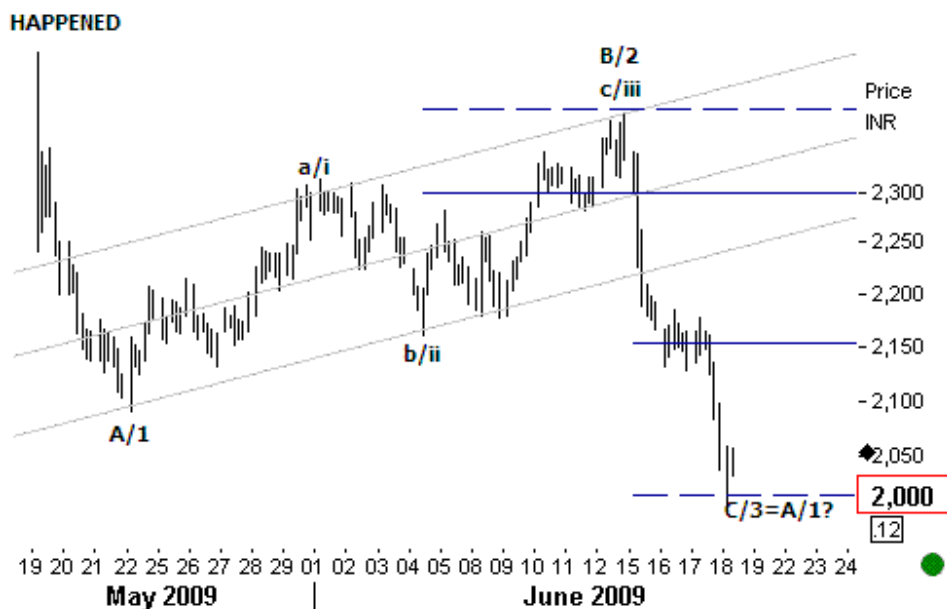
An upward corrective C means great excitement in the market, surprising rises in price. Its dynamism can be mistaken for the start of a new uptrend.

A downward C wave suggests disappointment, panic and low expectations and it is usually devastating in its destruction. During this decline cash remains the one place left to hide. Illusions eventually evaporate and fear takes over. Declining C waves can be very sharp and deep.

Example 1. We illustrated here a corrective structure down in the case of RELIANCE. On 15th June 2009 we said that this looks like a corrective structure which should resolve lower and that the C/3 wave down could push prices lower till psychological 2,000 levels.



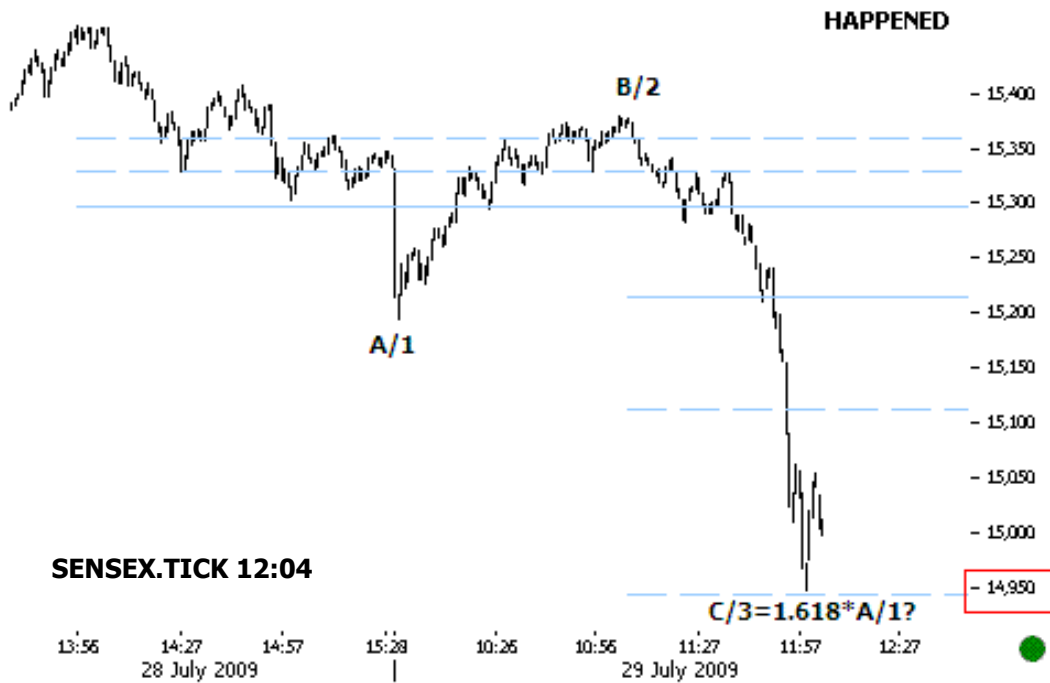
As we anticipated, prices pushed lower in the C/3 wave down till psychological 2,000 levels, illustrated in the chart below (18 June).



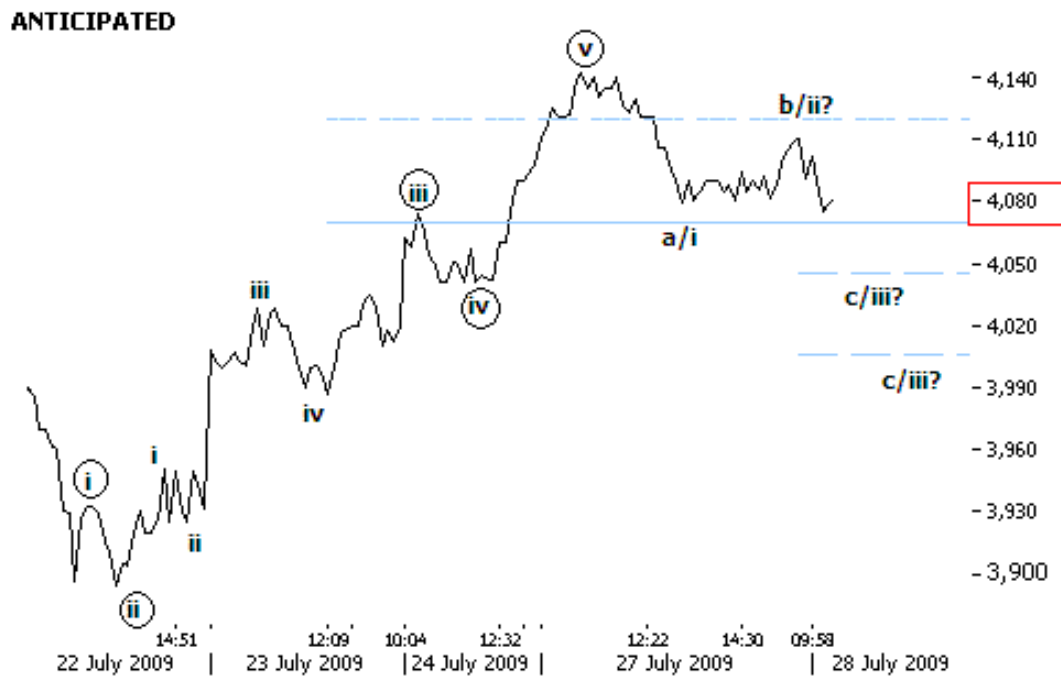
Example 2. Our next case illustrates an ANTICIPATED and HAPPENED case on SENSEX on 29th July 2009. We said that the formation looks like an ongoing corrective structure which looks incomplete and should resolve lower after B/2 completes and that below key 15,300 levels we get more negative confirmation.



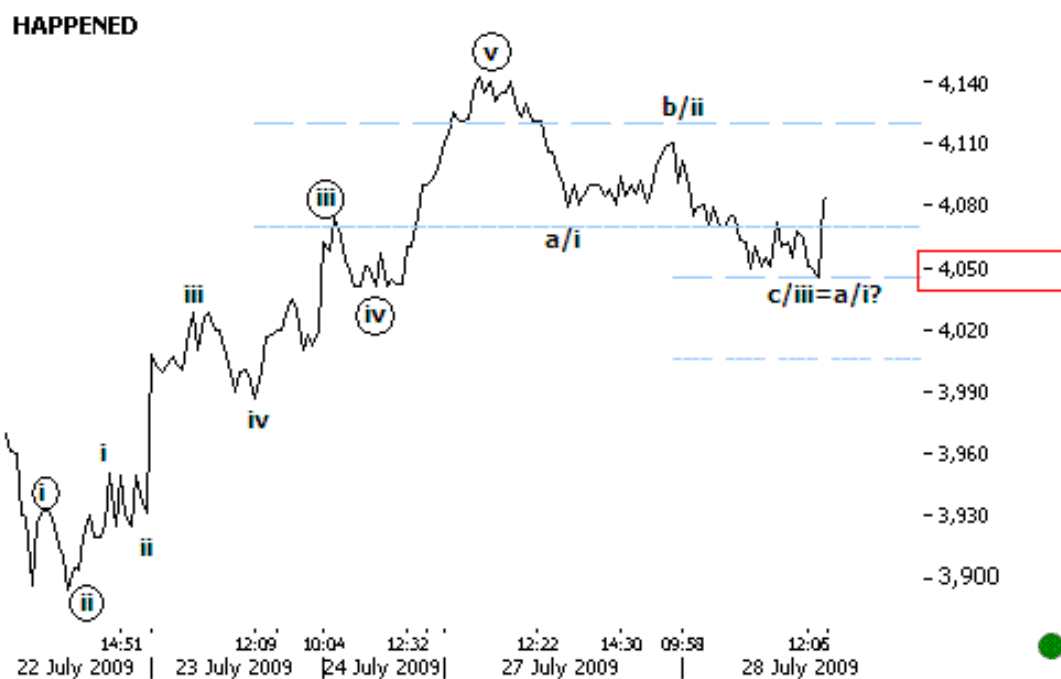
As anticipated, prices pushed lower in the C/3 wave down till key levels at 14,950 to complete the corrective structure.



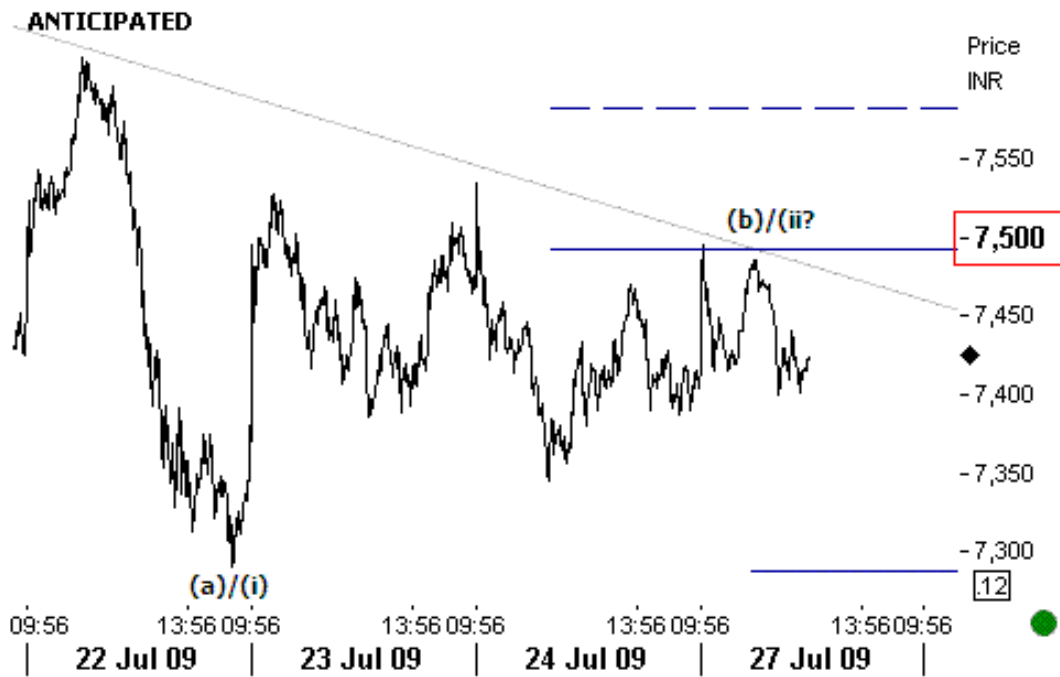
Example 3. Correctives develop after an impulsive structure. We illustrated this in the case of CNXIT, 28th July 2009. We said that prices seem to be moving in a corrective which should resolve lower and that below key 4,070 levels we get more negative confirmation.



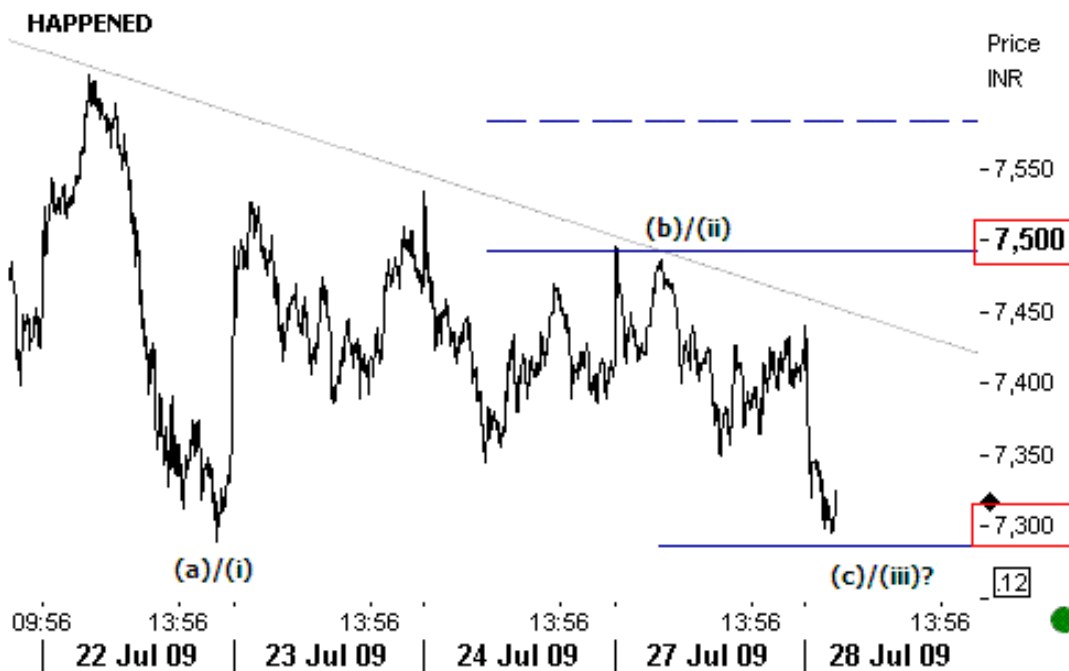
As we anticipated, prices pushed lower till key support levels at 4,050 to complete the corrective structure down.



Example 4. NSEBANK FUTURES. On 27th July 2009 we said that the current action seems corrective. As long as prices hold key resistance levels at 7,500 we continue to look lower till key 7,300 or possibly lower.



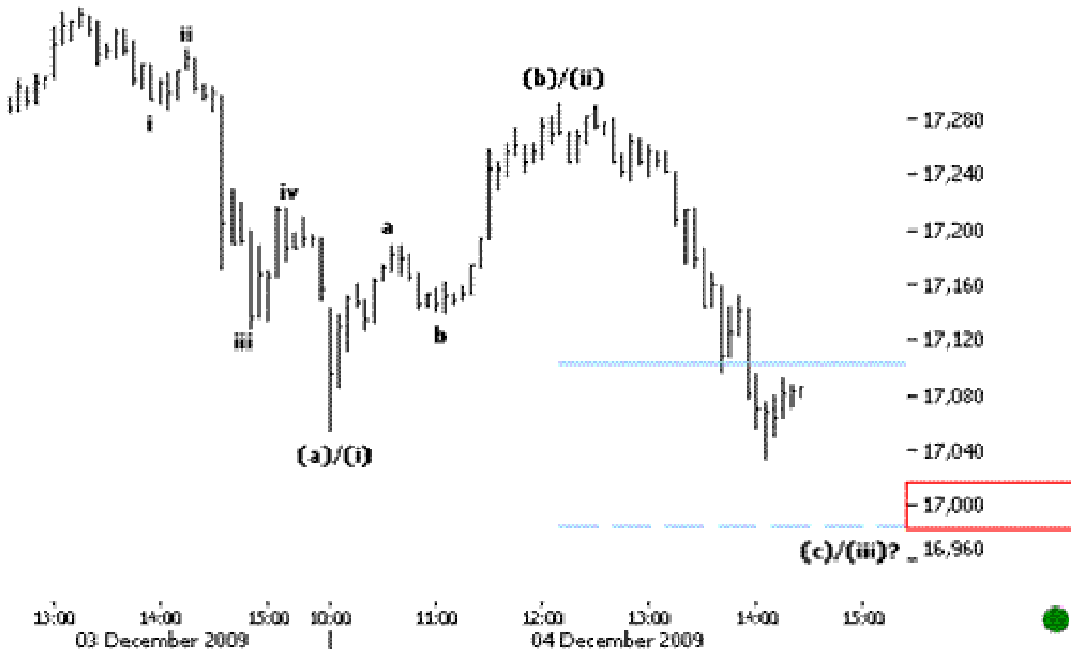
As we anticipated, prices pushed lower till near key 7,300 levels.



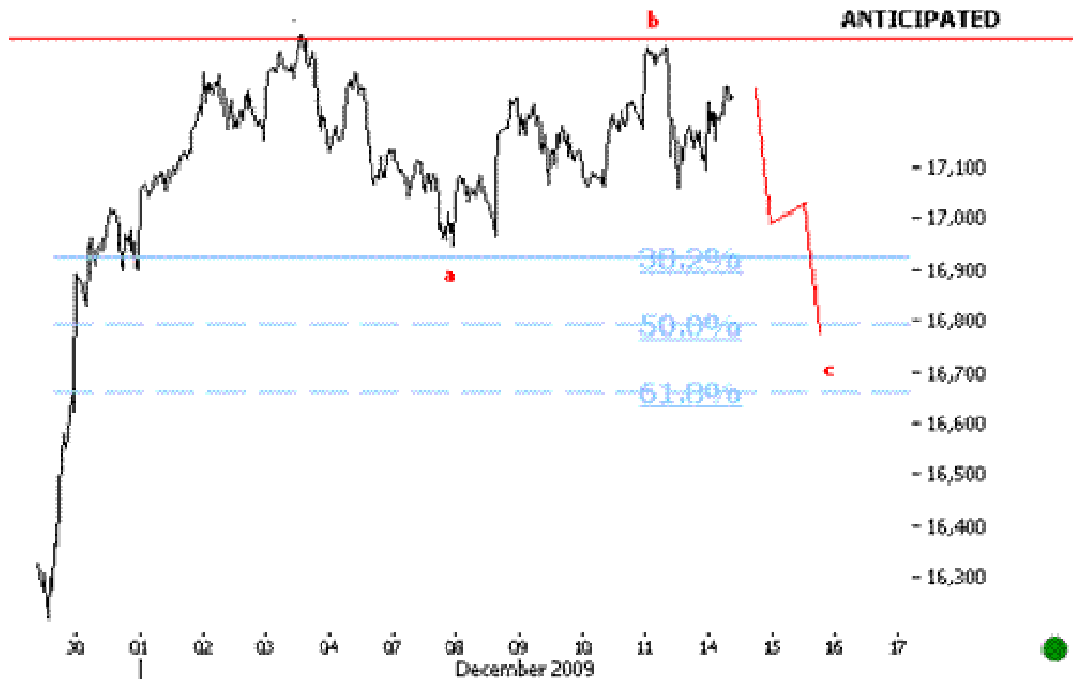
Example 5. 04.12.09 13:15 SENSEX 5MIN Our preferred count continues to look at the current move as a corrective structure down (or even a potential impulse down). Sub key levels at 17,100 we should get more negative confirmation.



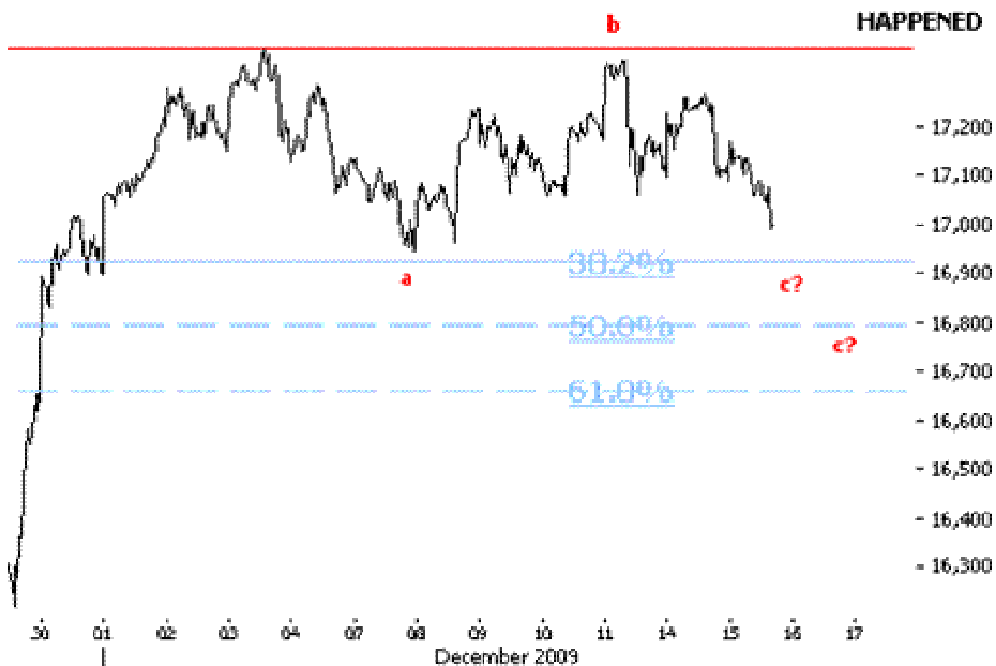
04.12.09 14:20 SENSEX 5MIN As anticipated, prices continued to push lower in the third wave down. Key supports lie at psychological 17,000.



Example 5. 14.12.09 - 12:22 SENSEX 60MIN The ongoing structure is an a-b-c corrective which is now starting a c wave down. Key levels to watch lie at 17,000.



15.12.09 13:55 SENSEX 10MIN As anticipated, prices continued to push lower in the c wave down. Immediate supports come at previous lows and key FIB levels near 16,900.



The Five Wave Structure

Prices move in specific structures divided into five waves, called impulsive structures. Three of these five waves (labeled 1, 3 and 5) are in the direction of the main trend and two of them (labeled 2 and 4) are countertrend waves. Impulses are more tradable than correctives and they can bring large profits to the trader if they are identified from an early stage.

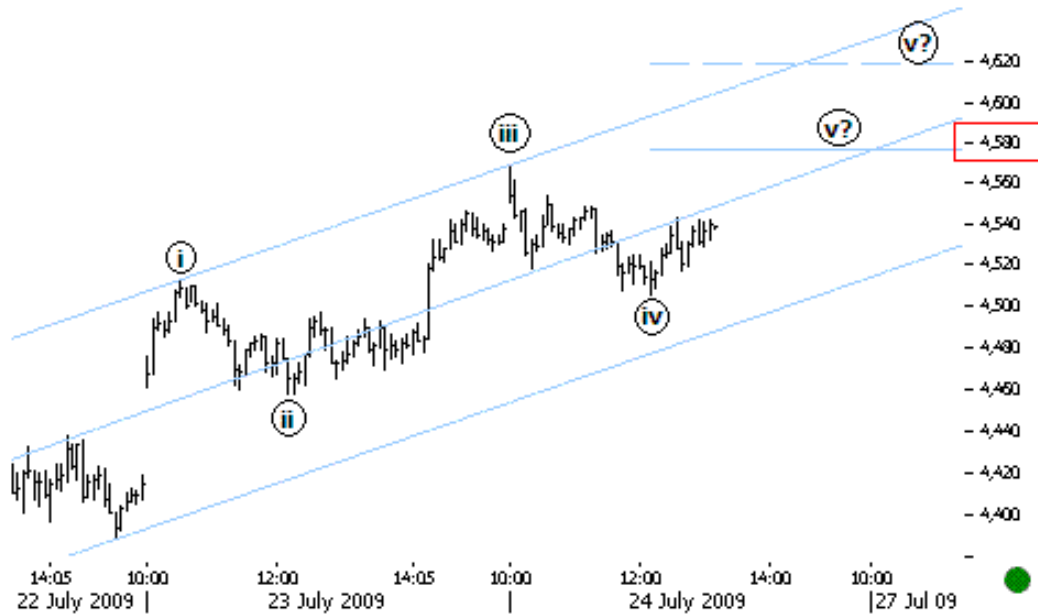
There are a few basic tenets regarding the impulsive structure:

- Wave 2 never moves beyond the start of wave 1.
- Wave 3 is never the shortest wave.
- Wave 4 never enters the price territory of wave 1.

The same five wave pattern can be seen on all time frames, each larger wave subdivides into the same structure, a property called self-similarity. This is the reason why price movement and markets are made of fractals and also the reason why the Elliott five wave pattern is one of the best forecasting tools in existence. It is not only a forecasting tool, but also a detailed description of how markets behave.

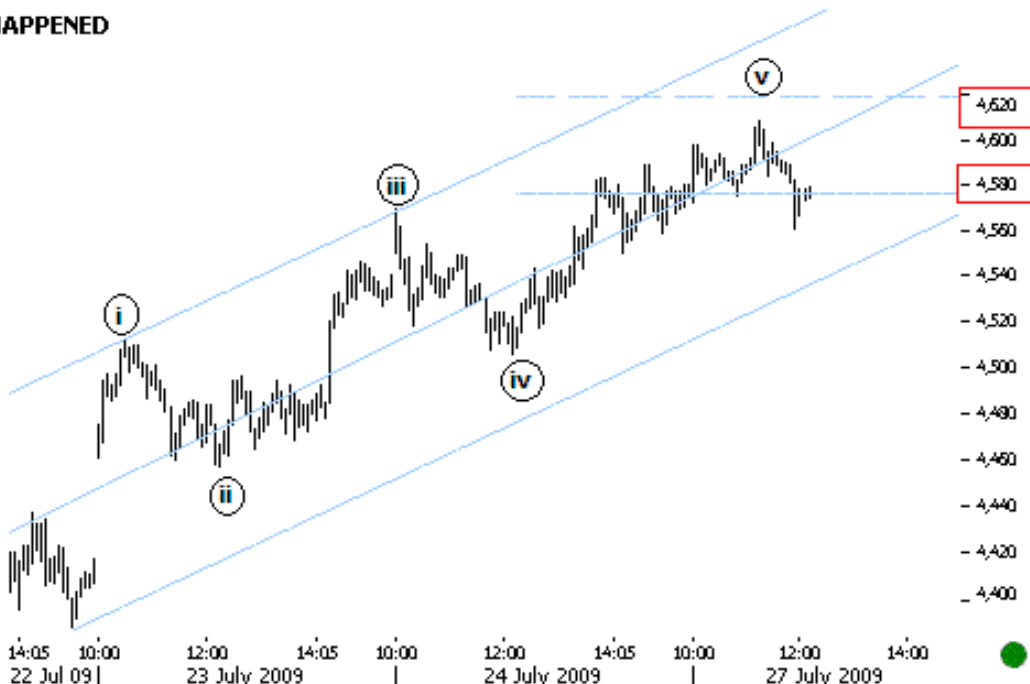
Example 1. We illustrated here a five wave impulsive structure in an uptrend in the case of NIFTY FUTURES. On 24th July 2009 we said that “The current structure seems rather impulsive than anything else. Elliott does not rule out futures overlap between 4 and 1 and our time cycles are more about higher lows than overlapping. Key resistance levels lie at 4,580-4,620.”

ANTICIPATED



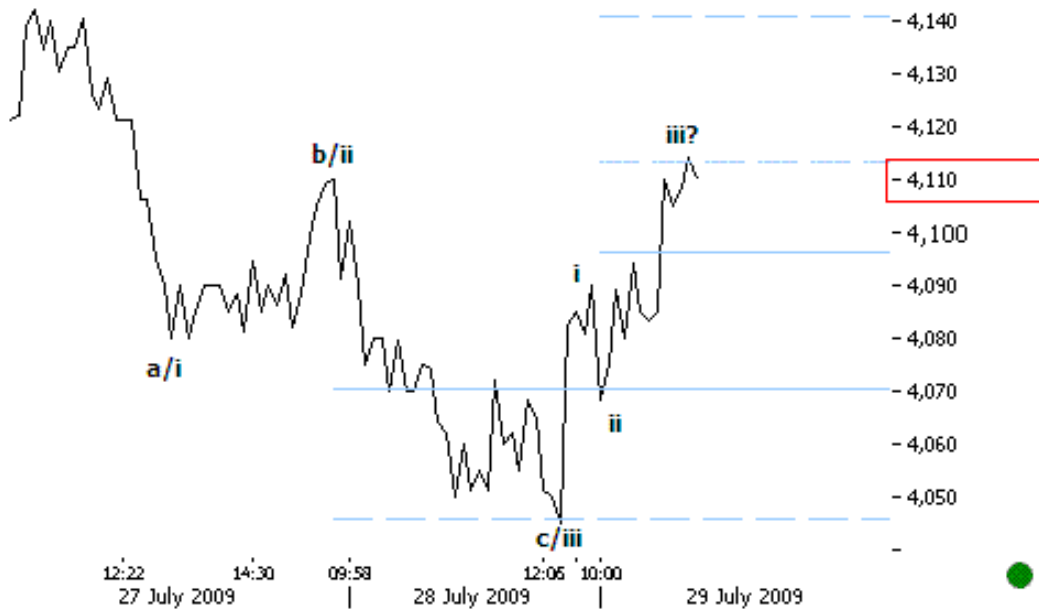
On 27th July 2009 this is what happened: “Prices turned back from near key resistance levels at 4,620. A clear break below key 4,580 levels would mean that the five wave structure up is complete and we should look for further retracement.”

HAPPENED



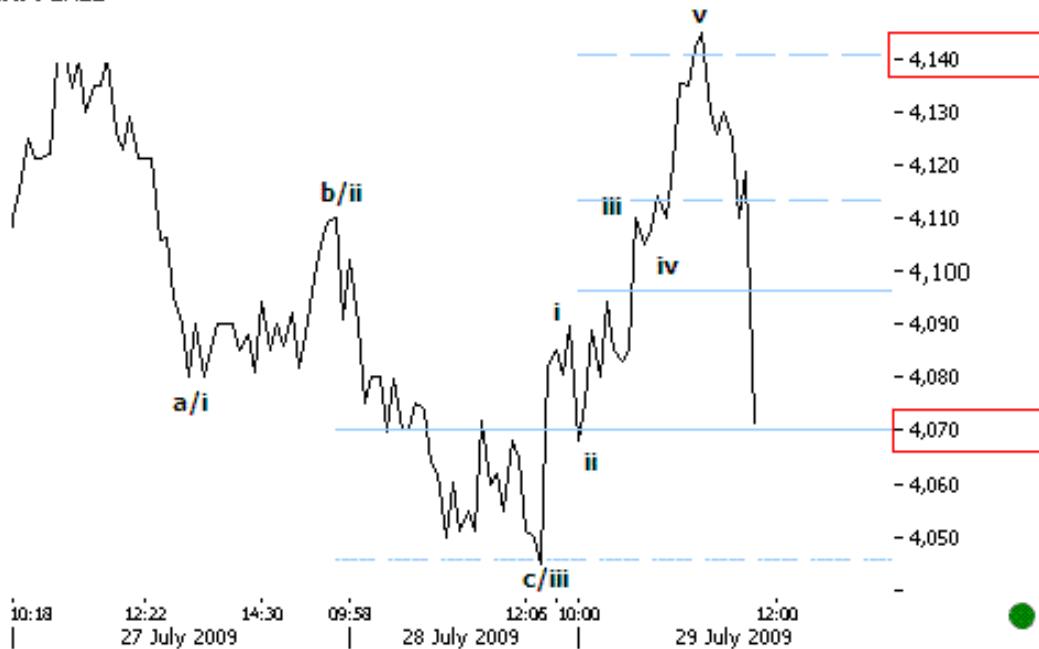
Example 2. On 29th July 2009 we carried a subminor case on CNXIT. We said that "Prices seem to be pushing higher in a subminor impulse up. The current structure could push prices back to previous highs. Key levels lie at 4,110."

ANTICIPATED

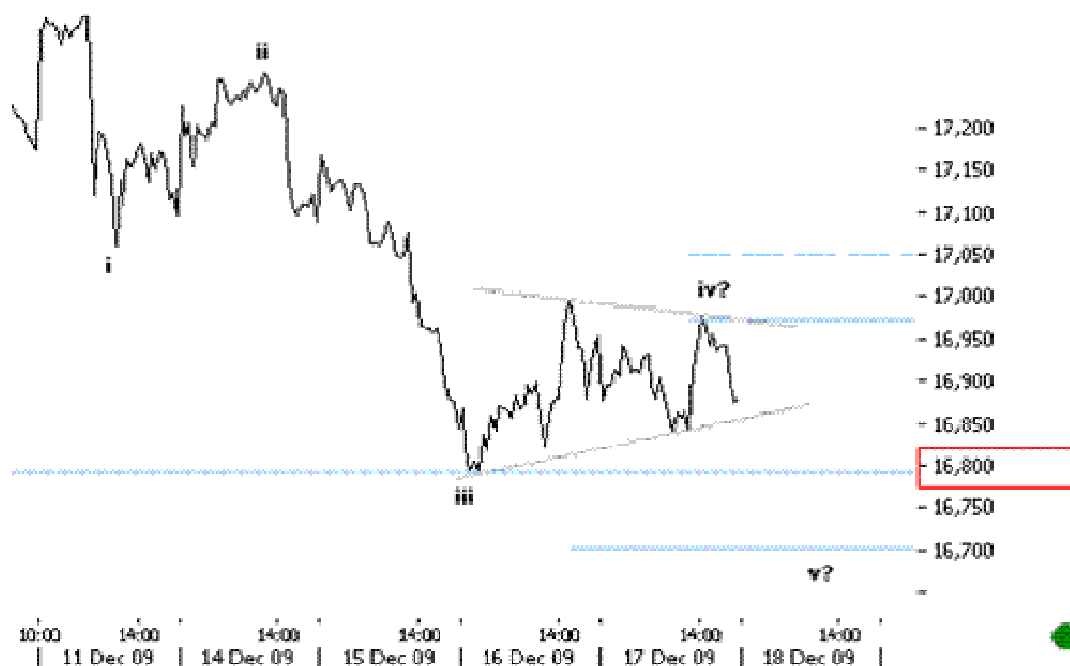


As anticipated, prices pushed higher till previous highs near 4,140 levels to complete the subminor impulse up. Prices then turned back from respective levels and violently pushed lower.

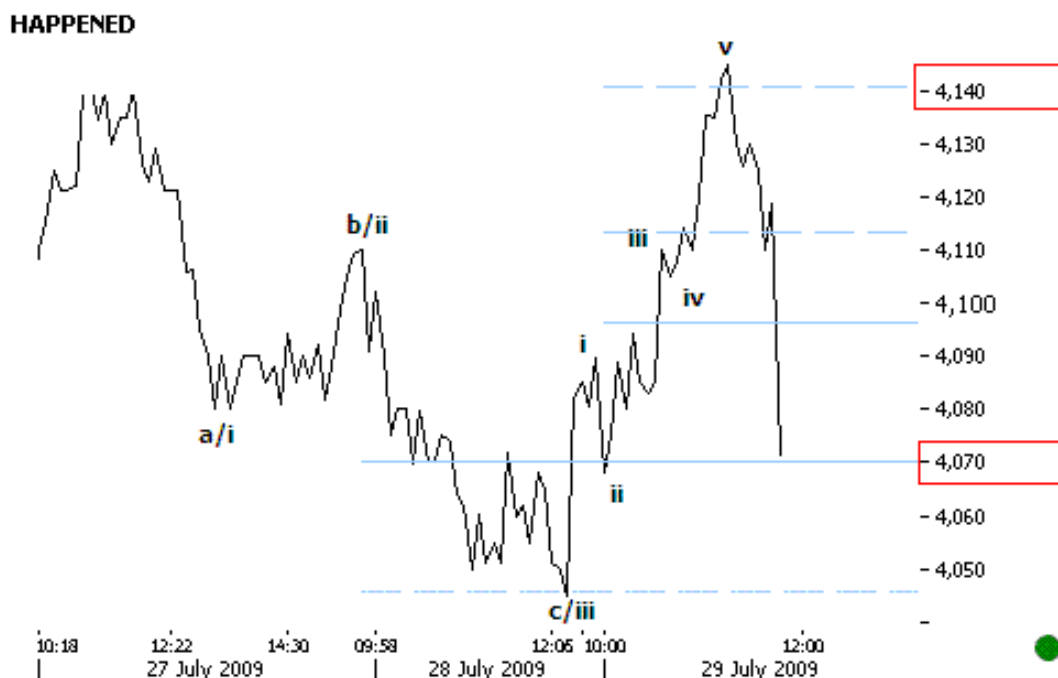
HAPPENED



17.12.09 15:25 SENSEX 10MIN Prices are completing the corrective fourth wave up. Sub key levels at 16,800 we should get more negative confirmation.



18.12.09 15:25 SENSEX 10MIN As anticipated, prices pushed lower till key support levels at 16,700 in the fifth leg down. A sustained bounce back from here would mean that the subminor impulse down is complete. However, we are not ruling out an extension of the fifth leg down.

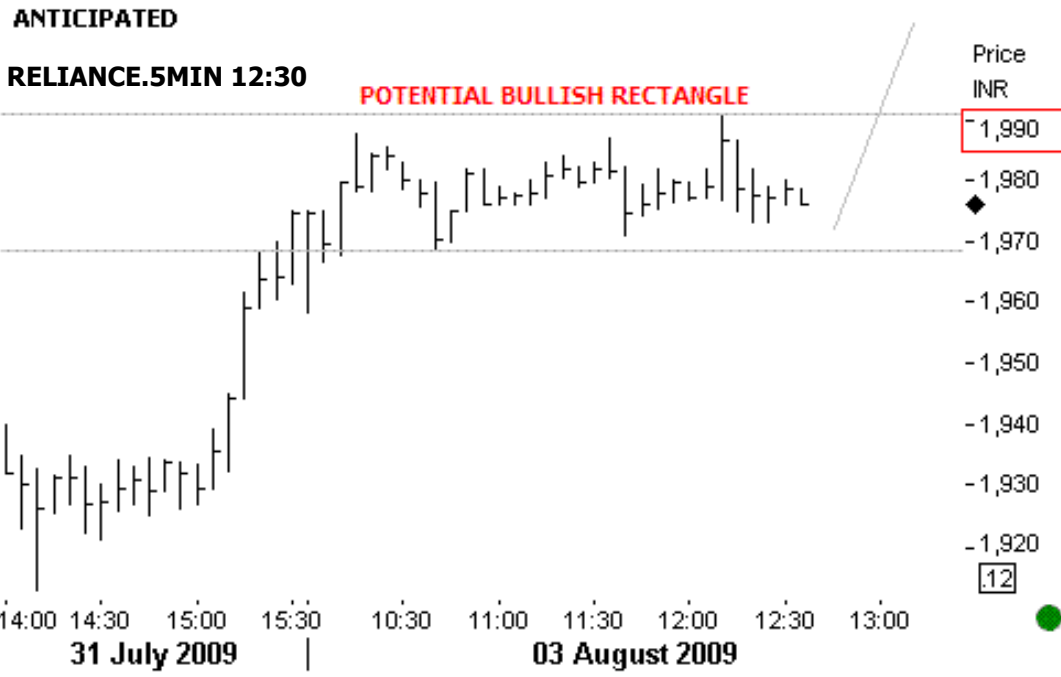


The Rectangle Formation

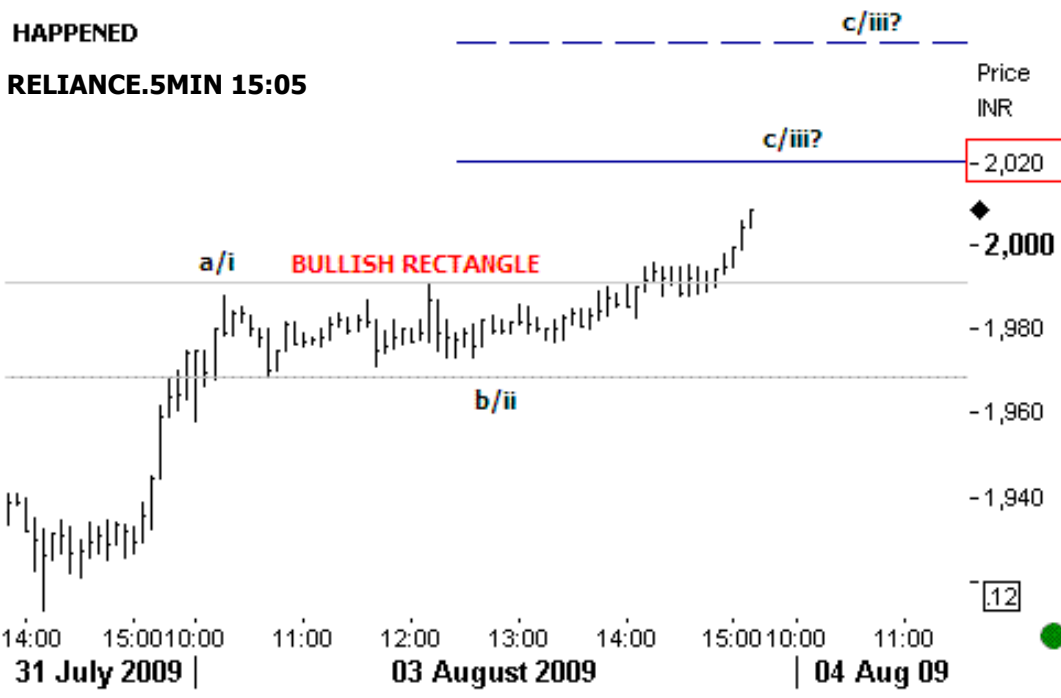
The rectangle formation is a continuation pattern which is usually easy to spot on a price chart. It represents a pause in the main trend during which prices move sideways between two parallel horizontal lines.

The rectangle represents a consolidation period in the main trend and it usually resolves in the direction of the preceding trend. A clear break above the horizontal channel is the price confirmation that validates the pattern. This formation suggests confusion in the market, it generally is a sideways, choppy action and its length can vary.

Example 1. On 3rd August 2009 we carried a potential bullish RECTANGLE pattern in the case of RELIANCE. We said that "This looks like a potential bullish rectangle pattern which means that we could see some further upmove from current levels. Above key 1,990 we get more positive confirmation."



As we anticipated, prices broke above the bullish rectangle formation.



Head and Shoulders

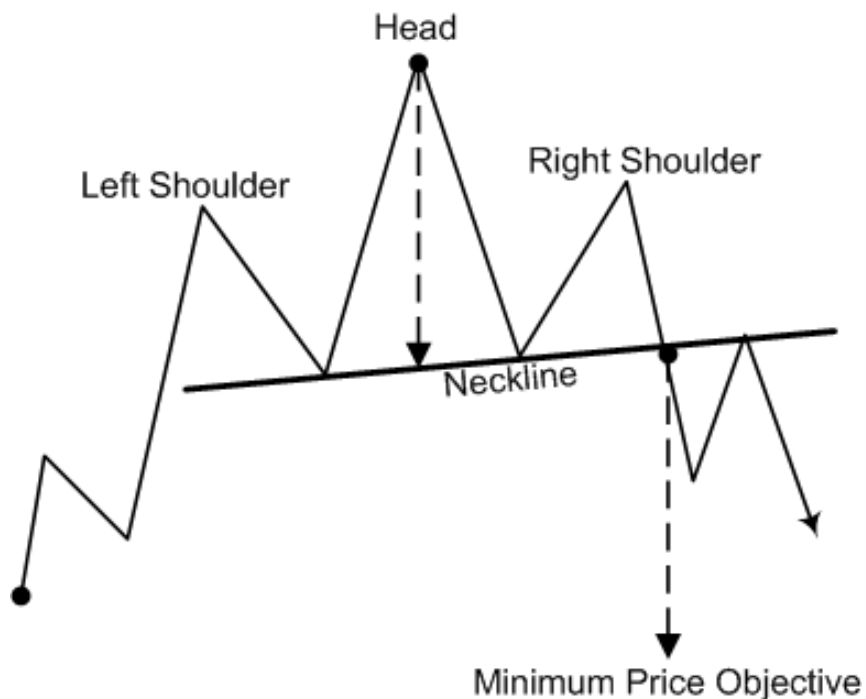
The Head and Shoulders reversal pattern is one of the most popular patterns used in Technical Analysis and observed in the markets.

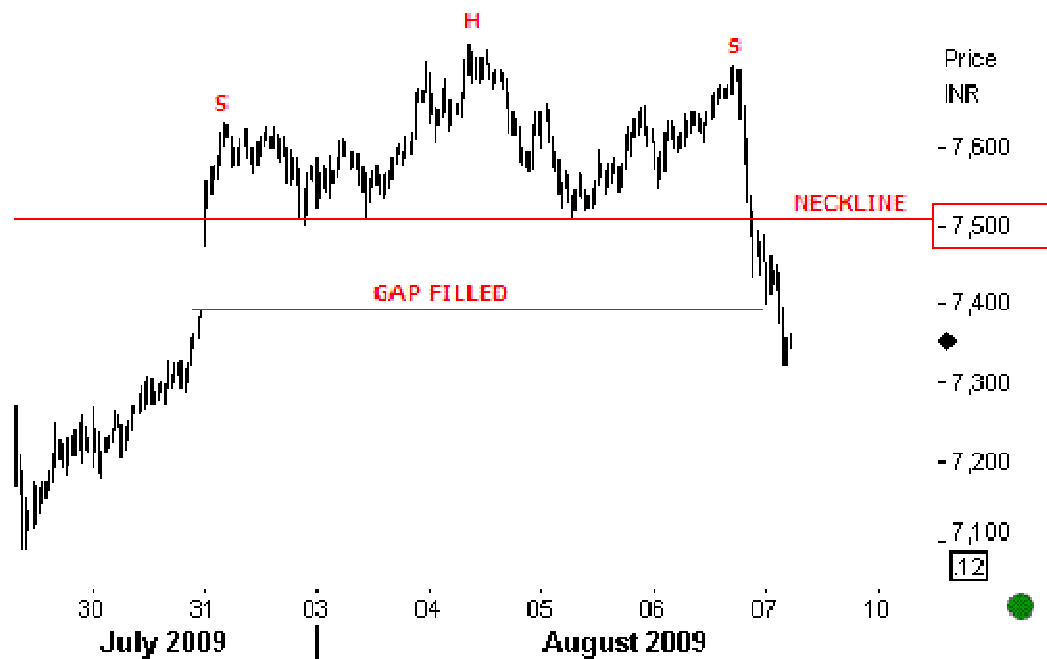
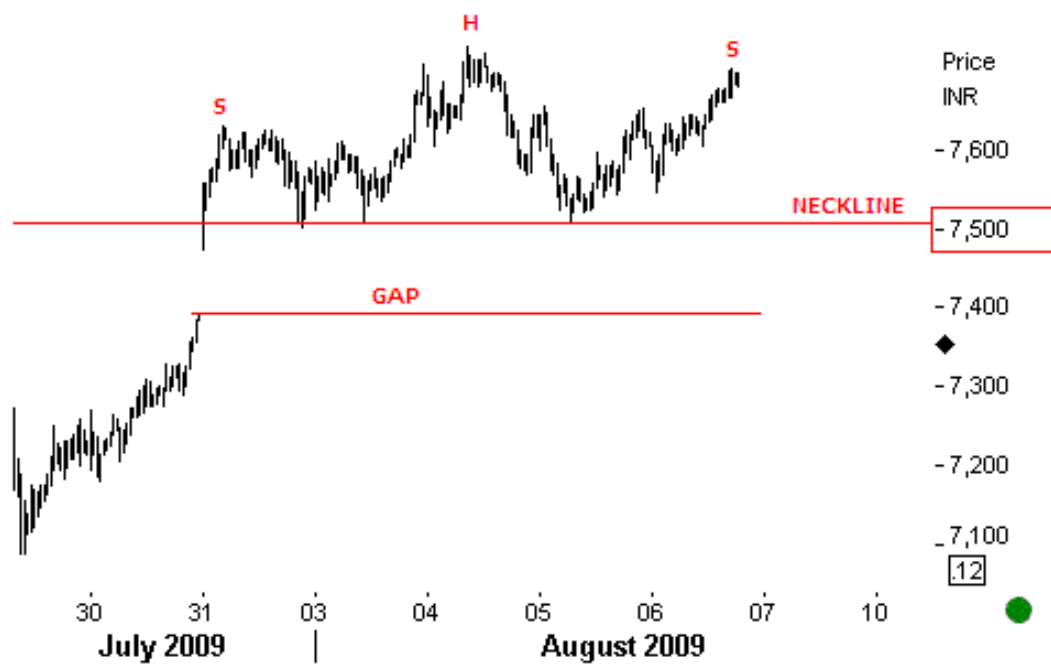
The pattern is made out of three peaks: one relatively lower (called left shoulder), one higher, embracing the high of the topping formation (called head) and one lower than the previous high (called right shoulder). The left and right shoulders are at about the same height. The head is higher than either shoulder. The breaking of the neckline levels completes the pattern. A retest of the neckline levels is possible, but it should not cross the neckline once it has been broken.

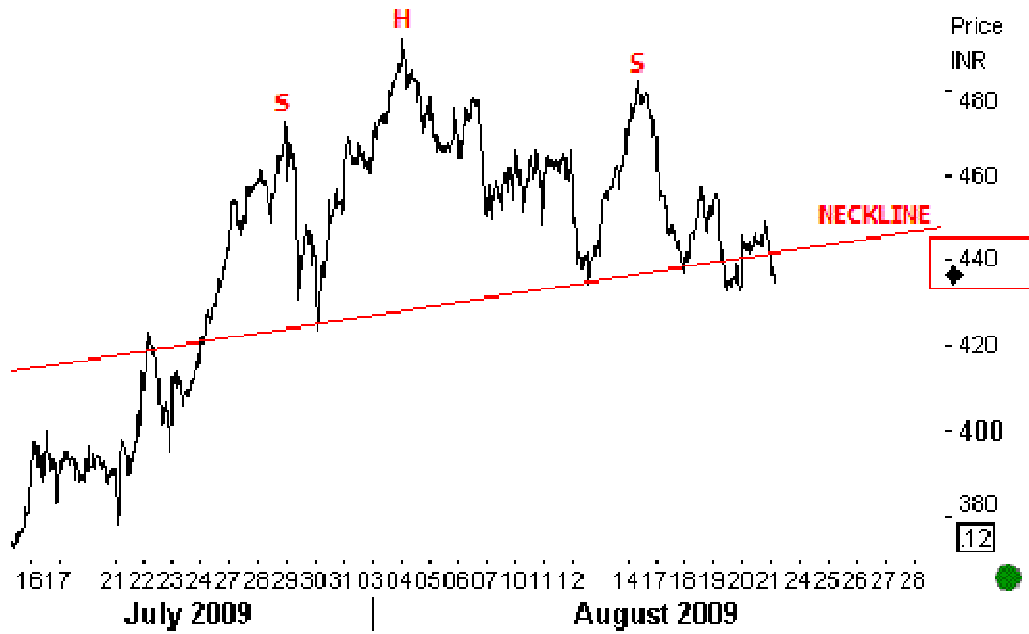
The inverted pattern (which happened at lows and causes a major bullish reversal) is called Head and Shoulders bottom or inverse Head and Shoulders.

The Head and Shoulders formation also plays an important role in time cyclicity, as it is the pattern of time. This pattern is the time triad i.e. three triangular peaks. It is the form of time, the pattern which repeats itself cyclically.

The basic pattern:



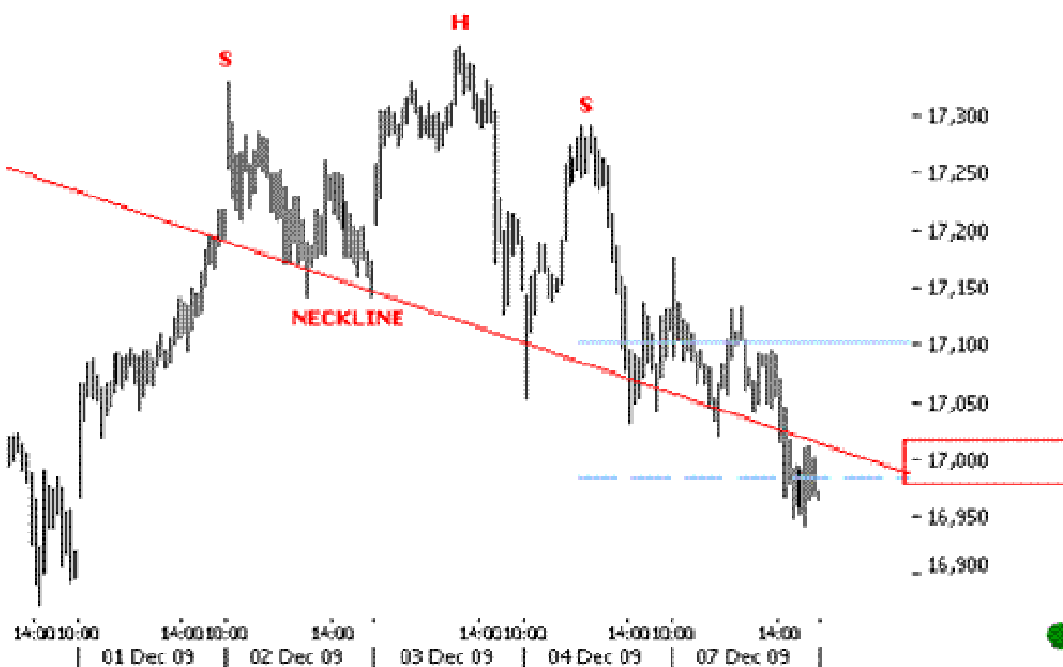




07.12.09 10:20 SENSEX 10MIN The current structure looks like a potential Head and Shoulders reversal pattern. This is also in sync with our PREFERRED negative scenario. Neckline levels lie at 17,050.



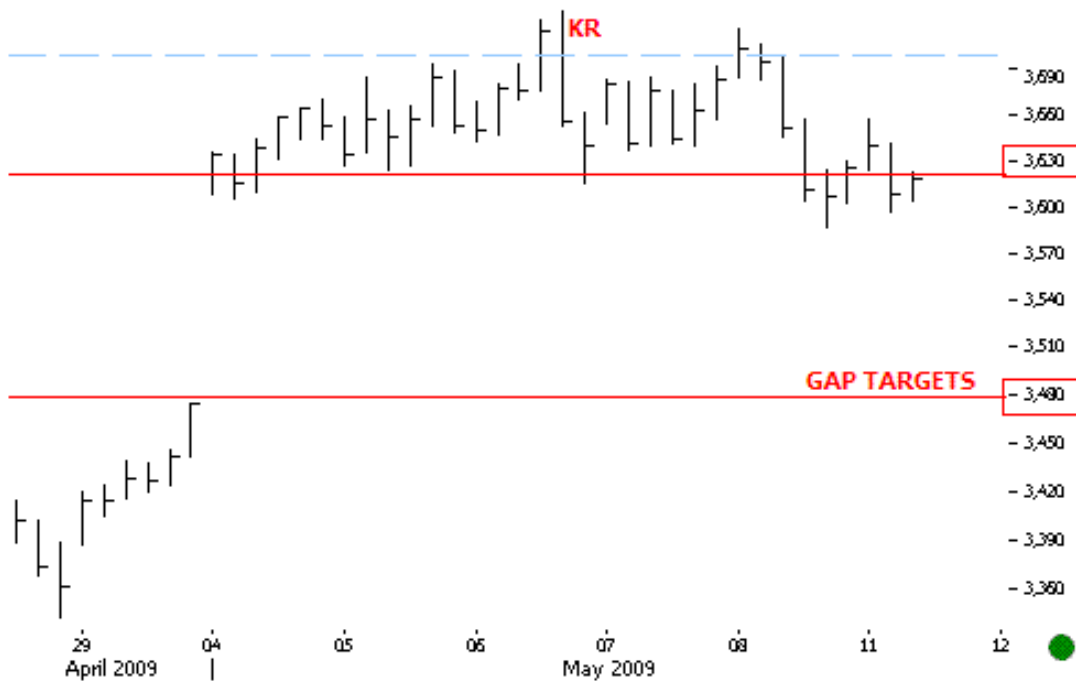
07.12.09 15:25 SENSEX 10MIN As anticipated, prices broke the neckline near psychological 17,000 levels. Sub respective levels we continue to look lower.

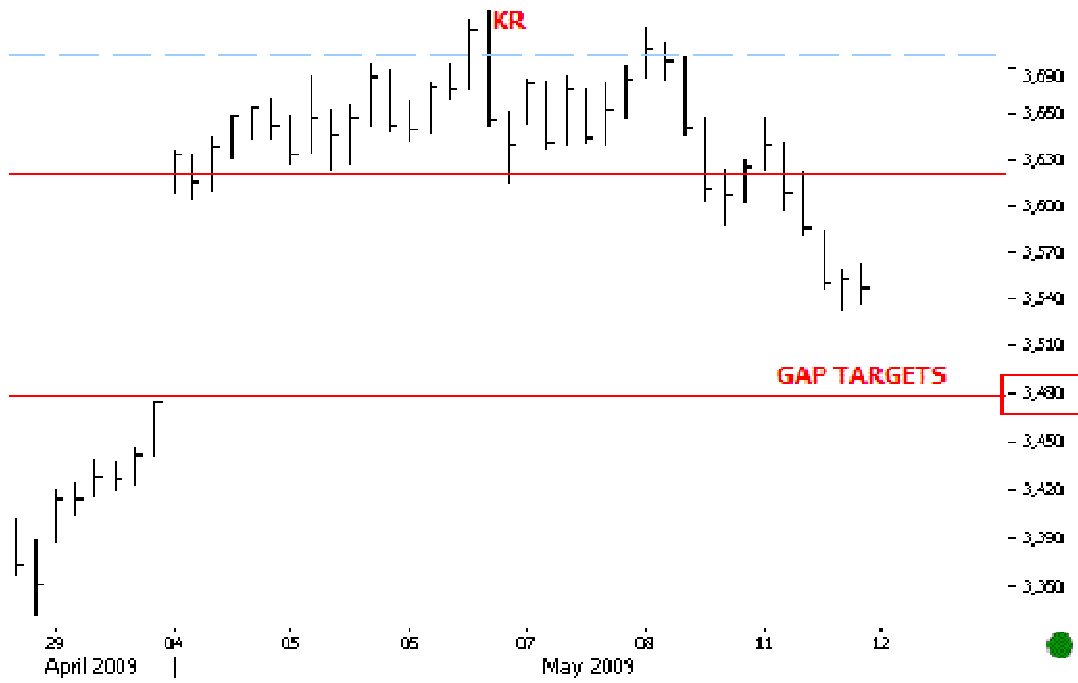


The Key Reversal bar (KR)

The Key Reversal bar is one of the simplest reversal patterns. A Bearish Key Reversal makes a higher high and closes below today's open and yesterday's close. A Bullish Key Reversal closes near high and above yesterday's close.

The reversal bar is telling the analyst that the trend for that time frame has run out of gas and that no new buyers or sellers are coming into the market. The Key Reversal bar is often referred to as a buying or selling climax.





Rate of Change

Rate of Change (ROC) is a very simple yet effective momentum oscillator that measures the percentage change in price from one period to the next. The ROC calculation compares the current price with the price some time ago. The formula for this oscillator is: $ROC = 100/(V/Vx)$, where V is the latest close and Vx is the closing price x days ago.

ROC, as all the other oscillators, is used to confirm the current trend. There are three situations when the interpretation of the Rate of Change is most useful: first, when ROC reaches an extreme level (overbought or oversold situation), second, when ROC movement does not follow the price movement (non-confirmation) and third, when ROC crosses the zero level.

We at Orpheus use ROC as a time indicator. ROC cycles illustrate time cyclicity on all time frames. The correct identification of these cycles can highly increase the accuracy of the forecasts, as cycle lows can be projected in time.

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